

SOUTHWESTERN ENERGY CO
 Form 4
 December 16, 2004

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KORELL HAROLD M

2. Issuer Name and Ticker or Trading Symbol
SOUTHWESTERN ENERGY CO [SWN]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
 2350 N. SAM HOUSTON
 PARKWAY EAST, SUITE 300

3. Date of Earliest Transaction (Month/Day/Year)
 12/16/2004

Director 10% Owner
 Officer (give title below) Other (specify below)
 President & CEO

(Street)
 HOUSTON, TX 77032

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	
Common Stock	12/16/2004		M	6,666	A	\$ 6	230,169.557 D
Common Stock	12/16/2004		F	765	D	\$ 52.24	229,404.557 D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Options (Right to buy)	\$ 6	12/16/2004		M	6,666	12/16/2000 12/16/2009	Common Stock	6,666

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KORELL HAROLD M 2350 N. SAM HOUSTON PARKWAY EAST SUITE 300 HOUSTON, TX 77032	X		President & CEO	

Signatures

Melissa D. McCarty,
Attorney-in-Fact

12/16/2004

**Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. **Exhibit No Exhibit** 4.4 2002 Stock Option Plan⁽²⁾ 4.5 2003 Stock Option Plan⁽⁴⁾ 4.6 Lease dated as of December 4, 1990 for the Registrant's principal executive offices in Massy, France⁽⁵⁾ 4.7 Lease dated as of April 2, 1991 for the Registrant's data processing center in London, England⁽⁵⁾ 4.8 Leases dated as of November 8, 1991 and December 13, 1996 for the Registrant's data processing center in Houston, Texas, USA⁽⁵⁾ 4.9 Lease dated as of September 1, 1996 for Sercel's factory in Tulsa, Oklahoma, USA⁽⁵⁾ 4.10 Time charter agreement dated as of March 1, 1996 for CGG Föhn, as amended on July 1, 1996.⁽⁵⁾ 4.11 Time charter agreement dated as of May 7, 1996 for CGG Harmattan, as amended on July 1, 1996.⁽⁵⁾ 4.12 Time charter agreement dated as of December 22, 1997 for CGG Alizé.⁽⁶⁾ 4.13 Plan Support Agreement dated June 10, 2003 among PGS and PGS's banks, creditors and certain of its shareholders⁽⁷⁾ 4.14 Underwriting agreement dated July 25, 2003 among PGS and certain of PGS shareholders⁽⁸⁾ 4.15 Mixed Capital Company Contract dated November 26, 2003 by and among Sercel

SA, the Committee of the Hebei JunFeng Prospecting Equipment Company, the Dongfang Geological Prospecting Limited Liability Company, and the Xian General Factory for Oil Prospecting Equipment⁽⁹⁾ 4.16 Sale and Purchase Agreement dated December 19, 2003 by and among Sercel Australia Pty Ltd and Thales Underwater Systems Pty Ltd⁽⁹⁾ 4.17 Revolving Credit Facility Agreement dated March 12, 2004 by and among us, Sercel SA, CGG Marine, Natexis Banques Populaires and certain banks and financial institutions⁽⁹⁾ 4.18* Subscription Agreement, dated 27 September 2004, by and among us, Onex Partners LP, Onex American Holdings II LLC, Onex US Principals, LP, CGG Executive Investco, LLC and Onex Corporation (we have requested that the Commission grant confidential treatment for certain portions of this document) 4.19 Registration Rights Agreement, dated 27 September 2004, by and among us, Onex Partners LP, Onex American Holdings II LLC, Onex US Principals, LP and CGG Executive Investco, LLC ⁽¹⁰⁾ 8* Subsidiaries of the Registrant 11 Code of Ethics⁽¹¹⁾ 12.1** Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 12.2** Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 13.1** Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (10 U.S.C. § 1350) 13.2** Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002 (10 U.S.C. § 1350)

Notes:

* Previously filed.

** Filed herewith.

(1) Incorporated by reference to the Registrant's Registration Statement on Form F-4 (SEC File No. 333-13060), dated January 11, 2001, as amended.

(2) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2002, dated May 14, 2003.

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- (3) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2001, dated May 3, 2002.
- (4) Incorporated by reference to the Registrant's Report on Form 6-K, dated September 3, 2003.
- (5) Incorporated by reference to the Registrant's Registration Statement on Form F-1 (SEC File No. 333-06800), dated April 16, 1997, as amended.
- (6) Incorporated by reference to the Registrant's Registration Statement on Form F-3 (SEC File No. 333-11074), dated November 3, 1999, as amended.
- (7) Incorporated by reference to the Registrant's Report on Schedule 13D/ A, filed by CGG, dated June 27, 2003.
- (8) Incorporated by reference to the Registrant's Report on Form 6-K, dated November 13, 2003.
- (9) Incorporated by reference to the Registrant's Report on Form 6-K, dated May 13, 2004.
- (10) Incorporated by reference to the Registrant's Report on Form 6-K, dated November 16, 2005.
- (11) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003, dated June 1, 2004.

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SIGNATURES

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

Compagnie Générale de Géophysique
(Registrant)

/s/ Robert Brunck

Chairman and Chief Executive Officer

Date: September 19, 2005

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COMPAGNIE GENERALE DE GEOPHYSIQUE

**BARBIER FRINAULT & AUTRES
ERNST & YOUNG**

41, rue Ybry
92576 Neuilly-sur-Seine cedex

**MAZARS & GUERARD
MAZARS**

Le Vinci 4, allée de l Arche
92075 La Defense cedex

Report of independent auditors

To the Board of Directors and Shareholders of Compagnie Générale de Géophysique, S.A.:

We have audited the accompanying consolidated balance sheet of Compagnie Générale de Géophysique, S.A. as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended 31 December 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compagnie Générale de Géophysique at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended 31 December 2004, in conformity with accounting principles generally accepted in France, which differ in certain respects from accounting principles generally accepted in the United States of America (see note 28 to the consolidated financial statements).

Neuilly-sur-Seine and Paris La Défense, France

April 11, 2005

**BARBIER FRINAULT & AUTRES
ERNST & YOUNG**

/s/ Pascal MACIOCE

Pascal MACIOCE

MAZARS & GUERARD

/s/ Philippe CASTAGNAC

Philippe CASTAGNAC

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BARBIER FRINAULT & AUTRES

41, rue Ybry
92576 Neuilly-sur-Seine cedex

ERNST & YOUNG AUDIT

4, rue Auber
75009 Paris

Report of independent auditors

To the Board of Directors and Shareholders of Compagnie Générale de Géophysique, S.A. :

We have audited the accompanying consolidated balance sheets of Compagnie Générale de Géophysique, S.A. as of December 31, 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compagnie Générale de Géophysique and subsidiaries at December 31, 2002, and the consolidated results of their operations and their cash flows of the year in the period ended December 31, 2002, in conformity with accounting principles generally accepted in France, which differ in certain respects from accounting principles generally accepted in the United States of America (see note 28 to the consolidated financial statements).

*Neuilly-sur-Seine and Paris,
May 9th, 2003*

BARBIER FRINAULT & AUTRES

/s/ Pascal MACIOCE

Pascal MACIOCE

ERNST & YOUNG AUDIT

/s/ Bruno PERRIN

Bruno PERRIN

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
CONSOLIDATED BALANCE SHEETS**

	Notes	2004	2003	2002
December 31				
(amounts in millions of euros)				
ASSETS				
Cash and cash equivalents		130.8	96.4	116.6
Trade accounts and notes receivable	3	191.7	165.5	192.3
Inventories and work-in-progress	4	81.4	64.0	65.2
Other current assets	5	58.3	57.9	130.9
Total current assets		462.2	383.8	505.0
Long term receivable and other investments	6	31.9	41.5	16.8
Investments in and advances to companies under the equity method	6	36.6	33.0	36.8
Property, plant and equipment, net	7	204.5	216.0	265.0
Goodwill and intangible assets, net	8	204.4	205.1	201.1
Total assets		939.6	879.4	1,024.7
LIABILITIES AND SHAREHOLDERS EQUITY				
Bank overdrafts		2.8	3.2	10.5
Current portion of long-term debt	10	73.1	24.6	58.6
Trade accounts and notes payable		97.8	78.6	92.8
Accrued payroll costs		47.8	47.7	50.6
Income taxes payable		24.9	18.3	21.9
Advance billings to customers		13.2	16.9	13.9
Other current liabilities	9	41.0	44.8	38.3
Total current liabilities		300.6	234.1	286.6
Long-term debt	10	194.1	207.8	249.2
Other long-term liabilities	11	40.1	32.1	41.1
Total long-term liabilities		234.2	239.9	290.3
Minority interest		9.1	8.8	10.3
Common stock: 24,498,368 shares authorized, 11,682,218 shares with a 2 nominal value issued and outstanding at December 31, 2004, 2003 and 2002	12	23.4	23.4	23.4
Additional paid-in capital		173.4	292.7	310.6
Amount receivable from shareholders				
Retained earnings		252.0	142.5	107.2
Net income (loss) for the year		11.1	(10.4)	17.4

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Cumulative Translation Adjustment	(64.2)	(51.6)	(21.1)
Total shareholders equity	395.7	396.6	437.5
Total liabilities and shareholders equity	939.6	879.4	1,024.7

See notes to consolidated financial statements

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COMPAGNIE GENERALE DE GEOPHYSIQUE
CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	Year		
		2004	2003	2002
(amounts in millions of euros, except share and per share data)				
Operating revenues	15	692.7	612.4	700.7
Cost of operations		(556.0)	(491.0)	(531.4)
Gross profit		136.7	121.4	169.3
Research and development expenses net	16	(33.5)	(26.9)	(27.1)
Selling, general and administrative expenses		(79.5)	(78.8)	(86.7)
Other revenues (expenses) net	17	12.0	(5.1)	6.1
Operating income		35.7	10.6	61.6
Interest and other financial income and expense net	18	(22.4)	(21.0)	(32.6)
Exchange gains net		4.4	4.6	7.9
Income (loss) before income taxes		17.7	(5.8)	36.9
Income tax expense	19	(9.7)	(3.1)	(17.4)
Income (loss) from consolidated companies		8.0	(8.9)	19.5
Equity in income of affiliates	6	10.3	6.5	6.4
Goodwill amortization	8	(6.2)	(7.7)	(6.3)
Minority interest		(1.0)	(0.3)	(2.2)
Net income (loss)		11.1	(10.4)	17.4
Weighted average number of shares outstanding		11,681,406	11,680,718	11,680,718
Dilutive potential shares from stock options		137,197	79,912	(a)
Dilutive potential shares from convertible bonds		(b)		
Adjusted weighted average shares and assumed option exercises		11,818,603	11,760,630	11,680,718
Earnings per share				
Basic		0.95	(0.89)	1.49
Diluted		0.94	(0.89)	1.49

(a) For the year ended December 31, 2002, the effects of stock options were anti-dilutive.

(b) For the year ended December 31, 2004, the effects of convertible bonds were anti-dilutive.
See notes to consolidated financial statements

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year		
	2004	2003	2002
	(amounts in millions of euros)		
Cash flows from operating activities			
Net income (loss)	11.1	(10.4)	17.4
Depreciation and amortization	71.4	72.9	134.9
Multi-client surveys amortization	66.5	80.0	87.0
Net gain on sale of assets	(10.5)	(6.0)	(4.3)
Deferred income taxes	(12.7)	(11.6)	2.0
Minority interest	1.0	0.3	2.2
Equity in income of investees, net of dividends	(5.5)	(1.3)	(2.9)
Increase (decrease) in other long-term liabilities	3.6	(5.4)	5.9
Other non-cash items	(7.7)	(20.1)	(19.0)
Increase/decrease in operating assets and liabilities:			
(Increase) decrease in trade accounts and notes receivable	(28.5)	16.0	60.5
(Increase) decrease in inventories and work in progress	(11.0)	(0.2)	16.7
(Increase) decrease in other current assets	11.7	70.3	(77.1)
Increase (decrease) in trade accounts and notes payable	16.0	(10.6)	0.6
Increase (decrease) in other current liabilities	(13.5)	6.6	(4.9)
Net cash provided by operating activities	91.9	180.5	219.0
Cash flows from investing activities			
Purchases of property, plant and equipment	(43.0)	(36.3)	(122.0)
Investments in multi-client surveys	(51.1)	(109.7)	(130.1)
Proceeds from sale of assets	23.0	16.9	22.2
Cash paid for acquired businesses, net of cash acquired	(27.9)	(16.2)	(7.4)
Investments in and advances to companies under the equity method	0.7	(0.6)	(1.2)
Increase in other investments	(1.8)	(17.9)	(2.8)
Net cash used in investing activities	(100.1)	(163.8)	(241.3)
Cash flows from financing activities			
Repayment of long-term debt	(16.5)	(29.6)	(53.6)
Issuance of long-term debt	73.7	4.2	131.6
Repayment of capital lease obligations	(11.9)	(14.3)	(14.0)
Government research grants received	0.7	0.6	1.1
Government research grants repaid	(1.2)	(0.3)	(1.2)
Increase (decrease) in bank overdrafts	(0.6)	(6.6)	5.0
Net proceeds from capital increase			
Dividends paid and share capital reimbursements			
Contribution from minority shareholders			

Net cash provided by (used in) financing activities	44.2	(46.0)	68.9
Effects of exchange rate changes on cash	(1.6)	9.1	13.3
Net increase (decrease) in cash and cash equivalents	34.4	(20.2)	59.9
Cash and cash equivalents at beginning of year	96.4	116.6	56.7
Cash and cash equivalents at end of year	130.8	96.4	116.6

See notes to consolidated financial statements

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COMPAGNIE GENERALE DE GEOPHYSIQUE
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Number of shares Issued ^(a)	Common stock	Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Total shareholders equity
(in millions of euros, except for number of shares)						
As of January 1, 2002	11,680,718	23.4	347.5	70.3	21.6	462.8
Capital increase						
Net income				17.4		17.4
Other ^(a)			(36.9)	36.9		
Foreign currency translation					(42.7)	(42.7)
As of December 31, 2002	11,680,718	23.4	310.6	124.6	(21.1)	437.5
Capital increase						
Net income				(10.4)		(10.4)
Other ^(a)			(17.9)	17.9		
Foreign currency translation					(30.5)	(30.5)
As of December 31, 2003	11,680,718	23.4	292.7	132.1	(51.6)	396.6
Capital increase	1,500					
Net income				11.1		11.1
Gain on sale of treasury shares ^(b)				0.6		0.6
Other ^(a)			(119.3)	119.3		
Foreign currency translation					(12.6)	(12.6)
As of December 31, 2004	11,682,218	23.4	173.4	263.1	(64.2)	395.7

(a) Transfer of additional paid-in-capital to retained earnings (as permitted under French GAAP)

(b) Gain on treasury shares purchased and sold in 2004

See notes to consolidated financial statements

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting principles applied by the Group in the preparation of the accompanying financial statements are in conformity with accounting principles generally accepted in France (French GAAP) and comply with the regulation Number 99-02 approved by the decree date June 22, 1999 of the French Comité de la Réglementation Comptable .

As CGG is listed on the New York Stock Exchange (American Depositary Shares), the Group is required to file on Form 20-F with the SEC its annual financial statements reconciled with the accounting principles generally accepted in the United States (U.S. GAAP). Beginning with the financial statements for fiscal year 2001, French GAAP differs in certain significant respects from U.S. GAAP. The differences between French GAAP and U.S. GAAP as they relate to the Group, and the reconciliation of net income and shareholders' equity to U.S. GAAP are described in Note 28.

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

Euro

Consolidated financial statements are reported in euro.

Principles of consolidation

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

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

All inter-company transactions and accounts are eliminated in consolidation.

Translation of financial statements of foreign entities and foreign currency transactions

The accounts of all the Group's foreign subsidiaries are maintained in the local currency, which is the functional currency, with the exception of the accounts of subsidiaries operating in Indonesia and Venezuela. In those cases, the functional currency is the U.S. dollar, the currency in which these subsidiaries primarily conduct their businesses.

Transactions denominated in currencies other than the functional currency of a given entity are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies other than the functional currency are re-evaluated at year-end exchange rates and any resulting unrealized exchange gains and losses are included in income.

When translating the foreign currency financial statements of foreign subsidiaries to euro, year-end exchange rates are applied to asset and liability accounts, while average annual exchange rates are applied to

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

income statement accounts. Adjustments resulting from this process are recorded in a separate component of shareholders' equity.

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

Multi-client survey accounting

Multi-client surveys consist of seismic surveys to be licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized into the multi-client library. The value of our multi-client library is stated on our balance sheet at the aggregate of those costs less accumulated amortization or at fair value, if lower. The Company reviews the library for potential impairment of our independent surveys on an ongoing basis.

Revenue recognition:

Revenues related to multi-client surveys result from pre-commitments and licenses after completion of the surveys (After-sales).

Pre-commitments Generally the Company obtains pre-commitments from a limited number of customers before a seismic project is completed. These pre-commitments cover part or all of the survey area blocks. In return for the commitment, the customer typically gains the ability to direct or influence the project specifications, advance access to data as it is being acquired, and favorable pricing. The Company recognizes payments that it receives during periods of mobilization as advance billing and these payments appear in the balance sheet in the item Advance billings to customers .

The Company recognizes pre-commitments as revenue when production is begun based on the ratio of project cost incurred during that period to total estimated project cost. The Company believes this ratio to be generally consistent with the physical progress of the project.

After-sales Generally the Company grants a license entitling non-exclusive access to a complete and ready for use, specifically defined portion of the Company's multi-client data library in exchange for a fixed and determinable payment. The Company recognizes after sales revenue upon the client executing a valid license agreement and having been granted access to the data. Within thirty days of execution and access, the client may exercise the Company's warranty that the medium on which the data is transmitted (a magnetic cartridge) is free from technical defects. If the warranty is exercised, the Company will provide the same data on a new magnetic cartridge. The cost of providing new magnetic cartridges is negligible.

After-sales volume agreements The Company enters into a customer arrangement in which the Company agrees to grant licenses to the customer for access to a specified number of blocks of the multi-client library. These arrangements typically enable the customer to select and access the specified blocks for a limited period of time. The Company recognizes revenue when the blocks are selected and the client has been granted access to the data.

Amortization:

We amortize the multi-client surveys over the period during which the data is expected to be marketed using a pro-rata method based on recognized revenues as a percentage of total estimated sales (such estimation relies on the historical sales track record).

In this respect, we use three different sets of parameters depending on the area or type of surveys considered:

Gulf of Mexico surveys are amortized on the basis of 66.6% of revenues. Starting at time of data delivery, a minimum straight-line depreciation scheme is applied on a three-year period, should total

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

accumulated depreciation from the 66.6% of revenues amortization method be below this minimum level;

Rest of the world surveys: same as above except depreciation is 83.3% of revenues and straight-line depreciation is over a five-year period from data delivery; and

Long term strategic 2D surveys are amortized on the basis of revenues according to the above area split and straight-line depreciation on a seven-year period from data delivery.

Exclusive survey accounting (Proprietary/ Contract services)

In exclusive surveys, the Company performs seismic services for a specific customer. The Company recognizes proprietary/contract revenue as the services are rendered. The Company evaluates the progress to date, in a manner generally consistent with the physical progress of the project, and recognizes revenue based on the ratio of the project cost incurred during that period to the total estimated project cost. The Company believes this ratio to be generally consistent with the physical progress of the project.

In some exclusive survey contracts and a limited number of multi-client survey contracts, the Company is required to meet certain milestones. The Company defers recognition of revenue on such contracts until all milestones that provide the customer a right of cancellation or refund of amounts paid have been met.

Other geophysical services

Revenue from the Company's other geophysical services is recognized as the services are performed.

Equipment sales

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

Software and hardware sales

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

Revenue is recognized when all of the following criteria are met:

the contract is signed;

delivery has occurred;

the fee is fixed or determinable; and

collectibility is probable.

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

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

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Research and development

Research and development costs are expensed as incurred.

Government research grants

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

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

This conditionally repayable portion of the research grant is recognized as a reduction of Research and development expenses net as the research expenditures are incurred. Any royalties due are recognized as cost of operations as the related sales are recognized.

Other revenues (expenses)

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

Cash equivalents

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

Inventories and work-in-progress

Geophysical services

Consumables and spare parts inventories are stated at the lower of cost or market value with cost determined on a standard cost basis deemed in US dollars and converted into euro by using a rolling 12 months exchange rate.

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

Products

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

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

Property, plant and equipment

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

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

Goodwill and intangible assets

Goodwill, representing the excess of the purchase price over the fair value of net assets of businesses acquired, is amortized on a straight-line basis over the estimated future periods of benefit, which is five years for software and technology activities and from ten to twenty years depending on the other type of businesses acquired.

The difference between the cost of equity method investments and the amount of underlying equity acquired in the net assets of the investee is classified in investments in companies under the equity method.

Multi-clients surveys represent the major item of intangible assets (see above).

Intangible assets also include contractual rights, development costs, patents and trademarks. The value of most of those intangible assets is assessed when the purchase accounting of an acquired company is realized upon generally agreed methods, based on revenues, costs or market value.

Contractual rights, development costs, patents and trademarks are amortized on a straight-line basis over their estimated useful lives.

Impairment of long-lived assets

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

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

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

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Unconsolidated investments

Unconsolidated investments are recorded in Long term receivable and other investments at acquisition cost, less provisions to reduce them to fair value.

Income taxes

Deferred taxes are calculated on tax losses carried forward and on temporary differences arising between the net assets of consolidated companies and the amount resulting from the application of tax regulations. These amounts are recorded under the liability method based on the tax rates in effect when the temporary differences will reverse. Deferred tax assets are recorded when realization is probable.

Tax credits and other allowances are credited to current income tax expense.

Pension plans and other post-retirement benefits

The Group maintains pension plans in various countries as prescribed by local laws and customs. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions.

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

For all other defined benefit plans, the actuarial cost of commitments is expensed each year during the employee's service life.

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

Contingencies

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

Insurance recoveries are recorded when amounts are received or when it is highly probable that they will be received.

Financial instruments

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

Unrealized gains and losses resulting from changes in forward rates of instruments hedging recognized assets and liabilities are recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item. Changes in the fair value of instruments hedging future commitments are deferred and recognized in earnings on the projected date of the forecasted transaction. If the amounts and maturity dates of forward contracts do not correspond to foreign currency cash flows generated by the backlog, the forward contracts are not qualified as hedges. Accordingly, unrealized gains and losses resulting from changes in forward rates of these contracts are recorded in earnings. Unrealized gains and losses reflected in income are included

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

respectively in other current assets and other liabilities in the consolidated balance sheet using the accrual method.

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

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

Earnings per share

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

Diluted earnings per share is calculated by dividing net income by the weighted average number of shares including the effect of dilutive securities (stock options) and of subordinated bonds convertible into new ordinary shares or redeemable in new shares and/or existing shares and/or in cash.

NOTE 2 ACQUISITIONS AND DIVESTITURES

All acquisitions have been accounted for using the purchase method.

For all other non-recurring items, see Note 17.

For the year ended December 31, 2004

On January 2, 2004, Sercel acquired the seismic equipment business of Thales Underwater Systems Pty Ltd (TUS). This business includes the development and manufacturing of surface marine seismic acquisition systems, particularly solid streamers, and seabed marine seismic acquisition systems. The transaction was achieved with an immediate payment of 21.7 million subject to a possible price adjustment which may entail an additional payment in 2005 and/or 2006 based on revenues. The reassessment of TUS's assets led to the recognition of contractual rights by 11.9 million and of development costs by 8.9 million. As a result of this reassessment, the final goodwill amounted to 8.2 million.

On January 8, 2004, Sercel acquired a 51% majority ownership in Hebei JunFeng Geophysical Co. Ltd., a provider of geophones and seismic cables for the Chinese seismic market. Hebei JunFeng Geophysical Co. Ltd., located in the Hebei province, was originally created by BGP, the largest Chinese geophysical services contractor. The consideration for the transaction was 9.8 million and generated goodwill of 0.5 million. BGP will remain shareholder of the company along with the management, the employees and XPEIC, a Chinese geophysical equipment company.

On February 19, 2004, Sercel acquired Orca Instrumentation, a French company that develops and markets marine acquisition systems and underwater data transmission systems. Orca Instrumentation employs 15 people. The consideration for the transaction amounted to 1.3 million. As a result of the reassessment of Orca's assets, which led to the recognition of development costs by 0.6 million, the final goodwill amounted to 0.2 million.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

On March 3, 2004, Sercel completed the acquisition of Createch Industrie, a French company specialized in borehole measurement tools, borehole seismic tools and permanent borehole sensors. The company is headquartered in the Paris area and employed 19 people. The consideration for the transaction amounted to 1.9 million. The reassessment of Createch's assets resulted in the recognition of contractual rights of 0.4 million and of development costs of 1.5 million and the final goodwill amounted to 0.6 million.

On September 23, 2004, the liquidation of Kantwell Overseas Shipping Co, which had owned the seismic vessel the *CGG Mistral* (which sank in December 2002), was completed. A foreign exchange loss of 3.8 million was recorded under the item Exchange gains (losses)-net.

In October and November 2004, CGG sold 467,753 shares of the Norwegian company Petroleum Geo Services (PGS) for 17.2 million; the gain was 7.9 million before and after tax and was booked as Other Revenues and Expenses.

For the year ended December 31, 2003

On October 15, 2003, Sercel acquired Soderia S.A, which specialized in air guns for marine activities, for U.S.\$4.7 million (4.2 million) generating 2.4 million of goodwill to be amortized over 5 years. After the reassessment of Soderia's assets, which led to the recognition of contractual rights of 0.8 million and of development costs of 1.5 million, no goodwill remained at December 31, 2004. Soderia S.A. merged with Sercel on January 9, 2004.

As part of the financial restructuring plan presented on June 18, 2003 at Petroleum Geo Services ASA's annual shareholders meeting, CGG paid approximately 9.9 million for 867,753 shares of PGS, representing 4.3% of the PGS's restructured equity. Beginning December 2003, CGG sold 400,000 shares of PGS on the market, reducing its ownership to 2.3%. The sale price amounted to 7.9 million and the gain was 2.5 million before tax.

For the year ended December 31, 2002

On May 21, 2002, Talamantes B.V., a Dutch company and Paradigm Geophysical Ltd (PGEO) entered into an Agreement of Merger (the Merger Agreement) providing for the merger of PGEO into Talamantes or one of its subsidiaries (the Merger). Pursuant to the Merger Agreement, all PGEO outstanding ordinary shares were to be converted into the right to receive U.S.\$5.15 in cash each (the Merger Consideration), without interest thereon. In consideration of the execution of the Merger Agreement by PGEO, CGG entered into a voting agreement, dated as of May 21, 2002, with Talamantes, by which CGG agreed to vote in favor of the Merger.

The Merger was completed on August 13, 2002 and the shares CGG held in PGEO were therefore converted into the right to receive the Merger Consideration payable upon surrender of the relevant share certificate. The Group received a total of U.S.\$7.7 million in Merger Consideration. A 2 million loss was recorded under the item Other Revenues and Expenses.

On July 4, 2002, the Group acquired a 30% stake in the share capital of CGG Asia-Pacific (formerly Teknosif Sdn Bhd) with a value of 405,000 Malaysian Ringgit (108,000). CGG AP is engaged in data processing activities and is incorporated in Malaysia. This transaction did not generate any material goodwill.

In September 2002, the Group acquired 7,757,400 shares of PGS for approximately 7.3 million, representing a 7.51% stake.

On December 27, 2002, the Group sold its borehole seismic activity to Baker Atlas, a division of Baker Hughes for U.S.\$12 million (11.4 million) cash and agreed to form a joint venture for the processing and interpretation of borehole seismic data, which was incorporated in February 2003 and in which CGG owns 49%. An 8.4 million gain was recorded under the item Other revenues and expenses.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 TRADE ACCOUNTS AND NOTES RECEIVABLE

	December 31		
	2004	2003	2002
	(in millions of euros)		
Trade accounts and notes receivable	191.5	148.7	178.0
Recoverable costs and accrued profit not billed	17.7	25.3	27.2
Less: allowance for doubtful accounts	(4.4)	(3.9)	(7.0)
Subtotal	204.8	170.1	198.2
Less: long-term portion included in long-term receivables	(13.1)	(4.6)	(5.9)
Trade accounts and notes receivable net	191.7	165.5	192.3

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

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

Recoverable costs and accrued profit not billed comprise amounts of revenue recognized under the percentage of completion method on contracts for which billings had not been presented to the contract owners because the amounts were not billable at the balance sheet date. Such unbilled accounts receivable are generally billable over the 30 or 60 days following the project commencement.

The payment conditions of a net receivable related to a land seismic acquisition contract amounting, as of December 31, 2003, to U.S.\$28.9 million were the subject of negotiations in the first half of 2004. An agreement was reached on a repayment schedule. The outstanding receivable amounted to U.S.\$20.3 million as of December 31, 2004.

The long-term receivables as of December 31, 2004 amounted to 9.6 million for the geophysical services segment and to 3.5 million for the geophysical products segment. The long-term receivables as of December 31, 2003 and 2002 were mainly related to contracts included in the geophysical products segment.

NOTE 4 INVENTORIES AND WORK IN PROGRESS

	December 31				
	2004		2003		2002
	Cost	Valuation Allowance	Net	Net	Net
	(in millions of euros)				
<i>Geophysical services</i>					
Consumables and spare parts	18.6	(1.0)	17.6	17.9	20.2

<i>Geophysical products</i>					
Raw materials and spare parts	27.4	(6.1)	21.3	15.2	15.7
Work in progress	34.9	(4.6)	30.3	24.3	21.5
Finished goods	16.0	(3.8)	12.2	6.6	7.8
Inventories and work in progress	96.9	(15.5)	81.4	64.0	65.2

Inventories and work-in-progress are presented net of valuation allowances which amounted to 15.5 million at December 31, 2004, 22.7 million at December 31, 2003 and 30.4 million at December 31, 2002.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 OTHER CURRENT ASSETS

	December 31		
	2004	2003	2002
	(in millions of euros)		
Value added tax, government grants and other receivables	24.2 ^(a)	31.5 ^(a)	94.9 ^(a)
Prepaid rent, vessel charters and other expenses	7.2	7.5	8.2
Prepaid income tax	4.0	3.5	5.9
Deferred tax assets	3.6	3.3	4.3
Prepaid expenses	7.4	5.3	7.6
Supplier prepayments	8.2	3.6	4.7
Unrealized exchange gains on forward contracts	3.7	3.1	5.3
Other current assets	58.3	57.9	130.9

(a) Including 7.2 million at December 31, 2004, 16.6 million at December 31, 2003 and 62.3 million at December 31, 2002 related to insurance indemnities to be received in respect of the CGG Mistral .

**NOTE 6 LONG TERM RECEIVABLE & OTHER INVESTMENTS INVESTMENTS IN AND ADVANCES
TO COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD**

Long term receivable & other investments

	December 31		
	2004	2003	2002
	(in millions of euros)		
Long term receivable (Note 3)	13.1	4.6	5.9
Other financial investments			
Unconsolidated investments	2.3	11.7	4.2
Other	16.5	25.2	6.7
Total	31.9	41.5	16.8

Unconsolidated investments included in Long term receivable and other investments are presented as follows as of December 31, 2004 :

	2004	2003	2002
	(in millions of euros)		
Group interest > 50%	0.1	0.1	0.1
Group interest between 20% and 50%			

Group interest < 20%	3.4	12.2	8.8
Gross	3.5	12.3	8.9
Allowance	(1.2)	(0.6)	(4.7)
Net book value	2.3	11.7	4.2

The above-mentioned less than 20% category included principally in 2004 our 12.45% stake in Tronic s Microsystems SA, with a 2.6 million net book value.

The above-mentioned less than 20% category included principally in 2003 our 2.3% stake in post-restructured PGS for an amount of 9.3 million, which was sold in 2004 for 17.2 million.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments accounted for using the equity method

	December 31		
	2004	2003	2002
	(in millions of euros)		
Balance at beginning of year	33.0	36.8	51.4
Investments made during the year			
Net variation in advances and loans to equity investees	(0.6)		1.4
Equity in income including amortization of goodwill ^(a)	10.3	6.5	6.4
Dividends received during the year, reduction in share capital	(4.8)	(5.2)	(3.5)
Changes in exchange rates	(2.2)	(4.5)	(8.5)
Other ^(b)	0.9	(0.6)	(10.6)
Balance at end of year	36.6	33.0	36.8

(a) Includes goodwill amortization related to Paradigm stock of 0.8 in 2002.

(b) Relates primarily to divestiture (sale of Paradigm stock in 2002) and valuation allowances recorded against receivables from affiliates with a negative net worth.

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

	2004	2003	2002
	(in millions of euros)		
Argas	23.7	19.3	20.5
Geomar	5.6	5.6	5.6
JV XPEIC/ Sercel Limited	2.2	2.4	3.3
Other ^(a)	5.1	5.7	7.4
Investments in companies under the equity method	36.6	33.0	36.8

(a) Includes loans and advances to companies accounted for under the equity method at December 31, 2004, 2003, 2002 for 5.8 million, 6.3 million and 7.4 million, respectively.

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

	2004	2003	2002
	(in millions of euros)		
Argas	19.4	14.9	16.1
Zhong Hai			

JV XPEIC/ Sercel Limited	0.6	0.8	1.7
VS Fusion	(0.7)	(0.4)	
Total	19.3	15.3	17.8

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The key figures relating to Argas' s financial statements are as follows:

	2004	2003	2002
	(in millions of euros)		
Current assets	41.9	35.5	44.1
Fixed assets	23.7	36.8	59.1
Current liabilities	5.7	13.9	28.2
Non current liabilities	2.6	9.6	25.1
Gross revenue	70.0	72.7	86.5
Operating profit	21.6	20.6	23.2
Income from continuing operations before extraordinary items and cumulative effect of change in accounting principle	21.3	17.4	19.7
Net income	21.3	17.4	19.7

NOTE 7 PROPERTY, PLANT AND EQUIPMENT, NET

	December 31						
	2004			2003			2002
	Cost	Acc. Dep.	Net	Cost	Acc. Dep.	Net	Net
	(in millions of euros)						
Land	4.4	(0.2)	4.2	4.7	(0.2)	4.5	4.8
Buildings	53.1	(32.4)	20.7	51.4	(33.2)	18.2	19.2
Machinery and equipment	339.7	(259.3)	80.4	419.9	(330.5)	89.4	102.0
Vehicles and vessels	159.2	(79.0)	80.2	177.4	(93.5)	83.9	114.0
Office furniture and fixtures	33.1	(23.6)	9.5	32.5	(22.6)	9.9	11.5
Computer hardware & software	24.8	(17.4)	7.4	23.3	(14.4)	8.9	9.4
Assets under construction	2.1		2.1	1.2		1.2	4.1
Total	616.4	(411.9)	204.5	710.5	(494.4)	216.0	265.0

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

	December 31						
	2004			2003			2002
	Cost	Acc. Dep.	Net	Cost	Acc. Dep.	Net	Net

(in millions of euros)

Land and buildings	5.9	(5.3)	0.6	5.9	(5.3)	0.6	0.7
Geophysical equipment	31.4	(22.6)	8.8	27.4	(16.7)	10.7	12.4
Total	37.3	(27.9)	9.4	33.3	(22.0)	11.3	13.1

In 2004 the seismic vessels Föhn and Harmattan and one chase boat were included in purchases of assets recorded under capital leases for a total amount of 8.7 million.

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

Included in assets recorded under capital leases are land and buildings of one of the Group's French offices in Massy, which were sold under a sale and leaseback agreement in 1990. The assets are maintained at their original cost and the buildings continue to be depreciated over their initial estimated useful lives.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Repairs and maintenance expenses

Included in cost of operations was an amount of 18.3 million in 2004, 16.8 million in 2003 and 19.7 million in 2002 representing repairs and maintenance expense.

NOTE 8 GOODWILL AND INTANGIBLE ASSETS, NET

	December 31		
	2004	2003	2002
	(in millions of euros)		
Goodwill of consolidated subsidiaries	84.9	81.7	90.4
Less: accumulated amortization	(28.2)	(23.5)	(18.7)
Goodwill net	56.7	58.2	71.7
Multi-client surveys	510.9	477.2	429.0
Less: accumulated amortization	(386.3)	(332.2)	(301.9)
Multi-client surveys net	124.6	145.0	127.1
Patents, trademarks and other intangible assets	29.8	4.8	5.7
Less: accumulated amortization	(6.7)	(2.9)	(3.4)
Other intangible assets net	23.1	1.9	2.3
Total Goodwill and Intangible assets net	204.4	205.1	201.1

Amortization of goodwill amounted to 7.7 million in 2003 including a 1.6 million write-down related to the exceptional goodwill depreciation of Compañía Mexicana de Geofísica (CMG) corresponding to the Land restructuring plan.

The different impairment tests performed in 2004 and 2003 did not result in the recording of any impairment at December 31 in either year.

In 2004, the main impairment tests were performed at the Product segment level (test of the goodwill net book value), at the Offshore SBU level (test of the historical multi-client library net book value and of the tangible assets net book value, which results notably from the 2001 Aker purchase accounting) and at the Land SBU level.

For each test, the discounted cash-flow valuation method was used at year-end with the following parameters:

expected cash-flows deemed on the basis of the average medium term exchange rate 1 equals U.S.\$1.25; and

discount ratios corresponding to the respective sector weighted average cost of capital (WACC):

8.1% for the Product segment;

7.5% for the multi-client library; and

7.7% for the whole Offshore SBU.

For the test of the Land SBU, the impairment test of the long-term assets was carried out by an expert through an assessment of the market value of these assets.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 OTHER CURRENT LIABILITIES

The analysis of other current liabilities is as follows:

	December 31		
	2004	2003	2002
	(in millions of euros)		
Provisions for restructuring costs	1.0	12.1	0.8
Provisions for contract losses and litigation	10.0	4.2	5.4
Deferred income	4.0	6.3	8.9
Value added tax and other taxes payable	7.7	9.0	10.0
Unrealized exchange losses on forward contracts	0.2	0.2	
Deferred tax expense (short term)	0.8	0.5	0.7
Other liabilities ^(a)	17.3	12.5	12.5
Other current liabilities	41.0	44.8	38.3

(a) Includes the short term part of the provisions for liabilities and charges of 3.2 million, 3.7 million and 5.9 million as of December 31, 2004, 2003 and 2002, respectively (see Note 25).

NOTE 10 LONG TERM DEBT

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

	December 31						
	2004			2003			2002
	Current	Long-term	Total	Current	Long-term	Total	Total
	(in millions of euros)						
Outstanding bonds	55.1	172.5	227.6		178.1	178.1	214.6
Bank loans	5.3	6.6	11.9	10.4	12.8	23.2	54.0
Capital lease obligations	9.8	15.0	24.8	11.6	16.9	28.5	35.8
Sub-total	70.2	194.1	264.3	22.0	207.8	229.8	304.4
Accrued interest	2.9			2.6			3.4
Total	73.1			24.6			307.8

Outstanding Bonds

On November 17, 2000, the Group issued U.S.\$170 million aggregate principal amount of 10% Senior Notes due 2007 in the international capital markets. The net proceeds (approximately U.S.\$164.9 million) was used to repay a

portion of outstanding indebtedness under the existing syndicated credit facility and to fund the cash portion of the purchase price of two marine seismic vessels and certain seismic data from an affiliate of Aker (U.S.\$25 million). A standard covenant package is attached to the bond, with a main incurrence test of coverage of interest expense by cash flow. The Group was in compliance with the bond covenants on the date of issue, and at year-end.

On February 5, 2002, the Company issued in addition to the bonds issued on November 2000, bonds in a total principal amount of U.S.\$55 million, with a maturity date in 2007 and with an annual fixed rate of 10⁵/₈%.

On November 4, 2004 the Company issued 14,000 subordinated bonds in favor of Onex Partners LP, Onex American Holdings II LLC, Onex US Principals LP and CGG Executive Invesco, LLC, with maturity of 2012, in

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

a total nominal amount of U.S.\$84,980,000, convertible into new ordinary shares or redeemable in new shares and/or existing shares and/or in cash (the Bonds), at an interest rate of 7.75%.

The Note d'opération was filed with the Autorité des Marchés Financiers under visa number 04-863 dated October 28, 2004 (hereinafter the Note d'opération). The issuance of the Bonds was realized on November 4, 2004.

The Bonds provide that the holders of the Bonds may be issued with a maximum of:

1,400,000 shares with a nominal value of \$2 each, corresponding to a maximum share capital increase of 2,800,000, resulting from the conversion of the Bonds and subject to the adjustments provided for in paragraph Adjustments of the Conversion Ratio in the event of financial transactions of the Note d'opération;

2,000,000 shares with a nominal value of \$2 each, corresponding to a maximum share capital increase of 4,000,000, resulting from the redemption of the Bonds by delivery of shares and subject to the adjustments provided for in case of a division in the share nominal value;

1,200,000 shares of a nominal value of \$2 each, corresponding to a maximum share capital increase of 2,400,000, with respect to the payment in shares, at the Company's option, of all or part of the interest due under the Bonds;
or

an aggregate maximum issue of 4,599,900 shares with a nominal value of \$2 each, (i.e. 39.3% of the number of shares composing the share capital) resulting in a maximum share capital increase of 9,199,800.

The indenture of the Bonds states that, in case of fundamental change (shares or American depositary shares ceasing to be listed on the New York Stock Exchange, sale of a substantial part of the assets of the Company, liquidation or dissolution of the Company, change of control of the Company), any bondholder may require the Company to redeem its Bonds and to pay, in addition to the principal amount of the Bonds, an amount equal to the amount of basic interest at a rate of 7.75% that would have accrued on the Bonds until maturity for a maximum period of five years. This provision may trigger a payment by the Company of a maximum of U.S.\$33 million in additional interest. As of December 31, 2004, the Company has not recognized any cost related to this feature as its value cannot be reasonably determined.

The Board of Directors meeting on December 8, 2004 authorized the Company to partially redeem its 10⁵/₈% Senior Notes, up to a principal amount of U.S.\$75 million. According to the indenture, such early redemption required the payment of a premium representing 5.3125% of the total redemption amount (U.S.\$4.0 million) plus accrued interest. The total cost of such redemption for the Company is therefore approximately U.S.\$79 million plus the accrued interest. The indenture of the convertible bonds states that the bondholders are entitled to cash payments equal to the amount of dividends paid to shareholders that would be received if the bonds were converted into common shares.

The redemption of U.S.\$75 million in principal amount of the Notes was realized on January 26, 2005. The premium and the unamortized portion of the deferred expenditures linked to this redemption were recognized in the profit and loss as Other expenses at December 31, 2004.

Credit line

On March 12, 2004, CGG, CGG Marine and Sercel signed a revolving credit facility agreement of U.S.\$60 million with banks and financial institutions acting as lenders. The purpose of this agreement was notably to replace the multi currency facility agreement dated September 15, 1999 as amended on August 31, 2000, which was cancelled.

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This credit facility agreement requires that the following ratios be respected:

- (a) the ratio of net debt over equity should not exceed 0.9;
- (b) the ratio of net debt over Adjusted EBITDA (ORBDA) should not exceed (i) 2.00 on the 12 months periods ending December 31, 2003, June 30, 2004 and December 31, 2004, (ii) 1.75 on the 12 months periods ending June 30, 2005 and December 31, 2005 and (iii) 1.50 on the following 12 months periods; and
- (c) the ratio of net debt (in USD at closing rate) over cash-flow from operations on a rolling 12 months period calculated at average rate of the period should not exceed (i) 4.00 on the 12 months periods ending December 31, 2003 and June 30, 2004, (ii) 3.75 on the 12 months periods ending December 31, 2004, (iii) 3.50 on the 12 months period ending June 30, 2005, (iv) 3.00 on the 12 months period ending December 31, 2005, and (v) 2.50 on the following 12 months periods.

The ratios calculated at December 31, 2004 met the conditions required.

The lenders were granted a lien on the accounts receivable of CGG, CGG Marine and Sercel S.A. The facility has a term of three years and will begin amortizing after March 11, 2006, one year from its final maturity.

At December 31, 2004 the Group had 10.2 million available in unused short-term credit lines and overdraft facilities and 44.0 million in unused long-term credit lines.

Bank loans

At December 31, 2004, 26.7 million of bank loans were secured by tangible assets and receivables.

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

	December 31		
	2004	2003	2002
	(in millions of euros)		
Euro	18.7	28.7	39.9
U.S. dollar	243.6	193.9	259.9
Other currencies	2.0	7.2	4.6
Total	264.3	229.8	304.4

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

	December 31		
	2004	2003	2002
	(in millions of euros)		
Variable rates (effective rate December 31, 2004: 2.76%; 2003: 9.02%; 2002: 4.87%)	15.6	23.9	21.3
Fixed rates (effective rate December 31, 2004: 9.61%; 2003: 10.02%; 2002: 9.47%)	248.7	205.9	283.1
Total	264.3	229.8	304.4

Variable interest rates generally are based on inter-bank offered rates of the related currency. The weighted average interest rate on bank overdrafts was 9.17%, 13.72%, and 10.95% at December 31, 2004, 2003 and 2002, respectively. The impact of hedging instruments has not been considered in the above two tables.

The annual maturities of long-term debt are set forth in Note 14.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31		
	2004	2003	2002
	(in millions of euros)		
Government research grants	3.8	4.3	5.1
Retirement indemnity provisions	11.2	10.3	10.2
Employee profit sharing	12.8	10.7	8.7
Deferred income tax (long term)	7.5	3.8	12.0
Other liabilities ^(a)	4.8	3.0	5.1
Other long-term liabilities	40.1	32.1	41.1

(a) Includes the long-term part of the provisions for liabilities and charges of 1.6 million, 0.4 million and 1.8 million as of December 31, 2004, 2003 and 2002 respectively (see Note 25).

The Group records retirement indemnity provisions based on the following actuarial assumptions:
historical staff turnover and standard mortality schedule;

age of retirement between 60 and 65 years old; and

actuarial rate and average rate of increase in future compensation.

The status of the retirement indemnity plans is as follows:

	December 31		
	2004	2003	2002
	(in millions of euros)		
Accumulated benefit obligation (unvested)	8.7	7.8	5.0
Projected benefit obligation	11.4	10.6	10.6
Fair value of plan assets			
Unrecognized loss arising from change in assumed discount rate	(0.2)	(0.3)	(0.4)
Accrued provision	11.2	10.3	10.2
Service cost	0.6	1.2	1.3
Interest expense	0.5	0.5	0.4
Amortization of loss arising from change in discount rate	(0.3)	0.1	0.1
Net pension cost	0.8	1.2	1.8
Benefit payments	(0.2)	(0.7)	(0.2)

Curtailement		1.0	
Consolidation scope entries & currency translation	0.3		
Net changes	0.9	0.1	1.6
Key assumptions used in estimating the Group's retirement obligations are:			
Discount rate	4.0%	5.0%	6.0%
Average rate of increase in future compensation	3.0%	3.0%	4.0%

A supplemental pension and retirement plan was implemented in December 2004 for members of the Group's Management Committee and members of the management board of Sercel Holding SA. The commitment related to the projected benefit obligation was 2.5 million as of December 31, 2004. Because this obligation was unvested as of December 31, 2004, we recorded no liability on our balance sheet.

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NOTE 12 COMMON STOCK AND STOCK OPTION PLANS

The Company's share capital at December 31, 2004 consisted of 11,682,218 shares, each with a nominal value of 2.

Issued Shares

In 2004, CGG issued 1,500 fully paid shares related to stocks option exercised at a price of 15.82 for which the company received net proceeds of 23,730.

Dividend rights

Dividends may be distributed from the statutory retained earnings, subject to the requirements of French law and the Company's articles of incorporation. Retained earnings available for distribution totaled 6.9 million at December 31, 2004.

Stock options

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

Pursuant to a resolution adopted by the Board of Directors, the Company instituted a new stock option plan on May 15, 2003. Options granted under this new plan, which expires eight years from the date of grant, are vested by one fourth each year beginning May 2003 and cannot be generally exercised before 2006; options to subscribe 1,000 shares or more cannot be exercised before May 15, 2007.

Twenty percent of options granted in 1997 can be exercised in every twelve month period and expire eight years from the date of grant. Options granted under the provisions of the 2000 option plan which expires eight years from the date of grant cannot be generally exercised before 2003 and the options to subscribe 1,000 shares or more cannot be exercised before January 18, 2005. Options granted under the provisions of the 2001 option plan, which expires eight years from the date of grant, are vested by one fifth each year from March 2001 and cannot be generally exercised before 2004 and the options to subscribe 1,000 shares or more cannot be exercised before January 18, 2005. The exercise price for each option is the average fair market value for the common stock during the 20 trading days ending on the trading day next preceding the date the option is granted. Options granted under the 2002 option plan, which expires eight years from the date of grant, are vested by one fifth each year from May 2002 and cannot be generally exercised before 2005; options to subscribe 1,000 shares or more cannot be exercised before May 15, 2006.

Information relating to options outstanding at December 31, 2004 is summarized below:

Date of Board of Directors	Resolution	Options granted	Options outstanding at Dec. 31, 2004	Exercise price per share ()	Expiration date
May 5, 1997		100,000	56,662	61.0	May 4, 2005
January 18, 2000		231,000	213,250	49.9	January 17, 2008
March 14, 2001		256,000	240,900	71.2	March 13, 2009
May 15, 2002		138,100	131,500	43.5	May 14, 2010
May 15, 2003		169,900	166,738	15.8	May 14, 2011
		895,000	809,050		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2004		2003		2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding-beginning of year	815,673	48.86	648,335	57.55	532,381	61.27
Granted			169,900	15.82	138,100	43.47
Exercised	(1,500)	15.82				
Forfeited	(5,123)	44.39	(2,562)	49.47	(22,146)	59.11
Outstanding-end of year	809,050	48.95	815,673	48.86	648,335	57.55
Exercisable-end of year	56,662	61.03	57,523	61.03	58,135	61.03

NOTE 13 FINANCIAL INSTRUMENTS**Foreign currency exposure management**

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

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

In order to improve the balance of its net position of receivables and payables denominated in foreign currencies, the Group maintains a portion of its financing in U.S. dollars. At December 31, 2004, 2003 and 2002, the Group's long-term debt denominated in U.S. dollars amounted to U.S.\$331.8 million (243.6 million), U.S.\$244.9 million (193.9 million) and U.S.\$272.6 million (259.9 million), respectively. The Group also attempts to improve this balance by entering into forward exchange contracts.

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

Details of forward exchange contracts and of other foreign exchange hedging instruments are as follows:

December 31

2004	2003	2002
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Notional amount (in millions of U.S.\$)	127.0	144.6	132.8
Weighted average maturity	96 days	80 days	94 days
Weighted average forward Euro/U.S.\$ exchange rate	1.2453	1.1472	0.9743
Unrealized exchange gains (in millions of Euros) ^(a)	8.7	11.6	9.7

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(a) 5.4 million of unrealized exchange gains was designated as a hedge of foreign currency commitments in 2004 and deferred to a future period. The equivalent amounts were a profit of 3.3 million and 5.2 million in 2003 and 2002, respectively.

Interest rate risk management

From 1996 until 2002, the Group maintained interest rate cap agreements to reduce the sensitivity to increases in interest rates of its interest expense on variable-rate debt.

The Group has not entered into any such agreements during 2003 or 2004 because of its relatively low amount of variable rate debt.

Fair value of financial instruments

The carrying amounts and fair values of the Group's financial instruments are as follows:

	2004		2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of euros)					
Cash and cash equivalents	130.8	130.8	96.4	96.4	116.6	116.6
Bank overdraft facilities	2.8	2.8	3.1	3.1	10.5	10.5
Bank loans, vendor equipment financing and shareholder loans:						
Variable rate	15.6	15.6	23.9	23.9	21.3	21.3
Fixed rate	248.7	254.8	205.9	218.7	283.1	320.3
Foreign currency exchange contracts	8.7	8.6	11.6	11.3	9.7	9.2

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

For bank loans with fixed interest rates, the fair values have been estimated using discounted cash flow analyses based on the Group's incremental borrowing rates for similar types of borrowing arrangements. For variable-rate bank loans, vendor equipment financing and the shareholder loans, fair values approximate carrying values.

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

NOTE 14 CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES**Contractual obligations**

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

The Group also operates seismic vessels under long-term charter agreements with ship-owners that expire at various dates over the next six to 60 months. Since April 1999, the Group has been operating the seismic vessel *Alizé* under a long-term charter agreement, signed on December 31, 1998, valid for a period of eight years.

In 2004, the Group accounted two seismic vessels (*Föhn* and *Harmattan*) and one chase boat as purchases of assets under capital leases for a total amount of 8.7 million.

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

Rental expense was 61.2 million in 2004, 78.2 million in 2003 and 83.9 million in 2002.

The following table presents payments in future periods relating to contractual obligations as of December 31, 2004:

	Payments due by period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
	(in million of euros)				
Long-term debt (Note 10)	60.4	114.7	0.9	63.5	239.5
Capital Lease Obligations	9.8	16.6	0.3		26.7 ^(a)
Operating Leases	43.8	42.4	2.6	0.6	89.4
Other Long-term Obligations (bond interest)	20.4	33.1	9.7	14.7	77.9
Total Contractual Obligations	134.4	206.8	13.5	78.8	433.5

(a) Includes 1.9 million related to interest.

Other commitments

Outstanding commitments at December 31, 2004 include the following:

	2004	2003	2002
	(in millions of euros)		
Guarantees issued in favor of clients ^(a)	83.0	82.0	57.2
Guarantees issued in favor of banks	13.7	8.7	3.5
Notes receivable discounted			
Other guarantees ^(b)	13.3	14.2	16.5
Total	110.0	104.9	77.2

(a) Guarantees issued in favor of clients relate primarily to performance bonds, direct guarantees given for bids at the bidder level and parent guarantees given for subsidiaries bids.

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

The increase of guarantees issued in favor of clients relates mainly to the increase of guarantees issued by the Company to support bids made at the subsidiaries level.

Other guarantees represent essentially the guarantees given to the Libyan customs authorities for the temporary admission of our seismic vessels in Libyan waters.

There are no significant commitments for capital expenditures at December 31, 2004.

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The duration of the guarantees is as follows:

	Due date				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
	(in millions of euros)				
Guarantees issued in favor of clients	79.4	3.6			83.0
Guarantees issued in favor of banks	9.9	3.3	0.5		13.7
Other guarantees	11.7	0.8	0.8		13.3
Total	101.0	7.7	1.3		110.0

In addition, the Group's agreements for the sale of businesses contain customary, reciprocal warranties and indemnities.

A supplemental pension and retirement plan was implemented in December 2004 for members of the Group's Management Committee and members of the management board of Sercel Holding SA. The commitment related to the Projected Benefit Obligation was 2.5 million as of December 31, 2004. This obligation was unvested as of December 31, 2004, resulting in no liability being recorded.

The Group has no off-balance sheet obligations under French GAAP that are not described above.

Legal proceedings, claims and other contingencies

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

The Company has been sued by Parexpro (Portugal), for termination without cause of employment agreements and solicitation of a significant number of highly qualified staff in the field of reservoir evaluation, misappropriation of confidential information, documentation and clients, and loss of profits resulting therefrom. The Company does not expect this claim to have any material impact on the Group's results of operation, financial position, or cash flows.

NOTE 15 ANALYSIS BY OPERATING SEGMENT AND GEOGRAPHIC ZONE

The following tables present revenues, operating income and identifiable assets by operating segment, revenues by geographic zone (by origin) as well as net sales by geographic zone based on the location of the customer. The Group principally services the oil and gas exploration and production industry and currently operates in two industry segments:

Geophysical services, which consist of (i) land seismic acquisition, (ii) marine seismic acquisition, (iii) other geophysical acquisition, including activities not exclusively linked to oilfield services, and (iv) data processing, and data management;

Geophysical products, which consist of the manufacture and sale of equipment involved in seismic data acquisition, such as recording and transmission equipment and vibrators for use in land seismic acquisition, and software development and sales.

Inter-company sales between the two segments are made at prices approximating market prices and relate primarily to equipment sales made by the geophysical products segment to the geophysical services segment. These

inter-segment sales, the related operating income recognized by the geophysical products segment, and the related effect on capital expenditures and depreciation expense of the geophysical services segment are

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eliminated in consolidation and presented in the column Eliminations and Adjustments in the tables that follow.

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

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

Net sales originating in France include export sales of approximately 231 million in 2004, 191 million in 2003 and 179 million in 2002.

In 2004, the Group's two most significant customers accounted for 6.7% and 6.1% of the Group's consolidated revenues compared with 14.7% and 8.5% in 2003 and 7.6% and 7.1% in 2002.

Analysis by operating segment

2004	Geophysical services	Geophysical products	Eliminations and Adjustments	Consolidated Total
(in millions of euros)				
Revenues from unaffiliated customers	393.3	299.4		692.7
Inter-segment revenues	1.9	14.2	(16.1)	
Operating revenues	395.2	313.6	(16.1)	692.7
Operating income (loss)	(18.8) ^(a)	57.3	(2.8) ^(b)	35.7
Equity income (loss) of investees	10.0	0.3		10.3
Capital expenditures ^(c)	(94,1)	(11,4)	2,9	(102,6) ^(d)
Depreciation and amortization ^(c)	122.2	20.7	(5.0)	137.9
Corporate assets amortization				
Investments in companies under equity method				
Identifiable assets	519.3	299.5	(48.9)	769.9
Unallocated and corporate assets				169.7
Total assets				939.6

(a)

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Includes non recurring revenues net of expenses, assets provisions or write-downs, and restructuring costs for geophysical services of 3.3 million

(b) Includes general corporate expenses of 14.2 million and non-recurring expenses of 2.9 million

(c) Includes investments in and amortization of multi-client surveys of 51.1 million and 66.5 million, respectively

(d) Includes equipment acquired under capital leases of 8.7 million

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2003	Geophysical services	Geophysical products	Eliminations and Adjustments	Consolidated Total
(in millions of euros)				
Revenues from unaffiliated customers	413.2	199.2		612.4
Inter-segment revenues	1.2	17.7	(18.9)	
Operating revenues	414.4	216.9	(18.9)	612.4
Operating income (loss)	(29.8) ^(a)	42.9	(2.5) ^(b)	10.6
Equity income (loss) of investees	6.4	0.1		6.5
Capital expenditures ^(c)	(146.4)	(10.0)	2.4	(154.0) ^(d)
Depreciation and amortization ^(c)	144.9	6.9	(6.7)	145.1
Corporate assets amortization			0.1	0.1
Investments in companies under equity method	(0.6)			(0.6)
Identifiable assets	570.3	188.6	(20.3)	738.6
Unallocated and corporate assets				140.8
Total assets				879.4

(a) Includes non recurring expenses, assets provisions or write-downs, and restructuring costs for geophysical services of 11.1 million

(b) Includes general corporate expenses of 11.4 million

(c) Includes investments in and amortization of multi-client surveys of 109.7 and 80.0 million, respectively

(d) Includes equipment acquired under capital leases of 8.1 million

2002	Geophysical services	Geophysical products	Eliminations and Adjustments	Consolidated Total
(in millions of euros)				
Revenues from unaffiliated customers	507.6	193.1		700.7

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Inter-segment revenues	0.8	69.3	(70.1)	
Operating revenues	508.4	262.4	(70.1)	700.7
Operating income (loss)	27.4^(a)	51.2^(a)	(17.0)^(b)	61.6
Equity income (loss) of investees	7.4	(1.0)		6.4
Capital expenditures ^(c)	(261.0)	(11.3)	11.5	(260.8) ^(d)
Depreciation and amortization ^(c)	215.6	12.5	(6.3)	221.8
Corporate assets amortization			0.1	0.1
Investments in companies under equity method	(1.2)			(1.2)
Identifiable assets	686.8	202.3	(21.9)	867.2
Unallocated and corporate assets				157.5
Total assets				1,024.7

(a) Includes non-recurring expenses and assets provisions or write-downs respectively in geophysical services and geophysical products segments of 8.6 million and (1.5) million, respectively

(b) Includes general corporate expenses of 13.2 million

(c) Includes investments in and amortization of multi-client surveys for respectively 130.1 and 87.0 million, respectively

(d) Includes equipment acquired under capital leases of 8.6 million

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Analysis by geographic zone

Analysis of operating revenues by location of customers

	2004		2003		2002	
	(in millions of euros)					
France	14.1	2%	10.9	2%	6.3	1%
Rest of Europe and CIS	124.1	18%	75.4	12%	110.2	16%
Asia-Pacific/ Middle East	279.8	40%	187.5	31%	181.3	26%
Africa	67.0	10%	105.0	17%	113.9	16%
Americas	207.7	30%	233.6	38%	289.0	41%
Consolidated total	692.7	100%	612.4	100%	700.7	100%

Analysis of operating revenues by origin

	2004		2003		2002	
	(in millions of euros)					
France	244.5	35%	202.2	33%	185.5	26%
Rest of Europe	64.8	9%	50.9	8%	66.4	9%
Asia-Pacific/ Middle East	137.0	20%	69.8	11%	94.7	14%
Africa	50.7	7%	78.3	13%	90.0	13%
Americas	195.7	28%	211.2	35%	264.1	38%
Consolidated total	692.7	100%	612.4	100%	700.7	100%

Outside France, the U.S. is the only country which is deemed material with 18%, 15% and 13% of consolidated revenues by origin in 2002, 2003 and 2004, respectively.

Due to the constant change in work locations, the Group does not track its assets based on country of origin or ownership.

NOTE 16 RESEARCH AND DEVELOPMENT EXPENSES

	Year		
	2004	2003	2002
	(in millions of euros)		
Research and development expenditures	(35.5)	(29.3)	(30.0)
Government grants recognized in income	2.0	2.4	2.9
Research and development expenses, net	(33.5)	(26.9)	(27.1)

Research and development expenditures related primarily to:
for the geophysical services segment, projects concerning data processing services; and
for the products segment, projects concerning seismic data recording equipment.

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Table of Contents**COMPAGNIE GENERALE DE GEOPHYSIQUE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****NOTE 17 OTHER REVENUES AND EXPENSES, NET**

	Year		
	2004	2003	2002
	(in millions of euros)		
Gains on partial sales of businesses			6.4
Assets write-downs	0.3	(3.4)	(62.0)
Restructuring costs	(11.0)	(3.9)	(0.1)
Variation of reserves for restructuring	11.1	(11.8)	0.5
Other revenues		8.0	62.3
Non-recurring revenues (expenses) net	0.4	(11.1)	7.1
Gains (losses) on sale of assets	11.5	6.0	(1.0)
Other revenues (expenses) net	12.0	(5.1)	6.1

Year ended December 31, 2004

The provision for restructuring booked in 2003 was reversed for 11 million in 2004 once the restructuring expenses were incurred.

In 2004 other revenues and expenses were principally related to:

expenses related to the redemption of the \$75 million principal amount of the Company's 10% Senior Notes due 2007 for 4.3 million;

income related to insurance indemnities to be received for the loss of the Company's seismic vessel, the CGG Mistral, recorded for an amount of 1.8 million; and

gain on sale of own shares for 1.4 million

Gain on sale of assets included primarily a gain of 7.9 million on the disposal of PGS shares and a gain of 2.2 million on the disposal of a building.

Year ended December 31, 2003

The Group introduced measures in September 2003 to restructure its Land SBU, which led to a workforce reduction plan of 250 persons and the write-down of seismic acquisition inventories and assets.

The recorded costs include a fixed assets write-down of 2.3 million, an inventories write-down of 2.7 million and restructuring expenses of 1.6 million. The reserves of 11.8 million for the restructuring were primarily related to redundancy costs.

Restructuring costs included a marine redundancy plan of 1.5 million following the loss of the CGG Mistral.

Other revenues were principally related to:

a gain of 4.5 million recognized on the 51 million insurance proceeds in connection with the CGG Mistral loss as follows:

reimbursement of the hull: 39 million; and

reimbursement of the equipment on board: 12 million, given that the insurance reimbursement procedure for the rest of the equipment is in progress.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

insurance indemnities recorded for 1.7 million in respect of marine and land seismic equipment damages, which equipment losses totaled 1.7 million.

Gains resulting from disposal of assets were essentially due to the sale of certain land non-exclusive surveys and the sale of 400,000 shares of PGS stock. Gains were 5.2 and 2.5 million, respectively.

Year ended December 31, 2002

Gains on partial sales businesses in 2002 included the sale in December of the Company's borehole seismic activity to Baker Atlas, a division of Baker Hughes Inc. and the sale of the Company's Paradigm stock in August (see Note 2).

Asset write-downs were related to the loss of the CGG Mistral and the geophysical equipment on board. In December 2002, our seismic vessel CGG Mistral sank after a fire broke out accidentally, offshore from Trinidad. All onboard personnel were evacuated and were safe. The streamers, which were deployed for operations at the time the fire broke out, were partially recovered. There was no material impact on the environment and no material impact on the 2002 results of operations due to the insurance indemnities to be received, recorded in the item Other of

Non-recurring revenues .

NOTE 18 FINANCIAL EXPENSE, NET

	Year		
	2004	2003	2002
	(in millions of euros)		
Financial expense	(25.2)	(27.3)	(31.6)
Allowance: unconsolidated investments (see Note 6)	(0.2)	3.3	(4.4)
Total net	(25.4)	(24.0)	(36.0)
Financial income	3.0	3.0	3.4
Financial expense net	(22.4)	(21.0)	(32.6)

NOTE 19 INCOME TAXES**Income tax**

Income tax expense consisted of:

	Year		
	2004	2003	2002
	(in millions of euros)		
France			
Current income taxes	(0.3)	(0.2)	(0.3)
Deferred taxes and other	0.1	(0.1)	(0.9)
	(0.2)	(0.3)	(1.2)
Foreign countries			
Current income taxes ^(a)	(22.1)	(14.5)	(14.5)

Deferred taxes and other	12.6	11.7	(1.7)
	(9.5)	(2.8)	(16.2)
Total income tax expense	(9.7)	(3.1)	(17.4)

(a) Includes withholding taxes

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company and its subsidiaries compute income taxes in accordance with the applicable tax rules and regulations of the numerous taxing authorities where the Group operates. The tax regimes and income tax rates legislated by these taxing authorities vary substantially. In foreign countries, income taxes are often accrued based on deemed profits calculated as a percentage of sales as defined by local government tax authorities.

In accordance with the provisions of French tax law, the Company elected on January 1, 1991 to file a consolidated tax return for French subsidiaries in which the Company holds an interest of more than 95% from the beginning of the relevant year. The Company does not obtain any French tax credits in respect of income taxes paid abroad.

The complexity of the various tax rules and regulations do not permit meaningful comparisons of the French and foreign components of income before taxes and the provisions for income taxes. In addition, due to the mobile nature of seismic acquisition activities, current relationships between the French and foreign components of such tax items are not reliable indicators of such relationships in future periods.

The difference between the French statutory tax rate of 34.3% in 2004, 2003 and 2002 and the Group's effective rate of income tax of 44.5% in 2004, 42% in 2003 and 50% in 2002 relates primarily to the effective rate of tax in foreign jurisdictions and the potential future tax benefit of losses that have been provided for.

Net operating loss carryforwards

In both France and foreign jurisdictions where income tax is not determined based on deemed profits calculated as a percentage of sales, the main significant temporary differences between financial and tax reporting relate to net operating loss carryforwards.

Net operating loss carryforwards available in France and foreign jurisdictions, and not recognized as deferred tax assets at December 31, 2004, amounted to 228 million, including 115 million of long term taxable capital losses available in France at December 31, 2004 and are currently scheduled to expire as follows:

	France	Foreign countries
	(in millions of euros)	
2005	1.7	
2006		0.5
2007	113.8	0.5
2008	17.7	1.2
2009		0.5
2010 and thereafter	2.0	17.9
Available indefinitely	18.9	53.2
Total	154.1	73.8

Net operating loss carryforwards in France include both losses available for carryforward to reduce future French income tax payable by the consolidated tax Group as well as losses dating prior to January 1, 1991, which are only available to reduce future income tax of the individual subsidiaries of the Group.

Since the majority of the Group's deferred tax assets represent tax losses available for carryforward by entities that have a recent history of generating losses, it has been deemed more likely than not that those entities will not be able to utilize the losses in the near future. Consequently, the Group has recorded valuation allowances to fully provide for the potential tax benefit of these items in those entities.

Tax losses carried forward and not recorded as a deferred tax asset mainly relate to CMG tax losses for Mexican Pesos (MXN) of 102 million available beyond 2005, and Norwegian tax losses of Norwegian Kroner (NOK)

71 million and United Kingdom tax losses incurred of GBP 30 million. After taking into account the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

financial forecasts, the Group decided not to record any deferred tax assets in respect of these tax losses available in future years.

Deferred tax assets and liabilities

Net deferred tax assets and liabilities are as follows:

	2004	2003	2002
	(in millions of euros)		
Deferred tax assets temporary differences	8.4	6.2	1.8
Deferred tax assets tax losses carried forward ^(a)	7.7	1.4	2.5
Total Deferred tax assets	16.1	7.6	4.3
Total Deferred tax liabilities	(8.2)	(4.2)	(12.7)
Total deferred tax, net	7.9	3.4	(8.4)

(a) relating to loss carry forwards in United Kingdom

Sercel Inc.'s positive tax planning, confirmed in 2004 by a taxable result, led to the recognition of a deferred tax income of 10.4 million representing Sercel Inc.'s net operating loss carryforwards (U.S.\$24.7 million) and temporary differences (U.S.\$10.1 million), at the enacted U.S. tax rate of 35%.

As of December 31, 2004, the deferred tax situation in France resulting from temporary differences between consolidated and taxable results resulted in a net deferred taxable basis of 31 million, whereby no deferred tax asset was recorded.

Tax position and tax audit

In 2002, CGG S.A. was subject to a tax audit from the French taxation authorities with respect to corporate taxes and value added taxes. The audit covered the 1991 through 2001 fiscal years. A 10.1 million taxable basis reassessment on the income tax was notified in December 2004. The Company has contested all of the tax reassessment. Whatever the conclusion of the discussions with tax authorities, the tax reassessment related to the audited fiscal years 1991 to 2001 would be offset against net operating loss carryforwards. However, applying new rules on the deductibility of some expenses would lead to reassessing the calculation of income tax starting in the 2002 fiscal year. Moreover, in 2003, Sercel S.A. and Sercel Holding S.A. were subject to a tax audit from the French taxation authorities with respect to corporate taxes and value added taxes. The audit covers the 2001 and 2002 fiscal years. A 0.7 million taxable basis reassessment on income tax was notified in September 2004 for Sercel Holding S.A. A 2.4 million taxable basis reassessment on income tax, which the Company contests, was notified in December 2004 for Sercel S.A.

The Group considers that the risk of tax reassessment for the 2002 fiscal year on the French consolidated tax group might result in a 2.3 million taxable basis, meaning 0.5 million income tax would be due. When the discussions with the tax authorities conclude and, if the Group has to correct the tax returns for 2002 and 2003 fiscal years, the Group would make a request for the additional income tax in fiscal year 2002 to be offset against the net operating tax loss carryforward in fiscal year 2003.

As a consequence, the Group believes that the risk related to those reassessments would only restate the amount of net operating losses carryforwards of the French consolidated tax group. Since no deferred tax has been recognized on such net operating losses carryforwards, no provision related to the tax reassessment was recorded in 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

On March 18, 2005, CGG Americas Inc. received correspondence from the U.S. Internal Revenue Service regarding an upcoming standard tax audit scheduled for the second quarter of 2005 covering CGG America's 2003 tax return.

Undistributed earnings of subsidiaries and the Group's share of undistributed earnings of companies accounted for using the equity method amount to 201.9 million, 168.5 million and 181.0 million at December 31, 2004, 2003 and 2002, respectively. The Group has made no provision for French taxes on these earnings, which would not be taxed when remitted.

NOTE 20 PERSONNEL

The analysis of personnel is as follows:

	Year ended December 31,		
	2004	2003	2002
Personnel employed under French contracts			
Geophysical services	797	895	910
Products	622	577	562
Personnel employed under local contracts	2,250	1,713	1,968
Total	3,669	3,185	3,440
Including field staff of:	475	642	749

The total cost of personnel employed by consolidated subsidiaries was 203.1 million in 2004, 205.7 million in 2003 and 221.8 million in 2002.

NOTE 21 DIRECTOR'S REMUNERATION

In 2004, directors' remuneration was 3,228,051.

Directors' remuneration paid by the Group covers all gross remuneration (2,939,051) and attendance fees (289,000) paid to members of the Management Committee and Directors.

NOTE 22 RELATED PARTY TRANSACTIONS**Operating transactions**

The Group manufactures equipment and provides geophysical services to oil and gas exploration and production subsidiaries of TOTAL S.A. (TOTAL) pursuant to contracts entered into on an arm's-length basis. TOTAL holds a controlling interest in Total Chimie, which was one of the major shareholders of the Company during the periods presented but not at December 31, 2004.

Operating revenues to TOTAL amounted to 23.1 million in 2004, 30.2 million in 2003, and 40.0 million in 2002. As of December 31, 2004, TOTAL owed 6.0 million to the Group.

Louis Dreyfus Armateurs (LDA) provides ship management services for a portion of our fleet. Charter parties associated with these services are concluded on an arm's length basis. Debt to LDA was 6.2 million as of December 31, 2004. Total net charges paid throughout the year for the provision of ship management services were 0.5 million, and the future commitments for such services to LDA were 6.8 million.

LDA and the Group own Geomar, a company we account for using the equity method and the owner of the CGG *Alizé* seismic ship. LDA has a 51% stake and 49% stake in Geomar, and amounts paid to Geomar by the Group during the year were 9.0 million, while future charterparty amounts due to Geomar were 18.6 million. Debt to Geomar was 0.7 million at December 31, 2004.

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The sales of geophysical products from Sercel to Argas, a 49% owned affiliate, were 1.3 million, representing 0.2% of the Group revenues, in 2004.

Sales of geophysical products from Sercel to Xian Peic, a 40% owned affiliate, were 4.8 million, representing 0.7% of Group revenues, in 2004.

Financing

No credit facility or loan was granted to the Company by shareholders during the three periods presented.

NOTE 23 SUPPLEMENTARY CASH FLOW INFORMATION

Cash paid for income taxes and interest was as follows:

	Year ended December 31,		
	2004	2003	2002
	(in millions of euros)		
Interest	24.6	28.2	31.1
Income taxes	17.0	15.2	19.4

The other non-cash items include notably the elimination of the unrealized exchange gains resulting from the debt (maintained in foreign currency) located in those subsidiaries whose functional currency is euro, which amounted to (12.7) million in 2004, (22.5) million in 2003 and (22.7) million in 2002.

Non-cash investing and financing transactions that are excluded from the consolidated statements of cash flows consisted of the following:

	Year ended December 31,		
	2004	2003	2002
	(in millions of euros)		
Equipment acquired under capital leases	8.7	8.1	8.6

NOTE 24 ASSET VALUATION ALLOWANCES

Details of valuation allowances recorded against assets are as follows:

	Year ended December 31, 2004			
	Balance at beginning of year	Additions/ Deductions charged to income	Other^(a)	Balance at end of year
	(in millions of euros)			
Trade accounts and notes receivable	3.9		0.6	4.4
Inventories and work-in-progress	22.7	(6.9)	(0.4)	15.4
Other current assets	0.6	0.1		0.7
Loans receivable and other investments	1.5	0.2	(0.2)	1.5
Total allowances	28.6	(6.6)		22.0

(a) Includes the effects of exchange rate changes and acquisitions and divestitures

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Year ended December 31, 2003

	Balance at beginning of year	Additions/ Deductions		Balance at end of year
		charged to income	Other ^(a)	
(in millions of euros)				
Trade accounts and notes receivable	7.0	(2.9)	(0.1)	3.9
Inventories and work-in-progress	30.4	(5.5)	(2.3)	22.6
Other current assets	0.1	0.5		0.6
Loans receivable and other investments	4.9	(3.4)	(0.1)	1.5
Total allowances	42.5	(11.3)	(2.5)	28.6

(a) Includes the effects of exchange rate changes and acquisitions and divestitures

Year ended December 31, 2002

	Balance at beginning of year	Additions/ Deductions		Balance at end of year
		charged to income	Other ^(a)	
(in millions of euros)				
Trade accounts and notes receivable	7.0	0.2	(0.2)	7.0
Inventories and work-in-progress	35.0	(1.3)	(3.3)	30.4
Other current assets	0.5	(0.4)		0.1
Loans receivable and other investments	0.9	4.0		4.9
Total allowances	43.4	2.5	(3.5)	42.4

(a) Includes the effects of exchange rate changes and acquisitions and divestitures

NOTE 25 PROVISIONS FOR LIABILITIES AND CHARGES

Detail of provisions for liabilities and charges is as follows:

Year ended December 31, 2004

	Balance at beginning of year	Additions	Deductions		Other ^(a)	Balance at end of year
			(used)	(unused)		

(in millions of euros)

Provisions for contract losses	2.3	3.3	(2.5)		1.6	4.7
Provisions for restructuring costs	12.2		(11.0)	(0.2)		1.0
Provisions for litigation	1.8	3.9	(0.4)			5.3
Provisions for exchange losses				(0.8)	0.8	
Other provisions for liabilities			(0.2)		0.4	3.2
Other provisions for charges	3.7	1.7	(1.2)		(1.2)	3.2
Total short-term provisions	20.0	8.9	(15.3)	(1.0)	1.6	14.2
Retirement indemnity provisions	10.3	1.8	(1.1)	(0.1)	0.3	11.2
Customer Guarantee provisions	2.6	2.4	(2.1)		0.3	3.2
Other provisions	0.4	0.5	(0.3)		1.0	1.6
Total long-term provisions	13.3	4.7	(3.5)	(0.1)	1.6	16.0
Total provisions	33.3	13.6	(18.7)	(1.1)	3.2	30.3

(a) Includes the effects of exchange rate changes and acquisitions and divestitures

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The variation of provisions is principally due to the Land SBU restructuring plan.

Other short-term provisions include primarily provisions for various operational risks.

NOTE 26 SUBSEQUENT EVENTS

The Board of Directors meeting on December 8, 2004 authorized the Company to partially redeem its 10⁵/₈% Senior Notes, up to a principal amount of U.S.\$75 million. According to the indenture governing those notes, such early redemption required the payment of a premium representing 5.3125% of the total redemption amount, (U.S.\$4.0 million) plus accrued interest. The total cost of such redemption for the Company was therefore U.S.\$79 million. The redemption of U.S.\$75 million in principal amount of the Notes was realized on January 26, 2005. The premium and the unamortized portion of the deferred expenditures linked to this redemption were recognized in the income statement as Other expenses at December 31, 2004.

On February 14, 2005, the Company ended its cooperation agreements with PT Alico, a company that was fully consolidated in the CGG group's accounts until 2004 as a consequence of the cooperation agreements until 2004. Under these agreements, CGG indemnified PT Alico against certain specific risks. The liability is limited and has been accrued in the financial statements at December 31, 2004. This liability will expire on June 30, 2006 and the Company will have no further commitment to PT Alico or its shareholders. PT Alico was excluded from the scope of consolidation of the CGG group on February 14, 2005.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 27 LIST OF PRINCIPAL CONSOLIDATED SUBSIDIARIES AND COMPANIES
ACCOUNTED FOR USING THE EQUITY METHOD AS OF DECEMBER 31, 2004**

Certain dormant or insignificant subsidiaries of the Group have not been included in the list below.

Siren Number ^(a)	Consolidated companies	Head Office	% of interest
403 256 944	CGG Marine SAS	Massy, France	100.0
351 834 288	Geocal SARL	Massy, France	100.0
966 228 363	Geoco SAS	Paris, France	100.0
378 040 497	Sercel SA	Carquefou, France	100.0
410 072 110	CGG Explo SARL	Massy, France	100.0
866 800 154	Sercel Holding SA	Carquefou, France	100.0
	CGG Americas, Inc.	Houston, United States	100.0
	CGG do Brasil Participações Ltda	Rio do Janeiro, Brazil	100.0
	CGG Canada Services Ltd.	Calgary, Canada	100.0
	CGG International SA	Geneva, Switzerland	100.0
	CGG (Nigeria) Ltd.	Lagos, Nigeria	100.0
	CGG Marine Resources Norge A/S	Hovik, Norway,	100.0
	CGG Offshore UK Ltd.	United Kingdom	100.0
	CGG Pan India Ltd. ^(b)	New Delhi, India	40.0
	CGG Selva	Lima, Peru	100.0
	Compañía Mexicana de Geofísica	Mexico City, Mexico.	100.0
	Companhia de Geologia e Geofísica Portuguesa	Lisbon, Portugal	100.0
	Exgeo CA	Caracas, Venezuela	100.0
	Geoexplo	Almaty, Kazakhstan	100.0
	Geophysics Overseas Corporation Ltd.	Nassau, Bahamas	100.0
	CGG Australia Services Pty Ltd.	Sydney, Australia	100.0
	CGG Asia Pacific ^(c)	Kuala Lumpur, Malaysia	33.2
	Petroleum Exploration Computer Consultants Ltd.	Forest Row, United Kingdom	100.0
	PT Alico ^(d)	Jakarta, Indonesia	100.0
	Sercel Australia	Sydney, Australia	100.0
	Hebei Sercel JunFeng ^(e)	Hebei, China	51.0
	Sercel Inc.	Tulsa, United States	100.0
	Sercel Singapore Pte Ltd.	Singapore, Singapore	100.0
	Sercel England Ltd.	Somercotes, United Kingdom	100.0
	Sercel Canada Ltd.	Calgary, Canada	100.0

(a) Siren number is an individual identification number for company registration purposes under French law.

(b) The Group consolidates its investment in Pan India Ltd (40%) because a shareholder agreement effectively provides the Group with operating control of the company (the Chairman of the Board is nominated by the Group).

- (c) The implementation of the French law on financial security (Loi sur la Sécurité financière) under French led to the consolidation of CGG Asia Pacific, in which CGG owns 33.2% of the ordinary shares and 30% of the total shares.
- (d) PT Alico is consolidated at December 31, 2004 as a result of the cooperation agreements with CGG, although the Group does not own any investment in this company; on February 14, 2005, the Group ended its agreements with PT Alico, excluding it from the Group s scope of consolidation.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(e) Sercel JunFeng is fully consolidated since, according to the management agreement, the Group has operating control of the company.

Siren number ^(a)	Accounted for using the equity method	Head Office	% of interest
413 926 320	Geomar SAS	Paris, France	49.0
	Argas Ltd.	Al-Khobar, Saudi Arabia	49.0
	JV Xian Peic/Sercel Limited	Xian, China	40.0
	VS Fusion	Houston, United States	49.0

NOTE 28 RECONCILIATION TO U.S. GAAP**A SUMMARY OF DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE GROUP AND U.S. GAAP**

The accompanying Consolidated Financial Statements have been prepared in accordance with the accounting principles described in Note 1 above (French GAAP), which differ in certain significant respects from U.S. GAAP. These differences relate mainly to the following items, and the necessary adjustments are shown in the tables in section B.

Derivative instruments and hedging activity

Under French GAAP, as described in Note 13 of our consolidated financial statements, derivative instruments used as hedges are not recognized in the balance sheet and hedging gains and losses are recorded in the same period as the income or loss on the hedge transactions.

Under U.S. GAAP beginning January 1, 2001 with the adoption of SFAS No. 133, (Accounting for Derivative Instrument and Hedging Activities) all derivative instruments are recorded in the balance sheet at fair value. Specifically:

hedge accounting may only be applied to hedges meeting strict criteria and SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting;

for derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in equity (Other Comprehensive Income), then recognized in earnings along with the related effects of the hedged items. Any ineffective portion of hedges is reported in earnings as it occurs;

for derivatives qualifying as fair value hedges, changes in fair value of both the derivative and the hedged item are recognized in earnings;

for embedded derivatives in contracts in foreign currencies (primarily U.S. dollar), revenue and expenses with a non-U.S. client or supplier are recognized at the forward exchange rate negotiated at the beginning of the contract. The variation of fair market value of the embedded derivative foreign exchange contracts is recognized in earnings; and

if hedge accounting is not applied, changes in the fair value of derivative instruments are recorded in earnings.

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Goodwill amortization and impairment

Under French GAAP, goodwill is amortized on a straight-line basis over its estimated useful life.

Under U.S. GAAP, before 31 December 2001, no difference was reported for goodwill accounting. Since 1st January 2002, however, goodwill is no longer amortized but remains at its carrying value as of December 31, 2001. Under the provisions of SFAS 142 Goodwill and Other Intangible Assets, goodwill is tested for impairment at least annually. Differences could also occur in the determination of the charge of impairment of goodwill under French GAAP and U.S. GAAP. Such difference was reported for the year 2004 related to the goodwill of CMG following the Land restructuring plan.

Impairment of long-lived assets

Under French GAAP, long-lived assets are written down when, as a result of events or changes in circumstances within the year, their recoverable value appears to have declined on an other than temporary basis to an amount less than their carrying value. Impairment is determined for each group of autonomous assets by comparing their carrying value with the undiscounted cash flows that they are expected to generate based upon management's expectations of future economic and operating conditions.

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

Under U.S. GAAP and starting on 1st January 2003, the date of adoption of SFAS 144 Accounting for the Impairment or Disposal of Long-lived Assets, the method described above is relevant only for long-lived assets to be held and used, while assets to be disposed of by sale should be reported as selling price less costs to sale.

No such difference was reported for the year 2004.

Available-for-sale securities

Under French GAAP, investment in equity securities are recorded at acquisition cost and an allowance is provided if management deems that there has been an other-than-temporary decline in fair value. Unrealized gains and temporary unrealized losses are not recognized. For trade securities, the allowance is evaluated based on the average of the market price on the last 30 days.

Under U.S. GAAP, investments in equity securities are classified into two categories and accounted as follows: Equity securities that are acquired and held principally for the purpose of sale in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings. All other equity securities are classified in available for sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in shareholder's equity. In case of other-than-temporary loss in fair value, a loss is recorded in earnings. Fair value is evaluated based on the market price at the closing rate.

Stock-based compensation

Under French GAAP, no compensation cost is recognized for stock options.

For U.S. GAAP purposes as permitted by SFAS 123, the Company applies the recognition and measurement principles of APB Opinion 25. The stock-based compensation plans qualify as fixed plans under APB 25 and compensation cost is equal to the excess, if any, of the market price of the underlying shares at the date of grant over the exercise price of the option.

The accounting policy for the method of recognizing compensation costs for fixed awards with pro rata vesting is the straight-line method.

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**COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Income taxes

Under French GAAP, deferred tax assets or liabilities, related to non-monetary assets or liabilities that are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates, are recognized.

Under U.S. GAAP, deferred tax liabilities or assets are not recognized for differences related to assets and liabilities that, under SFAS 52, Foreign Currency Translation, are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates.

Furthermore, the calculation of deferred tax liability on goodwill amortized for tax calculation purposes is different under U.S. GAAP compared with French GAAP.

Comprehensive income

Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. In the consolidated financial statements, the concept of comprehensive income does not exist because French accounting principles do not authorize any change in equity corresponding to this definition other than net income and changes in the cumulative translation adjustment related to foreign subsidiaries.

In U.S. GAAP financial statements, comprehensive income and its components must be displayed in a statement of comprehensive income.

For the Group, this statement includes, in addition to net income:

changes in the cumulative translation adjustment related to consolidated foreign subsidiaries;

changes in the fair value of derivative instruments designed as cash flow hedges meeting the criteria established by SFAS 133; and

changes in the amount of the additional minimum pension liability due to actuarial losses.

Treasury shares

Under French GAAP, the company shares owned for the purpose of employee allocation or share price regulation are considered as marketable securities and are accounting for under the item Cash and Cash equivalents; gains on the company shares owned for the purpose of regulating stock price are accounting for in profit and loss.

Under U.S. GAAP, treasury shares are accounting for as a reduction of equity whatever is the purpose for owning it; gain or losses on treasury shares are reflected in equity.

Bonds convertible into shares or redeemable in shares

Under French GAAP, convertible bonds are wholly accounted for as financial debt.

Under U.S. GAAP, when the convertible debt is qualified as conventional, the beneficial conversion feature related to this debt, assessed as a difference between the fair value and the face value of the bond, is classified from financial debt to equity. This beneficial conversion feature is then realized through profit and loss over the debt lifetime.

Moreover, under U.S. GAAP, embedded derivatives in the bonds contract that do not qualify as closely related to the contract should be recognized at fair value.

As regards subordinated bonds convertible into new ordinary shares or redeemable into new shares and/or existing shares and/or in cash (the Bonds) issued in 2004, there is an embedded derivative that can not be

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

reliably assessed, corresponding to the clause of early redemption (see note 10). The probability for this clause to occur being uncertain, the related embedded derivative cannot be measured reliably and thus is not recognized by the Group in its U.S. GAAP financial statements.

Redemption of debt

Under French GAAP, with respect to the early redemption of the senior notes, the difference between the reacquisition price and the net carrying value of the senior notes is recognized as soon as the offer to redeem the senior notes is irrevocable.

Under U.S. GAAP, with respect to the early redemption of the senior notes, the difference between the reacquisition price and the net carrying value of the senior notes (net of issuance costs and premium) may be recognized only upon the redemption and cancellation of the senior notes.

Presentation of Consolidated Statements of operations

Under French GAAP, certain expenses, such as Goodwill amortization, are recorded below Operating income in the Consolidated Statements of operations.

Under U.S. GAAP, these expenses would be classified as operating expenses/ revenues.

**B RECONCILIATION OF NET INCOME AND SHAREHOLDERS EQUITY TO U.S. GAAP AND
CONDENSED U.S. GAAP STATEMENT OF OPERATIONS AND BALANCE SHEET**

Net income (loss)^(a)

	December 31		
	2004	2003	2002
	(in millions of euros)		
Net Income (loss) as reported in the Consolidated Statements of operations under French GAAP	11.1	(10.4)	17.4
Goodwill amortization (FAS 142)	6.2	7.7	6.3
Deferred tax asset (FAS 109)	(4.6)	(7.1)	
Stock option (APB 25)	(0.2)	(0.4)	
Available-for-sale securities (FAS 115)	1.3	(0.8)	(0.5)
Loss on extinguishment of debt	2.8		
Gain on treasury shares	(1.4)		
Derivative instruments and hedging activities (FAS 133)	(11.9)	14.1	(8.1)
Net income under U.S. GAAP	3.3	3.1	15.1

(a) All adjustments disclosed above are net of tax effects, if applicable

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Shareholder's equity^(a)

	December 31		
	2004	2003	2002
	(in millions of euros)		
Shareholder's equity as reported in the Consolidated Balance Sheets under French GAAP	395.7	396.6	437.5
Goodwill amortization	18.2 ^(b)	14.0	6.3
Deferred tax asset	(10.7) ^(b)	(7.1)	
Stock options	(0.6)	(0.4)	
Available-for-sale securities		(1.3)	(0.5)
Loss on extinguishment of debt	2.8		
Derivative instruments and hedging activities	(12.3)	(0.4)	(14.5)
Convertible bonds	0.7		
Other comprehensive income	2.6	12.0	2.2
Shareholder's equity under U.S. GAAP	396.4	413.4	431.0

(a) All adjustments disclosed above are net of tax effects, if applicable

(b) This amount is net of cumulative currency translation adjustment effect

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
CONDENSED U.S. GAAP STATEMENTS OF OPERATIONS AND BALANCE SHEET
Condensed U.S. GAAP Statements of Operations

	December 31		
	2004	2003	2002
	(amounts in millions of euros, except per share data)		
Operating revenues	709.5	645.6	719.0
Cost of operations	(559.5)	(494.5)	(528.6)
Gross profit	150.0	151.1	190.4
Research and development expenses net	(33.5)	(26.9)	(27.1)
Selling, general and administrative expenses	(79.7)	(79.2)	(86.7)
Other revenues (expenses) net	18.2	(2.3)	5.3
Operating income	55.0	42.7	81.9
Interest and other financial income and expense net	(22.4)	(25.1)	(33.1)
Exchange losses net	(23.6)	(4.0)	(25.4)
Equity in income of affiliates	10.3	6.5	7.2
Income before income taxes and Minority interest	19.3	20.1	30.6
Income taxes	(15.0)	(16.7)	(13.3)
Minority interest	(1.0)	(0.3)	(2.2)
Net income	3.3	3.1	15.1
Weighted average number of shares outstanding	11,681,406	11,680,718	11,680,718
Dilutive potential shares from stock options	137,197	79,912	(a)
Dilutive potential shares from bonds	(b)		
Adjusted weighted average shares and assumed option exercises	11,818,603	11,760,630	11,680,718
Earnings per share			
Basic for common stock holder	0.28	0.27	1.29
Basic for bond holder	0.28		
Diluted for common stock holder	0.28	0.26	1.29
Diluted for bond holder	0.28		

- (a) For the year ended December 31, 2002, the effects of stock options were anti-dilutive.
- (b) For the year ended December 31, 2004, the effects of convertible bonds were anti-dilutive.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Condensed consolidated U.S. GAAP Balance Sheet

	December 31		
	2004	2003	2002
	(amounts in millions of euros)		
ASSETS			
Current assets	480.2	418.1	511.3
Long-term assets	495.6	506.1	525.5
Total Assets	975.8	924.2	1,036.8
LIABILITIES AND SHAREHOLDERS EQUITY			
Total current liabilities	325.8	262.1	305.2
Total long-term liabilities	244.4	239.9	290.3
Minority interest	9.1	8.8	10.3
Total shareholders equity	396.4	413.4	431.0
Total liabilities and shareholders equity	975.8	924.2	1,036.8

Statement of Comprehensive Loss^(a)

	December 31		
	2004	2003	2002
	(amounts in millions of euros)		
Net income under U.S. GAAP	3.3	3.1	15.1
Other comprehensive income (loss):			
Changes in the cumulative translation adjustment	(13.6)	(30.5)	(42.7)
Changes in the fair value of available-for-sale securities	(7.8)	7.8	
Changes in the fair value of derivative instruments	(1.5)	2.0	2.2
Comprehensive loss under U.S. GAAP	(19.6)	(17.6)	(25.4)

(a) All adjustments disclosed above are net of tax effects, if applicable
Statement of Accumulated Other Comprehensive Loss^(a)

	December 31		
	2004	2003	2002

	(in millions of euros)		
Translation adjustment	(65.2)	(51.6)	(21.1)
Fair value of available-for-sale securities		7.8	
Fair value of derivative instruments	2.7	4.2	2.2
Accumulated Other Comprehensive Loss	(62.5)	(39.6)	(18.9)

(a) All adjustments disclosed above are net of tax effects, if applicable

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

C ADDITIONAL U.S. GAAP DISCLOSURES**Stock option plans**

The fair value for these stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following average assumptions:

	2004 ^(a)	2003	2002
Risk-free interest rates		3.94%	3.3%
Dividend yields		0.0%	0.0%
Volatility factors of the expected market price of the Company's ordinary shares		0.573	0.429
Weighted average expected life		8 years	8 years

(a) No grants of stock options were made in 2004

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the options' vesting period. The Company's pro forma information is detailed below:

	December 31		
	2004	2003	2002
	(in millions of euros except for income (loss) per share information)		
Net income, as reported	3.3	3.1	15.1
Add: total stock-based employee compensation expense included in reported net income, net of related tax effect	0.2	0.4	
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3.8)	(4.7)	(4.5)
Pro forma U.S. GAAP net income (loss)	(0.3)	(1.2)	10.6
Earnings per share:			
Basic for common stock holder as reported	0.28	0.27	1.29
Basic for bond holder as reported	0.28		
Basic for common stock holder pro forma	(0.10)	(0.10)	0.91
Basic for bond holder pro forma	(0.10)		
Diluted for common stock holder as reported	0.28	0.27	1.29
Diluted for bond holder as reported	0.28		
Diluted for common stock holder pro forma	(0.10)	(0.10)	0.91
Diluted for bond holder pro forma	(0.10)		

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of

highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing model, in management's opinion, does not necessarily provide a single measure of the fair value of its employee stock options.

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The weighted-average fair value of options granted during 2004, 2003, and 2002 was as follows:

	2004	2003	2002
Options whose price was lower than the market price of the underlying shares on the grant date		11.14	29.50
Options whose price equaled the market price of the underlying shares on the grant date			
Options whose price was greater than the market price of the underlying shares on the grant date			

The weighted average remaining contractual life of options outstanding at December 31, 2004 is 4.5 years.

Derivative financial instruments***Fair Value Hedge and Cash Flow Hedge***

The ineffectiveness of cash-flow hedges for the year 2004, 2003 and 2002 amounted to (13) million, 21 million and (12) million respectively, and is reported in the Exchange losses, net line item of the condensed statements of operations.

Gains accumulated in Comprehensive income were 2.7 million, 4.2 million and 2.2 million as of December 31, 2004, 2003 and 2002.

Hedge of the net investment in a foreign operation

A portion of the amount of our outstanding bond denominated in U.S. dollar has been designated as a hedge of the investment in U.S. dollar. The net amount of gains that has been included in the cumulative translation adjustment was 4.9 million, 13.8 million and 15.4 million during the year 2004, 2003 and 2002 respectively.

Available for sale securities

All available for sale securities (PGS shares) were sold in 2004 and the total net gains (including (7.8) million recorded in Comprehensive Income) were 1.3 million in 2004. The gross realized gains that have been included as a result of the sale of available for sale securities was 9.2 million in 2004.

The aggregate fair-value of available for sale securities (PGS shares) was 13.5 million as of December 31, 2003 and the total net gains (included 7.8 million recorded in Comprehensive Income) were 11.4 million in 2003. The gross realized gains that have been included in earnings as a result of sale of available for sale securities were 5.3 million in 2003.

Restructuring plan

The evolution of the restructuring reserve under U.S. GAAP during the year ended December 31, 2004, related to the Land SBU restructuring plan initiated after December 31, 2003 was as follows:

	Balance at beginning of year	Additions	Deductions (used)	Deductions (unused)	Balance at end of year
Termination benefits	10.8		(10.4)	0.4	
Contract termination costs	0.6		(0.4)	(0.2)	0.0
Other associated costs	0.7		(0.2)		0.5
Total	12.1		(11.0)		0.9

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The evolution of the restructuring reserve under U.S. GAAP during the year ended December 31, 2003, related to the Land SBU restructuring plan initiated in 2003 was as follows:

Year ended December 31, 2003						
	Balance at beginning of year	Additions	Deductions (used)	Deductions (unused)	Other^(a)	Balance at end of year
(in millions of euros)						
Termination benefits		10.8				10.8
Contract termination costs		0.6				0.6
Other associated costs		0.8			(0.1)	0.7
Total		12.2			(0.1)	12.1

(a) Includes the effects of exchange rate changes

The major type of costs associated with the exit or disposal activities of our Services segment after December 31, 2002 are presented as follows:

	Total amount expected	Amount incurred as of Dec. 31, 2004	Cumulative amount incurred as of Dec. 31, 2004
(in millions of euros)			
Termination benefits	10.8	10.4	10.4
Contract termination costs	0.4	0.4	0.4
Other associated costs	1.6	0.2	1.1
Total	12.8	11.0	11.8

Recently issued accounting pronouncements

The new European rule n° 1606/2002 endorsed in 2002 by the European Union requires all listed companies to adopt IFRS as its primary GAAP from January 1, 2005. The first CGG Group's consolidated financial statements under IFRS GAAP would be those closed at March 31, 2005. The Group will present restated 2004 financial statements for the comparable period under IFRS GAAP.

Consolidated financial statements under IFRS GAAP for 2004 year would be presented in compliance with IFRS GAAP effective at January 1, 2005, as released at December 31, 2004. Moreover, the Group chose to apply the standards IAS 39 and IFRS 2 starting January 1, 2004 to ensure 2004 financial statements to be comparable with 2005 financial statements.

In order to prepare and make easier the understanding of the information to be provided under IFRS GAAP, a qualitative analysis of the IFRS implementation is presented in Item 5, indicating those standards that differ from the current primary GAAP, i.e. French GAAP, and from U.S. GAAP, and the options chosen by CGG Group in the first adoption of IFRS GAAP, when there is a significant impact on consolidated financial statements.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised in 2004), *Share-Based Payment* , which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* . Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends FASB Statement No. 95, *Statement of Cash Flows* . Generally, the approach in FASB Statement 123(R) is similar to the approach described in FASB Statement 123. However, FASB Statement 123(R) requires all share-based payments to employees, including grants of employee stock

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COMPAGNIE GENERALE DE GEOPHYSIQUE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

FASB Statement 123(R) must be adopted no later than July 1, 2005.

FASB Statement 123(R) permits public companies to adopt its requirements using one of two methods:

modified prospective method, in which compensation cost is recognized beginning with the effective date (i) based on the requirements of FASB Statement 123(R) for all share-based payments granted after the effective date and (ii) based on the requirements of FASB Statement 123 for all awards granted to employees prior to the effective date of FASB Statement 123(R) that remain unvested on the effective date.

modified retrospective method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under FASB Statement 123 for purposes of pro forma disclosures either (i) all prior periods presented or (ii) prior interim periods of the year of adoption.

The company plans to adopt FASB Statement 123 using the modified-prospective method.

D CONDENSED CONSOLIDATING INFORMATION FOR CERTAIN SUBSIDIARIES

The following table presents condensed consolidating financial information in French GAAP for the Company, on the one hand, and CGG Canada Services Ltd, CGG Americas Inc., CGG Marine Resources Norge A/S, Sercel Inc., Sercel Australia Pty Ltd and Sercel Canada Ltd, taken as a group (the Subsidiary Group), on the other hand, as of and for the years ended December 31, 2004, 2003 and 2002. The column Sercel Subsidiary Group includes Sercel Inc., Sercel Australia Pty Ltd and Sercel Canada Ltd. Sercel Australia Pty Ltd was consolidated in our financial statements for the year ended December 31, 2004 but not for the years ended December 31, 2003 and 2002.

French GAAP	CGG	Subsidiary Group	Others	Consolidating Adjustments	Consolidated	Sercel Subsidiary Group
(in millions of euros)						
2004						
Total assets	630.7	341.8	718.5	(751.4)	939.6	150.8
Operating revenues	190.7	227.8	589.6	(315.5)	692.7	104.8
Net income (loss)	(38.2)	31.7	78.7	(61.1)	11.1	14.2
Operating income	(45.2)	36.2	64.5	(19.8)	35.7	6.8
2003						
Total assets	622.4	305.7	650.3	(699.1)	879.3	104.2
Operating revenues	249.9	209.5	497.5	(344.5)	612.4	75.9
Net income (loss)	(50.1)	18.7	28.8	(7.8)	(10.3)	(3.6)
Operating income	(60.7)	21.9	53.7	(4.3)	10.6	1.3
2002						
Total assets	735.6	347.1	754.2	(812.4)	1,024.5	117.8
Operating revenues	323.1	254.2	555.7	(432.3)	700.7	92.8
Net income (loss)	(14.6)	14.1	12.7	5.3	17.4	(7.5)
Operating income	(33.5)	23.3	78.8	(7.0)	61.6	(2.6)

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Arabian Geophysical & Surveying Company
(A Saudi Arabian Limited Liability Company)
FINANCIAL STATEMENTS
31 DECEMBER 2004

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**AUDITORS REPORT TO THE PARTNERS OF
ARABIAN GEOPHYSICAL & SURVEYING COMPANY LIMITED**

We have audited the accompanying balance sheet of Arabian Geophysical & Surveying Company, a Saudi Arabian Limited Liability Company, expressed in Saudi Riyals, as of 31 December 2004, 2003 and 2002 and the related statements of income, cash flows and changes in partners' equity for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arabian Geophysical & Surveying Company, a Saudi Arabian Limited Liability Company as of 31 December 2004, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Accounting principles generally accepted in the Kingdom of Saudi Arabia vary in certain significant respects from accounting principles generally accepted in the United States of America. The significant differences between the accounting principles generally accepted in the Kingdom of Saudi Arabia and those generally accepted in the United States of America so far as concerns the financial statements referred to are summarised in note 20 to the accompanying financial statements.

for Ernst & Young
Abdulaziz Saud Alshubaibi
Certified Public Accountant
Saudi Registration No. 339
Alkhobar, Saudi Arabia
1 February 2005

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
BALANCE SHEET

As at 31 December 2004

	Note	2004	2003	2002
		SR	SR	SR
ASSETS EMPLOYED				
PROPERTY, PLANT AND EQUIPMENT				
	3	121,111,759	174,344,719	232,465,525
CURRENT ASSETS				
Inventories	4	7,961,714	4,890,999	6,309,357
Accounts receivable and prepayments	5	101,800,723	85,954,484	117,498,199
Bank balances and cash		104,151,363	85,090,860	49,625,386
		213,913,800	175,936,343	173,432,942
CURRENT LIABILITIES				
Accounts payable and accruals	6	12,078,475	29,952,747	12,723,351
Current portion of term loans	8		30,900,000	86,950,000
Zakat and income tax payable	9	17,166,077	12,390,391	11,422,566
		29,244,552	73,243,138	111,095,917
NET CURRENT ASSETS		184,669,248	102,693,205	62,337,025
		305,781,007	277,037,924	294,802,550
FUNDS EMPLOYED				
PARTNERS EQUITY				
Capital	10	36,000,000	36,000,000	36,000,000
Statutory reserve	11	18,000,000	18,000,000	18,000,000
General reserve	12	4,646,910	4,646,910	4,646,910
Capital reserve	13	13,392,139	6,961,297	7,820,117
Reserve for employees training	14	3,000,000	3,000,000	3,000,000
Retained earnings		217,433,007	162,775,989	126,432,709
		292,472,056	231,384,196	195,899,736
NON CURRENT LIABILITIES				
Term loans	8		34,866,667	90,466,667
Employees terminal benefits		13,308,951	10,787,061	8,436,147
		13,308,951	45,653,728	98,902,814
		305,781,007	277,037,924	294,802,550

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The attached notes 1 to 20 form part of these financial statements.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
STATEMENT OF INCOME

Year ended 31 December 2004

	Note	2004	2003	2002
		SR	SR	SR
Contract revenue		324,889,670	306,295,873	305,330,088
Operating costs		(227,316,493)	(223,800,880)	(223,548,272)
GROSS PROFIT		97,573,177	82,494,993	81,781,816
General and administration expenses	15	(4,870,222)	(5,038,543)	(5,199,594)
INCOME FROM MAIN OPERATIONS		92,702,955	77,456,450	76,582,222
Other income	16	7,778,330	812,163	648,734
Other expenses	17	(40,740)	(1,150,521)	(865,123)
Financial charges		(1,352,685)	(3,633,632)	(6,692,771)
NET INCOME FOR THE YEAR		99,087,860	73,484,460	69,673,062

The attached notes 1 to 20 form part of these financial statements.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
STATEMENT OF CASH FLOWS

Year ended 31 December 2004

Note	2004	2003	2002
	SR	SR	SR
OPERATING ACTIVITIES			
Net income for the year	99,087,860	73,484,460	69,673,062
Adjustments for:			
Depreciation	62,855,322	64,333,171	79,463,888
(Profit)/loss on sale of plant and equipment	(6,430,842)	858,820	489,737
	155,512,340	138,676,451	149,626,687
Changes in operating assets and liabilities:			
Inventories	(3,070,715)	1,418,358	(274,697)
Receivables	2,818,073	41,728,621	(4,542,463)
Payables	215,844	56,670	(36,885,162)
Cash from operations	155,475,542	181,880,100	107,924,365
Employees terminal benefits, net	2,521,890	2,350,914	2,163,051
Zakat and income tax paid	9 (12,598,742)	(11,424,355)	(10,688,437)
Net cash from operating activities	145,398,690	172,806,659	99,398,979
INVESTING ACTIVITIES			
Purchase of plant and equipment	(10,789,409)	(13,436,425)	(36,353,925)
Proceeds from sale of plant and equipment	7,597,889	6,365,240	8,073,671
Net cash used in investing activities	(3,191,520)	(7,071,185)	(28,280,254)
FINANCING ACTIVITIES			
Term loans, net	(65,766,667)	(111,650,000)	(9,400,000)
Dividends paid	(57,380,000)	(18,620,000)	(20,060,780)
Net cash used in financing activities	(123,146,667)	(130,270,000)	(29,460,780)
INCREASE IN CASH	19,060,503	35,465,474	41,657,945
Cash at the beginning of the year	85,090,860	49,625,386	7,967,411
CASH AT THE END OF THE YEAR	104,151,363	85,090,860	49,625,386

The attached notes 1 to 20 form part of these financial statements.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
STATEMENT OF CHANGES IN PARTNERS EQUITY

Year ended 31 December 2004

	Capital	Statutory reserve	General reserve	Capital reserve	Reserve for employees training	Retained earnings	Total
	SR	SR	SR	SR	SR	SR	SR
Balance at 31 December 2001	36,000,000	15,947,837	4,646,910	8,309,854	3,000,000	78,382,853	146,287,454
Net income for the year						69,673,062	69,673,062
Provision for zakat and income tax (note 9)						(11,422,566)	(11,422,566)
Zakat and income tax reimbursable by the partners						11,422,566	11,422,566
Transfer to statutory reserve		2,052,163				(2,052,163)	
Transfer from capital reserve (note 13)				(489,737)		489,737	
Transfer to retained earnings					(1,835,729)	1,835,729	
Transfer to reserve for employees training (note 14)					1,835,729	(1,835,729)	
Dividends relating to 2001						(20,060,780)	(20,060,780)
Balance at 31 December 2002	36,000,000	18,000,000	4,646,910	7,820,117	3,000,000	126,432,709	195,899,736
Net income for the year						73,484,460	73,484,460
Provision for zakat and						(12,390,391)	(12,390,391)

income tax (note 9)								
Zakat and income tax reimbursable by the partners						12,390,391	12,390,391	
Transfer from capital reserve (note 13)				(858,820)		858,820		
Transfer to retained earnings					(2,134,170)	2,134,170		
Transfer to reserve for employees training (note 14)					2,134,170	(2,134,170)		
Dividends relating to 2002						(38,000,000)	(38,000,000)	
Balance at 31 December 2003	36,000,000	18,000,000	4,646,910	6,961,297	3,000,000	162,775,989	231,384,196	
Net income for the year						99,087,860	99,087,8600	
Provision for zakat and income tax (note 9)						(17,374,428)	(17,374,428)	
Zakat and income tax reimbursable by the partners						17,374,428	17,374,428	
Transfer to capital reserve (note 13)				6,430,842		(6,430,842)		
Transfer to retained earnings					(2,077,836)	2,077,836		
Transfer to reserve for employees training (note 14)					2,077,836	(2,077,836)		
Dividends relating to 2003						(38,000,000)	(38,000,000)	
Balance at 31 December 2004	36,000,000	18,000,000	4,646,910	13,392,139	3,000,000	217,433,007	292,472,056	

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The attached notes 1 to 20 form part of these financial statements.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2004

1 ACTIVITIES

The company is a Limited Liability Company registered in Saudi Arabia under Commercial Registration number 2051001444 dated 28 Muharram 1389H corresponding to 15 March 1969.

The company is engaged in geophysical and related activities necessary for the exploration and development of hydro-carbons.

The company is owned 51% by Industrialisation and Energy Services Company, a limited liability company registered in Saudi Arabia and 49% by Compagnie Generale de Geophysique (CGG), a company registered in France.

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention.

Depreciation

Freehold land is not depreciated. All property, plant and equipment are initially recorded at cost. Depreciation is provided on all property, plant and equipment on a straight line basis at rates calculated to write off the cost of each asset over its expected useful life.

Inventories

Inventories are valued at the lower of cost and market after making due allowance for any obsolete or slow moving items. Cost is determined on a first-in first-out basis (see note 4).

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The liability is charged to retained earnings. Accordingly, any reimbursements by the partners of such zakat and income tax are credited to retained earnings.

Employees terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees accumulated periods of service at the balance sheet date.

Contract revenue

Contract revenue represents the invoiced and accrued value of services rendered by the company during the year.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Expenses

Employee related costs, depreciation and training expenses are charged to operating costs. All other expenses are classified as general and administration expenses.

3 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Camp and research equipment	5 ¹ / ₃ years
Vehicles	4 to 5 ¹ / ₃ years
Others	5 ¹ / ₃ years

	Freehold land	Camp and research equipment	Vehicles	Others	Total 2004	Total 2003	Total 2002
	SR	SR	SR	SR	SR	SR	SR
Cost:							
At the beginning of the year	1,382,000	397,158,664	55,104,334	4,071,820	457,716,818	521,502,125	560,299,139
Additions		6,583,829	3,933,866	271,714	10,789,409	13,436,425	36,353,925
Disposals		(36,940,177)	(115,282)	(127,895)	(37,183,354)	(77,221,732)	(75,150,939)
At the end of the year	1,382,000	366,802,316	58,922,918	4,215,639	431,322,873	457,716,818	521,502,125
Depreciation:							
At the beginning of the year		233,586,217	46,596,320	3,189,562	283,372,099	289,036,600	276,160,243
Charge for the year		58,957,637	3,644,727	252,958	62,855,322	64,333,171	79,463,888
Disposals		(35,773,138)	(115,281)	(127,888)	(36,016,307)	(69,997,672)	(66,587,531)
At the end of the year		256,770,716	50,125,766	3,314,632	310,211,114	283,372,009	289,036,600
Net book amounts:							
At 31 December 2004	1,382,000	110,031,600	8,797,152	901,007	121,111,759		

At 31 December 2003	1,382,000	163,572,447	8,508,014	882,258	174,344,719
At 31 December 2002	1,382,000	221,830,430	8,469,189	783,906	232,465,525

4 INVENTORIES

	2004	2003	2002
	SR	SR	SR
Equipment spares and others	6,697,432	4,813,651	5,866,138
Goods in transit	1,264,282	77,348	443,219
	7,961,714	4,890,999	6,309,357

Saudi Arabian accounting standards require that the cost of inventories should be determined using the average method. The company is in the process of changing its computer system to enable it to use the average method. In the meantime, the cost of inventories has been determined on a first-in first-out method. It is estimated that if the company had used the average method, the cost of inventories would not have been materially different.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

Inventories are held for internal use only and are not intended for resale.

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2004	2003	2002
	SR	SR	SR
Trade accounts receivable	48,034,478	24,033,667	50,445,316
Retentions receivable	35,159,374	51,263,358	55,237,931
Amounts due from partners	16,856,091	7,617,984	8,702,654
Advances to suppliers	208,164	723,577	1,146,825
Other receivables	307,976	996,515	1,010,541
Prepaid expenses	1,234,640	1,319,383	954,932
	101,800,723	85,954,484	117,498,199

All services rendered by the company during the year were to one customer under three contracts. All trade accounts receivable and all retentions receivable are due from that customer. The customer would normally pay 90% of the amount billed within 30 days of the date of the invoice and the balance held as retentions upon submission of zakat and income tax clearance certificate for the relevant year.

Amounts due from the partners represents SR 2,478,777 (2003: Nil and 2002: SR 917,247) due from the Saudi partner and SR 14,894,518 (2003: SR 11,100,507 and 2002: SR 10,505,319) from CGG (less any pending amount due to the partner) in respect of zakat and income tax respectively (see note 9).

6 ACCOUNTS PAYABLE AND ACCRUALS

	2004	2003	2002
	SR	SR	SR
Trade accounts payable	6,718,682	6,583,563	6,271,239
Amount due to a partner		17,051,226	
Amounts due to affiliates (note 7)	293,909	826,766	683,451
Accrued expenses	3,967,197	4,209,785	4,770,652
Other payables	1,098,687	1,281,407	998,009
	12,078,475	29,952,747	12,723,351

According to the terms offered by the suppliers, trade accounts payable are normally settled within 30 to 100 days of the date of invoice.

In 2003, amount due to a partner represented dividend payable of SR 19,380,000 to the Saudi partner (less amount due from the partner in respect of zakat).

7 RELATED PARTY TRANSACTIONS AND BALANCES

During the year, a proportion (2003 and 2002: a proportion) of the company's research equipment has been acquired from one of the partners and its affiliates. The company also acquired a small proportion of its equipment spares and services requirements from the same affiliates. Prices and terms of payments of these transactions are approved by the management. Amounts due from and due to the partners and their affiliates are shown in notes 5

and 6, respectively.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TERM LOANS

	2004	2003	2002
	SR	SR	SR
Bank loans		65,766,667	177,416,667
Less: Non current portion		34,866,667	90,466,667
Current portion		30,900,000	86,950,000

During the year the management decided to fully repay all loans before their due dates.

9 ZAKAT AND INCOME TAX**a) Zakat**

The zakat provision relating to the Saudi partner consists of:

	2004	2003	2002
	SR	SR	SR
Provision for the year	2,271,559	1,289,884	917,247
Prior years	207,308	143	268
Charge for the year	2,478,867	1,290,027	917,515

The Saudi partner's provision is based on his share as follows:

	2004	2003	2002
	SR	SR	SR
Equity	98,625,940	99,908,866	64,375,604
Opening provisions and other adjustments	5,501,401	4,302,435	3,199,279
Book value of long term assets	(65,182,687)	(91,370,769)	(121,549,148)
	38,944,654	12,840,532	(53,974,265)
Zakatable income for the year	51,917,716	38,754,818	36,689,881
Zakat base	90,862,370	51,595,350	36,689,881

b) Income tax

The income tax provision relating to the foreign partner consists of:

2004	2003	2002
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	SR	SR	SR
Provision for the year	14,894,518	11,100,507	10,505,319
Prior year	1,043	1,646	3,087
Charge for the year	14,895,561	11,102,153	10,508,406

Income tax has been provided for based on the estimated taxable income at various rates up to 30% (2003 and 2002: up to 30%).

The differences between the financial and taxable/ zakatable income are mainly due to adjustments for certain costs/ claims based on the relevant fiscal regulations.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Movement in provision

The movement in the zakat and income tax provision was as follows:

	2004	2003	2002
	SR	SR	SR
At the beginning of the year	12,390,391	11,422,566	10,685,082
Provided during the year	17,374,428	12,392,180	11,425,921
Payments during the year	(12,598,742)	(11,424,355)	(10,688,437)
At the end of the year	17,166,077	12,390,391	11,422,566

d) Status of assessments

Zakat and income tax assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 1991 and from 1994 to 1996. Decisions for the years 1992 and 1993 have been received from the Higher Appeal Committee (HAC) and the company is awaiting for the revised assessments from the DZIT. Assessments for the years 1997 to 2000 have been raised by the DZIT demanding an additional amount of SR 4.7 million. The company had appealed against these assessments to the Preliminary Appeal Committee (PAC) which has upheld the company's point of view on major amounts involved. Revised assessment from the DZIT is awaited. Assessments for the years 2001 and 2002 have also been received from the DZIT demanding an additional amount of SR 4.6 million. The company has appealed against these assessments.

The declaration for the year 2003 has been filed and is under review by the DZIT.

10 CAPITAL

Capital is divided into 36,000 authorised, issued and fully paid up shares of SR 1,000 each (2003 and 2002: 36,000 shares).

11 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. This having been achieved in 2002 (2002: SR 2,052,163 and 2001: SR 6,566,004), the company has resolved to discontinue such transfers. The reserve is not available for distribution.

12 GENERAL RESERVE

There are no restrictions on the distribution of this reserve.

13 CAPITAL RESERVE

An amount equal to the profit on disposal of property, plant and equipment is transferred from retained earnings to capital reserve and vice versa in case of loss. Although the capital reserve is a free reserve, yet it is not intended to be distributed.

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

14 RESERVE FOR EMPLOYEES TRAINING

	2004	2003	2002
	SR	SR	SR
At the beginning of the year	3,000,000	3,000,000	3,000,000
Transfer to retained earnings	(2,077,836)	(2,134,170)	(1,835,729)
Transfer from retained earnings	2,077,836	2,134,170	1,835,729
At the end of the year	3,000,000	3,000,000	3,000,000

An amount equal to expenses incurred on training during the year has been transferred to retained earnings.

In accordance with the company's articles of association, the company has allocated 10% of the net income for the year, subject to a maximum limit of SR 3 million, for training programmes for Saudi Arabian nationals.

15 GENERAL AND ADMINISTRATION EXPENSES

	2004	2003	2002
	SR	SR	SR
Rent	1,178,503	1,271,583	1,158,508
Printing and stationery	872,659	886,376	968,649
Postage, fax and telephone	587,883	642,201	752,800
Other	2,231,177	2,238,383	2,319,637
	4,870,222	5,038,543	5,199,594

16 OTHER INCOME

	2004	2003	2002
	SR	SR	SR
Profit on sale of plant and equipment	6,430,842		
Income from bank deposits	1,347,488	812,163	648,734
	7,778,330	812,163	648,734

17 OTHER EXPENSES

	2004	2003	2002
	SR	SR	SR
Loss on sale of plant and equipment		858,820	489,737
Exchange loss	40,740	291,701	375,386

40,740	1,150,521	865,123
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18 CAPITAL COMMITMENTS

The directors have authorised future capital expenditure amounting to SR 6.5 million (2003: SR 8.6 million and 2002: SR 15.7 million).

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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

19 CONTINGENT LIABILITY

The company's banker has issued payment guarantees to the DZIT amounting to SR 9,129,001 (2003: SR 9,129,001 and 2002: SR 9,129,001). The bankers of the foreign partner have provided counter guarantees to the company's banker on its behalf.

20 SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements of the company have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. For purposes of these financial statements, the following are the differences between the company's accounting principles utilized and United States Generally Accepted Accounting Principles (US GAAP).

a. Following is a reconciliation of net income to US GAAP:

	2004	2003	2002
	SR	SR	SR
Net income according to financial statements (under Saudi accounting standards)	99,087,860	73,484,460	69,673,062
US GAAP adjustments:			
Provision for zakat and income tax (note 9(c))	(17,374,428)	(12,390,391)	(11,422,566)
Additional liability for zakat and income tax for finalized years (refer below)	(3,761,410)	(3,761,410)	(3,761,410)
Deferred tax debit	400,542	357,175	272,207
Net income under US GAAP	78,352,564	57,689,834	54,761,293
Difference in net income between Saudi Standards and US GAAP's	20,735,296	15,794,626	14,911,769

Additional zakat and income tax relates to the years 1992 and 1993 which is pending final revised assessment.

The amount of zakat and income tax assessed for the years 1997 and 2000 of SR 4,701,115 has not been taken into consideration in the above reconciliation as this has been appealed against and the final amount ultimately payable cannot be determined with reasonable accuracy (refer note 9(d)).

b. Following is a reconciliation of partners' equity for differences with US GAAP:

	2004	2003	2002
	SR	SR	SR
Partners' equity according to financial statements (under Saudi accounting standards)	292,472,056	231,384,196	195,899,736
US GAAP adjustments:			
Difference in net income (note 20 a.)	(20,735,296)	(15,794,626)	(14,911,769)

Partners' equity under US GAAP	271,736,760	215,589,570	180,987,967
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ARABIAN GEOPHYSICAL & SURVEYING COMPANY
(A Saudi Arabian Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)

c. Dividends paid

Dividends paid during the year amounting to SR 38,000,000 (2003: SR 38,000,000 and 2002: SR 20,060,780) included payments to the partners on account of zakat and income tax equalisation.

d. Related party transactions

The following are the amounts of transactions with related parties as described in note 7:

	2004	2003	2002
	SR	SR	SR
Expenses charged to operating costs	4,342,076	5,040,839	5,445,185
Purchase of fixed assets	3,280,208	5,903,222	26,627,724

e. Earnings per share

	2004	2003	2002
	SR	SR	SR
Based on net income as per Saudi accounting standards	2,752	2,041	1,935
Based on net income as per US GAAP s	2,176	1,602	1,521