



Compagnie Générale de Géophysique
Annual Report 2000
Form 20-F

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the Fiscal Year Ended December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number _____

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE

(Exact name of registrant as specified in its charter)

General Company of Geophysics

(Translation of registrant's name into English)

Republic of France

(Jurisdiction of incorporation or organization)

1, rue Léon Migaux

91341 Massy

France

(33) 1 64 47 3000

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

**American Depositary Receipts representing
Ordinary Shares, nominal value €2 per share**

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

10⁵/₈% Senior Notes due 2007

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

10,086,389 Ordinary Shares, nominal value €2 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

PRESENTATION OF INFORMATION

In this annual report, references to “United States” or “U.S.” are to the United States of America, references to “U.S. dollars”, “\$” or “U.S.\$” are to United States dollars, references to “France” are to the Republic of France, references to “francs” or “FF” are to French francs, references to “NOK” are to Norwegian Kroner and references to “Euro” or “€” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Union.

Unless otherwise indicated, statements in this annual report relating to market share, ranking and data are derived from management estimates based, in part, on independent industry publications, reports by market research firms or other published independent sources. Any discrepancies in any table between totals and the sums of the amounts listed in such table are due to rounding.

As used in this annual report “CGG”, “we”, “us” and “our” means Compagnie Générale de Géophysique and its subsidiaries, except as otherwise indicated.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, including, without limitation, certain statements made in the sections entitled “Business” and “Operating and Financial Review and Prospects.” We have based these forward-looking statements on our current views and assumptions about future events.

These forward-looking statements are subject to risks, uncertainties and assumptions we have made, including, among other things:

- changes in international economic and political conditions, and in particular in oil and gas prices;
- our ability to reduce costs;
- our ability to finance our operations on acceptable terms;
- the timely development and acceptance of our new products and services;
- the effects of competition;
- political, legal and other developments in foreign countries;
- the timing and extent of changes in exchange rates for non-U.S. currencies and interest rates;
- the accuracy of our assessment of risks related to acquisitions, projects and contracts, and whether these risks materialize;
- our ability to consummate pending acquisitions and to integrate successfully the businesses or assets we acquire;
- our ability to sell our seismic data library;
- our ability to access the debt and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and on our credit ratings for our debt obligations; and
- our success at managing the risks of the foregoing.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following tables present our selected consolidated financial data which should be read in conjunction with, and which is qualified in its entirety by reference to, our consolidated financial statements and “Operating and Financial Review and Prospects” included elsewhere in this annual report. The selected financial data for each of the years in the five-year period ended December 31, 2000 has been derived from our audited consolidated financial statements.

	As of and for the year ended December 31,					
	2000 U.S.\$(1)	2000 FF	1999 FF	1998 FF	1997 FF	1996 FF
STATEMENT OF OPERATIONS DATA:						
Operating revenues	652.8	4,561.0	3,323.7	4,086.6	4,593.3	3,073.8
Cost of operations	(544.4)	(3,803.7)	(3,023.2)	(3,228.0)	(3,616.8)	(2,505.5)
Gross profit	108.4	757.3	300.5	858.6	976.5	568.3
Research and development expenses, net	(25.3)	(176.5)	(161.2)	(178.3)	(133.4)	(100.1)
Selling, general and administrative expenses	(82.5)	(576.7)	(523.4)	(519.0)	(497.2)	(391.0)
Other revenues (expenses)	12.7	88.7	15.9	(252.4)	5.6	25.9
Operating income (loss)	13.3	92.8	(368.2)	(91.1)	351.5	103.1
Interest and other financial income and expense, net	(14.9)	(104.2)	(62.7)	(32.6)	(39.4)	(33.2)
Exchange gains (losses), net	(5.5)	(38.2)	(22.5)	(25.5)	(52.7)	(19.2)
Equity in income (losses) of investees	2.4	17.0	4.5	(3.9)	(17.5)	(1.8)
Income (loss) before income taxes and minority interest	(4.7)	(32.6)	(448.9)	(153.1)	241.9	48.9
Income taxes	(9.9)	(69.3)	(51.3)	(59.6)	(80.1)	(47.2)
Minority interest	3.4	23.5	64.2	(30.0)	(8.5)	0.7
Net income (loss)	(11.2)	(78.4)	(436.0)	(242.7)	153.3	2.4
BALANCE SHEET DATA:						
Cash and cash equivalents	56.4	394.1	422.9	197.0	603.3	212.0
Working capital(2)	169.3	1,182.9	569.3	466.2	657.9	326.2
Property, plant and equipment, net	132.1	923.2	1,053.5	944.8	773.3	689.5
Multi-client data library	72.8	508.4	362.0	155.8	66.0	79.1
Total assets	788.0	5,505.6	4,496.6	3,335.2	3,666.1	2,619.7
Total debt(3)	236.4	1,651.4	1,027.0	624.6	655.4	592.5
Shareholders' equity	301.1	2,103.8	1,767.6	1,095.1	1,349.2	644.1

	As of and for the year ended December 31,					
	2000	2000	1999	1998	1997	1996
	U.S.\$(1)	FF	FF	FF	FF	FF
SELECTED HISTORICAL FINANCIAL DATA AND RATIOS:						
EBITDA(4).....	141.3	987.5	246.9	704.6	867.1	456.2
EBITDA/Net interest expense	9.5	9.5	3.9	21.6	22.0	13.7
Capital expenditures	37.1	258.9	374.4	584.6	412.5	395.8
Investments in multi-client data library	86.8	606.8	372.3	221.8	182.7	138.6
Ratio of earnings to fixed charges(5)	—	—	—	—	7.6x	2.5x
OPERATING DATA (AT END OF PERIOD):						
Land crews in operation	20	20	16	24	26	20
Streamers in operation	30	30	27	18	18	14
Data processing centers in operation	25	25	22	19	17	16

- (1) U.S. dollar amounts have been translated solely for the convenience of the reader as of and for the year ended December 31, 2000, at an exchange rate of FF 6.987 to U.S.\$1.00, the equivalent of the Noon Buying Rate in New York City for Euro on December 29, 2000.
- (2) Consists of trade accounts and notes receivable, inventories and work-in-progress and other current assets less trade accounts and notes payable, accrued payroll costs, income tax payable, advance billings to customers and other current liabilities.
- (3) “Total debt” means total long-term debt, including current maturities and capital leases.
- (4) “EBITDA” is defined as operating income (loss) excluding non-recurring revenues (expenses) plus depreciation and amortization. EBITDA is presented as additional information because we understand that it is one measure used by certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. However, other companies may present EBITDA differently than we do. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with generally accepted accounting principles.
- (5) The ratio of earnings to fixed charges represents the number of times fixed charges are covered by earnings. The term “earnings” is the amount of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees, plus fixed charges, plus amortization of capitalized interest, plus distributed income to equity investees, plus the share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges, less interest capitalized, less preference security dividend requirements of consolidated subsidiaries, less the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. The term “fixed charges” means the sum of the following: (a) interest expensed or capitalized, (b) amortized premiums, discounts and capitalized expenses related to indebtedness, (c) an estimate of the interest within rental expense, and (d) preference security dividend requirements of consolidated subsidiaries. The term “preference security dividend” is the amount of pre-tax earnings that is required to pay the dividends on outstanding preference securities, computed as the amount of the dividend divided by one minus the effective income tax rate applicable to continuing operations. The deficiency of earnings to fixed charges was FF 50 million (U.S.\$7.1 million) for the year ended December 31, 2000, FF 453 million (U.S.\$69.3 million) for the year ended December 31, 1999 and FF 149 million (U.S.\$26.7 million) for the year ended December 31, 1998.

The European Monetary System

The French franc is a constituent currency of the Euro and trades at a fixed exchange rate of 1.00 = FF 6.55957. Against currencies other than the Euro and its constituent currencies, the French franc has

free-floating exchange rates, although central banks sometimes try to confine short-term exchange rate fluctuations by intervening in foreign exchange markets.

Under the Treaty on European Union negotiated at Maastricht, The Netherlands, in 1991 (the “Maastricht Treaty”) and signed by the then 12 EU Member States in early 1992, the European Monetary Union (the “EMU”), with a single European currency under the monetary control of the European Central Bank, was introduced. On January 1, 1999, the last stage of the EMU came into effect with the adoption of fixed exchange rates between national currencies and the Euro. The following 11 Member States are initially participating in the last stage of EMU: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain.

The establishment of the EMU may have a significant effect on the economies of the participant countries. Whereas the introduction of the Euro has eliminated exchange rate risks in respect of the currencies of those member states that have adopted the Euro, there can be no assurance as to the relative strength of the Euro against other currencies.

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the exchange rates for the French franc for 1996, 1997 and 1998, expressed in French francs per U.S. dollar, and for the Euro (with a convenience translation into French francs) since 1999, expressed in Euro per U.S. dollar. Information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”). Such rates are provided solely for convenience and no representation is made that French francs or Euro were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. Such rates were not used by us in the preparation of our audited financial statements or our unaudited interim financial statements included elsewhere in this annual report.

<u>Year ended December 31,</u>	<u>French francs</u>				<u>Euro</u>			
	<u>Period-end</u>	<u>High</u>	<u>Low</u>	<u>Average(2)</u>	<u>Period-end</u>	<u>High</u>	<u>Low</u>	<u>Average(2)</u>
1996	5.19	5.29	4.90	5.12	—	—	—	—
1997	6.02	6.35	5.19	5.85	—	—	—	—
1998	5.59	6.21	5.39	5.90	—	—	—	—
1999(1)	6.63	7.74	6.56	6.95	1.01	1.18	1.00	1.06
2000(1)	6.98	7.45	6.98	6.03	0.94	1.03	0.83	0.92
<u>Month</u>								
December 2000	—	7.45	6.98	—	—	0.94	0.88	—
January 2001	—	7.13	6.91	—	—	0.95	0.92	—
February 2001	—	7.21	6.98	—	—	0.94	0.91	—
March 2001	—	7.45	7.05	—	—	0.93	0.88	—
April 2001	—	7.45	7.29	—	—	0.90	0.88	—
May 2001	—	7.72	7.37	—	—	0.89	0.85	—

- (1) The Federal Reserve Bank of New York stopped publishing Noon Buying Rates for the French franc on January 15, 1999. Noon Buying Rates for French francs for periods subsequent to January 15, 1999 have been calculated by applying the fixed exchange rate of FF 6.55957 per €1.00 to the Noon Buying Rate for Euro.
- (2) The average rate is the average of the Noon Buying Rates on the last day of each month in the period.

U.S. dollar translations included for convenience throughout this annual report for dates other than the last day of the periods presented above have been made at the Noon Buying Rates on such dates.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

We depend on capital expenditures by the oil and gas industry and reductions in such expenditures have had, and may continue to have, a material adverse impact on our business.

Demand for our products and services has historically been dependent upon the level of capital expenditures by oil and gas companies for exploration, production and development activities. These expenditures are significantly influenced by oil and gas prices. Oil and gas prices may fluctuate based on relatively minor changes in the supply and demand for oil and gas and certain other factors beyond our control. Lower or volatile oil and gas prices tend to limit the demand for our services and products.

Factors affecting the prices of oil and gas include:

- the level of demand for oil and gas;
- worldwide political, military and economic conditions, including the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain production levels and prices for oil;
- the level of oil and gas production;
- the policies of governments regarding the exploration for and production and development of oil and gas reserves in their territories; and
- global weather conditions.

The markets for oil and gas historically have been volatile and are likely to continue to be so in the future.

The significant decline in crude oil prices which began in 1998 caused a substantial decline in demand for our products and services in 1998 and 1999 and materially adversely affected our results of operations for 1998 and 1999. Historically, there has been an average lag of six months between recovery in the market for petroleum products and implementation by oil companies of projects requiring seismic services. While oil and gas prices have risen since late 1999, we did not experience a significant increase in demand for our products and services until the fourth quarter of 2000. We cannot assure you as to future oil and gas prices or the resulting level of industry spending for exploration, production and development activities.

We have had operating losses in the past and we cannot assure you that we will be profitable in the future.

We had a net loss of FF 436 million (U.S.\$66.6 million) for 1999 and a net loss of FF 78.4 million (U.S.\$11.2 million) for 2000. While we have taken certain actions designed to address the business fundamentals underlying these losses, we cannot assure you that the implementation of these actions will be effective in restoring our profitability.

We are subject to intense competition which could limit our ability to maintain or increase our market share and to maintain our prices at profitable levels.

Most of our contracts are obtained through a competitive bidding process which is standard for the industry in which we operate. While no single company competes with us in all of our segments, we are subject to intense competition with respect to each of our segments. We compete with large, international companies as well as smaller, local companies. In addition, we compete with major service providers and government-sponsored enterprises and affiliates. Recently, Schlumberger Ltd. and Baker Hughes Incorporated, our two largest competitors, announced their intention to merge their geophysical subsidiaries to form a much larger competitor, Western GECO, with greater resources generally. While price is a major factor influencing whether we are awarded a contract, other important factors include equipment availability, service quality, technological capacity and performance, as well as reputation, experience and customer relations. Some of our competitors operate more

data acquisition crews than we do and have substantially greater financial and other resources. These competitors may be better positioned to withstand and adjust more quickly to volatile market conditions, such as fluctuations in oil and gas prices and production levels, and changes in government regulations.

We rely on significant customers, so the loss of a single or a few customers could have a material adverse impact on our business.

A relatively small number of clients account for a significant percentage of our revenues. During 2000, our largest clients were the Shell Group and the TotalFinaElf Group, which accounted for 8.3% and 8.0%, respectively, of our operating revenues. If we were to lose a substantial amount of the business of one of these clients, this could have a material adverse effect on our operating revenues.

Our debt agreements may limit our ability to respond to changes in market conditions or to pursue business opportunities.

As of December 31, 2000, we had FF 1,651.4 million (U.S.\$236.4 million) of long-term debt outstanding and total shareholders' equity of FF 2,103.8 million (U.S.\$301.1 million). We may need to borrow additional amounts in the future to meet our anticipated working capital and capital expenditure needs. Our syndicated credit facility imposes operating and financial restrictions on our business. These provisions include limitations on our ratios of net debt to equity and net debt to EBITDA and require us to maintain minimum levels of net worth. In addition, certain of these provisions grant liens on our accounts receivable and those of our subsidiary, Sercel S.A. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in our business.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could result in an acceleration of payment of funds that we have borrowed.

If we are unable to comply with the restrictions and covenants in our current or future debt agreements, there would be a default under the terms of these agreements. Our ability to meet our financial ratios and tests may be affected by events beyond our control; as a result, we cannot assure you that we will be able to meet these tests. In the event of a default under these agreements, our lenders could terminate their commitments to lend to us or accelerate the loans and declare all amounts borrowed due and payable. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. If any of these events occur, we cannot assure you that our assets would be sufficient to repay in full all of our indebtedness, including the notes, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

We invest significant amounts of money in acquiring and processing seismic data for multi-client surveys and for our data library without knowing precisely how much of the data we will be able to sell or when and at what price we will be able to sell the data.

We invest significant amounts in acquiring and processing seismic data that we own. By making such investments, we assume the risk that:

- we may not fully recover the costs of the data through future sales. The amounts of these data sales are uncertain and depend on a variety of factors. Many of these factors are beyond our control. In addition, the timing of these sales can vary greatly from period to period. Technological or regulatory changes or other developments could also adversely affect the value of the data;
- the value of our multi-client data could be significantly adversely affected if any material adverse change occurred in the general prospects for oil and gas exploration, development and production activities in the areas where we acquire multi-client data; and

- any reduction in the market value of such data will require us to write down its recorded value, which could have a significant adverse effect on our results of operations.

We have high levels of fixed costs that will be incurred regardless of our level of business activity.

Our business has high fixed costs, and downtime or low productivity due to reduced demand, weather interruptions, equipment failures or other causes can result in significant operating losses.

Technology changes and new products and services are frequently introduced in our market and our technology could be rendered obsolete by these introductions or we may not be able to develop and produce new and enhanced products on a cost-effective and timely basis.

Technology changes rapidly and new and enhanced products are frequently introduced in the market for our products and services, particularly in our equipment manufacturing and data processing and geoscience sectors. Our success depends to a significant extent upon our ability to develop and produce new and enhanced products and services on a cost-effective and timely basis in accordance with industry demands. While we commit substantial resources to research and development, we cannot assure you that we will not encounter resource constraints or technical or other difficulties that could delay our introduction of new and enhanced products and services in the future. In addition, our continuing development of new products inherently carries the risk of obsolescence with respect to our older products. We cannot assure you that new and enhanced products and services, if introduced, will gain market acceptance or will not be adversely affected by technological changes or product or service introductions.

We depend on attracting and retaining qualified employees to protect our business know-how.

Our results of operations depend in part upon our business know-how. We believe that protection of our know-how depends in large part on our ability to attract and retain highly skilled and qualified personnel. Any inability of ours in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage and maintain our business and to protect our know-how.

We depend on proprietary technology.

Our results of operations depend in part upon our proprietary technology. We rely on a combination of patents, trademarks and trade secret laws to establish and protect our proprietary technology. In addition, we enter into confidentiality and license agreements with our employees, customers and potential customers and limit access to and distribution of our technology. However, we cannot assure you that actions we take to protect our proprietary rights will be adequate to deter the misappropriation or independent third party development of our technology. Although we have not been involved in any litigation regarding our intellectual property rights, or the possible infringement of intellectual property rights of others, we cannot assure you that such litigation will not be brought in the future. In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent as either the laws of France or the laws of the United States.

We are subject to risks related to our international operations which could harm our business and results of operations.

With operations worldwide, and with a majority of our revenues derived outside of the United States and Western Europe, including emerging markets, our business and results of operations are subject to various risks inherent in international operations. These risks include:

- instability of foreign economies and governments;
- risks of war, seizure, renegotiation or nullification of existing contracts; and
- foreign exchange restrictions, laws and other policies affecting trade and investment.

While we carry insurance against political risks associated with such operations, in amounts we consider appropriate in accordance with industry practices, we cannot assure you that we will not be subject to material adverse developments with respect to our international operations.

The nature of our business is subject to significant ongoing operating risks for which we may not have adequate insurance or for which we may not be able to procure adequate insurance on economical terms, if at all.

Our seismic data acquisition activities, particularly in deepwater marine areas, are often conducted under harsh weather and other hazardous conditions and are subject to risks of loss from business interruption, delay or equipment destruction. We carry insurance against the destruction of or damage to our seismic equipment and against business interruption for our data processing activities in amounts we consider appropriate in accordance with industry practice. However, we cannot assure you that our insurance coverage will be adequate in all circumstances or against all hazards, or that we will be able to maintain adequate insurance coverage in the future at commercially reasonable rates or on acceptable terms.

Our results of operations can be significantly affected by currency fluctuations.

Our operations can be significantly affected by fluctuations in exchange rates, particularly between the Euro and the U.S. dollar. We incur a large portion of our operating expenses in currencies other than the currency in which corresponding net sales are generated. In particular, we incur substantial Euro operating costs while a substantial majority of our net sales are U.S. dollar-denominated. Appreciation of the Euro versus the U.S. dollar makes us less competitive, because our operating costs increase, while depreciation of the Euro versus the U.S. dollar makes us more competitive. In addition, for financial reporting purposes, the appreciation of the Euro against the U.S. dollar adversely affects our reported results of operations since U.S. dollar-denominated earnings that are converted to French francs at the fixed Euro-franc conversion rate are stated at a reduced value. While we attempt to reduce the risks associated with such exchange rate fluctuations through our hedging policy, we cannot assure you that we will be effective or that fluctuations in the value of the currencies in which we operate will not materially affect our results in the future.

Our working capital needs are difficult to forecast and may be subject to significant and rapid increases which could result in additional financing requirements that we may not be able to obtain at all or on satisfactory terms.

It is difficult for us to predict with certainty our working capital needs. This is due primarily to working capital requirements related to our marine seismic acquisition business, and to the development and introduction of new lines of geophysical equipment products. We may therefore be subject to significant and rapid increases in our working capital needs which we may have difficulty financing on satisfactory terms or at all due to limitations in our existing debt agreements.

Our substantial indebtedness could adversely affect our financial health.

We have a significant amount of indebtedness. As of December 31, 2000, our total net consolidated indebtedness, consolidated total assets and stockholders' equity were FF 1,340.7 million (U.S.\$191.9 million), FF 5,505.6 million (U.S.\$788 million) and FF 2,103.8 million (U.S.\$301.1 million), respectively. Earnings before fixed charges would have been inadequate to cover fixed charges by approximately FF 50 million (U.S.\$7.1 million) for the year ended December 31, 2000.

Our substantial indebtedness could have important consequences to you. For example, it could

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds.

Failing to comply with restrictive covenants in our loan agreements or indenture could result in an event of default which, if not cured or waived, could have a material adverse effect on us.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt.

We and our subsidiaries may be able to incur substantial additional indebtedness (including secured indebtedness) in the future. As of December 31, 2000, we had U.S.\$8.5 million outstanding under our credit facility and total availability of U.S.\$95.9 million under all credit facilities. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

We were established in 1931 to market geophysical techniques for appraising underground geological resources. Since that time we have gradually come to specialize in seismic techniques adapted to exploration for and production of oil and gas, while continuing to carry on other geophysical activities. Compagnie Générale de Géophysique is the parent company of the CGG group. We are incorporated under the laws of the Republic of France. Our registered office is 1, rue Léon Migaux, 91341 Massy, France. Our telephone number is (33) 1 64 47 3000.

Over the course of 2000 and the first quarter of 2001, we completed four acquisitions which are fully described under "Operating and Financial Review and Prospects — Acquisitions and Dispositions" in Item 5, and elsewhere in this annual report.

On November 22, 2000, we issued \$170,000,000 aggregate principal amount of 105/8% Senior Notes due 2007 in the international capital markets. We used the approximately \$164.9 million of net proceeds to repay a portion of outstanding indebtedness under our existing syndicated credit facility and to fund the U.S.\$25 million cash portion of the purchase price of two marine seismic vessels and certain seismic data from an affiliate of Aker.

For a description of our principal capital expenditures and divestitures, please see item 5.

Business Overview

We are a leading international provider of geophysical services and a leading manufacturer of geophysical equipment. We provide geophysical services principally to oil and gas companies that use seismic imaging to help explore for, develop and manage oil and gas reserves by:

- identifying new areas where subsurface conditions are favorable for the accumulation of oil and gas;
- determining the size and structure of previously identified oil and gas fields; and
- optimizing development and production of oil and gas reserves (reservoir management).

We sell our geophysical equipment primarily to other geophysical service companies.

Our operations are organized into two main segments: Services and Products. Services accounted for 66% and Products accounted for 34% of our revenues for 2000. We generate revenues on a worldwide basis. For 2000, 38% of our consolidated revenues were from the Americas, 15% from Europe, 18% from Africa, and 29% from the Middle East and Asia Pacific.

Industry Conditions

Overall demand for geophysical services is dependent upon spending by oil and gas companies for exploration, production, development and field management activities. This spending depends in part on present and expected future oil and gas prices. Most of 1999 was characterized by depressed oil prices, which resulted in lower levels of cash flow for oil and gas companies and lower spending on exploration and production, including geophysical services. Since late 1999, oil and gas prices have risen significantly, resulting in a recent increase in spending on geophysical services by our clients.

The oil and gas industry has increasingly relied on the use of 3D seismic data that has fueled the growth and demand for geophysical services. The greater precision and improved subsurface resolution obtainable from 3D seismic data, combined with advanced processing techniques, have assisted oil and gas companies in finding new fields and more accurately delineating existing fields. These improved technologies have been key factors in improving drilling success ratios and lowering finding and field extension costs. Advanced 4D technology (using time as the fourth dimension) is also enhancing production monitoring methodologies and the management of existing oil and gas reservoirs by recording fluid movement in the reservoir. In addition, advances in technology have significantly reduced the size, weight, cost and power requirements of seismic data acquisition systems and increased the quality and quantity of data available to geoscientists. These improved technologies, coupled with advances in drilling and completion techniques, are significantly enhancing the ability of oil and gas companies to explore for, develop and manage oil and gas reserves cost-effectively.

Business Strategy

We intend to continue strengthening our competitive position in the global geophysical services and products markets by capitalizing on growth opportunities resulting from both the application of new technologies in every sector of our business, from exploration to production and reservoir management, and our diversified geographic presence.

To achieve our objective we have adopted the following strategies:

Focus on Growth Areas for Geophysical Services

We believe that through continued enhancement of our proprietary seismic data recording equipment and software we will remain among the leading providers of 3D land seismic surveys. We believe that our proprietary equipment and software provide us with a competitive advantage in specific growth markets, such as data acquisition in transition zones and difficult terrain, where recent technological advances have made seismic acquisition more feasible. We intend to focus on developing our technological capacities in emerging markets for geophysical services, such as reservoir appraisal and production monitoring. We believe that, due to our extensive international experience, we also have a competitive advantage in certain geographic markets such as Europe, Africa, the Middle East and Latin America, where we have been operating longer than many of our competitors. We also believe that we have unique experience in complex land acquisition projects, a market which we expect to grow within the next several years.

We plan to continue developing our marine acquisition services to strengthen our position in this market segment. We significantly upgraded our fleet capacity with the launch in 1999 of the *CGG Alizé* and the acquisition in 2001 of two marine seismic vessels from an affiliate of Aker. We will further upgrade our capacity with the planned upgrade of the *CGG Mistral* in 2002. We expect the *CGG Mistral* upgrade to be complete in early 2002 and the two vessels acquired from Aker joined our fleet in January 2001. We intend to strengthen our position in the marine seismic market for non-exclusive data by further developing our non-exclusive data library. We believe that a strong position in this market segment is vital to enhance further our global competitive position as it will permit us to adapt to current market demand and will provide opportunities for significant future sales. Our policy is to develop our non-exclusive data library, while carefully selecting survey opportunities in order to monitor closely our investment, and utilize prudent income recognition methods in accounting for data library sales.

Given the growing importance of geophysics in reservoir characterization, we intend to develop further the synergies between our data processing and reservoir services. This approach places us in a better position to meet the requirements of our clients with an extensive range of integrated services. We also intend to increase our processing capability in developing new disciplines, such as lithology prediction (identification of the rock layers covering and surrounding the oil trap), as well as applications relating to reservoir description and monitoring, including 3D pre-stack depth imaging, multi-component and 4D studies. We also plan to continue promoting and developing our dedicated processing center services within our clients' offices.

Develop Technological Synergies for Products and Capitalize on New Generation Equipment

With the acquisitions of GeoScience Corporation and Mark Products, we significantly expanded our product offering and, through Sercel, became a world leader in land, marine and subsea geophysical equipment manufacturing. We plan to continue developing synergies between the technologies available within Sercel and to capitalize fully on our position as a market leader. We also plan to increase our share of the seismic data recording market by further expanding our 408UL family of digital recorders, which we launched in November 1999. Through internal investment in research and development and acquisition of established technology, we will continue to improve existing products and maintain an active new products development program, which includes ocean bottom cables, solid streamers and new generation sensors.

Develop and Utilize Innovative Technology

We believe that growth in demand for geophysical services will continue to be driven by the development of new technologies. We expect multi-component (3C/4C) surveys and time-lapse (4D) surveys to become increasingly important for new production related applications, particularly in the marine sector, as well as specialized recording equipment for difficult terrain in land acquisition. We believe that to remain competitive, geophysical services companies will need to combine advanced data acquisition technology with consistently improving processing capacity in order to further reduce delivery time for seismic services. Our strategy is to take advantage of our leading technology and our ability to integrate our full range of services to enhance our position as a market leader in:

- land and transition zone seismic data acquisition applications;
- innovative marine or subsea acquisition systems and services;
- seismic data processing and reservoir services; and
- manufacturing of land, marine and subsea data acquisition equipment.

In this respect, we intend to continue our high level of research and development investment to reinforce our technological leadership.

Emphasize Client Service

We believe it is important to operate in close proximity to our clients to develop a better understanding of their individual needs and to add measurable value to their business process. We respond to these needs by creating new products or product enhancements that improve the quality of data and reduce the time to deliver data to clients. Our regional multi-client and dedicated data processing centers in our clients' premises provide us with an advantage in identifying contract opportunities, optimizing service to clients and developing products responsive to new market demands, such as seismic applied to reservoir management. We believe that we are well positioned to benefit from the industry trend towards increased outsourcing that is leading oil and gas companies to place greater emphasis on relationships and service quality, including health, safety and protection of the environment, in their selection of geophysical services providers. We will continue to monitor our strategy towards service to clients through:

- tailoring our data acquisition operations to meet specific client demands;
- expanding regional multi-client and dedicated on-site processing centers;

- recruiting and training customer-oriented service staff;
- organizing client training seminars focused on our products and services;
- developing easy access to our multi-client data library through the increasing application of e-business technologies;
- developing corporate contracts with our main clients;
- taking advantage of the possibilities created by the recent development of e-business technologies to reinforce our marketing efforts;
- gaining access to new markets, such as subsea and newly opening territories; and
- reinforcing client satisfaction.

Provide Integrated Services

We are committed to providing clients with a full array of seismic data services from acquisition and processing, to data interpretation, storage and management. We believe that integration of compatible technology and equipment increases the accuracy of data acquisition and processing, enhances the quality of our client service and thereby improves productivity in oil and gas exploration and production. Our clients increasingly seek integrated solutions to better evaluate known reserves and improve the ratio of recoverable hydrocarbons from producing fields. We are developing our ability to provide such geoscience solutions through a combination of various exploration and production services, including technical data management, reservoir characterization, interpretation of well information and integrated oil and gas reservoir studies.

Operating Revenues Data

Revenues by Activity

The following table sets out a breakdown of our consolidated operating revenues, by activity, during each of the last three years.

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	<u>(in U.S.\$ millions, except percentages)(1)</u>					
Services	<u>431</u>	<u>66%</u>	<u>414</u>	<u>82%</u>	<u>587</u>	<u>80%</u>
Land SBU	185	28.0%	206	41%	287	39%
Offshore SBU	142	22.0%	77	15%	126	17%
Processing and Reservoir SBU	104	16.0%	110	22%	146	20%
Airborne Geophysics	—	—	21	4%	28	4%
Products	<u>222</u>	<u>34%</u>	<u>94</u>	<u>18%</u>	<u>145</u>	<u>20%</u>
Equipment	211	32%	79	15%	127	18%
Software	11	2%	15	3%	18	2%
Total	<u>653</u>		<u>508</u>		<u>732</u>	

Revenues by Region (by location of customers)

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	<u>(in U.S.\$ millions, except percentages)(1)</u>					
Americas	247	38%	170	33%	217	30%
Asia-Pacific/Middle East	188	29%	116	23%	184	25%
Europe and CIS	99	15%	92	18%	144	20%
Africa	<u>119</u>	<u>18%</u>	<u>130</u>	<u>26%</u>	<u>187</u>	<u>25%</u>
Total	<u>653</u>		<u>508</u>		<u>732</u>	

Note:

- (1) Revenues are shown in U.S. dollars, the currency in which approximately 82% of our revenues were billed in 2000. Transactions of French franc amounts into U.S. dollars are at \$1.00 to FF 6.9870, FF 6.5439, and FF 5.5870, the Noon Buying Rates used for information purposes, respectively, as at December 29, 2000, December 30, 1999 and December 31, 1998.

Services

Our services are organized into three SBUs for increased efficiency. We have established a network of country managers responsible for promoting our entire spectrum of products and services in our main markets, to develop an offering which is more focused on providing comprehensive solutions to client problems. We believe that our capacity to provide integrated geophysical services is a significant competitive advantage and will help us to implement all components of our strategy.

Land SBU

We are a leader in the land seismic acquisition market, with an average of 16 active crews operating during the year 2000. Revenues from our Land SBU accounted for 28% of our consolidated operating revenues in 2000.

Land Seismic Acquisition. Land seismic acquisition includes all seismic surveying techniques where the recording sensor is in direct contact with the ground. Our land seismic division offers integrated services consisting of acquisition and processing of seismic data on land, in transition zones and on the ocean floor. Approximately 70% of our revenues from land seismic acquisition in recent years were attributable to land surveys and approximately 30% were attributable to transition zone surveys. We believe that our expertise in difficult, environmentally sensitive areas and transition zones provides us with a competitive advantage in Europe, Africa, the Middle East, Asia and Latin America. These areas present higher barriers to entry and are less sensitive to pricing competition due to difficult working environments and the complexity of the projects.

Description of Activity. Seismic surveying on land is carried out by installing geophones linked to digital recorders that are used to receive the signals from reflected acoustical waves. Vibroseismic vehicles are the preferred method of generating acoustical waves since the frequency of the waves they emit can be precisely modulated by a computerized system and is less susceptible to noise or error. In difficult terrain or transition zones, however, other methods of generating acoustical waves must be utilized, such as explosives or airguns. During 2000, approximately 52% of our land seismic studies used vibroseismic vehicles, 42% used explosives and 6% used airguns.

Seismic surveying in transition zones and seabeds is carried out by laying cables or other stationary measuring devices on the ocean floor. Ocean bottom cables allow seismic surveys to be conducted in areas not accessible to marine vessels, such as shallow water or the area around drilling platforms. Ocean bottom cables also provide high quality seismic data because they are in direct contact with the ocean floor.

Our land seismic crews are equipped with advanced proprietary equipment and software used in each stage of the land seismic acquisition process, including:

- the Sercel SN 388 and, since November 1999, the 408UL (Sercel's latest generation equipment) seismic data recorders which feature 24-bit digital recording technology;
- Geoland quality control software, used to verify that the location of field data points during a survey corresponds to their theoretical position;
- the Sercel VE 432 vibrator electronic control system, used to synchronize and verify the emission of acoustical waves by vibrators; and
- GeovecteurPlus software, used for on-site processing and quality control of acquired data.

We believe that our proprietary equipment and software enable us to offer high quality, fully integrated land seismic services. We have pioneered real-time positioning of geophones and seismic sources, quality control of positioning during land surveys, and onsite processing, which together increase the accuracy and efficiency of such surveys.

One of the challenges inherent in land acquisition surveys is gathering data without disrupting the sensitive ecosystems in which such surveys are frequently located. We have developed a strong position in environmentally sensitive zones, such as mountainous regions, tropical forests and swamps, by following a strict policy of preserving the natural environment to the extent possible. We have designed shallow draft boats and ultra-light drilling equipment to facilitate operations in such sensitive zones. This equipment can be transferred safely and

rapidly from one area to another. We also work in conjunction with the local community at site locations, hiring local employees and obtaining necessary local authorizations to alleviate potential opposition to our operations.

The difficulty of access to survey sites is a major factor in determining the number of personnel required to carry out a survey and the cost of a survey. Fully staffed land or transition zone areas range in size from 40 to 3,000 members (principally composed of local employees in the latter case) and the cost of a survey can range from several hundred thousand to several million dollars per month, depending on the size of the team and the type and difficulty of the study.

We work closely with our clients to plan surveys in accordance with their specifications. This provides us with a competitive advantage in being selected to carry out surveys, whether such surveys are awarded based on competitive bids or directly negotiated agreements with clients. We regularly conduct land acquisition surveys for over 20 major and national oil companies.

Business Development. We continue to upgrade the equipment used by our land acquisition crews with state-of-the-art land recording systems. In 2000, activity remained strong in the 3D segment, which represents more than 65% of our Land SBU operations. We completed complex transition zone and shallow water surveys, including operations in India, the Arabian and Persian Gulf and Indonesia.

Offshore SBU

We offer a full range of 3D marine seismic, borehole and positioning services, principally in the Gulf of Mexico, the North Sea and off the coasts of West Africa and Brazil as well as in the Asian Pacific for the latter two divisions. The capacity to both acquire and process marine seismic data is an important element of our overall strategy to develop our leadership in marine seismic data acquisition and processing. Revenues from our offshore SBU accounted for 22% of our consolidated operating revenues in 2000.

Marine Seismic Acquisition. We conduct our marine seismic operations through CGG Marine. Renewable time charters with Louis Dreyfus Armateurs (“LDA”) provide CGG Marine with the option to change vessels in order to keep pace with market developments, combined with the security of continued access to vessels without the significant investment required for ownership. LDA also supplies crews for the vessels, other than persons directly involved in seismic data acquisition. LDA has provided additional capital necessary to modernize the vessels and has renegotiated the time charters for such vessels following their reconfiguration.

On October 20, 2000, we entered into a memorandum of understanding with LDA setting forth the definitive terms of our agreement to purchase LDA’s 40% interest in *CGG Marine*, our acquisition of 50% of the capital stock of the entity which will directly own the *CGG Mistral* and the subsequent upgrade of the *CGG Mistral* from six to ten streamers. In connection with the acquisition, a new company would purchase from LDA the *CGG Mistral* using its own funds, whereupon we would acquire a 50% shareholding in the new company. These transactions were approved by our shareholders at the extraordinary general meeting held on December 20, 2000, and closed on December 21, 2000. As total consideration for these acquisitions, we issued to LDA 413,969 shares of our common stock, representing approximately 4.1% of our stock at closing, having a value of approximately US\$24.1 million at closing.

Also on October 20, 2000, we entered into a memorandum of understanding with Aker setting forth the definitive terms of our agreement to acquire two marine seismic vessels and 1,000 square kilometers of seismic data from an affiliate of Aker. In connection with this transaction, we entered into a Share Purchase Agreement with Aker on December 14, 2000. The acquisition was approved by our shareholders at the extraordinary general meeting of shareholders held on December 20, 2000, and it closed on January 16, 2001. As consideration for the acquisition, we paid U.S.\$25 million in cash, which we funded using a portion of the proceeds of an offering of notes in November 2000, and we issued to Aker 1,591,407 shares of our common stock at a value of approximately FF 454.35 per share, representing approximately U.S.\$93 million.

Description of Activity. Marine seismic surveys are conducted through the deployment of submersible cables (streamers) and acoustic sources (airguns) from marine vessels. Such streamers are each four to eight kilometers long and carry hydrophones spaced approximately 12.5 meters apart along the full length of the streamer. The recording capacity of a vessel is dependent upon the number of streamers it tows and the number of

acoustic sources it carries. By increasing the number of streamers and acoustic sources used, a marine seismic operator can perform large surveys more rapidly and efficiently.

After completing the purchase of two marine seismic vessels from an affiliate of Aker, we now operate six marine seismic vessels. Each of our vessels is equipped with modern integrated equipment and software and has the capacity to conduct 3D surveys. Our vessels can deploy between six and ten streamers up to eight kilometers long and are equipped with full on-board processing capability. Our data processing employs our proprietary software.

The following table sets forth certain information concerning the six vessels operated by CGG Marine:

<u>Vessel Name</u>	<u>Year Built</u>	<u>Year Added to Fleet</u>	<u>Year Reconfigured</u>	<u>Charter Expires</u>	<u>Number of Streamers</u>	<u>Vessel Length (in meters)</u>
CGG Föhn	1985	1985	1997	2002	8	84.5
CGG Harmattan	1993	1993	1996	2002	6(2)	96.5
CGG Mistral	1991	1991	1996	2001(1)	6(1)(2)	95.5
CGG Alizé	1999	1999	—	2007	10	100.0
Amadeus	1999	2001	—	—	8	87.0
Symphony	1999	2001	—	—	10	120.7

- (1) As part of our recent agreement with LDA, the *CGG Mistral* will be upgraded to 10 streamers and we will enter into a new seven-year charter. We expect to take delivery of the upgraded vessel in early 2002.
- (2) In high resolution mode.

Marine seismic acquisition requires advanced navigation equipment for positioning vessels, acoustic sources and streamers and specialized techniques for safe and rapid deployment and retrieval of acoustic sources and streamers. Each vessel operated by CGG Marine is fitted with a full complement of modern integrated equipment and software mostly developed and owned by us, including (i) a GIN 2000 integrated navigation system, (ii) a Topshooter source control system, used to control the synchronization of the airgun, and (iii) onboard computer equipment running GeovecteurPlus software, used to process seismic data.

Multi-client Library Sales. Non-exclusive surveys accounted for approximately 65% of our marine seismic activities in 1999 and the first half of 2000. In the second half of 2000, our marine seismic activities have been more evenly balanced between exclusive and non-exclusive surveys, which is more consistent with our historical experience. Exclusive contract surveys generally provide for us to be paid a fixed fee per square kilometer of data acquired. When we acquire marine seismic data on an exclusive basis, the customer directs the scope and extent of the survey and retains ownership of the data obtained. In regions where there is extensive petroleum exploration, such as Brazil, the Gulf of Mexico and West Africa, we propose multi-client surveys, whereby holders of permits for neighboring tracts participate in a study covering a larger area, thereby reducing their individual surveying costs. We retain ownership of non-exclusive data from such studies. Our policy is generally to require a minimum share of the estimated cost of each multi-client survey to be covered by pre-sales to clients prior to commencement. We cover the remaining cost and generate profit through subsequent sales of the data we acquire. As at the end of 2000, the net book value of our marine multi-client data library was FF 498 million (U.S.\$71 million).

Borehole Seismic. Our borehole services business records measurements that are used to locate geologic strata and that complement and enhance 2D and 3D seismic surveys. In the past three years, we have introduced high-tech equipment such as the SST500, a tool which permits a large number of measurements on up to 12 simultaneous levels, and the slim hole PipeSeis™ tool range allowing borehole seismic acquisition in horizontal wells, without interrupting drilling operations. These technological achievements have resulted in contracts with major companies such as Halliburton and Schlumberger, which offer our borehole services to their clients. We believe that the SST500 will continue to enhance the development of advanced networks for carrying out complex surveys, and that the PipeSeis™ will continue to provide our clients with new capabilities for horizontal drilling control.

Positioning. We provide positioning services to companies mostly unrelated to the seismic industry. Our operational system is based on differential global positioning satellite technology, which is able to calculate the co-ordinates of any location on Earth to within one meter.

Business Development. We intend to maintain a technologically advanced fleet to enhance our position in the marine seismic data acquisition and processing market. We plan to further enhance our capabilities with the scheduled upgrade of the *CGG Mistral*. We believe that these increases in our operational capability and efficiency have strengthened our competitive position in the marine seismic industry. Our recent acquisition of two marine seismic vessels from Aker constitutes a further significant step towards enhancing our position in this market.

We intend to continue the development of advanced techniques, such as the use of solid streamers from Sercel or data transmission from vessel to onshore processing centers or client facilities, to reduce the delivery time from acquisition of seismic data to delivery to clients.

Processing & Reservoir SBU

We currently operate 25 data processing centers (including the two dedicated 4D processing centers for which we were recently awarded contracts) and reservoir teams around the world and have recently renewed our contracts to provide dedicated centers for two of the major oil and gas companies. Revenues from our Processing & Reservoir SBU accounted for 16% of our consolidated operating revenues in 2000.

Description of Activity. The purpose of seismic data processing is to transform seismic data acquired in the field into 2D cross-sections or 3D images of the earth's subsurface, using complex mathematical algorithms. Such images are then interpreted by geophysicists and geologists for use by oil and gas companies in evaluating prospective areas, selecting drilling sites and managing producing reservoirs. We process seismic data acquired by our own land and marine acquisition crews as well as seismic data acquired by non-affiliated third parties. Marine seismic data has been a significant source of the growth in demand for our data processing services, and represents over two-thirds of our operating revenues generated in our processing centers. Reprocessing previously processed data to improve the quality of seismic images represents approximately 40% of our data processing revenues.

Beyond conventional processing and reprocessing, we are also increasingly involved in reservoir-applied geophysics. Recently, we were awarded contracts to operate dedicated 4D processing centers for BP and Shell. In addition, our Processing & Reservoir SBU offers reservoir-related services, an activity which encompasses large integrated reservoir studies from reprocessing to full reservoir simulation, as well as advanced technology studies such as reservoir characterization, stratigraphic inversion and stochastic reservoir modeling.

While our reservoir teams mainly operate from Houston (covering South American projects), Lisbon, London and Massy (France), we also provide seismic data processing (conventional and reservoir-oriented) services through a large network of international and regional data processing centers located around the world. We operate five international processing centers located in Massy (France), London (U.K.), Oslo (Norway), Houston (U.S.) and Calgary (Canada). Four of these centers are linked by high-speed fiber optic connections and all of our centers have access to powerful high-performance computers. We complement our network of international centers with regional multi-client centers and dedicated centers which bring processing facilities within our clients' premises. We believe that our dedicated centers are consistent with the trend among oil and gas companies to outsource processing work and enable our geoscientists to work directly with clients and tailor our services to meet individual clients' needs.

Each of the principal computers used at our centers is leased for a period of approximately two years, permitting us to upgrade to more advanced equipment at the time of renewal. Rapid delivery time and high quality data are essential to meeting client demands. Our delivery time has decreased in recent years enabling delivery of data to clients within the same time frame as work performed directly onboard marine vessels. We believe that, with the combined capacity of our centers located in Massy, France and London, England, we have one of the largest computing capacities of any private facility in Europe.

IT and Data Management. We compete in the data management market through sales of PetroVision, a software designed to manage, and to permit instant retrieval of, large quantities of geological, geophysical and well data. In addition, we are active in data transcription, log digitalization, data storage, design and management.

Processing Software Development and Sales. We sell GeovecteurPlus, our proprietary processing software, to the oil and gas industry as well as to scientific and university research centers. This software is currently available on most modern platforms in the market. Our other software products include:

- PetroCaem, modeling software used to define, represent and manipulate geological structures derived from interpretation of seismic or geological data;
- Geovista, a set of software products used to produce accurate images of geological structures in depth; and
- TDROV, advanced software used to determine specific rock properties from stratigraphic inversion of seismic data.

Business Development. The data processing and reservoir studies market for the year 2000 essentially remained stable compared to 1999. During 2000, the Processing and Reservoir SBU increased its market share. The Processing and Reservoir SBU solidified its position through the renewal of contracts for three dedicated centers for Shell, one of which is exclusively dedicated to 4D processing, and by obtaining a new processing center in the Netherlands for the same client. The BP group in Aberdeen also retained us to process its 4D data for the next four years.

The deployment of new technologies developed by research and development teams and improved project management methods have increased efficiency crucial in the domain of time and depth migrations. Based on a growing market demand in the North Sea, the London center has developed particular expertise in the area of 4D data processing.

The Massy center remains a reference standard for land processing and has also developed a recognized expertise in the complex imaging of the deep waters in the Gulf of Guinea.

The Oslo and Calgary centers have consolidated their respective positions, particularly in the processing/reprocessing markets for marine seismic data.

The Perth, Luanda, Cairo and Caracas centers have developed their sales in competitive local markets due to increased processing services applied to reservoir characterization.

Our expertise in fractured reservoirs has also enabled us to develop in the Middle East. This has led to the award of first 4D land survey project and a reservoir study in Bahrain that supplements the acquisition and processing already completed by us in 1999. As a result, CGG is opening a new regional data processing center in Abu Dhabi that will be operational early 2001.

Throughout 2000, the Processing and Reservoir SBU sought to develop and promote its high technology expertise, its regional experience and its flexibility with the ultimate goal of providing its clients with solutions that are innovative, adapted and more geared towards reservoir solutions.

We believe that our network of processing centers, the quality of our personnel, and our state-of-the-art technology provide us with a strong base for consolidation of our presence in our markets and further growth in activity.

In 2000, we focused our reservoir services activity on large integrated studies in Latin America to meet growing demand for advanced technology services, including stratigraphic inversion, stochastic reservoir modeling and reservoir characterization. We currently have two reservoir teams working under long-term contracts in Latin America to provide reservoir studies to national oil companies. We began development of similar services in Europe, Africa and the Middle East, from our Lisbon, London and Massy (France) operating entities. We have also introduced our Geocluster software. This allows us to run our GeovecteurPlus processing software on a group of parallel personal computers, thereby providing a more productive alternative to processing through higher-powered computers.

Products

Equipment Manufacturing

We conduct our equipment manufacturing activities through our Sercel subsidiary. Sercel is operated as an independent division and makes most of its sales to purchasers other than CGG. Sercel currently operates six equipment manufacturing facilities, located in Nantes and Saint Gaudens (France), Houston (U.S.), Singapore, Alfreton (England) and Calgary (Canada). In China, Sercel is also a 40% partner in a manufacturing joint-venture with XPEIC (Xian Petroleum Equipment Industrial Corporation) and a 50% partner in a manufacturing joint-venture with COGC (China Offshore Geophysical Corporation). Revenues from our Products segment accounted for 34% of our consolidated operating revenues in 2000.

Description of Activity. Sercel offers and supports worldwide a complete range of geophysical equipment for seismic data acquisition, including seismic recording equipment and vibroseismic vehicles, and provides its clients with integrated solutions. Sercel's principal product is seismic recording equipment, particularly the SN 388 and the newly launched 408UL 24-bit recording systems.

The SN 388 seismic data recording system is one of the leading seismic data recording systems available and is capable of handling up to 19,000 different channels, which is sufficient to accommodate the most complex seismic surveys. Sercel improved its seismic data recording technology with the introduction in 1996 of the SUI-UL ultra-light field unit, the smallest and lightest 2D and 3D seismic data recorder on the market, for use in difficult terrain. A submersible version of the recording unit was introduced in 1997. Sercel also offers a leading 24-bit digital recording system that transmits data using radiotelemetry.

In the land market, Sercel is the global leader in terms of total sales in manufacturing vibrators for seismic surveys, with approximately 50% of the market according to management estimates. Sercel also manufactures products related to its vibrator business, including:

- truck and buggy-mounted vibrators used as seismic sources on vibroseis land crews;
- the VE 432 electronic vibrator control system; and
- GPS-based systems for positioning of seismic lines and vibrators during surveys.

In addition, Sercel assembles strings of land seismic geophones and marine seismic streamers and manufactures other ancillary geophysical products.

In November 1999, Sercel launched the latest generation seismic data recording system, the 408UL. The 408UL offers greater operating flexibility than any previous generation system due to:

- clusters of ultra-light acquisition modules allowing total flexibility of configuration, with the option of mixing different communication media (cable, radio, micro-wave, laser, fiber-optic) to form a true network allowing the user to define data routing and hence avoid obstacles in the field; and
- an architecture fully supported by a new generation of object-oriented software.

The sharp increase in Sercel's activity recorded during the second half, and particularly during the last quarter, of 1999, resulted from both strong sales of SN 388 seismic channels and the commercial success of the new 408UL. As of December 31, 2000, 30 408UL systems had been delivered.

Sercel significantly expanded its product range and increased its market share in the seismic equipment industry with the acquisitions of GeoScience Corporation in December 1999 and Mark Products in September 2000. As a result of these acquisitions, Sercel is a market leader in both the marine and land geophysical equipment sectors and now offers a full range of surface and subsea marine seismic equipment, including ocean bottom cables and sensors, in addition to its full range of land geophysical equipment, Sercel recently developed an innovative solid streamer cable (SSC) for marine seismic data acquisition, designed to reduce downtime due to adverse weather conditions and thereby increasing data acquisition productivity.

Backlog

Backlog for our Services segment represents the revenues we expect to receive from commitments for contract services we have with our customers and, in connection with the acquisition of multi-client data, represents the amount of pre-sale commitments for such data. Backlog for our Products segment represents the total value of orders we have received but not yet fulfilled.

Backlog estimates are based on a number of assumptions and estimates, including assumptions as to exchange rates between the French franc and the U.S. dollar and estimates of the percentage of completion contracts. Contracts for services are occasionally modified by mutual consent and in certain instances are cancelable by the customers on short notice without penalty. Consequently, our backlog as of any particular date may not be indicative of our actual operating results for any succeeding period.

As of March 1, 2001, we estimate that our total backlog (Services and Products) was approximately FF 1,981 million (U.S.\$269 million), compared to total backlog of FF 1,548 million (U.S.\$235 million) as of December 31, 1999.

Competition

The acquisition, processing and management of seismic data for oil and gas companies is highly competitive worldwide. Most contracts are obtained through a competitive bidding process. Important factors in awarding contracts include service quality, technological capacity, performance, reputation, experience of personnel, customer relations and long-standing relationships, as well as price. Our principal competitors in seismic data acquisition, processing and reservoir services are Western GECO, Petroleum Geo-Services AS and Veritas DGC Inc. No single company competes with us in all of our segments but we are subject to intense competition in each of our segments.

Our principal competitor for the manufacture of seismic survey equipment is Input/Output Inc. The market for seismic survey equipment is highly competitive and is characterized by continual and rapid technological change. We believe that technology is the principal basis for competition in this market as oil and gas companies have increasingly demanded new equipment for activities such as reservoir management and data acquisition terrain. Oil and gas companies have also become more demanding with regard to the quality of data acquired. Other competitive factors include price and customer support services.

Litigation

We are not, nor are any of our subsidiaries, involved in any litigation, arbitration or administrative proceedings relating to amounts which, individually or in the aggregate, are material in the context of the offering and, to the best of our knowledge, there are no such litigation, arbitration or administrative proceedings pending or threatened.

Organizational Structure

Our significant subsidiaries are as follows:

<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>	<u>Head office</u>	<u>% of interest</u>
Sercel SA	France	Carquefou, France	100.0
CGG Marine SAS	France	Massy, France	100.0
CGG Americas, Inc	United States	Houston, Texas, United States	100.0
CGG Marine Resource Norge A/S	Norway	Baerum, Norway	100.0
Exgeo CA	Venezuela	Caracas, Venezuela	100.0
Sercel Inc.	United States	Houston, Texas, United States	100.0

Property, Plants and Equipment

The following table sets forth certain information as of December 31, 2000 relating to our principal properties.

<u>Location</u>	<u>Type of facilities</u>	<u>Size</u>	<u>Owned/ Leased</u>	<u>Lease Expiration Date</u>
Massy, France	Principal executive offices of CGG	9,800 m ²	Leased	2005
Massy, France	Data processing center of CGG	12,200 m ²	Owned	
Paris, France	Executive offices	725 m ²	Leased	2009
London, England(1).....	Data processing center of CGG		Leased	2001
Houston, U.S.A.	Offices of CGG Americas, Inc.	6,905 m ²	Leased	2007
Houston, U.S.A.	Offices and manufacturing premises of Sercel, Syntron and Mark products equipment	24,154 m ²	Leased/ owned	2002
Carquefou, France	Factory of Sercel. Activities include research and development relating to, and manufacture of, seismic data recording equipment	23,318 m ²	Owned	N/A
Saint Gaudens, France	Factory of Sercel. Activities include research and development relating to, and manufacture of, geophysical cables, mechanical equipment and borehole seismic tools.	16,000 m ²	Owned	N/A
Calgary, Canada	Manufacture of geophysical cables	55,000 m ²	Owned	N/A
Alfreton, England	Manufacture of geophysical cables		Owned	N/A
Singapore	Manufacture of geophysical cables	5,595 m ²	Owned	N/A

Note:

- (1) The London processing center will be relocated to two separate locations during 2001. We have entered into two new leases which expire in October 2010 and January 2011 and relate to properties which are 2,074 m² and 24,975 m² respectively.

The Company also leases offices worldwide to support its operations. The Company believes that its existing facilities are adequate to meet its current requirements.

The following table sets forth certain information concerning the six vessels operated by CGG Marine:

<u>Vessel Name</u>	<u>Year Built</u>	<u>Year Added to Fleet</u>	<u>Year Reconfigured</u>	<u>Charter Expires</u>	<u>Number of Streamers</u>	<u>Vessel Length (in meters)</u>
CGG Föhn	1985	1985	1997	2002	8	84.5
CGG Harmattan	1993	1993	1996	2002	6(2)	96.5
CGG Mistral	1991	1991	1996	2001(1)	6(2)	95.5
CGG Alizé	1999	1999	—	2007	10	100.0
Amadeus	1999	2001	—	—	8	87.0
Symphony	1999	2001	—	—	10	120.7

Note:

- (1) As part of our recent agreement with LDA, the CGG Mistral will be upgraded to 10 streamers and we will enter into a new seven-year charter. We expect to take delivery of the upgraded vessel in early 2002.
- (2) In high resolution mode.

Environmental Matters and Safety

Our operations are subject to a variety of laws and regulations relating to the protection of the environment. We invest financial and managerial resources to comply with such laws and regulations. Although such expenditures historically have been material to us, and we believe that we are in compliance in all material respects with applicable environmental laws and regulations, the fact that such laws and regulations are changed frequently prevents us from predicting the cost of impact of such laws and regulations on our future operations. We are not involved in any legal proceedings concerning environmental matters and are not aware of any claims or potential liability concerning environmental matters which could have a material adverse impact on our business or consolidated financial condition.

Efforts to improve safety and environmental performance over the last few years continued as procedures were strengthened and steps were taken to increase awareness among personnel and subcontractors, including obligatory regular security meetings in the field or onboard. A comprehensive Health, Safety and Environment management system, placing particular emphasis on the management of risks, has been put in place to cover all activities and is being continuously adapted for each segment.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Factors Affecting Results of Operations

After the low point reached in 1999, resulting from the fall in the price of hydrocarbons in the second half of 1998, the market for seismic services has gradually consolidated during the course of 2000, albeit still at a significantly lower level than the one prevailing at the outset of the downward cycle. Some improvement was particularly noticeable in the second half of 2000, and followed a first batch of investment initiatives by the major exploration and production companies in the sector. Sales increased compared to 1999 principally due to high revenues from multi-client surveys and geophysical equipment during the last quarter of 2000.

During the last 18 months, our operational capability has been enhanced by way of several strategic acquisitions, which have broadened the market presences of both our Products segment and our Offshore SBU. At the same time, our shareholder's equity has increased by an aggregate U.S.\$314 million, and we issued a total amount of U.S.\$170 million of seven year notes at the end of 2000.

Our results of operations for the year ended December 31, 1999 were affected by the significant decrease in demand for seismic services worldwide. The decline in the worldwide seismic services market began in September 1998 as a result of continuing low prices for oil. Most of 1999 was characterized by depressed oil prices, which resulted in lower levels of cash flow for oil and gas companies and lower spending on exploration and production, including geophysical services.

Revenues in 2000 increased 37% compared with our revenues for 1999. This increase in overall revenues resulted primarily from strong revenues from our Products segment, which increased 110% in 2000 compared to 1999. Revenues for 2000 for our Services segment increased by 11% compared to our revenues for 1999. Our backlog as of December 31, 2000 was FF 1,882 million (U.S.\$269 million), compared to FF 1,537 million (U.S.\$235 million) as of December 31, 1999, representing a 22% increase which was primarily attributable to our Products segment.

Our results of operations have also been affected by the shift in the offshore market towards a higher proportion of non-exclusive surveys, which have larger initial financing requirements. Non-exclusive surveys accounted for approximately 65% of our marine seismic activities in 2000. Since December 31, 2000, our marine seismic activities have been more evenly balanced between exclusive and non-exclusive surveys, which is more consistent with our historical experience.

We divide our businesses into two segments, geophysical services and geophysical products. Operationally, the Services segment is organized into three strategic business unites, or SBUs:

- the Land SBU for land seismic acquisition activities;
- the Offshore SBU for marine seismic acquisition, multi-client library sales and related services; and
- the Processing & Reservoir SBU for seismic data processing, data management and reservoir studies.

We have organized our Services segment in this way since 1999. Accordingly, certain financial information for the years ended December 31, 1999 and 1998 has been restated for the purposes of this discussion to permit comparison.

Our Products segment includes primarily our equipment manufacturing subsidiaries comprising Sercel.

Corporate Restructuring Plan

In response to weak market conditions, in October 1998 we began a corporate restructuring plan in which we reduced our total headcount by 900, primarily through the reduction of 419 full-time jobs at our offices and data processing center at Massy, France and lay-offs in overseas locations. We anticipate that the cost savings related to our restructuring plan will be approximately FF 300 million (U.S.\$43 million) annually starting in 2001. For the year ended December 31, 2000, we estimate that we realized cost savings related to this plan of approximately FF 250 million (U.S.\$36 million). In 1998 and 1999, we recorded FF 233 million (U.S.\$37.3 million) in charges to establish a reserve related to the costs of implementing the restructuring plan. As of December 31, 2000, the balance of this reserve totaled FF 4.1 million (U.S.\$0.6 million).

Acquisitions and Dispositions

On October 20, 2000, we entered into a memorandum of understanding with Aker setting forth the definitive terms of our agreement to acquire two marine seismic vessels and certain seismic data from an affiliate of Aker. In connection with this transaction we entered into a share purchase agreement with Aker on December 14, 2000. This acquisition was approved by our shareholders at the extraordinary general meeting of shareholders held on December 20, 2000, and it closed on January 16, 2001. As consideration for this acquisition, we paid U.S.\$25 million in cash, which we funded using a portion of the proceeds of an offering of notes in November 2000, and we issued 1,591,407 shares of our common stock at a value of approximately FF 454.35 per share, representing approximately U.S.\$93 million, to Aker.

Also on October 20, 2000, we entered into a memorandum of understanding with Louis Dreyfus Armateurs (“LDA”) setting forth the definitive terms of our agreement to purchase LDA’s 40% interest in CGG Marine, our acquisition of 50% of the capital stock of the entity that will directly own the *CGG Mistral* and the subsequent upgrade of the *CGG Mistral* from six to 10 streamers. In connection with these transactions and as consideration for these acquisitions, we agreed to issue to LDA 413,969 shares of our common stock representing approximately 4.1% of our stock at closing having a value of approximately FF 188.1 million (U.S.\$24.2 million) at closing. These acquisitions were approved by our shareholders at the extraordinary general meeting of shareholders held on December 20, 2000, and closed on December 21, 2000.

As a result of the foregoing transactions, we significantly upgraded our fleet capacity and will further upgrade our capacity with the planned upgrade of the *CGG Mistral* in 2002. In addition, as result of the Aker acquisition, we acquired certain seismic data. We plan to continue developing our marine acquisition services to strengthen our position in this market segment and to continue strengthening our position in the marine seismic market for non-exclusive data by further developing our non-exclusive data library. We believe that a strong position in these areas is vital to enhance further our global competitive position as it will permit us to adapt to current market demand and will provide opportunities for significant future sales. Our results of operations will depend on our continuing ability to take advantage of this demand and position ourselves to take advantage of future opportunities.

On October 4, 2000, we sold our interpretation software subsidiaries, Flagship S.A. and Flagship LLC, to Paradigm. In connection with the transaction, we received U.S.\$4 million in cash and 1,500,000 shares of

Paradigm common stock, representing approximately 11% of Paradigm's outstanding capital stock and having a value of approximately U.S.\$10.5 million at closing.

On September 29, 2000, we acquired Mark Products, a leading manufacturer of geophones, hydrophones, cables and connectors used in land, marine and transition zone geophysical applications worldwide. As consideration for the acquisition, we issued 352,237 shares of our common stock, representing approximately 3.7% of our outstanding equity and having a value of approximately FF 174 million (U.S.\$23.8 million) at closing.

On December 31, 1999, we sold the three companies forming our airborne geophysics services division to Fugro N.V., a Dutch corporation, for 26.6 million Canadian dollars before price adjustment. Revenue for this division was FF 138 million in 1999 and FF 155 million in 1998.

In December 1999, we acquired GeoScience Corporation, a seismic equipment manufacturer with its principal offices in Houston, Texas, for U.S.\$67 million. We financed the acquisition with the proceeds of a share issuance of approximately U.S.\$87 million, all of which was subscribed for by affiliates of The Beacon Group. This acquisition generated initial goodwill of U.S.\$50 million that we are amortizing over a period of 20 years.

Recognition of revenue

Within our Services segment, when we acquire or process seismic data on an exclusive contract basis, we recognize revenue using the percentage of completion method. We bill our customers for seismic survey data on a monthly basis based on work performed. When we acquire seismic data on a multi-client basis, we generally perform surveys after obtaining pre-sales commitments from our customers covering a minimum share of the estimated cost of the survey. Effective January 1, 1997, for multi-client seismic surveys, we recognize revenues as we perform these services and invoice our customers. Effective January 1, 1999, the estimated cost used to compute recognized revenue for multi-client surveys is based on a regional standard price derived from reference prices in the geographical area, rather than on reference prices for exclusive contract surveys. This change in accounting for estimated costs had an estimated impact on net income of FF 33 million (U.S.\$5 million) in 1999.

We recognize revenue on equipment sales upon delivery to the customer.

Revenues by Activity

The following table sets forth our consolidated operating revenues by activity, and the percentage of total consolidated operating revenues represented thereby, during each of the periods stated:

	Year ended December 31,					
	2000		1999		1998	
	(in U.S.\$ millions, except percentages)(1)					
Land SBU	185	28%	206	41%	287	39%
Offshore SBU	142	22	77	15	126	17
Processing & Reservoir SBU	104	16	110	22	146	20
Airborne Geophysics	—	—	21	4	28	4
Total Services	<u>431</u>	<u>66%</u>	<u>414</u>	<u>82%</u>	<u>587</u>	<u>80%</u>
Products	<u>222</u>	<u>34</u>	<u>94</u>	<u>18</u>	<u>145</u>	<u>20</u>
Total	<u>653</u>	<u>100%</u>	<u>508</u>	<u>100%</u>	<u>732</u>	<u>100%</u>

(1) Revenues are shown in U.S. dollars, the currency in which approximately 82% of our revenues were billed in 2000. Translations of French franc amounts into U.S. dollars are at U.S.\$1.00 to FF 6.987, FF 6.5439 and FF 5.587, the Noon Buying Rates used for information purposes, respectively, as at December 29, 2000, December 30, 1999 and December 31, 1998.

Revenues by Region (by location of customers)

The following table sets forth our consolidated operating revenues by region, and the percentage of total consolidated operating revenues represented thereby, during each of the periods stated:

	Year ended December 31,					
	2000		1999		1998	
	(in U.S.\$ millions, except percentages)(1)					
America	247	38%	170	33%	217	30%
Asia-Pacific/Middle East	188	29	116	23	184	25
Europe and CIS	99	15	92	18	144	20
Africa	119	18	130	26	187	25
Total	<u>653</u>	<u>100%</u>	<u>508</u>	<u>100%</u>	<u>732</u>	<u>100%</u>

(1) Revenues are shown in U.S. dollars, the currency in which approximately 82% of our revenues were billed in 2000. Translations of French franc amounts into U.S. dollars are at U.S.\$1.00 to FF 6.987, FF 6.5439 and FF 5.587, the Noon Buying Rates used for information purposes, respectively, as at December 29, 2000, December 30, 1999 and December 31, 1998.

Year ended December 31, 2000 Compared to Year ended December 31, 1999

Operating Revenues

Our consolidated operating revenues increased 37% to FF 4,561 million (U.S.\$653 million) in 2000 from FF 3,324 million (U.S.\$508 million) in 1999. The increase was due primarily to sales of seismic equipment, particularly related to land seismic acquisition, and multi-client data sales.

Services

Operating revenues for our Services segment increased 11% to FF 3,039 million (U.S.\$435 million) in 2000 from FF 2,726 million (U.S.\$417 million) in 1999. This increase was primarily due to increased acquisition and multi-client activity by our Offshore SBU resulting from a higher level of employment of vessels throughout the year. In addition, revenues relating to land-based surveys and exclusive offshore surveys increased during the second half of the year, by FF 189 million (U.S.\$27 million) and FF 98 (U.S.\$14 million) respectively, compared to the first half year.

Land SBU. Operating revenues for our Land SBU decreased 4% to FF 1,290 million (U.S.\$185 million) in 2000 from FF 1,347 million (U.S.\$206 million) in 1999. The decrease was due primarily to an estimated 6% decline in worldwide demand (expressed in U.S.\$) for land seismic surveys, partially offset by our still limited exposure to the North American market and by growing demand in Middle-East and Asia-Pacific, where we have well-established positions.

Offshore SBU. Operating revenues for our Offshore SBU increased 97% to FF 990 million (U.S.\$142 million) in 2000 from FF 503 million (U.S.\$77 million) in 1999. The increase was due primarily to an increase in multi-client data sales from FF 215 million (U.S.\$33 million) in 1999 to FF 641 million (U.S.\$92 million) in 2000. Total sales of multi-client surveys were in excess of the related capital expenditures of FF 601 million (U.S.\$86 million) for the year. Exclusive contracts accounted for 35% of our offshore sales despite the fact that the market for these services has been marked by low prices and decreasing volumes since mid 1998.

Processing & Reservoir SBU. Operating revenues for our Processing & Reservoir SBU remained stable at FF 729 million (U.S.\$104 million) in 2000 compared to FF 719 million (U.S.\$110 million) in 1999, as a result of our dedicated centers installed in the premises of clients, constant improvement of our technology and our selection by major clients for dedicated operations in 4D processing and reservoir characterization.

Products

Operating revenues for our Products segment increased 110% to FF 1,692 million (U.S.\$242 million) in 2000 from FF 806 million (U.S.\$123 million) in 1999. The increase was due primarily to the acquisition of Geoscience at the end of 1999 and the subsequent contribution of the acquired companies to revenues. Growth relating to onshore acquisition systems increased with strong sales of new 408 system. Excluding intra-group sales, revenues increased 152% to FF 1,552 million (U.S.\$222 million) compared to FF 616 million (U.S.\$94 million) in 1999. For Sercel only (equipment sales), growth of revenues was 127% compared to 1999. Approximately 43% of this growth was attributable to acquisitions of Geoscience and, to a lesser degree, Mark Products, and approximately 57% was attributable to organic growth.

Operating Expenses

Cost of operations, including depreciation and amortization, increased 26% to FF 3,804 million (U.S.\$544 million) in 2000 from FF 3,023 million (U.S.\$462 million) in 1999. As a percentage of operating revenues, cost of operations decreased to 83% in 2000 compared to 91% in 1999 due to the relative decrease of fixed costs following restructuring measures in 1999. Gross profit increased to FF 757 million (U.S.\$108 million) in 2000 from FF 301 million (U.S.\$46 million) in 1999.

Selling, general and administrative costs increased to FF 577 million (U.S.\$83 million) in 2000 from FF 523 million (U.S.\$80 million) in 1999. As a percentage of operating revenues, selling, general and administrative costs decreased to 13% in 2000 compared to 16% in 1999. This percentage decrease was partially due to the full effect of our 1999 restructuring measures, notwithstanding an increase in volume due to integration of companies acquired in the Geoscience acquisition.

Research and development expenditures, net of government grants, increased to FF 177 million (U.S.\$25 million) in 2000, representing 4% of operating revenues, compared to FF 161 million (U.S.\$25 million) in 1999, representing 5% of operating revenues.

Other income amounted to FF 89 million (U.S.\$13 million) in 2000. This amount included gains of FF 99 million (U.S.\$14 million) related to partial sales of businesses, FF 16 million (U.S.\$2 million) related to sales of fixed assets and losses of FF 23 million (U.S.\$3 million) related to net restructuring charges incurred during 2000.

Operating Income (Loss)

We had an operating profit of FF 93 million (U.S.\$13 million) in 2000 compared to a loss of FF 368 million (U.S.\$56 million) in 1999 due to improved performance by both our Services and Products segments. Our operating loss for Services decreased from FF 283 million (U.S.\$43 million) in 1999 to FF 90 million (U.S.\$13 million) in 2000. Our Products segment had an operating profit of FF 242 million (U.S.\$35 million) in 2000 compared to operating loss of FF 25 million (U.S.\$4 million) in 1999.

Financial Income and Expenses, Net

Net interest expense increased 65% to FF 104 million (U.S.\$15 million) in 2000 from FF 63 million (U.S.\$10 million) in 1999 due to an increase in average debt outstanding during 2000 to FF 1,012 million (U.S.\$145 million) compared to FF 796 million (U.S.\$122 million) during 1999. Indebtedness totaled FF 1,341 million (U.S.\$192 million) at December 31, 2000 compared to FF 684 million (U.S.\$104 million) at December 31, 1999.

Gross financial expenses were FF 124 million (U.S.\$18 million) compared to FF 73 million (U.S.\$11 million) in 1999, as a result of increased borrowings to finance operations. Financial income, resulting primarily from overnight deposits, was FF 20 million (U.S.\$3 million) compared to FF 10 million (U.S.\$1.5 million) in 1999.

Negotiations of banking conditions during the course of 2000 also contributed to the higher cost of debt, and the issuance of a \$170-million bond bearing interest at a fixed rate of 10.625% in November 2000 will further increase interest charge in future years.

Foreign exchange losses increased to FF 38 million (U.S.\$5 million) in 2000 from FF 22 million (U.S.\$3 million) in 1999 due to the strengthening of the French franc compared to the U.S. dollar at the end of the period. Revaluation of high balances of receivables denominated in U.S. dollars, which were generated by the historically high activity of Sercel and multi-client sales during the month of December, was the main cause of these losses.

Equity in Income (Losses) of Investees

Results from investments consolidated under the equity method increased to a profit of FF 17 million (U.S.\$2 million) in 2000 from a profit of FF 4 million (U.S.\$0.7 million) in 1999 due primarily to the results of Argas, our Saudi Arabian joint-venture.

Income Taxes

Income taxes increased 35% to FF 69 million (U.S.\$10 million) in 2000 from FF 51 million (U.S.\$8 million) in 1999 due primarily to the overall increase in our activity, particularly in certain countries where our operations are subject to taxation based on revenues. The improvement in the results of our Offshore SBU resulted in a tax charge attributable to CGG Marine in the amount of FF 19 million (U.S.\$3 million). In addition, the integration of companies purchased by Sercel from Geoscience in 1999 for FF 8 million (U.S.\$1 million) resulted in an increased tax charge as none of these companies are party to a tax consolidation system.

Since we earn the majority of our taxable income outside of France, foreign taxation significantly affects our overall income tax expense. We are not subject to a worldwide taxation system and the income tax paid in foreign countries, mainly when based on revenues, does not generate corresponding tax credits in France.

Net Income (Loss)

After deduction of minority interests of FF 24 million (U.S.\$3 million) relating to CGG Marine, our net loss in 2000 was FF 78 million (U.S.\$11 million), a decrease of 82% compared to our net loss of FF 436 million (U.S.\$67 million) in 1999.

Year ended December 31, 1999 Compared to Year ended December 31, 1998

Despite lower revenues, we increased our market share in all business segments in 1999, maintained our strategic investment program, including the development of our data library for multi-client surveys, and maintained research and development investments as a percentage of operating revenues.

Operating Revenues

Our consolidated operating revenues decreased 19% to FF 3,324 million (U.S.\$508 million) in 1999 from FF 4,087 million (U.S.\$732 million) in 1998. The decrease was due primarily to reduced spending by oil companies in both the data acquisition and equipment markets in response to the decline in oil prices that began in early 1998 and continued throughout the first half of 1999.

Services

Operating revenues for our Services segment decreased 18% to FF 2,726 million (U.S.\$417 million) in 1999 from FF 3,311 million (U.S.\$593 million) in 1998, reflecting lower activity levels for each of our SBUs in 1999.

Land SBU. Operating revenues for our Land SBU decreased 16% to FF 1,347 million (U.S.\$206 million) in 1999 from FF 1,601 million (U.S.\$287 million) in 1998. The decrease was due primarily to an estimated 40% decline in worldwide demand for land seismic surveys, partially offset by our limited exposure to the highly depressed North American market and by stable demand in Africa, Latin America and Asia-Pacific.

Offshore SBU. Operating revenues for our Offshore SBU decreased 28% to FF 503 million (U.S.\$77 million) in 1999 from FF 702 million (U.S.\$126 million) in 1998. The decrease was due primarily to an estimated 40% decrease in prices for our services and streamer incidents at year-end that resulted in production downtime and a loss of approximately FF 50 million (U.S.\$8 million) in revenues. The decrease was also attributed to a reduction of approximately 60% in our exclusive acquisition business, reflecting a shift to multi-client data acquisition activity, which represented approximately 80% of overall activity in the industry and 60% of our marine acquisition activity in 1999.

Processing & Reservoir SBU. Operating revenues for our Processing & Reservoir SBU decreased 12% to FF 719 million (U.S.\$110 million) in 1999 from FF 817 million (U.S.\$146 million) in 1998. The decrease was due primarily to a change in product mix characterized by increased demand in the data processing market for less profitable non-exclusive surveys, which was partially offset by increased sales of high value-added services such as data reprocessing and depth imaging.

Airborne Geophysics. Operating revenues for our airborne geophysics division decreased 12% to FF 139 million (U.S.\$21 million) in 1999 from FF 155 million (U.S.\$28 million) in 1998. We sold this business in December 1999.

Products

Operating revenues for our Products segment decreased 26% to FF 806 million (U.S.\$123 million) in 1999 from FF 1,083 million (U.S.\$194 million) in 1998. The decrease was due primarily to a significant decline in sales in most of our geophysical equipment markets, which was partially offset by increased sales of our products in China and Russia, strong demand for the SN 388 seismic recorder and introduction of the 408UL in the second half of 1999. Excluding intra-group sales, revenues decreased 24% to FF 616 million (U.S.\$94 million) compared to FF 811 million (U.S.\$145 million) in 1998.

Operating Expenses

Cost of operations, including depreciation and amortization, decreased 6% to FF 3,023 million (U.S.\$462 million) in 1999 from FF 3,228 million (U.S.\$578 million) in 1998. As a percentage of operating revenues, cost of operations increased to 91% in 1999 compared to 79% in 1998 due to the decline in our revenues relative to fixed costs. Gross profit decreased to FF 301 million (U.S.\$46 million) in 1999 from FF 859 million (U.S.\$154 million) in 1998.

Selling, general and administrative costs increased to FF 523 million (U.S.\$80 million) in 1999 from FF 519 million (U.S.\$93 million) in 1998. As a percentage of operating revenues, selling, general and administrative costs increased to 16% in 1999 compared to 13% in 1998. This increase was partially due to consolidation of our Mexican subsidiary (CMG), Geonexus, CGG Portugal and Flagship LLP, resulting in a cost of FF 26 million (U.S.\$4 million).

Research and development expenditures, net of government grants, decreased to FF 161 million (U.S.\$25 million) in 1999, representing 5% of operating revenues, compared to FF 178 million (U.S.\$32 million) in 1998, representing 4% of operating revenues.

Special charges amounted to FF 84 million (U.S.\$13 million) in 1999. This amount included FF 46 million (U.S.\$8 million) of net restructuring charges, FF 26 million (U.S.\$4 million) of unusual depreciation related to certain multi-client surveys in the North Sea that may not be recoverable and FF 13 million (U.S.\$2 million) related to depreciation of inventories.

Operating Income (Loss)

We had an operating loss of FF 368 million (U.S.\$56 million) in 1999 compared to a loss of FF 91 million (U.S.\$16 million) in 1998 due to decreased revenues from both our Services and Products segments. Our operating loss for Services increased from FF 46 million in 1998 to FF 283 million (U.S.\$43 million) in 1999. Our Products segment had an operating loss of FF 25 million (U.S.\$4 million) in 1999 compared to operating income of FF 27 million (U.S.\$5 million) in 1998.

Financial Income and Expenses, Net

Net interest expense increased 92% to FF 63 million (U.S.\$10 million) in 1999 from FF 33 million (U.S.\$6 million) in 1998 due to an increase in average debt outstanding during 1999 to FF 796 million (U.S.\$122 million) compared to FF 325 million (U.S.\$58 million) during 1998. Indebtedness totaled FF 684 million (U.S.\$105 million) at December 31, 1999 compared to FF 505 million (U.S.\$90 million) at December 31, 1998.

Foreign exchange losses decreased to FF 23 million (U.S.\$4 million) in 1999 from FF 26 million (U.S.\$5 million) in 1998 due to decreased activity in countries where currency hedging possibilities are limited by exchange control regulations or narrowness of the market, such as Mexico, Venezuela and Brazil. Losses on forward sales of U.S. dollars at an average fixed exchange rate of FF 5.83 for U.S.\$1.00, were partially offset by revaluation of net monetary assets due to the strengthening of the U.S. dollar compared to the French franc.

Equity in Income (Losses) of Investees

Results from investments consolidated under the equity method increased to a profit of FF 5 million (U.S.\$0.8 million) in 1999 from a loss of FF 4 million (U.S.\$0.7 million) in 1998 due primarily to a decrease in start up costs of operations in companies operated through joint-venture agreements and to the partial sale, effective in 1999, of our participations in two joint-ventures that generated significant losses in 1997 and 1998.

Income Taxes

Income taxes decreased 15% to FF 51 million (U.S.\$8 million) in 1999 from FF 60 million (U.S.\$11 million) in 1998 due primarily to the overall reduction in activity, particularly in certain countries where our operations are subject to taxation based on revenues.

Since we earn the majority of our taxable income outside of France, foreign taxation significantly affects our overall income tax expense. We are not subject to a worldwide taxation system and the income tax paid in foreign countries, mainly when based on revenues, does not generate corresponding tax credits in France.

Net Income (Loss)

After deduction of minority interests of FF 64 million (U.S.\$10 million) relating to CGG Marine, our net loss in 1999 was FF 436 million (U.S.\$67 million), up 80% compared to our net loss of FF 243 million (U.S.\$43 million) in 1998.

Liquidity and Capital Resources

Our principal needs for capital are the funding of ongoing operations, capital expenditures, investments in our multi-client data library and acquisitions. We have historically financed our capital needs with cash flow from operations, issuances of equity and borrowings under our syndicated credit facility.

Operations

For the fiscal year ended December 31, 2000, our net cash provided by operating activities was FF 163 million (U.S.\$23 million). Changes in working capital in the fiscal year ended December 31, 2000 had a negative impact on cash from operating activities of FF 611 million (U.S.\$87 million) compared to a positive impact of FF 18 million (U.S.\$3 million) in the corresponding period in 1999. We expect to incur significant expenses for working capital to support the recent increased activity in each of our businesses in the future.

Investing Activities

During the fiscal year ended December 31, 2000, we incurred capital expenditures of FF 217 million (U.S.\$31 million) which related primarily to purchases of geophysical equipment. We expect to significantly increase capital expenditures in future periods as we re-equip our Land crews and seismic ships with improved equipment.

During the fiscal year ended December 31, 2000, we invested FF 607 million (U.S.\$87 million) in our multi-client library, primarily in strategic deepwater areas offshore in the Gulf of Mexico and Brazil. During this period, we expanded our multi-client library by over 20,000 square kilometers of 3D data. At December 31, 2000, the net book value of our marine multi-client data library was FF 498 million (U.S.\$71 million) compared to FF 338 million (U.S.\$52 million) at December 31, 1999. Non-exclusive surveys accounted for approximately 65% of our marine seismic activities in 2000.

We have financed our recent acquisitions mainly through issuances of our common stock and indebtedness.

We believe that net cash provided by operating activities and available borrowings under our syndicated credit facility will be sufficient to meet our liquidity needs for the foreseeable future.

Financing Activities

On September 15, 1999, we entered into a new multi-currency U.S.\$130 million syndicated credit facility with a group of banks led by Société Générale and Natexis Banques Populaires. The facility consolidated and replaced approximately 80% of our existing bank lines at that date and consists of a five-year U.S.\$90 million tranche, which begins amortizing after the third year, and a U.S.\$40 million tranche due in two years, if utilized at the time. The syndicated credit facility bears interest at a graduated rate beginning with a spread of 175 basis points over three-month LIBOR or Euribor until September 15, 2000 and averaging 150 basis points over these rates for the life of the loan thereafter. We agreed to limitations on our net debt compared to equity, to the maintenance of a net debt to EBITDA ratio, to a minimum net worth test and to the completion of a capital increase of not less than FF 300 million by December 31, 1999 as part of the syndicated facility. In addition, we granted the lenders under the syndicated facility a lien on the accounts receivable of CGG, Flagship S.A. and Sercel S.A. in an amount up to the amount of any outstanding borrowings under these facilities. We also entered into a FF 100 million (U.S.\$15 million) bridge loan facility with Société Générale and Natexis which we repaid in full with proceeds of our rights offering on December 10, 1999.

On August 31, 2000, we signed an agreement with our bank syndicate, including Royal Bank of Canada as a new participant, to extend our main syndicated line of credit from U.S.\$130 million to U.S.\$180 million. The additional U.S.\$50 million tranche C was entirely subscribed by Royal Bank of Canada, and expired in November 2000 upon repayment in full of Tranche C with a portion of the net proceeds from our offering of senior notes in November 2000. We have accepted certain additions to the collateral to this line of credit and have consequently pledged in favor of the banks the shares of Sercel Holding S.A. This pledge has been partially released and expires automatically on September 30, 2001.

On November 22, 2000, we issued \$170,000,000 aggregate principal amount of 10¹/₈% Senior Notes due 2007 in the international capital markets. We used the approximately \$164.9 million of net proceeds to repay a portion of outstanding indebtedness under our existing syndicated credit facility and to fund the U.S.\$25 million cash portion of the purchase price of two marine seismic vessels and certain seismic data from an affiliate of Aker.

Net debt at December 31, 2000 amounted to FF 1,341 million (U.S.\$192 million), an increase of 96% from FF 684 million (U.S.\$104 million) in 1999. The ratio of net debt to equity increased to 64% at the end of 2000 compared to 39% at the end of 1999.

At the end of 1999 we increased our share capital by a total of 82% compared to December 31, 1998. In November 1999, we offered rights to purchase 2,409,174 new shares in the form of shares or American Depositary Receipts in a rights offering pursuant to statutory preferential rights under French law. The share capital increase, which closed in December 1999, amounted to FF 584 million, including paid in capital, and represented 26% of our issued share capital and 23% of our voting rights at December 31, 1999. Net proceeds from the rights offering totaled FF 563 million after deduction of expenses of FF 22 million. Proceeds of the offering were partially utilized to repay debt denominated in French francs in priority to other currencies, resulting in an increase in the proportion of debt denominated in U.S. dollars in our total debt. A bridge loan of FF 100 million was immediately repaid on completion of the rights offering.

In December 1999, we issued 1,777,071 new shares at an approximate price of FF 316 per share in order to finance our acquisition of GeoScience. These shares generated gross proceeds of approximately FF 562 million (U.S.\$87 million at the exchange rate on December 10, 1999), including paid in capital, and represented 19% of our share capital. The share issuance was entirely subscribed for by affiliates of The Beacon Group. The net proceeds of this issuance were FF 514 million, utilized to purchase GeoScience and to repay U.S.\$20 million of debt of GeoScience and its subsidiaries. Following the share issuance, affiliates of The Beacon Group have two representatives on our Board of Directors.

Net cash provided by financing activities in 2000 was FF 549 million, primarily related to our offering of senior notes described above, which replaced part of our bank debt and increased cash available to the Company.

Net cash provided by financing activities in 1999 was FF 1,225 million as a result of two capital increases. The net balance between debt issuance and debt reimbursements of FF 264 million reflects (a) the replacement of approximately 80% of our existing bilateral lines of credit by a U.S.\$130 million syndicated credit facility entered into on September 15, 1999 and (b) the subsequent consolidation of unconfirmed credit lines.

On September 28, 2000, our shareholders approved the issuance of 352,237 new shares to Shaw Industries at a price of FF 494 per share as consideration for the purchase of the Mark Products division. The shares were issued on September 29, 2000. As a result of this issuance, our shareholders' equity increased by approximately FF 174 million.

On December 20, 2000, our shareholders approved, at an extraordinary shareholders' meeting, the issuance of 413,969 new shares to LDA at a price of FF 454.35 per share as consideration for the purchase of LDA's 40% interest in our subsidiary CGG Marine, our acquisition of the 50% of the capital stock of the entity that will directly own the *CGG Mistral* and the subsequent upgrade of the *CGG Mistral* from six to 10 streamers. The shares were issued on December 21, 2000. As a result of the issuance, our shareholders' equity increased by approximately FF 188 million.

On December 20, 2000, our shareholders approved, at the same extraordinary general meeting of shareholders, the issuance of 1,591,407 new shares to Aker at a price of FF 454.35 per share as part of the consideration for our acquisition of two marine vessels and certain seismic data from an affiliate of Aker. The shares were issued upon the closing of the transaction, which occurred on January 16, 2001. As result of the issuance, our shareholders' equity increased by approximately FF 723 million, representing approximately U.S.\$93 million.

Research and Development, Patents and Licenses, Etc.

Our ability to compete effectively and maintain a significant market position in our industry depends to a substantial extent upon our continued technological innovation. We have focused on rationalizing our research and development activities both to reduce costs and to focus our research and development efforts primarily on reservoir characterization, multi-component seabed seismic processing techniques, structural imaging and advanced seismic recording equipment. Our research and development teams, totaling approximately 200 employees, are split between a large research and development center in Massy and additional personnel in our various operating divisions who devote a portion of their time to research and development activities. We also access new sources of information or technology by entering into strategic alliances with equipment manufacturers, oil and gas companies, universities, or other clients or by acquiring technology under license from others. We have historically entered into and continue to pursue common research programs with the *Institut Français du Pétrole*, an agency of the French government and parent of ISIS, one of our principal shareholders.

While the market for our products and services is subject to continual and rapid technological changes, development cycles from initial conception through introduction can extend over several years. Our efforts have resulted in the development of numerous inventions, new processes and techniques, many of which have been incorporated as improvements to our product lines. In 1999, our research and development activities focused on new Sercel equipment outfitting and follow-up of software development projects for processing and imaging. During 1998, 1999 and 2000, our research and development expenditures were FF 199 million (U.S.\$36 million), FF 185 million (U.S.\$28 million) and FF 200 million (U.S.\$29 million), respectively, of which approximately

11%, 13% and 12%, respectively, was funded by French government entities for research, such as the *Fonds de Soutien aux Hydrocarbures* (which funding is to be repaid to such organizations from sales of products or services developed with such funds).

We continually seek the most effective and appropriate protection for our products, processes and software and as a general rule, will file for patent, copyright or other statutory protection whenever possible. Our patents, trademarks, service marks, copyrights, licenses and technical information collectively represent a material asset to our business. However, no single patent trademark, copyright, license or piece of technical information is of material importance to our business when taken as a whole. As of December 31, 2000, we held 90 patents in respect of different products and processes worldwide. The duration of these patents varies from four to twenty years, depending upon the date filed and the duration of protection granted by each country.

Trend Information

Euro

We operate in an essentially U.S. dollar-denominated environment in which the introduction of the Euro has had limited consequences. On January 1, 1999, 11 member states of the European Union (the “participating countries”), including France, where we have our headquarters, adopted the Euro as their local currency. On or before July 1, 2002, the participating countries will withdraw all legacy currency and use exclusively the Euro. We are developing guidelines for the conversion to a Euro operating environment.

We have decided not to anticipate the mandatory date for adoption of the Euro for purposes of accounting and both internal and external financial reporting. The utilization of the Euro will, however, be progressively introduced in all economic transactions with employees and all third parties. During the transition period, we will be monitoring customer and competitor reaction to the Euro and shall update our strategic plan as needed.

As part of our ongoing systems updates, we are currently making the necessary modifications to our existing information, financial and management control systems and software to permit us to bill, invoice and report in Euro. However, there can be no assurance that new systems will be introduced or existing systems modified in a timely and/or effective manner such that we will be able to properly handle the changeover to the Euro without causing any disruption to our business processes and operations. We do not expect the total cost of addressing the Euro issue to be material to our financial condition, results of operations or liquidity.

The introduction of the Euro should eliminate exchange rate risks in respect of the currencies of the participating countries that adopt the Euro. We estimate that approximately 10% of our net sales are denominated in the currencies of the participating countries. We expect that the adoption of the Euro is unlikely to substantially modify the impact of currency fluctuations on our result of operations.

Currency Fluctuations

Certain changes in operating revenues set forth in U.S. dollars in this section were derived by translating revenues recorded in French francs at the Noon Buying Rate on the last day of the relevant period. The Noon Buying Rate was U.S.\$1.00 to FF 6.987 on December 29, 2000, U.S.\$1.00 to FF 6.5439 on December 30, 1999, and U.S.\$1.00 to FF 5.5870 on December 31, 1998. Such information is presented in light of the fact that most of our revenues are denominated in U.S. dollars while our consolidated financial statements are presented in French francs. Such changes are presented only in order to assist in an understanding of our operating revenues but are not part of our reported financial statements and may not be indicative of changes in our actual or anticipated operating revenues.

As a company that derives a substantial amount of its revenue from sales internationally, we are subject to risks relating to fluctuations in currency exchange rates. In each of 2000, 1999, and 1998 over 90% of our operating revenues and approximately two-thirds of our operating expenses were denominated in currencies other than French francs. These included U.S. dollars and, to a significantly lesser extent, other Western European currencies, principally British pounds and Norwegian kroner. In addition, a significant portion of our revenues that were invoiced in French francs related to contracts that were effectively priced in U.S. dollars as the U.S. dollar often serves as the reference currency when bidding for contracts to provide geophysical services. A

variation of the exchange rate of the French franc against such other currencies, particularly the U.S. dollar, has had in the past and can be expected in future periods to have a significant effect upon our results of operations. Since we participate in competitive bids for data acquisition contracts that are denominated in U.S. dollars, an appreciation of the U.S. dollar against the French franc improves our competitive position against that of other companies whose costs and expenses are denominated in U.S. dollars. For financial reporting purposes, such appreciation positively affects our reported results of operations since U.S. dollar-denominated earnings that are converted to French francs are stated at an increased value.

We attempt to match foreign currency revenues and expenses in order to balance our net position of receivables and payables denominated in foreign currencies. For example, charter costs for our four vessels, as well as our most important computer hardware leases, are denominated in U.S. dollars. Nevertheless, during the past five years such dollar-denominated expenses have not equaled dollar-denominated revenues principally due to personnel costs payable in French francs.

In order to improve the balance of our net position of receivables and payables denominated in foreign currencies, we maintain a portion of our financing in U.S. dollars. At December 31, 2000, 1999, and 1998, our total outstanding long-term debt denominated in U.S. dollars amounted to U.S.\$187 million (FF 1,307 million), U.S.\$105 million (FF 687 million), and U.S.\$49 million (FF 274 million), respectively, which amounted to 76%, 62%, and 39%, respectively, of our total debt outstanding at such dates. The amount of U.S. dollar debt can be adjusted as needed using our available long-term multi-currency revolving credit lines.

In addition, to be protected against the reduction in value of future foreign currency cash flows, we follow a policy of selling U.S. dollars forward at average contract maturity dates which we attempt to match with future net U.S. dollar cash flows (revenues less costs in U.S. dollars) to be generated by firm contract commitments, generally over the ensuing six months. A similar policy, to a lesser extent, is carried out with respect to contracts denominated in British pounds. As of December 31, 2000, 1999, and 1998, we had U.S.\$101 million (the French franc countervalue under the contract was FF 706 million), U.S.\$40 million (countervalue of FF 249 million), and U.S.\$95 million (countervalue of FF 538 million), respectively, notional amounts outstanding under French franc/U.S. dollar forward exchange contracts.

We do not enter into forward foreign currency exchange contracts for trading purposes.

Inflation

Inflation has not had a material effect on our results of operations during the periods presented. We operate in, and receive payments in the currencies of, certain countries with historically high levels of inflation, such as Mexico, Brazil, Indonesia and Venezuela. We attempt to limit such risk by, for example, indexing payments in the currency against the exchange rate at a certain date to account for inflation during the contract term.

Income Taxes

We conduct the majority of our field activities outside of France and pay taxes on income earned or deemed profits in each foreign country pursuant to local tax rules and regulations. We do not receive any credit in respect of French taxes for income taxes paid by foreign branches and subsidiaries. Net tax expenses in recent periods were attributable to activities, principally in land acquisition, carried on outside of France. We have significant tax loss carryforwards that are available to offset future taxation on income earned in France and other OECD countries. We recognize tax assets, where a minimum history of profit for the past three years exists and budget estimates also indicate a profit for the following year.

Seasonality

Our land and marine seismic acquisition activities are seasonal in nature. We generally experience decreased revenues in the first quarter of each year due to the effects of weather conditions in the Northern Hemisphere and to the fact that our principal clients are generally not prepared to fully commit their annual exploration budget to specific projects during such period. We have historically experienced higher levels of activity in our equipment manufacturing operations in the fourth quarter as our clients seek to fully deploy annual budgeted capital.

Recent Developments

On June 21, 2001, we announced that we were revising our revenue and earnings expectations for the first half of 2001 downward, due to exceptionally unfavorable weather conditions off Morocco which prevailed during the second quarter of 2001. These weather conditions affected the productivity of our two seismic vessels operating in the area, reducing our expected revenue and net income for the first half of 2001 by approximately €9 million. Other than this shortfall, our Offshore SBU has experienced greater activity in the market for exclusive marine seismic surveys than in 2000, and revenues from non-exclusive multi-client surveys continue to meet our expectations. In other areas, our results for the first half of 2001 continue to be consistent with our expectations. Our Products segment continues to perform beyond expected levels, while the activity of our Land and Data Processing & Reservoir SBUs is slowly recovering.

On June 28, 2001 certain media reported that Technip SA, a French company, may launch a takeover bid to acquire ISIS, a holder of 12.3% of our outstanding common stock. It was also mentioned that Technip would consider selling the common stock of CGG currently held by ISIS. In connection with this information, the French stock exchange authorities have temporarily suspended trading in our shares on the Paris Bourse until such time as official press releases are published by each of the companies involved in this potential transaction. We have requested that the New York Stock Exchange suspend trading in our ADRs until trading in our shares on the Paris Bourse has resumed.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

Board of Directors

Under French law, the Board of Directors presents accounts to our shareholders and convenes shareholders' meetings. In addition, the Board of Directors reviews and monitors our economic, financial and technical strategies. Our Board of Directors consists of six to fifteen members elected by our shareholders. Each director must own at least one director qualifying share. Under French law, a director may be an individual or a legal entity, for which an individual is appointed as permanent representative.

Our *statuts* (memorandum and articles of association) provide that each director is elected for a six-year term. Directors need not be French nationals and there is no limitation on the number of terms that directors may serve.

Directors are required to comply with applicable law and our *statuts*. Under French law, directors are responsible for actions taken by them that are contrary to the company's interests, and may be held liable for such actions both individually and jointly with the other directors.

The following table sets forth the names of our current directors, their positions, the dates of their initial appointment as directors (or, in the case of shareholder representatives, the date from which the shareholder became entitled to appoint a director) and the expiration dates of their current term.

<u>Name</u>	<u>Position</u>	<u>Initially Appointed</u>	<u>Term Expires</u>
Robert Brunck(1)(2)	Chairman of the Board and Chief Executive Officer	1998	2002
ISIS, represented by Charles Prévôt(1)(2)(4)	Director	1995	2002
Robert Castaigne(1)(2)	Director	1992	2004
Jean Dunand(3)(5)	Director	1999	2001
Pierre Jacquard	Director	1999	2002
Yves Lesage(3)	Director	1988	2003
John MacWilliams(3)	Director	1999	2005
Christian Marbach(3)	Director	1995	2001
Daniel Valot	Director	2001	2006
Robert Semmens(1)(2)	Director	1999	2005

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- (1) Member of Strategic Planning Committee.
 - (2) Member of Appointment-Remuneration Committee.
 - (3) Member of Audit Committee.
 - (4) Representative of TotalFinaElf.
 - (5) Renewal of terms of offices of both Messrs. Dunand and Marbach was approved by the shareholders at the general shareholders meeting held on May 16, 2001.

Mr. Brunck, 52, has been our Chairman and Chief Executive Officer since May 1999. Mr. Brunck was Vice Chairman and President from September 1998 to May 1999 and was our President and Chief Operating Officer from February 1995 to September 1998. Mr. Brunck was Vice President of Administration and Development from 1991 to 1995 and Chief Financial Officer from 1989 to 1991. He is President of the Supervisory Board of Sercel Holding, Chairman of CGG Americas Inc. and Director of the Ecole Nationale de Géologie.

Mr. Prévôt, 54, has been director and Senior Executive Vice President of ISIS since 1999. Mr. Prévôt was Executive Vice President Strategy Refining Distribution of TotalFinaElf from 1991 to 1999. Mr. Prévôt is a director of Technip and Procatalyse and represents ISIS on the Board of Directors of Coflexip, Geoservices and Nomad.

Mr. Castaigne, 55, has been Chief Financial Officer of TotalFinaElf since 1994. Mr. Castaigne is Chairman of the Board of Directors of Total Chimie and Total Nucléaire and is a director of Cogema, Elf Aquitaine, Eramet, Petrofina, Sanofi Synthelabo and of several companies of the TotalFinaElf Group, including Total Fina Elf Exploration Norge A.S., Total Fina Elf Oil Holdings Ltd. and Hutchinson.

Mr. Dunand, 61, has been Financial and Legal Director of ISIS since 1999. Mr. Dunand was Deputy General Manager (Russia and CIS) of Total Exploration-Production from 1994 to 1999. Mr. Dunand is a Director of Coflexip, the Controller of Ipedex, a member of the Board of Directors of NOVASEP and represents ISIS on the Board of Directors of Vinci.

Mr. Jacquard, 66, has been Honorary Chairman of ISIS and IFP since September 2000 and was Chairman and Chief Executive Officer of ISIS from February 1999 to September 2000. Mr. Jacquard was Chairman of IFP from 1995 to March 2000. Mr. Jacquard is a director of Coflexip, ISIS and Procatalyse, is a member of the Supervisory Board of Beicip-Franlab and of Maurel & Praun.

Mr. Lesage, 64, has been CGG Honorary Chairman since May 1999. Mr. Lesage was Chairman and Chief Executive Officer of CGG from January 1995 to May 1999. Mr. Lesage was Chairman, President and Chief Executive Officer of SOGERAP from 1994 to 1995. Mr. Lesage is a director of Bouygues Offshore, Bureau de Recherches Géologiques et Minières and is President of the Ecole Nationale Supérieure des Mines de Saint Etienne.

Mr. MacWilliams, 46, has been Partner of The Beacon Group since 1993. Mr. MacWilliams is a director of Alliance Resource Partner L.P., Soft Switching Technologies Inc. and Titan Methanol Company.

Mr. Marbach, 64, Ingénieur des Mines, was Advisor to the General Management of Suez-Lyonnaise des Eaux from 1996 to 2000. Mr. Marbach was Chairman and Chief Executive Officer of Coflexip Stena Offshore from 1995 to 1996. Mr. Marbach is a member of the Supervisory Board of Lagardère and is a director of Degremont, Safège and Erap and Supervisor of Sofinnova.

Mr. Valot, 56, has been Chairman and Chief Executive Officer of Technip since 1999. Mr. Valot was President of Total Exploration and Production, and was a member of the TOTAL Group Executive Committee from 1995 to 1999. Mr. Valot is a Director of Coflexip and Petrofina, is Chairman of Technip Americas and is President of Technip Far East and Technip Italy.

Mr. Semmens, 43, was Managing Director of The Beacon Group from 1993 to 2000. Mr. Semmens is a director of Khanty Mansysk Oil Corporation.

Executive Officers

Under French law, the Chairman and Chief Executive Officer has full executive authority to manage our affairs. The Board of Directors has the power to appoint and remove, at any time, the Chairman and Chief Executive Officer. Pursuant to French law and our *statuts*, the Chairman and Chief Executive Officer has full power to act on our behalf and to represent us in dealings with third parties, subject only to those powers expressly reserved by law to the Board of Directors or our shareholders. The Chairman and Chief Executive Officer determines and is responsible for the implementation of the goals, strategies and budgets for our different businesses, which are reviewed and monitored by the Board of Directors.

The following table sets forth the names of our current executive officers who serve as members of our *Comité Exécutif* and *Comité de Direction* and as Secretary of the *Comité de Direction*, their current positions with us and the first dates as of which they served as our executive officers.

Comité Exécutif (Executive Committee)

<u>Name</u>	<u>Current Position</u>	<u>Executive Officer Since</u>
Robert Brunck	Chairman and Chief Executive Officer	1989
Gérard Chambovet	Senior Executive Vice President, Services	1995
Thierry Le Roux	Senior Executive Vice President, Products	1995
Michel Ponthus	Senior Executive Vice President Administration & Finance and Chief Financial Officer	1995
Christophe Pettenati-Auzière	Senior Executive Vice President, Strategy, Planning and Control	1997

Mr. Chambovet, 48, has been Senior Executive Vice President of our Services segment since October 1998. Mr. Chambovet was Executive Vice President Acquisition Product line from March 1995 to October 1998 and was Manager of CGG's data processing center in Massy, France from 1987 to 1995.

Mr. Le Roux, 47, has been Senior Executive Vice President of our Products segment since October 1998. Mr. Le Roux was Executive Vice President of CGG's Geophysical Equipment from March 1995 to October 1998. Mr. Le Roux was Business Development Manager from 1992 to 1995 and Far East Manager from 1984 to 1992.

Mr. Ponthus, 54, has been Senior Executive Vice President, Administration & Finance, and Chief Financial Officer since October 1998. Mr. Ponthus was our Chief Financial Officer from March 1995 to October 1998 and prior to joining CGG, Mr. Ponthus was Administrative and Financial Vice President of Petitjean Industries from 1990 to 1995.

Mr. Pettenati-Auzière, 49, has been Senior Executive Vice President, Strategy, Planning and Control since January 2001. Mr Pettenati- Auzière was Executive Vice President of our Offshore SBU from July 1999 to January 2001, was Vice President of Business Development and Investor Relations from December 1998 to July 1999 and Vice President of Seismic Acquisition from April 1997 to December 1998. He was Executive Vice President of International Operations for Coflexip from 1990 to 1996.

The following table sets forth the names of the executive officers who, together with the *Comité Exécutif*, constitute the *Comité de Direction*, their current positions, and the dates when they were first appointed.

Comité de Direction (Management Committee)

<u>Name</u>	<u>Current Position</u>	<u>Executive Officer Since</u>
Jean-François Arzel	Executive Vice President, Data Processing and Reservoir SBU	1996
Bruno Delétang	Executive Vice President	1995
Gerald Harrison	Executive Vice President, Offshore SBU	2001
Jonathan Miller	Vice President, Americas	2000
Dominique Robert	Executive Vice President, Land SBU	2000
Pascal Rouiller	Chief Operating Officer, Sercel Group	1997
Didier Treussier	Vice President, Group's Human Resources	1997
<i>Secretary of the Comité de Direction</i>		
Annick Laroche	Vice President	1996

Mr. Arzel, 49, has been Executive Vice President, Processing and Reservoir SBU since October 1999. Mr. Arzel was Vice President of CGG's Data Processing Product line from February 1996 to October 1999, Deputy Vice President of CGG's Data Processing Product line from 1995 to 1996 and Manager of CGG's data processing center in London, England from 1991 to 1995.

Mr. Delétang, 44, has been Executive Vice President in charge of specific corporate affairs since December 2000 and was Executive Vice President of our Land SBU from July 1999 to December 2000. Mr. Delétang was Vice President of the Land Acquisition Product line from August 1998 to July 1999, Vice President of the Acquisition Product line in North and Latin America from January 1997 to August 1998 and Vice President of Latin America Region from 1994 to 1996.

Mr. Harrison, 47, has been Executive Vice President, Offshore SBU, since February 2001. Mr. Harrison was President and Chief Executive Officer of Aker Geo Seismic AS and Executive Vice President and Chief Executive Officer of Aker Geo Seismic AS from May 1999 to February 2001. He was President and Chief Executive Officer of Horizon Exploration Ltd from June 1993 to May 1999.

Mr. Miller, 46, has been Vice President in charge of the Americas since December 2000. Mr. Miller was Head of Corporate Quality from September 1999 to December 2000 and was CGG's representative in Syria from early 1997 to September 1999.

Mr. Robert, 50, has been Executive Vice President, Land SBU, since December 2000. Mr. Robert was chief operating officer of Flagship from January 2000 to December 2000 and Vice President of the Asian Pacific Region from September 1995 to January 2000.

Mr. Rouiller, 47, has been Chief Operating Officer of the Sercel Group since December 1999. Mr. Rouiller was Vice President of our Product segment from October 1995 to December 1999 and Vice President of the Asian Pacific Region from May 1992 to September 1995.

Mr. Treussier, 56, has been our Vice President of Human Resources since September 1997. Mr. Treussier was Deputy Vice President of Human Resources from April 1997 to September 1997 and Deputy Vice President of Acquisition Product line from June 1996 to April 1997 and Vice President of Logistics from November 1990 to June 1996.

Mrs. Laroche, 50, has been Vice President since January 1999. Mrs. Laroche was Vice President of CGG's Software Product line from April 1996 to December 1998 and was Vice President of Petrosystems (renamed Flagship) from 1994 to 1996.

Compensation

For the fiscal year ended December 31, 2000, the aggregate compensation as a group of the executive officers who were members of our *Comité de Direction* as of such date was FF 12.6 million (U.S.\$1.8 million). Directors as a group received in January 2001 aggregate compensation of FF 0.5 million (U.S.\$0.72 million) for services provided in their capacity as such during the fiscal year ended December 31, 2000.

Board Practices

Officers are employed by the Company under standard employment services agreements which have no fixed term. Directors' service contracts do not provide for benefits upon termination.

The Strategic Planning Committee, chaired by Mr. Brunck, is in charge of studying our strategic plans.

The Audit committee, chaired by Mr. Marbach, ensures that the accounts are established under the same permanent and pertinent accounting methods and verifies the internal audit and external auditors' plan of review. This committee expresses its advice on the appointment or renewal of the external auditors and upon request of the Chairman and CEO reviews any specific financial or accounting matter.

The Appointment-Remuneration Committee, chaired by Mr. Semmens, proposes to the Board the remuneration of the Chairman and Chief Executive Officer, stock option plans and employee shareholding plans. This Committee also reviews proposals for appointments of directors or of any Senior Executive Vice President.

Employees

As of December 31, 2000, we had approximately 3,285 permanent employees worldwide as well as several thousand auxiliary field personnel on temporary contracts. We have never experienced a material work stoppage and consider our relations with our employees to be good. We believe that our highly educated and experienced staff constitute one of our most valuable assets. We permanently employ more than 1,480 technicians and persons holding engineering degrees and have developed a significant in-house training program.

In accordance with French law for employees employed under French contracts, we and each of our French subsidiaries have a *Comité d'Entreprise* (Employee's Representation Committee) consisting of representatives elected by our employees. The *Comité d'Entreprise* reports regularly to employees, represents employees in relations with management, is consulted on significant matters relating to employee working conditions and is regularly informed of economic developments.

As a consequence of the sudden decline in the geophysical market, which started at the end of 1998 and severely affected all of 1999, we launched a major staff reduction program concerning approximately 25% of the workforce in France and abroad, and affecting both service and product divisions. Including changes in our consolidated group of companies, with the sale of the Airborne Geophysics (150 employees) and the acquisition of GeoScience Corporation (350 employees), our total workforce decreased from a peak of approximately 3,900 in mid-1998 to approximately 3,285 as at December 31, 2000. We are preparing for the future by intensifying our training program, thus putting the emphasis on strengthening the technical and personal skills available to us. In France, the regulations pertaining to the new reduced working hours law have been implemented in their entirety, permitting the introduction of additional flexibility in the organization of hours worked.

Share Ownership

In accordance with French law, we are authorized annually by our shareholders at the extraordinary general meeting to issue Ordinary Shares for sales to our employees and employees of our affiliates who elect to participate in CGG's *Plan d'Epargne Entreprise Groupe*, or Group Employee Savings Plan (the "Group Plan"). This authorization was renewed at the extraordinary general meeting held on May 17, 2000, to issue up to 500,000 ordinary shares for sales to employees and affiliates who participate in the Group Plan. The ordinary shares issued pursuant to the Group Plan may not be offered at a price exceeding the average market price for the 20 business days preceding the date on which the Board of Directors set the commencement date for the offering of such ordinary shares nor at a price lower than 80% of such average market price. In 1997, the Board of

Directors, by a resolution dated May 5, 1997, decided to issue 60,000 ordinary shares and up to 10,000 additional ordinary shares solely for the purpose of covering additional orders, if any. The ordinary shares were offered to our employees, employees of our French subsidiaries, and of certain international subsidiaries, at an offering price of FF 382 per ordinary share, a price corresponding to 80% of the average market price for the 20 business days preceding May 5, 1997. Employees subscribed in 1997 to a total of 68,917 ordinary shares under the Group Plan.

We intend to establish employee savings plans for our other international subsidiaries on terms similar to the Group Plan, subject to applicable local regulations, in order to issue ordinary shares to employees of such subsidiaries, particularly in North America and Europe.

Pursuant to resolutions adopted by our Board of Directors on December 13, 1996, May 5, 1997, January 18, 2000 and March 14, 2001, our Board of Directors has granted options to certain employees, executive officers and directors of CGG to subscribe for an aggregate of 594,590 ordinary shares, which number has been adjusted pursuant to French law and the terms of such options to total 608,834. Options with respect to 292,922 ordinary shares remained outstanding at December 31, 2000. The following table sets forth certain information relating to these stock option plans as of May 31, 2001:

<u>Date of Board of Directors' Resolution</u>	<u>Options Granted</u>	<u>Options Exercised (Ordinary Shares) at May 31, 2001</u>	<u>Options Outstanding at May 31, 2001(1)</u>	<u>Exercise price per Ordinary Share</u>	<u>Expiration Date</u>
December 13, 1996(4)	7,590(2)	3,056	3,197(3)	FF 312.8(3)	December 12, 2001
May 5, 1997(5)	100,000(2)	13,628	63,617(3)	FF 400.36(3)	May 4, 2005
January 18, 2000(6)	231,000	—	223,000	€ 49.9	January 17, 2008
March 14, 2001(7)	<u>256,000</u>	—	<u>256,000</u>	<u>€ 71.2</u>	<u>March 13, 2009</u>
	<u>594,590</u>	<u>110,424</u>	<u>546,913</u>	<u>—</u>	<u>—</u>

- (1) The stock option plans provide for the cancellation of the options after the employee is no longer an employee, director or officer of CGG. As of May 31, 2001, 42,950 options have been so cancelled.
- (2) Pursuant to French law and the terms of the stock option plans, the numbers of options granted and the exercise price therefor were adjusted following the rights offering by CGG in December 1999.
- (3) As adjusted for our capital increase effected in December 1999 pursuant to French law.
- (4) Options granted under the first stock option plan cannot be exercised for an initial period of 12, 24 or 36 months, depending upon the number of options granted.
- (5) 20% of options granted under the 1997 plan can be exercised in every twelve-month period.
- (6) Options under the 2000 plan cannot be exercised before January 2003.
- (7) Options under the 2001 plan are vested by one-fifth each year from March 2001 and cannot be exercised before March 14, 2004.

As of May 31, 2001, options to purchase an aggregate of 296,583 ordinary shares were held by directors and executive officer members of the *Comité de Direction* of CGG. None of the directors and executive officers holds, on an individual basis, options giving right to acquire 1% or more of the outstanding capital. At the extraordinary general shareholders' meeting held on May 16, 2001, a new stock option plan was approved by shareholders whereby options to purchase up to 7% of our share capital outstanding on the date of allocation may be granted in one or several allocations by the Board of Directors to certain employees and executive officers of CGG during the five-year period following the date of approval of such plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The table below sets forth certain information with respect to (i) groups known to us to own a significant percentage of our securities and (ii) the total number of shares of our common stock (called ordinary shares) owned by our directors and officers as a group, as of May 31, 2001 and for the past three years.

Identity of Person or Group

	May 31, 2001		December 31, 1999		December 31, 1998	
	% of shares	% of voting rights	% of shares	% of voting rights	% of shares	% of voting rights
The Beacon Group	15.22	13.63	19.16	16.78	—	—
ISIS(1)	12.30	18.50	15.49	22.62	19.21	23.03
Total Chimie	4.02	6.04	5.06	7.44	8.64	14.86
Aker Geo Seismic	13.63	12.21	—	—	—	—
Templeton Global Investors	NS	NS	NS	NS	11.29	9.71
Directors and Officers(2)	*	*	*	*	*	*
Public	54.83	49.62	60.29	53.16	60.86	523.4

* Less than 1%

(1) A subsidiary of the Institut Français du Pétrole, an agency of the French government.

(2) As of May 31, 2001, the Directors and Officers held 14,966 shares, excluding ordinary shares held by ISIS. As of December 31, 2000, through the employees' savings plan instituted in 1997, group employees held 60,272 ordinary shares corresponding to 0.60% of the share capital.

Our *statuts* provide that, as from May 22, 1997, each ordinary share that is fully paid and has been held in registered form by the same shareholder for a period of at least two consecutive years will entitle such shareholder to two votes at meetings of shareholders. As of May 31, 2001, ISIS and Total Chimie held respectively 974,850 and 318,516 fully paid ordinary shares in registered form for two consecutive years, giving ISIS and Total Chimie 18.5% and 6.04% respectively of the voting power of the ordinary shares as of such date. Double voting rights for all other ordinary shares held by ISIS and Total Chimie and for all ordinary shares held by The Beacon Group and Aker would vest at different intervals, and would be partly vested by May 31, 2002 and fully vested by January 31, 2003, assuming that ISIS, Total Chimie, The Beacon Group and Aker continue to hold fully paid ordinary shares in registered form through such dates. Substantially all ordinary shares held by other shareholders are presently held in bearer form, and, even if converted to registered form, would not be eligible for double voting rights as of December 31, 2001. Therefore, excluding any ordinary shares issuable in connection with stock option plans or employee savings plans, The Beacon Group, ISIS, Aker and Total Chimie would, if they sold no ordinary shares in the interim, hold in the aggregate approximately 57.08% of the voting power of the ordinary shares outstanding as of December 31, 2001, 57.50% as of May 31, 2002 and 61.44% as of January 31, 2003.

Aker Maritime, the parent company of Aker Geo Seismic has publicly announced that it has decided to offer its minority shareholders the opportunity to buy back their shares by way of a distribution of CGG shares currently held by Aker Maritime and a payment in cash. Assuming that Aker would not acquire double voting rights, The Beacon Group, ISIS and Total Chimie would, if they sold no ordinary shares in the interim, hold in the aggregate approximately 46.77% of the voting power of the ordinary shares outstanding as of December 31, 2001 and 47.28% as of May 31, 2002.

Total Chimie and ISIS (each a "Party" and collectively the "Parties") are parties to a Shareholders' Agreement dated January 31, 1995 (the "Shareholders' Agreement"). Pursuant to the Shareholders' Agreement, any sale to a third party of a Party's stake in the Company which would reduce such Party's holding to less than

10% of our total outstanding share capital as of January 1995 is subject to a right of first refusal by the other Party. This right of first refusal does not apply in the event such sale is made to an affiliate of the selling Party, provided that such affiliate becomes a party to the Shareholders' Agreement. The Shareholders' Agreement expires on January 30, 2004 and will be automatically renewed for successive three-year periods subject to certain notice provisions. The Shareholders' Agreement also provides that, as long as each Party maintains a significant shareholding in our total outstanding capital stock, the Parties may nominate certain directors for election at our general shareholders' meetings.

Related Party Transactions

We provide geophysical services and equipment to oil and gas exploration and production subsidiaries of the TotalFinaElf group pursuant to contracts entered into on an arm's-length basis. Aggregate operating sales to this group amounted to FF 364.2 million (U.S.\$52 million) in 2000 and FF 360 million (U.S.\$55 million) in 1999. Sales to the Total group, as predecessor of the TotalFinaElf group amounted to FF 90 million (U.S.\$16.1 million) in 1998.

Interests of Experts and Counsel

None.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Reference is made to Item 18 for a list of all financial statements and notes thereto filed as a part of this annual report, except as set forth below.

The following information is provided in connection with our acquisition of two marine seismic vessels and certain seismic data from an affiliate of Aker, as described herein under "Information on the Company — Services — Marine Seismic Acquisition". In connection with this acquisition, we acquired 100% of the shares of a newly formed company, Aker RGI Forretningsutvikling AS, or Aker RGIF, which in turn owned each of the two vessels to be acquired by us. Prior to October 20, 2000, Aker RGIF was a part of Aker Geo Seismic AS. Because Aker RGIF has only been operational since October 20, 2000, and Aker Geoscismic is the predecessor company of Aker RGIF, we have included audited financial statements as of and for the year ended December 31, 2000 for each of these companies. We have also included pro forma financial information which sets out the financial position of Compagnie Général de Géophysique as of and for the year ended December 31, 2000 had the acquisition of the two seismic vessels and certain seismic data occurred prior to January 1, 2000.

The financial statements of Aker Geo Seismic and Aker RGIF are each preceded by an audit opinion of KPMG, auditors to each of these companies. In each case the audit opinion makes reference to the "Company". This term refers to Aker Geo Seismic AS or Aker RGI Forretningsutvikling AS, as applicable.

AUDITORS' REPORT FOR 2000

To the Annual Shareholders' Meeting of
Aker Geo Seismic AS

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Aker Geo Seismic AS as of 31 December 2000, showing a loss of NOK 146,187,000. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards and practices an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion:

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway;
- the Company's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway; and
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and comply with the law and regulations.

Oslo, 11 June 2001

Translation — not to be signed

KPMG
John Haukland
State Authorised Public Accountant

Balance Sheet

	Note	At December 31,	
		2000	1999
		(NOK '000)	
Fixed Assets			
Intangible assets:			
Seismic data library	3	145,578	113,866
Deferred tax receivable	4	70,119	33,483
Total intangible assets		<u>215,697</u>	<u>147,349</u>
Long-term assets			
Construction in progress	3	—	—
Receivable/investment in affiliated company	5	145,158	—
Vessel and Seismic equipment	3	—	548,937
Office equipment, machines and inventory	3	4,053	5,967
Total long-term assets		<u>149,210</u>	<u>554,904</u>
Long-term receivables		27,102	—
Pension assets		1,252	—
Total long-term investments and receivables		<u>28,354</u>	—
Total fixed assets		<u>393,261</u>	<u>702,253</u>
Current Assets			
Short-term inventory		—	2,094
Accounts receivable		114,261	41,419
Other receivables intercompany	5	64,618	328
Other receivables		<u>11,349</u>	<u>10,962</u>
Total receivables		190,229	54,803
Cash and bank deposits	6	4,262	92,697
Total current assets		<u>194,491</u>	<u>147,500</u>
Total Assets		<u>587,752</u>	<u>849,753</u>
Shareholders' Equity			
Shareholders' equity invested			
Share capital	7	51,000	51,000
Subscribed share capital		63,550	250,000
Other invested equity		—	—
Total equity invested		<u>114,550</u>	<u>301,000</u>
Retained earnings			
Revaluation reserve		—	—
Other shareholders' equity	7	—	(86,787)
Total retained earnings		—	(86,787)
Total shareholders' equity		<u>114,550</u>	<u>214,213</u>
Liabilities			
Current liabilities			
Account payable		14,852	—
Social security, holiday pay, taxes etc.		6,362	11,765
Tax payable		2,345	—
Prepayment customers		—	11,429
Current liabilities group	5	391,092	589,531
Other current liabilities		<u>58,551</u>	<u>22,814</u>
Total current liabilities		<u>473,202</u>	<u>635,540</u>
Total liabilities		<u>473,202</u>	<u>635,540</u>
Total Equity and Liabilities		<u>587,752</u>	<u>849,753</u>

Profit and Loss Account

	Note	Year ended December 31,	
		2000	1999
(NOK '000)			
Operating Income			
Income from sales	1	263,604	64,984
Gains on sales	1	3,899	—
Total operating income		<u>267,503</u>	<u>64,984</u>
Operating Expenses			
Vessel related costs		242,237	105,202
Capitalisation of costs related to seismic data library		(22,786)	(113,866)
Salaries, payroll tax and other staff costs	2	66,736	53,447
Depreciation	3	62,487	31,148
Other operating expenses		69,348	79,986
Total operating expenses		<u>418,022</u>	<u>155,917</u>
Operating Result		<u>(150,519)</u>	<u>(90,933)</u>
Financial Income and Expenses			
Interest income		4,358	373
Other financial income		5,315	298
Interest expenses		49,221	13,366
Other financial expenses		5,949	1,559
Share of loss in affiliated company		(2,556)	—
Net financial items		<u>(48,053)</u>	<u>(14,254)</u>
Loss Before Tax		<u>(198,572)</u>	<u>(105,187)</u>
Tax expense	4	(52,385)	(29,296)
Net Loss for the Year		<u>(146,187)</u>	<u>(75,891)</u>
Covering of loss for the year			
Other equity		86,787	(75,891)
Other invested equity		(46,525)	0
Subscribed share capital		<u>(186,450)</u>	<u>0</u>
Total allocated		<u>(146,187)</u>	<u>(75,891)</u>

Statement of Cash Flow

	Note	Year ended December 31,	
		2000	1999
(NOK '000)			
Cash flow from operating activities			
Loss before tax		(198,572)	(105,187)
Depreciation		62,487	31,148
Share affiliated company		2,556	—
Gain on sale of fixed assets		(3,899)	—
Change in accounts receivable, accounts payable and short-term inventory		(95,718)	(28,065)
Changes in accrued expenses		30,314	23,995
Net cash flow from operating activities	A	<u>(202,832)</u>	<u>(78,109)</u>
Cash flow from investing activities			
Investments in fixed assets		(435,805)	(700,102)
Sale of fixed assets		900,100	237,518
Investments in affiliated companies		(151,459)	—
Net cash flow from investment activities	B	<u>312,836</u>	<u>(462,584)</u>
Cash flow from financing activities			
New long-term/short-term debt		(198,439)	330,690
Paid-up share capital		—	300,000
Net cash flow from financing activities	C	(198,439)	630,690
Net cash flow for the year	A+B+C	<u>(88,435)</u>	<u>89,997</u>
Cash and bank balance January 1		92,697	2,700
Cash and bank balance December 31		<u>4,262</u>	<u>92,697</u>

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 (all figures in NOK '000)

Accounting Principles

The statutory accounts are prepared in accordance with the requirements of the Norwegian Companies Act of 1998 and in accordance with Norwegian generally accepted accounting principles (Norwegian GAAP).

Main rule for assessment and classification of assets and liabilities

Assets and liabilities connected to the business cycle are classified as current assets or short-term liabilities. Receivables and liabilities, which are not related to the business cycle, are classified as current or short-term, if they are of a short-term nature. Other assets are classified as fixed assets and other liabilities are classified as long-term liabilities.

Capitalised cost of acquiring non-exclusive seismic library is classified as fixed assets.

Accounting treatment of Seismic Data Library

Seismic data library consists of seismic data the company has ownership to. The data is acquired with the purpose to be licensed to other companies, mainly oil companies. This type of data and surveys related to these are often referred to as multi client seismic.

Revenues from Multi Client Seismic surveys consist of 1) sale before or during data acquisition where revenue calculation is based on percentual progress of acquisition of the survey and 2) sale from surveys where the acquisition period is completed where revenue is recognised when purchase confirmation is received from client.

The change in seismic data library is based on estimated sales and cost for each individual survey. Direct vessel cost related to acquisition and processing of seismic data, depreciation and related indirect cost are included in cost price. The seismic data library is capitalised at cost, where sale price and a profit margin relative to expected total sale of the survey would be deducted when the sale is made. The value of each survey included in the seismic data library is continuously monitored against future revenue potential.

Foreign currency

Cash transactions in foreign currency are appraised according to the exchange rate at the end of the year.

Fixed assets/Depreciation

Depreciation of fixed assets is calculated using a linear depreciation profile over the assets useful life.

Current receivables

Accounts receivables and other receivables are recorded in the balance sheet at face value less accruals towards expected losses. Accruals towards expected losses are founded on individual judgement related to the specific receivables.

Pensions

Recording of pensions is based on a linear earned profile and expected salary at the end of service. Deviations arising from changes in estimates and plan are amortised over the expected remaining service period when these exceed 10% of the total pension obligations and funds. Payroll tax is recorded together with cost of pensions.

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued) (all figures in NOK '000)

Debtors/Receivables

Trade debtors and other receivables are entered in the balance sheet at nominal less provision for bad debts. Provision for bad debts is made on the basis of individual assessments of the individual debtors.

Taxation

Income tax expense includes current taxes and the change in deferred taxes. Deferred tax assets and liabilities are calculated in accordance with the liability method. Deferred income tax is provided for all temporary differences between the financial statements and the tax basis of assets and liabilities, and operating loss carry forwards. Deferred taxes are not discounted.

Cash flow analysis

The indirect method is utilised. Only bank deposits are included in the cash and bank balance (cash and cash equivalents).

Affiliated companies

The equity method is used for companies where Aker Geo Seismic does not have control but considerable influence and ownership interests, normally 20-50%. According to this method, Aker Geo Seismic enters its share of the company's result after tax on a separate line under financial items.

Group contributions

When recording group contributions from sister companies in the accounts, the tax effect of group contributions received is not to be entered in the Profit and Loss Account. Deferred tax benefit in the balance sheet is adjusted for the effect of group contributions received.

Note 1: Income from sales

Geographic distribution

	<u>2000</u>	<u>1999</u>
Norway	23,678	18,207
United Kingdom	100,507	46,777
Africa	143,318	0
Total	<u>267,503</u>	<u>69,984</u>

Gains on sales of fixed assets

Sales of two seismic vessels to Aker RGI Forretningsutvikling	900,000
Booked value of fixed assets	892,357
Gain on sales	7,643
Aker Geo Seismic recorded in Profit and Loss Account (51%)	3,899

Since the company owns 49% of Aker RGI Forretningsutvikling (ARGIF), 49% of the gain on the sale is treated as deferred income and appears in the accounts as an adjustment of the price of the shares in ARGIF.

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued)
(all figures in NOK '000)

Note 2: Salaries and social expenses, number of employees, remuneration, loans to employees, etc.

	2000	1999
Salaries	41,742	29,432
Payroll tax	6,495	5,248
Pension costs	4,442	3,101
Other personnel expenses	14,057	14,668
Total	66,736	53,447

Average number of employees during the accounting year: 92.

Contributions to executive staff (Chief Executive Officer, or CEO)

	2000	1999
Salaries	1,755	1,163
Pension costs	945	407
Total	2,700	1,570

The CEO holds an agreement for two years' pay after giving up his position (if he does so). The majority of the other executive staff hold agreements for one year's pay after giving up their positions (if they do so).

No fees were paid to Board Members in 2000.

Auditor

Auditor's fee for 2000 carried to expense equals NOK 94,000. In addition there was remuneration for other services for NOK 122,000.

Loans to staff etc.

Loan agreements have been entered into to the advantage of staff, including executive staff. The balance as at 31 December 2000 is NOK 364,000. The loans are interest-free and the interest benefit is regarded as pay by the company.

There are obligations linked to share options for executive staff.

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued)
(all figures in NOK '000)

Note 3: Fixed assets/leasing agreements

	<u>Vessels and Equipment</u>	<u>Machines and equipment etc.</u>	<u>Intangible assets</u>	<u>Total</u>
Acquisition cost as at 01/01/00	578,938	7,146	113,866	699,950
Purchase of fixed assets	403,954	139	31,712	435,805
Sale of fixed assets	892,357	100	0	892,457
Acquisition cost as at 31/12/00	90,535	7,185	145,578	243,298
Write-downs as at 31/12/00	0	0	0	0
Accumulated depreciation 31/12/00	90,535	3,132	0	93,667
Value recorded in balance sheet as at 31/12/00	0	4,053	145,578	149,631
Depreciation for the year	60,534	1,953	0	62487
Economic lifetime	3-18 year	4 year	4 year	
Depreciation plan	Straight line	Straight line	Straight line	

Annual lease of premises, not recorded in the balance sheet, amounts to NOK 4,184,000. The lease expires in 2009. There is no call option.

Purchase of vessels and seismic equipment consists in the purchase and completion of the seismic vessel *Aker Symphony*.

In connection with the sale of two seismic vessels to Aker RGI Forretningsutvikling AS (ARGIF), the companies entered into a sale lease-back agreement. The vessels were hired back by the company in accordance with general business-like principles.

Note 4: Taxation

Basis for income tax expense

	<u>2000</u>	<u>1999</u>
Loss before tax	(198,572)	(105,187)
Permanent differences	546	569
Profitability from affiliated companies	2,556	0
Change in temporary differences	<u>(8,654)</u>	<u>(137,887)</u>
Taxable income	<u>(204,124)</u>	<u>(242,505)</u>

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued)
(all figures in NOK '000)

Basis for temporary differences

(all differences assessed)

	<u>Change</u>	<u>2000</u>	<u>1999</u>
Fixed assets	31,633	108,664	140,297
Profit and loss account	(35,092)	35,092	0
Current assets	(4,114)	2,345	(1,769)
Pensions	<u>(1,081)</u>	<u>1,252</u>	<u>171</u>
Total temporary differences	(8,653)	147,352	138,699
Loss to carry forward	<u>139,507</u>	<u>(397,777)</u>	<u>(258,269)</u>
Total	<u>(130,854)</u>	<u>(250,424)</u>	<u>(119,570)</u>
Change in deferred provision for tax	(36,637)	(70,119)	(33,480)
Deferred tax on group contributions	(18,093)	—	—
Changes in deferred tax booked in Profit and loss account	<u>(54,730)</u>	<u>—</u>	<u>—</u>

Loss to carry forward will expire in the following years.

2008	15,151
2009	243,118
2010	<u>139,507</u>
Total	<u>397,777</u>

Reconciliation of tax computation and 28% of ordinary taxable income

28% of ordinary taxable income	(55,600)
Permanent differences (28%)	<u>870</u>
Increase in deferred provision for taxes recorded in Balance sheet	(54,730)
Taxes payable in Nigeria (Deemed profit taxation)	<u>2,345</u>
Provision for taxes recorded in Profit and loss account	<u>52,385</u>

Taxes payable in Nigeria are based on assumed gross tax on 6% of turnover in Nigeria.

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued)
(all figures in NOK '000)

Note 5: Inter-group company settlements and subordinated loans

	2000	1999
Aker Geo ASA (receivable)	0	328
Others (receivables)	64,618	0
Aker Geo ASA (debt)	377,745	589,531
Other(debt)	13,347	0

Receivable/investment affiliated company

Long-term loan Aker RGI Forretningsutvikling	151,410
Shares in Aker RGI Forretningsutvikling	<u>(6,252)*</u>
Total receivable/investment affiliated company	<u><u>145,158</u></u>

* The value of shares appears as follows

Value of shares	TNOK	49
Share of result	TNOK	(2,556)
Deferred taking to income of gain	<u>TNOK</u>	<u>(3,744)</u>
Total value of shares in ARGIF	<u>TNOK</u>	<u><u>(6,252)</u></u>

The company's stake in ARGIF is 49%.

Note 6: Bank deposits

	2000	1999
Bank deposit(s)	4,262	4,671
Restricted funds	—	88,026

Assessed tax funds are guaranteed for by Aker Maritime ASA.

Note 7: Equity

The share capital consists of 510,000 shares, face value NOK 100 each. All the shares have equal rights. All the shares are owned by Aker Geo ASA.

	Share Capital	Premium Res.	Other invested Equity	Other Equity	Total
Equity at 1 January 2000	51,000	250,000	—	(86,787)	214,213
Group contribution(s)	—	—	46,525	—	46,525
Result for the year	<u>0</u>	<u>(186,450)</u>	<u>(46,525)</u>	<u>86,787</u>	<u>(146,187)</u>
Equity at 31 December 2000	<u><u>51,000</u></u>	<u><u>63,550</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>114,550</u></u>

AKER GEO SEISMIC AS

NOTES TO THE STATUTORY ACCOUNTS AT DECEMBER 31, 2000 — (Continued)
(all figures in NOK '000)

Note 8: Pension obligations

The company has pension schemes covering a total of 63 active persons. There are no pensioners under the scheme. The scheme gives the right to specific benefits. These basically depend on the number of pension-earning years, salary level on reaching retirement age, and the extent of the benefits from the National Insurance Scheme.

The group pension agreement is financed through build-up of funds organised in an insurance company.

	<u>2000</u>	<u>1999</u>
Service cost	3,842	2,930
Interest expense	258	76
Expected returns on pension funds	(452)	(98)
Payroll tax	737	454
Changes of planned figures	(73)	—
Amortisation of changes in estimates	130	129
Net pension cost	<u>4,442</u>	<u>3,491</u>
Accumulated liability at 31 December	8,402	4,049
Discounted value of future wage growth	0	<u>1,258</u>
Estimated liability at 31 December	8,402	5,307
Pension funds	9,545	3,368
Amortised plan assets	357	1,297
Amortised estimates	—	1,153
Payroll tax	<u>249</u>	<u>341</u>
Net pension assets	<u>1,252</u>	<u>(171)</u>
Financial criteria		
Discount rate	6.0%	6.0%
Wage growth	3.0%	3.0%
Pension adjustment	2.0%	2.0%
Social security base adjustment/inflation	2.5%	2.5%
Expected return on pension funds	7.0%	7.0%

The actuarial criteria for demographic factors and cancellations are based on the criteria generally used in insurance.

The estimated pension obligation as at December 31, 1998 was booked with Aker Maritime ASA in a limited amount. The effect of transfers and change of estimate will be accrued over the remaining period of service. The effect of the change of scheme amounts to NOK 129,000.

Change of plan not recorded in the profit and loss account amounted to NOK 357,000 at the end of 2000.

AUDITOR'S REPORT FOR 2000

To the Annual Shareholders' Meeting of
Aker RGI Forretningsutvikling AS

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Aker RGI Forretningsutvikling AS of December 31, 2000, showing a loss of NOK 5,217,138. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards and practices an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway;
- the Company's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway; and
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the coverage of the loss is consistent with the financial statements and comply with the law and regulations.

Oslo, 8 January 2001

KPMG AS
Asbjørn Næss
State Authorized Public Accountant

Note. This translation of the Norwegian statutory Audit Report has been prepared for information purposes only.

Balance Sheet

	Note	At December 31,	
		2000	1999
		(NOK)	
Assets			
Tangible fixed assets	4	893,608,567	—
Total fixed assets		<u>893,608,567</u>	—
Short term receivables from group companies	2	25,858,743	—
Other short term receivables		5,070	—
Bank deposits etc.		2,189,539	157,605
Total current assets		<u>28,053,352</u>	<u>157,605</u>
Total assets		<u>921,661,919</u>	<u>157,605</u>
Equity and liabilities			
Share capital		100,000	100,000
Total paid-in capital		<u>100,000</u>	<u>100,000</u>
Other equity		(5,217,138)	—
Total retained earnings		<u>(5,217,138)</u>	—
Total equity	5	<u>(5,117,138)</u>	<u>100,000</u>
Liabilities			
Short-term liabilities to group companies	6	316,023,961	52,605
Other short-term liabilities	6	610,755,096	5,000
Total current liabilities		<u>926,779,057</u>	<u>57,605</u>
Total equity and liabilities		<u>921,661,919</u>	<u>157,605</u>

Profit and Loss Account

	Note	Year ended December 31,	
		2000	1999
		(NOK)	
Revenues	2	<u>25,858,743</u>	<u>—</u>
Other operating expenses	3	(1,118,206)	(5,000)
Depreciation	4	<u>(8,125,000)</u>	<u>—</u>
Operating profit (loss)		<u>16,615,537</u>	<u>(5,000)</u>
Other interest received		43,809	7,605
Interest paid to group companies		(6,973,961)	—
Other interest paid		(10,395,000)	—
Other financial expenses		<u>(4,507,523)</u>	<u>—</u>
Net financial items		<u>(21,832,675)</u>	<u>7,605</u>
Profit (loss) before tax		<u>(5,217,138)</u>	<u>2,605</u>
Tax	9	—	—
Profit (loss)		<u>(5,217,138)</u>	<u>2,605</u>
Distributed			
Profit (loss)		(5,217,138)	2,605
Other equity		<u>5,217,138</u>	<u>—</u>
Total distributed		<u>—</u>	<u>—</u>
Contribution to group companies		<u>—</u>	<u>(2,605)</u>

Cash Flow Statement

	Year ended December 31,	
	2000	1999
	(NOK)	
Profit (loss) after net financial items	(5,217,138)	2,605
Depreciation	8,125,000	—
Change in other operating balance sheet items	(9,873,323)	—
Net cash flow from operating activities	<u>(6,965,461)</u>	<u>2,605</u>
Purchase of tangible fixed assets	(900,000,000)	—
Net cash flow from investing activities	<u>(900,000,000)</u>	<u>—</u>
Change in short-term loans	908,997,395	55,000
Increase in equity	0	100,000
Net cash flow from financing activities	<u>908,997,395</u>	<u>155,000</u>
Net change in cash and cash equivalents	<u>2,031,934</u>	<u>157,605</u>
Cash and cash equivalents 1 January	157,605	—
Cash and cash equivalents 31 December	<u>2,189,539</u>	<u>157,605</u>

Note 1: Basic principles — assessment and classification — other issues

The financial statements, which have been presented in compliance with the Norwegian Companies Act, the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect as of December 31, 1999, consist of the profit and loss account, balance sheet, cash flow statement and notes to the accounts.

The financial statements have been prepared based on the fundamental principles governing historical cost accounting, comparability, continued operations, congruence and caution. Transactions are recorded at their value at the time of the transaction. Income is recognized at the time of delivery of goods or services sold. Costs are expensed in the same period as the income to which they relate is recognized. Costs that cannot be directly related to income are expensed as incurred. The different accounting principles are further commented on below.

In cases where actual figures are not available at the time of the closing of the accounts, generally accepted accounting principles require management to make estimates and assumptions that effect the profit and loss account as well as the balance sheet. Actual results could differ from these estimates.

Assets related to current business activities are classified as current assets. The same rule applies for short-term debt. If payable within one year of the closing of the accounts receivables and debt, are classified as current assets/liabilities. Current assets/short-term debt are recorded at the lowest/highest of acquisition cost and fair value. The definition of fair value is the estimated future sales price reduced by expected sales costs. Other assets are classified as fixed assets. Fixed assets are entered in the accounts at original cost, with deductions for depreciation. In the event of a decline in value which is not temporary, the fixed asset will be subject to a write-down.

According to generally accepted accounting standards there are some exemptions to the basic assessment and valuation principles. Comments to these exemptions can be found in the respective notes to the accounts. When applying the basic accounting principles and presentation of transactions and other issues, a “substance over form” view is taken. Contingent losses which are probable and quantifiable are taken to cost.

Deferred tax is calculated based on temporary differences between book values and tax basis for assets and liabilities at year end. For the purposes of calculating deferred tax, nominal tax rates are used. Taxable and deductible temporary differences are offset to the extent they reverse within the same time-frame. Temporary differences that will constitute a future tax deduction give rise to a deferred tax asset, Change in deferred tax liability and deferred tax asset, together with taxes payable for the fiscal year adjusted for errors in previous years’ tax calculations constitutes taxes for the year.

Note 2: Revenues

All revenue relates to the lease-back agreement with Aker Geo Seismic AS.

	<u>2000</u>	<u>1999</u>
	(NOK)	
Bareboat agreements	25,858,743	—
Total revenues	<u>25,858,743</u>	<u>—</u>

Note 3: Other Operating Expenses

	<u>2000</u>	<u>1999</u>
	(NOK)	
Consulting	603,610	—
Classification costs	345,096	—
Insurance	150,000	—
Auditing	19,500	5,000
Total other operating expenses	<u>1,118,206</u>	<u>5,000</u>

Expenses to the auditor are included in other expenses as follows:

	<u>Ordinary auditing</u>	<u>Consulting</u> (NOK)	<u>Total 2000</u>	<u>Total 1999</u>
Expenses to the auditor	19,500	—	19,500	5,000
Total	<u>19,500</u>	<u>—</u>	<u>19,500</u>	<u>5,000</u>

The company has no employees at December 31, 2000.

The members of the board/leader has not received any compensation/salary during the year.

Note 4: Fixed Assets

	<u>Ship</u>	<u>Financial expenses</u> (NOK)	<u>Total</u>
Cost as of 1 January	—	—	—
Additions	900,000,000	6,240,840	906,240,840
Disposals	—	—	—
Cost as of 31 December	900,000,000	6,240,840	906,240,840
Accumulated depreciation	<u>(8,125,000)</u>	<u>(4,507,273)</u>	<u>(12,632,273)</u>
Net book value as of 31 December	<u>891,875,000</u>	<u>1,733,567</u>	<u>893,608,567</u>
Depreciation for the year	<u>(8,125,000)</u>	<u>(4,507,273)</u>	<u>(12,632,273)</u>
Economic length of life	20 year		
Depreciation policy	Linear		

Note 5: Equity

The share capital in Aker RGI Forretningsutvikling AS of NOK 100,000 consists of 100 shares at par value NOK 1,000. Aker RGI ASA owns 51% and Aker Geo Seismic AS owns 49% of the company.

Changes in shareholders' equity in 2000 are shown below:

	<u>Share capital</u>	<u>Paid in capital</u>	<u>Other equity</u> (NOK)	<u>Retained equity</u>	<u>Sum equity</u>
Equity as of December 31, 1999	100,000	100,000	—	—	100,000
Net Profit (loss)			(5,217,138)	(5,217,138)	(5,217,138)
Equity as of December 31, 2000	100,000	100,000	(5,217,138)	(5,217,138)	(5,217,138)

Note 6: Short-Term Liability

Short term liabilities paid within a year are as follows:

	<u>2000</u>	<u>1999</u>
	(NOK)	
Accrued group interest expenses	6,973,961	—
Short-term group debt	309,050,000	52,605
Accrued external interest expenses	10,395,000	—
Short-term external debt	600,000,000	—
Classification expenses	345,096	—
Accrued auditing fee	<u>15,000</u>	<u>5,000</u>
Total	<u>926,779,057</u>	<u>57,605</u>

Note 7: Commitments And Contingencies

Liabilities secured by guarantees are as follows:

	<u>2000</u>	<u>1999</u>
	(NOK)	
Group liabilities	316,023,961	—
External liabilities	<u>610,755,096</u>	—
Total	<u><u>926,779,057</u></u>	<u><u>—</u></u>

Net book value of fixed assets used as guarantee for the liabilities above are as follows:

	<u>2000</u>	<u>1999</u>
	(NOK)	
Ship	<u>893,608,567</u>	—
Total	<u><u>893,608,567</u></u>	<u><u>—</u></u>

Note 8: Subsequent Events And Transactions With Related Parties

Pursuant to an agreement dated October 31, 2000 between Aker Geo Seismic AS and Aker RGI Holding ASA and in accordance with a separate Asset Transfer Share Option Exercise and Bareboat Charter Cancellation Agreements to be concluded, Aker Geo Seismic AS exercises its call option and buys Aker RGI Holding 51% in Aker RGI Forretningsutvikling AS for NOK 523,000 plus related expenses incurred by Aker RGI Holding AS, whereafter Aker Geo Seismic AS owns all issued and outstanding shares of Aker RGIF.

Aker Geo Seismic AS pays in new equity to the company.

The company buys the Møre South Multiclient study from Aker Geo Seismic AS.

The company terminates the Bareboat Charters for the two ships with Aker Geo Seismic AS.

The company pays back outstanding loan amount including all interest, costs and expenses to Aker Geo Seismic AS, Aker RGI Holding AS and DnB.

The personnel are transferred from Aker Geo Seismic AS to the company.

The shares in the company are contributed to CGG.

Note 9: Taxes

	<u>2000</u>	<u>1999</u>
	(NOK)	
Temporary differences	117,529,904	—
Total temporary differences	<u>117,529,904</u>	—
Loss carry forwards	(122,747,042)	—
Basis for deferred tax benefit	<u>(5,217,138)</u>	—
Net deferred tax benefit 28 per cent	<u>1,460,799</u>	—
Limitations	<u>(1,460,799)</u>	—
Deferred tax in the balance sheet	<u><u>0</u></u>	<u><u>—</u></u>

Income taxes 2000

	<u>2000</u>
	(NOK)
Profit before tax (loss)	(5,217,138)
Change in temporary differences	<u>(117,529,904)</u>
Basis for income taxes	<u>(122,747,042)</u>
Taxes payable — 28%	—
Change in deferred tax	—
Total tax income	<u>—</u>

Unaudited Pro Forma Financial Statements for Compagnie Générale de Géophysique

Pro Forma Income Statement

The income statement of the predecessor company (Aker Geo Seismic) has been retained to build the pro forma income statement. Aker Geo Seismic transferred the seismic vessels to Aker RGIF on October 20, 2000.

Aker RGIF was subsequently sold to us on January 16, 2001, but the income statement of Aker RGIF for 2000 is not representative of the business activity of that company throughout 2000.

Therefore, both sets of accounts have been compiled, with appropriate restatements, in order to provide the equivalent of a full year of activity.

	Aker Geo Seismic			Aker RGIF			Compagnie Générale de Géophysique			Pro forma Income Statement	
	Eliminations		French francs(3)	NOK	Elimi- nations (4)	Restated		French francs	Restate- ment(5)		Restated
	(1)	(2)				(3)	(4)				
	NOK		(amounts in millions, except per share data)								
Operating revenues	263,604	—	213.3	25,859	(25,859)	—	4,561.0	—	4,561.0	4,774.3	
Cost of operations	354,322	—	286.6	8,620	(25,859)	(17,239)	3,803.7	—	3,803.7	4,076.4	
Gross profit	(90,718)	—	(73.4)	17,239	—	17,239	757.3	—	757.3	697.9	
Research and development expenses — net	—	—	—	—	—	—	176.5	—	176.5	176.5	
Selling, general and administrative expenses	63,700	—	51.5	0,623	—	0,623	576.7	1.1	577.8	629.8	
Other revenues (expenses)	1,343	(3,899)	—	—	—	—	67.5	—	67.5	67.5	
Operating income (loss)	(153,075)	(3,899)	(124.9)	16,616	—	16,616	71.6	(1.1)	70.5	(41.0)	
Interest and other financial income and expense (net)	45,497	—	36.8	21,833	—	21,833	104.2	—	104.2	158.7	
Income (loss) before income taxes and minority interest	(198,572)	(3,899)	(161.7)	(5,217)	—	(5,217)	(32.6)	(1.1)	(33.7)	(199.6)	
Income taxes	(52,385)	—	(42.4)	—	—	—	69.3	—	69.3	(26.9)	
Minority interest	—	—	—	—	—	—	23.5	—	23.5	23.5	
Net income (loss) from continuing operations	(146,187)	(3,899)	(119.4)	(5,217)	—	(5,217)	(78.4)	—	—	(203.0)	
Weighted average number of shares outstanding	—	—	—	—	0.0	—	9,389,214	(1.1)	(79.5)	10,980,621(6)	
Adjusted weighted average shares	—	—	—	—	—	—	9,485,053	—	—	11,076,460	
Net income (loss) per share											
Basic	—	—	—	—	—	—	(8.35)	—	—	(18.49)	
Diluted	—	—	—	—	—	—	(8.35)	—	—	(18.49)	

Notes:

- (1) Gain on sale of vessels to Aker RGIF.
- (2) Elimination of losses of Aker RGIF incurred between October 20, 2000 and December 31, 2000.
- (3) Rate used for the translation identical to the rate used by us for internal purposes for the year. NOK 1.0 equals FRF 0.809.
- (4) Elimination of internal revenues between Aker RGIF and Aker Geo Seismic (bareboat charters).
- (5) Restatement of goodwill on transaction as of January 1, — \$149,536 US translated at FF 7.18: \$1, our internal exchange rate.
- (6) Number of shares outstanding obtained by adding to the CGG number the number of shares issued for the purchase of Aker RGIF, which was 1,591,407.

Pro Forma Balance Sheet

Actual figures pertaining to the purchase of two seismic vessels from Aker RGIF have been retained to build the pro forma balance sheet as at December 31, 2000.

	Transaction \$	Transaction French francs(1)	CGG French francs	Pro forma Balance sheet
(amounts in millions, except per share data)				
Assets				
Current assets:				
Cash and cash equivalents	—	—	394.1	394.1
Trade accounts and notes receivable	—	—	1,739.6	1,739.6
Inventories and work in progress	2.28	16.0	596.2	612.2
Other current assets	<u>—</u>	<u>—</u>	<u>334.7</u>	<u>—</u>
Total current assets	<u>2.46</u>	<u>17.3</u>	<u>3,064.6</u>	<u>3,081.9</u>
Long-term receivables and other investments	—	—	58.8	58.8
Investments and advances to companies under the equity method	—	—	322.6	322.6
Property, plant and equipment(2)	129.7	914.4	923.2	1,837.6
Goodwill and intangible assets(3)	<u>4.50</u>	<u>31.7</u>	<u>1,136.4</u>	<u>1,168.1</u>
Total assets	<u>136.7</u>	<u>963.4</u>	<u>5,505.6</u>	<u>6,469.0</u>
Liabilities and Shareholders' Equity				
Bank overdrafts	—	—	83.4	83.4
Current portion of long-term debt	—	—	136.2	136.2
Trade accounts and notes payable	—	—	652.3	652.3
Accrued payroll costs	—	—	312.9	312.9
Income taxes payable	—	—	117.3	117.3
Advance billings to customers	—	—	124.6	124.6
Other current liabilities	<u>5.83</u>	<u>41.1</u>	<u>280.5</u>	<u>321.6</u>
Total current liabilities	5.83	41.1	1,707.2	1,748.3
Long-term debt(4)	25.0	176.3	1,515.2	1,691.5
Other long-term liabilities	<u>—</u>	<u>—</u>	<u>179.4</u>	<u>179.4</u>
Total long-term liabilities	<u>25.0</u>	<u>176.3</u>	<u>1,694.6</u>	<u>1,870.9</u>
Minority interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Common stock(5)	2.98	21.0	100.9	121.9
Additional paid-in capital	102.8	725.0	2,158.1	2,883.1
Retained earnings	—	—	(120.2)	(120.2)
Net income (loss) for the year	—	—	(78.4)	(78.4)
Accumulated other comprehensive income	<u>—</u>	<u>—</u>	<u>43.4</u>	<u>43.4</u>
Total shareholders' equity	<u>105.8</u>	<u>746.0</u>	<u>2,103.8</u>	<u>2,849.8</u>
Total liabilities and shareholders' equity	<u>136.7</u>	<u>963.4</u>	<u>5,505.6</u>	<u>6,469.0</u>

(1) Rate used for the translation identical to the rate used for internal purposes as at December 31, 2000: \$1 equals FRF 7.05.

(2) Representing the assessed market value of the two vessels and associated equipment.

(3) Inclusive of multi-client library for \$3 million.

(4) Corresponding to the cash portion of the transaction.

(5) 1,591,407 shares at nominal value of €2 each.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

The trading market for our outstanding ordinary shares is the Paris Bourse, where the ordinary shares have been listed on the Premier Marché since 1981. American Depositary shares, or ADSs, representing ordinary shares have been traded on the New York Stock Exchange since May 1997. Each ADS represents one-fifth of one ordinary share. The ADSs are evidenced by American Depositary receipts, or ADRs, issued by The Bank of New York, as Depositary, and are traded under the symbol “GGY”. The Bank of New York has advised us that as of May 31, 2001, there were 637,225 ADSs outstanding representing 127,445 ordinary shares which are held of record by five registered holders. On the basis of this information, the ADSs held on such date in the United States represented approximately 0.56% of our outstanding ordinary shares. Our by-laws provide that fully paid ordinary shares may be held in either registered or bearer form at the option of the shareholders.

Price Information on the Paris Bourse.

The table below sets forth, for the periods indicated, the reported high and low prices for the outstanding ordinary shares on the Paris Bourse. In accordance with the European Economic and Monetary Union regulations, as of January 1, 1999 all shares listed on the Paris Bourse are traded in euro and in consequence thereof, for ease of reference, the table below indicates the euro prices converted at the official rate (€1: FF 6.55957) for the indicated periods.

The table below indicates the high and low market prices for the most recent six months:

	<u>Price per Share(1)</u>		<u>Price per Share(1)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(FF)		(euro)	
2001				
May	541	498	82.50	76.00
April	530	402	80.75	61.30
March	489	420	74.50	64.05
February	482	439	73.50	66.90
January	501	394	76.50	60.00
2000				
December	478	449	73.00	64.50

Note:

(1) Source: Euronext Paris.

The table below indicates the quarterly high and low market prices for the two most recent financial years:

	<u>Price per Share(1)</u>		<u>Price per Share(1)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(FF)		(euro)	
2001				
First Quarter	501	394	77	60
Second Quarter (through May 31, 2001)	541	402	82,50	61,30
2000				
First Quarter	487	304	74	46
Second Quarter	505	381	77	58
Third Quarter	603	457	92	70
Fourth Quarter	539	350	82	53
1999				
First Quarter	386	222	59	34
Second Quarter	382	223	58	34
Third Quarter	420	335	64	51
Fourth Quarter	385	272	59	41

Note:

(1) Source: Euronext Paris.

The table below indicates the high and low market prices for the five most recent financial years:

	<u>Price per Share(1)</u>		<u>Price per Share(1)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(FF)		(euro)	
2001 (up to May 31, 2001)	541	394	82	60
2000	604	304	92	46
1999	420	222	64	34
1998	1,132	292	173	45
1997	919	345	68	45
1996	393	156	59	34

Note:

(1) Source: Euronext Paris.

Price Information on the NYSE

The table below sets forth, for the periods indicated, the high and low sale prices for the ADSs representing our ordinary shares on the New York Stock Exchange:

The table below indicates the high and low market prices for the most recent six months:

	<u>High</u>	<u>Low</u>
	(U.S.\$)	
2001		
May	14 ² / ₅	13
April	14	10 ³ / ₄
March	13 ¹ / ₂	12
February	13 ¹ / ₂	12 ¹ / ₂₈
January	14	11 ³ / ₁₆
2000		
December	13 ¹ / ₂	11 ³ / ₁₆

The table below indicates the quarterly high and low market prices for the two most recent financial years:

	<u>High</u>	<u>Low</u>
	(U.S.\$)	
2001		
First Quarter	14	11 ³ / ₁₆
Second Quarter (through May 31, 2001)	14 ² / ₅	10 ³ / ₄
2000		
First Quarter	14 ¹ / ₁₆	9 ¹ / ₈
Second Quarter	14 ¹⁵ / ₂	11 ³ / ₅
Third Quarter	15 ¹ / ₂	12 ⁷ / ₈
Fourth Quarter	14 ³ / ₈	10
1999		
First Quarter	13 ¹ / ₂	6 ³ / ₄
Second Quarter	12 ¹ / ₈	7 ¹ / ₈
Third Quarter	13 ¹ / ₂	10 ⁷ / ₁₆
Fourth Quarter	12 ¹ / ₈	8 ⁵ / ₈
2000		
First Quarter	14 ¹ / ₁₆	9 ¹ / ₈
Second Quarter	14 ¹⁵ / ₂	11 ³ / ₅

The table below indicates the yearly high and low market prices on a yearly basis since our ADSs were listed on the New York Stock Exchange:

	<u>High</u>	<u>Low</u>
	(U.S.\$)	
2001 (up to May 31, 2001)	14 ² / ₅	10 ³ / ₄
2000	15 ¹ / ₂	9 ¹ / ₈
1999	13 ¹ / ₂	7 ¹ / ₈
1998	37	10
1997(1)	31 ⁵ / ₈	16

Note:

(1) (From May 7, 1997)

Trading on the Paris Bourse

Official trading of listed securities on the Paris Bourse is transacted through stockbrokers and other financial intermediaries, and takes place continuously on each business day from 10:00 a.m. through 5:00 p.m., with a pre-opening session from 8:30 a.m. through 10:00 a.m. during which transactions are recorded but not executed. Any trade effected after the close of a stock exchange session is recorded, on the next Paris Bourse trading day, at the closing price for the relevant security at the end of the previous day's session. The Euronext Paris SA publishes a daily Official Price List that includes price information concerning listed securities. The Paris Bourse has introduced continuous trading during trading hours by computer for most listed securities. Shares listed on the Paris Bourse are placed in one of three categories depending on the volume of transactions. Our outstanding ordinary shares are listed on the Premier Marché in the category known as Continu A, which includes the most actively traded shares (with a minimum daily trading volume of FF 250,000 or twenty trades).

Plan of Distribution

Not applicable.

Markets

Our ordinary shares are listed on the Paris Bourse. American Depositary Receipts representing our ordinary shares are listed on the New York Stock Exchange. Our 10⁵/₈% Senior Notes due 2007 are listed on the Luxembourg Stock Exchange.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

Share Capital

Not applicable.

Memorandum and Articles of Association

Incorporated by reference from our Annual Report on Form 20-F for the fiscal year ended December 31, 1999, dated June 28, 2000.

Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries (i) within the two years immediately preceding the date of this document and are, or may be, material; or (ii) contain provisions under which we or any of our subsidiaries have obligations or entitlements which are material to us and our subsidiaries as at the date of this document:

Subscription Agreement dated October 23, 1999 by and between us and The Beacon Group Energy Investment Fund II, L.P.

This agreement describes the terms and conditions under which the U.S. investment fund, Beacon Group, has become a shareholder by subscribing for an increase in capital reserved to it, up to a maximum sum

equivalent to 95 million. The proceeds of this capital increase have been applied in accordance with the terms of the agreement primarily to finance the acquisition by us of Geoscience/Syntron, a company quoted on NASDAQ, by means of a friendly take-over bid. Tech-Sym Corporation, an 80% stakeholder in Geoscience/Syntron, has undertaken to tender its shares to us in the context of the above bid. In consideration for the agreement with the Beacon Group, we issued 1,777,071 fully paid up new shares entirely subscribed by the Beacon Group.

Registration Rights Agreement dated December 13, 1999 by and between us and The Beacon Group Energy Investment Fund II, L.P.

This agreement provides certain registration rights to the Beacon Group in connection with share capital increases that we may perform.

Share Purchase Agreement dated as of December 10, 1999 between us and Fugro N.V.

Under this agreement, Fugro N.V. acquired our Airborne Geophysics Division for total consideration of FF 119.4 million.

Amendment Agreement in respect of \$180,000,000 Multicurrency Revolving Credit Facility Agreement dated August 31, 2000.

This agreement amends and restates our syndicated credit facility that was executed on September 15, 1999 and is provided by a group of banks led by Société Générale, Natexis Banques Populaires and Royal Bank of Canada. As amended and restated on August 31, 2000, the syndicated credit facility included (i) a U.S.\$40 million two-year revolving loan facility (“tranche A”), (ii) a U.S.\$90 million five-year amortizing revolving loan facility (“tranche B”) and (iii) a U.S.\$50 million nine-month revolving loan facility (“tranche C”). We permanently repaid tranches A and C in November 2000 with a portion of the net proceeds of the offering of the outstanding notes issued by us in November 2000. Our subsidiary, Sercel S.A. is also a borrower under the facility. Tranche B is an amortizing facility until the final maturity of tranche B on September 15, 2004.

Asset Purchase Agreement dated September 22, 2000 by and among us Shaw Industries Ltd., Shaw Resource Services, Inc., Sercel Inc. and Sercel Canada Ltd.

In accordance with this agreement, Shaw Industries Ltd. and Shaw Resource Services Inc. (“SRSI”) sold to Sercel Inc. and Sercel Canada, the assets making up the “Mark Products” division of Shaw. The amount due by Sercel Canada to Shaw Industries was €10.6 million and the amount due by Sercel Inc to SRSI was €15.9 million. Those notes were contributed to CGG capital and in consequence thereof we issued 352,237 fully paid up new shares.

Securities Purchase Agreement dated October 4, 2000 by and between us, Paradigm Geophysical Ltd. (“PGEO”) and Paradigm Geophysical Corp.

We transferred to PGEO, a company quoted on Nasdaq, our business relating to the development and sale of image-reservoir software, which we held through our wholly owned subsidiaries Flagship S.A. and Flagship LLC. In consideration for this sale, we received US\$4 million in cash and 1,500,000 shares in PGEO representing approximately 11% of PGEO’s outstanding share capital.

Registration Rights Agreement, dated October 4, 2000 between us and Paradigm Geophysical Ltd.

This agreement provides us with certain registration rights in the case where PGEO performs a capital increase or registers shares with the U.S. Securities and Exchange Commission.

Memorandum of Understanding dated October 20, 2000 between us and Louis-Dreyfus Armateur. (“LDA”).

LDA undertook to contribute to us (i) 934,151 shares in CGG Marine, representing 40% of the share capital and voting rights of CGG Marine, it being specified that we already held the remaining 60% and (i) 50% of the share capital of Kantwell Overseas Shipping Company S.A. (“Kantwell”), a Panamanian company currently 100% wholly owned by LDA, whose object will be to acquire the vessel *CGG Mistral* which is currently chartered by CGG Marine. These contributions in kind were approved by an extraordinary shareholders meeting held on December 20, 2000 and in consequence thereof, we issued 413,969 shares to LDA on December 21, 2000.

Share Purchase Agreement dated December 14, 2000 by and among us, Aker Maritime ASA and Aker Geo Seismic AS.

Aker Geo Seismic agreed to transfer to us the entire capital of Aker RGI, a company whose object is to operate two seismic vessels it owns, the *Amadeus* and the *Symphony*. We paid \$25,000,000 in cash and issued 1,591,407 shares (worth approximately U.S.\$93 million) to Aker as consideration for this acquisition.

Exchange Controls

Ownership of ADSs or shares by Non-French Persons

Under French law, there is no limitation on the right of non-resident or foreign shareholders to own or to vote securities of a French company.

According to the law dated February 14, 1996, administrative authorization is no longer required prior to acquiring a controlling interest in a French company. However a notice (“déclaration administrative”) must be filed with the French Ministry of the Economy for the acquisition of an interest in us by any person not residing in France or any group of non-French residents acting in concert or by any foreign controlled resident if such acquisition would result in (i) the acquisition of a controlling interest in us or (ii) the increase of a controlling interest in us unless such person not residing in France or group of non-French residents already controls more than two-thirds of our share capital or voting rights prior to such increase. Under existing administrative rulings, ownership of 20% or more of a French listed company’s share capital or voting rights is regarded as a controlling interest, but a lower percentage might be held to be a controlling interest in certain circumstances (depending upon such factors as the acquiring party’s intentions, the ability of the acquiring party to elect directors or financial reliance by the company concerned on the acquiring party).

Exchange Controls

Under current French exchange control regulations, there are no limitations on the amount of payments that may be remitted by us to non-residents. Laws and regulations concerning foreign exchange control do require, however, that all payments or transfers of funds (including payments of dividends to foreign shareholders) made by a French resident to a non-resident be handled by an accredited intermediary. In France, all registered banks and substantially all credit establishments are accredited intermediaries.

Taxation

French Taxation

The following is a general summary of the principal French tax consequences of owning and disposing of ADSs relevant to U.S. Holders (as defined below) which do not hold the ADSs or underlying shares in connection with a trade or business conducted in France. The statements relating to French tax laws set out below are based on the laws in force as at the date hereof, and are subject to any changes in applicable French tax laws or in any applicable double taxation conventions or treaties with France occurring after such date.

This discussion is intended only as a descriptive summary and does not purport to be a complete analysis or list of all potential tax effects of the purchase or ownership of ADSs.

Taxation on Sale or Disposal of ADSs

Subject to the provisions of any relevant double tax treaty, persons who are not French residents for the purpose of French taxation (as well as, under certain conditions, foreign states, international organizations and certain foreign public bodies) and who have held not more than 25%, directly or indirectly, of the dividend rights (“*bénéfices sociaux*”) of our company at any time during the preceding five years, are not generally subject to any French income tax or capital gains tax on any sale or disposal of ADSs.

If a transfer of listed shares is evidenced by a written agreement, such share transfer agreement is, in principle, subject to registration formalities and therefore to a 1% registration duty assessed on the higher of the purchase price or the market value of the shares (subject to a maximum assessment of FF 20,000 per transfer), provided that, under certain circumstances, no duty is due if such written share transfer agreement is executed outside France.

Taxation of Dividends

Under French law, dividends are paid out of after-tax income. French residents are entitled to a tax credit, known as the *avoir fiscal*, equal to one-half of the dividend paid where the beneficiary shareholder is an individual. Where the beneficiary shareholder is not an individual, the *avoir fiscal* is generally equal to 25% of the dividend paid for the *avoir fiscal* used or refunded in 2001, and 15% of the dividend paid for the *avoir fiscal* used or refunded in 2002. However, except in limited circumstances, if a distribution is subject to a tax known as the *précompte*, shareholders entitled to the *avoir fiscal* at the rate of 25% or 15% are generally entitled to an additional amount of *avoir fiscal* equal to 50% or 70%, respectively, of any *précompte* actually paid in cash by our company upon distribution of dividends paid out of certain profits (See below paragraph relating to the *précompte*). Dividends paid to non-residents are normally subject to a 25% withholding tax and, under French law, non-residents are not eligible for the benefit of the *avoir fiscal*. As discussed below, this amount is reduced to 15% under the income and capital tax treaty between the United States and France currently in force (the “Treaty”).

Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution are subject to a tax known as the *précompte*, by such companies. The *précompte* is paid by the distributing company to the French tax authorities and is generally equal to one-half of the net dividend distributed, before withholding tax. When a tax treaty in force does not provide for a refund of the *avoir fiscal* or when the non-resident investor is not entitled to such refund but is otherwise entitled to the benefits of a tax treaty, such investor may obtain from the French tax authorities a refund of such *précompte* actually paid in cash by our company, if any (net of applicable withholding tax).

U.S. Taxation

The following is a summary of the material U.S. federal income tax and French tax consequences of the acquisition, ownership and disposition of ADSs by a U.S. Holder (as defined below). This summary deals only with purchasers of ADSs that are U.S. Holders that will hold the ADSs as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of ADSs by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10% or more of our voting stock, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold ADSs as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of ADSs that is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, or other entity treated as a corporation,

created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

The summary assumes that we are not a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes, which we believe to be the case. Our possible status as a PFIC must be determined annually and therefore may be subject to change. If we were to be a PFIC in any year, special, possibly materially adverse, consequences would result for U.S. Holders.

The summary assumes that each obligation in the deposit agreement between The Bank of New York and us (the “Deposit Agreement”) and any related agreement will be performed in accordance with its terms and is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the Treaty, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

For United States federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the corresponding number of our shares held by The Bank of New York as depository (the “Depository”) and references herein to shares refer also to ADSs representing shares.

Dividends

General. Distributions, inclusive of the *avoir fiscal* or *précompte* (discussed below under “Effect of French Withholding Taxes — *Avoir Fiscal*”), if applicable, paid on our shares out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any French withholding tax paid by us with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income in the year in which the distribution is received (which, in the case of a U.S. Holder of ADSs, will be the year of receipt by the Depository), and will not be eligible for the dividends received deduction otherwise allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a return of capital to the extent of the U.S. Holder’s basis in the ADSs and thereafter as capital gain.

Effect of French Withholding Taxes — Avoir Fiscal. As discussed above under “French Taxation — Taxation of Dividends,” in France dividends are paid out of after-tax income. Under French domestic law, dividends paid to non-residents are normally subject to a 25% French withholding tax and are not eligible for the benefit of the *avoir fiscal*.

Under the Treaty, the rate of French withholding tax on dividends paid to a US Holder that is not a company holding, directly or indirectly, at least 10% of our share capital and whose ownership of ADSs is not effectively connected with a permanent establishment or a fixed base in France is reduced to a 15% withholding tax. An Eligible U.S. Holder (as defined below) is also entitled to a payment equal to the *avoir fiscal*, less the 15% withholding tax. As noted below, this payment will not be made to an Eligible U.S. Holder until after the close of the calendar year in which the dividend was paid and only upon receipt by the French tax authorities of a claim made by the Eligible U.S. Holder for the payment in accordance with the procedures set forth below.

As used herein, the term “an Eligible U.S. Holder” is a U.S. Holder whose ownership of ADSs is not effectively connected with a permanent establishment or fixed base in France who is entitled to the benefits of the Treaty under the “Limitation on Benefits” article of the Treaty, and who is (i) an individual or other non-corporate holder that is a resident of the United States as defined pursuant to the provisions of the Treaty, (ii) a United States corporation that does not own, directly or indirectly, 10% or more of our capital, other than a regulated investment company, (iii) a United States corporation that does not own, directly or indirectly, 10% or more of our capital, which is a regulated investment company, but only if less than 20% of its shares are beneficially owned by persons who are neither citizens nor residents of the United States or (iv) a partnership or trust that is treated as a resident of the United States as defined pursuant to the provisions of the Treaty, but only to the extent that its partners, beneficiaries or grantors would qualify under clause (i) or (ii) above.

In general, under the Treaty, an Eligible U.S. Holder may receive a payment of the *avoir fiscal* only if the holder (or its partners, beneficiaries or grantors, if the holder is a partnership or trust) attests that it is subject to United States federal income taxes on the payment of the *avoir fiscal* and the related dividend. However, certain tax-exempt “U.S. Pension Funds”, as defined below, and certain other tax-exempt entities (including certain governmental institutions, not-for-profit organizations and individuals with respect to dividends beneficially owned by such individuals and derived from an investment retirement account) (“Other Tax-Exempt Entities”) that own, directly or indirectly, less than 10% of our capital, and that satisfy certain filing formalities (i) are entitled to a payment, subject to French withholding tax, equal to 30/85 of the gross *avoir fiscal* (the “partial *avoir fiscal*”) and (ii) are eligible for the reduced withholding tax rate of 15% on dividends. A “U.S. Pension Fund” includes, *inter alia*, the exempt pension funds subject to the provisions of Section 401(a) (qualified retirement plans), Section 403(b) (tax deferred annuity contracts), Section 408 (individual retirement accounts) or Section 457 (deferred compensation plans) of the Code, established and managed in order to pay retirement benefits.

Dividends paid to an Eligible U.S. Holder will be subject to the reduced withholding tax rate of 15% at the time the dividend is paid if (i) such holder duly completes and provides the French tax authorities with French Treasury Form RF 1 A EU-NO. 5052 (the “Form”) before the date of payment of the relevant dividend together with, if such Eligible U.S. Holder is not an individual, an affidavit attesting that it is the beneficial owner of all the rights attached to the full ownership of ADSs, including but not limited to dividend rights, or (ii) if completion of the Form is not possible prior to the payment of dividends, the holder duly completes and provides the French tax authorities with a simplified certificate (the “Certificate”) stating that (a) the holder is a U.S. resident as defined pursuant to the provisions of the Treaty, (b) the holder’s ownership of the ADSs is not effectively connected with a permanent establishment or fixed base in France, (c) the holder owns all the rights attached to the full ownership of the ADSs, including but not limited to dividend rights, (d) the holder meets all the requirements of the Treaty for obtaining the benefit of the reduced rate of withholding tax and the right to payment of the French *avoir fiscal*, and (e) the holder claims the reduced rate of withholding tax and payment of the *avoir fiscal* under the Treaty. U.S. Holders of ADSs may provide the Form or the Certificate to the Depositary, provided that the Depositary be given sufficient time to file such Form or Certificate with the French tax authorities before the date of payment. Dividends paid to a U.S. Holder that is not entitled to the *avoir fiscal* (i.e., not an Eligible U.S. Holder) or to an Eligible U.S. Holder whose completed Form or Certificate has not been filed before the dividend payment date will be subject to French withholding tax at the rate of 25%. Such holder may claim a refund of the excess withholding tax and an Eligible U.S. Holder may claim the *avoir fiscal* by completing and providing the French tax authorities with the Form before December 31 of the year following the end of the calendar year in which the dividend is paid. U.S. Pension Funds and Other Tax-Exempt Entities are subject to the same general filing requirements as Eligible U.S. Holders except that they may have to supply additional documentation evidencing their entitlement to these benefits.

The Form or the Certificate, together with their respective instructions, will be provided by the Depositary to all U.S. Holders of ADSs registered by the Depositary. They are also available from the United States Internal Revenue Service (the “IRS”). The Depositary will arrange for the filing with the French tax authorities of all Forms or Certificates completed by U.S. Holders that are returned to the Depositary in sufficient time. Eligible U.S. Holders, U.S. Pension Funds and Other Tax-Exempt Entities must file (or have the Depositary file) the form and, when applicable, the affidavit in order to receive payment of the *avoir fiscal* or partial *avoir fiscal* (whichever is applicable). The *avoir fiscal* or partial *avoir fiscal* is generally expected to be paid to Eligible U.S. Holders, U.S. Pension Funds and Other Tax-Exempt Entities within 12 months of filing the Form, but not before 15 January following the end of the calendar year in which the related dividend is paid. Similarly, any French withholding tax refund is generally expected to be paid to U.S. Holders within 12 months of filing the Form, but not before 15 January following the end of the calendar year in which the related dividend is paid.

Précompte. Amounts distributed as dividends by French companies out of profits which have not been taxed at the ordinary corporate income tax rate or which have been earned and taxed more than five years before the distribution and which give rise to the *avoir fiscal* are subject to a *précompte*, or equalization tax, by such companies. The *précompte* is paid by the distributing company to the French tax authorities and is generally equal to one-half of the net dividend distributed.

A U.S. Holder not entitled to the (full or partial) *avoir fiscal* may generally obtain a refund from the French tax authorities of *précompte* actually paid by us with respect to the dividends distributed. A U.S. Holder entitled to partial *avoir fiscal* may generally obtain a refund of *précompte* reduced by the amount of the *avoir fiscal* payment. Pursuant to the Treaty, the amount of the *précompte* refunded to United States residents is reduced by the 15% withholding tax applicable to dividends. A U.S. Holder is only entitled to a refund of *précompte* actually paid in cash by us and is not entitled to a refund of the *précompte* paid by us by off-setting French and/or foreign tax credits.

A U.S. Holder entitled to the refund of the *précompte* must apply for such refund by filing a French Treasury Form RF 1 B EU-NO. 5053 before the end of the calendar year following the year in which the dividend was paid. This form, together with its instructions, are available from the United States Internal Revenue Services and at the *Centre des impôts des non résidents* (9 rue d'Uzès, 75094 Paris Cedex 2, France). The Depository will arrange for the filing with the French tax authorities of all forms that are returned to the Depository in sufficient time.

For United States federal income tax purposes, the amount of the *précompte* paid to a U.S. Holder will be included in gross income as dividend income in the year such payment is received. Such amounts will generally constitute foreign source "passive" or (in the case of certain holders) "financial services" income for foreign tax credit purposes.

US Credits. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of French taxes withheld by us with respect to a share or an ADS, and as then having paid over the withheld taxes to the French taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from us with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for French income taxes withheld by us that are not refundable under the Treaty. For purposes of the foreign tax credit limitation, foreign source income is classified into one of several "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid on our Shares generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, a U.S. Holder may be denied foreign tax credits (and instead may be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder (i) has not held our ADSs for at least 16 days in the 30-day period beginning 15 days before the ex dividend date, during which it is not protected from risk of loss; (ii) is obligated to make payments related to the dividends; or (iii) holds the ADSs in arrangements in which the U.S. Holder expected economic profit, after non-U.S. taxes, is insubstantial. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these French taxes.

Foreign Currency Dividends. Dividends paid in French francs or Euro, including the *avoir fiscal* and the *précompte*, before reduction for French withholding taxes, will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the French francs or Euro are converted into U.S. dollars. If dividends received in French francs or Euro are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

A U.S. Holder will generally be required to recognize United States source ordinary income or loss upon the sale or disposition of French francs or Euro. Moreover, a U.S. Holder may be required to recognize foreign currency gain or loss, which will generally be United States source ordinary income or loss, upon the receipt of a refund of amounts, if any, withheld from a dividend in excess of the Treaty rate of 15%.

For purposes of determining the amount of the foreign tax credit, U.S. Holders who use the cash basis method of accounting must translate French withholding tax into U.S. dollars at the spot rate on the date the dividend is received. U.S. Holders that use the accrual basis method must translate French taxes into U.S. dollars

at a rate equal to the average exchange rate for the taxable year in which the dividend is received. All U.S. Holders, however, must translate foreign currency received as a dividend into U.S. dollars at the spot rate on the date the dividend is received for purposes of determining the amount of dividend income that is included in the U.S. Holder's gross taxable income.

Sale or other Disposition

Upon a sale or other disposition of ADSs, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the ADSs. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the ADSs exceeds one year. Any gain or loss will generally be U.S. source, except that losses will be treated as foreign source to the extent that the U.S. Holder received dividends that were includible in the financial services income basket during the 24-month period prior to the sale. This 24-month period may be extended to cover periods in which the U.S. Holder's risk of loss is hedged.

Passive Foreign Investment Company Status

A foreign corporation will be a PFIC in any taxable year in which either (i) 75% or more of its gross income consists of certain specified types of "passive" income or (ii) the average percentage of its assets (by value) that produce or are held for the production of passive income is at least 50%. We do not expect that we will be a PFIC in 2000, but our possible status as a PFIC must be determined annually and therefore we might become a PFIC in future years.

If we were a PFIC in any taxable year during which a U.S. Holder owned ADSs and the U.S. Holder had not made a mark to market or qualified electing fund election, the U.S. Holder would generally be subject to special rules (regardless of whether we continued to be a PFIC) with respect to (i) any "excess distribution" (generally, any distributions received by the U.S. Holder on ADSs in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs and (ii) any gain realized on the sale or other disposition of ADSs. Under these rules (a) the excess distribution or gain would be allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC would be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. If we were a PFIC, a U.S. Holder of ADSs would generally be subject to similar rules with respect to distributions to us by, and dispositions by us of the stock of, any direct or indirect subsidiaries of ours that were also PFICs. Furthermore, a U.S. Holder who beneficially owns an interest in a PFIC is generally required to file an annual information return describing the distributions received from and any gain realized upon the disposition of a beneficial interest in the PFIC.

French Estate and Gift Taxes

Pursuant to "The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts", a transfer of ADSs by gift or by reason of the death of a U.S. Holder will not be subject to French gift or inheritance tax, unless (i) the donor or the transferor is domiciled in France at the time of making the gift or at the time of his or her death, or (ii) the ADSs were used in, or held for use in, the conduct of a business through a permanent establishment or fixed base in France. In such a case, the French gift or inheritance tax may be credited against the U.S. gift or inheritance tax. This tax credit is limited to the amount of the U.S. gift or inheritance tax due on the ADSs.

French Wealth Tax

The French wealth tax (“*impôt de solidarité sur la fortune*”) does not generally apply to a U.S. Holder who is a resident of the United States as defined in the provisions of the Treaty, unless the ADSs form part of the business property of a permanent establishment or fixed base in France.

Information Reporting and Backup Withholding

Dividends on, and proceeds from the sale or other disposition of ADSs by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of foreign or other exempt status or fails to report all dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Dividends and Paying Agents

Not applicable.

Statement by Experts

Not applicable.

Documents on Display

We are subject to the reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) applicable to foreign private issuers. In accordance with the Exchange Act, we file reports, including annual reports on Form 20-F and interim reports on Form 6-K, and other information with the Securities and Exchange Commission. You may obtain these reports and other information by sending a written request to Compagnie Générale de Géophysique, 1, rue Léon Migaux, 91341 Massy, France, Attention: Investor Relations Officer, Telephone: (33) 1 64 47 3000.

You can inspect and copy these reports, and other information, without charge, at the Public Reference Room of the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission’s regional offices located at 500 West Madison Street, Room 1400, Chicago, Illinois 60606 or Seven World Trade Center, 13th Floor, New York, New York 10048. You can also obtain copies of these materials at prescribed rates from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the Commission at 1-800-SEC-0330. In addition, you can inspect material filed by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which American Depositary Shares representing shares of our common stock are listed. As a foreign private issuer, we are not subject to the proxy rules under Section 14 or the short-swing insider profit disclosure rules under Section 16 of the Exchange Act.

All information referred to above will, for so long as the notes are listed on the Luxembourg Stock Exchange, also be available, without charge, at the specified office of the Paying Agent in Luxembourg during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this annual report.

Subsidiary Information

Not applicable.

ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Because we operate internationally, we are exposed to general risks linked to operating abroad. The table below provides information about our market sensitive financial instruments and constitutes a “forward-looking statement”. Our major market risk exposures are changing interest rates and currency fluctuations. Our policy is to manage interest rates through use of a combination of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate, based upon market conditions. A portion of our current assets are denominated in foreign currencies, which exposes us to market risk associated with exchange rate movements. Our policy generally is to hedge major foreign currency cash exposures through foreign exchange forward contracts. These contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. All instruments are entered into for non-trading purposes.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our debt obligations and our foreign exchange forward contracts, all of which mature in one year or less.

<u>Fair value (in millions)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Thereafter</u>	<u>Total</u>
Assets							
Interest rate cap							
French franc	16	71					87
capped rate	4.0%	4.0%					
U.S. dollar	211.5						211.5
capped rate	7.50%						
Debt							
U.S. dollar	24.3	12.0	5.1	5.0	17.0	1,203.2	1,266.6
Average fixed rate	7.1%	7.1%	7.4%	7.4%	7.6%	10.6%	
U.S. dollar	38.7	15.3	9.1				63.1
Average variable rate	8.0%	7.0%	7.0%				
French franc	50.2	43.6	36.9	14.6	3.0		148.3
Average fixed rate	5.7%	5.9%	6.0%	7.6%	8.1%		
French franc	28.0	69.6	11.2	11.9	7.7	40.0	168.3
Average variable rate	8.1%	6.3%	4.7%	4.6%	3.7%	3.7%	
Other currencies							
Average fixed rate							
Other currencies	62.1	0.3	0.4	0.4	0.4	7.2	70.9
Average variable rate	17.4%	7.8%	7.8%	7.9%	7.9%	9.9%	
Foreign Exchange — Firm commitments							
Forward sales	706.4						
U.S. dollars average rate	7,028.8						

ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Debt Securities

Not applicable.

Warrants and Rights

Not applicable.

Other Securities

Not applicable.

American Depositary Shares

Not applicable.

PART II

ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITYHOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15: [RESERVED]

ITEM 16: [RESERVED]

PART III

ITEM 17: FINANCIAL STATEMENTS

Not applicable.

ITEM 18: FINANCIAL STATEMENTS

The following audited financial statements and related schedules, together with the report of Arthur Andersen and Ernst & Young, are filed as part of this Annual Report:

	<u>Page</u>
Report of Independent Auditors	F-1
Consolidated Financial Statements:	
Consolidated Balance Sheets as at December 31, 2000 and 1999	F-2
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	F-4
Consolidated Statements of Shareholders' Equity as of December 31, 2000, 1999, and 1998	F-5
Notes to the Consolidated Financial Statements	F-6

ITEM 19: EXHIBITS

The following instruments and documents are included as Exhibits to this Registration Statement. Exhibits incorporated by reference are so indicated.

<u>Exhibit No</u>	<u>Exhibit</u>
1.1	English translation of the by-laws (<i>status</i>) of the Registrant.(1)
2.1	Form of American Depositary Receipt.(2)
2.2	Form of Deposit Agreement between the Registrant and The Bank of New York, as depositary.(2)
2.3	Indenture dated as of November 22, 2000 between the Registrant and The Chase Manhattan Bank as Trustee, which includes the form of the 10 ⁵ / ₈ % Senior Notes due 2007 as an exhibit thereto.(6)
4.1	1992 Stock Option Plan.(2)
4.2	1995 Stock Option Plan.(2)
4.3	1996 Stock Option Plan.(2)

<u>Exhibit No</u>	<u>Exhibit</u>
4.4	Lease dated as of December 4, 1990 for the Registrant's principal executive offices in Massy, France.(2)
4.5	Lease dated as of April 2, 1991 for the Registrant's data processing center in London, England.(2)
4.6	Leases dated as of November 8, 1991 and December 13, 1996 for the Registrant's data processing center in Houston, USA.(2)
4.7	Lease dated as of September 1, 1996 for Sercel's factory in Tulsa, USA.(2)
4.8	Time charter agreement dated as of March 1, 1996 for <i>CGG Föhn</i> , as amended on July 1, 1996.(2)
4.9	Time charter agreement dated as of May 7, 1996 for <i>CGG Harmattan</i> , as amended on July 1, 1996.(2)
4.10	Time charter agreement dated as of June 1, 1996 for <i>CGG Mistral</i> , as amended on July 1, 1996.(2)
4.11	Time charter agreement dated as of December 22, 1997 for <i>CGG Alizé</i> .(3)
4.12	Shareholders' Agreement dated January 31, 1995 between Total Formations Petrolieres, ISIS and SOGERAP.(3)
4.13	Subscription Agreement dated October 23, 1999 by and between the Registrant and The Beacon Group Energy Investment Fund II, L.P.(4)
4.14	Registration Rights Agreement dated December 13, 1999 by and between the Registrant and The Beacon Group Energy Investment Fund II, L.P.(4)
4.15	Registration Rights Agreement, dated October 4, 2000 between the Registrant and Paradigm Geophysical Ltd.(5)
4.16	Securities Purchase Agreement dated October 4, 2000 by and between the Registrant, Paradigm Geophysical Ltd. and Paradigm Geophysical Corp.(5)
4.17	Share Purchase Agreement dated as of December 10, 1999 between the Registrant and Fugro N.V.(6)
4.18	Asset Purchase Agreement dated September 22, 2000 by and among Shaw Industries Ltd., Shaw Resource Services, Inc., the Registrant, Sercel Inc. and Sercel Canada Ltd.(6)
4.19	Share Purchase Agreement dated December 14, 2000 by and among Aker Maritime ASA, Aker Geo Seismic AS and the Registrant.(6)
4.20	Memorandum of Understanding dated October 20, 2000 between the Registrant and Louis-Dreyfus Armateurs.(6)
4.21	Amendment Agreement in respect of \$180,000,000 Multicurrency Revolving Credit Facility Agreement dated August 31, 2000.(6)
4.22	2000 Stock Option Plan.(6)
7*	Statement re Computation of Ratios.
8	Subsidiaries of the Registrant.(6)
9.1*	Consent of Ernst & Young, Auditors for the Registrant.
9.2*	Consent of Barbier Frinault & Autres, Arthur Andersen, Auditors for the Registrant.
9.3*	Consent of KPMG, Auditors for Aker Geo Seismic AS.
9.4*	Consent of KPMG, Auditors for Aker RGI Forretningsutvikling.

Notes:

* Filed herewith.

- (1) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999, dated June 28, 2000, as amended.
- (2) Incorporated by reference to the Registrant's Registration Statement on Form F-1 (SEC File No. 333-06800), dated April 16, 1997, as amended.

- (3) Incorporated by reference to the Registrant's Registration Statement on Form F-3 (SEC File No. 333-11074), dated November 3, 1999, as amended.
- (4) Incorporated by reference to the Registrant's Report on Schedule 13D, dated December 13, 2000, as amended.
- (5) Incorporated by reference to the Registrant's Report on Schedule 13D, dated October 16, 2000, as amended.
- (6) Incorporated by reference to the Registrant's Registration Statement on Form F-4 (SEC File No. 333-13060), dated January 11, 2001, as amended.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE
(Registrant)

/s/ MICHEL PONTUS

Michel Ponthus
Senior Executive Vice President
Administration & Finance and Chief Financial Officer

Date: July 2, 2001

COMPAGNIE GÉNÉRAL DE GÉOPHYSIQUE

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Compagnie Générale de Géophysique, S.A.

We have audited the accompanying consolidated balance sheets of Compagnie Générale de Géophysique, S.A. expressed in French francs as of December 31, 2000, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

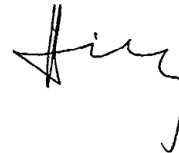
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compagnie Générale de Géophysique, S.A. at December 31, 2000, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Neuilly-sur-Seine and Paris, France
March 15, 2001



ARBIER FRINAULT & AUTRES
Arthur Andersen

Represented by
Pascal Macioce



ERNST & YOUNG AUDIT

Represented by
François Hilly

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

CONSOLIDATED BALANCE SHEETS

	December 31,			
	2000 U.S.\$	2000 FF	1999 FF	1998 FF
	(amounts in millions)			
ASSETS				
Current assets				
Cash and cash equivalents	56.4	394.1	422.9	197.0
Trade accounts and notes receivable (Note 3)	249.0	1,739.6	1,152.6	1,039.2
Inventories and work-in-progress (Note 4)	85.3	596.2	555.4	558.0
Other current assets (Note 5)	47.9	334.7	327.1	223.2
Total current assets	<u>438.6</u>	<u>3,064.6</u>	<u>2,458.0</u>	<u>2,017.4</u>
Long term receivable and other investments	8.4	58.8	34.2	30.9
Investments in and advances to companies under the equity method (Note 6)	46.2	322.6	166.5	127.3
Property, plant and equipment, net (Note 7)	132.1	923.2	1,053.5	944.8
Goodwill and intangible assets (Note 8)	162.7	1,136.4	784.4	214.8
Total assets	<u>788.0</u>	<u>5,505.6</u>	<u>4,496.6</u>	<u>3,335.2</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Bank overdrafts	11.9	83.4	79.4	77.8
Current portion of long-term debt (Note 10)	19.5	136.2	155.6	131.2
Trade accounts and notes payable	93.4	652.3	514.2	526.8
Accrued payroll costs	44.8	312.9	304.8	277.2
Income taxes payable	16.8	117.3	107.7	118.6
Advance billings to customers	17.8	124.6	69.7	70.9
Other current liabilities (Note 9)	40.1	280.5	469.4	360.7
Total current liabilities	<u>244.3</u>	<u>1,707.2</u>	<u>1,700.8</u>	<u>1,563.2</u>
Long-term debt (Note 10)	216.9	1,515.2	871.4	493.4
Other long-term liabilities (Note 11)	25.7	179.4	148.9	111.9
Total long-term liabilities	<u>242.6</u>	<u>1,694.6</u>	<u>1,020.3</u>	<u>605.3</u>
Minority interest	—	—	7.9	71.6
Common stock, (Note 12), 21,883,844 shares authorized; 10,086,389 shares with a FF 10 nominal value issued and outstanding at December 31, 2000; 9,273,384 at December 31, 1999; 5,074,785 at December 31, 1998	14.4	100.9	92.7	50.7
Additional paid-in capital	308.9	2,158.1	1,797.8	764.9
Amount receivable from shareholders			(1.8)	(6.0)
Retained earnings	(17.2)	(120.2)	315.0	553.4
Net income (loss) for the year	(11.2)	(78.4)	(436.0)	(242.7)
Accumulated other comprehensive income	6.2	43.4	(0.1)	(25.2)
Total shareholders' equity	<u>301.1</u>	<u>2,103.8</u>	<u>1,767.6</u>	<u>1,095.1</u>
Total liabilities and shareholders' equity	<u>788.0</u>	<u>5,505.6</u>	<u>4,496.6</u>	<u>3,335.2</u>

See notes to consolidated financial statements

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,			
	2000	2000	1999	1998
	U.S.\$	FF	FF	FF
	(amounts in millions, except share and per share data)			
Operating revenues	652.8	4,561.0	3,323.7	4,086.6
Cost of operations	(544.4)	(3,803.7)	(3,023.2)	(3,228.0)
Gross profit	108.4	757.3	300.5	858.6
Research and development expenses — net (Note 16) . . .	(25.3)	(176.5)	(161.2)	(178.3)
Selling, general and administrative expenses	(82.5)	(576.7)	(523.4)	(519.0)
Other revenues (expenses) (Note 17)	12.7	88.7	15.9	(252.4)
Operating income (loss)	13.3	92.8	(368.2)	(91.1)
Interest and other financial income and expense (net)	(14.9)	(104.2)	(62.7)	(32.6)
Exchange gains (losses) — net	(5.5)	(38.2)	(22.5)	(25.5)
Equity in income (losses) of investees (Note 6)	2.4	17.0	4.5	(3.9)
Income (loss) before income taxes and minority interest . .	(4.7)	(32.6)	(448.9)	(153.1)
Income taxes (Note 18)	(9.9)	(69.3)	(51.3)	(59.6)
Minority interest	3.4	23.5	64.2	(30.0)
Net income (loss)	(11.2)	(78.4)	(436.0)	(242.7)
Weighted average number of shares outstanding	9,389,214	9,389,214	5,314,905	5,069,948
Dilutive potential shares from stock-options	95,839	95,839	15,747	156,207
Adjusted weighted average shares and assumed option exercises	9,485,053	9,485,053	5,330,652	5,226,155
Net income (loss) per share				
Basic	(1.19)	(8.35)	(82.03)	(47.87)
Diluted	(1.19)	(8.35)	(82.03)	(47.87)

See notes to consolidated financial statements

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			
	2000 U.S.\$	2000 FF	1999 FF	1998 FF
	(amounts in millions)			
Cash flows from operating activities				
Net income (loss)	(11.2)	(78.4)	(436.0)	(242.7)
Depreciation and amortization	66.2	462.4	418.0	444.2
Multi-client surveys amortization	68.6	479.6	188.6	127.1
Net loss (gain) on sale of assets	(16.0)	(111.6)	(69.7)	(9.8)
Deferred income taxes	(1.0)	(7.1)	(0.1)	(18.9)
Minority interest	(3.4)	(23.5)	(64.2)	30.0
Equity in income of investees, net of dividends	(2.0)	(14.0)	(0.4)	3.9
Increase (decrease) in other long-term liabilities	8.3	58.0	3.8	7.7
Other non-cash items	1.2	8.6	(46.3)	5.3
Increase/decrease in operating assets and liabilities:				
(Increase) decrease in trade accounts and notes receivable . .	(85.0)	(593.8)	(13.5)	266.1
(Increase) decrease in inventories and work in progress . . .	(4.1)	(28.9)	139.7	(161.4)
(Increase) decrease in other current assets	6.7	47.0	(43.3)	40.8
Increase (decrease) in trade accounts and notes payable . . .	15.3	107.0	(45.3)	(8.9)
Increase (decrease) in other current liabilities	(20.3)	(142.1)	(19.8)	32.2
Net cash provided by operating activities	<u>23.3</u>	<u>163.2</u>	<u>11.5</u>	<u>515.6</u>
Cash flows from investing activities				
Purchases of property, plant and equipment (Note 21)	(31.0)	(216.8)	(337.9)	(502.0)
Investments in multi-client surveys	(86.8)	(606.8)	(372.3)	(221.8)
Proceeds from sale of assets	11.2	78.0	129.9	32.4
Cash paid for acquired businesses, net of cash acquired	—	—	(412.1)	(8.7)
Investments in and advances to companies under the equity method	—	0.3	(25.9)	(36.6)
Decrease (increase) in other investments	(0.2)	(1.0)	1.3	(9.7)
Net cash used in investing activities	<u>(106.8)</u>	<u>(746.3)</u>	<u>(1,017.0)</u>	<u>(746.4)</u>
Cash flows from financing activities				
Repayment of long-term debt	(502.3)	(3,509.9)	(1,290.4)	(187.0)
Issuance of long-term debt	587.5	4,104.7	1,553.9	177.7
Repayment of capital lease obligations	(14.0)	(97.8)	(109.8)	(85.4)
Government research grants received	1.4	9.9	9.9	8.8
Government research grants repaid	(1.3)	(9.0)	(17.5)	(2.9)
Increase (decrease) in bank overdrafts	—	0.2	(4.9)	(90.3)
Net proceeds from capital increase	1.7	11.5	1,083.4	8.3
Dividends paid and share capital reimbursements	(0.2)	(1.5)	—	—
Contribution from minority shareholders	5.8	40.7	—	—
Net cash provided by (used in) financing activities	<u>78.6</u>	<u>548.8</u>	<u>1,224.6</u>	<u>(170.8)</u>
Effects of exchange rate changes on cash	0.8	5.5	6.8	(4.7)
Net increase (decrease) in cash and cash equivalents	<u>(4.1)</u>	<u>(28.8)</u>	<u>225.9</u>	<u>(406.3)</u>
Cash and cash equivalents at beginning of year	60.5	422.9	197.0	603.3
Cash and cash equivalents at end of year	<u>56.4</u>	<u>394.1</u>	<u>422.9</u>	<u>197.0</u>

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of shares issued	Share capital	Additional paid-in capital	Amount receivable from shareholders	Comprehensive income	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
(in millions of French francs, except for number of shares and U.S. dollar amounts)								
Balance at December 31, 1997	<u>5,061,867</u>	<u>50.6</u>	<u>761.4</u>	<u>(10.7)</u>	<u>—</u>	<u>553.4</u>	<u>(5.5)</u>	<u>1,349.2</u>
Capital increase (Note 12)	12,918	0.1	3.5	4.7	—	—	—	8.3
Net income	—	—	—	—	(242.7)	(242.7)	—	(242.7)
Foreign currency translation	—	—	—	—	(19.7)	—	—	—
Other	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(19.7)	—	(19.7)	(19.7)
Comprehensive income	—	—	—	—	(262.4)	—	—	—
Balance at December 31, 1998	<u>5,074,785</u>	<u>50.7</u>	<u>764.9</u>	<u>(6.0)</u>	<u>—</u>	<u>310.7</u>	<u>(25.2)</u>	<u>1,095.1</u>
Capital increase (Note 12)	4,198,599	42.0	1,037.2	4.2	—	—	—	1,083.4
Net income	—	—	—	—	(436.0)	(436.0)	—	(436.0)
Foreign currency translation	—	—	—	—	25.1	—	—	—
Other	—	—	(4.3)	—	—	4.3	—	—
Other comprehensive income	—	—	—	—	25.1	—	25.1	25.1
Comprehensive income	—	—	—	—	(410.9)	—	—	—
Balance at December 31, 1999	<u>9,273,384</u>	<u>92.7</u>	<u>1,797.8</u>	<u>(1.8)</u>	<u>—</u>	<u>(121.0)</u>	<u>(0.1)</u>	<u>1767.6</u>
Capital increase (Note 12)	813,005	8.2	361.1	1.8	—	—	—	371.1
Net income	—	—	—	—	(78.4)	(78.4)	—	(78.4)
Foreign currency translation	—	—	—	—	43.5	—	—	—
Other	—	—	(0.8)	—	—	0.8	—	—
Other comprehensive income	—	—	—	—	43.5	—	43.5	43.5
Comprehensive income	—	—	—	—	(34.9)	—	—	—
Balance at December 31, 2000	<u>10,086,389</u>	<u>100.9</u>	<u>2,158.1</u>	<u>0.0</u>	<u>—</u>	<u>(198.6)</u>	<u>43.4</u>	<u>2,103.8</u>
Balance at December 31, 2000 (in millions of U.S. dollars)	<u>10,086,389</u>	<u>14.4</u>	<u>308.9</u>	<u>0.0</u>	<u>—</u>	<u>(28.4)</u>	<u>6.2</u>	<u>301.1</u>

See notes to consolidated financial statements

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compagnie Générale de Géophysique, S.A. (the “Company”) and its subsidiaries (together, the “Group”) is a global participant in the geophysical services industry, providing a wide range of seismic data acquisition, processing and interpretation services as well as related processing and interpretation software to clients in the oil and gas exploration and production business. It is also a global manufacturer of geophysical equipment.

The accounting principles applied by the Group in the preparation of the accompanying financial statements are in conformity with accounting principles generally accepted in the United States.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial information expressed in U.S. dollars is presented solely for the convenience of the reader and is translated from French francs at the Noon Buying Rate in New York City on December 29, 2000 which was FF 6.987 for each U.S. dollar.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries.

Investments in which ownership interest ranges from 20% to 50% and the Group exercises significant influence over operating and financial policies are accounted for using the equity method. Certain investments where ownership is below 20% can be consolidated under the equity method on a case by case basis when a significant monitoring (Board membership or equivalent) of business can be exercised.

All intercompany transactions and accounts are eliminated in consolidation.

Translation of financial statements of foreign entities and foreign currency transactions

The accounts of all the Group’s foreign subsidiaries are maintained in the local currency, which is the functional currency, with the exception of the accounts of subsidiaries operating in Indonesia and Venezuela which, in order to eliminate the effects of the declining value of the local currency on the accounts, are maintained in U.S. dollars, the currency in which the entities primarily conduct their businesses.

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at year-end exchange rates. The resulting unrealized exchange gains and losses are included in income.

When translating the foreign currency financial statements of foreign subsidiaries to French francs, year-end exchange rates are applied to asset and liability accounts, while average annual rates are applied to income statement accounts. Adjustments resulting from this process are recorded in a separate component of shareholders’ equity.

For foreign affiliates accounted for using the equity method, the effects of exchange rate changes on the net assets of the affiliate are recorded in a separate component of shareholders’ equity.

Revenue recognition

The Group acquires and processes seismic data surveys both on an exclusive contract basis and on a multi-client basis.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Exclusive contracts

When the Group acquires seismic data on an exclusive contract basis, the customer retains ownership of the data obtained. Revenues are recognized using the percentage of completion method. Survey data is billable on a monthly basis to the customer in accordance with the terms of the contract based on work performed.

For seismic data processed on an exclusive contract basis, revenues are recognized as survey data is periodically delivered to the customer and billable in accordance with the terms of the contract. This method approximates the percentage of completion method.

Provisions are made currently for all known or reasonably foreseeable losses at completion.

Multi-client surveys

The Group performs multi-client surveys, retains ownership of the seismic data acquired and processed, and provides customers access to the survey results through a non-transferable licensing agreement. Revenues are recognized in accordance with the terms of the contract when the services have been performed and invoiced to the customer. Advance billings to customers are recorded in current liabilities.

Equipment sales

Revenues on equipment sales are recognized upon delivery to the customer. Any advance billings to customers are recorded in current liabilities.

Software and hardware sales

Revenues from the sale of software and hardware products are recognized following acceptance of the product by the customer at which time the Group has no further significant vendor obligations remaining. Any advance billings to customers are recorded in current liabilities.

If an arrangement to deliver software, either alone or together with other products or services, requires significant production, modification, or customization of software, the entire arrangement is accounted for as a production-type contract, i.e. using the percentage of completion method.

If the software arrangement does not require significant production, modification, or customization of software, revenue is recognized when all of the following criteria are met:

- evidence of contract exists,
- delivery has occurred,
- the fee is fixed or determinable,
- collectibility is probable.

If the software arrangement provides for multiple deliverables (e.g. upgrades or enhancements, post-contract customer support such as maintenance, or services), the revenue is allocated to the various elements based on specific objective evidence of fair value, regardless of any separate allocations stated within the contract for each element.

Maintenance revenues consist primarily of post-contract customer support agreements and are recorded as advance billings to customers and recognized as revenue on a straight-line basis over the contract period.

Research and development

Research and development costs are expensed as incurred.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Government research grants

For certain of its research projects carried out jointly with other companies, the Group receives financing from government organizations which provide such grants in order to encourage research activities in France. A portion of the grants (between 15% to 45%) is unconditionally repayable and is recorded as debt when received.

The balance is repayable through royalties on future sales only in the event the related research project proves to be successful.

This conditionally repayable portion of the research grant is recognized in income as the research expenditures are incurred. Any royalties due are recognized in cost of operations as the related sales are recognized.

Other revenues (expenses)

Operating results include other revenues and expenses which comprise revenues and expenses not linked with current activity. It includes thus gains or losses on sales of assets and non-recurring revenues and expenses, such as gains or losses on partial sales of businesses, impairment of assets (including goodwills) and restructuring costs. Unusual items such as lay-off indemnities, out of redundancy plans, and write-down or allowances on current assets related to unusual events are maintained in cost of operations.

Cash equivalents

Cash equivalents consist of marketable securities and short-term time deposits generally having original maturities of less than three months and are carried at the lower of cost or market value.

Inventories and work in progress

Geophysical services

Consumables and spare parts inventories are stated at the lower of cost or market value with cost determined on a standard cost basis which approximates their weighted average historical cost of acquisition.

When the percentage of completion method is not applied, work-in-progress is stated at the lower of cost or realizable value and includes all direct costs incurred in acquiring and processing data for non-completed exclusive surveys.

Geophysical products

Raw materials and spare parts are stated at the lower of cost or market value with cost determined on a weighted average basis.

Products in progress and finished products are stated at the lower of cost or realizable value and include all direct and indirect costs incurred in manufacturing equipment. General and administrative expenses and research and development costs are not included in inventory.

Property, plant and equipment

Property, plant and equipment are stated at cost and include assets acquired under capital lease arrangements.

The Group can receive from the Government non-repayable equipment subsidies which are recorded as a reduction to the cost of the equipment when received and thus recognized in income as a reduction of depreciation expense over the estimated useful lives of the equipment subsidized.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets which are as follows:

Buildings	20 years
Office furniture and fixtures	6 to 10 years
Seismic vessels	12 to 20 years
Machinery, equipment and vehicles	3 to 5 years
Computer hardware and software	3 to 5 years

Repairs, maintenance and renewal costs which do not materially prolong the useful life of an asset are expensed as incurred.

Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income in other revenues and expenses.

Intercompany gains on sales of assets and equipment sales made by the geophysical products segment to the geophysical services segment, as well as the related effect on depreciation expense, are eliminated in consolidation.

Vessel rigging costs and costs of start-up activities

Expenditures relating to the outfitting or conversion of seismic vessels operated under long-term charter arrangements are recorded as deferred expenses and charged to income on a straight-line basis over the estimated minimum period to be benefited of eighteen months. As at December 31, 1998, no remaining deferred expenses are to be charged to income in the future.

Since 1998 costs of start-up activities, including organization costs, are expensed as incurred. It applies particularly to training costs for personnel called to work on a new vessel.

Goodwill and intangible assets

Goodwill, representing the excess of the purchase price over the fair value of net assets of businesses acquired, is amortized on a straight-line basis over the estimated future periods to be benefited which ranges from five to twenty years depending on the type of business acquired. The difference between the cost of equity method investments and the amount of underlying equity acquired in the net assets of the investee is not included in goodwill, but remains in investments in companies under the equity method.

Intangible assets include primarily the costs incurred to acquire and process data for multi-client surveys. We decide to launch new studies following an analysis of market prospects (e.g. oil and gas discoveries, or interest expressed by clients for the zone) of the area we intend to cover, and after considering the level of contractual precommitments we can secure from clients prior to the beginning of the survey. The asset is amortized over the period during which the data is expected to be marketed (generally comprised between 36 months and 5 years), on a pro rata method based on recognized revenues as a percentage of total estimated sales, which depends on the geographical area where the Company performs the survey. The durations of the periods of amortization are in line with the practice of the industry, derived from available information from various origins. Recognized and expected revenues are reviewed periodically and, if they do not meet original forecast revenues, the asset is amortized more rapidly or written-off.

Intangible assets also include patents and trademarks which are amortized on a straight-line basis over their estimated useful lives.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Impairment of long-lived assets

Long-lived assets, goodwill and other identifiable intangible assets are written-down when, as a result of events or changes in circumstances within the year, their recoverable value appears to have declined on an other than temporary basis to an amount less than their carrying value.

Impairment is determined for each group of autonomous assets (independent operating units or subsidiaries) by comparing their carrying value with the undiscounted cash flows they are expected to generate based upon management's expectations of future economic and operating conditions.

Should the above comparison indicate that an asset is impaired, the write-down recognized is equivalent to the difference between carrying value and either market value or the sum of discounted future cash flows.

Income taxes

The Group uses the liability method under which deferred taxes are calculated applying legislated tax rates in effect when the temporary differences will reverse. Valuation allowances are recorded against deferred tax assets based on their probability of realization.

Tax credits and other allowances are credited to current income tax expense using the flow-through method of accounting.

Pension plans and other post-retirement benefits

The Group maintains pension plans in various countries as prescribed by local laws and customs. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. The Group has no additional liability for these plans.

In France, legislation requires that lump sum retirement indemnities be paid to employees based upon their years of service and compensation at retirement. The actuarial liability of this unfunded obligation is included in other long-term liabilities.

The Group has no significant commitments to provide other post-retirement benefits such as medical costs and life insurance to employees.

Contingencies

An estimated loss from a contingency is charged to income if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Disclosure is made for loss contingencies not meeting both these conditions if there is a reasonable possibility that a loss may be incurred. In particular, the Group records provisions for future reasonably foreseeable losses on contracts in progress.

No accruals are made for contingent gains.

Financial instruments

The Group may enter into forward foreign currency exchange contracts to limit its exposure to currency fluctuations when firm contract commitments exist for net cash flows (contract revenues less costs) to be received in foreign currencies (primarily U.S. dollars). A forward foreign exchange contract obligates the Group to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent French franc payment equal to the value of such exchange.

Unrealized gains and losses resulting from changes in forward rates of instruments hedging recognized assets and liabilities should be recognized in earnings in the period of change together with the offsetting gain or

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

loss on the hedged item. Changes in the fair value of instruments hedging future commitments should be deferred and will be recognized in earnings on the projected date of the forecasted transaction. If the amounts and maturity dates of forward contracts do not correspond to foreign currency cash flows to be generated by the backlog, the forward contracts should not be qualified as hedges. Accordingly, unrealized gains and losses resulting from changes in forward rates of these contracts should be recorded in earnings. Unrealized gains and losses reflected in income are included respectively in other current assets and other liabilities in the consolidated balance sheet using the accrual method.

The Group also purchases interest rate cap agreements that are designed to limit its exposure to increasing interest rates and are designated as hedges of its long-term debt portfolio. An interest rate cap entitles the Group to receive a payment from the counterparty equal to the excess, if any, of the hypothetical interest expense (strike price) on a specified notional amount at a current market interest rate over an amount specified in the agreement. The only amount the Company is obligated to pay to the counterparty is an initial premium. The strike price of these agreements exceeds the current market levels at the time they are entered into. The interest rate indices specified by the agreements have been and are expected to be highly correlated with the interest rates the Company incurs on its long-term debt portfolio. Payments to be received as a result of the specified interest rate index exceeding the strike price are accrued in other assets and are recognized as a reduction of interest expense (the accrual accounting method). The cost of these agreements is included in other assets and amortized to interest expense ratably during the life of the agreement.

The Group does not enter into forward foreign currency exchange contracts or interest rate cap agreements for trading purposes nor does it use any other types of derivative financial instruments.

Stock-based compensation

Regarding stock-based compensation, the Company records a compensation expense for any difference between the stock-option exercise price and the market price of the underlying shares on the date of grant. No such expense has been recorded for the years ended December 31, 2000, 1999 and 1998.

The impact of the amortization of the estimated fair value of options is disclosed below in the notes to consolidated financial statements.

Earnings per share

Basic earnings per share is calculated by dividing net income (loss) by the weighted average number of the Company's Ordinary Shares outstanding during the period.

Diluted earning per share is calculated by dividing net income by the weighted average number of Ordinary shares plus the effect of dilutive securities (stock options).

Inflation

The following principles are applied as regards the determination of appropriate functional currency and the need for remeasurement of local accounts in the case of highly inflationary environments. "Highly inflationary" economy defines an economy that has accumulated inflation of approximately 100% or more over a three-year period. This is not an absolute measure as the trend of inflation may be as important as the absolute rate. Ultimately, the definition of "highly inflationary" depends on the judgment of management.

We consider the following when deciding if an economy is highly inflationary:

- We do not closely monitor inflation on a monthly basis and change the method of accounting each time the cumulative 3-year rate increases above or falls below 100%. We assess on an annual basis instead.

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- We take into account any one-off event (e.g. economic or political) which have created exceptionally high inflation in one year but is not necessarily indicative of a highly inflationary economy.
- We do not rigidly apply the 100% cut-off. “Approximately” 100% permit flexibility of at least plus or minus 10%.

The most recent three-year data for the general price index are used when calculating the cumulative 3-year inflation rate.

New accounting standards

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS No. 133”), subsequently amended by SFAS No. 137 and SFAS No. 138. The Company adopted SFAS No. 133 effective January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities that require an entity to recognize all derivatives as an asset or liability measured at fair value. Depending on the intended use of the derivative, changes in its fair value will be reported in the period of change as either a component of earnings or a component of other comprehensive income. We use derivative instruments such as interest rate caps, forward currency contracts and foreign currency options. We have completed our review of contracts for embedded derivatives and evaluated our accounting policies for derivatives and hedging activities. Based on the Company’s derivative positions at December 31, 2000, we determined that the initial adoption of this standard will not have a material effect on our consolidated financial position or results of operations.

NOTE 2 — ACQUISITIONS AND DIVESTITURES

All acquisitions are accounted for using the purchase method.

For the year ended December 31, 2000

In 2000, the CGG group proceeded to the following strategic acquisitions and divestitures:

In September 2000, we acquired Mark Products from Shaw Industries for an amount of U.S.\$23.8 million.

Shaw’s Mark Products division, with operations in Houston, Texas and Calgary, Alberta, was sold to Sercel, our geophysical equipment manufacturing business. As consideration, Shaw received 352,237 ordinary shares of CGG, which represent 3.5% of the outstanding CGG shares.

Mark Products is a leading manufacturer of geophones, hydrophones, cables and connectors utilized for land, marine and transition zone geophysical applications worldwide.

The transaction generated a goodwill of FF 93.9 million, amortized over 10 years.

In October 2000, CGG’s Flagship reservoir interpretation and characterization software division of CGG was merged within Paradigm Geophysical, a public company listed on the NASDAQ market.

We received in exchange for Flagship 1.5 million Paradigm shares, valued at U.S.\$7 each, and U.S.\$4 million in cash. CGG’s equity stake in Paradigm represents approximately a 10.2% holding in the company.

Under the agreement, Paradigm acquired CGG’s Flagship operations, which include the products Integral Plus and Stratimagic.

In addition, CGG and Paradigm will develop a technological cooperation in the domain of interpretation software. The common goal of this strategic development is materialized by our significant equity participation in Paradigm, and we benefit from one seat on the Board of Directors of Paradigm, where we are the sole industrial

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

shareholder. The stake in Paradigm has been consolidated under equity method, generating an in-built goodwill of FF 41.4 million, depreciated over 5 years due to the nature of the activity.

On October 2000, CGG acquired the 40% minority interest of Louis Dreyfus Armateurs (“LDA”) within CGG Marine (the remaining 60% being already owned by CGG) and 50% of Kantwell, future owner of the seismic ship “CGG *Mistral*”. The transaction was finalized on the 21st of December 2000.

FF 40.7 million were contributed to CGG’s subsidiary CGG Marine by LDA during the course of the year prior to CGG’s buying of LDA’s interest in the subsidiary.

The upgrade of the seismic vessel *Mistral* to a 10-steamers capacity will take place through the creation of a joint company (Kantwell) to which the *Mistral*, currently owned by LDA, will be sold in its present condition. The upgrade will start in the second half of 2001 and will take approximately 6 months. Upon delivery from the shipyard, CGG Marine will operate the *Mistral* under a 7-year time charter granted by the joint company, new owner of the vessel.

As consideration for these transactions, LDA received 413,969 CGG shares. The total transaction value is approximately U.S.\$24.2 million, generating a goodwill on the purchase of CGG Marine’s shares of FF 87.0 million, amortized over 10 years.

For the year ended December 31, 1999

In January 1999, the Group acquired the remaining 51% interest in Compañía Mexicana de Geofísica (CMG) for a purchase price of FF 34.5 million (U.S.\$5.7 million). The excess of the purchase price over the fair value of the net assets acquired amounted to FF 39.1 million and has been recorded as goodwill to be amortized over ten years.

The consolidation of this company as of January 1, 1999 had the following impacts on the balance sheet captions at this date:

Cash and cash equivalents	(21.8)
Trade accounts and notes receivable	0.3
Inventories and work-in-progress	4.8
Other current assets	10.7
Investments in equity	(0.8)
Property, plant and equipment	34.4
Goodwill	<u>39.1</u>
Total assets	<u>66.7</u>
Current portion of long-term debt	53.5
Trade accounts and notes payable	2.0
Accrued payroll costs	0.9
Income tax payable	0.8
Other current liabilities	<u>9.5</u>
Total liabilities	<u>66.7</u>

On December 13, 1999 the Company purchased Geoscience Inc. (“Geoscience”), a company under majority control of the Tech-Sym Group. Geoscience, the shares of which were previously publicly traded, designs, develops, manufactures and markets seismic data acquisition systems and related products and services.

The transaction has been financed through the issuance of shares reserved to The Beacon Group and the proceeds of the rights offering have been used to buy Geoscience for a total price of U.S.\$67 million in cash,

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(approximately FF 438 million), and to reimburse certain debt of Geoscience and its subsidiaries in the normal course of loan agreements for \$20.3 million (approximately FF 132 million).

Pertaining to the transaction a cash tender offer was launched at a cash price of U.S.\$6.71 per share (approximately FF 43.8) to buy all outstanding shares of the target. 98% of the shares were tendered as a result of this offer (9,821,068 shares out of a total outstanding of 9,985,350 as at December 31, 1999) and the Company has reserved appropriate amounts to repay further tendered shares.

Results for the half-month period between December 13 and December 31 have not been included in retained earnings as they were not material to the presented statements.

The purchase method of accounting was used to record this acquisition and accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair market values at the date of acquisition. The excess of the purchase price over the fair market value of the assets acquired minus the assumed liabilities was estimated at U.S.\$50.1 million, recorded as goodwill and is being amortized over a period of 20 years.

The consolidation of this company as of December 31, 1999 had the following impacts on the balance sheet captions at this date:

Cash and cash equivalents	(388.1)
Trade accounts and notes receivable	84.7
Inventories and work-in-progress	120.4
Other current assets	2.2
Long term receivables	2.6
Investments in equity	4.0
Property, plant and equipment	149.5
Goodwill	<u>327.4</u>
Total assets	<u><u>302.7</u></u>
Overdrafts	6.5
Current portion of long-term debt	117.6
Trade accounts and notes payable	37.4
Accrued payroll costs	4.6
Income tax payable	4.1
Other current liabilities	81.7
Long term debt	(18.9)
Other long term liabilities	41.0
Cumulative translation adjustment	<u>28.7</u>
Total liabilities	<u><u>302.7</u></u>

COMPAGNIE GÉNÉRALE DE GÉOPHYSIQUE, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pro forma statements of income relating to the acquisition are as follows:

	Geoscience	Eliminations		Geoscience	Geoscience	CGG		CGG	Pro forma
	U.S.\$	(1)	(2)	Restated	French francs(3)	French francs, except per share data	Restated		
				1998 Unaudited					
Operating revenues	122,933		(7,986)	114,947	683.9	4,086.6		4,086.6	4,770.5
Cost of operations	83,808	(6,000)		77,808	463.0	3,228.0	(17.2)	3,210.8	3,673.8
Gross profit	39,125	6,000	(7,986)	37,139	221.0	858.6	0	875.8	1,096.8
Research and development expenses — net	8,579			8,579	51.0	178.3		178.3	229.3
Selling, general and administrative expenses	25,673			25,673	152.8	519.0	14.9	533.9	686.7
Other revenues (expenses)	0,760			0,760	4.5	(281.8)		(281.8)	(277.3)
Operating income (loss)	5,633	6,000	(7,896)	3,647	21.7	(120.5)	(14.9)	(118.2)	(96.5)
Interest and other financial income and expense (net)	2,586			2,586	15.4	32.6		32.6	48.0
Income (loss) before income taxes and minority interest	3,047	6,000	(7,896)	1,061	6.3	(153.1)	(14.9)	(150.8)	(144.5)
Income taxes	111			111	0.7	59.6		59.6	60.3
Minority interest	0			0	0.0	(30.0)		(30.0)	(30.0)
Net income (loss) from continuing operations	2,936	6,000	(7,896)	950	5.7	(242.7)	(14.9)	(240.4)	(234.8)
Weighted average number of shares outstanding						5,069,948			6,847,019(6)
Adjust weighted average shares age shares						5,226,155			6,996,226(6)
Net income (loss) per share									
Basic						(47.87)			(34.29)
Diluted						(47.87)			(34.29)

(1) Non-recurring items eliminated from pro forma income statement — Reduction of the carrying value of the Polyseis product line inventory.

(2) Elimination of transactions with CGG Group.

(3) Rate used for the translation identical to the rate used by CGG for internal purposes for the year: \$1 equals FRF 5.95.

(4) Goodwill amortization for the full year: \$50.1 million over 20 years.

(5) Elimination of transactions with Geoscience Group — Streamers purchased from Geoscience are capitalized and depreciated over 3 years.

(6) Number of shares outstanding obtained by adding to the CGG number the number of shares issued, 1,770,071, to finance the purchase of Geoscience.

	Geoscience		Eliminations		Geoscience		CGG		Eliminations		CGG		Pro forma Income Statement
	U.S.\$	(1)	(2)	Restated	French francs(3)	French francs	(4)	(5)	Restated				
		1999 Unaudited (amounts in millions except per share data)											
Operating revenues	82,861	(8,414)	74,447	454.1	3,323.7	3,323.7			3,323.7			3,777.8	
Cost of operations	110,085	(49,525)	60,560	369.4	3,023.2	3,023.2		(35.1)	2,988.1			3,357.5	
Gross profit	(27,224)	49,525	13,887	84.7	300.5	300.5	0.0	35.1	335.6			420.3	
Research and development expenses — net	8,225		8,225	50.2	161.2	161.2			161.2			211.4	
Selling, general and administrative expenses	19,004		19,004	115.9	523.4	523.4	15.3		538.7			654.6	
Other revenues (expenses)	2,986	(2,200)	0,786	4.8	(2.1)	(2.1)			(2.1)			2.7	
Operating income (loss)	(51,467)	47,325	(12,556)	(76.6)	(386.2)	(386.2)	(15.3)	35.1	(366.4)			(442.9)	
Interest and other financial income and expense (net)	3,055		3,055	18.6	62.7	62.7			62.7			81.3	
Income (loss) before income taxes and minority interest	(54,522)	47,325	(15,611)	(95.2)	(448.9)	(448.9)	(15.3)	35.1	(429.1)			(524.3)	
Income taxes	585		585	3.6	51.3	51.3			51.3			54.9	
Minority interest	0		0	0.0	64.2	64.2			64.2			64.2	
Net income (loss) from continuing operations	(55,107)	47,325	(16,196)	(98.8)	(436.0)	(436.0)	(15.3)	35.1	(416.2)			(515.0)	
Weighted average number of shares outstanding					5,314,905	5,314,905						7,004,340(7)	
Dilutive potential shares from stock-options													
Adjust weighted average shares					5,330,652	5,330,652						7,013,432(7)	
Net income (loss) per share					(82.03)	(82.03)						(73.52)	
Basic					(82.03)	(82.03)						(73.52)	
Diluted													

(1) Unaudited.

(2) Elimination of non-recurring demerger profit and other non-recurring items booked as at June 30, 1999 and post acquisition — detail below.

(3) Elimination of transactions with CGG Group.

(4) Rate used for the translation identical to the rate used by CGG for internal purposes for the year: \$1 equals FRF 6.10.

(5) Goodwill amortization for the full year: \$50.1 million over 20 years.

(6) Elimination of transactions with Geoscience Group — Streamers purchased from Geoscience are capitalized and depreciated over 3 years.

(7) Number of shares outstanding obtained by adding to the CGG number the number of shares issued, 1,770,071, to finance the purchase of Geoscience for 347 days in 1999.

Detail of non-recurring items included in Geoscience's books (unaudited) as at December 31, 1999:

	<u>June 30,</u> <u>1999</u>	<u>December 31,</u> <u>1999</u>
	(in millions of U.S.\$)	
Inventory reserve for excess and obsolete inventory	16,600	13,713
Excess purchase commitments	4,200	0
Excess inventory held for lease	3,100	1,900
Reserve for doubtful accounts	1,500	2,800
Reserve for warranty claims	1,700	3,412
Impaired goodwill	200	0
Severance payments provision	400	0
	<u>27,700</u>	<u>21,825</u>

In December 1999, the Group sold its Airborne Geophysics Division to the Fugro Group (Netherlands) for an amount of FF 119.4 million. The final settlement of the sale is subject to various price adjustment clauses and audit, which are not expected to have any material negative effects.

This division accounted for approximately FF 139.4 million of our net sales in 1999 (FF 155.4 million for fiscal 1998) and had operating income of FF (2) million in 1999. The sale is not expected to have any negative impact on the Group's future earnings.

For the year ended December 31, 1998

In July 1998, the Group acquired GeoNexus Interpretive Modelling Corp. ("Geonexus"), a Canadian company developing and marketing interpretive modeling programs tying rock properties to seismic data for a purchase price of FF 4.0 million (Canadian \$1.0 million). The excess of the purchase price over the fair value of the net assets acquired amounted to FF 5.4 million (Canadian \$1.3 million) to be amortized over ten years. As a consequence of the fall of activity in the North American oil services market, the Group decided to write-off the remaining carrying value at December 31, 1998.

In August 1998, the Group acquired Geomag S.A., a Brazilian company providing airborne electromagnetic surveys in its domestic market, for a purchase price of FF 2.4 million (U.S.\$0.4 million). The excess of the purchase price over the net assets acquired amounted to FF 5.3 million (U.S.\$0.9 million) to be amortized over ten years. As a consequence of the significant contraction of the Brazilian market, the Group decided to write-off the remaining carrying value at December 31, 1998.

In November 1998, the Group sold a department of its data management business in the U.S. through a management buy out for FF 4.2 million (U.S.\$0.7 million), resulting in a gain of FF 3.6 million (U.S.\$0.6 million).

On December 30, 1998, the Group sold its remaining 35% interest in Dassault Sercel Navigation Positionnement ("DSNP") to Dassault Electronique SA for one French Franc. This amount was close to the share in equity of this subsidiary at this date. Consequently, no gain or loss was recognized upon this sale.

NOTE 3 — TRADE ACCOUNTS AND NOTES RECEIVABLE

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
Trade accounts and notes receivable	1,695.0	1,124.5	1,028.0
Recoverable costs and accrued profit not billed	103.6	108.8	100.3
Less: allowance for doubtful accounts	(35.1)	(74.5)	(76.5)
Subtotal	1,763.5	1,158.8	1,051.8
Less: long-term portion included in long-term receivables	(23.9)	(6.2)	(12.6)
Trade accounts and notes receivable net	<u>1,739.6</u>	<u>1,152.6</u>	<u>1,039.2</u>

The important increase in the level of receivables is due to exceptionally high sales of equipment and multi-client licenses during the fourth quarter of 2000.

In the geophysical services segment, customers are generally large, national or international oil and gas companies, which management believes reduces potential credit risk. In the geophysical products segment, a significant portion of sales is paid by irrevocable letters of credit.

The Group maintains an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Credit losses have not been material for the periods presented and have consistently been within management's expectations.

Recoverable costs and accrued profit not billed comprise amounts of revenue recognized under the percentage of completion method on contracts for which billings had not been presented to the contract owners because the amounts were not billable at balance sheet date. Such unbilled accounts receivable are billable over the next 60 days.

Invoices for a total amount of \$2.5 million with an African customer have been reclassified to long term receivables due to unusual payment terms. All other trade receivables are payable within the next twelve months.

Long term receivables consist of FF 23.9 million, out of which a portion amounting to FF 3.5 million is payable before 1 year and FF 20.4 million are payable based on terms between 1 and 5 years.

NOTE 4 — INVENTORIES AND WORK IN PROGRESS

	December 31,				
	2000		1999	1998	
	Cost	Valuation Allowance	Net	Net	Net
	(in millions of French francs)				
Geophysical services:					
Consumables and spare parts	149.4	7.7	141.7	149.3	148.9
Work-in-progress				0.2	1.1
Geophysical products:					
Raw materials and spare parts	212.0	99.5	112.5	141.6	159.3
Products in progress	283.1	35.2	247.9	95.5	104.3
Finished goods	<u>125.0</u>	<u>30.9</u>	<u>94.1</u>	<u>168.8</u>	<u>144.4</u>
Total	<u>769.5</u>	<u>173.3</u>	<u>596.2</u>	<u>555.4</u>	<u>558.0</u>

The increase of products in progress in 2000 is principally due to the launching by Sercel of a new range of Marine products, and the associated needs for pre-assembled components.

Inventories and work-in-progress are presented net of valuation allowances totaling FF 104.4 million at December 31, 1999 and FF 86.6 million at December 31, 1998.

In order to be in line with the Company's policy, and following the abandonment of certain product lines after the acquisition, a provision for depreciation of inventories has been booked against the inventories of Geoscience for FF 100.6 million and allocated to goodwill.

In addition, an unusual charge of FF 12.5 million has been recognized on a certain category of geophysical equipment due to the absence of commercial prospects.

NOTE 5 — OTHER CURRENT ASSETS

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
Value added tax, government grants and other receivables	156.9	190.9	100.2
Prepaid rent, vessel charters and other expenses	62.9	67.3	52.3
Prepaid income tax	25.1	28.0	27.0
Deferred tax assets	27.3	25.0	20.0
Prepaid expenses	52.7	—	—
Supplier prepayments	9.8	15.9	12.3
Unrealized exchange gains on forward contracts	—	—	11.4
Other current assets	<u>334.7</u>	<u>327.1</u>	<u>223.2</u>

Prepaid expenses in 2000 are principally related to expenses incurred on financing operations, spread over the life of the obtained credits.

The variation of value added tax, government grants and other receivables in 1999 compared to previous year is primarily explained by the net increase of VAT receivable (FF 46.2 million), government grants to be received for research and development projects higher by FF 9.2 million and net advances still unpaid with companies sold to the Fugro Group at year end for FF 35.4 million.

NOTE 6 — INVESTMENTS IN AND ADVANCES TO COMPANIES UNDER THE EQUITY METHOD

	Year ended December 31,		
	2000	1999	1998
	(in millions of French francs)		
Balance at beginning of year	166.5	127.3	102.7
Investments made during the year	133.9	32.9	0.1
Net variation in advances and loans to equity investees	(0.3)	(7.5)	36.5
Equity in income (loss) including amortization of goodwill	17.0	4.5	(3.9)
Dividends received during the year, reduction in share capital	(2.9)	(4.0)	—
Changes in exchange rates	10.3	13.3	(2.3)
Other(a)	(1.9)	—	(5.8)
Balance at end of year	<u>322.6</u>	<u>166.5</u>	<u>127.3</u>

(a) Relates primarily to equity affiliates now fully consolidated, divestiture and valuation allowances recorded against receivables from affiliates with a negative net worth.

Investments in and advances to companies under the equity method are comprised of:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Argas	69.5	52.1	19.1
Geomar	36.8	36.8	36.9
Zhong Hai	2.8	2.8	—
JV XPEIC/Sercel Limited	26.1	22.1	19.3
Kantwell	59.9	—	—
Paradigm	72.8	—	—
Others(a)	<u>54.7</u>	<u>52.7</u>	<u>52.0</u>
Investments in companies under the equity method	<u><u>322.6</u></u>	<u><u>166.5</u></u>	<u><u>127.3</u></u>

(a) including loans and advances to companies under the equity method at December 2000, 1999 and 1998 for FF 54.7 million, FF 51.0 million and FF 51.1 million, respectively.

The Company's contribution to the capital increase in Argas was made pursuant to its joint venture obligations, and the other shareholders of Argas have subscribed for an amount proportionally equivalent to their shareholdings.

The net contribution to equity of affiliates consolidated under the equity method is as follows:

	<u>2000</u>
	(in millions of French francs)
Argas	41.1
Geomar	—
Zhong Hai	(0.6)
JV XPEIC/Sercel Limited	15.8
Kantwell	(6.2)
Paradigm	<u>(6.1)</u>
Total	<u><u>44.0</u></u>

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

	December 31,						
	<u>2000</u>			<u>1999</u>			<u>1998</u>
	<u>Cost</u>	<u>Acc Dep</u>	<u>Net</u>	<u>Cost</u>	<u>Acc Dep</u>	<u>Net</u>	<u>Net</u>
	(in millions of French francs)						
Land	32.2	1.5	30.7	26.7	1.4	25.3	15.5
Buildings	316.5	188.1	128.4	291.0	182.9	108.1	50.6
Machinery and equipment	2,716.5	2,185.4	531.1	2,717.4	2,018.2	699.2	561.7
Vehicles and aircraft	563.2	464.7	98.5	577.3	450.4	126.9	135.1
Office furniture and fixtures	190.4	135.1	55.3	209.4	153.8	55.6	64.4
Computer software	87.5	48.6	38.9	79.8	55.3	24.5	24.5
Assets under construction	40.3	—	40.3	13.9	—	13.9	93.0
Total	<u><u>3,946.6</u></u>	<u><u>3,023.4</u></u>	<u><u>923.2</u></u>	<u><u>3,915.5</u></u>	<u><u>2,862.0</u></u>	<u><u>1,053.5</u></u>	<u><u>944.8</u></u>

Included above are land, buildings and geophysical equipment recorded under capital leases as follows:

	December 31,						
	2000			1999			1998
	Cost	Acc Dep	Net	Cost	Acc Dep	Net	Net
	(in millions of French francs)						
Land and buildings	38.8	30.6	8.2	38.8	27.6	11.2	14.2
Geophysical equipment.....	221.5	127.7	93.8	667.1	521.9	145.2	167.2
Total	<u>260.3</u>	<u>158.3</u>	<u>102.0</u>	<u>705.9</u>	<u>549.5</u>	<u>156.4</u>	<u>181.4</u>

Depreciation of assets recorded under capital leases is determined on the same basis as owned assets and is included in depreciation expense.

Included in assets recorded under capital leases are land and buildings of the Group's head office in Massy which were sold under a sale-leaseback agreement. The assets are maintained at their original cost and the buildings continue to be depreciated over their initial estimated useful lives.

Included in cost of operations is an amount of FF 94 million in 2000, FF 92 million in 1999 and FF 73 million in 1998 representing repairs and maintenance expense.

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
Goodwill of consolidated subsidiaries	654.4	416.1	104.4
Less: accumulated amortization	(51.8)	(21.0)	(72.5)
Goodwill — net	<u>602.6</u>	<u>395.1</u>	<u>31.9</u>
Multi-client surveys	1,741.3	1,126.9	704.7
Less: accumulated amortization	(1,232.9)	(764.9)	(548.9)
Multi-client surveys net	<u>508.4</u>	<u>362.0</u>	<u>155.8</u>
Patents, trademarks and other intangible assets	<u>41.8</u>	<u>38.6</u>	<u>33.5</u>
Less: accumulated amortization	(16.4)	(11.3)	(6.4)
Other intangible assets net	<u>25.4</u>	<u>27.3</u>	<u>27.1</u>
Intangible assets — net	<u>1,136.4</u>	<u>784.4</u>	<u>214.8</u>

The increase of goodwill for the year 2000 is the consequence of the acquisitions of Mark Products from Shaw Industries, generating an initial goodwill of FF 93.9 million, and the purchase from Louis Dreyfus Armateurs of their minority stake in our subsidiary, CGG Marine, together with a 50% interest in the Kantwell company, also generating initial goodwill for FF 87.0 million.

Goodwill amortization expense amounted to FF 30.9 million in 2000, FF 9.3 million in 1999 and FF 60.3 million in 1998. Goodwill amortization expense in 1998 included non-recurring write-downs of FF 50.1 million. (See note 17).

Multi-client surveys net value increases due to a large program of investment. Multi-client surveys amortization in 1999 and in 1998 included an unusual write-down of FF 25.8 million and FF 8.1 million, respectively, relating to a lack of firm sales commitments on two specific surveys in the North Sea basin.

NOTE 9 — OTHER CURRENT LIABILITIES

The analysis of other current liabilities is as follows:

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
Provisions for restructuring costs	22.5	69.4	183.0
Provisions for contract losses and litigation	39.6	44.1	18.5
Deferred income	41.3	19.4	49.4
Value added tax and other taxes payable	58.0	89.3	50.7
Unrealized exchange losses on forward contracts	5.2	9.7	0.5
Deferred tax expense (short-term)	13.6	12.5	—
Other liabilities	<u>100.3</u>	<u>225.0</u>	<u>58.6</u>
Other current liabilities	<u><u>280.5</u></u>	<u><u>469.4</u></u>	<u><u>360.7</u></u>

In 2000, “other liabilities” primarily relate to provision for guarantees at Sercel for FF 86 million.

In 1999, provisions for restructuring costs relate primarily to the workforce reduction plans or similar restructuring measures being implemented at the Company and Sercel. This caption in 1998 was recorded in non-recurring expenses for FF 168.2 million and the balance was transferred from retirement indemnity reserve for FF 13.3 million. The variation of provisions for restructuring corresponds to actual expenses and commitments. See Notes 11 and 17.

Litigation provisions relate primarily to ongoing employee arbitration cases of the Group’s foreign branch offices.

Other liabilities relate primarily to the purchase of Geoscience:

- debt still due to former owners of Geoscience for FF 6.2 million;
- firm purchase commitments in excess of foreseeable needs for FF 17.8 million;
- indemnification of certain clients related to cancellation of certain commercial agreements not in line with the Company’s policy for FF 10.6 million; and
- various current expenses (insurance, royalties and commissions, repairs and maintenance) related to the purchase Geoscience incurred in the normal course of business for approximately 21.6 million.

Other significant amounts under this caption also include:

- Cash advances in a total of FF 24.0 million of minority shareholders;
- Cash pertaining to the sale of the Airborne Geophysics division to the Fugro Group, paid in advance in an amount of FF 25.2 million; and
- Expenses related to repairs and loss of geophysical equipment on board of one of the vessels chartered by the Company in October 1999 for FF 10.5 million.

NOTE 10 — LONG-TERM DEBT

Analysis of long-term debt by type is as follows:

	December 31,						
	2000			1999			1998
	Current	Long-Term	Total	Current	Long-Term	Total	Total
	(in millions of French francs)						
Bank loans	55.4	1,344.9	1,400.3	60.2	691.0	751.2	270.2
Capital lease obligations.....	63.4	170.3	233.7	89.5	180.4	269.9	322.1
Vendor equipment financing ...	—	—	—	—	—	—	26.3
Sub-total	<u>118.8</u>	<u>1,515.2</u>	<u>1,634.0</u>	<u>149.7</u>	<u>871.4</u>	<u>1,021.1</u>	<u>618.6</u>
Accrued interest	17.4			5.9			6.0
Total	<u>136.2</u>			<u>155.6</u>			<u>624.6</u>

At December 31, 2000, FF 347.4 million of bank loans were secured by tangible assets and receivables.

Analysis of long-term debt (including amounts due within one year) by currency is as follows:

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
French franc/Euro	298.6	264.2	305.5
U.S. dollar	1,315.8	687.5	274.9
Other currencies	19.6	69.4	38.2
Total	<u>1,634.0</u>	<u>1,021.1</u>	<u>618.6</u>

Analysis of long-term debt (including amounts due within one year) by interest rate is as follows:

	December 31,		
	2000	1999	1998
	(in millions of French francs)		
Variable rates (effective rate December 31, 2000: 7.10%; 1999: 7.29%; 1998: 5.39%)	219.0	780.1	348.0
Fixed rates (effective rate December 31, 2000: 9.99%; 1999: 5.69%; 1998: 5.38%)	<u>1,415.0</u>	<u>241.0</u>	<u>270.6</u>
Total	<u>1,634.0</u>	<u>1,021.1</u>	<u>618.6</u>

Variable interest rates generally are based on interbank offered rates of the related currency. The weighted average interest rate on bank overdrafts was 13.99%, 12.04% and 6.73% at December 31, 2000, 1999 and 1998, respectively.

The annual maturities of long-term debt, excluding capital leases (see Note 14), are as follows:

	<u>December 31,</u> <u>2000</u>
	<u>(in millions of</u> <u>French francs)</u>
2001	55.4
2002	86.9
2003	18.6
2004	11.2
2005	17.7
2006 and thereafter	<u>1,210.5</u>
Total	<u><u>1,400.3</u></u>

Financing activities during 2000 consisted principally in the issuance of a U.S.\$170 million unsecured bond in November 2000, whose proceeds were allocated to the reimbursement of bank debt, for approximately U.S.\$140 million, and to finance the cash portion of the acquisition of Aker vessels in January 2001, for U.S.\$25 million. The bond was issued for a period of seven years, is reimbursable at the end of this period on November 15, 2007, and bears interest at a 10.625% annual rate. A standard covenant package is attached to the bond, with a main incurrence test of coverage of interest by EBITDA. The Company was respecting all the covenants attached to the bond on the date of issue, and at year-end.

The bulk of the financial resources of the Company now consists of, in addition to the U.S.\$170 million bond, a syndicated bank line of U.S.\$90 million, amortizing by half-yearly installments or cancellations over two years starting in September 2002.

Overall, the net variation in cash for the year was a decrease of FF 28.8 million, leading to a positive cash balance at the end of the period of FF 394.1 million. This net cash position includes a contribution in cash from minority shareholders of FF 40.7 million.

The Company believes that the cash flow from operations together with the proceeds from the bond offering, capital leases and borrowings under credit facilities, will be sufficient to meet currently foreseeable operating requirements and necessary capital expenditures at least in the next 12 months.

In 1999, the bank credit facilities of CGG and its main subsidiaries were renegotiated and partially replaced with a syndicated loan on improved terms, particularly with respect to maturity and covenants. CGG agreed to limitations on its net debt compared to equity, to the maintenance of a net debt to EBITDA ratio, to a minimum net worth test and to the completion of a capital increase of not less than FF 300 million by December 31, 1999 as part of the syndicated facility. The capital increase was realized on December 10, 1999. (See Note 12).

The new syndicated facility was entered into on September 15, 1999 and replaced approximately 80% of the credit lines of the Company, at this date.

In addition to the covenants pertaining to this syndicated line of credit, the terms of certain other bank loan agreements contain, among other provisions, requirements for maintaining certain financial ratios, primarily debt to equity ratios. At December 31, 1999, the Group was in full compliance with all of these provisions. In the event the Group does not comply with one of these financial ratios, the banks could request immediate repayment of the loans.

At December 31, 2000 the Group had FF 64.8 million available in unused short-term credit lines and overdraft facilities and FF 605.0 million in unused long-term credit lines.

NOTE 11 — OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Government research grants	29.7	32.5	37.4
Retirement indemnity provisions	49.8	44.5	45.6
Employee profit sharing	36.9	23.6	21.9
Deferred income tax (long-term)	0.6	1.5	—
Other liabilities	<u>62.4</u>	<u>46.8</u>	<u>7.0</u>
Other long-term liabilities	<u><u>179.4</u></u>	<u><u>148.9</u></u>	<u><u>111.9</u></u>

The status of the retirement indemnity plans is as follows:

	December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs except percentages)		
Vested benefit obligation	0.2	0.2	0.3
Accumulated benefit obligation (unvested)	28.0	27.4	37.5
Projected benefit obligation	53.6	52.8	63.9
Fair value of plan assets	—	—	—
Unrecognized loss arising from change in assumed discount rate	<u>3.8</u>	<u>4.4</u>	<u>5.0</u>
Accrued provision	<u>49.8</u>	<u>48.4(a)</u>	<u>58.9(a)</u>
Service cost	2.3	2.1	3.6
Interest expense	2.9	3.2	3.4
Actual (return) loss on plan assets	—	—	—
Amortization of loss arising from change in discount rate	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Net pension cost	5.8	5.9	7.6
Benefit payments	<u>4.4</u>	<u>2.2</u>	<u>1.7</u>
Curtailement	—	<u>14.2</u>	—
Net changes	1.4	(10.5)	5.9
Key assumptions used in estimating the Group's retirement obligations are:			
• Discount rate	6.0%	6.0%	6.0%
• Average rate of increase in future compensation	4.0%	4.0%	4.0%

(a) In 1999 and 1998, amounts of respectively FF 3.9 and 13.3 million are included in current liabilities as part of redundancy compensation

NOTE 12 — COMMON STOCK AND STOCK OPTION PLANS

The Company's share capital at December 31, 2000 is made up of 10,086,389 Ordinary Shares, each with a nominal value of FF 10, including 1,345,091 shares with a double-voting right.

During 2000, the Company issued 813,005 fully paid Ordinary Shares increasing the nominal value of Ordinary Shares outstanding to 100,1 million at December 31, 2000. This increase included:

- 413,969 Ordinary Shares issued in December 2000, at a subscription price of 69,265 Euro per share (approximately FF 454,35) and allocated to LDA in compensation for the contributions in kind carried out by LDA with their shares held in CGG Marine and secondly with 50% of the shares held in Kantwell Overseas Shipping Company ("Kantwell"). The Company received from this issuance net proceeds of FF 178 million. (See Note 2.)

- 352,237 Ordinary Shares issued in September 2000, for a total global amount of Euro 26,5 million at a subscription price of approximately 75,31 Euro per share (approximately FF 494) and allocated up to 140,895 Shares to Shaw Industries Ltd. and up to 211,342 Shares to Shaw Resource Services Inc., a subsidiary of Shaw Industries Ltd. This issuance was carried out in compensation for the contribution in kind performed by Shaw Industries and Shaw Resource Services of the notes they respectively held towards Sercel Canada and Sercel Inc. following the acquisition by Sercel from Shaw of their Mark Products division. The Company received from this issuance net proceeds of FF 183 million. (See Note 2.)
- 36,586 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 158.92 from which the Company received net proceeds of FF 5,8 million. (Stock options plan dated October 19, 1995 and ended on October 19, 2000.)
- 1,779 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 312,86 from which the Company received net proceeds of FF 0.6 million. (Stock option plan dated December 13, 1996.)
- 8,434 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 400,36 from which the Company received net proceeds of FF 3,3 million.
- During 2000, in connection with the Group Employees Saving Plan issued in 1997, the Company received net proceeds of FF 1.8 million related to shares payable in several installments. No shares remain payable at December 31, 2000.

During 1999, the Company issued 4,198,599 fully paid Ordinary Shares increasing the nominal value of Ordinary Shares outstanding to 92.7 million at December 31, 1999. This increase included:

- 2,409,174 Ordinary Shares issued in December 1999, at a subscription price of 37 Euro per share (approximately FF 242.7) and offered in the United States and in France in connection with the rights offering launched by the Company in November 1999. The Company received from this issuance net proceeds of FF 562.8 million.
- 1,777,071 Ordinary Shares issued in December 1999, for a total global amount of FF 561.6 million at a subscription price of approximately 48.18 Euro per share (approximately FF 316) and subscribed up to 1,748,620 Shares by CGG Investors, L.L.C. and up to 28,451 Shares by GF Ltd Transaction Partnerships, both being members of Beacon Group Energy Investment Fund II, L.P. The Company received from this issuance net proceeds of FF 514.1 million which were used to finance the acquisition of Geoscience Inc. (See Note 2.)
- 250 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 354 from which the Company received net proceeds of FF 0.1 million.
- 11,013 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 179.82 from which the Company received net proceeds of FF 2.0 million.
- 1,091 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 158.92 from which the Company received net proceeds of FF 0.2 million. This price of FF 158.92 is the price of the stock option plan dated October 19, 1995, as adjusted following the rights offering.

During 1999, in connection with the Group Employees Saving Plan issued in 1997, the Company received net proceeds of FF 4.2 million related to Ordinary Shares payable in installments. At December 31, 1999, a part of the purchase price of 27,329 Ordinary Shares remains payable in several installments.

During 1998, the Company issued 12,918 fully paid Ordinary Shares increasing the nominal value of Ordinary Shares outstanding to 50.7 million at December 31, 1998. This increase included:

- 4,480 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 453 from which the Company received net proceeds of FF 2.0 million.

- 200 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 354 from which the Company received net proceeds of FF 0.1 million.
- 8,238 Ordinary Shares issued to employees in connection with stock options exercised at a price of FF 179.82 from which the Company received net proceeds of FF 1.5 million.

During 1998, in connection with the Group Employees Saving Plan issued in 1997, the Company received net proceeds of FF 4.7 million related to Ordinary Shares payable in installments. At December 31, 1998, a part of the purchase price of 31,340 Ordinary Shares remained payable in installments.

Dividend rights

Dividends may be distributed from the statutory retained earnings, subject to the requirements of French law and the Company's articles of incorporation. Retained earnings available for distribution totaled FF 45.1 million at December 31, 2000. Dividend distributions, if any, will be made in Euro or French francs.

Stock options

Pursuant to various resolutions adopted by the Board of Directors, the Company has granted options to purchase Ordinary Shares to certain employees, executive officers and directors of the Group.

Options granted in 1995 and 1996 cannot be exercised for an initial period of 12, 24 or 36 months, depending upon the number of options granted, and expire five years from the date of grant. 20% of options granted in 1997 can be exercised in every 12-month period and expire eight years from the date of grant. Options granted under the provisions of the 2000 option plan which expires eight years from the date of grant can not be generally exercised before 2003 and the options to subscribe 1000 Ordinary shares or more can not be sold before January 18, 2005. The exercise price for each option is the average fair market value for the common stock during the 20 trading days ending on the trading day next preceding the date the option is granted, minus a 5% discount.

Information relating to options outstanding at December 31, 2000 is summarized below:

<u>Date of Board of Directors' Resolution</u>	<u>Options granted</u>	<u>Options outstanding at December 31, 2000</u>	<u>Exercise price per share (FF)</u>	<u>Expiration date</u>
October 19, 1995	95,810	0	158.92	October 18, 2000
December 13, 1996	7,590	4,024	312.86	December 12, 2001
May 5, 1997	100,000	64,898	400.36	May 4, 2005
January 18, 2000.	231,000	224,000	327.32	January 17, 2008
	<u>434,400</u>	<u>292,922</u>		

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
Outstanding — beginning of year ..	129,956	FF 321.46	149,994	FF 359.75	164,665	353.75
Granted(a)	231,000	327.32	15,829	319.81	—	—
Exercised	(46,799)	208.28	(12,354)	181.50	(12,918)	277.26
Forfeited	(21,235)	333.34	(23,513)	424.66	(1,753)	404.22
Outstanding — end of year	<u>292,922</u>	<u>343.31</u>	<u>129,956</u>	<u>321.46</u>	<u>149,994</u>	<u>359.75</u>
Exercisable — end of year	<u>42,421</u>	<u>392.06</u>	<u>77,856</u>	<u>268.67</u>	<u>66,734</u>	<u>251.92</u>

(a) Including options granted following the capital increase pursuant to French anti-dilution law.

Compensation expense arising from option grants was not material in 2000, 1999 and 1998.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following average assumptions for the options granted in 2000, 1997, 1996 and 1995, respectively: risk-free interest rates of 5.77%, 4.1%, 5.9% and 7.5%; dividend yields of 0% in all years; volatility factors of the expected market price of the Company's ordinary shares of 0.528, 0.43, 0.43 and 0.46; and an expected life of the options ranging from one to eight years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in millions of French francs except for income (loss) per share information):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Pro forma net income (loss)	(95.3)	(437.7)	(252.4)
Pro forma income (loss) per share	(10.3)	(82.4)	(49.8)

During the initial phase-in period, the pro forma amounts were determined based on stock option grants in 2000, 1997, 1996 and 1995 only. Since pro forma compensation expense is recognized over vesting periods of up to five years, the pro forma amounts for compensation cost may not be indicative of the pro forma effects of on net income (loss) and income (loss) per share for future years.

The weighted-average fair value of options granted during 1997, 1996 and 1995 was as follows:

	<u>2000</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Options whose price was lower than the market price of the underlying shares on the grant date	FF 225.16	FF 262.20	—	—
Options whose price equaled the market price of the underlying shares on the grant date	—	—	FF 163.61	—
Options whose price was greater than the market price of the underlying shares on the grant date	—	—	—	FF 82.20

The weighted average remaining contractual life of those options is 6.4 years, as of December 31, 2000.

In December 1996, the French Parliament adopted a law that requires French companies to pay French social contributions and certain salary-based taxes, which may represent, for the Company, up to 50% of the taxable salary, on the difference between the exercise price of a stock option and the fair market value of the underlying shares on the exercise date if the beneficiary disposes of the shares before a five year period following the grant of option.

The new law is consistent with personal income tax law that requires individuals to pay income tax on the difference between the option exercise price and the fair value of the shares at the grant date if the shares are sold or otherwise disposed of within five years of the option grant. The law applies to all options exercised after January 1, 1997.

The Company has not recorded a liability for social charges which may be assessed for options granted as of December 31, 1998, 1999 and 2000 as the liability, being dependent on future trading values of the Company's shares and the timing of employees' decisions to exercise options and sell the related shares cannot be estimated. The Company also does not consider that the liability is probable due to the income tax disincentives to employees of exercising options and selling the shares in less than a five-year period.

NOTE 13 — FINANCIAL INSTRUMENTS

Foreign currency exposure management

The reporting currency for the Group's consolidated financial statements is the French franc. However, as a result of having primarily customers which operate in the oil and gas industry, more than 90% of the Group's operating revenues are denominated in currencies other than the French franc, primarily the U.S. dollar.

As a result, the Group's sales and operating income are exposed to the effects of fluctuations in the value of the French franc versus the U.S. dollar. A strengthening of the French franc compared to the U.S. dollar has a negative effect on the Group's net sales and operating income denominated in U.S. dollars when translated to French francs, while a weakening of the French franc has a positive effect. In addition, the Group's exposure to fluctuations in the French franc/U.S. dollar exchange rate has considerably increased over the last few years due to the increase in sales made outside of Europe.

In order to improve the balance of its net position of receivables and payables denominated in foreign currencies, the Group maintains a portion of its financing in U.S. dollars. At December 31, 2000, 1999, and 1998, the Group's long-term debt denominated in U.S. dollars amounted to U.S.\$186.6 million, U.S.\$105.3 million and U.S.\$48.9 million, respectively. The Group also attempts to improve this balance by entering into forward exchange contracts.

In addition, to protect against the reduction in the value of future foreign currency cash flows, the Group follows a policy of selling U.S. dollars forward at average contract maturity dates which the Group attempts to match with future net U.S. dollar cash flows (revenues less costs in U.S. dollars) to be generated by firm contract commitments in its backlog generally over the ensuing six months. A similar policy, to a lesser extent, is carried out with respect to contracts denominated in British pounds. This foreign currency risk management strategy enabled the Group to reduce, however, not eliminate, the positive or negative effects of exchange movements with respect to these currencies.

Details of forward exchange contracts are as follows:

	December 31,		
	2000	1999	1998
Notional amount (in millions of U.S. dollars)	100.5	40.3	94.5
Weighted average maturity	62 days	64 days	80 days
Weighted average forward FF/U.S.\$ exchange rate	7.0288	6.18	5.69
Unrealized exchange gains (losses) (in millions of French francs)(a)	<u>(2.1)</u>	<u>(12.9)</u>	<u>8.3</u>

(a) FF 3.1 million of unrealized exchange profit was designated as a hedge of foreign currency commitments in 2001 and deferred in the future period. Equivalent amount was a loss of FF 3.2 million in 1999 and a loss of FF 1.8 million in 1998.

Only three subsidiaries of the Group are located in countries where hyperinflation could be encountered for the past three years, namely, Venezuela, Indonesia and Mexico. The functional currency retained for the Venezuela and Indonesia subsidiaries is the U.S.\$ For Mexico, the applicable rates are as follows:

	December 31,		
	2000	1999	1998
Exchange rate compared to FF	0.732	0.687	0.568
General price index	336.6	308.9	275.0

The calculation of the evolution over three years shows an average price increase of 45%, which does not qualify for hyperinflation.

Interest rate risk management

Since 1996, the Group maintains interest rate cap agreements to reduce the sensitivity of interest expense on its variable-rate debt to increases in interest rates.

The terms of these agreements as of December 31, 2000 are as follows:

	<u>December 31, 2000</u>	
Interest rate cap agreements		
Notional amount (in millions)	U.S.\$30	FF 87.7
Interest rate cap	7.5%	4%
Maturity date	March 28, 2002	July 1, 2002
Underlying variable rate debt instruments:		
Type of debt	Bank loans and capital leases	Bank loans
Amount outstanding (in millions)	U.S.\$8.9	FF 59
Interest rate index	Three-month LIBOR	Three-month EURIBOR
Weighted average interest rate	7.62%	6.66%
Weighted average maturity	9.9 months renewable	0.9 months renewable

The carrying amounts and fair values of these agreements were not significant at December 31, 2000 and 1999.

Fair value information

The carrying amounts and fair values of the Group's financial instruments at December 31, 2000 and 1999 are as follows:

	<u>2000</u>		<u>1999</u>	
	<u>Carrying Amount</u>	<u>Fair value</u>	<u>Carrying Amount</u>	<u>Fair value</u>
	(in millions of French francs)			
Cash and cash equivalents	394.1	394.1	422.9	422.9
Bank overdraft facilities	83.4	83.4	79.4	79.4
Bank loans, vendor equipment financing and shareholder loans:				
variable rate	219.0	219.0	780.10	780.1
fixed rate	1,415.0	1,381.2	241.0	239.0
Foreign currency exchange contracts	(5.2)	0.3	(9.7)	(12.9)

The Group considers the carrying value for loans receivable and other investments, trade accounts and notes receivable, other receivables, trade accounts and notes payable and other current liabilities to be the most representative estimate of fair value.

For bank loans with fixed interest rates, the fair values have been estimated using discounted cash flow analyses based on the Group's incremental borrowing rates for similar types of borrowing arrangements. At December 31, 1999, since the effective interest rate on fixed rate borrowings was substantially identical to that of variable-rate borrowings, the fair values of the fixed rate borrowings approximated their carrying values. (See Note 10.) For variable-rate bank loans, vendor equipment financing and the shareholder loans, fair values approximate carrying values.

The fair values of foreign currency exchange contracts are estimated based on current forward exchange rates for contracts with comparable maturities.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Leases

The Group leases primarily land and buildings and geophysical equipment under capital lease agreements expiring at various dates during the next six years. These capital lease commitments include the sale-leaseback agreement with respect to the Group's head office in Massy.

The Group also operates presently seismic vessels under long-term charter agreements with ship-owners that expire at various dates over the next 18 to 72 months. Since April 1999, the Group has been operating a new

seismic vessel under a long-term charter agreement, already signed at December 31, 1998, valid for a period of eight years.

Other lease agreements relate leases primarily to operating leases for offices, computer equipment and other items of personal property.

Rental expense was FF 467.3 million in 2000, FF 365.0 million in 1999 and FF 307.0 million in 1998.

At December 31, 2000, minimum rental commitments under all capital leases and operating leases for future years are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
	(in millions of French francs)	
2001	75.4	354.6
2002	63.4	218.1
2003	49.1	115.0
2004	24.2	109.8
2005	12.8	106.8
Thereafter	<u>40.0</u>	<u>133.8</u>
Total minimum lease payments	264.9	<u><u>1,038.2</u></u>
Less: amounts representing interest	<u>31.2</u>	
Present value of net minimum lease payments	<u><u>233.7</u></u>	

Legal proceedings, claims and other contingencies

The Group is a defendant in a number of legal proceedings and has various unresolved claims pending arising in the ordinary course of business. The outcome of these lawsuits and claims is not known at this time. The Group believes that the resulting liability, if any, net of amounts recoverable from insurance or other sources, will not have a material adverse effect on its consolidated results of operations or financial position.

CGG, CGG Marine and two CGG subsidiaries in the United States are involved in a lawsuit instituted by Schlumberger Technology and Geco A/S (“Schlumberger”) against Thomson companies (“Thomson”) with respect to the development by Thomson of a “2D bird project” (Marine geophysical equipment), proprietary to Thomson. CGG entities and CGG Marine in particular are sued as technical adviser and potential customer for this 2D-bird equipment. The basic causes for the Schlumberger action are misappropriation of trade secrets, proprietary information, time, labor and money by Thomson with the assertion that CGG was aware of it.

CGG is also sued by PAREXPRO (Portugal), for termination without cause of employment agreements and solicitation of a significant number of highly qualified staff in the field of reservoir evaluation, misappropriation of confidential information and documentation, clients, and loss of profits resulting therefrom.

These two latter claims should not have any material impact on the Company’s results or financial position.

Other commitments

Outstanding commitments at December 31, 2000 include the following (in millions of French francs):

Guarantees issued in favor of clients	161.4
Guarantees issued in favor of banks	132.9
Other guarantees(a)	<u>282.7</u>

(a) Other guarantees relate primarily to guarantees issued by the Company on behalf of subsidiaries and affiliated companies in favor of customs or administrations.

Compared to 1999, the increase in guarantees from FF 410.2 million to FF 577.0 million is mainly related to the increase in performance bonds, from FF 67.6 million in 1999 to FF 118.4 million in 2000, and to the request by Brazilian authorities of a customs guarantee for temporary admission of a seismic vessel in Brazilian waters, for approximately U.S.\$10 million.

There are no significant commitments for capital expenditures at December 31, 2000.

NOTE 15 — ANALYSIS BY OPERATING SEGMENT AND GEOGRAPHIC ZONE

The following tables present revenues, operating income and identifiable assets by operating segment, revenues by geographic zone (by origin) as well as net sales by geographic zone based on the location of the customer.

The Group principally services the oil and gas exploration and production industry and currently operates in two industry segments:

- Geophysical services, which consists of (i) land seismic acquisition, (ii) marine seismic acquisition, (iii) other geophysical acquisition, including activities not exclusively linked to oilfield services, and (iv) data processing, and data management; and
- Products, which consist of the manufacture and sale of equipment involved in seismic data acquisition, such as recording and transmission equipment and vibrators for use in land seismic acquisition, and software development and sales. Software development and sales were in prior years part of the seismic services segment and, as this activity has been transferred in 1999 to the products segment as part of the reorganization of the Company, the figures for 1998 have been restated accordingly.

Intercompany sales between such industry segments are made at prices approximating market prices and relate primarily to equipment sales made by the geophysical products segment to the geophysical services segment. These inter-segment sales, the related operating income recognized by the geophysical products segment, and the related effect on capital expenditures and depreciation expense of the geophysical services segment are eliminated in consolidation and presented in the column “Eliminations and Adjustments” in the tables which follow.

Operating income represents operating revenues and other operating income less expenses of the industry segment. It includes non-recurring and unusual items, which are disclosed in the operating segment if material. General corporate expenses, which include Group management, financing, and legal activities, have been included in the column “Eliminations and Adjustments” in the tables which follow. The Group does not disclose financial expenses or revenues by operating segment considering these items are not followed by the operating management and financing and investing are mainly managed at a corporate level.

Identifiable assets are those used in the operations of each industry segment and geographic zone. Unallocated and corporate assets consist primarily of financial assets, including cash and cash equivalents, and the Group’s Corporate headquarters in Massy.

Net sales originating in France include export sales of approximately FF 943 million in 2000, FF 687 million in 1999 and FF 721 million in 1998.

In 2000, the Group’s two most significant customers accounted for 8.3% and 8% respectively of the Group’s consolidated revenues compared with 12.8% and 10.8%, in 1999 and 10.7% and 7.2% in 1998.

Analysis by industry segment

<u>2000</u>	<u>Geophysical services</u>	<u>Geophysical products</u>	<u>Eliminations and Adjustments</u>	<u>Consolidated Total</u>
	(in millions of French francs)			
Revenues from unaffiliated customers	3,009.3	1,551.7	—	4,561.0
Inter-segment revenues	<u>29.5</u>	<u>140.0</u>	<u>(169.5)</u>	<u>—</u>
Operating revenues	<u>3,038.8</u>	<u>1,691.6</u>	<u>(169.5)</u>	<u>4,561.0</u>
Operating income (loss)	<u>(89.7)(a)</u>	<u>242.1 (a)</u>	<u>(59.6)(b)</u>	<u>92.8</u>
Equity income (loss) of investees	<u>12.8</u>	<u>4.2</u>	<u>—</u>	<u>17.0</u>
Capital expenditures(c)	835.2	57.4	(26.9)	865.7 (d)
Depreciation and amortization(c)	860.9	110.6	(32.4)	939.1
Corporate assets amortization	—	—	3.0	3.0
Investments in companies under equity method....	<u>0.1</u>	<u>0.2</u>	<u>—</u>	<u>0.3</u>
Identifiable assets	<u>3,192.0</u>	<u>1,874.2</u>	<u>(268.4)</u>	4,797.8
Unallocated and corporate assets				<u>707.8</u>
Total assets				<u>5,505.6</u>

(a) Includes in geophysical services and geophysical products segments non-recurring income and expenses and unusual assets allowances or write-downs for respectively FF 3.7 million and FF 64.1 million.

(b) Includes general Corporate expenses of FF 49.8 million.

(c) Includes investments in and amortization of multi-client surveys for respectively FF 606.8 and FF 479.6 million.

(d) Includes equipment acquired under capital leases for FF 42.0 million.

<u>1999</u>	<u>Geophysical services</u>	<u>Geophysical products</u>	<u>Eliminations and Adjustments</u>	<u>Consolidated Total</u>
	(in millions of French francs)			
Revenues from unaffiliated customers	2,707.7	616.0		3,323.7
Inter-segment revenues	18.3	189.8	(208.1)	
Operating revenues	<u>2,725.9</u>	<u>805.8</u>	<u>(208.1)</u>	<u>3,323.7</u>
Operating income (loss)	<u>(283.0)(a)</u>	<u>(24.9)(a)</u>	<u>(60.3)(b)</u>	<u>(368.2)</u>
Equity income (loss) of investees	<u>0.6</u>	<u>3.8</u>		<u>4.5</u>
Capital expenditures(c)	758.0	11.2	(22.5)	746.7 (d)
Depreciation and amortization(c)	604.0	31.9	(32.3)	603.6
Corporate assets amortization				3.0
Investments in companies under equity method....	<u>22.4</u>	<u>3.5</u>		<u>25.9</u>
Identifiable assets	<u>2,726.4</u>	<u>1,432.4</u>	<u>(255.4)</u>	3,903.4
Unallocated and corporate assets				<u>593.2</u>
Total assets				<u>4,496.6</u>

(a) Includes in geophysical services and geophysical products segments non-recurring expenses and unusual assets allowances or write-downs for respectively FF (41.2) million and FF (12.6) million.

(b) Includes general Corporate expenses of FF 64.0 million.

(c) Includes investments in, and amortization of, multi-client surveys for respectively FF 372.3 million and FF 188.6 million.

(d) Includes equipment acquired under capital leases for FF 36.5 million.

<u>1998</u>	<u>Geophysical services</u>	<u>Geophysical products</u>	<u>Eliminations and Adjustments</u>	<u>Consolidated Total</u>
	(in millions of French francs)			
Revenues from unaffiliated customers	3,275.3	811.3		4,086.6
Inter-segment revenues	<u>35.9</u>	<u>271.3</u>	<u>(307.2)</u>	<u> </u>
Operating revenues	<u>3,311.2</u>	<u>1,082.6</u>	<u>(307.2)</u>	<u>4,086.6</u>
Operating income (loss)	<u>(46.2)(a)</u>	<u>26.7(a)</u>	<u>(71.6)(b)</u>	<u>(91.1)</u>
Equity income (loss) of investees	<u>(3.9)</u>	<u> </u>	<u> </u>	<u>(3.9)</u>
Capital expenditures(b)	822.7	29.2	(45.5)	806.4(d)
Depreciation and amortization(b)	563.7	31.4	(26.8)	568.3
Corporate assets amortization				3.0
Investments in companies under equity method	<u>36.6</u>	<u> </u>	<u> </u>	<u>36.6</u>
Identifiable assets	<u><u>2,448.0</u></u>	<u><u>728.2</u></u>	<u><u>(179.6)</u></u>	<u><u>2,996.6</u></u>
Unallocated and corporate assets				<u>338.6</u>
Total assets				<u><u>3,335.2</u></u>

- (a) Includes in geophysical services and geophysical products segment non-recurring expenses and unusual assets allowances or write-downs for respectively FF (216.9) million and FF (90.6) million.
- (b) Includes general corporate expenses of FF 59.6 million.
- (c) Includes investments in and amortization of multi-client surveys for respectively FF 221.8 million and FF 127.1 million.
- (d) Includes equipment acquired under capital leases for FF 82.6 million.

Analysis by geographic zone

Analysis of net sales by location of customers

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
France	75.0	99.7	144.6
Rest of Europe	614.7	501.4	658.8
Asia and Australia	1,316.8	760.4	1,027.4
Africa	830.8	850.4	1,042.9
Americas	<u>1,723.7</u>	<u>1,111.8</u>	<u>1,212.9</u>
Consolidated total	<u><u>4,561.0</u></u>	<u><u>3,323.7</u></u>	<u><u>4,086.6</u></u>

Analysis of net revenues by origin

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
France	1,018.4	787.1	866.0
Rest of Europe	355.7	383.3	545.9
Asia and Australia	832.5	441.2	748.0
Africa	690.9	696.6	852.9
Americas	1,663.5	1,015.5	1,073.8
Corporate	—	—	—
Consolidated total	<u>4,561.0</u>	<u>3,323.7</u>	<u>4,086.6</u>

Outside France, Nigeria in 1999, the U.S. in 1998 and 2000 are the single countries which are deemed material with respectively 10.1%, 10.4% and 22.2% of consolidated revenues by origin.

Due to the constant change in working locations the Company does not track its assets based on country of origin or ownership.

NOTE 16 — RESEARCH AND DEVELOPMENT

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Research and development expenditures	200.3	184.9	199.3
Government grants recognized in income	<u>(23.7)</u>	<u>(23.7)</u>	<u>(21.0)</u>
Net research and development expenses	<u>176.5</u>	<u>161.2</u>	<u>178.3</u>

Research and development expenditures relate primarily to:

- the geophysical services segment, projects concerning land seismic and data processing services; and
- the products segment, projects concerning seismic data recording equipment.

NOTE 17 — OTHER AND UNUSUAL REVENUES AND EXPENSES

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Gains (losses) on partial sales of businesses	98.5	69.7	6.2
Restructuring costs	(24.5)	(174.3)	(19.2)
Variation of reserves for restructuration	1.9	128.3	(168.2)
Assets write-downs	—	—	(24.7)
Goodwill write-downs	—	—	(50.1)
Others	<u>(3.2)</u>	<u>(7.8)</u>	—
Non-recurring revenues (expenses) net	72.7	15.9	(256.0)
Gains (losses) on sales of assets	16.0	—	3.6
Other revenues (expenses) net	<u>88.7</u>	<u>15.9</u>	<u>(252.4)</u>

Gains (losses) on partial sales of businesses in 2000 principally include the sale to Paradigm Geophysical of Flagship SA and Flagship LLC, for approximately FF 80 million. Initial price of the transaction was U.S.\$14.5 million, out of which U.S.\$4 million were paid in cash. The transaction is subject to usual post-closing diligences and comprises a price adjustment clause. Restructuring costs pertain primarily to a shutdown program of facilities

located in Tulsa, Oklahoma, for FF 11.3 million and office reorganization at our headquarters in Massy for FF 7.6 million. This caption also includes a positive price adjustment of FF 15 million on the 1999 transaction with Fugro.

Gains (losses) on partial sales of businesses in 1999 include primarily a gain on the sale to the Fugro Group (Netherlands) of airborne geophysics activities, amounting to approximately FF 60 million. The basic price of the transaction was 26.6 million of Canadian dollars (approximately FF 119.4 million) and is subject to various price adjustment clauses after closing and audit. Effective date of the transaction is December 31, 1999. Three companies were sold as part of the contract: CGG Canada Ltd. (Canada), Geomag (Brazil) and Geoterrex Pty (Australia).

In 1999, the net restructuring cost for the period of FF (46.0) million is explained as follows:

Cash items

Retrenchment indemnities higher by FF (12.0) million compared to provision as at December 31, 1998. The initial estimate of headcount reduction was reviewed in May 1999 following growing difficulties encountered by the Company on its markets.

As a consequence, higher penalties inflicted to the Company by the state agency for unemployment (ASSEDIC) for retrenchment of elder workers for a total of FF (7.1) million.

Amounts pertaining to notice periods not executed for FF (4.4) million.

Voluntary departure of personnel higher than expected at the end of 1998, leading to an extra charge of FF (3.4) million.

Additional restructuring measures, consisting primarily of personnel retrenchment, decided and effective in the course of the year for FF (4.6) million.

Non-cash items

Amounts set aside for the planned closing of a facility of the Company in Tulsa, United States for FF (12.6) million.

Provision for the liquidation of certain idle or dormant subsidiaries of the Company for FF (5.0) million.

Reduction compared to the estimate at the end of 1998 of the special contribution for retrenching elder workers (Contribution "Delalande") for FF 8.0 million. Thanks to dedicated support from the Company a number of former employees managed to find new jobs which triggered a reduction in the special contribution amount.

Curtailement of the pension commitments for an additional net amount of FF 5.8 million.

Restructuring measures decided in the last quarter of 1999 for a 2000 implementation, concerning data management activities in the United States and in the United Kingdom for FF (6.3) million, closing of various offices of the seismic borehole measurement division for FF (2.0) million, reduction of headcount of the Mexican subsidiary for FF (1.3) million and cocooning of the Spanish subsidiary for FF (1.1) million.

In addition to these unusual charges, the Company recorded in cost of operations unusual charges of FF 25.8 million related to certain multi-client surveys in the North Sea (see Note 8) and of FF 12.5 million related to certain geophysical equipment (see Note 4).

Gains (losses) on partial sales of businesses in 1998 include primarily a gain on the sale of a department of data management business in the U.S.

The Group introduced restructuring measures in the fall of 1998 which mainly included workforce reduction plans to be implemented at the Company and several subsidiaries within the Group through redundancy plans and early retirement packages. The restructuring measures include expenses already incurred for FF 19.2 million and provisions recorded as at December 31, 1998 for FF 168.2 million, from which respectively FF 6.1 million and

FF 164.7 million refer to personnel costs. The latter relies on a number of 283 persons, 223 under French contract, respectively 150 and 73 in geophysical services and geophysical equipment, and 60 under local contracts in Germany, Spain, United Kingdom and the U.S.

Assets write-downs in 1998 relate to data acquisition equipment, primarily for sea bed surveys.

In 1998, due to changes in the forecast activity of its businesses, the Group reassessed the recoverability of its goodwills in the geophysical services segment and decided to write-off the remaining carrying value for a total amount of FF 50.1 million, at December 31, 1998.

NOTE 18 — INCOME TAXES

Income tax expense consists of:

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
France			
current income taxes	0.6	(1.3)	3.5
tax credits	—	—	—
deferred taxes and other(b)	1.0	1.0	(1.5)
Foreign countries			
current income taxes(a)	75.7	52.6	75.0
deferred taxes and other(b)	(8.0)	(1.0)	(17.4)
Total income tax expense	<u>69.3</u>	<u>51.3</u>	<u>59.6</u>

(a) Includes withholding taxes.

(b) Includes primarily deferred tax income related to elimination of inter-company margin and to loss carry forwards in Venezuela and United Kingdom.

The Company and its subsidiaries compute income taxes in accordance with the applicable tax rules and regulations of the numerous taxing authorities where the Group's income is earned. The tax regimes and income tax rates legislated by these taxing authorities vary substantially. In foreign countries, income taxes are often accrued based on deemed profits calculated as a percentage of sales as defined by local government tax authorities.

In accordance with the provisions of French tax law, the Company elected on January 1, 1991 to file a consolidated tax return for French subsidiaries in which the Company holds an interest of more than 95% from the beginning of the relevant year. The Company does not obtain any French tax credit in respect of income taxes paid abroad.

The complexity of the various tax rules and regulations do not permit meaningful comparisons of the French and foreign components of income before taxes and the provisions for income taxes. In addition, due to the mobile nature of seismic acquisition activities, current relationships between the French and foreign components of such tax items are not reliable indicators of such relationships in future periods.

The difference between the French statutory tax rate of 36.4% in 2000, 40% in 1999 and 41.6% in 1998 and the Group's effective rate of income tax of (212.6)% in 2000, (11.4)% in 1999 and (38.9)% in 1998 relates primarily to the effective rate of tax in these foreign jurisdictions and the potential future tax benefit of losses which have been provided for.

In both France and foreign jurisdictions where income tax is not determined based on deemed profits calculated as a percentage of sales, the only significant temporary differences between financial and tax reporting relate to net operating loss carryforwards.

Net operating loss carryforwards available in France and foreign jurisdictions amounts to FF 1,740.9 million at December 31, 2000 and are currently scheduled to expire as follows:

	<u>France</u>	<u>Foreign Jurisdictions</u>
	(in millions of French francs)	
2001	—	19.8
2002	—	2.7
2003	64.6	50.7
2004	197.7	32.1
2005	193.5	—
2006 and thereafter	192.4	463.3
Available indefinitely	<u>263.2</u>	<u>260.9</u>
Total	<u>911.4</u>	<u>829.5</u>

Net operating loss carryforwards in France include both losses available for carryforward to reduce future French income tax payable by the consolidated tax Group as well as losses dating prior to January 1, 1991 which are only available to reduce future income tax of the individual subsidiaries of the Group.

Since the majority of the Group's deferred tax assets represent tax losses available for carryforward by entities which have a recent history of generating losses, it has been deemed more likely than not that those entities will not be able to utilize the losses in the near future. Consequently, at December 31, 2000 and 1999, the Group has recorded valuation allowances to fully provide for the potential tax benefit of these items in those entities.

Based upon discussions between the Group and French tax authorities, a risk currently exists concerning the interpretation of tax regulations by the French tax administration which could result in a reduction in the amount of net operating loss carryforwards reported above. The Group is unable to quantify the amount, if any, of such carryforwards that might be disallowed, although such amounts could be significant.

Undistributed earnings of subsidiaries and the Group's share of undistributed earnings of companies accounted for using the equity method amount to FF 565.4 million and FF 482.9 million at December 31, 2000 and 1999, respectively. No provision for French taxes on these earnings has been provided which the Group considers to be indefinitely reinvested or which would not be taxed when remitted.

NOTE 19 — PERSONNEL

The number of personnel employed by consolidated subsidiaries was 3,285 at December 31, 2000, 3,407 at December 31, 1999 and 3,679 at December 31, 1998. The analysis of personnel is as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Personnel employed under French contracts			
Geophysical services	951	1,033	1,322
Products	534	625	714
Personnel employed under local contracts	<u>1,800</u>	<u>1,749</u>	<u>1,643</u>
Total	<u>3,285</u>	<u>3,407</u>	<u>3,679</u>
Including field staff of:	<u>756</u>	<u>888</u>	<u>1,131</u>

The total cost of personnel employed by consolidated subsidiaries amounted to FF 1,471.9 million in 2000, FF 1,407.1 million in 1999 and FF 1,443.8 million in 1998.

The total head count as at December 31, 1999 includes approximately 350 former employees of Geoscience, purchased in December 1999. (See Note 2.)

NOTE 20 — RELATED PARTY TRANSACTIONS

Operating transactions

The Group manufactures equipment and provides geophysical services to oil and gas exploration and production subsidiaries of TotalFinaElf, S.A. (the “Total Group”) pursuant to contracts entered into on an arm’s-length basis. Total, S.A. hold controlling interests in Total Chimie, one of the major shareholders of the Company during the periods presented.

Operating sales to the Total Group amounted to FF 364.2 million in 2000, FF 360.4 million in 1999 and FF 90.0 million in 1998. As at December 31, 2000, TotalFinaElf owed to the CGG Group FF 131.2 million, and was owed by CGG FF 1.3 million.

Louis Dreyfus Armateurs (“LDA”) provides ship management services for a portion of our fleet. Charter parties associated with these services are concluded at arm’s length. Debt to LDA was FF 11.6 million as at December 31, 2000. Total net charges paid throughout the year for the providing of ship management services amounted to FF 134.3 million, and the future commitments for such services to LDA were FF 130.2 million.

LDA is part, together with CGG, to a company consolidated under the equity method, Geomar, owner of the “CGG Alizé” seismic ship. LDA has a 51% stake in Geomar, and amounts paid to Geomar by CGG during the year were FF 77.8 million, while future charterparty amounts due to Geomar amounted to FF 483.2 million.

Financing

No credit facility or loan was granted to the Company by shareholders during the three periods presented.

NOTE 21 — SUPPLEMENTARY CASH FLOW INFORMATION

Cash paid for income taxes and interest was as follows:

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Interest	113.3	71.6	51.5
Income taxes	63.2	86.0	98.6

Non-cash investing and financing transactions which are excluded from the consolidated statements of cash flows consist of the following:

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in millions of French francs)		
Equipment acquired under capital leases	42.0	36.5	82.6

NOTE 22 — ASSET VALUATION ALLOWANCES

Details of valuation allowances recorded against assets are as follows:

	Year ended December 31, 2000			Balance at end of year
	Balance at beginning of year	Additions/ Deductions		
		charged to income	Other(a)	
	(in millions of French francs)			
Trade accounts and notes receivable	74.5	(20.2)	(19.2)	35.1
Inventories and work-in-progress	104.4	37.5	31.4	173.3
Other current assets	0.4	0.8	0.9	2.1
Loans receivable and other investments	7.1	(1.7)	0.6	6.0

(a) Includes the effects of exchange rate changes and acquisitions and divestitures.

	Year ended December 31, 1999			Balance at end of year
	Balance at beginning of year	Additions/ Deductions		
		charged to income	Other(a)	
	(in millions of French francs)			
Trade accounts and notes receivable	76.5	(3.5)	1.5	74.5
Inventories and work-in-progress	86.6	14.8	3.0	104.4
Other current assets	3.2	(2.8)	—	0.4
Loans receivable and other investments	20.5	—	(13.4)	7.1

(a) Includes the effects of exchange rate changes and acquisitions and divestitures.

	Year ended December 31, 1998			Balance at end of year
	Balance at beginning of year	Additions/ Deductions		
		charged to income	Other(a)	
	(in millions of French francs)			
Trade accounts and notes receivable	56.2	26.7	(6.4)	76.5
Inventories and work-in-progress	68.0	19.4	(0.8)	86.6
Other current assets	4.5	(1.1)	(0.2)	3.2
Loans receivable and other investments	18.4	1.3	0.8	20.5

(a) Includes the effects of exchange rate changes and acquisitions and divestitures.

NOTE 23 — LIST OF PRINCIPAL CONSOLIDATED SUBSIDIARIES AND EQUITY ACCOUNTED COMPANIES

Certain dormant or insignificant subsidiaries of the Group have not been included in the list below.

<u>Siren Number for French Companies(a)</u>	<u>Consolidated Companies</u>	<u>Head Office</u>	<u>% of Interest</u>
403 256 944	CGG Marine SAS	Massy, France	100.0
351 834 288	Geocal SARL	Massy, France	100.0
966 228 363	Geoco SAS	Paris, France	100.0
378 040 497	Sercel SA	Carquefou, France	100.0
410 072 110	CGG Explo SARL	Massy, France	100.0
866 800 154	Sercel Holding SA	Carquefou, France	100.0
	AFOS, Ltd.	Feltham, United Kingdom	100.0
	CGG Americas, Inc.	Houston, United States	100.0
	CGG do Brasil Participações Ltda	Rio de Janeiro, Brazil	100.0
	CGG Canada Services Ltd.	Calgary, Canada	100.0
	CGGI SA	Geneva, Switzerland	100.0
	CGG (Nigeria) Ltd.	Lagos, Nigeria	100.0
	CGG Marine Norge A/S	Stavanger, Norway	100.0
	CGG Pan India Ltd.(c)	New Delhi, India	40.0
	CGG Selva	Lima, Peru	100.0
	Compania General de Geofisica SA	Madrid, Spain	100.0
	Compania Mexicana de Geofisica(b)	Mexico City, Mexico	100.0
	Companhia de Geologia e Geofisica Portuguesa	Lisbon, Portugal	100.0
	Exgeo CA	Caracas, Venezuela	100.0
	Geophysics Overseas Corporation Ltd.	Nassau, Bahamas	100.0
	CGG Australia Services Pty Ltd.	Sydney, Australia	100.0
	MGI Ltd.	London, United Kingdom	100.0
	Osiris BV	Heemstede, Netherlands	100.0
	Petroleum Exploration Computer Consultants Ltd.	Forest Row, United Kingdom	100.0
	PECC Data Services, Inc.	Richardson, United States	100.0
	PT Alico	Jakarta, Indonesia	100.0
	Sercel Inc.	Tulsa, Oklahoma	100.0
	Subsea Seismic Company of Norway A/S	Trondheim, Norway	100.0
	Sercel Singapore Pte Ltd.	Singapore, Singapore	100.0
	Sercel England Ltd.	Somercots, United Kingdom	100.0
	Sercel Canada Ltd.	Calgary, Canada	100.0

(a) The Siren Number is an individual identification number for company registration purposes under French law.

(b) Accounted for using the equity method through December 31, 1996.

The Group consolidates its investment in Pan India Ltd. (40%) since a shareholder agreement effectively provides the Group with the operating control of the company (the Chairman of the Board is nominated by the Group).

<u>Siren Number for French Companies(a)</u>	<u>Accounted for using the equity method</u>	<u>Head Office</u>	<u>% of Interest</u>
321 391 237	Dassault Sercel Navigation Positionnement SA(b)	Carquefou, France	35.0
413 926 320	Geomar SAS	Paris, France	49.0
	Argas Ltd.	Al-Khobar, Saudi Arabia	49.0
	JV XPEIC/Sercel Limited	Xian, China	40.0
	Zhong Hai Syntron Geophysical Cable Company Ltd.	China	50.0
	Kantwell Overseas Shipping Co.	Panama City, Panama	50.0
	Paradigm Geophysical Ltd.	Herzlia, Israel	10.2

(a) The Siren Number is an individual identification number for company registration purposes under French law.

(b) Accounted for using the equity method through December 30, 1998, date of sale to Dassault Electronique.

NOTE 24 — MAIN FIGURES IN EURO

Effective January 1, 1999, the European Monetary Union created a single European currency (the Euro) for its eleven member countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain). From that date, the exchange rates of the participating currencies are irrevocably fixed against the Euro.

As the shares of the Company in the Paris Stock Exchange are now traded in Euro, FF 6.55957 for each Euro, the Company discloses the main figures of its financial statements in this currency as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	<u>(in millions of Euro)</u>		
Balance sheet, at December 31,			
Shareholders' equity	320.7	269.4	166.9
Long term debt and bank overdrafts	264.5	168.7	107.0
Cash and cash equivalent	60.1	64.5	30.0
Property, plant and equipment	<u>140.7</u>	<u>160.6</u>	<u>144.0</u>
Statement of operations, for the year ended December 31,			
Operating revenues	695.3	506.7	623.0
Operating income (loss)	14.2	(56.1)	(13.9)
Net income (loss)	<u>(12.0)</u>	<u>(66.5)</u>	<u>(37.0)</u>
Cash flow statement, for the year ended December 31,			
Net cash provided by operating activities	24.7	1.8	78.6
Net cash used in investing activities	(113.8)	(155.0)	(113.8)
Net cash provided by (used in) financing activities	83.7	186.7	(26.0)
Net increase (decrease) in cash equivalent	<u>(4.4)</u>	<u>34.4</u>	<u>(61.9)</u>

The above key financial data in Euros have been retroactively restated from French francs into Euros using the exchange rate as of January 1, 1999 (Euro 1 = French francs 6.55957). These key financial data restated in Euros are not comparable to other companies reporting in Euros that restated amounts from a different currency than the French franc.

NOTE 25 — SUBSEQUENT EVENTS

In 2000, CGG entered into a memorandum of understanding with Aker Maritime ASA, a Norwegian corporation, in order to acquire two vessels of Aker Geo, a subsidiary of Aker Maritime and 1000 square kilometers of data. The transaction has been finalized on the 16th of January 2001.

Under the terms of the definitive agreement, CGG has acquired the two seismic vessels *Amadeus* and *Symphony* currently operated by Aker Geo, as well as 1000 KM2 of recently acquired seismic data. Operating continuity both vis-à-vis current Aker Geo clients and main suppliers constitutes an integral part of the agreement. As consideration for this transaction, Aker Maritime received U.S.\$25 million in cash and 1,591,407 shares of CGG, representing 13.6% of the total number of shares issued after the transaction is completed.

The total transaction value is in the range of U.S.\$118 million, and is not expected to create any material additional goodwill, as the operation is by nature a sale of assets.