

of our audited consolidated financial statements included elsewhere in this annual report. The Noon Buying Rate on May 1, 2006 was U.S.\$26.07 per euro.

Year ended December 31,	Dollars per Euro Exchange Rate			
	Period-end	High	Low	Average ⁽¹⁾
2001	0.89	0.95	0.84	0.90
2002	1.05	1.05	0.86	0.95
2003	1.26	1.26	1.04	1.14
2004	1.35	1.36	1.18	1.24
2005	1.18	1.35	1.17	1.24
Month				
November 2005	—	—	1.21	1.17
December 2005	—	—	1.20	1.17
January 2006	—	—	1.23	1.20
February 2006	—	—	1.21	1.19
March 2006	—	—	1.22	1.19
April 2006	—	—	1.26	1.21

(1) The annual average rate is the average of the Noon Buying Rates on the last day of each month.

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

Risks Related to Our Business

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

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. Over 80% of our operating revenues in 2004 and 2005 and approximately two-thirds of our operating expenses were denominated in currencies other than the euro. These included the U.S. dollar and, to a significantly lesser extent, other non-euro Western European currencies, principally the British pound and the Norwegian kroner. In addition, a significant portion of our revenues that were invoiced in euros 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. Our exposure to fluctuations in the euro/ U.S. dollar exchange rate has increased considerably over the last few years due to increased sales outside of Europe.

Fluctuations in the exchange rate of the euro against such other currencies, particularly the U.S. dollar, have 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, a depreciation of the U.S. dollar against the euro harms our competitive position against that of other companies whose costs and expenses are denominated in U.S. dollars. For financial reporting purposes, such depreciation negatively affects our reported results of operations since U.S. dollar-denominated earnings that are converted to euros are stated at a decreased 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 adversely affect our results in the future.

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

Due to the accounting treatment under IFRS of our 7.75% subordinated convertible bonds due 2012 denominated in U.S. dollars, we recorded net losses (attributable to shareholders) in 2004 and 2005 of €6.4 million and € 7.8 million, respectively, although absent this item, our net income would have been positive. We cannot assure that we will be profitable in the future.

We are subject to risks related to our international operations that 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, sanctions and other laws and 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 or that our coverage will be adequate to cover us for any losses arising from such risks.

We and certain of our subsidiaries and affiliated entities also conduct business in countries known to experience government corruption and in countries subject to U.S. government sanctions. We are committed to doing business in accordance with all laws and our code of ethics but there is a risk that we, our subsidiaries or affiliated entities or their respective officers, directors, employees and agents may take action in violation of applicable laws, including the Foreign Corrupt Practices Act of 1977 or laws administered by the U.S. Office of Foreign Assets Control. Any such violations could result in substantial civil and/or criminal penalties and might adversely affect our business and results of operations or financial condition.

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.

Future businesses and technologies that we may acquire may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

An aspect of our current business strategy is to seek new businesses, technologies and products to broaden the scope of our existing and planned product lines and technologies. For example, we acquired several manufacturers of seismic products in 2004 in order to expand Sercel's product line. We also believe that the seismic industry should continue to consolidate with the goal of exploiting synergies and promoting the emergence of seismic operators possessing larger financial and technological bases, a vision that we have pursued through our acquisition of Exploration Resources in September 2005. Although we regularly explore opportunities with respect to possible acquisitions of businesses, technologies or products, we do not currently have any understandings, commitments or agreements relating to any such material transactions. Future transactions of this type could result in the incurrence of debt and contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect upon us.

Risks we could face with respect to recent and future acquisitions include:

- difficulties in the integration of the operations, technologies, products and personnel of the acquired company;
- diversion of management's attention away from other business concerns; and

- expenses of any undisclosed or potential liabilities of the acquired company.

The risks associated with acquisitions could have a material adverse effect upon our business, financial condition and results of operations. We cannot assure that we will be successful in consummating future acquisitions on favorable terms, if at all.

Our acquisition of Exploration Resources exposes us to additional risks and requires additional investments.

We believe that the acquisition of Exploration Resources presents a number of potential risks. Our integration of Exploration Resources is a challenging process to which our Group gives particular importance. The acquisition of Exploration Resources will also increase our exposure to risks relating to the offshore seismic data acquisition market, both in exclusive and multi-client surveys. We are making significant investments in connection with the modernization of certain of Exploration Resources' vessels, and there can be no assurance as to the future financial returns on these investments. We also plan to invest, depending on opportunities, in the development of high resolution seabed seismic acquisition technologies belonging to Multiwave, a subsidiary of Exploration Resources. These technologies are relatively recent, and the market for the providers of such services is not yet mature. The effectiveness and profitability of these technologies remain to be determined.

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 acquiring and processing the data through future sales. The amounts of these data sales are uncertain and depend on a variety of factors, many of which 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.

Our working capital needs are difficult to forecast and may vary significantly 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 related to the development and introduction of new lines of geophysical equipment products. For example, under specific circumstances, we may extend the length of payment terms we grant to our customers or increase substantially our inventories. We may therefore be subject to significant and rapid increases in our working capital needs that we may have difficulty financing on satisfactory terms or at all due to limitations in our existing debt agreements.

Technological 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 in our industry, 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 geosciences 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 by one of our competitors.

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. We hold or have applied for 144 patents, in various countries, for products and processes. These patents last between four and twenty years, depending on the date of filing and the protection accorded by each country. 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 material 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, which may limit our ability to pursue third parties that misappropriate our proprietary technology.

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

Our results of operations depend in part upon our business know-how. We believe that development of our know-how depends in large part on our ability to attract and retain highly skilled and qualified personnel. We compete with other seismic products and services companies and, to a lesser extent, the oil industry majors and national oil companies for skilled geophysical and seismic personnel, particularly in times, such as the present, when demand for seismic services is relatively high. A limited number of such skilled personnel is available, and demand from other companies may limit our ability to fill our human resources needs. 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 develop and protect our know-how.

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 2005, our two largest clients accounted for 9.8% and 4.4% of our operating revenues, respectively. During 2004, our two largest clients accounted for 6.8% and 5.4% of our operating revenues, respectively. The loss of a substantial amount of the business of any of these clients could have a material adverse effect on our operating revenues and our business.

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.

Compliance with internal controls procedures and evaluations and attestation requirements will require significant efforts and resources and may result in the identification of significant deficiencies or material weaknesses.

Beginning in fiscal year 2006, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required, as a foreign private issuer to perform an evaluation of our internal controls over financial reporting and have our independent auditors publicly disclose their conclusions regarding such evaluation. We are establishing procedures in order to comply with Section 404 in the timeframe permitted under the regulations of the Securities and Exchange Commission, although as of the date of this filing we have not yet finalized these procedures. We expect that establishing procedures and ensuring compliance with these requirements will be a substantial and time-consuming process. If we fail to complete these procedures and the required evaluation in a timely manner, or if our independent auditors cannot attest to our evaluation in a timely manner, we could be subject to regulatory review and penalties which may result in a loss of public confidence in our internal controls. In addition, we may uncover significant deficiencies or material weaknesses in our internal controls. Measures taken by us to remedy these issues may require significant efforts, dedicated time and expenses, as well as the commitment of significant managerial resources. Each of these circumstances may have an adverse impact on our business, financial condition and results of operations or on our share price.

Risks Related to our Industry

We depend on capital expenditures by the oil and gas industry, and reductions in such expenditures have had, and may in the future 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 and by expectations regarding future oil and gas prices. Oil and gas prices may fluctuate based on relatively minor changes in the supply and demand for oil and gas, expectations regarding future 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:

- level of demand for oil and gas;
- worldwide political, military and economic conditions, including political developments in the Middle East, economic growth levels and the ability of OPEC to set and maintain production levels and prices for oil;
- level of oil and gas production;
- policies of governments regarding the exploration for and production and development of oil and gas reserves in their territories; and
- global weather conditions.

Although oil and gas prices are currently at or near historical highs, which generally increases demand for our products and services, the markets for oil and gas historically have been volatile and are likely to continue to be so in the future.

We believe that global geopolitical uncertainty or uncertainty in the Middle Eastern producing regions (where we are particularly active) could lead oil companies to suddenly delay or cancel current geophysical projects. Any events that affect worldwide oil and gas supply, demand or prices or that generate uncertainty in the market could reduce exploration and development activities and negatively affect our operations. 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 are subject to intense competition, which could limit our ability to maintain or increase our market share or 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. We are subject to particularly intense competition in the land seismic acquisition market, notably from Chinese companies that have entered the market and have expanded their international market share. Some of our competitors operate more data acquisition crews than we do and have substantially greater financial and other resources. These and other 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, as well as changes in government regulations. In addition, if geophysical service competitors increase their capacity in the future (or fail to reduce capacity if demand decreases), the excess supply in the seismic services market could apply downward pressure on prices.

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 could result in significant operating losses.

Our land and marine seismic acquisition activities may vary significantly during the year.

Our land and marine seismic acquisition activities are partially seasonal, depending on whether they are operated in the Northern or Southern Hemisphere for weather conditions reasons, or because they depend on our important customers' decision to invest, such decision itself relying on internal budget consideration: reluctance to take early in the year firm commitments on specific projects which will significantly impact their annual exploration budget; to the contrary, acceleration of orders by year-end to use the remaining portion of the exploration budget.

The offshore data acquisition business is, by nature, exposed to non productive interim period – repairs, transit period from one operation zone to another during which there is usually no revenue recognition.

Risks Related to our Indebtedness

Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations.

We have a significant amount of debt. As of December 31, 2005, our total financial debt, consolidated total assets and shareholders' equity were €409.6 million, €1,565.1 million and € 698.5 million, respectively.

Our substantial debt could have important consequences. In particular, 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 the indenture relating to our senior notes could result in an event of default that, if not cured or waived, could result in the acceleration of our outstanding debt and other financial obligations or otherwise have a material adverse effect on us.

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

As of December 31, 2005, we had a total financial debt of €409.6 million and total shareholders' equity of € 698.5 million. The indenture governing the notes and our syndicated credit facilities contain restrictive covenants limiting our ability and the ability of certain of our subsidiaries to:

- incur or guarantee additional indebtedness or issue preferred shares;
- pay dividends or make other distributions;
- purchase equity interests or redeem subordinated indebtedness early;
- create or incur certain liens;
- create or incur restrictions on the ability to pay dividends or make other payments to us;
- enter into transactions with affiliates;
- issue or sell capital stock of subsidiaries;
- engage in sale-and-leaseback transactions; and
- sell assets or merge or consolidate with another company.

Complying with the restrictions contained in some of these covenants requires us to meet certain ratios and tests, notably with respect to consolidated interest coverage, total assets, net debt, equity and net income. The requirement that we comply with 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, finance its equipment purchases, 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 the indenture governing the notes and 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 the indenture governing the notes or in our current or future debt agreements, there could be a default under the terms of these agreements. Our ability to comply with these restrictions and covenants, including meeting 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 comply with these restrictions and covenants or 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.

Despite current debt 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 debt (including secured debt) in the future. As of December 31, 2005 we had no outstanding borrowings under our U.S. \$60 million syndicated credit facility, and had availability under all other credit facilities of €9.4 million. In addition, in order to partially finance the conversion of both the C-Orion and the Geo-Challenger into 3-D vessels and to purchase new marine streamers, although we had € 112.4 million of short term or available deposits as of December 31, 2005, we may

need to borrow additional amounts in the future to meet our anticipated working capital and capital expenditure needs or to pursue attractive business opportunities. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we, and they, now face could intensify.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures will partly depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations, that we will realize operating improvements on schedule, that we will find purchasers for the assets we intend to sell or that future borrowings will be available to us in an amount sufficient to enable us to service and repay our indebtedness or to fund our other liquidity needs. If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or, if sold, the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms.

Our results could be affected by changes in interest rates.

Our sources of liquidity include credit facilities with financial institutions charging variable interest rates over the course of drawdown periods of from one to twelve months. As a result, our interest expenses could increase if short-term interest rates increase.

Holders of ADSs may be subject to additional risks related to holding ADSs rather than shares.

ADS holders may lose some or all of the value of a dividend or other distribution arising from their interest in us because of the depository's need to effect further transactions to transfer such value to ADS holders. For example, the depository may be unable to convert a foreign currency into dollars when the applicable exchange rates are fluctuating, thereby reducing the value of the ultimate distribution to ADS holders. Also, there can be no assurance that the depository can convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or that any of such transactions can be completed within a specified time period, all of which may reduce the value of ADS holders of the original transaction.

ADS holders may not receive voting materials in time to instruct the depository to vote on matters that come before holders of the underlying shares. ADS holders, or those who holds ADSs through brokers, dealers or other third parties, may not have the opportunity to exercise a right to vote at all. ADS holders may not receive copies of all reports from us or from the depository. ADS holders may need to visit the depository's offices to inspect any reports issued.

We and the depository may amend or terminate the deposit agreement without ADS holders' consent in a manner that could prejudice ADS holders.

You may not be able to effect claims or enforce judgments against us or our directors or officers for violations of the U.S. securities laws. We are a *société anonyme* under the laws of France. A majority of our directors and officers are no-U.S. residents. A substantial portion of our assets and the assets of our directors and officers are, and we expect will continue to be, located outside the United States. Consequently, you may not be able to effect service of process within the United States upon us or most of these persons, enforce judgments against us or them in the United States courts or enforce or obtain judgments in French courts against us or these persons predicated upon the securities laws of the United States.

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 a *société anonyme* incorporated under the laws of the Republic of France and operating under the French *Code de commerce*. Our registered office is 1, rue Léon Migaux, 91300 Massy, France. Our telephone number is (33) 1 64 47 3000.

Over the course of the last three years, we completed numerous acquisitions and dispositions which are described under “Operating and Financial Review and Prospects – Acquisitions and Dispositions” in Item 5, and elsewhere in this annual report.

Business Overview

We believe we are a leading international provider of geophysical services and 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 approximately 57% and 64% and Products accounted for approximately 43% and 36% of our consolidated revenues for the year ended December 31, 2004 and for the year ended December 31, 2005, respectively. We generate revenues (by location of customers) on a worldwide basis. For the year ended December 31, 2004, approximately 30% of our consolidated revenues were from the Americas, 40% from the Middle East and the Asia-Pacific region, 20% from Europe and CIS, and 10% from Africa. For the year ended December 31, 2005, approximately 34% of our consolidated revenues were from the Americas, 34% from the Middle East and Asia-Pacific region, 22% from Europe and CIS and 10% from Africa.

Industry Conditions

Overall demand for geophysical services and equipment 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.

We believe that the medium-term outlook for the geophysical services sector, particularly the offshore segment, and the demand for the geophysical products is fundamentally positive for a number of reasons:

- Economic growth, particularly in more active regions such as Asia (notably China and India), is generating increased energy demand and leading to higher energy prices and increased exploration efforts;
- The need to replace depleting reserves and maximize the recovery of oil in existing reservoirs should encourage capital expenditures by companies engaged in exploration and production, which we expect will benefit the seismic industry;
- The scope of application of geophysical services has considerably increased over the last several years as a result of significant research and development efforts. Geophysical services can now potentially be applied to the entire sequence of exploration, development and production as opposed to exploration only. This is particularly true with technologies such as 4D (time lapse seismic data); and