



COMPAGNIE GENERALE DE GEOPHYSIQUE
ISIN : 0000120164 – NYSE : GGY

**REPORT OF THE CHAIRMAN ON PREPARATION AND ORGANIZATION OF
THE BOARD OF DIRECTORS' WORK AND ON INTERNAL CONTROL**

In accordance with section L.225-37 of the "Code de commerce", the purpose of this document is to report on the conditions of preparation and organization of the meeting of the board of directors, on the limitations of the authority of the general management as well as the internal control procedures put in place by the Company. The Board of Directors reviewed this report in its session of March 8, 2006.

This report informs shareholders of the oversight assured by General Management and the Board of Directors of the activities of the company. Such oversight involves assuring:

- on the one hand, that acts of management or transactions and the behavior of personnel adhere to guidelines established by corporate governance bodies, applicable laws and regulations, standards, and internal company rules and procedures;
- on the other hand, that the accounting, finance and management information, provided to corporate governance bodies offers a fair presentation of the activity and situation of the company;

One of the objectives is to anticipate and manage risks resulting from the activity of the company and risks of errors or fraud, particularly in accounting and finance.

However, as with all control systems, there is no absolute guarantee that such risks can be entirely eliminated.

In accordance with article L. 225-37 of the French commercial code, this report is divided into three sections:

- preparation and organization of the Board of Directors' work (I),
- limitations of the authority of general management (II),
- procedures of internal control implemented by the company (III).

I. Preparation and organization of the Board of Directors' work

In 2005, the Board of Directors of Compagnie Générale de Géophysique met ten times. The average rate of attendance of directors at these meetings was 70%.

In 2005, the Board of Directors had ten members, five of which may be qualified as Independent Directors. The Board reviews the qualification of the director as independent annually before release of the "*Document de Référence*". Thus, in its meeting held on March 8, 2005, the Board resolved that five out of ten directors could be qualified as independent. These directors are Messrs. Dorval, Dunand, Marbach, Semmens and Valot.

In accordance with the criteria established by the AFEP-MEDEF working group chaired by Mr. Daniel Bouton of September 2002, these directors maintain no relations of any nature with the company, its group or management which could restrict their freedom of judgment. The fact that Mr. Semmens is also a member of the supervisory board of Sercel Holding does not impair his independence.

Upon consultation of the directors, it has been decided, in December 2005, to follow the recommendation of the "*Institut Français des Administrateurs*" and to organize an annual self-evaluation of the Board's activities and a more in-depth evaluation every three years. A first evaluation was carried out in 2005 on the basis of a questionnaire sent to each director. The answers were analyzed and supplemented by an individual interview between each director and an external consultant. The latter then provided the result of such evaluation to the directors.

The identity of directors and the composition of Board committees is provided in the management report.

a) Preparation of meetings and information to be provided to directors:

In preparation of every Board meeting, the Secretary of the Board sends directors a file which includes all useful information concerning the items of business on the meeting agenda. This file is sent to directors within one week before the meeting to enable them to study its content before this meeting.

Furthermore, directors are kept informed and consulted by the Chairman between Board meetings about all events or operations of importance to the company.

A draft version of press releases related to quarterly, semiannual and annual financial statements and all events or operations of importance for the company are sent to directors sufficiently in advance of their publication so they can transmit their comments to the Chairman. Other press releases are systematically sent to them at the same time they are published by the company.

Finally, directors are systematically provided with financial press reviews following their publication by the company and all material events involving the company and/or its subsidiaries.

In general, the Chairman ensures that directors are able to fulfill their duties. For this purpose, he provides each of them with the documents and information they require to perform their functions.

b) Board meetings:

At every meeting, the Presidents responsible for the group's two divisions (Products and Services) report to the Board on the evolution of the operating and financial performance of these two divisions since the last meeting. An information file is provided to each director.

This sectorial information is supplemented by a detailed review of the consolidated financial situation of the group in terms of debt, cash flow and financial resources available in light of a review of the financial planning.

All transactions with a material impact on the strategy of the group such as acquisitions, partnerships, disposals or strategic investments are subject to the prior authorization of the Board after the Strategic Committee has issued its recommendation. The Board is regularly informed on the progress of the transaction in question.

When due to a situation of urgency, it is not possible to call a Board of Directors' meeting, the Chairman contacts by means of a conference call all directors.

The Board of Directors meets at least four times per year in the presence of the statutory auditors.

Pursuant to the Board's internal rules and regulations, directors may participate in Board proceedings through videoconferences in the conditions set forth in article L.235-37 of the Commercial Code. They are in such cases counted as present for the calculation of the quorum and majority in accordance with the rules of the Board of Directors.

Since December 10, 2003, the operating procedure of the Board is governed by internal rules and regulations. These rules also formally define the composition, duties and operating procedures of the three Committees established by the Board since 1996 and described below. At its meeting held on March 8, 2005, the Board of Directors has ratified the charter of functioning of the Audit Committee as proposed by the President of said Committee. The operating procedure of the other two Committees is governed by the internal rules and regulations of the Board of Directors.

c) Committees established by the Board of Directors:

The Board of Directors has established the following three specialized committees:

The Appointment-Remuneration Committee:

The purpose of the Appointment-Remuneration Committee is :

- to propose to the Board of Directors :
 - to implement stock option plans and employee shareholding plans ;
 - the remuneration of the executive officers ("*mandataires sociaux*");
 - appointments of directors, executive officers ("*mandataires sociaux*") or members of Board committees.

- To be kept informed of the remuneration of the members of the Executive Committee.

In 2005, this Committee met four times, with an average meeting attendance rate of approximately 85%. The Committee met to decide on (i) the remuneration of the Chairman and Chief Executive Officer, (ii) the amount of the directors' remuneration and the adoption of new guidelines governing their allocation, (iii) the proposition to be made to the Board for the appointment of a new director, (iv) the reorganization of the management structure through the appointment of two Presidents ("*Directeurs Généraux Délégués*") and the determination of their respective remuneration and (v) the evaluation process of the Board of Directors to be implemented in 2006.

The work of the Committee is recorded in minutes and is reported by its Chairman at the next meeting of the Board of Directors. Such report is included in the Board's minutes.

The Strategic Planning Committee:

The Strategic Planning Committee is charged with studying our strategic plans and our planned financial transactions. The Strategic Planning Committee customarily meets before each Board meeting and more often if necessary. During 2005, the Strategic Planning Committee met six times. The average meeting attendance rate of committee members was close to 71%.

In 2005, the Committee was consulted by management with respect to the acquisition of Exploration Resources and was kept regularly informed of its integration post-acquisition. The Committee was also consulted regarding (i) the proposed modification of the terms and conditions of our 7.75% subordinated convertible bonds due 2012 before the modification was proposed to bondholders' and shareholders' meetings in November 2005 and (ii) the equity offerings that took place in December 2005.

The Audit Committee:

In 2005, the audit committee met five times and adopted a charter, which was ratified by the Board of Directors on March 8, 2005. The meeting attendance rate of committee members was 85%.

The duties and activities of the Audit Committee in 2005 are described below in the second section which deals with the internal control procedures implemented by the company in the paragraph dealing with the control environment.

Minutes of each meeting are taken. Besides, the Chairman of the Committee reports on its work at every Board of Directors' meeting as the audit committee meets systematically before each Board of Directors meeting. This report is recorded in the minutes of the Board of Directors' meeting.

II. Limitations of the authority of general management

1. Structure of general management :

Pursuant to the harmonization of the company's articles of association with the provisions of the law of May 15, 2001 (*Loi sur les Nouvelles Régulations Économiques*) by the combined shareholders' meeting of May 15, 2002, the Board of Directors' meeting held on the same day chose the general management option whereby the functions of Chairman of the Board of Directors and Chief Executive Officer are combined.

On September 7, 2005, the Board of directors appointed a Group President and Chief Financial Officer and a President, Geophysical Services, ("*Directeurs Généraux Délégués*"), for the remaining period of the term of the Chairman and Chief Executive Officer, i.e. until the general meeting that will approve the 2007 financial statements.

2. Limitations of authority of the Chief Executive Officer :

The Board of Directors imposed no restrictions on the powers of the Chief Executive Officer (*Directeur Général*). In consequence, in accordance with the law and article 10 of the company's articles of association, the Chairman-CEO (*Président Directeur Général*) is vested with the broadest powers to act in all circumstances in the name of the company.

III. Internal control procedures implemented by the Company

The purpose of the internal control procedures of the Company is to offer reasonable assurance as to meeting objectives in respect of the following:

- completion and optimization of operations, including the safeguarding of resources,
- the reliability of financial information and
- compliance with applicable laws and regulations.

All persons belonging to the Company are covered by the system of internal controls. The Board of Directors, senior executives, internal auditors, management and other personnel contribute significantly to the effectiveness of internal control procedures. Naturally, the responsibilities of supervisory personnel in the area of internal control vary in accordance with their level in the organizational hierarchy.

Because the company is listed both in France and the US, it is also subject to the Sarbanes-Oxley Act and the French "*Loi de Sécurité Financière*". In the scope of implementation of the recommendations and provisions of the Sarbanes-Oxley Act relating to internal control, the Company has decided to apply the COSO internal control integrated framework, established by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The Chairman-CEO is responsible for the internal control system of the company.

a) Environmental control

Environmental control is an important part of company internal control procedures.

Integrity and ethics

The Board of Directors implemented on December 10, 2003 a code of ethics which is applicable to the Chairman-CEO, members of the Group Management Committee and the Disclosure Committee. This code defines rules of conduct and integrity which the persons must follow in the performance of their function and obligations relating to disclosure. (cf. document de référence -- paragraphe 6.1.0.d).

At the end of 2004 the group also adopted a chart of ethics integrating the basic values (focus on results, entrepreneurial spirit, collective interest, integrity and leading by example) on which its development is based as well as ethics which represents commitment towards its clients, its shareholders, its employees and its partners to comply with laws and regulations and to respect the principles of its code of business conduct. The chart explains the expected individual and collective behaviors in line with the group business practice. It is specified that any difficulty of implementation of the chart shall be brought to the attention of an ethic committee formed for that purpose.

This chart of ethics has been explained and circulated among all CGG employees by means of presentations made to the various entities of the group and by a special edition of the group internal newsletter.

Finally, in the Company's "control and finance policy" charter, the Company undertakes to conduct its business in a responsible manner, producing timely reliable, accurate and fairly presented financial information, ensuring that all transactions are accurately and honestly reported in the Company's financial statements in accordance with the procedures in force, and then audited.

Corporate governance

The role and operating procedures of the Board of Directors, Strategic Committee and the Appointment-Remuneration Committee are dealt with in the first part of this report.

Pursuant to its chart, the Audit Committee is responsible for assisting the Board of Directors and, as such for undertaking preparatory work for the Board, particularly by reviewing our financial statements with management and our statutory auditors.

Toward this goal, the principal responsibilities of the Audit Committee are as follows:

- Reviewing and discussing with management and our statutory auditors the consistency and appropriateness of the accounting methods we adopt to prepare our corporate and consolidated financial statements;
 - Reviewing and discussing with management and our statutory auditors the consolidation perimeter and requesting, when necessary, all appropriate explanations;

- Reviewing and discussing with management and our statutory auditors or draft annual, semi-annual and quarterly financial statements together with the notes to them, and especially off-balance sheet arrangements;
 - Reviewing and discussing with management and our statutory auditors the quality, comprehensiveness, accuracy and sincerity of the financial statements;
 - Receiving reports from our statutory auditors on their review, including any comments and suggestions they may have made in the scope of their audit; and
 - Raising any financial or accounting question that the Committee deems important.
- Review the report on form 20-F and the "document de reference".
 - In consultation with our statutory auditors, our internal auditors and management, review the structure of our internal control procedures and the way in which they operate, notably those procedures relating to the preparation and treatment of accounting and financial information used to prepare our financial statements, to assess and manage risks, to comply with the principal regulations applicable to us. The Committee reviews the comments and observations made by the statutory auditors on our internal control procedures.
 - With respect to internal audit, review and discuss with management particularly:
 - Its organization and operation,
 - Its activities and in particular the responsibilities proposed in the scope of the internal audit plan approved by the general management and presented to the Committee.
 - Reviewing and discussing with management and, when appropriate, our statutory auditors the transactions directly or indirectly binding the Group and its executive officers.
 - With respect to external audit:
 - Review and discuss with the statutory auditors their annual audit plan,
 - Meet, if necessary, with the statutory auditors outside the presence of management,
 - Ensure the independence of the statutory auditors by managing the procedure for selection of the auditors. The Committee submits its choice to the Board of Directors, which, pursuant to law, must submit appointment of auditors to the vote at a shareholders' meeting,
 - Discuss possibly the extent and results of the audit work with the statutory auditors and management and review the amount of auditors' fees regularly with management. Within the framework of a procedure that it determines annually, the Committee has sole authority to authorize performance by the auditors and/or by the members of their network of services not directly relating to their auditing mission.
 - Oversee the anonymous handling of any report concerning a possible internal control problem or any problem of an accounting or financial nature.
 - Finally, the management of the company must report to the committee any suspected fraud of a significant amount so that the committee may proceed with any verification that it deems appropriate.

Sessions of the Audit Committee are open to the members of the Executive Committee, the Deputy Chief Financial Officer, our external auditors (in order to report on their audit reviews) and the Senior Vice-President, Internal Audit (in order to review important assignments).

The Audit Committee customarily meets before each Board meeting. In addition, the members of the Audit Committee are systematically invited to attend Strategic Committee meetings.

During 2005, the Audit Committee reviewed draft versions of the annual consolidated financial statements for 2004, the financial statements for the first quarter, the first semester and the third quarter of 2005 before these were presented to the Board. It reviewed the 2005 forecasts. The Audit Committee also provided to the Board its recommendations concerning these financial statements. The audit committee reviewed the May and November 2005 versions of the document entitled "Transition to IFRS" before they were published. The Audit Committee also reviewed the accounting treatment and the related purchase accounting of the Exploration Resources acquisition. In addition, the statutory auditors reported to the Audit Committee on their work and the scope of their audit. The Audit Committee reviewed the group 2006 budget.

With regard to internal control, the audit committee was informed of some weaknesses following the acquisition of Exploration Resources and the actions implemented to correct them. The previous operating procedure of this company which resulted from the demerger of its major shareholder that had kept its bookkeeping, showed that the local accounting structure was not in line with the CGG group requirements in particular with regard to the IFRS standards and its associated deadlines. The preparation of the 2005 financial statements according to the IFRS standards necessitated CGG central staff's intervention and supervision. An action plan was implemented during the first semester of 2006 in order to improve the skills of the local team and to reinforce it.

The Audit Committee examined the work to be performed by the statutory auditors in the scope of their audit on the 2005 financial statements and approved their fee estimates for this work. In compliance with the Audit Committee's procedures providing for its prior approval of non-audit services provided by the members of our auditors' network, the Audit Committee reviewed the services so performed in 2005 and approved them as necessary.

The Audit Committee reviewed the activities of the internal audit team, which acts on the basis of a plan established by the Executive Committee and presented to the Audit Committee. This plan is established in light of perceived operational and financial risks and with the goal of systematically reviewing each Strategic Business Unit every three years.

It reviews regularly multi-client surveys, analyzing in particular the sales average coverage rate in order to evaluate the fair value of surveys as recorded on the balance sheet.

The Audit Committee was also kept regularly informed on the development of two of our major projects during 2005: (i) the transition to IFRS and (ii) the assessment of internal control procedures pursuant to section 404 of the Sarbanes-Oxley Act.

Finally, the Audit Committee reviewed the independence of some of our directors before the annual determination by the Board of Directors.

As previously disclosed in our "Document de reference" as filed with the Autorité des marchés financiers on April 18, 2005 under the N° 05-0475 as supplemented by an update "Actualisation" filed on November 15, 2005 under the N° D.05-0475-A01, the management of the company informed the Audit Committee of a letter dated May 4, 2004 addressed by a former senior financial officer of our Services segment to one of our external auditors containing allegations relating to CGG and its subsidiaries and affiliated entities, principally with respect to certain of our overseas operations. The Audit Committee recommended that an independent investigation of the allegations be conducted by outside counsel in order to determine their truthfulness, their possible impact on our consolidated financial statements and possible violations by CGG and its subsidiaries and affiliated entities of the laws governing their activities.

Following completion of the independent investigation, the Audit Committee informed the Board of Directors of the conclusions of the investigation, including the existence of irregularities in one of our contractually controlled overseas entities and related books and records and internal control weaknesses. The Audit Committee concluded that these matters were not material to the consolidated

results of operations but recommended measures to be implemented by us to further improve our internal controls, each of which we have implemented. These include changing the frequency with which overseas personnel in certain countries rotate, further enhancing the enforcement of the code of ethics and reinforcing the supervision of internal auditors in certain countries. It had already been decided in 2003 to close the overseas entity concerned as part of the land restructuring program and terminated the co-operation agreements with such entity in February 2005. After having been informed of the independent investigation initiated by the Audit Committee, the statutory auditors have performed the work they have deemed necessary, which included considering the work performed and conclusions reached by external advisers hired by the Audit Committee. Based on the work performed, the statutory auditors concurred with the conclusions reached by the Audit Committee.

Subsequent to discussions beginning in January 2005 and the satisfactory conclusion in April 2005 of the French market authority's (Autorité des marchés financiers) review of these matters, the company then initiated a similar process with the Securities and Exchange Commission with respect to these matters and informed the Department of Justice of our contact with the SEC. We understand that the SEC and DOJ are considering what type of follow-up will be appropriate. To date, the follow-up has consisted of a limited number of telephone inquiries from the SEC shortly after we commenced discussions with them, to which we believe we have responded in full.

Disclosure

Within the framework of the implementation of the Sarbanes-Oxley Act, the Group Chairman-CEO and Chief Financial Officer created a Disclosure Committee to assure they will be able to properly issue the '302 certificate' under the Sarbanes-Oxley Act which must accompany quarterly and annual financial statements filed by CGG with the Securities and Exchange Commission.

The principle functions of this Committee are to:

- analyze the importance of information and determine the appropriateness of a disclosure, and if so according to what schedule, and to this purpose:
 - review all information to be published and their draft wording,
 - oversee disclosure procedures and coordinate disclosures to external parties (shareholders, market authorities, investors, the press etc.).
- provide guidelines for internal control procedures to ensure the reporting of material information to be disclosed within the framework of quarterly, semiannual or annual communications to market authorities and/or the security exchange commission or destined for financial markets,
- inform the Chairman and CEO and the Group Chief Financial Officer of any changes, deficiencies or material weaknesses pointed out by the Committee in the process of the reporting of information.

On the date of this report, the Committee was chaired by the Senior Executive Vice President, Technology, Planning Control and Communication. The other members of the Committee are:

- the President, Geophysical Services,
- the Chairman of the Management board of Sercel,
- the Group Controller, Treasurer and Deputy Chief Financial Officer,
- the Chief Financial Officers, Services and Products,
- the Senior Vice-President Corporate Internal Audit,
- the Head of the Accounting Department,
- the Investor Relations Officer,
- the Head of the Corporate Legal affairs.

The Committee meets quarterly before periodic disclosures of the Company are published. The first meeting of the Committee was held on February 11, 2003. Further to the results of the evaluation of the Committee operating procedure in February 2005, the information reporting process has been modified in order to increase its efficiency and to give the committee reasonable assurance as to the fact that all significant information is brought to its attention.

Corporate structure

CGG operations are organized into two main divisions: Services (Geophysical Services) and Products (seismic acquisition equipment).

Within this framework, Geophysical Services are in turn organized into three regions (the Americas; Asia-Pacific; Europe, Africa, Middle East) and into three Strategic Business Units or SBUs:

- The Land SBU is responsible for land seismic acquisition services,
- The Offshore SBU is responsible for offshore acquisition services and sales of offshore multi-client surveys.
- The Processing and Reservoir SBU is responsible for data processing and geophysical reservoir services.

The Product activity also has a matrix organization by function (product development, marketing and sales, industrial operations and administration) and geographical region (Europe, Americas, Far East).

The Group's organization chart is made of 38 subsidiaries and JV/partnerships. A continuous effort is made to reduce the number of subsidiaries to ensure the right adequacy of legal entities of the Group with the perimeter of the activities.

Management of the company is organized through an Executive Committee and a Group Management Committee. The Chief Executive Officer, the Group President and Chief Financial Officer, the President, Geophysical Services, the Senior Executive Vice-President Human Resources and Legal Affairs and the Senior Executive Vice-President Technology, Planning, Control and Communication are the members of the Executive Committee.

The Group Management Committee reviews every month reporting and budget updates of the operating entities. Every quarter, it reviews the market, evaluates performances and risks. Corrective action plans are implemented and monitored.

The Group has established a Finance Committee which includes, in addition to members of the Executive Committee, the Chairman of the Management board of Sercel, the Group Deputy Chief Financial Officer, the Chief Financial Officers of the Geophysical Services and Products entities and the Group Treasurer. This Committee meets monthly and reviews the Group's financial situation.

A Technology Development Board devoted to improving communication and coordination of the company's research and development program and determining priorities meets twice yearly.

The Company has an Internal Audit organization with 4 persons, which applies a charter and exercises its functions independently and objectively, and reports directly to Group General Management and the Audit Committee. The Products Division (Sercel) also has an internal audit organization with 2 persons reporting functionally to the Senior Vice President Corporate Internal Audit. Internal Audit evaluates internal controls on the basis of the COSO framework and tools and in compliance with the code of conduct of the 'Internal Audit Institute'.

It works on the basis of a three-year cycle to assure a review of every important entity of the Group. Priorities are set on the basis of activities in progress and the level of risk. The annual plan is defined by the Corporate Internal Audit department, approved by the Executive Committee and presented to the Audit Committee. Group Internal Audit also conducts financial and accounting audits and operational audits. Recommendations issued from the audits are approved by the Group Executive Committee and the associated action plans are monitored by Internal Audit until all open issues have been resolved.

Over the last three years, the units audited accounted for approximately 90% of the average turn-over. The annual budget of internal audit corresponds to 0.1% of Group sales which is close to standards existing for companies in the industrial sector.

For each sector of activity, staff functions in finance, human resources and legal affairs are positioned to support the President, Geophysical Services and the Chairman of the management board of Sercel. Some support functions are attached to the Group level, notably consolidation, financial strategy and coordination, the management of corporate legal affairs, investor relations and Internal Audit.

The Company's structure and organization enables, notably accounting and financial staff, to work with other departments and activities, access key data and correctly translate their conclusions in the financial statements.

Delegation of powers and areas of responsibility

General instructions which are widely distributed, set forth rules for the delegation of powers, the approval of offers and contracts, investment authorizations and the budget allocation authorities.

The delegation of powers are granted to ensure and facilitate the proper functioning and good management of the Company's activities.

The internal processes for preparing offers, and controlling and approving contracts with Customers (and subcontracting associated activities) signed between the Company or Group Companies on the one hand, and their Customers on the other hand, define and set forth at the Group level the authorization procedure in respect to contractual commitments and in particular the limits at which prior authorization by the General Management is required.

Approval levels for investments which will be recorded as fixed assets, rental agreements and finance lease transactions, including real estate transactions in this category, as well as the associated works and renovations, carried out within the Group and the criteria for establishing priorities are defined by a general instruction.

Budget allocations, their control and approval whether concerning purchasing and leases, associated with personnel, conventions or agents are defined by a general instruction.

Human resources policy

The Company's human resources policy, set forth in a charter, is based on the development of expertise through regular training and on career management.

The Company sees to identify and effectively match the knowledge and expertise of personnel with the needs of the Company, and to develop training plans to optimize the deployment of existing expertise to meet the needs of the Company.

The Group devotes considerable percentage of its training budget to improving technical and trade expertise. An increasing share of training is devoted to the management of personnel and projects, risks and performance. The personnel of the company has access to a dedicated training structure

through CGG University which includes an exhaustive range of training units that supports the personnel in its career development.

b) Assessment of risks

Every year, the Company establishes general objectives which are compatible with the budget allocations and clearly communicated to personnel. Objectives are also defined for every activity in relation with the general objectives and in coherence with each other.

The Company has implemented mechanisms for identifying both external and internal risks. The principal risks which the Company incurs are analyzed in the document de référence.

Market risks:

- Loan agreements may limit the Company's ability to react to market trends or finance its growth. If the Group is not able to comply with the restrictions and provisions imposed under its loan agreements, an event of default vis-à-vis its contractual obligations may exist. This could accelerate the maturity of loan repayments.
- The Group invests important amounts to acquire and process seismic data for multi-client surveys and its data library based on assumptions that cannot be verified. The Group is required to incur high fixed costs regardless of the level of commercial activity.
- Earnings from operations may be materially impacted by foreign exchange fluctuations.
- Financial needs and, in particular, working capital requirements may significantly vary within a short period, resulting in a need for additional financing. Such financing may not be possible to obtain or could be granted at unsatisfactory conditions.
- The significant debt of the Group could adversely affect its financial situation and prevent it from meeting these obligations.

Interest-rate risks: the company could be required to have recourse in part to indexed floating-rate debt which may result in variations in interest charges.

Environmental risks: frequent changes in environmental laws and regulations could make it difficult for the company to forecast precisely the cost and impact of such changes in future operations.

Insurance risks: the company may be required to carry risks resulting from its operations which may have an adverse impact on activity and operating results.

At the time of its quarterly review, the Management Committee, evaluates most particularly risks related to the company's dependence on capital spending of oil companies and certain major customers, seasonal trends, technology trends, the qualification of its personnel, its investments in multi-client surveys, the level of its debt, currency fluctuations, interest rate risks and trends relating to environmental regulations.

It may also be noted that:

- Every legal entity of the group is positioned in a matrix in terms of risk exposure and volume of financial transactions. About fifteen risks have been listed for this classification; they are risks related to the internal structure of the entity on the one hand, such as the size of the entity, the turn over of key staff, the level of skills of the employees, the existence of an information system, etc. and risks related to the environment of the entity on the other hand, such as the context of the country, the complexity of laws, etc.
- The sales process for geophysical services includes a phase devoted to identifying and evaluating operational, customer, country, environmental risks, etc. The results of the

evaluation are reviewed at different hierarchical levels up to the Executive Committee according to their ranking in a matrix.

Each acquired project is subject to Health Safety Environment risk assessment. Such risks are classified based on their impact and probability and are incorporated into matrixes which are linked to control measurement.

The Company has mechanisms to identify changes which could have an impact on the Company's ability to meet its objectives and requiring the intervention of management for an immediate response.

c) Control activities

Processes implemented by the Company to identify necessary control procedures are based on its objectives and the corresponding risks.

1. CGG guidelines

The Company has made available to employees and has posted on its intranet a quality management manual which covers the charters, objectives, general instructions, procedures and other guidelines. The requirement to make legal, tax and accounting decisions in accordance with applicable laws and regulations is clearly established.

The company encourages operating units to obtain ISO 9000 certification.

- In the Services segment, the offshore activities (offshore seismic data acquisition and multi clients) and the main data processing of the Processing SBU are certified ISO 9001:2001. The quality assurance management system of the Land SBU was implemented in accordance with the ISO 9001 version 2000 standard.
- All Sercel sites have been certified ISO 9001 version 2000.

Information technology security is a critical component of internal control for the Company and access to the internal network of Group companies and information systems is strictly regulated.

Financial information

Key processes such as the preparation of documents for the Board of Directors and the Audit Committee, the preparation of budgets, consolidation, etc., are formally described. Schedules for submitting information or meetings dealing with financial issues have been established.

In June 2003, the Senior Executive Vice President of Human Resources and Finance renewed instructions to all executives and financial management of each unit, to remind the importance of internal control and the necessity to constantly see to its implementation. In 2005, the company launched a financial security program joining all financial and operational managers in the performance of annual objectives clearly defined and consistent with the group financial security.

The Company has an accounting manual which sets forth Group accounting and reporting rules. This manual applies to all Group entities and is destined to ensure that the same accounting rules are applied across the Group. It details procedures for closings, the preparation of the income statement, balance sheet, cash flow statement as well as the consolidation process and the principles for producing the notes to the consolidated financial statements.

All Group companies process their corporate accounts in the format chosen by the Group using a standardized package. All reclassifications from the corporate accounts to the consolidated accounts are documented using a specific standard format.

Intercompany transactions are carried out in various areas (different services, geophysical equipment sales, software licenses). The corresponding payments for fees vary according to the nature of the transaction and in compliance with market prices.

Management software packages implemented in the Group in finance, logistics and procurement are critical organizational components of the internal control system as they define in detail processes to be applied in these areas.

Other areas

- ❖ Quality, Hygiene, Safety and the Environment (QHSE) : the Company seeks to strengthen policies in these areas on an ongoing basis.
 - The Company has a quality, health, safety and environmental charter which stipulates that the Group considers that the protection of the environment and health and safety of its employees, subcontractors, and neighboring communities as a fundamental prerequisite ahead of any other work objective.
 - The Company has a quality charter which stipulates that quality is, in the same way as security and environmental protection, a permanent priority of all company personnel.
 - Every year the Company defines general objectives in the area of Health, Safety, the Environment and Quality.
 - A 24-hour notification system exists to report accidents and incidents to provide better protection for persons and Company assets.
- ❖ Information technology infrastructure and information systems security:
 - The networks are protected by firewalls and antivirus systems. External access is possible through secure and encrypted connections.
 - Users are duly authenticated before being granted access to the system.
 - Data backup, archiving and recovery systems have been put into place. A continuity plan also exists. Procedures are created, modified and updated by competent personnel and approved by the appropriate management. Once a year, an internal audit is carried out to test the effectiveness of such procedures.
- ❖ Control of the external disclosure of information:
 - The Company has a procedure which specifies rules for preparing, validating and approving press releases by general management.
 - The Company has procedures which specify rules for preparing and distributing the documents “The Group CGG” (France -- US); The annual report (US); the Board management report (France) ; the “20 F” (US) and the Document de référence (France).

2. Internal control procedures

The control procedures of the Company are implemented according to the hierarchical level of the personnel involved and the principles of materiality and the separation of functions. Control procedures are implemented in light of the identification of risks.

System of evaluation of internal control

About thirty prerequisites have been defined as far as financial security is concerned both for group operations and support functional departments. These prerequisites must be entirely observed (100%). An evaluation questionnaire was sent to the persons in charge of the various entities of the Group. In addition, every manager who visits an entity shall ensure by means of interviews and tests that the prerequisites are observed. This tool has been implemented in all group entities in the course of 2005. The financial security objectives for 2006 define the minimum frequency of these evaluations with an objective set at two self-evaluation and two managers evaluations per year and entity. The results of such evaluation are now reviewed on a quarterly basis by the Executive Committee.

Financial and accounting controls

Internal control procedures in force in the Company are destined principally to ensure that accounting, financial and management information communicated to corporate bodies of the Company provide a fair presentation of the activity and situation of the Company.

- The financial statements of all Group subsidiaries in activity are reviewed by the finance departments of each Group sector.
- Inventories are carried out on a regular basis at each site, comparing the balance sheet values of inventories with actual values and to correct eventual variances.
- Access to the accounting information systems is formally restricted in accordance with the function and responsibilities.
- Current management information systems make it possible to record transactions in a complete and exact manner, to trace them and regularly back them up.
- The Company formally evaluates on specific dates the financial data which is correctly aggregated and presented in financial statements.
- All intercompany transactions are documented and reconciled on given dates according to the transactions.
- The Company monitors its off-balance sheet commitments.
- Comparisons and reconciliations are performed at various levels, particularly between reporting and consolidation. The consolidated financial statements are reviewed by the Group President, Chief Financial Officer and the Chief financial officers of the divisions.

Miscellaneous controls

- Management frequently visits the Company's hubs, wherever located. Onsite tests are conducted and reports distributed to concerned parties and the General Management on their return.
- Individual and collective meetings are conducted to evaluate expertise and define objectives on an annual basis. A meeting of this type has been held for more than 90% of Group employees in 2005.
- Health, safety, environmental and quality audits are conducted on a regular basis by auditors having expertise in those files to ensure that Company standards are complied with.
- Results of audits are presented to the General Management. Strategic business units are responsible for monitoring actions to be implemented.

On the basis of objectives defined by General Management, key performance indicators have been implemented in the areas of Quality, Health, Safety and the Environment, operations, finance and sales. These indicators are monitored on a monthly basis.

d) Information and Disclosure

Company management and progress in meeting of objectives depends on effective dissemination of information at all levels of the Company.

Quality standards, security requirements or legal and professional obligations demand that the procedures be accessible and documented. The Company undertakes to foster the sharing of knowledge and practices. Company intranet sites make available to personnel the Charters and Group policies, annual objectives, general instructions, procedures, standards and other documents on which the Company Management System is based.

The Company publishes an internal magazine entitled "*Transverse*", which seeks to enhance communication and cooperation among different Company entities and among operating and support functions.

The Group undertakes, through its human resources strategy, to develop and exploit all vectors of communications upward, downward and on a transversal basis, to share knowledge and practices. This commitment is pursued through the Company's intranet sites by sharing knowledge bases, the electronic management of documents through secure access and the organization of forums on specific subjects relating to each business.

The Company organizes an annual seminar for senior management and General Management focusing on the principles of the Company, its corporate ethics and values, the responsibilities of each, objectives and action plans to achieve them.

The Company has implemented a weekly and monthly reporting system according to the hierarchical levels and relevance, to ensure that personnel can obtain an exchange information necessary to carry out, manage and control operations. The data distributed concerns operations, finance, or legal and regulatory compliance issues. It includes not only data produced by the Company but also data related to the external environment.

Management evaluates the performances of the Company on the basis of both internal and external information.

e) Steering

The Company's business environment being by nature evolving, the internal control system is continuously adapted taking into account the environmental conditions and the capitalization on its experience.

Managing and supervising day-to-day operations, comparative analyses and the comparison of information and other day-to-day tasks of employees enable the Company to ensure the pertinence of internal controls. Management carries out periodic evaluations, taking into account the nature and importance of changes which may have occurred.

f) Conclusion

Every system of internal control, however well-designed and effective, has inherent limitations, and notably the possibility to circumvent or bypass controls put into place. This means that the internal control system can offer only a reasonable assurance as to the reliability of financial statements. Furthermore, the effectiveness of internal control procedures may vary over time, in response to new circumstances.

As set forth in "Environment Control", the group has an internal audit department that carries out every year an operational and financial audit program on the various group entities.

In order to evaluate the efficiency and the compliance with internal control procedures on a regular and formal basis, the Company puts in place a project of internal control self-evaluation for all units of the group. This project includes improving evidence of the controls implemented. At the group level and within both group segments (Services and Products), a compliance officer has been appointed thus showing the group commitment to good corporate governance rules.

General management fully supports this project as a contribution to a proper business' control, which is also in line with the general framework of the Performance and Leadership project, the implementation of values and the application of the financial security program with our operational personnel.