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The data provided in the following table is expressed in U.S. dollars per euro and is based on noon buying rates published by the Federal Reserve Bank of New York for the euro. On April 6, 2012, the most recent practicable day prior to the date of this annual report, the exchange rate as published by the Federal Reserve Bank of New York was €1.00 = U.S.\$1.3089.

	Period-End Rate <sup>(1)</sup>	Average Rate <sup>(2)</sup>	High	Low
<b>Recent Monthly Data</b>				
April 2012 (through April 6, 2012)	1.3089	1.3188	1.3370	1.3064
March 2012	1.3334	1.3208	1.3336	1.3025
February 2012	1.3459	1.3284	1.3463	1.3087
January 2012	1.3053	1.2910	1.3192	1.2682
December 2011	1.2939	1.3154	1.3487	1.2926
November 2011	1.3453	1.3557	1.3803	1.3244
October 2011	1.3947	1.3732	1.4172	1.3281
<b>Annual Data (Year Ended December 31,)</b>				
2011	1.2973	1.3939	1.4875	1.2926
2010	1.3269	1.3261	1.4536	1.1959
2009	1.4332	1.3935	1.5100	1.2547
2008	1.3919	1.4695	1.6010	1.2446
2007	1.4603	1.3705	1.4862	1.2904

<sup>(1)</sup> The period-end rate is the noon buying rate on the last business day of the applicable period.

<sup>(2)</sup> The average rate for each monthly period was calculated by taking the simple average of the daily noon buying rates, as published by the Federal Reserve Bank of New York. The average rate for each annual period was calculated by taking the simple average of the noon buying rates on the last business day of each month during the relevant period.

### **Capitalization and Indebtedness**

Not applicable.

### **Reasons for the Offer and Use of Proceeds**

Not applicable.

### **Risk Factors**

Our business, financial condition, results of operations and cash flows and thus the value of an investment in our Company, could suffer material adverse affects due to the following risks. We have described the specific risks that we consider material to our business but there may be additional risks that we are unaware of or that we currently consider immaterial which could impair our business operations.

### **Risks related to our business**

***Current economic uncertainty and the volatility of oil and natural gas prices could have a significant adverse effect on us.***

Global market and economic conditions are uncertain and volatile. In the past, economic contractions and uncertainty have weakened demand and lowered prices for oil and natural gas, resulting in a reduction in the levels of exploration for hydrocarbons and demand for our products and services. It is difficult to predict how long the current economic conditions will persist, whether they will deteriorate further, and which of our

products and services will be adversely affected. We may have impairment losses as events or changes in circumstances occur that reduce the fair value of an asset below its book value. These conditions could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Uncertainty about the global economy has had and is likely to continue to have a significant adverse impact on commercial performance and financial condition of many companies, which may affect some of our customers and suppliers. The current economic climate may lead customers to cancel or delay orders or leave suppliers unable to provide goods and services as agreed. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate our contracts with little or no prior notice. If our suppliers, vendors, subcontractors or other counterparties are unable to perform their obligations to us or our customers, we may be required to provide additional services or make alternate arrangements on less favorable terms with other parties to ensure adequate performance and delivery of service to our customers. These circumstances could also lead to disputes and litigation with our partners or customers, which could have a material adverse impact on our reputation, business, financial condition and results of operations.

Turmoil in the credit markets, such as has been experienced in recent periods, could also adversely affect us and our customers. Limited access to external funding has in the past caused some customers to reduce their capital spending to levels supported by their internal cash flow. Some companies have found their access to liquidity constrained or subject to more onerous terms. In this context, our customers may not be able to borrow money on reasonable terms or at all, which could have a negative impact on their demand for our products, and impair their ability to pay us for our products and services on a timely basis, or at all.

In addition, the potential impact on the liquidity of major financial institutions may limit our ability to fund our business strategy through borrowings under either existing or new debt facilities in the public or private markets and on terms we believe to be reasonable. Persistent volatility in the financial markets could have a material adverse effect on our ability to refinance all or a portion of our indebtedness and to otherwise fund our operational requirements. We cannot be certain that additional funds will be available if needed to make future investments in certain projects, take advantage of acquisitions or other opportunities or respond to competitive pressures. If additional funds are not available, or are not available on terms satisfactory to us, there could be a material adverse impact on our business and financial performance.

Furthermore, our cash balances and short-term investments are maintained in accounts held at major banks and financial institutions located primarily in Europe and North America. Deposits are in amounts that exceed available insurance. Although none of the financial institutions in which we hold our cash and investments have gone into bankruptcy, been forced into receivership, or have been seized by their governments, there is a risk that this may occur in the future. If this were to occur, we would be at risk of not being able to access our cash which may result in a temporary liquidity crisis that could impede our ability to fund operations.

***We are subject to risks related to our international operations.***

With operations worldwide, including in 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, which can cause investment in capital projects by our potential clients to be withdrawn or delayed, reducing or eliminating the viability of some markets for our services;
- Risks of war, uprisings, riots, terrorism, and civil disturbance, which can make it unsafe to continue operations, adversely affect budgets and schedules and expose us to losses;
- Risk of piracy, which may result in the delay or termination of customer contracts in affected areas;
- Seizure, expropriation, nationalization or detention of assets, renegotiation or nullification of existing contracts;

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- Foreign exchange restrictions, import/export quotas, sanctions and other laws and policies affecting taxation, trade and investment; and
- Availability of suitable personnel and equipment, which can be affected by government policies, that limit the importation of qualified crew members or specialized equipment in areas where local resources are insufficient.

We are exposed to these risks in all of our international operations to some degree, particularly in emerging markets where the political and legal environment is less stable. We are subject to the risk of material adverse developments with respect to our international operations and any insurance coverage we have may not be adequate to compensate us for any losses arising from such risks.

Revenue generating activities in certain foreign countries may require prior United States government approval in the form of an export license and may otherwise be subject to tariffs and import/export restrictions. These laws can change over time and may result in limitations on our ability to compete globally. In addition, non-U.S. persons employed by our separately incorporated non-U.S. entities may conduct business in some foreign jurisdictions that are subject to U.S. trade embargoes and sanctions by the U.S. Office of Foreign Assets Control, including Cuba, Iran, Sudan and Syria, which have been designated by the U.S. government as state sponsors of terrorism. We have typically generated revenue in some of these countries through the performance of marine surveys, the provision of data processing and reservoir consulting services and the sale of software licenses and software maintenance. We have current and ongoing relationships with customers in these countries. We have procedures in place to conduct these operations in compliance with applicable U.S. laws. However, failure to comply with U.S. laws on equipment and services exports could result in material fines and penalties, damage to our reputation and negatively affect the market price of our securities. We have provided information during 2011 to the U.S. Department of Commerce's Bureau of Industry and Security (BIS) concerning shipments to our vessels operating in or near Cuba that may not have complied fully with our internal policies and possibly violated applicable export controls and sanctions laws. See "Item 4: Information on the Company – Legal Proceedings – Requests for information made by the U.S. Department of Commerce's Bureau of Industry and Security". In addition, our presence in these countries could reduce demand for our securities among certain investors.

Certain of our clients and certain tax, social security or customs authorities may request that we or certain of our subsidiaries post performance bonds or guarantees issued by banks or insurance companies, including in the form of stand-by letters of credit, in order to guarantee our legal or contractual obligations. We cannot assure you that we will be able to provide these bonds or guarantees in the amounts or durations required or for the benefit of the necessary parties. Our failure to comply with these requests could reduce our capacity to conduct business or perform our contracts. In addition, if we do provide these bonds or guarantees, our clients or the relevant authorities may call them under circumstances that we believe to be improper, and we may not be able to challenge such actions effectively in local courts.

We and certain of our subsidiaries and affiliated entities also conduct business in countries where there is government corruption. We are committed to doing business in accordance with all applicable laws and our codes of ethics, but there is a risk that we, our subsidiaries or affiliated entities or their respective officers, directors, employees or agents may act in violation of our codes and applicable laws, including the Foreign Corrupt Practices Act of 1977. Any such violations could result in substantial civil and criminal penalties and might materially adversely affect our business and results of operations or financial condition.

### ***We are subject to certain risks related to acquisitions.***

In the past we have grown by acquisitions, some of which, such as the merger with Veritas in 2007 or the acquisition of Wavefield in 2008, were quite significant. Such transactions, whether completed, pending or likely to be completed in the future, present various financial and management-related risks that can be material, such

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as integration of the acquired businesses in a cost-effective manner; implementation of a combined business strategy; diversion of management's attention; outstanding or unforeseen legal, regulatory, contractual, labor or other issues arising from the acquisitions; additional capital expenditure requirements; retention of customers; combination of different company and management cultures; operations in new geographic markets; the need for more extensive management coordination; and retention, hiring and training of key personnel. Should any of these risks associated with acquisitions materialize, they could have a material adverse effect on our business, financial condition and results of operations.

### ***We may need to write down goodwill from our balance sheet.***

We have been involved in a number of business combinations in the past, leading to the recognition of large amounts of goodwill on our balance sheet. Goodwill on our balance sheet totaled €2,077.6 million as of December 31, 2011. Goodwill is allocated to cash generating units ("CGUs") as described in note 11 to our consolidated financial statements for the year ended December 31, 2011. The recoverable amount of a CGU is estimated at each balance sheet date and is generally determined on the basis of a group-wide estimate of future cash flows expected from the CGU in question. The estimate takes into account, in particular, the removal from service of certain assets used in our business (such as decommissioning or coldstacking vessels) or any significant underperformance in cash generation relative to previously-expected results, which may arise, for example, from the underperformance of certain assets, a deterioration in industry conditions or a decline in the economic environment. At each balance sheet date, if we expect that a CGU's recoverable amount will fall below the amount of goodwill recorded on the balance sheet, we may write down that goodwill in part or in whole. Such a write-down would not in itself have an impact on cash flow, but could have a substantial negative impact on our operating income and net income, and as a result, on our shareholders' equity and net debt/equity ratio.

### ***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 of money in acquiring and processing seismic data that we own. By making such investments, we are exposed to the following risks:

- 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 is unpredictable, and sales can vary greatly from period to period. Each of our individual surveys has a limited book life based on its location, so a particular survey may be subject to significant amortization even though sales of licenses associated with that survey are weak or non-existent, thus reducing our net income.
- Technological or regulatory changes or other developments could also materially adversely affect the value of the data. For example, regulatory changes such as limitations on drilling could affect the ability of our customers to develop exploration programs, either generally or in a specific location where we have acquired seismic data and technological changes could make existing data obsolete.
- The value of our multi-client data could be significantly adversely affected if any material adverse change occurs in the general prospects for oil and gas exploration, development and production activities in the areas where we acquire multi-client data or more generally.
- Any reduction in the economic value of such data will require us to write down its recorded value, which could have a material adverse effect on our results of operations.

### ***Our results of operations may be significantly affected by currency fluctuations.***

We derive a substantial portion of our revenues from international sales, subjecting us to risks relating to fluctuations in currency exchange rates. Our revenues and expenses are mainly denominated in U.S. dollars and

euros, and to a significantly lesser extent, in Canadian dollars, Brazilian reais, Australian dollars, Norwegian kroner and British pounds. Historically, 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.

Fluctuations in the exchange rate of the euro against such other currencies, particularly the U.S. dollar, have had in the past and will have in the future a significant effect upon our results of operations, which are reported in euros. For financial reporting purposes, depreciation of the U.S. dollar against the euro will negatively affect our reported results of operations since U.S. dollar-denominated earnings that are converted to euros are stated at a decreased value. Moreover, and in addition to the impact of the conversion of the U.S. dollar at a decreased value, since we participate in competitive bids for data acquisition contracts that are denominated in U.S. dollars, the depreciation of the U.S. dollar against the euro harms our competitive position against companies whose costs and expenses are denominated to a greater extent in U.S. dollars. While we attempt to reduce the risks associated with such exchange rate fluctuations through our hedging policy, we cannot assure you that we will maintain our profitability level or that fluctuations in the values of the currencies in which we operate will not materially adversely affect our future results of operations. As of the date of this annual report, we estimate our annual fixed expenses in euros to approximately €400 million and as a result, an unfavorable variation of U.S.\$0.1 in the average yearly exchange rate between the U.S. dollar and the euro would reduce our operating income and our shareholders' equity by approximately U.S.\$40 million. As of December 31, 2011 we and our subsidiaries whose functional currency is the euro had U.S.\$-denominated assets and liabilities of U.S.\$1,559.5 million and U.S.\$1,483.8 million, respectively. Our net balance sheet exchange rate exposure was thus U.S.\$75.7 million before hedging and U.S.\$13.6 million after taking into account hedging arrangements of U.S.\$62.2 million. As a result of our compliance with IAS 12 (Income Taxes), our results of operation are also exposed to the effect of exchange rate variations on our deferred tax amounts when the functional currency for an entity that owns an asset is not the same as the currency used for taxation purposes.

***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 meet on satisfactory terms, or at all.***

It is difficult for us to predict with certainty our working capital needs. This difficulty is due primarily to working capital requirements related to the 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 have to extend the length of payment terms we grant to customers or may increase our inventories substantially. 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 notably to limitations in our debt agreements or market conditions.

***Our results of operations may be affected by fluctuations in fuel costs.***

Our marine acquisition business, with a fleet of 19 seismic vessels, incurs significant fuel costs, which were approximately U.S.\$184 million in 2011. Fuel costs can vary significantly depending on the supply location, local regulations and the price of crude oil at a given time. Only a portion of this variation can be contractually charged to or negotiated with the client. We therefore estimate that an increase by 20% of the average annual price of crude oil increases our fuel costs by approximately U.S.\$25 million on our operating income.

***Technological changes and new products and services are frequently introduced in the 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 the seismic 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 may encounter resource constraints or technical or other difficulties that could delay the introduction of new and enhanced products and services in the future. In addition, the continuing development of new products risks making our older products obsolete. New and enhanced products and services, if introduced, may not gain market acceptance and may be materially adversely affected by technological changes or product or service introductions by one of our competitors.

***We depend on proprietary technology and are exposed to risks associated with the misappropriation or infringement of that technology.***

Our ability to maintain or increase prices for our products and services depends in part on our ability to differentiate the value delivered by our products and services from those delivered by our competitors. Our proprietary technology plays an important role in this differentiation. We rely on a combination of patents, trademarks and trade secret laws to establish and protect our proprietary technology. Patents last up to 20 years, depending on the date of filing and the protection accorded by each country. We also enter into confidentiality and license agreements with our employees, customers and potential customers which limit access to and distribution of our technology. However, actions that we take to protect our proprietary rights may not be adequate to deter the misappropriation or independent third-party development of our technology. In addition, we may have lawsuits filed against us claiming that certain of our products, services, and technologies infringe the intellectual property rights of others. For example, we have been engaged since 2006 in litigation in the United States brought by our competitor ION Geophysical, which asserts patent violations in respect of digital sensor (DSU) technology used in some of Sercel's seismic data acquisition products manufactured in the past in the United States. See "Item 4: Information on the Company – Legal Proceedings – ION litigation". Although we do not believe that any current litigation involving our intellectual property rights or the intellectual rights of others will have a material impact on us, such litigation may take place 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.

***The nature of our business subjects us 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 acceptable terms, if at all.***

We are exposed to significant ongoing operating risks:

- Our seismic data acquisition activities, particularly in deepwater marine areas, are often conducted under harsh weather and other hazardous operating conditions, including the detonation of dynamite. These operations are subject to the risk of downtime or reduced productivity, as well as to the risks of loss to property and injury to personnel resulting from fires, accidental explosions, mechanical failures, spills, collisions, stranding, ice floes, high seas and natural disasters. In addition to losses caused by human errors and accidents, we may also be subject to losses resulting from, among other things, war, terrorist activities, piracy, political instability, business interruption, strikes and weather events;
- Our extensive range of seismic products and services expose us to litigation and legal proceedings including those related to product liability, personal injury and contract liability; and
- We produce and sell highly complex products and we cannot assure you that our extensive product development, manufacturing controls and testing will be adequate and sufficient to detect all defects, errors, failures, and quality issues that could affect our customers and result in claims against us or result in order cancellations or delays in market acceptance.

We have put in place insurance coverage against operating hazards, including product liability claims and personal injury claims, damage, destruction or business interruption related to our equipment, data processing

centers, manufacturing centers and other facilities to the extent deemed prudent by our management and in amounts we consider appropriate in accordance with industry practice. Whenever possible, we obtain agreements from customers that limit our liability.

However, we cannot assure you that the nature and amount of insurance will be sufficient to fully indemnify us against liabilities arising from pending and future claims or that our insurance coverage will be adequate in all circumstances or against all hazards, and that we will be able to maintain adequate insurance coverage in the future at commercially reasonable rates or on acceptable terms.

***Disruptions to our supply chain may adversely affect our ability to deliver our products and services to our customers.***

Our supply chain is a complex network of internal and external organizations responsible for the supply, manufacture and logistics supporting our products and services around the world. We are vulnerable to disruptions in this supply chain from changes in government regulations, tax and currency changes, strikes, boycotts and other disruptive events as well as from unavailability of critical resources. These disruptions may have an adverse impact on our ability to deliver products and services to our customers.

***Our possible failure to attract and retain qualified employees may materially adversely affect our future business and operations.***

Our future results of operations will depend in part upon our ability to retain our existing highly skilled and qualified employees and to attract new employees. A number of our employees are highly skilled scientists and technicians. We compete with other seismic products and services companies and, to a lesser extent, companies in the oil industry for skilled geophysical and seismic personnel, particularly in times 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. If we are unable to hire, train and retain a sufficient number of qualified employees, this could impair our ability to compete in the geophysical services industry and to develop and protect our know-how. Our success also depends to a significant extent upon the abilities and efforts of members of our senior management, the loss of whom could materially adversely affect our business and results of operations.

***We have had losses in the past and there is no assurance of our profitability for the future.***

We have experienced losses in the past. In 2007 and 2008, our net profit attributable to shareholders amounted to €245.5 million and €332.8 million, respectively. In 2009, 2010 and 2011, we recorded a net loss attributable to shareholders of €264.3 million, €54.6 million and €19.0 million, respectively. There is therefore no assurance as to our profitability for the future.

***Our auditors, like other independent registered public accounting firms operating in France, are not permitted to be subject to inspection by the Public Company Accounting Oversight Board.***

Our auditors, like other independent registered public accounting firms operating in France, are not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firms that issue the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and firms registered with the Public Company Accounting Oversight Board, or PCAOB, are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with SEC rules and PCAOB professional standards. Because our auditors are registered public accounting firms in France, a jurisdiction where the PCAOB is not currently permitted under French law to conduct inspections pending a mutual agreement between the PCAOB and the French authorities, our auditors, like other independent registered public accounting firms in France, are currently not inspected by the PCAOB.

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Inspections of audit firms that the PCAOB has conducted where allowed have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in France prevent the PCAOB from regularly evaluating our auditors' audits and quality control procedures. As a result, the inability of the PCAOB to conduct inspections of auditors in France may deprive investors of the benefits of PCAOB inspections.

### **Risks related to our industry**

***The volume of our business depends on the level of capital expenditures by the oil and gas industry, and reductions in such expenditures may have a material adverse effect 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 hydrocarbons prices and by expectations regarding future hydrocarbons prices. Oil and gas prices may fluctuate based on relatively minor changes in the supply of and demand for oil and gas, expectations regarding future supply of and demand for hydrocarbons and certain other factors beyond our control. Lower or volatile oil and gas prices tend to limit the demand for seismic services and products.

Factors affecting the prices of hydrocarbons (and, consequently, demand for our products and services) include:

- Demand for hydrocarbons;
- Worldwide political, military and economic conditions, including political developments in the Middle East, economic growth levels, the availability of financing and the ability of OPEC to set and maintain production levels and prices for oil;
- Laws or regulations restricting the use of fossil fuels or taxing such fuels and governmental policies regarding atmospheric emissions and use of alternative energy;
- Levels of oil and gas production;
- The rate of decline of existing and new oil and gas reserves;
- Oil and gas inventory levels and market supply delays;
- The price and availability of alternative fuels;
- Policies of governments regarding the exploration for and production and development of oil and gas reserves in their territories; and
- Global weather conditions, with warmer temperatures decreasing demand for products such as heating oil and extreme weather events potentially disrupting oil and gas exploration or production operations.

Increases in oil and natural gas prices may not increase demand for our services or otherwise have a positive effect on our financial condition or results of operations. Forecasted trends in oil and gas exploration and development activities may not continue and demand for our products may not reflect the level of activity in the industry. For example, at the end of 2009, there were indications that oil and gas companies would increase their exploration expenses, leading to a rebound in demand. Most seismic companies then accelerated the launch of new capacities or released vessels that had been removed from operation to anticipate the beginning of a new growth cycle. But the Deepwater Horizon platform disaster in April 2010 severely reduced the demand for seismic studies in the Gulf of Mexico. Demand in marine seismic capacity grew elsewhere as expected, but not enough to offset the reduction in the number of vessels operating in the Gulf of Mexico. Consequently, a sustained imbalance between supply and demand continued through 2010 and 2011 and prices remained flat.

***Our backlog includes contracts that can be unilaterally terminated at the client's option.***

In accordance with industry practice, contracts for the provision of seismic services typically can be canceled at the sole discretion of the client without payment of significant cancellation costs to the service



provider. As a result, even if contracts are recorded in backlog, there can be no assurance that such contracts will be wholly executed by us and generate actual revenue, or even that the total costs already incurred by us in connection with the contract would be covered in full pursuant to any cancellation clause.

***We are subject to intense competition in the markets where we carry out our operations, which could limit our ability to maintain or increase our market share or maintain our prices at profitable levels.***

Most of our contracts are obtained through a competitive bidding process, which is standard for the seismic services industry in which we operate. Competitive factors in recent years have included price, crew availability, technological expertise and reputation for quality, safety and dependability. While no single company competes with us in all of our segments, we are subject to intense competition in 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. Some of our competitors operate more data acquisition crews than we do and have 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 (or do not reduce capacity if demand decreases), the excess supply in the seismic services market could apply downward pressure on prices. The negative effects of the competitive environment in which we operate could have a material adverse effect on our results of operations.

***We have taken significant measures to adapt our fleet to changes in the seismic market, and we may take additional temporary measures in the future that could impose exceptional charges.***

In order to adjust to reduced demand in the seismic market and to reposition our fleet toward the high-end of that market (more than 10 streamers), we decided in 2009 to reduce our fleet capacity to 19 vessels by decommissioning nine medium-capacity 2D and 3D vessels. This decommissioning program was fully completed as of September 30, 2010. In 2010, we began implementing a propulsion and streamer upgrade plan in respect of four vessels (*Viking Vanquish*, *Oceanic Phoenix* (formerly named *Geowave Master*), *Oceanic Endeavour* (formerly named *Geowave Endeavour*) and *Geowave Champion*). All of these upgrades have been completed except for the *Geowave Champion*, which is currently dry docked and is scheduled to be released from the yard at the beginning of the second quarter of 2012. The vessel upgrade plan reduced our vessel availability rate by approximately five points over 2011 and we estimate it will reduce the vessel availability rate by approximately two points in 2012. In an effort to reposition the 3D fleet toward high capacity vessels, we intend to terminate our charter contract for the eight streamer *Geowave Commander* vessel prior to its scheduled expiration in 2013. Conditions in the seismic market could lead us to further adjust our marine acquisition capacity on a temporary basis, for example by cold stacking some of our vessels, which could trigger additional exceptional charges.

***We have high levels of fixed costs that are incurred regardless of our level of business activity.***

We have high fixed costs and data acquisition activities that require substantial capital expenditures. As a result, downtime or low productivity due to reduced demand, weather interruptions, equipment failures, permit delays or other circumstances that affect our ability to generate revenue could result in significant operating losses.

***The revenues we derive from land and marine seismic data acquisition vary significantly during the year.***

Our land and marine seismic data acquisition revenues are partially seasonal in nature. The marine data acquisition business is, by its nature, exposed to unproductive interim periods due to necessary repairs or transit time from one operational zone to another during which revenue is not recognized. Other factors that cause variations from quarter to quarter include the effects of weather conditions in a given operating area, the internal budgeting process of some important clients for their exploration expenses, and the time needed to mobilize production means or obtain the administrative authorizations necessary to commence data acquisition contracts.

***Our business is subject to governmental regulation, which may adversely affect our future operations.***

Our operations are subject to a variety of international, federal, provincial, state, foreign and local laws and regulations, including environmental, health and safety and labor laws. We invest financial and managerial resources to maintain compliance with these laws and related permit requirements. Our failure to do so could result in fines or penalties, enforcement actions, claims for personal injury or property damages, or obligations to investigate and/or remediate contamination. Failure to obtain the required permits on a timely basis may also prevent us from operating in some cases, resulting in crew downtime and operating losses. Moreover, if applicable laws and regulations, including environmental, health and safety requirements, or the interpretation or enforcement thereof, become more stringent in the future, we could incur capital or operating costs beyond those currently anticipated. The adoption of laws and regulations that directly or indirectly curtail exploration by oil and gas companies could also materially adversely affect our operations by reducing the demand for our geophysical products and services.

We may be affected by new environmental laws or regulations intended to limit or reduce emissions of gases, such as carbon dioxide and methane, which may be contributing to climate change, and these laws or regulations may affect our operations or, more generally, the production and demand for fossil fuels such as oil and gas. The European Union has already established greenhouse gas regulations, and many other countries, including the United States, may do so in the future. This could impose additional direct or indirect costs on us as our suppliers incur additional compliance costs that get passed on to us or as our customers reduce their demand for our products or services.

In the United States, new regulations governing oil and gas exploration and development were put in place following the Deepwater Horizon platform disaster in the Gulf of Mexico. These new regulations may have a significant financial impact on oil and gas companies that wish to carry out exploration and development projects in deep water Gulf of Mexico. Our client mix could be altered with the disappearance of small and medium sized players, which could decrease our sales of multi-client data. In December 2011, the United States government organized the first lease of blocks since April 2010 and has announced a second lease sale of blocks for June 2012.

**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, 2011, our net financial debt (which we define as gross financial debt less cash and cash equivalents), total assets and shareholders' equity were €1,090 million (U.S.\$1,410 million), €5,556 million (U.S.\$7,189 million) and €2,939 million (U.S.\$3,802 million), respectively. We cannot assure you that we will be able to generate sufficient cash to service our debt or sufficient earnings to cover fixed charges in future years.

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 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 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.

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

The indentures governing our senior notes (9 1/2% Senior Notes due 2016, 7 3/4% Senior Notes due 2017 and 6 1/2% Senior Notes due 2021) and the agreements governing our U.S. and French senior revolving facilities contain restrictive covenants that limit our ability and the ability of certain of our subsidiaries to, among other things:

- incur or guarantee additional indebtedness or issue preferred shares;
- pay dividends or make other distributions;
- purchase equity interests or reimburse subordinated debt prior to its maturity;
- create or incur certain liens;
- 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, relating notably, to interest coverage and net indebtedness. The requirement that we comply with these provisions may materially adversely 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, or withstand a continuing or future downturn in our business.

Our French revolving facility, as amended on December 15, 2011, requires that we meet the following ratios and tests:

- a maximum ratio of total net debt to EBITDA of 2.50:1 at the end of each quarter for the 12-month testing period ending December 31, 2012; and 2.25:1 at the end of each quarter for the 12-month testing period ending December 31, 2013;
- a minimum ratio of EBITDA to total interest costs of 3.50:1 at the end of each quarter for the 12-month testing period ending December 31, 2012; and 4.00:1 at the end of each quarter for the 12-month testing period ending December 31, 2013, and
- the aggregate amount of our net capital expenditures in any fiscal year may not exceed the greater of U.S.\$600 million and 50% of EBITDA for such fiscal year.

Our U.S. revolving facility, as amended on December 15, 2011, requires that we meet the following ratios, which are tested quarterly:

- a maximum ratio of total net debt to EBITDA of 2.50:1; and
- a minimum ratio of EBITDA to total interest costs of 3.00:1.

***If we are unable to comply with the restrictions and covenants in the indentures governing our senior notes, the agreements governing our U.S. and French senior revolving facilities and other current and future debt agreements, there could be a default under the terms of these indentures and agreements, which could result in an acceleration of repayment.***

If we are unable to comply with the restrictions and covenants in the indentures governing our senior notes or in other current or future debt agreements, including those governing our U.S. and French senior revolving facilities, there could be a default under the terms of these indentures and agreements. Our ability to comply with

these restrictions and covenants, including meeting 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 such financial ratios and tests. In the event of a default under these agreements, lenders could terminate their commitments to lend or accelerate the loans or bonds and declare all amounts outstanding 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, our assets might not be sufficient to repay in full all of our outstanding indebtedness and we may be unable to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

***We and our subsidiaries may incur substantially more debt.***

We and our subsidiaries may incur substantial additional debt (including secured debt) in the future. The terms of the indentures governing our senior notes and the agreements governing our U.S. and French senior revolving facilities and our other existing senior indebtedness limit, but do not prohibit, us and our subsidiaries from doing so. As of December 31, 2011, the US and French revolving credit facilities were undrawn, and we had long-term confirmed and undrawn credit lines amounting to €216 million (U.S.\$279 million).

If new debt is added to our current debt levels, the related risks for us could intensify.

***To service our indebtedness and make capital expenditures, we require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.***

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

We cannot assure you that we will generate sufficient cash flow from operations to realize operating improvements on schedule or that future cash from operations and 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 that, if sold, the timing of the sales and the amount of proceeds realized from those sales would be favorable to us or that additional financing could be obtained on acceptable terms. Disruptions in the capital and credit markets, as have been experienced since 2008, could adversely affect our ability to meet our liquidity needs or to refinance our indebtedness, including our ability to draw on our existing credit facilities or enter into new credit facilities. Banks that are party to our existing credit facilities may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

***Increases in interest rates could adversely affect our results of operations.***

A majority of our debt consists of fixed-rate bonds, along with some fixed-rate finance leases and fixed-rate medium-term bank credit facilities with variable maturities. This debt is not exposed to interest rate fluctuations. However, drawings under our credit facilities incur interest at variable rates that are reset at each interest period (generally between one and 12 months). As a result, our interest expenses on this debt vary in line with movements in short-term interest rates.

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The following table shows our variable interest rate exposure by maturity as of December 31, 2011:

December 31, 2011	Overnight to 1 Year	1 to 5 Years (In millions of euros)	More than 5 Years
Financial liabilities <sup>(1)</sup>	27	30	–
Financial assets <sup>(2)</sup>	286	–	–
Net position before hedging <sup>(3)</sup>	259	(30)	–
Off-balance sheet position	–	–	–
Net position after hedging <sup>(3)</sup>	259	(30)	–

<sup>(1)</sup> Excluding bank overdrafts and accrued interest but including employee profit-sharing

<sup>(2)</sup> Invested cash and equivalents

<sup>(3)</sup> Net assets/(liabilities)

As of December 31, 2011, our variable-rate assets (net of liabilities) maturing in less than one year totaled €259 million.

## Item 4: INFORMATION ON THE COMPANY

### Introduction

We are a global participant in the geophysical seismic industry, as both a manufacturer of geophysical equipment and a provider of a wide range of seismic services in data acquisition and processing both onshore and offshore, principally to clients in the oil and gas exploration and production industry. In accordance with our internal reporting system, operations are organized into two segments, which we use to manage and measure our performance: Services and Equipment.

Our geophysical Equipment segment operates through our subsidiary Sercel, the market leader in the development and production of seismic acquisition systems and specialized equipment in the land and marine seismic markets.

Our geophysical Services segment is composed of the following divisions:

- land contract: seismic data acquisition for land, transition zones and shallow water undertaken by us on behalf of a specific client;
- marine contract: seismic data acquisition offshore undertaken by us on behalf of a specific client;
- multi-client land and marine: seismic data acquisition undertaken by us and licensed to a number of clients on a non-exclusive basis;
- processing, imaging and reservoir: processing, imaging and interpretation of geophysical data, data management and reservoir studies for clients.

We have more than 100 years of combined operating experience (through CGG and Veritas) and a recognized track record of technological leadership in the science of geophysics. We believe we are well placed to capitalize on the growing importance of seismic technology to enhance the exploration and production performance of our broad base of clients, which includes independent, international and national oil companies.

For the year ended December 31, 2011, Services accounted for 72% and Equipment accounted for 28% of our consolidated operating revenues. 22% of our consolidated operating revenues were from North America, 20% from Latin America, 36% from Europe, Africa, Middle East, and 22% from Asia Pacific.