PROLOGIS
Form DEF 14A
April 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant	þ
Filed by a Party other than the Registrant	o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Rule 14a-12

ProLogis

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Notice of 2009
Annual Meeting
and
Proxy Statement

April 8, 2009

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4545 Airport Way
Denver, Colorado 80239

April 8, 2009

Dear Shareholder,

You are cordially invited to attend the annual meeting of shareholders of ProLogis, which will take place on May 20, 2009, at our world headquarters in Denver, Colorado.

We have elected to take advantage of the Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their shareholders on the Internet. We believe that these rules will allow us to provide our shareholders with the information they need, while lowering the costs of printing and delivery and reducing the environmental impact of our annual meeting.

Details of the business to be conducted at the meeting are set forth in the formal notice of annual meeting of shareholders and proxy statement that accompany this letter.

Your vote is important. Whether or not you plan to attend the annual meeting, it is important that your shares be represented and voted at the meeting. I urge you to promptly vote and authorize your proxy instructions electronically through the Internet, by telephone or, if you have requested and received a paper copy of the proxy statement, by completing, signing, dating, and returning the proxy card enclosed with the proxy statement. Voting through the Internet or by telephone will eliminate the need to return your proxy card. If you decide to attend the annual meeting, you will be able to vote in person, even if you have previously submitted your proxy.

On behalf of the Board of Trustees, I would like to express our appreciation for your continued interest in ProLogis.

Sincerely,

/s/ Walter C. Rakowich
Walter C. Rakowich
Chief Executive Officer
and Trustee

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Every shareholder s vote is important. Please authorize your proxy through the Internet, by telephone, or complete, sign,date, and return your proxy card.

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NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS

10:30 a.m., May 20, 2009
ProLogis World Headquarters
4545 Airport Way
Denver, Colorado 80239

April 8, 2009

To our Shareholders:

The 2009 annual meeting of shareholders of ProLogis, a Maryland real estate investment trust, will be held at ProLogis world headquarters, 4545 Airport Way, Denver, Colorado 80239, on Wednesday, May 20, 2009, at 10:30 a.m., local time, for the following purposes:

1. To elect ten trustees to serve until the 2010 annual meeting;
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the year 2009; and
3. To consider any other matters that may properly come before the meeting and at any adjournments or postponements of the meeting.

Shareholders of record at the close of business on March 23, 2009 are entitled to notice of, and to vote at, the meeting and any adjournments or postponements of the meeting. On or about April 8, 2009, we intend to mail our shareholders a notice containing instructions on how to access our 2009 proxy statement and 2008 annual report to shareholders on the Internet and also how to vote on the Internet. The notice also provides instructions on how you can request a paper copy of these documents if you desire. If you received your annual materials via e-mail, the e-mail contains voting instructions and links to the proxy statement and annual report on the Internet.

For the Board of Trustees,

/s/ Edward S. Nekritz
Edward S. Nekritz
Secretary

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PROXY STATEMENT

ProLogis, 4545 Airport Way, Denver, Colorado 80239

This proxy statement is furnished in connection with the solicitation of proxies by the board of trustees of ProLogis for the 2009 annual meeting of shareholders of ProLogis. Distribution and electronic availability of this proxy statement and proxy card are scheduled to begin on or about April 8, 2009.

In accordance with the rules of the Securities and Exchange Commission (SEC), instead of mailing a printed copy of our proxy materials to each shareholder of record or beneficial owner, we are now furnishing proxy materials (our 2009 proxy statement and our 2008 annual report to shareholders, which includes our Annual Report on Form 10-K) by providing access to such documents on the Internet. Our shareholders will not receive printed copies of the proxy materials unless they elect this form of delivery or they are participants in our 401(k) Savings Plan and Trust (401(k) Plan). Printed copies will be provided upon request at no charge.

A Notice of Internet Availability of Proxy Materials (Notice of Internet Availability) was mailed to our shareholders on or about April 8, 2009. The Notice of Internet Availability was provided in lieu of mailing the printed proxy materials and instructed our shareholders as to how they may: (i) access and review all of the proxy materials on the Internet; (ii) submit their proxy; and (iii) receive printed proxy materials.

Shareholders may request to receive printed proxy materials by mail or electronically by e-mail on an ongoing basis by following the instructions included in the Notice of Internet Availability. Providing future proxy materials by e-mail will save us some of the costs associated with printing and delivering the materials and will reduce the environmental impact of our annual meetings. An election to receive proxy materials by e-mail will remain in effect until such time as the shareholder elects to terminate it.

You can ensure that your shares are voted at the meeting by authorizing your proxy through the Internet, by telephone, or by completing, signing, dating, and returning the printed proxy card provided with the printed materials. If you are a shareholder of record, you may still attend the meeting and vote despite having previously authorized your proxy by any of these methods. A shareholder of record who gives a proxy may revoke it at any time before it is exercised by voting in person at the annual meeting, by delivering a subsequent proxy, by notifying the inspector of election in writing of such revocation, or, if previous instructions were given through the Internet or by telephone, by providing new instructions by the same means. An admission ticket is required to attend the 2009 annual meeting. Admission tickets are provided with the printed proxy materials and with the Notice of Internet Availability.

Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be Held on May 20, 2009:

This proxy statement and our 2008 annual report to shareholders, which includes our Annual Report on Form 10-K, are available at *http://ir.prologis.com.*

SUMMARY OF PROPOSALS SUBMITTED FOR VOTE

Proposal 1: Election of Trustees

Nominees: At the annual meeting you will be asked to elect ten trustees to the board of trustees. The trustees will be elected to one-year terms and will hold office until the 2010 annual meeting and until their successors are elected and qualify.

Vote Required: You may vote for or withhold your vote from any of the trustee nominees. Assuming a quorum is present, the trustees receiving a majority of the votes cast in person or by proxy at the meeting will be elected. For this purpose, a majority of the votes cast means that the number of common shares that are cast and are voted For the election of a trustee must exceed the number of common shares that are withheld from his or her election.

Proposal 2: Ratification of the Appointment of Independent Registered Public Accounting Firm

Independent Registered Public Accounting Firm: At the annual meeting you will be asked to ratify the audit committee s appointment of KPMG LLP as the company s independent registered public accounting firm for the year 2009.

Vote Required: You may vote for, vote against, or abstain from voting on ratifying the appointment of the independent registered public accounting firm. Assuming a quorum is present, the affirmative vote of a majority of the common shares voted at the meeting in person or by proxy will be required to ratify the audit committee s appointment of the independent registered public accounting firm.

The board of trustees unanimously recommends that the shareholders vote FOR each of the proposals listed above.

The foregoing are only summaries of the proposals.
You should review the full discussion of each proposal
in this proxy statement before casting your vote.

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ELECTION OF TRUSTEES Proposal 1

Nominees

At the 2009 annual meeting, all ten trustee nominees are standing to be elected to hold office until the 2010 annual meeting and until their successors are elected and qualify. The ten nominees for election at the 2009 annual meeting, all proposed by the board of trustees, are listed below with brief biographies. They are all now ProLogis trustees. We do not know of any reason why any nominee would be unable or unwilling to serve as a trustee. However, if a nominee becomes unable to serve or will not serve, proxies may be voted for the election of such other person nominated by the board as a substitute or the board may reduce the number of trustees.

Under our bylaws, trustees in non-contested elections must receive a majority of affirmative votes cast for election at a meeting at which a quorum is present. For this purpose, a majority of the votes cast means that the number of common shares that are cast and are voted For the election of a trustee must exceed the number of common shares that are withheld from his or her election. If a trustee fails to obtain a majority, he or she must tender his or her resignation to the board within three days after certification of the voting results. The board, generally through a process managed by the board governance and nomination committee, will decide what action to take with regard to the tendered resignation. A tendered resignation is effective 90 days from the date of tender unless the board affirmatively determines to reject the tendered resignation or accept the resignation on a specified future date or upon the appointment of a replacement trustee to fill the vacancy that will result from the resignation. The board will then explain its decision to accept or reject the tendered resignation in a Current Report on Form 8-K, which will be filed promptly with the SEC.

The board of trustees unanimously recommends that the shareholders vote FOR the election of each nominee.

Stephen L. Feinberg. Chairman since November 2008 and Trustee since January 1993

Mr. Feinberg, 64, has been Chairman of the Board and Chief Executive Officer of Dorsar Investment Company, a diversified holding company with interests in real estate and venture capital, since 1970.

George L. Fotiades. Trustee since December 2001

Mr. Fotiades, 55, has been Chairman of the Healthcare investment practice of Diamond Castle Holdings, a private equity investment firm, since April 2007 and was President and Chief Operating Officer of Cardinal Health, Inc., a provider of services supporting the health care industry, until May 2006. He was previously President and Chief Executive Officer of Life Sciences Products and Services, a unit of Cardinal Health, Inc., and was with Cardinal Health, Inc. or its predecessor in various capacities from 1996 to 2006. He serves on the Board of Directors of Alberto Culver Company and Cantel Medical Corporation.

Christine N. Garvey. Trustee since September 2005

Ms. Garvey, 63, has served as a consultant to Deutsche Bank AG, a global investment bank, since May 2004. From May 2001 to May 2004, Ms. Garvey served as Global Head of Corporate Real Estate Services at Deutsche Bank AG London. Ms. Garvey serves on the Board of Directors of Maguire Properties Group, HCP Inc., and UnionBanCal Corp. and she was a member of the Board of Directors of Catellus Development Corporation (Catellus) when it was merged with and into a subsidiary of ProLogis in September 2005.

Lawrence V. Jackson. Trustee since March 2008

Mr. Jackson, 55, is Chairman and Chief Executive Officer of Source Mark, LLC, a medical and surgical supply manufacturer. He was President and Chief Executive Officer, Global Procurement of Wal-Mart Stores, Inc. (Wal-Mart), an international retailer, from April 2006 to February 2007 and, prior to that role, he was Executive Vice President and Chief People Officer of Wal-Mart. He was President and Chief Operating Officer of Dollar General Stores, Inc., a discount retailer, from August 2003 to September 2004.

Donald P. Jacobs. Trustee since February 1996

Mr. Jacobs, 81, is the Gaylord Freeman Distinguished Professor of Banking and Dean Emeritus of the Kellogg School of Management and has been a member of its faculty since 1957. He serves on the Board of Directors of Terex Corporation.

Walter C. Rakowich. Trustee since November 2008

Mr. Rakowich, 51, has been Chief Executive Officer of ProLogis since November 2008. Mr. Rakowich was ProLogis President and Chief Operating Officer from January 2005 to November 2008, Chief Financial Officer from December 1998 to September 2005, and Managing Director from December 1998 to December 2004. Mr. Rakowich has been with ProLogis in various capacities since July 1994. Prior to joining ProLogis, Mr. Rakowich was a consultant to ProLogis in the area of due diligence and acquisitions from October 1993 to June 1994 and, prior thereto, he was a partner with Trammell Crow Company, a diversified commercial real estate company in North America. Mr. Rakowich served as a Trustee from August 2004 to May 2008 and was reappointed as a Trustee in November 2008.

D. Michael Steuert. Trustee since September 2003

Mr. Steuert, 60, has been Senior Vice President and Chief Financial Officer of Fluor Corporation, a publicly-traded engineering and construction firm, since 2001. He serves on the Board of Directors of Weyerhaeuser Corporation.

J. André Teixeira. Trustee since February 1999

Mr. Teixeira, 56, is Vice President, International Research and Development, of Campbell Soup Company, a global manufacturer and marketer of convenience food products. Mr. Teixeira is a founding partner of, and was President of, eemPOK, a management consulting firm in Belgium, from January 2005 to January 2007, and was Chairman and Senior Partner with BBL Partners, a consulting and trading company in Russia, from January 2002 to July 2006. He was Vice President, Global Innovation and Development, of InBev, formerly Interbrew, a publicly traded brewer in Belgium, from February 2003 to October 2004, and, prior thereto, he was with The Coca-Cola Company, a global manufacturer, distributor and marketer of nonalcoholic beverages, in various capacities between 1978 and 2001 (including President, Coca-Cola Russia/Ukraine/Belarus).

William D. Zollars. Trustee since June 2001

Mr. Zollars, 61, has been Chairman, President, and Chief Executive Officer of YRC Worldwide Inc. (YRC) (formerly Yellow Roadway Corporation), a holding company specializing in the transportation of industrial, commercial, and retail goods, since 1999 and has been with YRC in various capacities since 1996. He serves on the Board of Directors of CIGNA Corporation and Cerner Corporation.

Andrea M. Zulberti. Trustee since May 2005

Ms. Zulberti, 57, retired in August 2003 as a Managing Director for Barclays Global Investors (BGI), a global investment management firm. Ms. Zulberti held various positions at BGI starting in 1989 and was Head of Global Operations/Global Chief Administrative Officer from 2000 until her retirement.

CORPORATE GOVERNANCE

ProLogis remains committed to furthering meaningful corporate governance practices and maintaining a business environment of uncompromising integrity. We continue to implement this commitment through, among other things, our governance policies and compliance with the Sarbanes-Oxley Act of 2002 and the rules of the New York Stock Exchange (NYSE). Our board has formalized several policies, procedures, and standards of corporate governance that are reflected in our governance guidelines. These governance guidelines, some of which we touch on below, can be viewed, together with any future changes, on our website at *http://ir.prologis.com/governance.cfm.* In addition, copies of our governance guidelines can be obtained by any shareholder, free of charge, upon written request to Edward S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239.

Trustee Independence. We require that a majority of our board be independent in accordance with NYSE requirements. To determine whether a trustee is independent, the board must affirmatively determine that there is no direct or indirect material relationship between the company and the trustee. The board has determined that all of our trustees, other than Mr. Rakowich, are independent. The board reached its decision after reviewing trustee questionnaires, considering any transactions and relationships between us, our affiliates, members of our senior management and their affiliates, and each of the trustees, members of each trustee s immediate family, and each trustee s affiliates, and considering all other relevant facts and circumstances. The board has also determined that all members of the audit, management development and compensation, and board governance and nomination committees are independent in accordance with NYSE and SEC rules and that all members of the audit committee are financially literate.

Lead Trustee. Our outside trustees, meaning those trustees who are not officers or employees of ProLogis, meet in regular executive sessions without management being present. The chair of these executive sessions was trustee Brooksher until February 22, 2008 when, upon the announcement of Mr. Brooksher s retirement from the board effective May 2008, the trustees named trustee Feinberg as lead trustee to chair these executive sessions. Mr. Feinberg was appointed chairman of the board of trustees on November 10, 2008. Since our chairman is now also an outside trustee, we do not now have a lead trustee.

Communicating with Trustees. You can communicate with any of the trustees, individually or as a group, by writing to them in care of Edward S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239. All communications should prominently indicate on the outside of the envelope that they are intended for the full board, for outside trustees only, or for any particular group or member of the board. Each communication intended for the board and received by the secretary that is related to the operation of the company and is not otherwise commercial in nature will be forwarded to the specified party following its clearance through normal security procedures. The outside trustees will be advised of any communications that were excluded through normal security procedures, and they will be made available to any outside trustee who wishes to review them.

Shareholder Recommended Nominees for Trustee. The board governance and nomination committee considers shareholder recommended nominees for trustees and screens all potential candidates in the same manner regardless of the source of the recommendation. Recommended nominees should be submitted to the committee following the same requirements as shareholder proposals generally and, like all proposals, must satisfy, and will be subject to, our bylaws and applicable SEC, NYSE, and Maryland rules and regulations. Submittals must contain the following information as to the shareholder giving notice and as to any Shareholder Associated Person (as defined below):

as to each person whom the shareholder proposes to nominate for election or reelection as a trustee, all information relating to such person that is required to be disclosed in solicitations of proxies for election of trustees, or is otherwise required, in each case pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, (Exchange Act), including each proposed nominee s written consent to being named in the proxy

statement as a nominee and to serving as a trustee if elected;

as to any other business which the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, and any material interest in such business of such shareholder and of the beneficial owner, if any, on whose behalf the proposal is made;

the name and address of the shareholder, as it appears on our books, and that of such Shareholder Associated Person;

the number of shares of each class of our shares which are owned beneficially and of record by such shareholder, the date such securities were acquired, and the investment intent of such acquisition;

whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement, or understanding (including any short position or any borrowing or lending of shares) has been made, the effect or intent of which is to mitigate loss or to manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such shareholder or any Shareholder Associated Person with respect to any of our shares, and a general description of whether and the extent to which such shareholder or Shareholder Associated Person has engaged in such activities with respect to shares of stock or other equity interests of any other company;

to the extent known by the shareholder, the name and address of any other shareholder supporting the nominee for election or re-election to the board or the proposal of other business on the date of such shareholder s notice;

a representation that the shareholder intends to appear in person or by proxy at the meeting, if there is a meeting, to nominate the persons named in its notice or to bring other business proposed in its notice before the meeting;

in the case of a nomination, a description of all arrangements or understanding between the shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the shareholder and any other information relating to the shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of trustees pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder.

A Shareholder Associated Person means, with respect to any shareholder, any person controlling, directly or indirectly, or acting in concert with, such shareholder, any beneficial owner of our shares owned of record or beneficially by such shareholder and any person controlling, controlled by, or under common control with such Shareholder Associated Person.

Shareholder recommendations for board candidates should be sent to the Board Governance and Nomination Committee in care of Edward S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239. For more information on procedures for submitting nominees, see Additional Information Shareholder Proposals for Inclusion in Next Year s Proxy Statement and Shareholder Nominations and Other Shareholder Proposals for Presentation at Next Year s Annual Meeting. The board governance and nomination committee reviews its recommendations with the board, which in turn selects the final nominees. The committee may look at a variety of factors in identifying potential candidates and may request interviews or additional information as it deems necessary. Our declaration of trust requires that our trustees be individuals who are at least 21 years old and not under any legal disability. There are no other minimum qualifications that the committee believes must be met by a nominee. In the course of identifying and evaluating candidates, the committee will sometimes retain executive search firms on a fee basis to identify candidates for the board (as was the case for Mr. Jackson in connection with his appointment to the board in March 2008) who are then screened following the same procedures as all other candidates. In addition to shareholder nominees, the committee will consider candidates recommended by trustees, officers, third-party search firms, employees, and others.

Code of Ethics and Business Conduct. We have adopted a code of ethics and business conduct that applies to all employees and trustees entitled *A Commitment to Excellence and Integrity,* which can be viewed, together with any future changes, on our website at *http://ir.prologis.com/governance.cfm.* In addition, copies of our code of ethics and business conduct can be obtained, free of charge, upon written request to Edward S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239. Our code details the expected behavior of all employees in routinely applying our institutional and personal values of honesty, integrity, and fairness to everything we do at ProLogis. The code outlines in great detail the key principles of ethical conduct expected of ProLogis employees, officers, and trustees, including matters related to conflicts of interest, use of company resources, fair dealing, and financial reporting and disclosure. The code also establishes formal procedures for

reporting illegal or unethical behavior to the ethics administrator. In addition, it permits employees to report on a confidential or anonymous basis if desired, any concerns about the company s accounting, internal accounting controls, or auditing matters. Employees may contact the ethics administrator by e-mail, in writing, or by calling a toll-free telephone number. Any significant concerns are reported to the audit committee.

BOARD OF TRUSTEES AND COMMITTEES

Our board of trustees currently consists of ten trustees, nine of whom are independent under the requirements of the NYSE listing rules. All of our current trustees are standing for re-election at the 2009 annual meeting of shareholders. The board held 12 meetings in 2008, including telephonic meetings and all trustees attended 75% or more of the board meetings. All of the trustees attended at least 75% of the meetings of the committees on which they served during the periods they served, except as otherwise noted below. Each trustee is expected to attend the annual meeting of shareholders absent cause, and all trustees attended the annual meeting last year, in person or telephonically.

The five standing committees of the board are: audit committee, board governance and nomination committee, management development and compensation committee, investment committee, and sustainability committee.

Audit Committee. The members of the audit committee are trustees Steuert, who chairs the committee, Fotiades, Garvey, Jacobs, and Zulberti each of whom is independent under the rules of the NYSE. This committee s purpose is to be an informed, vigilant, and effective overseer of our financial accounting and reporting processes consistent with risk mitigation appropriate in the circumstances. This committee is directly responsible for the appointment, compensation, and oversight of our independent registered public accounting firm. Further, the committee monitors: (i) the integrity of our financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our public accountant s qualifications and independence; and (iv) the performance of our internal audit function and public accountants. This committee also reviews the adequacy of its charter on an annual basis. The board has determined that Mr. Steuert is qualified as an audit committee financial expert within the meaning of the SEC regulations. There were nine meetings of this committee in 2008 and all members attended at least 75% of the meetings during the period in which they served. The committee s report appears below under Audit Committee Report. The audit committee s responsibilities are stated more fully in its charter which can be viewed, together with any future changes, on our website at *http://ir.prologis.com/governance.cfm.* In addition, copies of the charter can be obtained by any shareholder, free of charge, upon written request to Edward. S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239.

Board Governance and Nomination Committee. The members of the board governance and nomination committee are trustees Fotiades, who chairs the committee, Garvey, Teixeira, and Zollars, each of whom is independent under the rules of the NYSE. This committee s purpose is to: (i) review and make recommendations to the board on board organization and succession matters; (ii) assist the full board in evaluating the effectiveness of the board and its committees; (iii) review and make recommendations for committee appointments; (iv) identify individuals qualified to become board members and propose to the board a slate of nominees for election; (v) assess and make recommendations to the board on corporate governance matters; and (vi) develop and recommend to the board a set of corporate governance principles for the company. This committee also reviews the adequacy of its charter on an annual basis. There were five meetings of this committee in 2008 and all members attended at least 75% of the meetings during the period in which they served, with the exception of Mr. Zollars who attended three of the five committee meetings. The committee s responsibilities are stated more fully in its charter which can be viewed, together with any future changes, on our website at *http://ir.prologis.com/governance.cfm.* In addition, copies of the charter can be obtained by any shareholder, free of charge, upon written request to Edward. S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239.

Management Development and Compensation Committee. The members of the management development and compensation committee, which we typically refer to as our compensation committee, are trustees Jacobs, who chairs the committee, Feinberg, Zollars, and Zulberti, each of whom is independent under the rules of the NYSE. The compensation committee is responsible for: (i) reviewing and recommending to the board corporate goals and objectives relative to the compensation of our chief executive officer; (ii) evaluating the chief executive officer s performance in light of those goals and objectives, and recommending to the board the chief executive

officer s compensation level based on that evaluation; (iii) reviewing and recommending to the board the amount and form of compensation for the senior executive officers; (iv) making recommendations to the board on general compensation practices and adopting, administering, and recommending awards under annual and long-term incentive plans; (v) retaining and terminating a compensation consulting firm, including sole authority to approve the firm s fees and other retention terms; (vi) reviewing and reassessing its charter on an annual basis; (vii) reviewing material regulatory and legal matters; (viii) ensuring reports are made to the board or in filings as required by the SEC and the NYSE; (ix) reviewing and assessing the adequacy of its charter on an annual basis; (x) participating in succession planning for key executives; and (xi) forming and delegating authority to subcommittees when deemed appropriate.

The company s chief executive officer also reports regularly to the compensation committee on our management development activities. The compensation committee has retained the independent compensation consultant Frederic W. Cook & Co., Inc. to assist the committee in assessing our compensation programs for senior officers. The consultant does not advise management, receives no compensation from the company other than for its work in advising the committee, and maintains no other economic relationships with the company. The compensation consultant conducts a comprehensive competitive review of the compensation program for the company s senior officers, in terms of both structure and magnitude. The compensation committee uses the review to assist it in making compensation recommendations to the board. Our chief executive officer makes separate recommendations to the compensation committee concerning the form and amount of compensation for our senior officers (excluding his own compensation). Please see Compensation Matters Compensation Discussion and Analysis for additional information about, and the processes and procedures for determining, executive officer compensation. There were seven meetings of this committee in 2008 and all members attended at least 75% of the meetings during the period in which they served, with the exception of Mr. Zollars who attended four of the seven committee meetings. The committee s report appears under Compensation Matters Compensation Committee Report. The compensation committee s responsibilities are stated more fully in its charter which can be viewed, together with any future changes, on our website at *http://ir.prologis.com/governance.cfm.* In addition, copies of the charter can be obtained by any shareholder, free of charge, upon written request to Edward. S. Nekritz, Secretary, ProLogis, 4545 Airport Way, Denver, Colorado 80239.

Compensation Committee Interlocks and Insider Participation. No member of the compensation committee: (i) was, during the year ended December 31, 2008, or had previously been, an officer or employee of the company or (ii) had any material interest in a transaction with the company or a business relationship with, or any indebtedness to, the company. No interlocking relationships existed during the year ended December 31, 2008, between any member of the board or the compensation committee and an executive officer of the company.

Investment Committee. The members of the investment committee are trustees Feinberg, who chairs the committee, Fotiades, Jackson, and Zulberti. This committee s purpose is to: (i) discharge the board s responsibilities relating to strategic investment issues; (ii) increase discussion and analysis of our largest investments; and (iii) further the discussion regarding the investment environment around the world. This committee is responsible for approving certain significant acquisitions, dispositions, and other investment decisions. Additionally, this committee periodically reviews significant investment risk metrics with management and reviews its charter on an annual basis. This committee makes regular reports to the board concerning its activities. There were eight meetings of this committee in 2008 and all members attended at least 75% of the meetings during the period in which they served. The committee s charter is available on our website at *http://ir.prologis.com/governance.cfm*.

Sustainability Committee. The members of the sustainability committee, which was formed in 2008, are trustees Teixeira, who chairs the committee, Jackson, and Steuert. The committee is organized with the purpose of providing assistance to the board in reviewing and approving the company s activities, goals, and policies concerning environmental sustainability and sustainable development matters. The committee is also responsible for reviewing and assessing its charter periodically. There was one meeting of this committee in September 2008 and all members of

the committee were in attendance. The committee s charter is available on our website at *http://ir.prologis.com/governance.cfm*.

INFORMATION RELATING TO TRUSTEES, NOMINEES, AND EXECUTIVE OFFICERS

Common Shares Beneficially Owned

The following table shows the number of our common shares beneficially owned, as of March 23, 2009 (or such other date indicated in the footnotes below), by each person known to us to be the beneficial owner of five percent or more, in the aggregate, of our outstanding common shares.

Name and Address	Amount of Shares Beneficially Owned	% of Shares
FMR LLC[(1)(2)] 82 Devonshire Street Boston, MA 02109	22,907,563	8.6%
Barclays Global Investors, NA[(2)(3)] 400 Howard Street San Francisco, CA 94105	20,733,111	7.8%
The Vanguard Group, Inc.[(2)(4)] 100 Vanguard Blvd. Malvern, PA 19355	19,477,120	7.3%
Cohen & Steers, Inc.[(2)(5)] 280 Park Avenue 10th Floor New York, NY 10017	14,825,825	5.6%
State Street Bank and Trust Company, Trustee[(2)(6)] State Street Financial Center One Lincoln Street Boston, MA 02111	14,636,060	5.5%

(1) Information regarding beneficial ownership of our common shares by FMR LLC and certain related entities is included herein based on a Schedule 13G filed with the SEC on February 17, 2009, relating to such shares beneficially owned as of December 31, 2008. Such report provides that: (i) FMR LLC, an investment advisor, is beneficial owner of 20,522,774 of such common shares and with Edward C. Johnson III each have sole dispositive power with respect to the common shares beneficially owned by FMR LLC; (ii) Pyramis Global Advisors Trust Company (PGATC) is the beneficial owner of 1,115,458 of such common shares and FMR LLC and Mr. Johnson, through their control of PGATC, each have sole power to vote or to direct the voting and sole dispositive power with respect to the common shares beneficially owned by PGATC; (iii) FIL Limited is the beneficial owner and has sole dispositive power with respect 985,580 of such common shares and has sole power to vote or direct the voting with respect to 966,700 of such common shares; and (iv) Pyramis Global Advisors, LLC (PGA LLC) is beneficial owner of 283,751 of such common shares and FMR LLC and Mr. Johnson, through their control of PGA LLC, each have sole power to vote or direct the voting and sole dispositive power with respect to the common shares beneficially owned by PGA LLC.

(2) Entities included in the Schedule 13G filing have represented that the common shares reported were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of ProLogis and were not acquired and are not held in connection with or as a

participant in any transaction having such purpose or effect.

(3) Information regarding beneficial ownership of our common shares by Barclays Global Investors, NA and certain related entities is included herein based on a Schedule 13G filed with the SEC on February 5, 2009, relating to such shares beneficially owned as of December 31, 2008. Such report provides that: (i) Barclays Global Investors, NA is beneficial owner and has sole dispositive power with respect to 9,486,126 of such common shares and has sole voting power with respect to 7,979,576 of such common shares; (ii) Barclays Global Fund Advisors is beneficial owner and has sole dispositive power with respect to 8,932,328 of such common shares and has sole voting power with respect to 8,915,761 of such common shares; (iii) Barclays Global Investors, Ltd is beneficial owner and has sole dispositive power with respect to 1,386,045 of such common shares and sole voting power with respect to 1,228,306 of such common shares; (iv) Barclays Global Investors Japan Limited is beneficial owner and has sole voting and dispositive power with respect to 719,737 of such common shares; (v) Barclays Global Investors Canada Limited is beneficial owner and has sole voting and dispositive power with respect to 198,522 of such common shares; and (vi) Barclays Global Investors Australia Limited is beneficial owner and has sole voting and dispositive power with respect to 10,353 of such common shares.

(4) Information regarding beneficial ownership of our common shares by The Vanguard Group, Inc. (Vanguard) is included herein based on a Schedule 13G/A filed with the SEC on February 13, 2009, relating to such shares beneficially owned as of December 31, 2008. Such report provides that Vanguard is beneficial owner and has sole dispositive power with respect to 19,477,120 of such common shares. Of the common shares beneficially owned by Vanguard, Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, as a result of its serving as investment manager of collective trust accounts, directs the voting of 310,513 of such common shares.

(5) Information regarding beneficial ownership of our common shares by entities related to Cohen & Steers, Inc. is included herein based on a Schedule 13G filed with the SEC on February 17, 2009, relating to such shares beneficially owned as of December 31, 2008. Such report provides that: (i) Cohen & Steers Capital Management, Inc. is beneficial owner and has sole dispositive power

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with respect to 14,754,635 of such common shares and has sole voting power with respect to 13,136,045 of such common shares and (ii) Cohen & Steers Europe S. A. is beneficial owner and has sole dispositive power with respect to 71,190 of such common shares and sole voting power with respect to 53,173 of such common shares.

(6) Information regarding beneficial ownership of our common shares by State Street Bank and Trust, acting in various fiduciary capacities, is included herein based on a Schedule 13G filed with the SEC on February 13, 2009, relating to such shares beneficially owned as of December 31, 2008. State Street Bank and Trust, acting in various fiduciary capacities, is the beneficial owner and has sole power to vote or direct the vote and shared power to dispose or direct the disposition with respect to 14,636,060 of such common shares.

The following table shows the number of our common shares beneficially owned, as of March 23, 2009, by: (i) our chief executive officer (ii) our chief financial officer; (iii) our other named executive officers currently employed by us; (iv) each of our trustees; and (v) our trustees and all of our executive officers as a group which includes one other executive officer at March 23, 2009 who is not a named executive officer.

	Shares Beneficially Owned			
Name[(1)]	**Shares Owned as of March 23, 2009**[(2)]	**Shares That May Be Acquired by May 23, 2009**[(3)]	**Total Beneficial Ownership**	**% of Shares**
Named Executive Officers:				
Walter C. Rakowich[(4)]	326,268	434,505	760,773	(5)
Ted R. Antenucci	17,093	87,938	105,031	(5)
William E. Sullivan	8,814	15,904	24,718	(5)
Edward S. Nekritz	60,899	160,273	221,172	(5)
Trustees:				
Stephen L. Feinberg[(6)]	174,760	22,020	196,780	(5)
George L. Fotiades	27,465	10,000	37,465	(5)
Christine N. Garvey	15,592	10,000	25,592	(5)
Lawrence V. Jackson				(5)
Donald P. Jacobs	8,677	32,020	40,697	(5)
D. Michael Steuert		10,000	10,000	(5)
J. André Teixeira	19,264	15,276	34,540	(5)
William D. Zollars		10,000	10,000	(5)
Andrea M. Zulberti	1,000	10,000	11,000	(5)
All trustees and executive officers as a group (14 total)	679,549	860,859	1,540,408	0.6%

(1) The principal address of each person is: c/o ProLogis, 4545 Airport Way, Denver, Colorado 80239.

(2) This column includes common shares owned directly or indirectly, through contract, arrangement, understanding, or relationship, including vested common shares owned through our 401(k) Plan. Unless indicated otherwise, all interests are owned directly, and the indicated person has sole voting and investment power.

(3) This column includes common shares that may be acquired within 60 days through the exercise of vested, non-voting options to purchase our common shares and through scheduled vesting of restricted share units and associated dividend equivalent units. Unless indicated otherwise, all interests are owned directly and the indicated person will have sole voting and investment power upon receipt.

This column does not include vested, non-voting equity awards or other common shares, receipt of which has been deferred at the election of the executive officer or the trustee, as these awards cannot be distributed within 60 days. Our executive officers have not deferred any such equity awards as of March 23, 2009. The total number of vested, non-voting equity awards or other common shares not included for each trustee is (consisting of deferred share units and associated accrued dividend equivalent units and common shares deferred under the trustees deferred fee plan (see Compensation Matters Trustee Compensation for Fiscal Year 2008):

Mr. Feinberg	34,212
Mr. Fotiades	21,687
Ms. Garvey	3,597
Mr. Jackson	4,038
Mr. Jacobs	31,933
Mr. Steuert	16,980
Mr. Teixeira	6,931
Mr. Zollars	18,676
Ms. Zulberti	10,929

(4) The common shares beneficially owned by Mr. Rakowich include: (i) 59,748 common shares held in a trust for Mr. Rakowich s family of which Mr. Rakowich is a trustee and a beneficiary; (ii) 872 common shares owned by Mr. Rakowich s children; (iii) 504 common shares held in a trust in which Mr. Rakowich is trustee and for which he disclaims beneficial ownership; and (iv) 549 common shares held in a trust for Mr. Rakowich s family for which he disclaims beneficial ownership.

(5) The percent is less than 1% of the total common shares outstanding.

(6) The common shares beneficially owned by Mr. Feinberg include: (i) 50,000 common shares owned by Dorsar Partners, LP of which Mr. Feinberg may be deemed to share voting and investment power; (ii) 40,000 common shares owned by Dorsar Investment Company of which Mr. Feinberg may be deemed to share voting and investment power; and (iii) 12,000 common shares in two trusts, one in which Mr. Feinberg is a beneficiary and one in which he is trustee and a relative is the beneficiary. Mr. Feinberg has pledged 174,760 of the common shares beneficially owned by him as security.

Certain Relationships and Related Transactions

Related Parties Transaction Policy. We recognize that transactions between us and related parties can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations other than our best interests and the best interests of our shareholders. Related parties may include our trustees, executives, significant shareholders, and immediate family members and affiliates of such persons.

Several provisions of our code of ethics and business conduct are intended to help us avoid the conflicts and other issues that may arise in transactions between us and related parties, including the following:

- employees will not engage in conduct or activity that may raise questions as to the company s honesty, impartiality, or reputation or otherwise cause embarrassment to the company;
- employees shall not hold financial interests that conflict with or leave the appearance of conflicting with the performance of their assigned duties;
- employees shall act impartially and not give undue preferential treatment to any private organization or individual; and
- employees should avoid actual conflicts or the appearance of conflicts of interest.

Our code may be amended, modified, or waived by our board or the board governance and nomination committee, subject to the disclosure requirements and other provisions of the rules and regulations of the SEC and the NYSE. We have never waived the application of our code and have no intention to do so.

In addition, our declaration of trust provides that any transaction between the company and any trustee or any affiliates of any trustee must be approved by a majority of the trustees not interested in the transaction. Also, our written governance guidelines state that one of the primary responsibilities of our board is to review the adequacy of the company s systems for safeguarding the company s assets.

Although we do not have detailed written procedures concerning the waiver of the application of our code of ethics and business conduct or the review and approval of transactions with trustees or their affiliates, our trustees would consider all relevant facts and circumstances in considering any such waiver or review and approval, including:

- whether the transaction is in, or not inconsistent with, the best interests of the company and its shareholders;
- the terms of the transaction and the terms of similar transactions available to unrelated parties or employees generally;

the availability of other sources for comparable products or services;

the benefits to the company;

the impact on the trustee s independence, if the transaction is with a trustee or an affiliate of a trustee; and

the possibility that the transaction may raise questions about the company s honesty, impartiality, or reputation.

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COMPENSATION MATTERS

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides our shareholders with the material information necessary to understand our compensation policies and practices, particularly the decisions that were made with respect to the 2008 compensation of our named executive officers. Our named executive officers for 2008 are: Walter C. Rakowich, chief executive officer since November 10, 2008 (previously he was president and chief operating officer), Ted R. Antenucci, president and chief investment officer, William E. Sullivan, chief financial officer, Edward S. Nekritz, general counsel, secretary, and head of global strategic risk management, and Jeffrey H. Schwartz, our chief executive officer until his resignation from that position on November 10, 2008.

Executive Officer Compensation Philosophy

Our compensation philosophy is to provide the level of total compensation necessary to attract, retain, and motivate highly competent executives upon whose judgment, initiative, leadership, and continued efforts our success depends. Inherent with this philosophy is the reinforcement of strategic performance objectives through the use of incentive compensation programs, including both cash and equity components. We believe that the interests of our executives and our shareholders should be aligned through compensation structures that, we believe, promote the sharing of rewards and risks of strategic decision-making. We seek to provide our executives with a compensation program that is equitable and internally consistent, as well as being competitive with the market. Further, we believe our compensation programs should encourage executives to make long-term career commitments to us and our shareholders.

Our compensation committee oversees our executive compensation programs and reviews and recommends all executive officer compensation programs and policies. Considerations given by the compensation committee in recommending individual compensation levels for our executives include:

- the nature and scope of each executive officer s responsibilities;
- the specific skills and talents of each executive;
- the effectiveness of each individual executive officer and such officers as a group in promoting the long-term interests of our shareholders;
- the success of the executive officer within his or her primary areas of responsibility; and
- the executive officer s demonstrated focus on promoting integrity, leadership, and positive management behavior within the company.

Our compensation committee also evaluates the effectiveness of our executive officer compensation programs on an ongoing basis, generally with respect to our ability to hire, retain, and motivate key employees, as well as through our ability to create long-term shareholder value.

Our executive compensation program, in addition to a cash component includes equity awards under the ProLogis 2006 Long-Term Incentive Plan, which our shareholders approved in 2006. Each component is discussed in greater detail below with respect to awards for 2008, along with other arrangements used to reward, create incentives for, and

retain our executive officers during 2008.

Compensation Elements for Executive Officers

The basic elements of our compensation approach are:

Base Salary and Cash Bonus. An executive s annual salary provides a basic level of fixed compensation and is paid for ongoing individual performance throughout the year. We generally pay a base salary that is at mid-market levels for similarly situated executives, as confirmed by our independent compensation consultant Frederic W. Cook & Co., Inc. In addition, we provide our executives the opportunity to earn an annual cash bonus. Cash bonus levels are also generally targeted at mid-market levels, however, the actual cash bonuses are

ultimately determined by the compensation committee based on its judgment of a variety of relevant factors as described below in How Executive Compensation Levels are Determined.

Equity Awards. Equity incentive compensation is awarded annually to our executives, traditionally at the end of the applicable year. However, as discussed below, the equity awards for 2008 were not made until February 2009. In connection with the hiring of new executive officers, we may grant equity awards at other times in the year in order to attract the executive to the company. In addition, we occasionally issue equity awards earlier in the year in order to reward individual performance or, in special circumstances, to retain the services of an executive considered vital to our future success. Equity awards are also generally targeted at mid-market levels for similarly situated executives, as confirmed by our independent compensation consultant, however, the actual equity awards are ultimately determined by the compensation committee based on its judgment of a variety of relevant factors as described below in How Executive Compensation Levels are Determined. For the last several years, the allocation of annual equity incentive compensation between restricted share units, performance-based awards, and share options has generally been approximately one-third each based on the compensation committee s belief that this mix promotes the objectives of long-term shareholder value creation and executive officer retention. However, as discussed below, the compensation committee made changes to this mix for 2008 as a result of changes in our overall business strategy. Specific discussion of the equity awards issued for 2008 is included under How Executive Compensation Levels are Determined.

Restricted Share Units (RSUs). Executive officers and other key employees are eligible for RSU grants. Each unit is equal to one common share, and the awards have generally vested ratably over four years. In connection with awards to certain executives associated with either their hiring or retention, we have granted RSUs that vest over longer periods or that will all vest at a specified future date. RSUs provide an incentive to achieve long-range goals consistent with the interests of our shareholders and create and maintain shareholder value. RSUs also encourage continued service because unvested RSUs are generally forfeited if the executive s or employee s service with the company is terminated, other than in cases of an executive s or employee s retirement and in certain other situations as discussed under Potential Payments Upon Termination or Change in Control. Dividend equivalent units (DEUs) are awarded with RSUs and vest under the same criteria as the underlying RSU. DEUs are earned on December 31st of each year that the award is outstanding. DEUs are awarded in the form of common shares at the rate of one common share per DEU. DEUs are accrued based on our annual common share distribution rate and generally are earned and/or vest under the same terms as the underlying award. We did not grant any RSUs to executive officers for 2008 when the annual equity awards were made in February 2009.

Performance-based Awards. We have also granted long-term equity incentive compensation that is performance-based, generally performance share awards (PSAs) or contingent performance shares (CPSs), to executive officers and other key employees. We believe that performance-based awards, like share options and RSUs, promote a close alignment of longer-term interests between executive officers and shareholders by compensating executive officers based on their individual performance and on the company s performance. Further, we believe that the vesting provisions associated with these awards encourage continued service. For 2008, the performance-based awards granted were in the form of PSAs. For 2005, 2006, and 2007, the performance-based awards granted were in the form of CPSs.

PSAs granted for 2008. Granted to named executive officers and other key employees who can earn between 50% and 150% of their targeted award based on the achievement of a mix of: (i) numerical and qualitative performance objectives based upon company performance goals and objectives set by the compensation committee and (ii) individual performance objectives over the one-year performance period ending on December 31, 2009. Once earned, the PSAs will vest ratably on December 31, 2009, 2010, and 2011, generally should the executive be in our employ on such dates. DEUs were awarded with the PSAs and can be earned from the date of grant through the

vesting period, based on the actual amount of PSAs awarded at the end of the performance period, and will vest under the same criteria as the underlying PSAs. The 2009 company goals and objectives are to: (i) de-leverage the balance sheet by $2 billion from September 30, 2008 through December 31, 2009; (ii) de-risk the balance sheet through renegotiation of our global line of credit, and other actions with respect to 2009 corporate and property fund debt maturities; (iii) reduce risk in our operating portfolio through increased leasing of the core portfolio, increased leasing of the development pipeline and/or reduction in the size of the development pipeline, and reduced business expenditures (land/turnover costs/capital expenditures

and general and administrative costs); (iv) achieve certain goals with respect to certain of our joint venture and property fund investments; and (v) reorganize senior management, including compensation structure, responsibilities, and accountability.

CPSs granted in 2005, 2006, and 2007. Granted to named executive officers and other key employees who can earn between 0% and 200% of their targeted award based on the company s total shareholder return compared to the total shareholder return of the fifty largest (by market capitalization) equity real estate investment trusts listed in the National Association of Real Estate Investment Trusts published index as of the beginning of the three-year performance period that began on January 1st of the year following the award. With respect to the CPS grants, total shareholder return includes share price change plus cash dividends, with the assumption that all dividends are immediately reinvested in our common shares (as calculated using data available on Bloomberg). DEUs were awarded with the CPSs and are earned under the same criteria as the underlying CPSs. We have also granted CPSs to certain executives associated with their hiring or retention, such awards have varying performance periods.

As of December 31, 2008, the following companies comprised this group: Alexandria Real Estate Equities, Inc., AMB Property Corporation, Apartment Investment and Management Company, Archstone-Smith Trust, AvalonBay Communities, Inc., Boston Properties, Inc., BRE Properties, Inc., Camden Property Trust, CBL & Associates Properties, Inc., Colonial Properties Trust, Cousins Properties Incorporated, Crescent Real Estate Equities Company, Developers Diversified Realty Corporation, Duke Realty Corporation, Equity Office Properties Trust, Equity Residential, Essex Property Trust, Inc., Federal Realty Investment Trust, First Industrial Realty Trust, Inc., General Growth Properties, Inc., HCP, Inc., Health Care REIT, Inc., Hospitality Properties Trust, Host Hotels & Resorts, Inc., HRPT Properties Trust, Kilroy Realty Corporation, Kimco Realty Corporation, LaSalle Hotel Properties, Liberty Property Trust, The Macerich Company, Mack-Cali Realty Corporation, The Mills Corporation, New Plan Excel Realty Trust, Inc., Pan Pacific Retail Properties, Inc., Pennsylvania Real Estate Investment Trust, Plum Creek Timber Company, Inc., ProLogis, Public Storage, Rayonier, Reckson Associates Realty Corp., Regency Centers Corporation, Simon Property Group, Inc., SL Green Realty Corp., Sovran Self Storage, Inc., Taubman Centers, Inc., Trizec Properties, Inc., UDR, Inc., Ventas, Inc., Vornado Realty Trust, and Weingarten Realty Investors. Certain companies in the originally identified group of comparison companies no longer have publicly traded equity securities. For purposes of the return calculation, we used the actual performance of each of these companies up to the date that was sixty days prior to the first public announcement that such company would be involved in a transaction pursuant to which it would cease to have publicly traded equity securities and, from that date to the end of the performance period, we used the mean performance of the other companies remaining in the group. The companies for which this adjustment was necessary are: Archstone-Smith Trust, Crescent Real Estate Equities Company, Equity Office Properties Trust, The Mills Corporation, New Plan Excel Realty Trust Inc., Pan Pacific Retail Properties, Inc., Reckson Associates Realty Corp., and Trizec Properties, Inc.

Contingent performance units granted to Mr. Schwartz in 2008. Granted to Mr. Schwartz in March 2008 under his employment agreement. These awards, in keeping with the compensation s philosophy of aligning the interests of our executives and shareholders and promoting the sharing of rewards and risks of strategic decision-making, could be earned by Mr. Schwartz based on company performance as measured by the company s Total Shareholder Return (TSR) during a performance period beginning on March 14, 2008 and ending on December 31, 2012. TSR is defined in the agreement as the compound annualized internal rate of return on a constant holding of our common shares during the performance period based on the sum of all dividends paid to shareholders during the performance period as if reinvested in additional common shares on the dividend payment date and the increase or decrease in the average closing common share prices on the 20 trading days immediately preceding the end of the performance period above or below the closing common share price at the commencement of the performance period. Two awards (200,000 award and 100,000 award) were made with differing amounts that could be earned dependent on the TSR. DEUs could be earned on the 100,000 award under certain parameters. These awards were not earned when Mr. Schwartz s employment with us ended and were cancelled effective December 8, 2008.

Share Options. Options to purchase our common shares have been an effective incentive for executive officers and other key employees in performance and retention, and they promote a close alignment of

interests between executives and shareholders. The executive or employee benefits only when our common share price rises and, generally, if the executive remains employed during the vesting period. Generally, our share options have vested ratably over four years. The share options are granted with an exercise price equal to the closing price of our common shares on the grant date. The exercise price for any outstanding share option may not be decreased after the date of grant except for reductions approved by our shareholders or if there is an overall adjustment to our outstanding shares, such as occurs with a stock split. No share options were awarded as part of the 2008 annual equity award grants in February 2009 as options are tied only to our share price appreciation. Rather, the compensation committee granted PSAs, which it believes more appropriately support the change in the company s business strategy because PSAs reward specific financial and strategic performance at both the company and individual levels, while still aligning the interests of management with those of shareholders, since the ultimate award is in the form of common shares.

Other types of executive officer compensation and related arrangements consist of:

Nonqualified Savings Plan (NSP) and Other Deferrals. The NSP is a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code of 1986, as amended (Code) that provides executives and certain other employees with a tax advantaged opportunity to save money to meet their retirement income needs. The NSP works in tandem with our 401(k) Plan by allowing participants to defer the receipt and income taxation of a portion of their compensation in excess of the amount permitted under our 401(k) Plan. Deferrals to the NSP and the earnings on the deferrals are not subject to federal income taxes until distribution. In general, funds deferred under the NSP become available to the participant upon his or her termination of employment. The value of a participant s account under the NSP is determined by the performance of an array of hypothetical investment funds that mirror the investment funds available to participants in our 401(k) Plan. In connection with the merger with Catellus in 2005, we assumed, with respect to former Catellus employees (including Mr. Antenucci), the nonqualified deferred compensation plan in which such employees participated before the merger. In addition, certain executives may defer the receipt of their share awards (RSUs, CPSs, PSAs, and DEUs) and defer their cash bonus into common shares issued under our 2006 Long-Term Incentive Plan in accordance with the terms and conditions established under an executive deferred compensation plan approved by the compensation committee. Under the transitional rules of section 409(A) of the Code participants in our NSP and our executive deferred compensation plan were allowed to make a one-time special payment election prior to December 31, 2008 with respect to their balances in the NSP and their deferred share awards. Such election allowed for distribution of all, or a portion, of their previously deferred balances on a specified future date.

Change in Control Arrangements. The employment agreements that we have with Mr. Rakowich and Mr. Antenucci include provisions related to a change in control, as did our employment agreement with Mr. Schwartz that was in effect for most of 2008. Also, we have entered into a change in control agreement, or executive protection agreement, with both Mr. Sullivan and Mr. Nekritz. We believe that the change in control provisions of these agreements will, among other things, assure us of the continuity of the executive s services in the event of a change in control of the company and provide a fair and reasonable severance to executives that are terminated in connection with a change in control. In evaluating the need for, and the structure of, the executive protection agreements and the related provisions of the employment agreements, the compensation committee considered the practices of similar companies in the market for executive talent (as provided by the compensation committee s independent compensation consultant). The compensation committee concluded that agreements of this type would provide the company a competitive advantage in attracting and retaining highly competent executives one of the primary goals of the company s compensation philosophy. These agreements are also intended to serve the interests of our shareholders by: (i) providing for the continuity of the services of the executives during a threatened or actual change in control; (ii) increasing

the objectivity of the executives in analyzing a proposed change in control and advising the board of trustees whether such a proposal is in the best interests of the company and its shareholders; (iii) retaining the executive s best efforts over a change in control transition period and providing an incentive to complete the change in control transaction; and (iv) treating executives fairly by alleviating concerns regarding continued employment. The double-trigger (i.e., a change in control and a termination of employment) structure of the change in control payments and the equity vesting acceleration provisions were designed with

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input from the compensation committee s independent compensation consultant to be, in the judgment of the compensation committee, fair and reasonable in light of competitive compensation practices and the company s compensation philosophy. The potential payments under these agreements did not materially affect decisions concerning other compensation elements. In addition, equity awards under our 2006 Long-Term Incentive Plan provide that if a change in control occurs and, subject to certain conditions, the executive is terminated other than for cause or the incentive plan is terminated, all unvested share options become immediately exercisable and other unvested share awards become fully vested. More information concerning the change in control arrangements is provided under Potential Payments Upon Termination or Change in Control.

Certain Employment Agreements. In September 2007, we entered into an employment agreement with Mr. Rakowich that was amended and restated in February 2008 to, among other things, retain his services during a transition period leading to his planned retirement in January 2009. The agreement concerns, among other things, compensation payable to Mr. Rakowich. Upon the resignation of Mr. Schwartz and Mr. Rakowich s promotion to chief executive officer in November 2008, we entered into an amended and restated agreement with Mr. Rakowich to ensure the continuity of his services through 2011.

We originally entered into an employment agreement with Mr. Antenucci in May 2006 in connection with our merger with Catellus, where he had served as president, in order to assure us of the continuity of his services. This agreement has been amended and restated since that time, with the latest agreement effective as of December 31, 2008, to further assure the continuity of his services and to incorporate the impact of applicable tax law changes. The agreement concerns, among other things, compensation payable to Mr. Antenucci.

On March 14, 2008, we entered into an employment agreement with Mr. Schwartz in order to assure us of the continuity of his services. The agreement concerned, among other things, compensation payable to Mr. Schwartz. In November 2008, Mr. Schwartz resigned as our chief executive officer and his agreement was terminated effective December 8, 2008.

The agreements with Messrs. Rakowich, Antenucci, and Schwartz are described in more detail under Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table and under Potential Payments Upon Termination or Change in Control.

Other benefits, including perquisites. Our named executive officers participate in benefit plans generally available to all other employees. We also provide certain other benefits to our named executive officers to allow us to be competitive in attracting, retaining, and motivating high-quality, competent executives. Certain of these benefits, which are provided on a limited basis, are deemed to be personal benefits or perquisites, as defined by the SEC. Such benefits include, but are not limited to, an annual health examination, airline club memberships, home office equipment and supplies, reimbursement of personal legal fees incurred in connection with negotiating employment agreements, and certain travel and entertainment expenses generally associated with other business travel or entertainment activities.

In connection with the promotion of Mr. Schwartz to chief executive officer in 2005 and the hiring of Mr. Sullivan as chief financial officer in 2007, and each of their relocations to our headquarters in Colorado, we agreed, consistent with our relocation policy, to provide certain assistance in connection with their moves and the sale of their respective homes. These arrangements were entered into in order to encourage such officers to continue or accept employment with us, to facilitate their moves to Colorado, and to allow them to be more immediately effective in their roles with us. These benefits are described in more detail in the footnotes to the summary compensation table.

Share Ownership Guidelines. Ownership of our common shares promotes a close alignment of longer-term interests between our management and our shareholders. Therefore, our board adopted ownership guidelines, computed based on the market value of our common shares that apply to our trustees and certain executive and other key employees, including all of the named executive officers, as follows:

Section 1: for trustees, ownership of five times the annual board retainer ($250,000 for 2008);

Section 2: ownership of five times base salary for the chief executive officer and three times base salary for certain other officers, including the other named executive officers, and a

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requirement that, upon exercise of share options by and distributions of equity awards to the officers, shares must be retained until such time as the ownership guidelines have been met, and common shares must be held at a level to ensure continuing compliance with the guidelines.

Section 3: hedging policy prohibiting our trustees and named executive officers from hedging the economic risk associated with common shares held in compliance with our share ownership guidelines.

Trustees and named executive officers have a three-year period to comply with the guidelines, based upon the date they become subject to the guidelines.

In December 2008, in light of current global economic conditions and recent market prices of our common shares, the board suspended the requirement to comply with sections 1 and 2 of the share ownership guidelines until further action is taken by the board.

Recoupment Policy. Our board has adopted a recoupment policy which provides that, in the event of a substantial restatement of our previously issued financial statements, a review will be undertaken of performance-based compensation awarded to executive and certain other officers that was attributable to our financial performance during the time periods restated. The board will determine whether the restated results would have resulted in the same performance-based compensation for such officers. If not, the board will consider: (i) whether the restatement was the result of error or misconduct; (ii) the amount of additional compensation paid to the relevant officers as a result of the previously issued financial statements; (iii) the best interests of the company in the circumstances; and (iv) any other relevant facts or circumstances the board deems appropriate for consideration. If the board determines that an executive or other officer was improperly compensated and that it is in our best interests to recover or cancel such compensation, the board will pursue all reasonable legal remedies to recover or cancel such performance-based compensation. The policy further provides that if the board learns of any misconduct by an executive officer or certain other officers that caused the restatement, the board shall take such action as it deems necessary to remedy the misconduct, prevent its recurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer. Such punishment by the board could include dismissal, legal action for breach of fiduciary duty, or such other action to enforce the executive s or other officer s obligations to us as may fit the facts surrounding the particular case. In determining the appropriate punishment, the board may take into account punishments imposed by third parties and the board s power to determine the appropriate punishment for the wrongdoer is in addition to, and not in replacement of, remedies imposed by such third parties.
Mr. Rakowich s employment agreement also contains provisions with respect to recovery of amounts earned by him to the extent that the amount earned was based on satisfaction of goals and objectives that were impacted by a financial statement restatement or modification. See further discussion of Mr. Rakowich s employment agreement under Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table.

How Executive Compensation Levels are Determined

The compensation committee is responsible for, among other things, reviewing the performance of our chief executive officer and recommending to the board the compensation of our executive officers.

In determining the compensation payable to our executive officers, the compensation committee subjectively evaluates all factors that it deems material to the determination and relies on its judgment to determine the amount and the mix of compensation that it believes are appropriate in light of such evaluation and the company s compensation philosophy that is discussed under Executive Officer Compensation Philosophy. The material factors considered for

2008, as described in more detail in this section, included company financial and operating performance, individual performance, the compensation practices of certain comparison companies, the competitive review of our compensation program for our executive officers prepared by the compensation committee s independent compensation consultant, and our chief executive officer s recommendations concerning compensation (excluding his own compensation). Furthermore, the compensation committee considered the amount and mix of compensation payable to the company s other executives when it determined appropriate compensation for a specific individual. These factors were considered as a whole without specific weighting of individual factors. The compensation committee did not rely on the achievement of specific performance targets

or on formulas (other than for CPS award payouts) in determining compensation, although the compensation committee: (i) considered mid-market compensation levels for similarly situated executives as a frame of reference for its analysis, as confirmed by its independent compensation consultant; (ii) generally believes that base salaries should be paid at mid-market levels; and (iii) generally believes that a larger portion of total compensation should consist of long-term equity incentive compensation as an executive s level of responsibility increases because this compensation mix promotes a closer alignment of long-term interests between executive officers and shareholders. In addition, some elements of the compensation of Messrs. Rakowich, Antenucci, and Schwartz for 2008 were affected by the terms of their respective employment agreements.

2008 Compensation Decisions

Traditionally, our compensation committee makes recommendations on base salary and target bonus levels for the upcoming year, along with the final cash bonus awards and equity awards for the current year, at its December meeting because performance factors relevant to their decision-making are generally known at that time.

Individual base salary levels for 2008 for the named executive officers were set in December 2007 and were effective beginning in January 2008. Also in December 2007, a target level was set for the named executive officer s 2008 cash bonus. In making the decisions with respect to the 2008 target bonus levels for the named executive officers, significant financial and operating achievements during 2007 were considered by the compensation committee including, but not limited to: (i) increases in funds from operations, assets owned, managed, and under development, and same-store net operating income; (ii) leasing and development start levels; (iii) the formation of three new property funds and the repositioning of another fund; (iv) significant acquisitions in Europe and Japan; and (v) capital raised through placement of convertible notes.

We, like most companies, were impacted by the pervasive and fundamental disruptions of the global financial markets, primarily beginning late in the third quarter of 2008. While our operating fundamentals (same-store net operating income, leasing activity, customer retention, etc.) for 2008 were essentially flat when compared to prior year levels, we did recognize significant impairments with respect to certain of our real estate and other assets in 2008. Further, our common share price declined significantly during the latter part of 2008. As the global credit crisis worsened in the fourth quarter, we had to modify our business strategy. As such, we halted most of our new development and acquisition activities in order to focus on our core business of owning and managing industrial properties. The narrowing of our focus was necessary to allow management to take the necessary steps toward reducing our debt and enhancing our liquidity and cash flow. In addition, Mr. Schwartz resigned as our chief executive officer in November 2008, and Mr. Rakowich was subsequently appointed.

To entice Mr. Rakowich to accept this position, he was granted equity awards (RSUs and share options) with an aggregate fair value at issuance of $4,615,000. These awards vest in annual 25% increments beginning on December 31, 2008. The vesting provisions provided incentive for Mr. Rakowich to rescind his planned retirement and accept the new position, as well as provide future incentives for him to remain in our employ. Due to the uncertainties that accompany a change in chief executive officer, our board believed that continuity at the executive management level was vital to reposition the company under its new business strategy. Specifically, the compensation committee believed that, due to the steps that would be necessary in 2009 to reduce our debt and enhance our liquidity and cash flow, continuity within the financial management of the company was necessary. Accordingly, the board granted equity awards (RSUs and share options) to Mr. Sullivan, our chief financial officer, with an aggregate fair value of $3,461,250. The board also granted equity awards (RSUs and share options) with an aggregate fair value of $2,307,500 to both Mr. Antenucci and Mr. Nekritz. The awards to Messrs. Sullivan, Antenucci, and Nekritz vest ratably over a four-year period, ending in November 2012, thus providing the necessary incentives to these executives to remain in our employ. See Grants of Plan-Based Awards in Fiscal Year 2008.

The board offered Mr. Rakowich substantially the same annual compensation package that had been included in Mr. Schwartz s employment agreement entered into in March 2008, with the primary difference being that Mr. Rakowich was issued RSUs and share options in November 2008 in lieu of the contingent performance unit awards contained in Mr. Schwartz s agreement. See further discussion of Mr. Rakowich s employment agreement at Grants of Plan-Based Awards in Fiscal Year 2008 Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table.

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In light of the change in business strategy, the change in our executive management team, and uncertainties with respect to pending transactions and potential impairment levels, the compensation committee postponed its considerations of most compensation matters to February 2009 to ensure that more current information with respect to company performance (both for 2008 and the future) was available. As in previous years, the compensation committee retained the independent compensation consultant Frederic W. Cook & Co., Inc. to assist the committee in assessing our compensation programs for our executive officers, including the named executive officers. For consideration by the compensation committee, the compensation consultant conducted a comprehensive competitive review of the compensation program for these officers, in terms of both structure and magnitude. Comparisons were made against a group of public real estate investment trusts that compete with us for investor capital, business, and executive talent (including the services of our named executive officers). Our compensation committee regularly evaluates the appropriate companies to include in the comparison group as our business evolves and the competition for talent changes. In addition, the compensation consultant prepared an analysis of our financial performance (including financial data such as revenues, net income, employees, market capitalization, and one- and three-year total shareholder returns) on a stand-alone basis and as compared with the group of companies used by the compensation committee in setting compensation awards and policies. The comparison group companies consisted of AMB Property Corporation, Apartment Investment and Management Company, AvalonBay Communities, Inc., Boston Properties, Inc., Developers Diversified Realty Corporation, Duke Realty Corporation, Equity Residential, Host Hotels & Resorts Inc., Kimco Realty Corporation, The Macerich Company, Plum Creek Timber Company, Inc., Simon Property Group, Inc., and Vornado Realty Trust.

In the competitive review, the total compensation of our named executive officers was compared with the total compensation of similar positions in this comparison group. Such comparison group information was publicly available with respect to all comparison companies only with respect to the chief executive officer position. Comparison group information was publicly available to our compensation consultant with respect to eight companies for the position of chief investment officer, 11 companies for the position of chief financial officer, and six companies for the position of general counsel. The competitive review also analyzed other aspects of competitive compensation practices including: (i) executive and non-employee trustee/director stock ownership guidelines; (ii) competitive levels of carried-interest ownership among executives; (iii) long-term incentive grant type, prevalence, and mix; (iv) prevalence of special benefits and perquisites; (v) aggregate potential share dilution; (vi) aggregate annual share usage; and (vii) aggregate annual shareholder value transfer (the aggregate annual grant value of long-term incentives as a percentage of market capitalization) from long-term incentive compensation programs. The comparisons and related reports prepared by the compensation consultant constituted a portion of the factors evaluated by the compensation committee but were not solely determinative of any compensation decisions. The compensation committee does not specifically target any compensation amounts payable to our named executive officers to the compensation practices of the comparison group companies, except, in general, for salary. The compensation consultant s comparisons and related reports provided the competitive information for similarly situated executives at the comparison group companies that the compensation committee used as a frame of reference for its analysis as well as the salary data that the committee considered in determining salary levels. The compensation committee also considered the compensation plans of other real estate companies, in light of current economic conditions, to the extent such information was available.

In addition, the compensation committee reviewed and discussed our chief executive officer s recommendations concerning compensation (excluding his own compensation) and his opinions concerning the performance of the company and our executive and senior officers (excluding his own performance). Our chief executive officer attended the meetings of the compensation committee at which compensation matters (excluding his own compensation) were discussed. He also reviewed the report prepared by the independent compensation consultant retained by the compensation committee and had the ability to discuss such report with both the consultant and the committee. Our chief executive officer s compensation recommendations and performance opinions were among the factors considered by the compensation committee in determining the amount and mix of compensation, but were not solely

determinative of any compensation decisions.

After reviewing and discussing the consultant s findings and the other factors described above, the compensation committee prepared compensation recommendations for each executive officer and other senior officers and concluded that our executive compensation packages are competitive and consistent with our

compensation philosophy. Our board subsequently reviewed and discussed those compensation recommendations and approved the compensation payable to each named executive officer for 2008 as follows:

Previously determined salary levels for 2008 for the named executive officers were not changed, and Mr. Rakowich s salary did not increase in 2008 as a result of his promotion to chief executive officer in November 2008. The compensation committee recommended that the named executive officers 2009 base salaries and target levels for cash bonuses remain the same as the 2008 levels, consistent with the company-wide policy for 2009. However, Mr. Rakowich s 2009 base salary and target bonus were increased as provided in his employment agreement and consistent with his promotion to chief executive officer.

Actual cash bonuses for 2008, payable in February 2009, were awarded at less than 100% of the original target levels (company-wide cash bonuses were generally between 75% and 80% of the original target levels). Mr. Rakowich s employment agreement specified an annual bonus award amount of $840,000 which was determined at the time that Mr. Rakowich had announced his retirement at the end of 2008. In light of current economic conditions and other factors described in this section, Mr. Rakowich agreed to a cash bonus award for 2008 of 50% of the amount required by his agreement. Mr. Antenucci s cash bonus for 2008 was 80% of the original target level, the minimum amount payable under his employment agreement. Mr. Sullivan and Mr. Nekritz received cash bonus awards for 2008 at 50% of their respective original target levels. Bonus awards were adjusted in light of current economic conditions and other factors described in this section. As part of his separation agreement, Mr. Schwartz was paid a cash bonus for 2008 at 80% of his original target level which, at the time of his resignation in November 2008, was representative of the levels being considered by the compensation committee with respect to the target bonus recommendations for all named executive officers and other key employees for 2008.

In considering the cash bonus awards for 2008, the compensation committee considered subjectively the various factors described in this analysis, as well as a range of potential payouts. In their discussions in December 2008, the compensation committee considered possible bonus payouts, including awarding no discretionary bonuses for 2008, due to the significant decline in the market price of our common shares in late 2008. However, in December 2008 there were transactions pending, including the sale of significant portions of our operations in Asia and debt refinancings, that would positively impact our liquidity and cash flow in early 2009 and reposition us under our new business strategy. When the compensation committee met in February 2009, the positive outcomes of certain of these transactions were considered and, at that time, the committee made their bonus awards for 2008. The compensation committee believes that the reductions in the bonus awards, as compared to target levels and prior year levels, recognize the company s financial performance and the negative performance of our common shares in 2008. However, the compensation committee believes that payment of some portion of the target bonus (as opposed to paying no discretionary bonus) for 2008 appropriately rewards the actions taken by our executive management in late 2008 to enhance our liquidity and cash flow and reposition us under our new business strategy for 2009.

Equity awards for 2008 were granted in February 2009 to Messrs. Rakowich, Antenucci, Sullivan, and Nekritz. These awards consisted entirely of PSAs, in keeping with the compensation committee s philosophy of aligning the interests of our executives and shareholders and promoting the sharing of rewards and risks of strategic decision-making. While the employment agreements with both Mr. Rakowich and Mr. Antenucci required minimum annual equity awards for 2008 ($3,500,000 for Mr. Rakowich and $1,200,000 for Mr. Antenucci, see Grants of Plan-Based Awards in Fiscal Year 2008 Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table), each informed the compensation committee that they would waive the minimum requirement for 2008. The compensation committee then granted PSAs for 2008 in the following amounts, (based on a value of $6.90 per share, which was the closing price of our common shares on March 23, 2009, the day the performance goals were communicated to the executives): Mr. Rakowich (200,000 shares at $1,380,000 value),

Mr. Antenucci (100,000 shares at $690,000 value), Mr. Sullivan (63,000 shares at $434,700 value), and Mr. Nekritz (31,500 shares at $217,350 value). After the awards were granted, Mr. Rakowich informed the compensation committee that he would not accept his PSA award for 2008.

The PSAs granted for 2008 can be earned on December 31, 2009, based on both numerical and qualitative goals for both the company and the individual as discussed under Compensation Elements for Executive Officers. Based on the performance relative to these goals, the named executive officer may earn between 50% and 150% of the PSAs granted. Once earned, the PSAs will vest ratably on December 31, 2009, 2010, and 2011, generally should the executive be in our employ on such dates. DEUs were awarded with the PSAs and can be earned from the date of grant through the vesting period, based on the actual amount of PSAs awarded at the end of the performance period, and will vest under the same criteria as the underlying PSAs.

For the past several years, our annual equity awards to the named executive officers were a mix of share options, RSUs, and performance-based awards in equal thirds. In making the awards for 2008, the compensation committee changed the types and mix of the equity awards to: (i) grants of all PSAs to named executive officers and other key employees and (ii) grants of all RSUs (with a three-year vesting period) to certain other eligible employees. No share options or CPSs were awarded as these types of awards are tied only to our market performance (share price appreciation in the case of share options and relative total shareholder return in the case of CPSs). The compensation committee believes that PSAs more appropriately support the change in the company s business strategy because PSAs reward specific financial and strategic performance at both the company and individual levels, while still aligning the interests of management with those of shareholders, since the ultimate award is in the form of common shares. The inclusion of individual performance goals was deemed necessary as actions required to reposition the company under the new business strategy could be dilutive to earnings in the near term. The compensation committee was also somewhat constrained in the number of authorized shares available under the 2006 Long-Term Incentive Plan due to previous share issuances under the plan and the lower market price of our common shares. PSAs and RSUs were chosen because they require fewer shares to deliver equivalent target compensation opportunity than share options. The compensation committee awarded each of the named executive officers a target level of PSAs that approximated the number of shares included in their equity awards for previous years, recognizing that the fair value of the 2008 awards was significantly below the previous year s fair value due to the decline in our common share price.

> Equity awards for 2008 in the form of contingent performance units were granted to Mr. Schwartz in March 2008 in association with his employment agreement. These awards were tied to specific company performance measured by TSR, as defined in the agreement, over a performance period ending on December 12, 2012 and were granted in keeping with the compensation committee s philosophy of aligning the interests of our executives and shareholders and promoting the sharing of rewards and risks of strategic decision-making. These awards were not earned when Mr. Schwartz s employment with us ended and were cancelled effective December 8, 2008.

COMPENSATION COMMITTEE REPORT

We, the members of the management development and compensation committee of the board of trustees of ProLogis, have reviewed and discussed the Compensation Discussion and Analysis set forth above with the management of the company and, based on such review and discussion, have recommended to the board of trustees that the Compensation Discussion and Analysis be included in this proxy statement and, through incorporation by reference from this proxy statement, the company s Annual Report on Form 10-K for the year ended December 31, 2008.

Management Development and Compensation Committee:

Donald P. Jacobs (Chair)
Stephen L. Feinberg
William D. Zollars
Andrea M. Zulberti

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SUMMARY COMPENSATION TABLE FOR FISCAL YEAR 2008*

and pal on	Year (b)	Salary[1] ($) (c)	Bonus[1] ($) (d)	Stock Awards[2] ($) (e)	Option Awards[2] ($) (f)	All Other Compensation[3] ($) (i)	Total ($) (j)
r C. wich**	2008	$ 630,000	$ 420,000	$ 9,883,376**	$ 2,325,461**	$ 47,368	$ 13,306,
Executive r	2007	$ 630,000	$ 1,344,000	$ 2,246,963	$ 664,661	$ 26,375	$ 4,911,
	2006	$ 600,000	$ 1,200,000	$ 1,682,887	$ 520,742	$ 10,632	$ 4,014,
. Antenucci	2008	$ 630,000	$ 696,000	$ 4,453,874	$ 362,805	$ 20,699	$ 6,163,
ent and Chief	2007	$ 600,000	$ 1,320,000	$ 3,786,355	$ 238,241	$ 82,436	$ 6,027,
ment Officer	2006	$ 552,346	$ 1,200,000	$ 2,012,968	$ 138,247	$ 136,579	$ 4,040,
m E. an***	2008	$ 550,000	$ 300,000	$ 728,929	$ 161,852	$ 231,384	$ 1,972,
Financial r	2007	$ 375,000	$ 800,000	$ 174,992	$	$ 162,452	$ 1,512,
rd S. Nekritz	2008	$ 500,000	$ 200,000	$ 685,748	$ 201,332	$ 16,217	$ 1,603,
l Counsel, ary,	2007	$ 400,000	$ 450,000	$ 570,136	$ 136,403	$ 14,090	$ 1,570,
ead of Global gic Risk ement	2006	$ 350,000	$ 225,000	$ 574,541	$ 104,918	$ 9,245	$ 1,263,
H. rtz****	2008	$ 987,870	$ 1,600,000	$ (1,442,977)****	$ 191,014****	$ 13,775,219	$ 15,111,
r Chief ive	2007	$ 780,000	$ 1,872,000	$ 2,754,135	$ 1,048,420	$ 145,526	$ 6,600,
r	2006	$ 675,000	$ 1,350,000	$ 1,985,950	$ 630,160	$ 38,168	$ 4,679,

* Columns (g) and (h) have been omitted from this table because they are not applicable.

** Mr. Rakowich was our president and chief operating officer until November 10, 2008 when, upon the resignation of Mr. Schwartz, he was appointed as our chief executive officer. Mr. Rakowich had announced in February 2008 his planned retirement effective January 1, 2009. Under his employment agreement, upon his retirement his unvested equity awards would continue to vest under their original terms as if he remained our employee. Accordingly, in 2008 we were required, under generally accepted accounting principles (Statement of Financial Accounting Standards No. 123(R) (FAS 123(R))), to recognize the remaining expense associated with all of his unvested awards on an accelerated basis such that these awards would be fully expensed as of December 31, 2008. Upon Mr. Rakowich s appointment as our chief executive officer, his service period was extended past December 31, 2008 and we began to recognize the amount that had not been expensed as of the date of his appointment to chief executive officer on a prospective basis over the remaining original vesting periods. SFAS 123(R) does not allow us to reverse the accelerated expense recognition in 2008. Therefore, the summary compensation table includes $7,123,845 of expense in 2008 for share awards and share options that are not vested to Mr. Rakowich as of December 31, 2008 and that will

continue to vest under their original terms in the years 2009, 2010, and 2011. Accordingly, the expense that we present in our summary compensation tables and in our consolidated financial statements will be less by this amount in 2009, 2010, and 2011. Information in the summary compensation table for 2008 for Mr. Rakowich as it would have been reflected had we not recognized the accelerated expense in 2008 under FAS 123R follows.

Adjusted 2008 Compensation for Mr. Rakowich:

	Salary (c)	Bonus (d)	Stock Awards (e)	Option Awards (f)	All Other Compensation (i)	Total (j)
As Reported	$ 630,000	$ 420,000	$ 9,883,376	$ 2,325,461	$ 47,368	$ 13,306,205
Reverse accelerated expense	$	$	$ (5,872,294)	$ (1,251,551)	$	$ (7,123,845)
As Adjusted	$ 630,000	$ 420,000	$ 4,011,082	$ 1,073,910	$ 47,368	$ 6,182,360

*** Mr. Sullivan was hired on March 26, 2007.

**** Mr. Schwartz s employment with us ended effective December 8, 2008. The terms of the agreement with Mr. Schwartz relating to his separation from ProLogis are described under Potential Payments Upon Termination or Change in Control. Under the terms of Mr. Schwartz s separation agreement, all of his outstanding unvested share options and share awards were either forfeited or cancelled as of December 8, 2008. As a result, the expense associated with the forfeited and/or cancelled awards previously recognized in 2008 was reversed.

(1) The bonuses earned for a fiscal year are paid in the subsequent fiscal year, generally within the first two months (e.g., the bonuses earned for 2008 were paid in February 2009). The amounts presented in columns (c) and (d) include the amount, if any, of the named executive officer s salary and bonus, respectively, for which payment was deferred at their election. The following table presents the amounts in columns (c) and (d) that each of the named executive officers deferred under the 401(k) Plan, the NSP, or other deferral

arrangement in 2008, 2007 and 2006. See further discussion under Nonqualified Deferred Compensation in Fiscal Year 2008 below.

		401(k) Plan	NSP		Other
		column (c)	column (c)	column (d)	column (d)
Mr. Rakowich	2008	$ 18,800	$	$	$
	2007	$ 18,500	$	$	$
	2006	$ 13,200	$	$	$
Mr. Antenucci	2008	$ 13,800	$	$	$
	2007	$ 13,500	$	$	$
	2006	$ 13,200	$	$	$
Mr. Sullivan	2008	$ 13,800	$	$	$
	2007	$ 15,500	$	$	$ 200,000
Mr. Nekritz	2008	$ 13,800	$	$	$
	2007	$ 13,500	$ 100,000	$ 440,728	$
	2006	$ 13,200	$ 70,000	$ 67,500	$
Mr. Schwartz	2008	$ 13,800	$	$	$
	2007	$ 13,200	$	$	$
	2006	$ 13,200	$	$	$

(2) These amounts represent the compensation expense that we recognized in 2008, 2007, and 2006 for accounting purposes associated with each of the named executive officer s outstanding PSAs (in 2007 and 2006), CPSs, and RSUs (column (e)) and share options (column (f)). Information on how the awards are valued for purposes of computing our accounting expense is included in the narrative discussion that follows the next table.

Under FAS 123(R), the expense that we recognize over the performance period is based on the fair value of the target level of CPSs as of the grant date with no provision to later adjust the amount expensed based on the performance period results and the actual amounts earned. The CPSs granted in December 2005 were valued at $52.77 per share and this value was expensed in 2008, 2007, and 2006 and is reflected in column (e), Stock Awards. This presentation does not reflect the actual value that the named executive officer realized upon receipt of those awards after the performance period ended on December 31, 2008. Based on actual performance over the performance period, the December 2005 CPSs were issued in 2009 at 17.5% of the original target number. Additionally, our common share price at December 31, 2008 was $13.89 per share. The amount that is presented as expense in the summary compensation table over the years 2008, 2007, and 2006 with respect to the December 2005 CPSs that is in excess of the value of the named executive officers actual award valued at December 31, 2008 is:

Mr. Rakowich: $733,303
Mr. Antenucci: $805,444
Mr. Nekritz: $193,570

Mr. Sullivan was not employed by us in December 2005 and did not receive a CPS grant. As a result of his resignation, Mr. Schwartz forfeited his December 2005 CPS award effective December 8, 2008.

(3) The amounts in column (i) represent the other compensation amounts paid to each of the named executive officers in 2008, 2007, and 2006. These amounts include the following items:

		401(k)	Subsidiary Stock				Relocation Benefits			
		Plan Match	Value(a)	Tax Offset Payment	Insurance(b)	Other(c)	Value	Tax Offset Payment	Perquisites(d)	
h	2008	$ 6,900	$ 5,000	$ 3,486	$ 2,334	$ 417	$	$	$ 29,231	$
	2007	$ 6,750	$ 4,000	$ 2,788	$ 2,334	$	$	$	$ 10,503	$
	2006	$ 6,600	$ 1,000	$ 698	$ 2,334	$	$	$	$	$
ci	2008	$ 6,900	$ 5,000	$ 3,486	$ 2,303	$ 3,010	$	$	$	$
	2007	$ 6,750	$ 4,000	$ 2,788	$ 1,935	$ 66,963	$	$	$	$
	2006	$ 6,600	$ 1,000	$ 451	$ 2,334	$ 108,848	$	$	$ 17,346	$
	2008	$ 6,900	$ 5,000	$ 2,255	$ 2,334	$ 138,670	$ 72,716	$ 3,509	$	$
	2007	$ 6,750	$	$	$ 1,706	$	$ 108,660	$ 45,336	$	$
	2008	$ 6,900	$ 5,000	$ 2,255	$ 2,062	$	$	$	$	$
	2007	$ 6,750	$ 4,000	$ 1,804	$ 1,536	$	$	$	$	$
	2006	$ 6,600	$ 1,000	$ 451	$ 1,194	$	$	$	$	$
t	2008	$ 6,900	$ 5,000	$ 3,486	$ 2,065	$ 13,577,076	$ 3,092	$ 561	$ 177,039	$
	2007	$ 6,600	$ 4,000	$ 2,788	$ 2,334	$ 118,582	$ 10,945	$ 277	$	$
	2006	$ 6,600	$ 1,000	$ 698	$ 2,334	$	$ 27,190	$ 346	$	$

(a) Periodically, we grant shares of stock in our subsidiaries to certain of our officers to enable the subsidiary to meet the ownership requirements for a real estate investment trust.

(b) Represents premiums paid for life insurance and accidental death and dismemberment insurance provided to the employees based on their salary level.

(c) Other for 2008 includes the following:

Mr. Rakowich: Represents tax offset payment associated with spousal travel for business purposes that is taxed to Mr. Rakowich.

Mr. Antenucci: Represents employer matching contribution under Mr. Antenucci s non-qualified deferred compensation plan, which is described under Nonqualified Deferred Compensation in Fiscal Year 2008.

Mr. Sullivan: Represents: (i) estimated costs associated with the future sale of his home in Illinois of $132,500 (discussed below) and (ii) tax offset payment of $6,170 associated with spousal travel for business purposes that is taxed to Mr. Sullivan.

Under Mr. Sullivan s relocation agreement with us, a relocation firm employed by us purchased Mr. Sullivan s home in Illinois directly from him for $1,987,500 in June 2008 and is currently marketing the home for resale at a price of $1,600,000. The purchase price was the average of two independent appraisals of the home. The $132,500 amount in the table is our estimate of the closing costs and sales commissions that will ultimately be costs to us related to the transaction with our relocation firm. The actual cost to us may differ from this estimate.

In addition, we incurred costs of $20,571 in 2008 associated with the relocation firm s ownership of the home, primarily insurance, utilities, property taxes, and maintenance. We do not consider these additional costs, or the future loss on the ultimate sale of the home, if any, to be compensation to Mr. Sullivan and have not included such costs in the summary compensation table.

Mr. Schwartz: Represents: (i) severance and other benefits aggregating $13,547,600 and (ii) tax offset payment of $29,476 associated with spousal travel for business purposes that is taxed to Mr. Schwartz. Mr. Schwartz s separation agreement is described at Potential Payments Upon Termination or Change in Control.

(d) This column represents the aggregate incremental costs of perquisites or personal benefits received by the named executive officer. An individual perquisite amount is presented if the aggregate amount for the individual is $10,000 or more. Perquisites presented for 2008 include the following:

Mr. Rakowich: Includes personal legal costs associated with negotiating his employment agreement, home office equipment and supplies (including telephone service), costs associated with annual health examination (including travel), airline travel club memberships, and certain entertainment expenses generally associated with other business entertainment activities.

Mr. Schwartz: Includes: (i) personal legal costs associated with negotiating his employment agreement of $74,751; (ii) certain travel and entertainment expenses generally associated with other business travel and entertainment activities of $50,127; (iii) personal use of the company airplane of $39,881; and other perquisites aggregating $12,280 (comprised of airline travel and personal club memberships, home office equipment and supplies (including telephone service), and personal amenities). Our airplane (acquired in early 2008) was used by Mr. Schwartz for certain personal travel in 2008. This airplane is no longer in use and we are currently marketing it for sale. The value of Mr. Schwartz s personal usage is the incremental cost and was computed on a per mile basis by including the variable costs (aircraft fuel expenses, supplies and catering, crew travel expenses, and landing and parking fees). In addition, during 2008 we owned a one-quarter fractional interest in another airplane which was not used for personal flights for Mr. Schwartz or any other employee.

GRANTS OF PLAN-BASED AWARDS IN FISCAL YEAR 2008*

ame)	Grant Date[1] (b)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value ($) (l)
alter C. Rakowich**	11/11/08[2]				500,000			$ 3,435,000[3
	11/11/08[2]					500,000	$ 6.87	$ 1,180,000[4
ed R. Antenucci	11/11/08[2]				250,000			$ 1,717,500[3
	11/11/08[2]					250,000	$ 6.87	$ 590,000[4
illiam E. Sullivan	11/11/08[2]				375,000			$ 2,576,250[3
	11/11/08[2]					375,000	$ 6.87	$ 885,000[4
dward S. Nekritz	11/11/08[2]				250,000			$ 1,717,500[3
	11/11/08[2]					250,000	$ 6.87	$ 590,000[4
ffrey H. Schwartz**	3/14/08		200,000	200,000				$ 4,448,000[5
	3/14/08		100,000	100,000				$ 2,365,000[5

* Columns (c), (d), and (e) have been omitted from this table because they are not applicable.

** Mr. Rakowich became our chief executive officer on November 10, 2008. Previously, Mr. Rakowich was our president and chief operating officer. Mr. Schwartz resigned as our chief executive officer on November 10, 2008 and his employment with us ended effective December 8, 2008. The terms of the agreement with Mr. Schwartz relating to his separation from ProLogis are described under Potential Payments Upon Termination or Change in Control.

[1] Annual awards for fiscal year 2008 were made in February 2009. As such, they are not included in this table. See Compensation Discussion and Analysis 2008 Compensation Decisions.

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(2) Special grants of RSUs and share options were made on November 11, 2008 coinciding with the appointment of Mr. Rakowich as our chief executive officer. The award to Mr. Rakowich was made to entice him to rescind his planned retirement and accept the new position. Awards were made to the Messrs. Antenucci, Sullivan, and Nekritz to ensure continuity at the executive management level due to uncertainties that accompany a change in chief executive officer. See Compensation Discussion and Analysis 2008 Compensation Decisions.

(3) The value in column (l) represents the award in column (i) valued at $6.87 per share, which was the closing price of our common shares on the date of grant. See additional discussion of RSUs under Compensation Discussion and Analysis and in the narrative discussion that follows these footnotes.

(4) The value in column (l) represents the award in column (j) valued at $2.36 per share, which is based on the Black-Scholes pricing model. See additional discussion of share options under Compensation Discussion and Analysis and in the narrative discussion that follows these footnotes.

(5) Represents contingent performance units granted to Mr. Schwartz under the terms of his employment agreement dated March 14, 2008. The target award in column (g) represents the base number of shares that can be issued based on the performance criteria established for the grant. The amount in column (l) represents the maximum number of shares that can be earned in column (h) valued at $22.24 (200,000 grant) and $23.65 (100,000 grant). These values were determined using the Monte Carlo pricing model and the following assumptions: common share price of $54.29, volatility rate of 24.97%, risk-free interest rate of 2.41%, and dividend yield of 3.34%. These awards were not earned when Mr. Schwartz s employment with us ended and were cancelled effective December 8, 2008. No expense was recognized by the company in 2008 associated with this grant.

Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table.

Valuation of Awards

The Summary Compensation Table for Fiscal Year 2008 presents the compensation expense that we recognized for each of the years 2008, 2007, and 2006 associated with equity awards and share options granted to our named executive officers. Below, we present information on how the fair values of the various awards used to compute the compensation expense in the table were determined. Under SEC rules, we deducted from the amounts shown in the table any amounts previously disclosed as compensation expense with respect to awards or portions of awards that were cancelled and/or forfeited in connection with Mr. Schwartz s resignation in 2008.

Share Options. Options to purchase our common shares are valued using the Black-Scholes pricing model. The expense for 2008 includes a portion of the fair values of share options that were granted in each of the years 2004 through 2008. The expense for 2007 includes a portion of the fair values of share options that were granted in each of the years 2003 through 2006. The expense for 2006 includes a portion of the fair values of share options that were granted in each of the years 2002 through 2005. The fair values and the assumptions used in the Black-Scholes pricing model to determine the fair values generating the compensation expense for the applicable years are as follows:

		Black-Scholes Assumptions			
Grant Date	Fair Value	Risk-Free Interest Rate	Dividend Yield	Volatility Rate	Weighted Average Option Life

2008 Awards	November 2008	$ 2.36	2.56%	1.92%	40.35%	5.8 years
2007 Awards	December 2007	$ 11.41	3.77%	3.44%	23.45%	5.8 years
2006 Awards	December 2006	$ 10.42	4.50%	3.40%	19.43%	5.8 years
2005 Awards[(a)]	September and December 2005	$ 6.92 to $ 7.49	4.33%	3.92%	20.33%	5.9 years
2004 Awards	September 2004	$ 5.09	3.82%	4.27%	20.52%	6.25 years
2003 Awards	September 2003	$ 4.21	3.53%	4.18%	20.14%	6.25 years
2002 Awards	September 2002	$ 2.47	3.04%	5.68%	20.55%	6.25 years
2002 Award to Mr. Schwartz	March 2002	$ 2.67	5.09%	6.19%	20.18%	6.25 years

(a) The Black-Scholes assumptions are a weighted average of the two grants in 2005.

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Amounts included in Summary Compensation Table the following table provides the total compensation expense that was recognized by us with respect to share options for each named executive officer in 2008, 2007, and 2006 (share options are generally expensed over the service or vesting periods).

			Share Options	
		Expense	Number	Values (per share)
Mr. Rakowich	2008	$ 2,325,461	930,336	$ 2.36 to $11.41
	2007	$ 664,661	425,012	$ 4.21 to $10.42
	2006	$ 520,742	420,912	$ 2.47 to $7.49
Mr. Antenucci	2008	$ 362,805	403,399	$ 2.36 to $11.41
	2007	$ 238,241	118,349	$ 6.92 and $10.42
	2006	$ 138,247	80,000	$ 6.92
Mr. Sullivan	2008	$ 161,852	418,813	$ 2.36 and $11.41
	2007			
Mr. Nekritz	2008	$ 201,332	335,860	$ 2.36 to $11.41
	2007	$ 136,403	83,953	$ 4.21 to $10.42
	2006	$ 104,918	86,377	$ 2.47 to $7.49
Mr. Schwartz(c)	2008	$ 191,014	200,000	$ 5.09
	2007	$ 1,048,420	597,968	$ 4.21 to $10.42
	2006	$ 630,160	491,604	$ 2.47 to $7.49

Contingent Performance Shares. CPSs are valued using the Monte Carlo pricing model. Under this model, historical common share prices for us and fifty other real estate investment trusts over a three-year look back period that matches the vesting period of the award were utilized to generate volatility rates and to measure the correlation in the pattern of returns between the entities. Other inputs to the model include the risk-free interest rate and the length of the performance period. Utilizing these inputs, the total shareholder returns at the end of the performance period for us and the fifty comparison entities were simulated and our ranking in relation to the other entities was used to determine the projected amount of CPSs that will be earned and the value of the CPSs upon issuance. The Monte Carlo model generates a factor that is scaled to the market price of our common shares on the date of grant thereby generating the fair value of the award.

The expense for 2008 includes a portion of the fair values of CPSs that were granted in each of the years 2005, 2006 and 2007. The expense for 2007 includes a portion of the fair values of CPSs that were granted in each of the years 2005 and 2006. The expense for 2006 includes a portion of the fair values of CPSs that were granted in 2005 and May 2006. The fair values and the assumptions used in the Monte Carlo pricing model to determine the fair values generating the compensation expense for the applicable years are as follows:

2008 Awards: No CPSs were granted to our named executive officers for 2008.

2007 Awards: CPSs granted to our named executive officers in December 2007 had a fair value of $71.48 per share. This fair value is based on the closing price of our common shares on the date of grant of $60.60 adjusted by a factor of 1.1796. These awards have a performance period ending on December 31, 2010. Assumptions used to generate this factor include a risk-free interest rate of 3.35% and a look back period ending in December 2007.

2006 Awards: CPSs granted to our named executive officers in December 2006 had a fair value of $67.71 per share. This fair value is based on the closing price of our common shares on the date of grant of $59.92 adjusted by a factor of 1.13. These awards have a performance period ending on December 31, 2009. Assumptions used to generate this factor include a risk-free interest rate of 4.64% and a look back period ending in December 2006. Additionally, 50,000 CPSs were granted to Mr. Antenucci in May 2006. Of these awards, 25,000 have a performance period ending on December 31, 2009 (fair value of $56.05 per share based on the closing price of our common shares on the date of grant of $49.60 adjusted by a factor of 1.13) and 25,000 have a performance period ending on December 31, 2010 (fair value of $57.49 per share based on the closing price of our common shares on the date of grant of $49.60 adjusted by a factor of 1.159). Assumptions used to generate the 1.13 factor include a risk-free interest rate of 5.10% and a look back period ending in November 2005. Assumptions used to generate the 1.159 factor include a risk-free interest rate of 5.10% and a look back period ending in April 2006.

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2005 Awards: CPSs granted to our named executive officers in December 2005 had a fair value of $52.77 per share. This fair value is based on the closing price of our common shares on the date of grant of $46.70 adjusted by a factor of 1.13. These awards had a performance period that ended on December 31, 2008. Assumptions used to generate the 1.13 factor include a risk-free interest rate of 5.10% and a look back period ending in November 2005.

Restricted Share Units and Performance Share Awards. RSUs and PSAs are valued based on the market price of our common shares on the date the awards are granted with the value included in compensation expense over the applicable service period and/or performance period, generally the vesting period. Generally, the closing price on the date of grant is used to value the awards. However, in 2006 the RSUs granted were generally valued at the average of the high and low trading prices on the date of grant.

Amounts included in Summary Compensation Table the following table provides the total compensation expense that was recognized by us with respect to CPS, RSUs, and PSAs for each named executive officer in 2008, 2007, and 2006 (share awards are generally expensed over the vesting and/or performance periods).

CPSs			RSUs			PSAs		
Expense	Number	Values (per share)	Expense	Number	Values (per share)	Expense	Number	Val (per s
$ 1,742,271	42,751	$52.77 and $71.48	$ 8,141,105	647,689	$6.87 to $70.95	$		
$ 550,980	27,626	$52.77 and $67.71	$ 1,065,533	162,559	$32.09 to $70.95	$ 630,450	27,000	$46
$ 256,238	14,567	$52.77	$ 406,229	44,567	$32.09 and $45.46	$ 1,020,420	45,000	$43.3 $46
$ 1,293,799	79,268	$52.77 and $71.48	$ 3,160,075	513,270	$6.87 to $66.43	$		
$ 1,136,535	72,668	$52.77 to $67.71	$ 2,276,220	256,668	$49.60 to $66.43	$ 373,600	16,000	$46
$ 692,459	66,000	$52.77 to $57.49	$ 946,909	150,000	$49.60	$ 373,600	16,000	$46
$ 196,580	8,250	$71.48	$ 532,349	401,764	$6.87 to $64.82	$		
$			$ 174,992	18,512	$64.82	$		
$ 234,899	11,026	$52.77 and $71.48	$ 450,849	286,027	$6.87 and $60.60	$		
$ 136,609	6,901	$52.77 and $67.71	$ 316,777	31,901	$45.46 and $59.92	$ 116,750	5,000	$46
$ 67,635	3,845	$52.77	$ 270,998	28,845	$45.46	$ 235,908	10,500	$43.3 $46
$ (1,442,977)			$			$		
$ 1,069,552	52,072	$52.77 and $67.71	$ 984,083	87,072	$32.09 to $59.92	$ 700,500	30,000	$46
$ 373,425	21,229	$52.77	$ 522,055	56,229	$32.09 and $45.46	$ 1,090,470	48,000	$43.3 $46

Employment Agreements

We have employment agreements with Mr. Rakowich and Mr. Antenucci. We entered into an employment agreement with Mr. Schwartz in March 2008 that was effective as of January 1, 2008. Mr. Schwartz resigned as our chief executive officer on November 10, 2008 and his employment with us ended effective December 8, 2008. Upon his separation, Mr. Schwartz received payments in accordance with this agreement.

Mr. Rakowich s Employment Agreement. Our original employment agreement with Mr. Rakowich was entered into on September 19, 2007 and was amended and restated on February 6, 2008. In February 2008, Mr. Rakowich announced his plan to retire as our president and chief operating officer effective January 1, 2009.

Mr. Rakowich was named our chief executive officer on November 10, 2008 upon the resignation of Mr. Schwartz. To entice Mr. Rakowich to rescind his retirement and accept the position of chief executive officer, the board offered Mr. Rakowich substantially the same annual compensation package that had been included in Mr. Schwartz s employment agreement entered into in March 2008, with the primary difference being that Mr. Rakowich was issued RSUs and share options in November 2008 having an aggregate fair value at the grant date of $4,615,000 in lieu of the contingent performance unit awards contained in Mr. Schwartz s agreement. Accordingly, we entered into the Second Amended and Restated Employment Agreement with Mr. Rakowich (the 2008 Agreement), which was amended and restated on January 9, 2009. The Third Amended and Restated Employment Agreement (the 2009 Agreement) changed the 2008 Agreement only with respect to provisions relating to the amount of his annual equity awards and certain donations to the ProLogis Foundation.

The 2009 Agreement is effective through December 31, 2011 and provides that Mr. Rakowich will:

receive an annual base salary for 2008 of $630,000 and, for 2009 and through the remaining term of the agreement, receive an annual base salary of $1,000,000;

receive a target bonus for 2008 of $840,000 and, beginning in 2009 and through the remaining term of the agreement, be eligible for a target bonus of up to 200% of his annual base salary with the actual amount

of the bonus received, as a percentage of the target, to be between zero and 200% based on the satisfaction of goals and objectives to be established for each period; in light of current economic conditions, Mr. Rakowich agreed to receive a cash bonus of $420,000 or 50% of the target level for 2008;

be entitled to a grant of equity-based awards under our 2006 Long-Term Incentive Plan for 2008 having an aggregate value of at least $3,500,000; in light of current economic conditions, Mr. Rakowich agreed to accept a grant that was less than this amount and, in February 2009, the compensation committee made a grant of equity awards to Mr. Rakowich for 2008 valued at $1,380,000; Mr. Rakowich subsequently informed the compensation committee that he would not accept the award for 2008;

be entitled to grants of equity-based awards under our 2006 Long-Term Incentive Plan for 2009, 2010, and 2011 having an annual aggregate value of at least $7,500,000 and, if such awards are granted, Mr. Rakowich is required to make an annual contribution to the ProLogis Foundation equal to 15% of such award value payable after the time the award vests or within 12 months of receipt if the award is paid in cash;

be entitled to professional fees incurred to negotiate the 2009 Agreement in an amount not to exceed $100,000; and

be eligible to participate in our employee benefit plans made available to similarly situated senior management employees.

The 2009 Agreement also sets forth the terms for the special grant of RSUs and share options with an aggregate fair value at issuance of $4,615,000 that Mr. Rakowich received in November 2008 upon appointment as our chief executive officer and provides for special vesting terms for certain awards. The special vesting terms allow for the continuation of original vesting terms for unvested share awards after Mr. Rakowich s termination as if he had remained our employee until such time as all awards have vested under the following circumstances:

for awards made after January 7, 2009 and for the special awards made in November 2008, if Mr. Rakowich is terminated by us within the term of the agreement for other than cause, including upon a change in control, or upon his death or disability, as further described under Potential Payments Upon Termination or Change in Control,

for awards in effect prior to January 7, 2009, other than the special awards made in November 2008, if Mr. Rakowich remains continuously employed by us through December 31, 2009 or if he is terminated by us within the term of the agreement for other than cause, including upon a change in control, or upon his death or disability, as further described under Potential Payments Upon Termination or Change in Control.

Additionally, the 2009 Agreement contains provisions with respect to recovery of amounts earned by Mr. Rakowich to the extent that the amount earned was based on satisfaction of goals and objectives that were impacted by any material financial statement restatements or modifications and also provides for excise tax gross-up payments with respect to certain payments required under the agreement under certain circumstances. Mr. Rakowich s previous employment agreements with us provided for the granting of special equity-based awards to him and/or have modified certain vesting provisions of existing awards. Such awards and these modified terms are included in the applicable tables in this proxy statement and, as applicable, have been included in previous proxy statements.

Mr. Antenucci s Employment Agreement. Mr. Antenucci s employment agreement was amended and restated as of December 31, 2008, to comply with applicable federal tax law changes with respect to deferred compensation. The term of the employment agreement with Mr. Antenucci ends on December 31, 2012 and provides for automatic one-year extensions of the term unless we, or Mr. Antenucci, give notice of non-renewal at least three months prior to

the last day of the then-current term.

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The employment agreement further provides that Mr. Antenucci will:

- receive a minimum annual base salary of $630,000;
- be eligible for an annual target bonus of $870,000, with the actual amount of the bonus earned based on the satisfaction of applicable goals and objectives, but in no case less than 80% of the annual target bonus amount; Mr. Antenucci s bonus for 2008 was $696,000 based on the minimum 80% level established in the agreement;
- for each 12-month period during the agreement, be entitled to grants of equity-based awards under our 2006 Long-Term Incentive Plan having an annual aggregate value of $1,200,000; however, in light of current economic conditions, he agreed to receive an actual award for 2008 valued at $690,000 and such award was granted in February 2009; and
- be eligible to participate in our employee benefit plans made available to similarly situated senior management employees.

Additionally, Mr. Antenucci s agreement provides for excise tax gross-up payments with respect to certain payments required under the agreement under certain circumstances and accelerated vesting of unvested share awards, under certain limited circumstances, including certain events of termination and upon a change in control as described under Potential Payments Upon Termination or Change in Control. Mr. Antenucci s previous employment agreements with us have provided for the granting of special equity-based awards to him. Such awards are included in the applicable tables in this proxy statement and, as applicable, have been included in previous proxy statements.

Mr. Schwartz s Employment Agreement. On March 14, 2008, we entered into an employment agreement with Mr. Schwartz. The agreement was effective as of January 1, 2008. The term of the employment agreement was through December 31, 2012. The employment agreement provided for Mr. Schwartz s employment as our chief executive officer, a minimum salary of $1,000,000, and specified parameters for the awarding of his annual bonus and equity-based awards. Additionally, he was awarded 300,000 contingent performance units in March 2008 with performance periods through December 12, 2012. The agreement contained limitations on the total amount of compensation that could be deliverable under the agreement and post-employment restrictive covenants to protect shareholders.

Mr. Schwartz resigned as our chief executive officer on November 10, 2008 and his employment with us ended effective December 8, 2008. Upon his separation he received, or is entitled to receive, certain payments which are included in his 2008 compensation in the summary compensation table and are discussed further under Potential Payments Upon Termination or Change in Control. Also, Mr. Schwartz forfeited all of his unvested and unearned equity-based awards outstanding (share options, RSUs, CPSs, and associated DEUs). The contingent performance units awarded under Mr. Schwartz s employment agreement in March 2008 were not earned when his employment with us ended and were cancelled on December 8, 2008. Mr. Schwartz is subject to limited non-competition and non-solicitation covenants for a period of one year, ending on December 8, 2009.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END (DECEMBER 31, 2008)*

	Option Awards[(1)]				Stock Awards[(1)]			
me	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested[(2)] ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentiv Plan Awards Market Payout Value o Unearne Shares Units o Other Rights That Ha Not Vested(($) (j)
alter C. kowich**	1		$ 18.63	9/15/09				
	1		$ 24.25	9/14/10				
	175,000		$ 34.93	9/23/14				
	74,934	24,978(3)	$ 45.46	12/20/15				
	37,550	37,550(4)	$ 59.92	12/21/16				
	20,081	60,243(5)	$ 60.60	12/18/17				
	125,000	375,000(6)	$ 6.87	11/11/18				
					3,839(7)	$ 53,324		
					6,907(8)	$ 95,938		
					3,973(9)	$ 55,185		
					79,087(10)	$ 1,098,518		
					11,880(11)	$ 165,013		
					379,404(12)	$ 5,269,922		
							14,065(13)	$ 195,36
							15,835(14)	$ 219,94
d R. tenucci	60,000	20,000(15)	$ 45.29	9/15/15				
	19,175	19,174(4)	$ 59.92	12/21/16				
	8,763	26,287(5)	$ 60.60	12/18/17				
		250,000(6)	$ 6.87	11/11/18				
					163,918(16)	$ 2,276,821		
					3,527(8)	$ 48,990		
					105,449(17)	$ 1,464,687		
					5,184(11)	$ 72,006		
					252,936(12)	$ 3,513,281		
							27,320(18)	$ 379,47

27,320(19)	$ 379,47
7,182(13)	$ 99,75
6,910(14)	$ 95,98

(Continued)

	Option Awards(1)				Stock Awards(1)			
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested(2) ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	E Inc I Av Ma P Va Un Sh Ur C R Tha Ve
E. Sullivan	10,954	32,859(5)	$ 60.60	12/18/17				
		375,000(6)	$ 6.87	11/11/18				
					14,849(20)	$ 206,253		
					6,480(11)	$ 90,007		
					379,404(12)	$ 5,269,922		
							8,638(14)	$ 1
S. Nekritz	16,107		$ 18.63	9/15/09				
	16,362		$ 24.25	9/14/10				
	17,820		$ 20.68	9/19/11				
	20,000		$ 24.76	9/26/12				
	20,000		$ 30.00	9/25/13				
	20,000		$ 34.93	9/23/14				
	19,783	6,594(3)	$ 45.46	12/20/15				
	8,788	8,788(4)	$ 59.92	12/21/16				
	5,477	16,430(5)	$ 60.60	12/18/17				
		250,000(6)	$ 6.87	11/11/18				
					27,713(21)	$ 384,934		
					1,110(7)	$ 15,418		
					1,616(8)	$ 22,446		
					3,239(11)	$ 44,990		
					252,936(12)	$ 3,513,281		
							3,291(13)	$
							4,319(14)	$
I. Schwartz**	67,114		$ 18.63	9/15/09(22)				
	25,000		$ 22.98	3/18/12(22)				
	46,000		$ 24.76	9/26/12(22)				
	75,000		$ 30.00	9/25/13(22)				
	200,000		$ 34.93	9/23/14(22)				
	72,802		$ 45.46	12/20/15(22)				
	44,341		$ 59.92	12/21/16(22)				

* Column (d) has been omitted from this table because it is not applicable.

** Mr. Rakowich became our chief executive officer on November 10, 2008. Previously, Mr. Rakowich was our president and chief operating officer. Mr. Schwartz resigned as our chief executive officer on November 10, 2008 and his employment with us ended effective December 8, 2008. The terms of the agreement with Mr. Schwartz relating to his separation from ProLogis are described under Potential Payments Upon Termination or Change in Control.

(1) Generally, the terms of our grant agreements provide that vesting will occur on specified dates if the holder of the award is in our employ as of such dates. Mr. Rakowich s employment agreement (discussed under Grants of Plan-Based Awards in Fiscal Year 2008 Narrative Discussion to the Summary Compensation Table for Fiscal Year 2008 and the Grants of Plan-Based Awards in Fiscal Year 2008 Table) provides for special vesting terms under certain circumstances. These special vesting terms apply to unvested share options and share awards and generally will allow for the continuation of the original vesting terms after Mr. Rakowich s employment with us ends, as if he had remained our employee, until such time as the awards have vested. With respect to Mr. Rakowich s unexercisable option awards (column (c)) and unvested stock awards (columns (g) and (i)), other than the special grants awarded in November 2008, these special vesting provisions will generally apply if Mr. Rakowich is continuously employed by us through December 31, 2009.

(2) Dollar amounts are based on the closing price of our common shares on December 31, 2008 of $13.89 per share.

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(3) Will generally vest and become exercisable on December 20, 2009.

(4) Will generally vest and become exercisable in equal amounts on each of December 21, 2009 and 2010.

(5) Will generally vest and become exercisable in equal amounts on each of December 18, 2009, 2010, and 2011.

(6) Represents special grant on November 11, 2008 coinciding with the appointment of Mr. Rakowich as our chief executive officer. Mr. Rakowich s share options will generally vest and become exercisable in equal amounts on each of December 31, 2009, 2010, and 2011. The options granted to Messrs. Antenucci, Sullivan, and Nekritz will generally vest and become exercisable in equal amounts on each of November 11, 2009, 2010, 2011, and 2012. The award to Mr. Rakowich was made to entice him to rescind his planned retirement and accept the new position. Awards were made to Messrs. Antenucci, Sullivan, and Nekritz to ensure continuity at the executive management level due to uncertainties that accompany a change in chief executive officer. See Compensation Discussion and Analysis 2008 Compensation Decisions.

(7) RSUs and associated accrued DEUs will generally vest on December 20, 2009.

(8) RSUs and associated accrued DEUs will generally vest in equal amounts on each of December 21, 2009 and 2010.

(9) RSUs and associated accrued DEUs will generally vest in equal amounts on each of February 21, 2009, 2010, and 2011.

(10) RSUs and associated accrued DEUs will generally vest in equal amounts on each of December 31, 2009 and 2010.

(11) RSUs and associated accrued DEUs will generally vest in equal amounts on each of December 18, 2009, 2010, and 2011.

(12) Represents special grant of RSUs and associated DEUs on November 11, 2008 coinciding with the appointment of Mr. Rakowich as our chief executive officer. Mr. Rakowich s awards will generally vest in equal amounts on each of December 31, 2009, 2010, and 2011. The awards gr align="left" valign="bottom"> 520,020.00 520,000.00 520,000.00

Variable compensation	930,057.00	610,000.00[1]	687,230.00	930,057.00[2]
Exceptional compensation	N/A	N/A	N/A	N/A
Director s fees[3]	50,038.81	43,277.05[4]	49,100.18	50,038.81[5]
Benefits in kind[6]	6,840.00	6,840.00	6,840.00	6,840.00
Total	1,506,935.81	1,180,137.05	1,263,170.18	1,506,935.81

Notes:

(1) Paid in March 2007 for fiscal year 2006.

(2) Paid in March 2008 for fiscal year 2007.

(3) Mr. Brunck does not receive any compensation as member of the Supervisory Board of Sercel Holding or as Chairman of the Board of Directors of CGG Americas.

(4) Paid at the beginning of 2007 for fiscal year 2006.

(5) Paid at the beginning of 2008 for fiscal year 2007.

(6) Benefits in kind are limited to the use of a company car.

Thierry Le Roux

	2007		2008	
Chief Operating Officer	**Amounts earned**	**Amounts paid**	**Amounts earned**	**Amounts paid**
Fixed compensation	400,000.00	400,018.00	400,000.00	400,000.00
Variable compensation	572,343.00	350,800.00(1)	422,910.00	572,343.00(2)
Exceptional compensation	N/A	N/A	N/A	N/A
Director s fees	N/A	N/A	N/A	N/A
Benefits in kind	N/A	N/A	N/A	N/A
Total	972,343.00	750,818.00	822,910	972,343.00

Notes:

(1) Paid in March 2007 for fiscal year 2006.

(2) Paid in March 2008 for fiscal year 2007.

On February 27, 2008, pursuant to section L. 225-42-1 of the French Commercial Code, the Board of Directors approved an amendment to the previous provisions of the protection letter dated March 8, 2006 for Messrs. Brunck and Le Roux, in accordance with the procedure applicable to related party transactions and provided for by section L.225-38 *et seq.* of the French Commercial Code. These new provisions were approved by the general shareholders meeting held on April 29, 2008.

Consequently and pursuant to section L. 225-42-1 of the French Commercial Code, payment of the special severance indemnity provided for in the scope of such amendment as well as the early exercise of stock options, whether vested or not, that have been allocated to Messrs. Brunck and Le Roux pursuant to the stock options plans in force were subject to a performance condition assessed in comparison with the performance of the Company, requiring fulfillment of at least one of the three following objectives:

a share price performance objective relative to the share price considering the SBF 120 index;

a share price performance objective relative to the ADS price considering the PHLX Oil Service Sector^SM^ (OSX^SM^); or

a financial indicator objective of EBIT expressed in U.S.$ and related to the target for the annual variable part of the compensation of Messrs. Brunck and Le Roux.

Finally, in order to take into account practices at comparable companies, the amount of special severance indemnities had been reduced from 250% to 200% of the annual reference compensation which corresponds to the global amount of gross fixed remuneration received over the twelve months preceding the date on which the period of notice begins, to which is added the annual average of the variable compensation received over the thirty-six months preceding the date of notice.

This special severance indemnity was a ceiling and a fixed payment paid in lieu of all sums to which Messrs. Brunck and Le Roux may be entitled as a consequence of severance including severance payments due by law or under collective bargaining agreements or compensation in lieu of notice and pay in lieu of vacation.

In addition, on February 27, 2008, the Board of Directors approved, in accordance with procedures applicable to related-party agreements and provided for by section L.225-38 *et seq*. of the French Commercial Code, the signing of a non-compete agreement between the Company and Messrs. Brunck and Le Roux.

This non-compete agreement applies to any geophysical data acquisition, processing or interpretation services or the provision of equipment or products designed for the acquisition, processing or interpretation of geophysical data. Messrs. Brunck and Le Roux have each agreed that they will not contribute to projects or activities in the same field as those in which they were involved at CGGVeritas for period of eighteen months starting on the date on which they leave the Group.

In consideration for this undertaking, Messrs. Brunck and Le Roux will each be entitled to receive compensation corresponding to 100% of their annual reference compensation upon leaving the Group. This agreement was approved by the general shareholders meeting held on April 29, 2008.

On December 19, 2008, the Board of Directors decided to refer to the recommendations on the compensation of executive officers of listed companies that were published by the AFEP-MEDEF on October 6, 2008 and incorporated into the AFEP-MEDEF consolidated code of corporate governance of December 2008.

Consequently, the Board of Directors decided on February 25, 2009, to amend the existing amendment to the employment contracts of Messrs. Brunck and Le Roux described as described below. However, during the time that Mr. Brunck serves as Chairman and Chief Executive Officer, his employment contract is suspended.

The special termination indemnity will only be paid in case of termination of the employment agreement of Messrs. Brunck and Le Roux in the event of a forced departure relating to a Change of Control or a Change of Strategy.

Such indemnity shall be equal to the difference between (a) a gross amount of 200% of the reference annual compensation received by Messrs. Brunck and Le Roux described above and (b) any sum to which Messrs. Brunck and Le Roux may be entitled as a result of such termination, including the severance payment due by law or under collective bargaining agreements as well as any sums to be paid further to the application of his non-competition commitment. The indemnity global amount shall not exceed 200% of the reference annual compensation.

In addition, Messrs. Brunck and Le Roux will be entitled to exercise by anticipation the stock options to which they are entitled pursuant to the plans in force within the Group in case of the termination of their employment contract or in the event of a forced departure eventually qualified as a dismissal, provided that the performance conditions are met.

Pursuant to article L.225-42-1 of the Commercial Code, the payment of the special termination indemnity as well as the anticipated exercise of stock options shall remain subject to the performance conditions described above.

Finally, pursuant to article L.225-42-1 of the Commercial Code in particular, the Board of Directors shall verify prior to the payment of the special severance payment (i) that the performance conditions described above are duly fulfilled and (ii) that the payment of such special termination indemnity complies with the corporate governance code applicable at the date of departure.

A supplemental pension and retirement plan for the members of the Executive Committee and the Management Board of Sercel Holding (the Beneficiaries) was implemented in December 2004. Our Chairman and Chief Executive Officer and our Chief Operating Officer benefit from this plan. The aggregate present benefit value of this supplemental plan as of December 31, 2008 amounts to 10,792,756 of which 1,195,530 has been recorded as an expense for fiscal year 2008. Of such present benefit value, the portions relating to our Chairman and Chief Executive Officer, and our Chief Operating Officer are 7,687,185 and 769,839 respectively.

Directors as a group received aggregate compensation of 580,000 in January 2009 for services provided in their capacity as directors during fiscal year 2008. No amounts were set aside or accrued by us or our subsidiaries to

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provide pension, retirement or similar benefits to directors. Directors service contracts do not provide for benefits upon termination.

The following table sets forth the amounts CGGVeritas and its subsidiaries paid to directors of CGGVeritas, in their capacity as directors, for the year ended December 31, 2008:

Name	Amount paid to CGGVeritas directors by the company or one of its subsidiaries for fiscal year 2008
Robert Brunck(1)	49,100.18
Olivier Appert	46,010.11
Loren Carroll	58,969.48
Rémi Dorval	52,246.14
Jean Dunand	49,222.61
Yves Lesage	51,010.11
Christian Marbach	30,261.40
Thierry Pilenko	27,789.34
Robert F. Semmens(2)	86,572.24
Daniel Valot	37,115.44
David Work	55,205.51
Terence Young	51,497.43

Notes:

(1) Mr. Brunck does not receive any compensation as member of the Supervisory Board of Sercel Holding or as Chairman of the Board of Directors of CGG Americas.

(2) Includes 71,572.24 paid by CGGVeritas to Mr. Semmens as a director and 15,000 paid by Sercel Holding to Mr. Semmens as a member of the Supervisory Board.

As of March 31, 2009, our directors and executive officers held an aggregate of 261,523 shares of CGGVeritas. As of March 31, 2009, our directors and executive officers held options to purchase an aggregate of 2,589,870 ordinary shares and a maximum of 286,750 performance shares. As of March 31, 2009, none of our directors and executive officers held, on an individual basis, shares and options representing 1% or more of our outstanding capital.

Board Practices

In accordance with the Board of Directors resolution of December 19, 2008, the Company complies with the AFEP-MEDEF code of corporate governance for listed companies (the AFEP-MEDEF Code). Pursuant to the standards set forth in the AFEP-MEDEF Code, we believe that seven of our directors do not have any relationship with CGGVeritas, the Group or its management that could impair their freedom of judgment and thus qualify as independent. Those directors are Mr. Carroll, Mr. Dorval, Mr. Dunand, Mr. Semmens, Mr. Valot, Mr. Work and Mr. Young. We also believe that (i) the position of Mr. Semmens as a member of the Supervisory Board of our subsidiary Sercel Holding S.A., (ii) the previous position of Mr. Carroll, Mr. Work and Mr. Young as members of the

Board of Directors of Veritas and (iii) the position of Mr. Carroll, Mr. Dorval and Mr. Valot as members of the Supervisory Board of our subsidiary CGGVeritas Services Holding BV do not impair their independence. Our Board of Directors reviews, on an annual basis, the qualification of directors as independent pursuant to the AFEP-MEDEF Code.

Strategic Committee

The Strategic Committee s assignment is to study:

- business plans and budgets,
- strategic options for the Group,
- organic development, and
- projects related to financial transactions.

This Committee customarily meets before each Board meeting and more often if necessary. During 2008, the Strategic Committee met seven times with an average meeting attendance rate of 96%.

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In 2008, the Committee was consulted regarding, inter alia, (i) the multi-client surveys (land and marine), (ii) the 2008 achievements and the convergence project of HSE systems currently existing within the Group, (iii) the convergence of the data processing software programs currently existing within the Group, (iv) the 2008 forecasts, (v) the acquisition of Metrolog by Sercel, (vi) the legal organization of the Services segment and the creation of a holding company for all subsidiaries of this segment, (vii) the 2009 budget, (viii) the 2009-2011 business plan and (ix) the acquisition of Wavefield Inseis ASA.

Audit Committee

The Audit Committee is chaired by Mr. Dunand. The other members are Mr. Carroll, Mr. Dorval, Mr. Lesage, and Mr. Valot. The Audit Committee is responsible for assisting the Board of Directors and undertaking preparatory work for the Board, particularly by reviewing our financial statements with management and our statutory auditors.

Responsibilities

The principal responsibilities of the Audit Committee are as follows:

- Reviewing and discussing with management and our statutory auditors the consistency and appropriateness of the accounting methods we adopt to prepare our corporate and consolidated financial statements including:
  - Reviewing and discussing with management and the statutory auditors the consolidation perimeter and requesting, when necessary, all appropriate explanations;
  - Reviewing and discussing with management and the statutory auditors our draft annual, semi-annual and quarterly financial statements together with the notes to them, and especially off-balance sheet arrangements;
  - Reviewing and discussing with management and the statutory auditors the quality, comprehensiveness, accuracy and sincerity of the financial statements;
  - Receiving reports from the statutory auditors on their review, including any comments and suggestions they may have made in the scope of their audit; and
  - Raising any financial or accounting question that the Committee deems important.
- Reviewing our annual report on Form 20-F and our *Document de Référence*.
- In consultation with the statutory auditors, the internal auditors and management, reviewing the structure of our internal control procedures and the way in which they operate, notably those procedures relating to the preparation and treatment of accounting and financial information used to prepare our financial statements, to assess and manage risks and to comply with the principal regulations applicable to us. The Committee reviews the comments and observations made by the statutory auditors on internal control procedures.
- With respect to internal audit, reviewing and discussing with management particularly:
  - its organization and operation, and

its activities and in particular the responsibilities proposed in the scope of the internal audit plan approved by the general management and presented to the Committee.

Reviewing and discussing with management and, when appropriate, the statutory auditors the transactions directly or indirectly binding us and our executive officers.

With respect to external audit:

Reviewing and discussing with the statutory auditors their annual audit plan;

Meeting, if necessary, with the statutory auditors outside the presence of management;

Ensuring the independence of the statutory auditors by managing the procedure for selection of the auditors. The Committee submits its choice to the Board of Directors, which, pursuant to law, must submit appointment of auditors to the vote at a shareholders meeting;

Discussing as appropriate the extent and results of the audit work with the statutory auditors and management and reviewing the amount of auditors fees regularly with management. Within the

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framework of a procedure that it determines annually, the Committee has sole authority to authorize performance by the auditors and/or by the members of their network of non-audit services.

Overseeing the anonymous handling of any report concerning a possible internal control problem or any problem of an accounting or financial nature.

Finally, our management must report to the Committee any suspected fraud of a significant amount so that the Committee may proceed with any verification that it deems appropriate.

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

The Audit Committee meets before each Board meeting. In addition, the members of the Audit Committee are systematically invited to attend Strategic Committee meetings. During 2008, the Audit Committee met seven times with an average meeting attendance rate of 91%.

2008 Activities

In 2008, the Audit Committee reviewed draft versions of the annual consolidated financial statements for 2007, the consolidated financial statements for the first quarter, the first semester and the third quarter of 2008 before these were presented to the Board. It also reviewed the 2008 forecasts. The Audit Committee also provided to the Board its recommendations concerning these financial statements. The audit committee reviewed the annual report on form 20-F and the *Document de Référence* .

Further to the merger with Veritas DGC Inc., the Audit Committee also reviewed the final version of the Group s opening balance sheet as well as the allocation of the purchase price of Veritas DGC Inc. to the different balance sheet items. Impairment tests carried out in 2007 were also presented to the Audit Committee.

It examined the work to be performed by the statutory auditors in the scope of their audit on the 2008 financial statements and approved their fee estimates for this work. In compliance with the Audit Committee s procedures providing for its prior approval of non-audit services provided by the members of our auditors network, the Audit Committee reviewed the services so performed in 2008 and approved them as necessary.

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

The Audit Committee was also kept regularly informed on the development of the assessment of internal control procedures pursuant to section 404 of the Sarbanes-Oxley Act and of the results thereof. The external auditors and the internal audit team presented their respective conclusions.

Finally, the Audit Committee also follows the Group s tax strategy and the rationalization program of the Services legal structures. In this respect, it was consulted regarding the valuations for the transfers of certain subsidiaries to the Services holding company incorporated in the Netherlands, based on an external evaluation report. in addition, it carried out at year-end a detailed review of the multi-client library and was kept regularly informed of the Group s situation with respect to cash, debt, cash flow forecasts and Group s hedging policy.

Appointment-Remuneration Committee

The principal responsibilities of the Appointment-Remuneration Committee are as follows:

the compensation to be paid to the Chief Executive Officer, the Chief Operating Officer or any other senior executive officer considered as *mandataire social* appointed from time to time, including the procedures for setting the variable part thereof and the grant of any benefits in kind;

all provisions relative to the retirement of the Chief Executive Officer, the Chief Operating Officer and any other senior executive officer considered as *mandataire social* ;

for senior executive officers considered as *mandataires sociaux* , the deferred elements of the compensation packages (pension, severance payment) to be submitted to the shareholders annual meeting;

the evaluation of financial consequences on the Company s financial statements of all compensation elements for senior executive officers considered as *mandataires sociaux* ;

the contracts between the Company and any senior executive officer considered as *mandataire social* ;

the possible candidacies for filling positions of director, positions as senior executive officer considered as *mandataire social* or member of a Board Committee.

the periodical review of the independence of Board members;

the Directors fees level and their allocation rules;

the realization of capital increases reserved for the employees; and

the installation of equity-based plans.

In addition to the responsibilities described above, the Appointment-Remuneration Committee is also in charge of:

examining the compensation of the Executive Committee members and its changes thereof;

carrying out the performance evaluation of the Board and its committees;

carrying out the performance evaluation of the Chief Executive Officer;

reviewing the succession planning process for Executive Committee members;

ensuring compliance of compensation and benefits policies with all applicable regulations;

reviewing the compensation data and other related information to be publicly disclosed by the Company in its annual reports and any other reports to be issued pursuant to applicable laws and regulations; and

approving the policy and process of verification and reimbursements of expenses.

The Committee may also consider any question that might be submitted to it by the Chairman in connection with any of the matters described above.

The Committee is also consulted on changes to the compensation of the other members of the executive committee.

During 2008, this Committee met eight times with an average attendance rate of 97%.

In 2008, the Appointment-Remuneration Committee met to review, inter alia, (i) the remuneration of the Chairman and Chief Executive Officer and of the Chief Operating Officer, (ii) the implementation of the Chairman and Chief Executive Officer s and Chief Operating Officer s protection letters in conformity with the provisions the law n° 2007-1223 of August 21, 2007, (iii) the non-competition clause applicable to the Chairman and Chief Executive Officer and Chief Operating Officer, (iv) the amount of the directors fees and their allocation rules, (v) the policy governing allocation of performance shares and stock options within the Group, (vi) its draft charter, (vii) the qualifications of directors as independent prior to their submission to the Board of Directors, (viii) the drafting of disclosure in the annual reports (management report, *Document de Référence,* Form 20-F) regarding compensation of the *mandataires sociaux* , (ix) the draft resolutions to be submitted to the general annual meeting concerning (a) the allocation of stock options and performance shares and (b) the performance conditions to which the protection letters of the *mandataires sociaux* are subject, (x) the 2008 bonus plans, (xi) the succession planning, (xii) the implementation of the evaluation process of the Board and of the Chairman, and (xiii) the new AFEP-MEDEF recommendations.

Technology Committee

The principal responsibilities of the Technology Committee are to assist the Board of Directors with respect to:

the Group s development strategy in reservoir imaging, seismic and opportunities in other oilfield services and products;

the main development programmes in services and equipment;

the technology offer from competitors and other oil service companies; and

the research and development budgets.

The Technology Committee usually meets twice a year. In 2008, the Technology Committee met twice with an attendance rate of 75%. During these meetings, the Committee reviewed the latest technological developments of the Services and Equipment segments and the Group research and development plan. Certain specific technological projects were also presented to the Committee.

Employees

As of December 31, 2008, we had 8,470 permanent employees worldwide (not including 22 temporary staff in France), as well as several thousand auxiliary field personnel on temporary contracts. Of the total, 6,203 were involved in the Services segment, 2,237 in the Equipment segment and 41 worked at the Corporate level. CGGVeritas has never experienced a material work stoppage and considers its relations with its employees to be good. CGGVeritas permanently employs more than 5,000 technicians and persons holding engineering degrees and has developed a significant in-house training program.

Our total workforce has increased from 8,109 (not including 14 temporary staff) at December 31, 2007 to 8,470 at December 31, 2008. This increase in the size of our workforce is mainly attributable to the growth of our geophysical product and service activities. We are preparing for the future by improving recruitment programs and our management training program, and by putting increased emphasis on strengthening the technical and personal skills of our employees. On a seasonal basis we experience higher headcount and revenues during the second and third fiscal quarters, coinciding with the winter seismic acquisition seasons in Alaska and Canada. A total of 31 employees in Singapore are subject to collective bargaining agreements.

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

Share Ownership

In accordance with French law, we are authorized annually by our shareholders at the extraordinary general meeting to issue ordinary shares for sale to our employees and employees of our affiliates who elect to participate in our Group Employee Savings Plan (*Plan d Epargne Entreprise Groupe*) instituted in 1997 (the Group Plan). Our shareholders, at the extraordinary general meeting held on April 29, 2008, renewed our authorization to issue up to 6,250,000 ordinary shares in sales to employees and affiliates who participate in the Group Plan. We may offer ordinary shares pursuant to the Group Plan at a price neither higher than the average market price for the 20 business days preceding the date on which the Board of Directors sets the commencement date for the offering, nor lower than 80% of such average market price. As of December 31, 2008, CGGVeritas group employees held 82,750 shares corresponding to 0.05% of the share capital and 0.11% of the voting rights.

Pursuant to resolutions adopted by our Board of Directors on March 14, 2001, May 15, 2002, May 15, 2003, May 11, 2006, March 23, 2007, March 14, 2008 and March 16, 2009, our Board of Directors has granted options to certain of our employees, executive officers and directors to subscribe for an aggregate of 7,907,081 ordinary shares taking into account the various adjustment made to the number of stock options issued pursuant to French law. Options with respect to 5,251,125 ordinary shares remained outstanding as of March 31, 2009. The following table sets forth certain information relating to these stock options plans as of March 31, 2009:

	Options exercised (ordinary shares) at	Options outstanding at	Exercise price per

Date of board of directors resolution	Options granted [1]	Number of beneficiaries	March 31, 2009	March 31, 2009	ordinary share[1]	Expiration date
March 14, 2001[1][4]	1,393,626	144	180,598	0	13.08	March 13, 2009
May 15, 2002[1][5]	751,796	172	56,586	244,280	7.99	May 14, 2010
May 15, 2003[1][6]	924,910	176	35,163	347,000	2.91	May 14, 2011
May 11, 2006[1][(7]	1,012,500	171	2,500	953,345	26.26	May 10, 2014
March 23, 2007[1][(8]	1,308,750	145	2,000	1,226,500	30.4	March 23, 2015
March 14, 2008[1][(9]	1,188,500	130	0	1,153,000	32.57	March 14, 2016
March 16, 2009 [10]	1,327,000	149	0	1,327,000	8.82	March 16, 2017
Total	7,907,081		0	5,251,125		

Notes:

(1) Pursuant to French law and the terms of the stock option plans, the numbers of options initially granted and the exercise price were adjusted following our share capital increase in December 2005 and our five-for-one stock split in June 2008. The figures shown are after adjustment.

(2) The stock option plans provide for the cancellation of the non vested options if the holder is no longer our employee, director or executive officer.

(3) The stock option plans provide for the cancellation of the options whether vested or not if the holder is no longer our employee, director or executive officer.

(4) Options under the 2001 plan vest by one-fifth each year from March 2001 and could not be exercised before March 14, 2004.

(5) Options under the 2002 plan vest by one-fifth each year from May 2002 and could not be exercised before May 16, 2005.

(6) Options under the 2003 plan vest by one-fourth each year from May 2003 and could not be exercised before May 16, 2006.

(7) Options under the 2006 plan vest by one-fourth each year from May 2006 and can be exercised at any time. However the resulting shares cannot be sold before May 12, 2010.

(8) Options under the 2007 plan vest by one-third each year from March 2007 and can be exercised at any time. However the resulting shares cannot be sold by French tax residents before March 24, 2011.

(9) Options under the 2008 plan vest by one-third each year from March 2008 and can be exercised at any time. However the resulting shares cannot be sold by French tax residents before March 15, 2012.

(10) Options under the 2009 plans vest by one-third each year from March 2009 and can be exercised at any time. However the resulting shares cannot be sold by French tax residents before March 17, 2013. The 2009 plans consist of a plan granting 325,000 options to the Chief Executive Officer and Chief Operating Officer (subject to certain performance conditions) and a plan granting 1,002,000 options to certain other officers and employees.

At the extraordinary general shareholders meeting held on April 29, 2008, a new stock option plan was approved by shareholders whereby options to purchase up to 5% of our share capital outstanding on the date of allocation may be granted in one or several allocations by the Board of Directors to certain of our employees and executive officers during the 38-month period following the plan s approval. The Board has allocated 1,327,000 stock options to 149 beneficiaries pursuant to such shareholders resolution on March 16, 2009, including stock options to purchase a total of 260,000 ordinary shares that were allocated to our executive officers who were members of the Executive Committee (excluding the Chairman and Chief Executive Officer and the Chief Operating Officer). The exercise price of the stock options is 8.82. The stock options expire on March 15, 2017.

At the extraordinary general shareholders meeting held on April 29, 2008, a performance share plan was approved by shareholders whereby performance shares up to 1% of our share capital outstanding on the date of allocation may be granted in one or several allocations by the Board of Directors to certain of our employees and executive officers during the 38-month period following the plan s approval. The Board has allocated 516,250 performance shares to 291 beneficiaries pursuant to such shareholders resolution on March 16, 2009, including 46,250 performance shares that were allocated to our executive officers who were members of the Executive Committee (excluding the Chairman and Chief Executive Officer and the Chief Operating Officer).

The stock options allocated to Mr. Brunck, Chairman and Chief Executive Officer, and Mr. Le Roux, Chief Operating Officer, under the plans implemented by the Company over the last two years are set forth below:

Name of the Executive Officer	Date of the Plan	Number of options allocated during fiscal year[(1)]	Valuation of options pursuant to the method used for consolidated financial statements ( )	Subscription price[(1)]	Exercise period
Robert Brunck	03/14/2008	200,000	2,412,000	32.57	From 03/15/2009 to 03/14/2016 inclusive
Robert Brunck	03/23/2007	200,000	2,530,000	30.40	From 03/24/2008 to 03/23/2015 inclusive
Thierry Le Roux	03/14/2008	125,000	1,507,500	32.57	From 03/15/2009 to 03/14/2016 inclusive
Thierry Le Roux	03/23/2007	125,000	1,581,250	30.40	From 03/24/2008 to 03/23/2015 inclusive

Note:

(1) Number and price adjusted pursuant to the five-for-one stock split effective as of June 3, 2008.

Pursuant to article L.225-197-1 of the French Commercial Code, the Board of Directors decided that the number of shares resulting from the exercise of stock options which the Chairman and Chief Executive Officer and Chief Operating Officer will have to keep under the registered form until the end of their term should be set at 10% of each individual allocation.

On March 16, 2009, the Board of Directors allocated 200,000 stock options to the Chairman and Chief Executive Officer and 125,000 stock options to the Chief Operating Officer. Their exercise price is 8.82. Rights to these options vest by one-third during each of the first three years of the plan. Such vesting is subject to performance conditions based on the fulfillment of one of the following objectives:

A share price performance objective relative to the share price considering the SBF 120 index;

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A share price performance objective relative to the ADS price considering the PHLX Oil Services Sector SM (OSX SM) index; or

A financial indicator of EBIT objective expressed in US$ and related to the target for the annual variable part of compensation of the Executive Officers.

The options have an eight-year duration subject to the requirement, for all French residents, to hold the resulting shares in the registered form from their purchase date until March 16, 2013 inclusive, except in limited cases listed in the plan regulation.

Finally, pursuant to section L.225-185 of the commerce code, the Board of Directors decided that the number of shares resulting from the exercise of stock options that the Executive Officers are required to hold in the registered form until the end of their term should represent 20% of the net gain on the purchase price made by each beneficiary when exercising the options allocated by the Board of Directors on March 16, 2009.

The performance shares allocated to Mr. Brunck, Chairman and Chief Executive Officer and Mr. Le Roux, Chief Operating Officer, under the plans implemented by the Company over the last two years are set forth below:

Name of the Executive Officer	**Date of the Plan**	**Number of shares allocated during fiscal year**[(1)]	**Valuation of options pursuant to the method used for consolidated financial statements ( )**	**Final allocation Date**	**Date of availability**	**Performance conditions**
Robert Brunck	03/14/2008	27,500	840,950	03/14/2010	03/14/2012	Net earning per share and Operating income
Robert Brunck	03/23/2007	20,000	620,400	03/23/2009	03/23/2011	Net earning per share and Operating income
Thierry Le Roux	03/14/2008	17,500	535,150 (2)	03/14/2010	03/14/2012	Net earning per share and Operating income
Thierry Le Roux	03/23/2007	12,500	387,750	03/23/2009	03/23/2011	Net earning per share and Operating income

Note:

(1) Number adjusted pursuant to the five-for-one stock split effective as of June 3, 2008.

Pursuant to article L.225-197-1 of the French Commercial Code, the Board of Directors decided that the number of performance shares which the Chairman and Chief Executive Officer and Chief Operating Officer will be required to hold in registered form until the end of their term will be set at 10% of each allocation.

The performance shares allocated to Mr. Brunck, Chairman and Chief Executive Officer, and Mr. Le Roux, Chief Operating Officer, that became available in 2008 under the plans implemented by the Company are set forth below:

Name of the Executive Officer	Date of the Plan	Number of shares allocated during fiscal year[(1)]	Valuation of shares ( )	Final allocation Date	Date of availability	Performance conditions
Robert Brunck	11/05/2006	12,500	430,425 [(2)]	12/05/2008	12/05/2010	Net earning per share
Thierry Le Roux	11/05/2006	8,750	301,297.50 [(2)]	12/05/2008	12/05/2010	Net earning per share

Notes:

(1) Number adjusted pursuant to the five-for-one stock split effective as of June 3, 2008.

(2) Valuation of shares based on the opening market price of the CGGVeritas share on May 12, 2008.

Pursuant to article L.225-197-1 of the French Commercial Code, the Board of Directors decided that the number of performance shares which the Chairman and Chief Executive Officer and Chief Operating Officer will be required to hold in registered form until the end of their term will be set at 10% of each allocation. On March 16, 2009, the Board of Directors allocated 27,500 performance shares to the Chairman and Chief Executive Officer, and 17,500 performance shares to the Chief Operating Officer.

Pursuant to section L.225-197-1 of the French Commercial Code, the Board of Directors decided that the number of shares that the Chairman and Chief Executive Officer and Chief Operating Officer will be required to hold in registered form until the end of their term will be set at 10% of the total number of shares allocated by the Board of Directors to the Chairman and Chief Executive Officer and Chief Operating Officer. In addition, the Board of Directors decided that the number of shares that the Chairman and Chief Executive Officer and Chief Operating Officer will be required to purchase at the end of the availability period of the performance shares so allocated should be set at one share for every 20 allocated shares.

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The performance shares will be allocated to the Chairman and Chief Executive Officer and Chief Operating Officer on the later of either March 16, 2011 or the date of the shareholders meeting convened to approve the financial statements for fiscal year 2010, provided that the Board of Directors decides that the performance conditions set forth in the plan regulation are fulfilled. These performance conditions are based on the achievement of certain objectives related to earnings per share and EBIT over fiscal years 2009 and 2010.

Item 7: PRINCIPAL SHAREHOLDERS

Major Shareholders

The table below sets forth certain information with respect to entities known to us or ascertained from public filings to beneficially own a significant percentage of our voting securities as at March 31, 2009 and December 31, 2008, 2007 and 2006.

	March 31, 2009		**December 31, 2008**		**2007**		**2006**	
	% of shares	**% of voting rights**	**% of shares**	**% of voting rights**	**% of shares**	**% of voting rights**	**% of shares**	**% of voting rights**
Identity of Person or Group								
Jupiter Asset Management	4.55	4.35	4.55	4.35	0	0	0	0
Fidelity International Limited					3.29	3.14	10.36	9.59
Morgan Stanley					2.72	2.59	5.16	4.48
Institut Français du Pétrole	4.34	8.30	4.76	9.08	4.77	9.10	7.73	14.32
Public	90.42	87.18	89.23	85.19	89.15	88.19	76.75	71.31

Our *statuts* provide that each ordinary share that is fully paid and has been held in registered form by the same shareholder for a period of at least two consecutive years will entitle such shareholder to two votes at meetings of shareholders. As of March 31, 2009, IFP had held 6,540,610 fully paid ordinary shares in registered form for two consecutive years, giving IFP 8.30 % of the voting power of the outstanding ordinary shares as at such date. Other than in this respect, our ordinary shares carry identical voting rights. Our *statuts* provide that fully paid ordinary shares may be held in either registered form or bearer form at the option of the shareholder. Substantially all ordinary shares held by shareholders other than IFP are presently held in bearer form.

In connection with the Veritas merger we issued 9,215,845 ordinary shares (out of which 4,202 shares were subsequently cancelled since they had been issued in excess of merger consideration) that were deposited with The Bank of New York Trust as ADS depository, which issued 46,079,225 ADSs to be paid as merger consideration to former holders of Veritas common stock.

On February 1, 2007, we issued 108,723 ordinary shares that were deposited with The Bank of New York as ADS depository, which issued 543,614 ADSs to a holder of U.S.$6.5 million in principal amount of Veritas convertible senior notes due 2024 that delivered a conversion notice on January 19, 2007.

On March 1, 2007, we issued 301,079 ordinary shares that were deposited with The Bank of New York as ADS depository, which issued 1,505,393 ADSs to a holder of U.S.$18 million in principal amount of Veritas convertible

senior notes due 2024 that delivered a conversion notice on February 23, 2007.

On December 18, 2008, in connection with the acquisition of Wavefield, we issued 12,925,749 ordinary shares to be paid as consideration to former holders of Wavefield common stock.

See Item 9: The offer and Listing Offer and Listing Details for information regarding holdings of our shares in the United States.

Related Party Transactions

The Group provides services to and receives services from related parties, and contracts for these services are concluded on an arm s length basis.

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	2008	2007	2006
	(in millions of euros)		
Operating income			
Sales of geophysical equipment to Argas	63.5	25.5	0.8
Charter revenues received from LDA for the *Alizé*	7.8	8.2	9.0
Technical consulting services to Argas	4.5		
Sales of geophysical equipment to JV Xian Peic	3.3	4.2	4.1
Income	**79.1**	**37.9**	**13.9**
Expenses paid for *Alizé* ship management to LDA	5.5	6.5	4.9
Purchases of geophysical equipment from Tronic s	7.5	8.3	
Purchases of geophysical equipment from Cybernetix	3.8	1.1	
Expenses	**16.8**	**15.9**	4.9
Trade receivables from LDA			0.1
Trade receivables from Norwegian Oilfield AS	16.8		
Trade accounts and notes receivable	**16.8**		**0.1**
Accounts payable to LDA	0.4	0.2	0.3
Trade accounts and notes payables	**0.4**	**0.2**	**0.3**
Future rents commitments to LDA	49.3	54.8	16.1
Contractual Obligations	**49.3**	**54.8**	**16.1**

Louis Dreyfus Armateurs (LDA) provides ship management services for a portion of our fleet. In addition, LDA is the owner, together with the Group, of Geomar, which is the owner of the seismic vessel *Alizé* . Geomar provides vessel charter services to LDA.

Argas, JV Xian Peic and Cybernetix are companies we consolidate using the equity method.

Norwegian Oilfield AS was consolidated under the equity method as at December 31, 2008, as part of our acquisition of Wavefield.

Tronic is 16% owned by us.

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

Interests of Experts and Counsel

None.

Item 8: FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Reference is made to Item 18 for a list of all financial Statements and notes thereto filed as a part of this annual report.

Item 9: THE OFFER AND LISTING

Offer and Listing Details

The trading market for our ordinary shares is Euronext Paris S.A., where the ordinary shares have been listed since 1981. American Depositary Shares, or ADSs, representing ordinary shares have been traded on the New York Stock Exchange since May 1997. Each ADS represents one ordinary share. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York, as Depositary, and are traded under the symbol CGV . The Bank of New York has advised us that as of March 31, 2009, there were 8,143,079 ADSs outstanding, which are held of record by five registered holders. On the basis of this information, the ADSs held on such date in the United States represented approximately 5.93% of our outstanding ordinary shares. Our by-laws provide that fully paid ordinary shares may be held in either registered or bearer form at the option of the shareholder.

Price Information on Euronext Paris.

The tables below set forth, for the periods indicated, the high and low prices for the outstanding ordinary shares on Euronext Paris as reported by NYSE Euronext.

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

	Price per Share	
	High	Low
	( )	
2009		
March	9.89	7.63
February	10.62	7.64
January	13.16	8.50
2008		
December	12.89	9.65
November	15.00	8.44
October	22.96	9.02

The table below indicates the quarterly high and low market prices for our two most recent financial years and the first quarter of 2009:

	Price per Share	
	High	Low
	( )	
2009		
First Quarter	13.16	7.63
2008		
First Quarter	199.99	131.11
Second Quarter[1]	36.90	27.73
Third Quarter	30.06	20.06
Fourth Quarter	22.96	8.44
2007		
First Quarter	167.00	138.11
Second Quarter	186.00	151.10
Third Quarter	231.83	163.13
Fourth Quarter	241.49	173.11

Note:

(1) Reflects the five-for-one stock split effective as of June 3, 2008

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

	Price per Share	
	High	Low
	( )	

2008	199.99	8.44(1)
2007	241.49	138.11
2006	166.40	75.25
2005	89.00	50.20
2004	56.50	29.70

Note:

(1) Reflects the five-for-one stock split effective as of June 3, 2008.

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Price Information on the NYSE

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

The table below indicates the high and low market prices for our most recent six months and the first quarter of 2009:

	High	Low
	(U.S.$)	
2009		
March	13.24	9.67
February	13.90	10.60
January	17.61	10.97
2008		
December	16.73	12.14
November	19.34	10.50
October	31.00	11.76

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

	High	Low
	(U.S.$)	
2009		
First Quarter	17.61	10.97
2008		
First Quarter	58.48	41.00
Second Quarter	57.91	43.62
Third Quarter	45.76	28.90
Fourth Quarter	31.00	10.50
2007		
First Quarter	44.11	34.99
Second Quarter	50.24	40.89
Third Quarter	65.66	44.43
Fourth Quarter	68.78	51.95

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

	High	Low
	(U.S.$)	
2008	58.48	10.50
2007	68.78	34.99

2006	45.00	18.33
2005	21.14	13.35
2004	14.05	7.47

Trading on Euronext Paris

Official trading of listed securities on Euronext Paris is transacted through stockbrokers and other financial intermediaries, and takes place continuously on each business day from 9:00 a.m. through 5:25 p.m., with a pre-opening session from 7:15 a.m. through 9:00 a.m. during which transactions are recorded but not executed. Any trade effected after the close of a stock exchange session is recorded, on the next Euronext Paris trading day, at the closing price for the relevant security at the end of the previous day s session. Euronext Paris publishes a daily Official Price List that includes price information concerning listed securities. Euronext Paris has introduced continuous trading during trading hours by computer for most listed securities. Shares listed on Euronext Paris are placed in one of three categories depending on the issuer s market capitalization. Our outstanding ordinary shares are listed on Euronext Paris in the category known as Continu, which includes the most actively traded shares.

Plan of Distribution

Not applicable.

Markets

Our ordinary shares are listed on Euronext Paris. American Depositary Shares representing our ordinary shares are listed on the New York Stock Exchange. Our 71/2% Senior Notes due 2015 and our 73/4% Senior Notes due 2017 are listed on the Euro MTF market in Luxembourg.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

Item 10: ADDITIONAL INFORMATION

Share Capital

Not applicable.

Memorandum and By-laws

Our company is a *société anonyme,* a form of limited liability company, established under the laws of France, and we are registered with the Trade Register of Paris, France under the number 969 202 241 RCS Paris. Our financial year begins on January 1 and ends on December 31 of each calendar year. The following paragraphs set forth information concerning our share capital and provide related descriptions of certain provisions of our by-laws (*statuts*), and applicable French law. This information and description do not purport to be complete and are qualified in their entirety by reference to our by-laws.

Object and Purposes

Under Article 2 of our *statuts,* our object is:

- to develop and operate, in any form and under any conditions whatsoever, any and all businesses relating to the geophysical surveying of soil and subsoil in any and all countries, on behalf of third parties or ourselves;

- to participate directly or indirectly in any business, firm or company whose object would be likely to promote our object; and

- generally, to engage in any commercial, industrial, mining, financial, personal or real property activities relating directly or indirectly to the above objects without limitation or reserve.

Directors

For a further description of the Board of Directors powers under French law and our *statuts,* see Item 6: Directors, Senior Management and Employees.

Transaction with Interested Directors

French corporate law provides for prior approval and control of transactions entered into between, directly or indirectly, us and our directors, Chief Executive Officer, Chief Operating Officer and, or any entity in which any of these persons is at the same time an owner, partner with unlimited liability, managing director, member of the supervisory board or an executive officer, unless the transaction is entered into in the ordinary course of business and under normal terms and conditions. Transactions entered into between us and one of our shareholders who holds, directly or indirectly, more than 10% of our voting rights, or with an entity controlling such a shareholder, are also considered related party transactions requiring the prior approval of our board of directors.

The interested party has the obligation to inform our board of directors as soon as it is aware of the existence of the related party transaction, and a majority of our disinterested directors must approve the transaction.

If a related party transaction is pre-approved by the majority of our disinterested directors, our chairman must then report the authorized transaction to our statutory auditors within one month following the entering into of this transaction. The auditors must then prepare a special report on the transaction to be submitted to our shareholders at their next general meeting, during which our shareholders would consider the transaction for ratification (any interested shareholder would be excluded from voting). If the transaction is not ratified by the shareholders, such absence of ratification would normally and except in the case of fraud have no impact on the validity of the transaction, but the shareholders may in turn hold the board of directors or interested representative of the company liable for any damages suffered as a result thereof.

Any related party transaction concluded without the prior consent of a majority of our disinterested directors can be voided by a court, if we incur a loss as a result. In addition, an interested related party may be held liable on this basis.

Power to Decide Upon the Compensation of Directors, Chairman and Chief Executive Officer

Under our *statuts,* the shareholders meeting may provide for the payment to the directors of an annual fixed sum for their attendance at board meetings (*jetons de présence*). The amount of such compensation remains unchanged until further decision by the shareholder s meeting. The Board of Directors allocates this amount between its members in the manner it deems appropriate.

Under our *statuts,* the Board of Directors has authority to determine the compensation of its chairman as well as of its Chief Executive Officer and Chief Operating Officer.

Borrowing Powers Exercisable by the Directors

Under French company law and our *statuts,* directors other than legal entities are forbidden to take out loans from CGGVeritas in any form whatsoever or to have CGGVeritas grant them an overdraft in current account or otherwise. It is also forbidden to have CGGVeritas stand as surety for them or back their commitments in respect of third parties. This prohibition also applies to chief operating officers and to permanent representatives of legal-entity directors. It also applies to the spouses, lineal forebearers or descendants of the persons referred to in this paragraph and also to any trustee.

Also, under article L.225-43 of the French Commercial Code, directors and executive officers may not borrow money or obtain a guarantee from the company. Any such loan or guarantee would be void and may not be relied upon by third parties.

Retirement of Directors Under an Age Limit Requirement

Under our *statuts,* the Chairman of the Board s term of office ends, at the latest, after the annual Ordinary Shareholders Meeting following the date on which he reaches the age of 65. However, the Board of Directors may further extend the office of the Chairman, one or more times for a total period not to exceed three years. Our *statuts* also provide that when the offices of Chairman and Chief Executive Officer are held by the same person, the Chief Executive Officer s term of office ends on the same date as that of the Chairman. In accordance with article L.225-19 of the French Commercial Code, no more than one-third of the members of the Board of Directors may be more than 70 years old, unless the *statuts* of the company provide otherwise. Our *statuts* do not contain any provisions contrary to this limitation.

Number of Shares Required for a Director s Qualification

Under our *statuts,* throughout his term of office, each director must own at least one share. Nevertheless, the internal regulations of the Board provides that each director owns at least one hundred shares of the company.

Share Capital

As of March 31, 2009, our issued share capital amounts to 60,247,083 divided into 150,617,709 shares of the same class with a nominal value of 0.40 per share. The shares are fully paid. Pursuant to our *statuts,* fully paid shares may be held either in registered or in bearer form at the option of the shareholder. The *statuts* also allow us to avail ourselves of a procedure known as *titres au porteur identifiables* by which we may request Euroclear France to disclose the name, nationality, address and the number of shares held by the holders of any of our securities which have, or may in the future have, voting rights. See Form, Holding and Transfer of Shares.

Dividend and Liquidation Rights

We may only distribute dividends out of our distributable profits , plus any amounts held in our reserve which the shareholders decide to make available for distribution, other than those reserves which are specifically required

by law. Distributable profits consist of our unconsolidated net profit in each fiscal year, as increased or reduced by any profit or loss carried forward from prior years, less any contributions to the reserve accounts pursuant to law.

Under French law, before dividends may be paid with respect to any fiscal year, we must contribute a minimum of 5% of our annual unconsolidated net income to a legal reserve fund, until it reaches an amount equal to 10% of our outstanding share capital. The legal reserve is distributable only upon our liquidation.

Our *statuts* provide that the general shareholders meeting, either on a recommendation from the board of directors or on its own initiative, may allocate all or part of our distributable profits, if any, to one or more special or general reserves or to keep such profits as retained earnings to be carried forward to the next fiscal year. Any remaining distributable profits are distributed to shareholders as dividends in proportion to their holdings. However, except in the case of a decrease in share capital which aims to offset losses, no distribution may be made to shareholders when the shareholders equity is or would become, as a result of the distribution, less than the amount of the share capital increased by amounts held in reserve accounts pursuant to law. The methods of payment of dividends are determined by the annual general meeting of shareholders or by the board of directors in the absence of a decision by the shareholders. According to our *statuts,* the general meeting has the power to give each shareholder the option of receiving all or part of its dividend payment in either cash or shares.

If we have earned distributable profits since the end of the preceding fiscal year, as shown on an interim income statement certified by our auditors, the board of directors has the authority, without the approval of shareholders, to distribute interim dividends to the extent of such distributable profits for the period covered by the interim income statement.

Subject to the statement above regarding interim dividends, the payment of dividends is fixed at the ordinary general meeting of shareholders at which the annual accounts are approved, upon the recommendation of the board of directors. Under French law, dividends are normally distributed to shareholders in proportion to their respective holdings. Dividends are payable to all holders of shares, except for treasury stock, issued and outstanding on the date of the shareholders meeting approving the distribution of dividends or, in the case of interim dividends, on the date of the board of directors meeting approving the distribution of interim dividends. We must make annual dividend payments within nine months of the end of our fiscal year, unless otherwise authorized by a court order. Dividends not claimed within five years of the date of payment revert to the French State.

Our Board of Directors may, at any time and for any reason, propose to an extraordinary general meeting of shareholders the early dissolution of the company and we may be placed in liquidation in compliance with the relevant provisions of the French company law. If the company is liquidated, those of its assets remaining after payment of our debts, liquidation expenses and all of our remaining obligations will be distributed first to repay in full the nominal value of the shares, and the surplus, if any, will be distributed among the shareholders in proportion to the nominal value of their shareholdings.

Changes in Share Capital

Increases in the Share Capital

We may increase our share capital either:

- by issuing additional shares (either ordinary or preferred shares) or securities giving access, immediately or in the future, to a portion of our share capital; or

- by increasing the nominal value of our existing shares.

We may issue additional shares:

- for cash;
- for assets contributed in kind;
- upon the conversion of preferred shares, debt securities or other debt instruments previously issued;
- upon the conversion of ordinary shares into preferred shares;
- as a result of a merger or a split;
- by the capitalization of reserves, retained earnings or issuance premiums;
- for cash credits payable by the company; or
- for any combination of the preceding items.

We may increase our share capital only with the approval of the shareholders at an extraordinary general meeting, following a report of the Board of Directors. However, when a capital increase takes place through capitalization of reserves, retained earnings or issuance premiums, the general meeting at which the decision to increase the capital is taken follows the quorum and majority requirements of ordinary general meetings. Increases effected by an increase in the nominal value of shares require unanimous approval of the shareholders, unless effected by capitalization of reserves, retained earnings or issuance premiums. See Attendance and Voting at Shareholders Meetings.

The shareholders may delegate to the Board of Directors (i) the decision to increase the share capital or (ii) after authorizing the increase in share capital, the right to carry out any such increase. The Board of Directors may further delegate this right to the chief executive officer. Each time the shareholders decide on a share capital increase or decide to delegate to the Board of Directors the decision to increase the share capital or the right to carry out a capital increase, they must also determine in a separate resolution whether or not to proceed with a capital increase reserved for employees of the company and its subsidiaries or whether to delegate to the Board of Directors the right to carry out such reserved capital increase.

At a meeting held on April 29, 2008 our shareholders renewed the existing authorization permitting the Board of Directors to increase our share capital, through one or more issuances of securities, by an additional aggregate nominal amount of up to 54,000,000. This authorization is effective for a period not to exceed 26 months. Our shareholders have preferential rights to subscribe for such additional securities. (see Item 7: Principal Shareholders Identity of Person or Group).

Decreases in Share Capital

An extraordinary general meeting of shareholders also has the power to authorize and implement a reduction in share capital which may be effected either:

- by decreasing the nominal value of our outstanding shares; or
- by reducing the number of our outstanding shares.

The number of outstanding shares may be reduced either by an exchange of shares or by the repurchase and cancellation of shares.

According to French company law, any decrease in our share capital requires approval by the shareholders entitled to vote at an extraordinary general meeting. In the case of a capital reduction, other than a reduction to absorb losses and a reduction pursuant to a program of acquisition of shares, all holders of shares must be offered the possibility to participate in such a reduction. See Acquisition of our own Shares . All holders of shares in a given class of shares must be treated equally unless each affected shareholder agrees otherwise. Our creditors may oppose a capital reduction during the 20-day period following the registration with the Registry of Commerce of the minutes of the shareholders meeting approving the capital reduction. Upon a creditor s request, the *Tribunal de Commerce* may order us to reimburse our creditors or guarantee our debt.

Preferential Rights to Subscribe

According to French law, our current shareholders have preferential rights on a pro rata basis to subscribe (*droit préferentiel de souscription*) for any issue of additional shares to be subscribed in cash or by set-off of cash debts and to subscribe to any issue of other securities which may either directly or indirectly result in, or carry rights to subscribe for, additional shares issued by us. An extraordinary shareholders meeting may decide to withdraw the

shareholders preferential right to subscribe, either in respect of any specific issue of securities, or more generally, with respect to an authorization by the extraordinary general meeting, to issue shares or other equity securities, for a duration not to exceed 26 months or 18 months in the case of an authorization given for an issue of securities to identified persons or categories of persons. Shareholders may also individually waive their preferential right to subscribe in respect of any offering. French law requires that the Board of Directors and our independent auditors present reports that specifically address any proposal to waive preferential subscription rights. In the event of a waiver, the issue of securities must be completed within the period prescribed by law. Preferential rights to subscribe, if not previously waived, are tradable during the subscription period relating to a particular offering of shares and may be quoted on Euronext Paris. In the event that the preferential rights of shareholders are withdrawn, the shareholders meeting has the power to grant, or to authorize the Board of Directors to grant, existing shareholders a non-transferable priority right (*délai de priorité*) to subscribe for new shares issued during a minimum period of three trading days.

Attendance and Voting at Shareholders Meetings

General

In accordance with French law, general shareholders meetings may be ordinary or extraordinary. Ordinary general meetings of shareholders are required for matters such as:

- the election, replacement and removal of directors;
- the appointment of statutory auditors;
- the approval of annual accounts;
- more generally, all decisions which do not require the approval of the extraordinary general meeting of the shareholders; and
- the declaration of dividends or the authorization for dividends to be paid in shares.

Extraordinary general meetings of shareholders are required for approval of all matters and decisions involving:

- changes in our *statuts* (including changing our corporate purposes);
- increasing or reducing our share capital;
- change of nationality of the company, subject to certain conditions as described in article L.225-97 of the French Commercial Code;
- extending or abridging the duration of the company;
- mergers and spin-offs;
- creation of a new class of shares;
- issuance of debt securities;
- authorization of notes or other securities giving access, immediately or in the future, to a portion of our share capital;
- transformation of our company into another legal form; and
- voluntary liquidation of our company before the end of its statutory term.

Annual Ordinary Meetings

Our Board of Directors must convene the annual ordinary general meeting of shareholders each year for approval of the annual accounts. This meeting must be held within six months of the end of our fiscal year, unless such time is extended by an order of the President of the *Tribunal de Commerce* pursuant to a request. Other ordinary or extraordinary meetings may be called at any time during the year. Meetings of shareholders may be convened by the

Board of Directors or, in the circumstances prescribed by law, if the Board of Directors fails to call such a meeting, by our statutory auditors or by an administrator appointed by the President of the *Tribunal de Commerce* or by a shareholder holding the majority of the share capital or voting rights following a public offer or the transfer of a block trade. Any of the following may request the President of the *Tribunal de Commerce* to appoint an administrator:

- one or several shareholders holding in the aggregate at least 5% of our share capital;
- any interested parties in cases of emergency;
- the workers committee in case of emergency; or
- an association of holders of shares who have held the shares in registered form held for at least two years and holding, in the aggregate, at least 1% of our voting rights.

Notice of Shareholders Meetings

French law requires that a preliminary notice *(avis de réunion)* of a general meeting of a listed company be published in the *Bulletin des Annonces Légales Obligatoires* (BALO) at least 35 days before the date set for the meeting. A copy of the preliminary notice must first be sent to the *Autorité des marchés financiers* (the AMF), the self-regulatory organization that has general regulatory authority over the French regulated exchanges, with an indication of the date of its publication in the BALO. The preliminary notice of a general meeting must state the

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details of the company and information about the voting process and the meeting, the matters to be discussed at the meeting and the draft of the resolutions to be discussed. The agenda of the meeting and the draft of the resolutions to be discussed, such as described in the preliminary notice, may be modified between the date of publication of the preliminary notice and that of the publication of the notice actually calling the general meeting (*avis de convocation*). From the date of publication until 25 days before the date of the general meeting (or within 20 days from the date of publication if publication takes place more than 45 days before the date of the general meeting), additional resolutions to be submitted for approval by the shareholders at the meeting may be proposed to the Board of Directors by:

one or more shareholders holding, in the aggregate, a certain percentage of our share capital (0.5% to 4% determined on the basis of a statutory formula relating to capitalization); or

a duly authorized association of shareholders who have held their shares in registered form for at least two years and holding, in the aggregate, at least 1% of our voting rights.

The Board of Directors must submit these resolutions to a vote of the shareholders.

At least 15 days before the date set for any general meeting on first call, and at least six days before any second call, we must send a notice *(avis de convocation)* by mail to all holders of registered shares who have held such shares for more than one month prior to the date of the notice. Notice of the meeting must also be given by publication in a journal authorized to publish legal announcements in the local administrative department *(département)* in which we are registered as well as in the BALO, with prior notice having been given to the AMF. Such a notice must include the details of the company, as well as a description of the type, agenda, place, date and time of the meeting and other information about the voting process. With the sole exception of removal and replacement of directors (which may be discussed at any meeting), any matter which does not appear on the agenda may not be discussed at the meeting.

Attendance and Voting at Shareholders Meetings

Attendance and exercise of voting rights at both ordinary and extraordinary general meetings of shareholders are subject to certain conditions. A shareholder does not need to have a minimum number of shares in order to be able to attend or be represented at an extraordinary general meeting. Any statutory provision to the contrary is null and void. In order to participate in any general meeting, a holder of registered shares must have paid up its shares and have its shares registered in his name or in the name of the accredited financial intermediary referred to in article L. 228-1 of the French Commercial Code in a shareholder account maintained by us or on our behalf three business days prior to the meeting. Similarly, a holder of bearer shares must obtain from the accredited financial intermediary *(intermédiaire financier habilité)* with whom such holder has deposited its shares a statement of holdings and send it to the location specified in the notice of the meeting three business days before the meeting convenes.

Proxies and Votes by Mail

Subject to the foregoing, all shareholders have the right to participate in general meetings, either in person, by a proxy or by mail and, subject only to any applicable laws, may vote according to the number of shares they hold. Proxies may be granted by a shareholder to:

his or her spouse;

another shareholder;

in the case of a non-French resident person, to the relevant intermediary;

in the case of a corporation, to a legal representative;

in the case of an employee, to the representative of the shareholding employees pursuant to article L.225-106 of the French Commercial Code.

Alternatively, the shareholder may send us a blank proxy without nominating any representative.

In the last case, the chairman of the shareholders meeting will vote the shares with respect to which such blank proxy has been given in favor of all resolutions proposed by the board of directors and against all others. We will send proxy forms to any shareholder on request, provided such request is received by the company at least six days before the date of the relevant general meeting. In order to be counted, we must receive proxy forms at our registered office or at such other address indicated in the notice convening the meeting prior to the date of the relevant general meeting. With respect to voting by mail, we must send our shareholders a form of such vote and we must receive the form at least three days prior to the date of the relevant general meeting.

Quorum

Under French law, a quorum requires the presence in person or voting by mail or by proxy of shareholders representing, in the aggregate, not less than:

- 20% of the shares entitled to vote (in the case of an ordinary general meeting convened on first call, an extraordinary general meeting convened on second call or an extraordinary general meeting convened on first call, if deciding upon any capital increase by capitalization of reserves, retained earnings or share premium); or

- 25% of the shares entitled to vote (in the case of any other extraordinary general meeting convened on first call).

No quorum is required in the case of an ordinary general meeting convened on second call or an extraordinary general meeting convened on second call, if deciding upon any capital increase by capitalization of reserves, retained earnings or share premium.

If a quorum is not present at any meeting on first call, the meeting is adjourned and reconvened, and in the case of an extraordinary general meeting, for a date not more than two months later. When a general meeting is reconvened, only questions which were on the agenda of the adjourned meeting may be discussed and voted upon.

Any shareholder may also, if the Board of Directors or its Chairman allows at the time of the convocation to a general meeting, attend the meeting via video-conference or by means of electronic telecommunication or tele-transmission subject to, and in accordance with, the conditions laid down by the legislation or the regulations then in force. This shareholder is then considered to be present at the meeting when calculating the quorum and the majority.

Majority

At an ordinary general meeting or an extraordinary general meeting deciding upon any capital increase by capitalization of reserves, retained earnings or share premium, a simple majority of votes cast by the shareholders present or represented at such meeting is required to pass a resolution. At any other extraordinary general meeting, a two-thirds majority of votes cast is required to pass a resolution. A unanimous vote, however, is required to increase the liabilities of shareholders. Abstention from voting by those present or represented by proxy or voting by mail is viewed as a vote against the resolutions submitted to a vote.

Our *statuts* provide that, as from May 22, 1997, each share that is fully paid and has been held in registered form by the same shareholder for a period of at least two consecutive years will entitle such shareholder to two votes. In the event of capital increases effected by an attribution of new shares, as a result of the incorporation of reserves, retained earnings or issuance premiums, the shares attributed by reason of and proportionately to the ownership of shares holding double voting rights are immediately granted double voting rights as if they themselves had fulfilled the requirements therefore. Under French company law, shares that have to be transferred pursuant to laws and regulations applicable to cross-shareholdings, as well as shares held by entities controlled directly or indirectly by us, are not entitled to voting rights. In the latter case, the shares do not count for quorum or majority purposes.

Acquisition of our own Shares

Under French law, our company may not issue shares to itself either directly or through a financial intermediary acting on our behalf. However, exceptionally, we may, either directly or through a financial intermediary acting on our

behalf, purchase our shares:

(1) to reduce our share capital (albeit not to absorb losses), canceling the shares we purchase, with our shareholders approval at an extraordinary general meeting;

(2) to provide shares to our employees under a profit sharing plan or stock option plan; or

(3) in the context of a share repurchase program that allows us to acquire up to 10% of our share capital for a maximum period of 18 months. To acquire shares in the context of a share repurchase program, we must first obtain our shareholders approval at an ordinary general meeting and make public a description of such program prior to its launch.

We may not repurchase under either (2) or (3) above an amount of shares that would result in our company holding, directly or through a person acting on our behalf, more than 10% of our outstanding share capital, without

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canceling the said 10% first. In addition, we may not cancel more than 10% of our outstanding share capital over any 24-month period.

We must hold any shares we repurchase in registered form. These shares also must be fully paid up. Shares repurchased by us are deemed outstanding under French law but are not entitled to dividends or voting rights and we may not ourselves exercise preferential subscription rights. Such shares do not count for quorum or majority purposes. The shareholders, at an extraordinary general meeting, may decide not to take such shares into account in determining the preferential rights to subscribe attached to the other shares (if such a decision is not taken, these rights must be either sold on the market before the end of the subscription period or distributed to the other shareholders on a pro rata basis.)

A direct subsidiary is generally prohibited by French law from holding shares in its parent and, in the event it becomes a holder of shares, such subsidiary must transfer such shares within one year following the date on which it becomes the holder thereof. An indirect subsidiary may only acquire shares if such subsidiary demonstrates a business purpose for holding the shares but in no event will it be entitled to vote such shares.

At the shareholders meeting held on April 29, 2008, our shareholders renewed the existing authorization to acquire up to 10 percent of our share capital through purchases of shares and to resell shares so acquired for the 18 months following the date of such meeting.

Under such authorization, we are allowed to carry out transactions on our shares with the following objectives:

- to support liquidity of our shares through a liquidity contract entered into with an investment service provider in compliance with the Code of Practice of the *Association Française des Marchés Financiers* (formerly known as the *Association Française des Entreprises d Investissement)*,

- to deliver shares in the scope of securities giving access, immediately or in the future, to shares by redemption, conversion, exchange, presentation of a warrant or by any other means,

- to deliver, immediately or in the future, shares in exchange in the scope of external growth, in accordance with the conditions to be defined by the AMF,

- to allocate bonus shares to employees and officers of the company or affiliated companies within the meaning of article L.225-180 of the French Commercial Code, especially in the scope of options to purchase shares of the company, and

- to cancel the shares through a capital reduction, subject to a decision of, or an authorization, by the extraordinary general meeting.

The general meeting approved a maximum purchase price of 300. The maximum number of shares that we are entitled to hold is 10% of our share capital as at the time of the purchase, less any shares acquired under previous authorizations.

The shares may be acquired on one or several occasions, by any method, including by agreement, by stock market purchase, by purchasing blocks of shares or by an offer to buy, which may take place at any time, excluding during a take-over bid.

This authorization was granted for a period of 18 months from April 29, 2008 and cancelled and replaced the authorization granted to the Board of Directors by the general meeting held on May 10, 2007.

In 2008 we implemented the share repurchase plan authorized by our shareholders in April 2008 with the sole aim to support the liquidity of the shares through a liquidity contract entered into with an investment service provider in compliance with the Code of Practice of the *Association Française des Marchés Financiers.*

We concluded this liquidity contract with Crédit Agricole Cheuvreux in July 9, 2007. This liquidity contract is tacitly renewable and compliant with the Code of Practice of the *Association Française des Marchés Financiers.*

Upon implementation of this contract, we allocated 22,000,000 to the liquidity account.

During fiscal year 2008, Crédit Agricole Cheuvreux:

purchased, between April 1, 2008 and May 31, 2008,139,381 CGGVeritas shares at an average weighed price of 174.10 and sold 1,119,534 CGGVeritas shares at an average weighed price of 175.02;

purchased, between June 1, 2008(*) and December 31, 2008, 2,105,984 CGGVeritas shares at an average weighed price of 21.73 and sold 1,496,884 CGGVeritas shares at an average weighed price of 19.95.

(*) after the five-for-one stock split

As of December 31, 2008, we held 855,350 shares in relation to this contract, i.e. 0.57% of our share capital. The net book value of these shares amounts to 9,066,710.

As of December 31, 2008, we did not hold any shares directly outside the scope of this liquidity contract.

Trading in Our Own Shares

Under European Commission Regulation Number 2273/2003 of December 22, 2003 applicable in France since October 13, 2004, trades by a company in its own shares are deemed valid when the following conditions are met:

each trade must not be made at a price higher than the higher of the price of the last trade and the highest current independent bid on Euronext Paris;

if we carry out the purchase of our own shares through derivative financial instruments, the exercise price of those derivative financial instruments must not be above the higher of the last independent trade and the highest current independent bid; and

the trade must not account for more than 25% of the average daily trading volume on Euronext Paris in the shares during the twenty trading days immediately preceding the trade.

However, there are two periods during which we are not permitted to trade in our own securities: the 15-day period before the date on which we make our consolidated annual accounts public, and the period beginning on the date on which we become aware of information that, if disclosed, would have a significant impact on the market price of our securities and ending on the date this information is made public.

We must file a report with the AMF every six months as well as at entry into force, amendment or termination of the liquidity arrangement containing the assessment of such arrangement. Such report is then posted on our website. In addition, we must also file with the AMF a monthly report containing details of all transactions relating to our shares that we may have carried out during the month.

Form, Holding and Transfer of Shares

Form of Shares. Our *statuts* provides that our fully paid shares may be held in either registered or bearer form at the option of the shareholder. We may avail ourselves of the procedure known as *titres au porteur identifiables,* according to which we are entitled to request Euroclear France to disclose the name, nationality, address and the number of shares held by holders of those securities of ours which have, or which may in the future acquire, voting rights.

Holding of Shares. In accordance with French law concerning dematerialization of securities, the ownership rights of holders of shares are represented by book entries rather than by share certificate. According to our *statuts,* registered shares are entered into an account held by us or by a representative nominated by us, while shares in bearer form are placed in an account held by an accredited financial intermediary (*intermédiaire financier habilité*).

We maintain a share account with Euroclear France in respect of all shares in registered form, which, in France, is administered by BNP Paribas Securities Services, acting on our behalf as our agent. Shares held in registered form are inscribed in the name of each shareholder (either directly, or, at the shareholder s request, through such shareholder s accredited financial intermediary) in separate accounts maintained by BNP Paribas Securities Services on our behalf. Each shareholder account shows the name of the holder and the number of shares held and, in the case of shares inscribed through an accredited financial intermediary, shows that they are so held. BNP Paribas Securities Services, as a matter of course, issues confirmations to each registered shareholder as to holdings of shares inscribed in the

shareholder s accounts, but these confirmations do not constitute documents of title.

Shares held in bearer form are held and inscribed on the shareholder s behalf in an account maintained by an accredited financial intermediary with Euroclear France separately from our share account with Euroclear France. Each accredited financial intermediary maintains a record of shares held through it and will issue certificates of inscription in respect thereof. Shares held in bearer form may only be transferred effected through accredited financial intermediaries and Euroclear France. As noted above, our *statuts* allow us to request from Euroclear France details concerning the identity of the holders of shares in bearer form at any time.

Transfer of Shares. Our *statuts* do not contain any restrictions relating to the transfer of shares. An owner of shares resident outside France may trade such shares on Euronext Paris. Should such owner (or the broker or other agent) require assistance in this connection, an accredited financial intermediary should be contacted.

Prior to any transfer of shares held in registered form on Euronext Paris, such shares must be converted into bearer form and, accordingly, must be registered in an account maintained by an accredited financial intermediary. A shareholder may initiate a transfer by giving instructions (through an agent if appropriate) to the relevant accredited financial intermediary.

Requirements for Holdings Exceeding Certain Percentages

French company law provides that any individual or entity, who acting alone or in concert with others, acquires more than 5%, 10%, 15%, 20%, 25%, 331/3%, 50%, 662/3%, 90% or 95% of our outstanding shares or voting rights thereof or whose shareholding falls below any such percentage must notify us within five trading days of the date such threshold was crossed of the number of shares it holds and of the voting rights attached thereto. Such individual or entity must also notify the AMF within five (5) trading days of the date such threshold was crossed.

In order to permit holders of our shares to give the notice required by law, we must monthly, in accordance with article 221-3 of the *Règlement Général* of the AMF, post (notably on the company website) information with respect to the total outstanding number of voting rights and shares if these have changed and provide the AMF with a written notice.

If any person fails to comply with the legal notification requirement, the shares or voting rights in excess of the relevant threshold will be deprived of voting rights for all shareholders meeting until the end of a two-year period following the date on which the owner thereof complies with the notification requirements. In addition, any shareholder who fails to comply with the above requirements may have all or part of its voting rights (and not only with respect to the shares in excess of the relevant threshold) suspended for up to five years by the *Tribunal de Commerce* at the request of our chairman, any shareholder or the AMF, and may be subject to criminal penalties.

French law imposes additional reporting requirements on persons who acquire more than 10% or 20% of our outstanding shares or voting rights. These persons must file a report with us and the AMF within 10 trading days of the date they cross the threshold. In the report, the acquirer must specify its intentions for the following 12-month period, including whether or not it intends to continue its purchases, to acquire control of our company or to seek nomination to our Board of Directors. The AMF makes the notice public. The acquirer must also publish a press release stating its intentions in a financial newspaper of national circulation in France. The acquirer may only amend its stated intentions in case of significant changes in its own situation or shareholders, or in our situation. Upon any change of intention, it must file a new report. Failure to comply with the notification requirements or to abide by the stated intentions may result in the acquirer being deprived of all or part of its voting rights, for a period of up to five years, by the *Tribunal de Commerce,* at our request or that of the AMF or one of our shareholders.

In addition to the provisions of French company law our *statuts* provide that any shareholder who directly or indirectly acquires ownership or control of shares representing 1% or any multiple thereof of our share capital or voting rights, or whose shareholding falls below any such limit, must inform us within five trading days of the crossing of the relevant threshold, of the number of shares then owned by such shareholder. Failure to comply with these notification requirements may result, at the request, recorded in the minutes of the general meeting, of one or several shareholders holding at least 1% of the capital, in the shares in excess of the relevant threshold being deprived of voting rights for all shareholder meetings until the end of a two-year period following the date on which the owner thereof has complied with such notification requirements.

Compulsory Tender. General Regulations of the AMF provide that a shareholder, acting alone, or shareholders acting in concert, as these terms are defined in article L.233-10 of the French Commercial Code, who come to own more than one-third of the voting rights or share capital of a French company listed on a regulated securities exchange in

France must immediately notify the AMF, and submit a compulsory tender for all the shares of capital and all securities giving access to the share capital or voting rights of such company. The tender must be submitted on terms acceptable to the AMF. The acquisition of control of a private company, the principal asset of which is a one-third or more interest in a company listed on a regulated market in France, is treated as a direct acquisition of such interest.

In addition, the same obligation applies to any shareholder acting alone or shareholders acting in concert who, owning between one-third and 50% of the voting rights or share capital of a French company listed on a regulated market in France, increase their interest by more than 2% of the existing total number of shares or voting rights over a maximum period of twelve consecutive months.

The AMF is vested with the power to grant relief from the obligation to tender for all of the shares of the target company and may consider certain exemptions when petitioned for such relief by the acquiring shareholders. These exemptions primarily concern previous control of the target company or a commitment to divest within a given period.

Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years immediately preceding the date of this document and are, or may be, material:

Amendments to the U.S.$1.115 billion Credit Agreement and the U.S.$200 million Revolving Credit Agreement, dated as of December 12, 2008, among us, certain of our subsidiaries, the lenders party thereto, Credit Suisse as Administrative Agent and Collateral Agent and Natixis as Facility Agent.

On December 12, 2008, we entered into amendment agreements concerning our U.S.$1.115 billion Credit Agreement and our U.S.$200 million Revolving Credit Agreement. The amendments included, among other things, changes to the covenants to increase flexibility with respect to intra-group transactions. Pursuant to these amendment agreements we made an optional prepayment of $50,000,000 on our term loan and agreed to increase by $100,000,000 the mandatory repayments due in 2009 in respect of our term loan.

Supplemental Indentures in respect of our Senior Notes, dated as of December 12, 2008, between us, our subsidiary CGGVeritas Services Holding B.V. and The Bank of New York Mellon Trust Company, as Trustee.

On December 12, 2008, we entered into supplemental indentures in respect of our 71/2% Senior Notes due 2015 and our 73/4% Senior Notes due 2017 in order to add CGGVeritas Services Holding B.V. as an additional guarantor to the Senior Notes.

Exchange Controls

Ownership of ADSs or shares by Non-French Persons

Under French law, there is no limitation on the right of non-resident or foreign shareholders to own or to exercise their voting rights attached to the securities they hold in a French company.

Pursuant to the French Monetary and Financial Code, administrative authorization is no longer required of non-European residents prior to acquiring a controlling interest in a French company, with exceptions regarding sensitive economic areas such as defense, public health, etc. However a notice (*déclaration administrative*) must be filed with the French Ministry of the Economy in certain circumstances and in particular for the acquisition of an interest in us by any person not residing in France or any foreign controlled resident if such acquisition would result in (i) the acquisition of a controlling interest of more than 33.33% of our share capital or voting rights or (ii) the increase of a controlling interest in us unless such person not residing in France or group of non-French residents already controls more than 50% of our share capital or voting rights prior to such increase. In certain circumstances (depending upon such factors as the percentage and value of the acquired part of our share capital), an additional declaration, for statistical purposes shall be filled with the *Banque de France*.

Exchange Controls

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

Taxation

The following summarizes the material French tax and U.S. federal income tax consequences to U.S. Holders (as defined below) of the ownership and disposal of ADSs.

For the purposes of this discussion, a U.S. Holder means a beneficial owner of ADSs that is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or of any State thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or

- a trust if a court within the United States is able to exercise primary supervision over the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

This discussion is not a complete description of all of the tax consequences of the ownership or disposition of ADSs. The summary assumes that each obligation in the deposit agreement between The Bank of New York and us (the Deposit Agreement) and any related agreement will be performed in accordance with its terms and is based on the current tax laws of the Republic of France and the United States, including the U.S. Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed Treasury Regulations, Internal Revenue Service (IRS) rulings and judicial opinions as well as the Convention between the United States and the Republic of France for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital dated August 31, 1994 (the Treaty), all as currently in effect and all subject to change, possibly with retroactive effect.

In particular, the United States and France signed a protocol on January 13, 2009, that, upon ratification, will make several changes to the Treaty, including changes to the Limitation on Benefits provision. The provisions of the protocol will be effective as soon as the ratification occurs in both jurisdictions, and with respect to withholding taxes will be effective for amounts paid or accrued on or after the first day of the year in which the protocol enters into force.

Your individual circumstances may affect the tax consequences of the ownership or disposition of ADSs to you, and your particular facts or circumstances are not considered in the discussion below.

For purposes of the Treaty, French tax law and the Code, U.S. Holders of ADSs will be treated as owners of the corresponding number of our shares underlying those ADSs held by The Bank of New York as depositary (the Depositary). There are currently no procedures available for holders that are not U.S. residents to claim tax treaty benefits in respect of dividends received on ADSs or shares registered in the name of a nominee. Such holders should consult their own tax advisor about the consequences of owning and disposing of ADSs.

This discussion summary is not intended to apply to holders of ADSs in particular circumstances, such as:

- investors that own (directly or indirectly) 10% or more of our voting stock;
- banks;
- dealers in securities or currencies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organizations;
- insurance companies;

- persons holding ADSs as part of a hedging, straddle, conversion or other integrated transaction;
- U.S. Holders who hold ADSs other than as capital assets;
- persons whose functional currency is not the U.S. dollar;
- certain U.S. expatriates;
- individual retirement accounts and other tax-deferred accounts;
- partners in partnerships;
- persons subject to the U.S. alternative minimum tax; and
- persons who acquired ADSs pursuant to an employee stock option or otherwise as compensation.

You should consult your own tax advisor regarding the French and United States federal, state and local and other tax consequences of the purchase, ownership and disposition of ADSs in the light of your particular circumstances, including the effect of any state, local or other national laws. In particular, you should confirm whether you are eligible for the benefits of the Treaty with your advisor and should discuss any possible

consequences of failing to be so eligible. You should also consult your tax advisor in the event that you become entitled to receive any dividend that is approved to be paid.

The U.S. federal income tax treatment of a partner in a partnership that holds ADSs will depend on the status of the partner and the activities of the partnership. Holders that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the ownership and disposition of ADSs by the partnership.

French Taxation

The following describes the material French tax consequences of owning and disposing of ADSs relevant to U.S. Holders which do not hold their ADSs in connection with a permanent establishment or fixed base in France through which a holder carries on business or performs personal services in France. The statements relating to French tax laws set out below are based on the laws in force as at the date hereof, and are subject to any changes in applicable French tax laws or in any applicable double taxation conventions or treaties with France occurring after such date.

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

Taxation of Dividends

France generally imposes a 25% withholding tax on dividends distributed in cash or in the form of shares by a French corporation (such as our company) to shareholders who are residents of the United States. However, the Treaty generally reduces the withholding tax rate to 15% on dividends paid in cash or in the form of shares to an Eligible U.S. Holder (as defined below).

Under the Treaty, an Eligible U.S. Holder is a U.S. Holder whose ownership of ADSs is not attributable to a permanent establishment or fixed base in France and who is:

- an individual or other non-corporate holder; or
- a corporation that does not own, directly or indirectly, 10% or more of the capital of our company, provided in each case that such holder:
- is a resident of the United States under the Treaty;
- is entitled to Treaty benefits under the limitation on benefits provisions in Article 30 of the Treaty; and
- complies with the procedural rules to obtain Treaty benefits described below under Taxation of Dividends Procedure to Obtain Treaty Benefits .

Taxation of Dividends Procedure to Obtain Treaty Benefits

Eligible U.S. Holders must follow certain procedures in order to be eligible for the 15% dividend withholding tax under the Treaty.

An Eligible U.S. Holder who wishes to obtain a reduced withholding rate at source must complete and deliver to the U.S. financial institution that is in charge of the administration of the ADSs of that Eligible U.S. Holder a Treaty form establishing that such U.S. Holder is a U.S. resident for the purpose of the Treaty (Form 5000).

If Form 5000 is not filed prior to the dividend payment, we or the French paying agent will withhold tax from the dividend at the above rate of 25%, and the Eligible U.S. Holder will be entitled to claim a refund of the excess withholding tax by filing Form no. 5001-EN with the Depositary or the French paying agent early enough to enable them to forward that application to the French tax authorities before December 31 of the second year following the calendar year in which the related dividend was paid.

The Depositary will provide to all U.S. Holders of ADSs the applications or certificates, together with instructions, and will arrange for the filing with the French tax authorities of all applications and certificates completed by U.S. Holders of ADSs and returned to the Depositary in sufficient time to effect the filing.

Form 5000 and Form 5001-EN and their respective instructions are available at the *trésorerie des non-résidents* (10, rue du Centre, 93160 Noisy-le-Grand, France).

Taxation on Sale or Disposal of ADSs

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

If a transfer of listed shares is evidenced by a written agreement, such share transfer agreement is, in principle, subject to registration formalities and therefore to a 3% registration duty assessed on the higher of the purchase price or the market value of the shares (subject to a maximum assessment of 5,000 per transfer). However, under certain circumstances, no duty is due if such written share transfer agreement is executed outside France.

French Estate and Gift Taxes

Pursuant to The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts dated November 24, 1978, a transfer of ADSs by gift or by reason of the death of a U.S. Holder will not be subject to French gift or inheritance tax, unless (i) the donor or the transferor is domiciled in France at the time of making the gift or at the time of his or her death, or (ii) the ADSs were used in, or held for use in, the conduct of a business through a permanent establishment or fixed base in France. In such a case, the French gift or inheritance tax may be credited against the U.S. gift or inheritance tax. This tax credit is limited to the amount of the U.S. gift or inheritance tax due on the ADSs.

French Wealth Tax

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

United States Taxation

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

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE ADSs, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

General. Distributions paid on our shares out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any French withholding tax paid by us with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income in the year in which the distribution is

received (which, in the case of a U.S. Holder of ADSs, will be the year of receipt by the Depositary), and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder s basis in the ADSs and thereafter as capital gain. However, we do not maintain calculations of our earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by us with respect to our Ordinary Shares will constitute ordinary dividend income. U.S. Holders should consult their own tax advisors with respect to the appropriate U.S. federal income tax treatment of any distribution received from us.

For taxable years that begin before 2011, dividends paid by us will be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to capital gains, provided either we qualify for the benefits of the Treaty or the ADSs are considered to be readily tradable on the NYSE. A U.S. Holder will be eligible for this reduced rate only if it has held the ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. A U.S. Holder will not be able to claim the reduced rate for any year in which we are treated as a PFIC. See Passive Foreign Investment Company Status below.

Foreign Currency Dividends. Dividends paid in euro will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the Depositary, regardless of whether the euro are converted into U.S. dollars at that time. If dividends received in euro are converted into U.S. dollars on the day they are received by the Depositary, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Effect of French Withholding Taxes

As discussed above under Taxation French Taxation Taxation of Dividends , under French domestic law, dividends paid by us to a United States resident shareholder are subject to a 25% withholding tax. Under the Treaty, however, the rate of withholding tax applicable to Eligible U.S. Holders is reduced to a maximum of 15%. Please see Taxation French Taxation Taxation of Dividends Procedure to Obtain Treaty Benefits for the procedure to claim the reduced rate of withholding tax under the Treaty.

A U.S. Holder will generally be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any French tax withheld from a dividend. Eligible U.S. Holders will not be entitled to a foreign tax credit for the amount of any French taxes withheld in excess of the 15% maximum rate, and with respect to which the holder can obtain a refund from the French taxing authorities. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two baskets , and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by us generally will constitute foreign source income in the passive income basket. If a U.S. Holder receives a dividend from us that qualifies for the reduced rate described above under United States Taxation Dividends General , the amount of the dividend taken into account in calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the ADSs for at least 16 days in the 31-day period beginning 15 days before the ex dividend date.

U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate French taxes into U.S. dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for French taxes relative to the U.S. Holder s U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate French taxes into U.S. dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

Exchange of ADSs for Shares

No gain or loss will be recognized upon the exchange of ADSs for the U.S. Holder s proportionate interest in our ordinary shares. A U.S. Holder s tax basis in the withdrawn shares will be the same as the U.S. Holder s tax basis in the ADSs surrendered, and the holding period of the shares will include the holding period of the ADSs.

Sale or other Disposition

Upon a sale or other disposition of ADSs (other than an exchange of ADSs for ordinary shares), a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder s adjusted tax basis in the ADSs. This

capital gain or loss will be long-term capital gain or loss if the U.S. Holder s holding period in the ADSs exceeds one year. Any gain or loss will generally be U.S. source.

Passive Foreign Investment Company Status

A foreign corporation will be a PFIC in any taxable year in which either (i) 75% or more of its gross income consists of certain specified types of passive income or (ii) the average percentage of its assets (by value) that produce or are held for the production of passive income is at least 50%. We do not expect that we will be a PFIC in 2009, but our possible status as a PFIC must be determined annually and therefore we might become a PFIC in future years.

If we were a PFIC in any taxable year during which a U.S. Holder owned ADSs and the U.S. Holder had not made a mark to market or qualified electing fund election, the U.S. Holder would generally be subject to special

rules (regardless of whether we continued to be a PFIC) with respect to (i) any excess distribution (generally, any distributions received by the U.S. Holder on ADSs in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder s holding period for the ADSs) and (ii) any gain realized on the sale or other disposition of ADSs. Under these rules (a) the excess distribution or gain would be allocated ratably over the U.S. Holder s holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC would be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. If we were a PFIC, a U.S. Holder of ADSs would generally be subject to similar rules with respect to distributions to us by, and dispositions by us of the stock of, any direct or indirect subsidiaries of ours that were also PFICs. A U.S. Holder who beneficially owns an interest in a PFIC is generally required to file an annual information return on IRS Form 8621 describing the distributions received from and any gain realized upon the disposition of a beneficial interest in the PFIC. Additionally, dividends paid by us would not be eligible for the special reduced rate of tax described above under United States Taxation Dividends General . U.S. Holders should consult their tax advisers regarding the potential application of the PFIC regime.

Backup Withholding and Information Reporting

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

Dividends and Paying Agents

Not applicable.

Statement by Experts

Not applicable.

Documents on Display

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act) applicable to foreign private issuers. In accordance with the Exchange Act, we electronically file or submit reports, including annual reports on Form 20-F and interim reports on Form 6-K, and other information with the Securities and Exchange Commission. You may obtain these reports and other information by sending a written request to CGGVeritas, Tour Maine-Montparnasse, 33, avenue du Maine, BP 191, 75755 Paris cedex 15, France, Attention: Investor Relations Officer, Telephone: (33) 1 64 47 4500.

You can inspect and copy these reports, and other information, without charge, at the Public Reference Room of the Commission located at 100 F Street, N.E., Washington, D.C. 20549. You can also obtain copies of these materials at prescribed rates from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the Commission at 1-800-SEC-0330. The Commission also maintains a web site at http://www.sec.gov that contains reports and other information regarding registrants that file electronically with the

Commission.

In addition, you can inspect material filed by CGGVeritas at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which American Depositary Shares representing shares of our common stock are listed. As a foreign private issuer, we are not subject to the proxy rules under Section 14 or the short-swing insider profit disclosure rules under Section 16 of the Exchange Act.

On January 12, 2007, following the completion of the merger with CGG, Veritas was delisted from the New York Stock Exchange and filed a Form 15 to terminate its registration and reporting obligations under the Exchange Act.

Subsidiary Information

Not applicable.

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Item 11: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Because we operate internationally, we are exposed to general risks linked to operating abroad. The table below provides information about our market sensitive financial instruments and constitutes a forward-looking statement . Our major market risk exposures are changing interest rates and currency fluctuations.

Interest Rate Risk

Our policy is to manage interest rates through use of a combination of fixed and floating rate debt. Our exposure to interest rate fluctuations is reduced to the extent that the main part of our financial debt at December 31, 2008 consisted of a long-term bond issues maturing in May 2015 and 2017 and bearing a fixed interest rate. However, our sources of liquidity include a Senior Facility with financial institutions charging variable interest rates. We may also use interest rate swaps to adjust interest rate exposures when appropriate based upon market conditions.

Foreign Exchange Rate Risk

As a company that derives a substantial amount of its revenue from sales internationally, we are subject to risks relating to fluctuations in currency exchange rates. In the years ended December 31, 2008, 2007 and 2006, more than 80% of our operating revenues and more than two-thirds of our operating expenses were denominated in currencies other than euros. These included U.S. dollars and, to a significantly lesser extent, Canadian dollars, Brazilian reals, Australian dollars, British pounds and Norwegian kroner.

We attempt to match foreign currency revenues and expenses in order to balance our net position of receivables and payables denominated in foreign currencies. We also seek to improve the balance of our net position of receivables and payables denominated in U.S. dollars by maintaining a portion of our financing in U.S. dollars. In addition, our policy generally is to hedge major foreign currency cash exposures through foreign exchange forward contracts or other foreign exchange currency hedging instruments. These contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. All instruments are entered into for non-trading purposes. See Item 5: Operating and Financial Review and Prospects Trend Information Currency Fluctuations above.

Credit Risk and Counter-Party Risk

We seek to minimize our counter-party risk by entering into hedging contracts only with highly rated commercial banks or financial institutions and by distributing the transactions among the selected institutions. Although our credit risk is the replacement cost at the then-estimated fair value of the instrument, we believe that the risk of incurring losses is remote and those losses, if any, would not be material. Our receivables and investments do not represent a significant concentration of credit risk due to the wide variety of customers and markets in which we sell our services and products and our presence in many geographic areas. During 2008, our two largest clients accounted for 3.9% and 3.8% of our operating revenues, respectively. During 2007, our two largest clients accounted for 4.5% and 2.8% of our operating revenues, respectively.

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The table below presents principal amounts and related weighted average interest rates by year of maturity for our debt obligations and our foreign exchange forward contracts, all of which mature in one year or less and their fair value as of December 31, 2008:

Carrying value	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value
				(in	million)			
Debt								
U.S. dollar	24.0	19.0	32.7	3.5	3.5	657.6	740.3	745.8
Average fixed rate	6.5%	6.4%	5.8%	9.6%	9.7%	7.9%	7.7%	
U.S. dollar	107.0	27.6	22.7	21.9	21.0	483.3	683.5	683.5
Average variable rate	4.9%	3.8%	3.9%	3.9%	4.0%	5.4%	5.1%	
Euro	0.1						0.1	
Average fixed rate	5.0%						5.0%	
Euro	35.0						35.0	35.0
Average variable rate	6.8%						6.8%	
Other currencies								
Average fixed rate								
Other currencies	1.7	1.0	1.0	1.0	1.0	0.5	6.2	6.2
Average variable rate	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	
Foreign Exchange								
Firm commitments								
Forward sales (in U.S.$)	418.8							(6.5)
U.S. dollars average rate/	1.4354							
Forward sales (in GBP)	5.5							(1.0)
GBP average rate/U.S	0.5055							
Forward sales (in Ren-min-bi Yuan)	6.5							(0.1)
Ren-min-bi Yuan average rate/U.S	6.8248							

Item 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

Item 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

Item 15: CONTROLS AND PROCEDURES

(a) *Disclosure controls and procedures.* As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in 17 CFR 240.13a-15(e) and 240.15d-15(e)), under the supervision of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that such controls and procedures are effective to ensure that information required to be disclosed in reports filed with or submitted to the SEC under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Exchange Act and its rules and forms.

There has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Pursuant to section L.225-37 of the French Commercial Code, as amended by a French financial law (the *Loi de Sécurité Financière*) enacted on August 1, 2003, our Chairman of the Board must deliver a report to the annual general meeting of our shareholders on the preparation and organization of the meeting of our Board of Directors, on the limitations placed on the authority of the Chief Executive Officer as well as on the internal control procedures put in place by us. This report for 2008 informed our shareholders of the internal control procedures that we have put in place in order to circumvent identified risks resulting from our activities and the risks of errors or fraud, particularly in accounting and finance. It describes the existing control environment, i.e. our values with respect to integrity and ethics, the organization of our corporate governance committees, the functions of our disclosure committee and the way we delegate powers and determine areas of responsibility. It also describes the procedures put in place to identify and assess our major risks, whether internal or external. It gives details on our control procedures, particularly those applied to financial information, so as to ensure reliability of financial reporting. A self-assessment process of internal control procedures currently existing within our Group has been implemented.

(b) *Management annual report on internal control over financial reporting.* We are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934) for CGGVeritas.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2008, and concluded that our internal control over financial reporting is effective. In making this assessment, we used the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment of the effectiveness of our internal control over financial reporting did not include the internal controls of Wavefield, which is included in our 2008 consolidated financial statements and constituted 395.7 million and 226.8 million of total and net assets, respectively. Based on our assessment under these criteria, we concluded that, as of December 31, 2008, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and with IFRS as adopted by the European Union as of December 31, 2008.

The effectiveness of management s internal control over financial reporting has been audited by Ernst & Young and Mazars, our independent registered public accounting firms, as stated in their report, which is included herein.

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(c) *Attestation Report of Independent Registered Public Accounting Firms.*

Year ended December 31, 2008

To the Board of Directors and Shareholders of Compagnie Générale de Géophysique-Veritas S.A.

We have audited Compagnie Générale de Geophysique-Veritas S.A. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Compagnie Générale de Geophysique-Veritas S.A. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management annual report on internal control over financial reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying management s report on internal control over financial reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Wavefield, which is included in the 2008 consolidated financial statements of Compagnie Générale de Géophysique-Veritas S.A. and constituted MEUR 395.7 and MEUR 226.8 of total and net assets respectively, as of December 31, 2008. Our audit of internal control over financial reporting of Company Générale de Géophysique-Veritas S.A. also did not include an evaluation of the internal control over financial reporting of Wavefield.

In our opinion, Compagnie Générale de Géophysique Veritas S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Compagnie Générale de Géophysique-Veritas S.A. as of December 31, 2008, 2007 and 2006 and the related consolidated statements of income, statements of cash flows and statements of income and expenses recognized directly in equity for each of the three years in the period ended December 31, 2008 of Compagnie Générale de Géophysique-Veritas S.A. and our report dated April 10, 2009, expressed an unqualified opinion thereon.

Courbevoie and Neuilly-sur-Seine, France, April 10, 2009.

Mazars	ERNST & YOUNG	
/s/ Xavier Charton		/s/ Philippe Diu
Xavier Charton		Philippe Diu
/s/ Olivier Thireau		/s/ Nicolas Pfeuty
Olivier Thireau		Nicolas Pfeuty

Item 16A: AUDIT COMMITTEE FINANCIAL EXPERT

Pursuant to section 407 of the Sarbanes Oxley Act of 2002, Mr. Dunand was appointed Financial Expert of the Audit Committee by a Board resolution dated December 10, 2003, as reaffirmed by a board resolution on February 20, 2007. Mr. Dunand is independent , as that term is defined by the listing standards of the New York Stock Exchange.

Item 16B: CODE OF ETHICS

The Board of Directors has adopted a code of ethics that applies to our Chief Executive Officer, our Chief Financial Officer, other senior financial officers (including our principal accounting officer), the members of the Group Management Committee and the Disclosure Committee to promote honest and ethical conduct, full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by us and compliance with applicable governmental rules and regulations. A copy of this code of ethics is filed as an exhibit to this annual report.

Item 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES

	December 31,			
	2008		2007	
	Ernst & Young	Mazars	Ernst & Young	Mazars & Guerard
	(in thousands of euros)			
Audit Fees[a]	3,353	2,097	4,020	2,534
Audit-Related Fees[b]	284	117	278	
Tax Fees[c]	95	13	101	6
All Other Fees[d]	1			
Total	**3,733**	**2,227**	**4,399**	**2,540**

Notes:

(a) Audit fees are the aggregate fees billed by our independent auditors for the audit of the individual and consolidated annual and semi-annual financial statements and the provision of services that are normally provided by our independent auditors in connection with statutory and regulatory filings or engagements.

(b) Audit-related fees are the aggregate fees billed by our independent auditors for services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under audit fees . They include consultations relating to accounting principles and internal controls.

(c) Tax fees are the aggregate fees billed by our independent auditors for services rendered by our auditors for tax compliance, tax advice, and tax planning. They include assistance when dealing with local authorities, advice regarding tax audit and litigation, expatriate taxation and tax advice relating to mergers and acquisitions.

(d) All other fees are the aggregate fees billed by our independent auditors other than the services reported in notes (a) through (c) of this table. They include training services as well as general and specific advice.

In December 2003, the Board of Directors and the Audit Committee adopted an audit and non-audit services pre-approval policy. This policy requires the Audit Committee to pre-approve the audit and non-audit services performed by the independent auditors in order to assure that they do not impair the auditors independence from us.

Pursuant to this policy, a list of proposed services is pre-approved, on an annual basis, without consideration of specific case-by-case services by the Audit Committee. Unless a type of service has received such general pre-approval, it will require specific pre-approval by the Audit Committee or by any person to whom the audit committee has delegated pre-approval authority. In addition, any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee. The services list and the cost levels are reviewed annually by the Audit Committee.

The annual audit services engagement terms and fees as defined in note (a) of table above are subject to the specific pre-approval of the Audit Committee.

Item 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

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Item 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

	Total number of Shares purchased as part of the programs	Total number of shares purchased	Average price paid per share ( )	Total amount paid ( )	Maximum number of shares that may yet be purchased under the program
January, 2008[(a)]	129,813	129,813	170.17	22,090,924.73	2,732,094
February, 2008[(a)]	76,338	76,338	161.83	12,353,835.58	2,737,422
March 2008[(a)]	59,607	59,607	125.25	9,075,409.40	2,740,803
April, 2008[(b)]	55,181	55,181	160.36	8,848,768.89	2,742,319
May, 2008[(b)]	84,200	84,200	167.71	14,120,772.00	2,744,402
June, 2008[(b)]	523,553	523,553	30.98	16,219,814.50	13,716,169
July, 2008[(b)]	216,727	216,727	25.19	5,459,806.92	13,746,852
August, 2008[(b)]	141,227	141,227	30.91	4,365,038.21	13,754,402
September, 2008[(b)]	329,444	329,444	23.80	7,841,360.79	13,736,069
October, 2008[(b)]	530,033	530,033	14.98	7,937,724.69	13,716,010
November, 2008[(b)]	194,700	194,700	11.04	2,149,819.00	13,749,543
December, 2008[(b)]	170,300	170,300	10.56	1,798,981.00	13,752,166
Total	2,511,123	2,511,123		112,262,255.71	

Notes:

(a) Shares purchased as part of the 2007 program approved by the shareholders meeting of May 10, 2007 for a period of 18 months, authorizing purchases of shares up to 10% of our common stock at a maximum price of 250 per share. This program replaced the previous program announced on May 11, 2006.

(b) Shares purchased as part of the 2008 program approved by the shareholders meeting of April 29, 2008 for a period of 18 months, authorizing purchases of shares up to 10% of our common stock at a maximum price of 300 per share. This program replaced the previous program announced on May 10, 2007.

Item 16F: CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G: CORPORATE GOVERNANCE

The corporate governance rules of the New York Stock Exchange differ from the regulations and recommendations applicable in France, especially those governing the definition of director independence and the role and operation of the Board s committees. As a non-U.S. listed company, we are exempted from many of these corporate governance rules, which are applicable to U.S. listed companies. For example, nothing withstanding our conclusions as to independence under the AFEP-MEDEF Code, our Board has not formally determined which of our directors meet

NYSE independence standards, and non-management directors do not meet regularly. Our Appointment-Remuneration Committee is not made up exclusively of independent directors, and the Board s internal charter does not address committee purposes and responsibilities in the manner specified by the NYSE rules applicable to nominating, compensation and audit committees. However, our Audit Committee members meet the independence test for audit committee members established by the SEC, and we believe that they also meet the definition of independence under the NYSE rules.

PART III

Item 17: FINANCIAL STATEMENTS

Not applicable.

Item 18: FINANCIAL STATEMENTS

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

	Page
Report of Independent Auditors	F-1
Consolidated Financial Statements:	
Consolidated Balance Sheets as at December 31, 2008, 2007 and 2006	F-2
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2008	F-4
Statement of income and expenses attributable to shareholders December 31, 2008, 2008 and 2006	F-5
Notes to the Consolidated Financial Statements	F-6

Item 19: EXHIBITS

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

Exhibit No	Exhibit
1.1*	English translation of our Articles of Association *(statuts).*
2.1	Indenture dated as of April 28, 2005 between us, certain of our subsidiaries acting as guarantors and JP Morgan Chase Manhattan Bank as Trustee, which includes the form of the 71/2% Senior Notes due 2015 as an exhibit thereto (Exhibit 4.1 to the Registrant s Registration Statement on Form F-4, dated September 21, 2005, as amended, is incorporated herein by reference).
2.2	Supplemental Indenture dated as of January 12, 2007 between us, certain of our subsidiaries acting as guarantors and The Bank of New York Trust Company, as Trustee to add guarantors to the 71/2% Senior Notes due 2015 (Exhibit 4.1 to the Registrant s Report on Form 6-K, dated February 2, 2007, is incorporated herein by reference).
2.3	Supplemental Indenture dated as of February 9, 2007 between us, certain of our subsidiaries acting as guarantors and The Bank of New York Trust Company, for the issuance of the additional U.S.$200 million in aggregate principal amount of the 71/2% Senior Notes due 2015. (Exhibit 2.3 to the Registrants s Annual Report for the fiscal year ended December 31, 2006, dated May 7, 2007, is incorporated herein by reference).
2.4	Indenture dated as of February 9, 2007 between us, certain of our subsidiaries acting as guarantors and The Bank of New York Trust Company, as Trustee, which includes the form of the 73/4% Senior Notes due 2017 as an exhibit thereto. (Exhibit 2.4 to the Registrant s Annual Report for the fiscal year ended

December 31, 2006, dated May 7, 2007, is incorporated herein by reference).

2.5* Supplemental Indenture dated as of December 12, 2008 between us, our subsidiary CGGVeritas Services Holding B.V. and The Bank of New York Mellon Trust Company, as Trustee to add CGGVeritas Services Holding B.V. as a guarantor to the 71/2% Senior Notes due 2015.

2.6* Supplemental Indenture dated as of December 12, 2008 between us, our subsidiary CGGVeritas Services Holding B.V. and The Bank of New York Mellon Trust Company, as Trustee to add CGGVeritas Services Holding B.V. as a guarantor to the 73/4% Senior Notes due 2017.

4.1 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 (Exhibit 10.1 to the Report on Form 6-K, dated May 13, 2004, is incorporated herein by reference).

4.2 U.S.$70 million Term Credit Facility, dated March 29, 2006, by and among Exploration Investment Resources II AS, DnB NOR Bank ASA and certain banks and financial institutions (Exhibit 4.22 to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2005, dated May 9, 2006, is incorporated herein by reference).

Exhibit No	Exhibit
4.3	Agreement between the Shareholders of CGG Ardiseis, dated June 23, 2006, between Industrialization & Energy Services Company (TAQA) and us (we have requested that the Commission grant confidential treatment for certain portions of this document) (Exhibit 4.22 to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2006, dated May 7, 2007, is incorporated herein by reference).
4.4	Credit Agreement, dated as of January 12, 2007, among Volnay Acquisition Co. I, us, certain of our subsidiaries acting as guarantors, the lenders party thereto and Credit Suisse as Administrative Agent and Collateral Agent (Exhibit 4.25 to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2006, dated May 7, 2007, is incorporated herein by reference).
4.5	Revolving Credit Agreement, dated as of February 7, 2007, among us, certain of our subsidiaries acting as guarantors, Natixis as Facility Agent, Credit Suisse as Collateral Agent and the lenders party thereto (Exhibit 4.27 to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2006, dated May 7, 2007, is incorporated herein by reference).
4.6*	Amendment No. 1 and Agreement, dated as of December 12, 2008, among CGGVeritas Services Holding (U.S.) Inc. (formerly Volnay Acquisition Co. I), us, the lenders party to the Credit Agreement dated January 12, 2007, and Credit Suisse, as Administrative Agent and Collateral Agent.
4.7*	Amendment No. 1, dated as of December 12, 2008, among us, the lenders party to the Revolving Credit Agreement dated February 7, 2007, Natixis, as Facility Agent, and Credit Suisse, as Collateral Agent.
4.8	Employment Agreement between Veritas DGC Inc. and Timothy L. Wells dated December 27, 2006 (Exhibit 10.12 to Veritas DGC Inc. s Form 8-K dated January 4, 2007 is incorporated herein by reference).
8*	Our Subsidiaries
11	Code of Ethics (Exhibit 11 to the Registrant s Annual Report on Form 20-F for the fiscal year ended December 31, 2003, dated June 1, 2004, is incorporated herein by reference).
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)
15*	Consent of Mazars and Ernst & Young & Autres

Notes:

* Filed herewith.

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SIGNATURES

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

Compagnie Generale de Geophysique-Veritas
(Registrant)

/s/ Robert Brunck	/s/ Stephane-paul Frydman
Chairman and Chief Executive Officer	Chief Financial Officer

Date: April 22, 2009

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS

ERNST & YOUNG	**MAZARS**
41, rue Ybry	Exaltis 61, rue Henri Regnault
92576 Neuilly sur Seine cedex	92400 Courbevoie

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of Compagnie Générale de Géophysique Veritas:

We have audited the accompanying consolidated balance sheets of Compagnie Générale de Géophysique Veritas S.A. and subsidiaries (the Company) as of December 31, 2008, 2007 and 2006, and the related consolidated statements of income, cash flows and statement of operations and expenses recognized directly in equity for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008, 2007 and 2006, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) and our report dated April 10 , 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Courbevoie and Neuilly-sur-Seine, France, April 10, 2009.

Mazars	ERNST & YOUNG
/s/ Xavier Charton	/s/ Philippe Diu
Xavier Charton	Philippe Diu
/s/ Olivier Thireau	/s/ Nicolas Pfeuty
Olivier Thireau	Nicolas Pfeuty

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

The consolidated financial statements were approved by the Board of Directors on February 25, 2009 and are subject to the approval of our General Shareholders Meeting expected to be held on April 29, 2009.

CONSOLIDATED BALANCE SHEETS

	Notes	December 31, 2008	2007	2006
		(amounts in millions of euros)		
ASSETS				
Cash and cash equivalents	28	516.9	254.3	251.8
Trade accounts and notes receivable, net	3	712.3	601.9	301.1
Inventories and work-in-progress, net	4	287.9	240.2	188.7
Income tax assets		102.2	34.6	18.0
Other current assets, net	5	101.5	89.6	63.1
Assets held for sale, net	9	7.6		0.4
Total current assets		**1,728.4**	**1,220.6**	**823.1**
Deferred tax assets	24	109.2	81.4	43.4
Investments and other financial assets, net	7	26.2	32.0	19.2
Investments in companies under equity method	8	72.9	44.5	46.2
Property, plant and equipment, net	9	822.4	660.0	455.2
Intangible assets, net	10	820.0	680.5	127.6
Goodwill, net	11	2,055.1	1,928.0	267.4
Total non-current assets		**3,905.8**	**3,426.4**	**959.0**
TOTAL ASSETS		**5,634.2**	**4,647.0**	**1,782.1**
LIABILITIES AND SHAREHOLDERS EQUITY				
Bank overdrafts	13	8.2	17.5	6.5
Current portion of financial debt	13	241.5	44.7	38.1
Trade accounts and notes payables		286.2	256.4	161.2
Accrued payroll costs		144.3	113.2	74.4
Income taxes payable		85.5	59.1	37.7
Advance billings to customers		43.5	51.9	45.9
Provisions current portion	16	20.7	9.6	10.4
Other current liabilities	12	173.3	109.0	31.3
Total current liabilities		**1,003.2**	**661.4**	**405.5**
Deferred tax liabilities	24	223.8	157.7	66.5
Provisions non-current portion	16	82.4	76.5	25.5
Financial debt	13	1,296.3	1,298.8	361.0
Other non-current liabilities	17	29.9	27.0	23.7

Total non-current liabilities		**1,632.4**	**1,560.0**	**476.7**
Common stock: 276,413,038 shares authorized and 150,617,709 shares with a 0.40 nominal value issued and outstanding at December 31, 2008; 137,253,790 at December 31, 2007; 87,989,440 at December 31, 2006[(1)]	15	60.2	54.9	35.2
Additional paid-in capital		1,964.7	1,820.0	394.9
Retained earnings		799.4	538.6	320.6
Treasury shares		(18.1)	(3.9)	3.0
Net income (loss) for the period Attributable to the Group		332.8	245.5	157.1
Income and expense recognized directly in equity		(2.5)	(5.1)	4.8
Cumulative translation adjustment		(176.4)	(248.4)	(38.6)
Total shareholders equity		**2,960.1**	**2,401.6**	**877.0**
Minority interests		38.5	24.0	22.9
Total shareholders equity and minority interests		**2,998.6**	**2,425.6**	**899.9**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		**5,634.2**	**4,647.0**	**1,782.1**

(1) Number of shares at December 31, 2007 and at December 31, 2006 has been restated to reflect the five-for-one stock split on June 3, 2008.

The accompanying notes are an integral part of the consolidated financial statements

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	2008	December 31, 2007	2006
			(in millions of euros, except per share data)	
Operating revenues	19	2,602.5	2,374.1	1,329.6
Other income from ordinary activities	19	1.7	1.2	1.8
Total income from ordinary activities		**2,604.2**	**2,375.3**	**1,331.4**
Cost of operations		(1,722.5)	(1,622.3)	(890.0)
Gross profit		**881.7**	**753.0**	**441.4**
Research and development expenses net	20	(43.8)	(51.3)	(37.7)
Selling, general and administrative expenses		(256.1)	(231.0)	(126.4)
Other revenues (expenses) net	21	(36.4)	18.4	11.7
Operating income before reduction of goodwill	19	**545.4**	**489.1**	**289.0**
Reduction of goodwill	11	(4.8)		
Operating income	**19**	**540.6**	**489.1**	**289.0**
Expenses related to financial debt		(93.0)	(121.7)	(31.8)
Income provided by cash and cash equivalents		9.2	12.6	6.4
Cost of financial debt, net	**22**	**(83.8)**	**(109.1)**	**(25.4)**
Derivative and other expenses on convertible bonds	23			(23.0)
Other financial income (loss)	23	(11.5)	(5.2)	(8.8)
Income (loss) of consolidated companies before income taxes		**445.3**	**374.8**	**231.8**
Income taxes	24	(108.3)	(129.4)	(83.2)
Net income (loss) from consolidated companies		**337.0**	**245.4**	**148.6**
Equity in income of affiliates		3.0	4.2	10.1
Net income (loss)		**340.0**	**249.6**	**158.7**
Attributable to:				
Shareholders		332.8	245.5	157.1
Minority interests		7.2	4.1	1.6
Weighted average number of shares outstanding	29	137,910,388	134,567,140	86,859,635
Dilutive potential shares from stock options	29	579,432	992,915	1,547,920
Dilutive potential shares from performance share plan	29	575,063	518,940	249,375

Dilutive weighted average number of shares outstanding adjusted when dilutive	139,064,883	136,078,995	88,656,930
Net income (loss) per share			
Basic	2.41	1.82	1.81
Diluted	2.39	1.80	1.77

The accompanying notes are an integral part of the consolidated financial statements

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2008	Year 2007	2006
			(in millions of euros)	
OPERATING				
Net income (loss)		340.0	249.6	158.7
Depreciation and amortization		233.5	179.1	106.0
Multi-client surveys amortization	10	260.8	308.5	80.6
Variance on provisions		2.8	2.0	4.6
Stock based compensation expenses		23.8	20.6	7.4
Net gain (loss) on disposal of fixed assets		2.0	(0.3)	(5.3)
Share in profits of affiliates		(3.0)	(4.2)	(10.1)
Dividends received from affiliates		1.4	5.3	4.3
Other non-cash items	28	4.4	(9.2)	31.5
Net cash including net cost of financial debt and income tax		**865.7**	**751.4**	**377.7**
Less net cost of financial debt		83.8	109.1	25.4
Less income tax expense		108.3	129.4	83.2
Net cash excluding net cost of financial debt and income tax		**1,057.8**	**989.9**	**486.3**
Income tax paid		(137.5)	(144.1)	(80.4)
Net cash before changes in working capital		**920.3**	**845.8**	**405.9**
change in trade accounts and notes receivables		(39.7)	(133.0)	(18.8)
change in inventories and work-in-progress		(26.6)	(41.4)	(40.0)
change in other current assets		9.7	(12.8)	(5.8)
change in trade accounts and notes payable		(17.5)	(13.3)	5.0
change in other current liabilities		30.8	22.5	20.1
Impact of changes in exchange rate on financial items		8.6	(20.5)	(19.0)
Net cash provided by operating activities		**885.6**	**647.3**	**347.4**
INVESTING				
Total capital expenditures (including variation of fixed assets suppliers, excluding multi-client surveys)	9 &10	(155.4)	(230.5)	(149.2)
Investments in multi-client surveys	10	(343.4)	(371.4)	(61.5)
Proceeds from disposals of tangible & intangible assets		1.5	27.4	6.1
Total net proceeds from financial assets	28	8.8	2.8	16.8
Acquisition of investments, net of cash & cash equivalents acquired	28	(6.0)	(1,019.1)	(48.3)
Variation in loans granted		(7.6)	(0.2)	(0.2)
Variation in subsidies for capital expenditures		(0.1)	(0.1)	(0.2)
Variation in other non-current financial assets	28	(1.3)	18.0	(6.9)
Net cash from investing activities		**(503.5)**	**(1,573.1)**	**(243.4)**
FINANCING				
Repayment of long-term debt		(64.7)	(622.8)	(131.9)

Total issuance of long-term debt		39.2	1,698.3	208.3
Lease repayments		(7.2)	(10.0)	(19.6)
Change in short-term loans		(9.7)	12.0	(2.4)
Financial expenses paid	28	(82.9)	(123.5)	(23.8)
Net proceeds from capital increase:				
from shareholders		1.9	9.1	12.4
from minority interest of integrated companies				
Dividends paid and share capital reimbursements:				
to shareholders				
to minority interest of integrated companies		(1.4)	(6.0)	(0.3)
Acquisition/disposal from treasury shares		(14.1)	(6.9)	4.1
Net cash provided by financing activities		**(138.9)**	**950.2**	**46.8**
Effect of exchange rates on cash		19.4	(21.9)	(11.4)
Net increase (decrease) in cash and cash equivalents		**262.6**	**2.5**	**139.4**
Cash and cash equivalents at beginning of year	28	254.3	251.8	112.4
Cash and cash equivalents at end of period	**28**	**516.9**	**254.3**	**251.8**

The accompanying notes are an integral part of the consolidated financial statements

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Consolidated Statements of income and expenses attributable to shareholders

	December 31,		
	2008	2007	2006
	(amounts in million of euros)		
Net income (loss) attributable to the Group	332.8	245.5	157.1
Change in actuarial gains and losses on pension plan	0.6	(3.8)	(1.0)
Change in fair value of available-for-sale investments[(a)]	6.9	(6.9)	
Change in fair value of hedging instruments	(4.3)	(3.0)	6.2
Change in foreign currency translation adjustment	72.1	(209.8)	(49.9)
Income recognized directly in equity for the period	408.1	22.0	112.4

(a) The change in fair value of available-for-sale investments corresponds to our investment in Offshore Hydrocarbon Mapping that was impaired in 2008 (See note 7).

Consolidated Statements of income and expenses attributable to minority interests

	December 31,		
	2008	2007	2006
	(amounts in million of euros)		
Net income (loss) attributable to minority interests	7.2	4.1	1.6
Change in foreign currency translation adjustment	3.5	(2.5)	(1.6)
Income recognized directly in equity for the period	10.7	1.6	

See notes to consolidated financial statements

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Given that the Company is listed on a European Stock Exchange and pursuant to European regulation n™1606/ 2002 dated July 19, 2002, the accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are also in accordance with IFRS adopted by the European Union at December 31, 2008.

According to the general conditions of the standard IFRS 1, regarding the first adoption of IFRS, the Group elected the following options:

Business combinations (IFRS 3): the Company elected not to restate business combinations consummated prior to January 1, 2004;

Fair value used as assumed cost (IAS 16): the Company did not elect to assess its property, plant and equipment at fair value. Property, plant and equipment are recognized at amortized historical cost;

Actuarial gains (losses) on pension plans (IAS 19): the Company elected to recognize actuarial gains (losses) on pension plans previously unrecognized at January 1, 2004, in retained earnings;

Currency translation adjustments (IAS 21): the Company elected to recognize currency translation adjustments at January 1, 2004 through retained earnings.

Moreover, the Company elected for the early adoption from January 1, 2004 of the following standards:

Financial instruments: the Company early adopted the standards IAS 32 and IAS 39 from January 1, 2004;

Actuarial gains (losses) on pension plans (IAS 19): the Company elected to recognize actuarial gains (losses) on pension plans directly in retained earnings.

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments 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 materially from those estimates due to the change in economic conditions, changes in laws and regulations, changes in strategy and the inherent imprecision associated with the use of estimates.

Use of estimates

Significant estimates in preparing financial statements that could have a material impact on the carrying values of assets and liabilities are:

Amortization of multi-client data library,

Depreciation and, if applicable, impairment of tangible and intangible assets, including goodwill,

Development costs,

Valuation of investments,

Recoverability of goodwill and intangible assets,

Income taxes, and

Employee benefit plans.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Judgments

The major accounting matters that are subject to management judgments, which have a material effect on the carrying amounts of assets and liabilities recognized in the consolidated financial statements, relate to:

Collectibility of accounts receivable,

Recoverability of deferred tax assets,

Fair value of assets and liabilities as part of the different purchase price allocations,

Provision for contingencies, claims and litigations.

Critical Accounting Policies

Our significant accounting policies, which we have applied consistently, are fully described below. However, certain of our accounting policies are particularly important to reflect our financial position and results of operations. As we must exercise significant judgment when we apply these policies, their application is subject to an inherent degree of uncertainty.

The following Standards, Amendments and Interpretations have been effective since January 1, 2008:

IFRIC 11 IFRS 2 Group and Treasury Share Transactions
Amendments to IAS 39 and IFRS 7 Reclassification of financial assets

These Standards, Amendments and Interpretations have had no significant impact on our consolidated financial statements at December 31, 2008.

The applied accounting treatment do not differ from IFRS and its interpretations as issued by the IASB nor from IFRS as adopted by the European Union at December 31, 2008 as the application of the following standards, compulsory f or financial years starting as of January 1, 2008 but not yet adopted by the European Union would have no significant impact on our consolidated financial statements:

IFRIC 12 Service Concession Arrangements
IFIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction endorsed by the European Union in December 2008 but compulsory for financial years starting as of December 31, 2008

Concerning Standards, Amendments and Interpretations that were adopted by the European Union and are optional at December 31, 2008, CGGVeritas decided not to anticipate them:

Amendments to IAS 1 Presentation of financial statements (revised)
Amendments to IAS 23 Borrowing costs

IFRS 8 Operating segments
IFRIC 13 Customer loyalty programs
Amendments to IFRS 2 Share based payments Vesting conditions and cancellations
IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Furthermore, CGGVeritas does not apply the following Standards, Amendments and interpretations published by the IASB but not yet adopted in the European Union at December 31, 2008:

IFRS 3 (revised) Business combinations

Amendments to IAS 27 Consolidated and separate financial statements

Amendments to IAS 39 Financial Instruments Recognition and Measurement Eligible Hedged Items

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 17 Distributions of Non-cash Assets to Owners

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

Improvements to IFRS (and specifically amendment to IAS 38 Intangible assets Advertising and promotional activities).

We are currently reviewing them to measure the potential impact on our consolidated financial statements. At this stage, we do not anticipate any significant impact.

1 Basis of consolidation

Our consolidated financial statements include CGGVeritas and all majority-owned subsidiaries.

We use the equity method for investments in which our ownership interest ranges from 20% to 50% and we exercise significant influence over operating and financial policies. We may account for certain investments where the Group s ownership is below 20% using the equity method when we exercise significant influence (Board membership or equivalent) over the business.

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

Our consolidated financial statements are reported in euros.

2 Foreign currency

The financial statements of all of our French subsidiaries are maintained in euro, with the exception of the financial statements of certain subsidiaries for which the functional currency is the U.S. dollar, the currency in which they primarily conduct their business.

The financial statements of all of our foreign subsidiaries are maintained in the local currency, which is the functional currency, with the exception of the financial statements of historical subsidiaries of CGG operating in Norway (including notably some subsidiaries of Exploration Resources), in Malaysia, Venezuela and historical subsidiaries of Veritas (excluding Canada). In those subsidiaries, the functional currency is the U.S. dollar, the currency in which they primarily conduct their business. Goodwill attributable to foreign subsidiaries is accounted for in the functional currency of the applicable entities.

When translating the foreign currency financial statements of foreign subsidiaries to euro, year-end exchange rates are applied to balance sheet items, while average annual exchange rates are applied to income statement items. 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 rates changes on the net assets of the affiliate are recorded in a separate component of shareholders equity.

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 revalued at year-end exchange rates and any resulting unrealized

exchange gains and losses are included in income.

3 Business combinations

Business combinations after January 1, 2004 are accounted for in accordance with IFRS 3. Assets and liabilities acquired under a business combination are recognized at their fair values at the date of acquisition. The remaining difference between the fair value of assets and liabilities acquired and the consideration tendered in an acquisition is recorded as goodwill and allocated to the cash generating units.

4 Operating revenues

Operating revenues are recognized when they can be measured reliably, and when it is likely that the economic benefits associated with the transaction will flow to the entity, which is at the point that such revenues have been realized or are considered realizable. For contracts where the percentage of completion method of accounting is being applied, revenues are only recognized when the costs incurred for the transaction and the cost to complete the transaction can be measured reliably and such revenues are considered earned and realizable.

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Multi-client surveys

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 surveys. 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. We review the library for potential impairment of our independent surveys on an ongoing basis.

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

Pre-commitments Generally, we obtain 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 right to direct or influence the project specifications, advance access to data as it is being acquired, and favorable pricing. The Company records payments that it receives during periods of mobilization as advance billing in the balance sheet in the line item Advance billings to customers .

The Company recognizes pre-commitments as revenue when production is begun based on the physical progress of the project.

After sales Generally, we grant a license entitling non-exclusive access to a complete and ready for use, specifically defined portion of our multi-client data library in exchange for a fixed and determinable payment. We recognize 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 our 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 We enter into a customer arrangement in which we agree 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 specific blocks for a limited period of time. We recognize revenue when the blocks are selected and the client has been granted access to the data and if the corresponding revenue can be reliably estimated. Within thirty days of execution and access, the client may exercise our 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.

Exclusive surveys

In exclusive surveys, we perform seismic services (acquisition and processing) for a specific customer. We recognize proprietary/contract revenues as the services are rendered. We evaluate the progress to date, in a manner generally consistent with the physical progress of the project, and recognize revenues based on the ratio of the project cost incurred during that period to the total estimated project cost. We believe this ratio to be generally consistent with the physical progress of the project.

The billings and the costs related to the transit of seismic vessels at the beginning of the survey are deferred and recognized over the duration of the contract by reference to the technical stage of completion.

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

Revenues from our other geophysical services are recognized as the services are performed and, when related to long-term contracts, using the proportional performance method of recognizing revenues.

Equipment sales

We recognize revenues on equipment sales upon delivery to the customer. Any advance billings to customers are recorded in current liabilities.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Software and hardware sales

We recognize revenues from the sale of software and hardware products following acceptance of the product by the customer at which time we have no further significant vendor obligations remaining. Any advance billings to customers are recorded in current liabilities.

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

If the software arrangement 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 standard.

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.

5 Cost of net financial debt

Cost of financial debt is expensed in the income statement on the period in which it is borne, regardless of the use of funds borrowed.

Cost of net financial debt includes expenses related to financial debt, composed of bonds, the debt component of convertible bonds, bank loans, capital-lease obligations and other financial borrowings, net of income provided by cash and cash equivalents.

6 Income taxes and deferred taxes

Income taxes includes all tax based on taxable profit.

Deferred taxes are recognized on all temporary differences between the carrying value and the tax value of assets and liabilities, as well as on carry-forward losses, using the liability method. Deferred tax assets are recognized only when its recovery is probable.

Deferred tax liabilities are recognized on intangibles assets valued in purchase accounting of business combinations (technological assets, customer relationships).

Deferred tax assets and deferred tax liabilities are not discounted.

7 Intangible and tangible assets

In accordance with IAS 16 Property, Plant and equipment and IAS 38 Intangible assets only items for which cost can be reliably measured and for which the future economic benefits are likely to flow to us are recorded in our consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are valued at historical cost less accumulated depreciation and impairment losses. Depreciation is generally calculated over the following useful lives:

equipments and tools	3 to 10 years
vehicles	3 to 5 years
seismic vessels	12 to 30 years
buildings for industrial use	20 years
buildings for administrative and commercial use	20 to 40 years

Depreciation expense is determined using the straight-line method.

We include residual value, if significant, when calculating the depreciable amount. We segregate tangible assets into their separate components if there is a significant difference in their expected useful lives, and depreciate them accordingly.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Lease agreements

Assets under a capital lease agreement or a long-term lease agreement that transfers substantially all the risks and rewards incidental to ownership to the Group are accounted for as fixed assets at the commencement of the lease term, at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability and the finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Assets under capital lease are depreciated over the shorter of its useful life and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Rent payments under operating leases are recognized as operating expenses over the lease term.

Goodwill

Goodwill is determined according to IFRS 3 Business Combinations. Upon transition to IFRS, goodwill is not amortized but subject to an annual impairment test.

Multi-client surveys

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 surveys (including transit costs when applicable). 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. We review the library for potential impairment of our independent surveys on an ongoing basis.

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.

In this respect, we use four amortization rates 50%, 75%, 80% or 83.3% of revenues depending on the category of the surveys. Multi-client surveys are classified into a same category when they are located in the same area with the same estimated sales ratio, such estimates generally relying on the historical patterns.

For all category of surveys and starting from data delivery, a minimum straight-line depreciation scheme is applied over a five-year period, if total accumulated depreciation from the applicable amortization rate is below this minimum level.

Multi-client surveys acquired as part of the business combination with Veritas and which have been valued for purchase price allocation purposes are amortized based on 65% of revenues and an impairment loss is recognized on a survey by survey basis in case of any indication of impairment.

Until December 1, 2006, an amortization rate of 66.6% of revenues with a minimum straight-line depreciation over a three-year period were used instead of 50% over a five-year period. The impact of this change of estimates applied

from December 1, 2006 was a reduction in depreciation expenses of 1.2 million over the year ended December 31, 2006 and lower depreciation of 2.7 million over the year ended December 31, 2007.

From January 12, 2007 to October 1, 2007, we applied an amortization rate of 66.6% of revenues instead of 50% for a certain category of surveys. The impact of this change of estimates applied from October 1, 2007 is a reduction in depreciation expenses of 3.1 million for the year ended December 31, 2007.

Development costs

Expenditures on research activities undertaken with the prospect of gaining new scientific or technological knowledge and understanding are recognized in the income statement as expenses as incurred and are presented as Research and development expenses net .

Expenditures on development activities, whereby research finding are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if:

- the project is clearly defined, and costs are separately identified and reliably measured,
- the product or process is technically and commercially feasible,

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

we have sufficient resources to complete development, and

the intangible asset is likely to generate future economic benefits, either because it is useful to us or through an existing market for the intangible asset itself or for its products.

The expenditures capitalized include the cost of materials, direct labor and an appropriate proportion of overhead. Other development expenditures are recognized in the income statement as expenses as incurred and are presented as Research and development expenses net .

Capitalized development expenditures are stated at cost less accumulated amortization and impairment losses.

We amortize capitalized developments costs over 5 years.

Research & development expenses in our income statement represent the net cost of development costs that are not capitalized, of research costs, offset by government grants acquired for research and development.

Impairment

In accordance with IAS 36 Impairment of assets , the carrying amounts of our assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, we estimate the asset s recoverable amount. Factors we consider important by that could trigger an impairment review include the following:

significant underperformance relative to expected operating results based upon historical and/or projected data,

significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and

significant negative industry or economic trends.

The recoverable amount of tangible and intangible assets is the greater of their net fair value less costs to sell and value in use.

Goodwill, assets that have an indefinite useful life and intangible assets are allocated to cash generating units, for which we estimate the recoverable amount at each balance sheet closing date.

We determine the recoverable amounts by estimating future cash flows expected from the assets or from the cash generating units, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

We recognize an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the income statement. Impairment losses recognized in respect of a group of non independent assets allocated to a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Assets held for sale

Assets classified as assets held for sale correspond to assets for which the net book value will be recovered by a sale rather than by its use in operations. Assets held for sale are valued at the lower of historical cost and net realizable value.

8 Investments and other financial assets

Investments and other financial assets include investments in non-consolidated entities and loans and non-current receivables.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments in non-consolidated entities

In accordance with IAS 39 Financial instruments , we classify investments in non-consolidated companies as available-for-sale and therefore present them on the balance sheet at their fair value. The fair value for listed securities is their market price at the balance sheet date. If a reliable fair value cannot be established, securities are valued at historical cost. We account for changes fair value directly in shareholders equity, except in case of impairment.

Loans and non-current receivables

Loans and non-current receivables are accounted for at amortized cost.

Impairment

We examine available-for-sale securities and other financial assets at each balance sheet date to detect any objective evidence of impairment. Where this is the case, we record an impairment loss.

Where there is objective evidence of impairment of a financial asset (for instance in case of significant and prolonged decline of the value of the asset) we record an irreversible impairment provision. This provision can only be released upon the sale of the relevant financial asset.

9 Treasury shares

We value treasury shares at their cost, as a reduction of shareholders equity. Proceeds from the sale of treasury shares are included in shareholders equity and have no impact on the income statement.

10 Inventories

We value inventories at the lower of cost (including direct production costs where applicable) and net realizable value.

We calculate the cost of inventories on a weighted average price basis for our Equipment segment and on a first-in first-out basis for our Services segment.

11 Provisions

We record a provision when the Group has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Onerous contracts

We record a provision for onerous contracts equal to the excess of the unavoidable costs of meeting the obligations under the contract over the economic benefits expected to be received under it, as estimated by the Group.

Pension, post-employment benefits and other post-employment benefits

Defined contribution plans

We record obligations for contributions to defined contribution pension plans as an expense in the income statement as incurred.

Defined benefit plans

Our net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. We perform the calculation by using the projected unit credit method.

When the benefits of a plan are increased, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

We record actuarial gains and losses that arise subsequent to the adoption of IAS 19 on January 1, 2004 directly in equity.

12 Financial debt

Financial debt is accounted for:

As at the date of issuance, at the fair value of the consideration received, less issuance fees and/or issuance premium;

subsequently, at amortized cost, corresponding to the fair value at which is initially recognized, less repayments at the nominal amount and increased or decreased for the amortization of all differences between this original fair value recognized and the amount at maturity; differences between the initial fair value recognized and the amount at maturity are amortized using the effective interest rate method.

Convertible bonds

As the US$85 million 7.75% subordinated bonds due 2012 convertible into new ordinary shares or redeemable into new shares and/or existing shares and/or in cash issued in 2004 were denominated in U.S. dollars and convertible into new ordinary shares denominated in Euros, the embedded conversion option was bifurcated and accounted for separately within non-current liabilities. The conversion option and the debt component were initially recognized at fair value on issuance. The amount of the debt component recorded in our financial statements was discounted at the rate of 10.75%, the rate borne by comparable indebtedness without a conversion option. As a result, we bifurcated the embedded conversion option by 10.5 million at issuance as Other non-current assets . The discounting of the debt at issuance is accounted for as Cost of financial debt until the maturity of the convertible bonds. Those convertible bonds were fully converted at December 31, 2006.

Changes of the fair value of the embedded derivative were recognized in the consolidated income statement in the line item Variance on derivative convertible bonds . The fair value of the embedded derivative had been determined using a binomial model.

13 Derivative financial instruments

We use derivative financial instruments to hedge our exposure to foreign exchange fluctuations (principally U.S. dollars) from operational, financing and investment activities. In accordance with our treasury policy, we do not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments in Other financial income (loss) .

Exchange gains or losses on foreign currency financial instruments that represent the efficient portion of an economic hedge of a net investment in a foreign subsidiary are reported as translation adjustments in shareholder s equity under the line item Cumulative translation adjustments , the inefficient portion being recognized in the income statement.

The cumulative value of foreign exchange gains and losses recognized directly in equity will be transferred to income statement when the net investment is sold or lost.

Derivative financial instruments are stated at fair value.

The gain or loss on reassessment to fair value is recognized immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resulting gain or loss is as follows (cash flow hedges), we account for changes in the fair value of the effective hedged amount in shareholder s equity. The ineffective portion is recorded in Other financial income (loss) .

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Cash-flow statement

The cash flows of the period are presented in the cash flow statement within three activities: operating, investing and financing activities:

Operating activities

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. When a subsidiary is acquired, a separate item, corresponding to the consideration paid net of cash and cash equivalents held by the subsidiary at the date of acquisition, provides the cash impact of the acquisition.

Financing activities

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. They include the cash impact of financial expenses.

Cash and cash equivalents

Cash and cash equivalents are liquid investments that are readily convertible to known amounts of cash in less than three months.

15 Stock options

We include stock options granted to employees in the financial statements using the following principles: the stock option s fair value is determined on the grant date and is recognized in personnel costs on a straight-line basis over the period between the grant date and the end of the vesting period. We calculate stock option fair value using the Black-Scholes model.

16 Grants

Government grants, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that the entity will comply with the conditions of the grant and that the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. They are presented as a reduction of the corresponding expenses in the item Research and development expenses, net in the income statement.

Refundable grants are presented in the balance sheet as Other non-current liabilities .

17 Earnings per share

Basic per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary equity holders of the Company (after deducting interest, amortization on deferred expenditures and variance on derivative related to convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of convertible bonds and the exercise of stock options.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 ACQUISITIONS AND DIVESTITURES

during 2008

Wavefield Inseis ASA

On November 25, 2008, CGGVeritas SA launched a voluntary exchange tender offer to acquire 100% of the share capital of Wavefield-Inseis ASA (Wavefield). CGGVeritas SA offered Wavefield shareholders one newly issued CGGVeritas share for each 7 Wavefield shares. Completion of the offer was subject to customary conditions (or waive from CGGVeritas no later than on settlement date of the offer). The total number of shares tendered to the offer amounted to 90,480,237, representing 69.9% of the share capital of Wavefield. In consideration of the Wavefield shares tendered to the offer, on December 18, 2008, CGGVeritas issued 12,925,743 new shares. The fair value of those issued shares amounted to 139.0 million.

On December 30, 2008, CGGVeritas SA launched a mandatory public offer on the remaining 38, 903,024 outstanding shares (i.e. 30.1% of the share capital) as well as on the 2,892,875 shares that could result from the exercise of stock options. The offer price calculated in accordance with the provisions of Chapter VI of the Norwegian Securities Trading Act amounted to NOK 15.17 per share to be paid in cash. At the end of this mandatory offer period which expired on January 27, 2009, CGGVeritas acquired 37,043,013 additional shares of Wavefield and held as a result thereof 98.6% of the share capital.

The total consideration of the acquisition, including the 30% acquired in February 2009 after the Mandatory Public Offer that was considered as a put option granted to minority interest, and squeeze-out process, amounted to 206.6 million (US$287.6 million). The minority interests have been recognized as a financial debt at the fair value of the put option for an amount of 62 million.

Total direct transaction costs related to the acquisition (including advisory fees and legal fees) amounted to 5.5 million and were recognized as part of the cost of the acquisition.

Purchase price allocation

The purchase price has been preliminary allocated to the net assets acquired based upon their estimated fair values as follows:

	(in millions of euros)
Intangible assets, net	41.3
Multi-client seismic library, net	27.2
Fixed assets, net	180.0
Current assets / (liabilities), net	45.1
Financial debt	(92.6)
Cash & cash equivalents	25.8

Net book value of assets acquired	**226.8**
Fair Value Adjustments	
Technology (useful life of 10 years)	(3.6)
Customer contracts (maximum life of 2 years)	2.0
Multi-client seismic library	(12.9)
Unfavorable contracts (weighted average remaining life of 5.6 years)	(8.9)
Other financial & current assets	(9.4)
Contingent liabilities	(1.5)
Deferred taxes on fair value adjustments	5.5
Preliminary Goodwill	**8.6**
Purchase Price	**206.6**

The amount allocated to goodwill represents the excess of the purchase price over the fair value of the net assets acquired. This preliminary purchase price allocation is subject to modification during the next twelve months.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Multi-client data library

The fair value of the completed surveys was determined by projecting the expected future revenues net of selling costs over the estimated remaining life (5 years) of the surveys at the date of acquisition. The fair value is estimated at US$20.5 million.

Unfavorable contracts

The fair values of Wavefield s unfavorable contracts correspond to the difference in economic terms between Wavefield s existing vessel charters conditions and their estimated market value at the date of the acquisition.

Expenses related to unfavorable contracts are expected to be a reduction of cost of US$2 million per year over the remaining life.

Other financial & current assets

The fair values of certain investments were determined by using comparable market data and certain current assets were discounted or written-down due to the uncertainty of their recoverability.

Contingent liabilities

Due to the acquisition and the change of control of Wavefield, contractual obligations related to the stock-option plans have been recognized for an amount of 1.5 million (US$2.1 million).

Quest Geo Solutions

On December 12, 2008, Sercel acquired Quest Geo Solutions Ltd (Quest), a UK-based company, for a price of 5.1 million (GBP3 million, with an additional GBP1 million that will be paid in 2011 provided a certain level of revenues is achieved). Quest is specialized in navigation software for the seismic industry and was already cooperating with Sercel with respect to its SeaProNav products.

The purchase price allocation resulted in a preliminary goodwill of 2.8 million.

Metrolog

On May 26, 2008, Sercel acquired Metrolog, a privately held company, for 25.7 million paid in cash (including advisory and legal fees). Metrolog is a leading provider of high pressure, high temperature gauges and other downhole instruments to the oil and gas industry. The purchase price allocation resulted in a preliminary goodwill of 14.3 million.

Ardiseis FZCO

On June 25, 2008, in conjunction with the Oman business transfer from Veritas DGC Ltd to Ardiseis FZCO, CGGVeritas subscribed to the increase of 805 shares in the capital of its subsidiary Ardiseis FZCO, and sold 407 Ardiseis FZCO shares to Industrialization & Energy Services Company (TAQA) for a total consideration of U.S.$11.8 million. At the end of this transaction the Group s percentage interest in Ardiseis remained unchanged at 51%.

CGGVeritas Services Holding BV

On October 20, 2008 CGGVeritas Services Holding BV has been incorporated in the Netherlands. This allows CGGVeritas to benefit from a structure comparable to similar-sized international industrial groups, within a tax and legal environment better suited to our business needs. With the creation of CGGVeritas Services Holding BV, all Services operations will be conducted under a unified mode at the level of this new entity by the Services management team, also responsible for CGGVeritas Services SA.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

during 2007

Veritas

On September 4, 2006, CGG entered into a definitive merger agreement with Veritas DGC Inc. (Veritas) to acquire Veritas in a part cash, part stock transaction. The merger was completed on January 12, 2007 upon satisfaction of the closing conditions of the merger agreement. The combined company has been renamed Compagnie Générale de Géophysique-Veritas, abbreviated as CGGVeritas , and is listed on both the Euronext Paris and the New York Stock Exchange (in ADS form). The trading symbol of the combined company s ADS on the New York Stock Exchange is CGV .

At the merger closing date, and according to the formula set out in the merger agreement, the per share cash consideration to holders of Veritas stock was US$85.50 and the per share stock consideration was 2.0097 CGGVeritas ADSs upon the election of Veritas shareholders. Of the 40,420,483 shares of Veritas common stock outstanding as of the merger date (January 12, 2007), approximately:

33,004,041 of the shares, or 81.7%, had elected to receive cash,

5,788,701 of the shares, or 14.3%, had elected to receive CGG ADSs; and

1,627,741 of the shares, or 4.0%, did not make a valid election.

Stockholders electing cash received, on average, 0.9446 CGV ADSs and US$45.32 in cash per share of Veritas common stock. Stockholders electing ADSs and stockholders making no valid election received 2.0097 CGV ADSs per share of Veritas common stock. In aggregate, approximately US$1.5 billion and approximately 46.1 million shares of CGV ADSs were paid to Veritas stockholders as merger consideration. Based on a valuation of CGV s ADS at US$40.5 on January 12, 2007, the total consideration of the merger amounted to approximately 2,7 billion (US$3.5 billion).

Total direct transaction costs related to the merger (including advisory fees and legal fees) amounted to 26.3 million (US$34.6 million) and were recognized as cost of the acquisition.

Purchase price allocation

The purchase price has been allocated to the net assets acquired based upon their estimated fair values as follows:

	(in millions of euros)
Fixed assets, net	448
Current assets /(liabilities), net	43
Cash & cash equivalents	97
Net book value of assets acquired	**588**

Fair Value Adjustments	
Trade name (indefinite life)	23
Technology (useful life of 5 years)	31
Customer relationship (useful life of 20 years)	130
Multi-client seismic library (maximum life of 6 years)	73
Favorable contracts (weighted average remaining life of 5 years)	52
Fixed assets (weighted average remaining life of 3 years)	24
Other intangible assets	23
Contingent liabilities	(40)
Other liabilities	(24)
Deferred taxes on the above adjustments	(106)
Goodwill	**1,884**
Purchase Price	**2,658**

The amount allocated to goodwill represents the excess of the purchase price over the fair value of the net assets acquired.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Technology, customer relationships and other intangible assets

Amortization expense related to technologies and customer relationships acquired was 12.0 million (US$16.4 million) for the year ended December 31, 2007 and is expected to be US$17.0 million per year over the useful life.

Other intangible assets relate to exploration and appraisal licenses in the U.K. North Sea that were sold in February 2007 for a net amount of US$27.5 million and an asset sold in Canada for US$2.3 million. Neither amortization expense nor gain was recognized in the year ended December 31, 2007.

Favorable contracts and fixed assets

The fair values of Veritas favorable contracts correspond essentially to the difference in economic terms between Veritas existing vessel charters conditions and their market value at the date of the acquisition.

Amortization expense related to favorable contracts acquired was 11.5 million (US$15.7 million) for the year ended December 31, 2007 and is expected to be US$16.2 million per year over the remaining life.

In determining the fair value of the fixed assets, it was considered that the remaining useful life of the fixed assets acquired exceeded the estimated useful life currently being used for amortization expense. Therefore, the combined effect of the fair value adjustments and the change in estimate of the useful life of the assets resulted in a net reduction of depreciation cost of 3.3 million (US$4.5 million) for the year ended December 31, 2007.

Multi-client data library

After consideration of the estimated number of future years that revenues are expected to be generated from the completed surveys of the multi-client data library at the time of the transaction, CGGVeritas concluded that the remaining life of the completed surveys was a maximum of 6 years. The fair value of these surveys was determined by projecting the expected future revenues net of selling costs over the estimated remaining life of the surveys at the date of acquisition.

The US$285 million of total capitalized multi-client data costs, including a US$96 million adjustment, will be amortized pro rata the percentage of revenues generated and, in case of any indication of impairment, an impairment loss will be recognized. The net impact of the US$96 million fair value adjustment combined with the estimated remaining life of the surveys resulted in an additional amortization expense of 27.5 million (US$37.6 million) for the year ended December 31, 2007.

Contingent liabilities and Other liabilities

Due to the merger and the change of control of Veritas, contractual obligations related to a portion of severance costs for certain Veritas employees have been recognized for an amount of US$21 million (16 million) as well as success fees for an amount of approximately US$30 million.

Geomar

Geomar is a subsidiary, owned 49% by CGGVeritas and 51% by Louis Dreyfus Armateurs (LDA), that has owned the seismic vessel Alizé since March 29, 2007. On April 1, 2007, Geomar entered into a new charter agreement with LDA and LDA entered into a new charter agreement with CGG Services. Additionally, on April 10, 2007, CGG Services acquired a call right and LDA a put on the 51% stake of Geomar held by LDA. In light of the risks and benefits related to these new agreements for CGGVeritas, Geomar has been fully consolidated in our financial statements since April 1, 2007. Prior to that date, Geomar was accounted for under the equity method.

Cybernetix

On June 27, 2007, Sercel Holding acquired 121,125 Cybernetix shares bringing its total holding to 352,125 shares, representing voting rights for 32.01% of Cybernetix s share capital and 26.57% of its voting rights. On November 5, 2007, Sercel Holding increased its investment for a total amount of 0.8 million, bringing its total holding to 416,147 shares, representing voting rights for 32.20% . Since June 30, 2007, Cybernetix has been accounted for under the equity method in our financial statements.

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Offshore Hydrocarbon Mapping

On July 17, 2007, we entered into strategic joint operating agreement with Offshore Hydrocarbon Mapping plc (OHM) under which both companies will work together to develop the Controlled Source ElectroMagnetic imaging activities (CSEM) and on seismic and CSEM integration opportunities. On August 21, 2007, subsequent to the approval by the shareholders of OHM, we acquired 6,395,571 shares of OHM at a price of 240 GBP pence per share. On October 19, 2007, we acquired an additional 80,695 shares at a price of 240 GBP pence per share. We thus paid in total 22.9 million for 14.99% of OHM s issued share capital.

Eastern Echo Holding Plc

On November 12, 2007, we acquired 30.9 million shares of Eastern Echo Holding plc (ECHO NO) for a total consideration of approximately 55 million (NOK 431 million), representing 12.67% of Eastern Echo s issued share capital. Eastern Echo is a geophysical company specializing in acquisition of high quality 3D seismic data. Our intent, with this minority stake, was to best position ourselves, especially Sercel, for continuing cooperation with Eastern Echo in the expanding seismic market.

On November 23, 2007, further the cash offer launched by Schlumberger BV on November 16, 2007, we tendered our shares of Eastern Echo to Schlumberger BV at price of NOK 15 per share. We therefore recognized a gain of 2.8 million.

during 2006

TAQA

On June 24, 2006, Industrialization & Energy Services Company (TAQA), our long term Saudi 51% Partner in Arabian Geophysical and Surveying Company (Argas), acquired, for 16.8 million, 49% of the capital of CGG Ardiseis, a newly formed CGG subsidiary dedicated to land and shallow water seismic data acquisition in the Middle East, and the company maintained a 51% interest. CGG Ardiseis, whose headquarters are located in Dubai, provides its clients with the complete range of CGG land and shallow water acquisition services, focusing on Eye-D, the latest CGG technology for full 3D seismic imaging. As part of our agreement with TAQA, CGG Ardiseis activities in the Gulf Cooperation Council countries are operated by Argas.

Cybernetix

On July 10 2006, Sercel acquired a 20% interest (17% of voting rights) in the French listed company Cybernetix, a specialist in robotics, with the aim of strengthening our technical partnership with Cybernetix in offshore oil equipment, and an additional 1% by the end of the year 2006. The aggregate consideration for the transactions is 4.0 million.

Vibtech

On September 28, 2006, Sercel acquired the Scottish company Vibration Technologies Limited (Vibtech), pioneer in the use of advanced wireless technologies for seismic recording. The Unite system, and field trials of this new generation equipment, which have attracted interest from both oil companies and seismic contractors, is a unique versatile product capable of recording and transmitting data in a stand alone or real time mode, enabling quality control while recording and is capable of handling thousands of channels. Use of new transmission technologies also reduces limitations inherent to radio frequencies. We expect that the combination of Sercel expertise in seismic recording and new skills arising from Vibtech s development group will help expand the capabilities of the Sercel portfolio of products and integrate advanced wireless technology with its latest generation products. The cash consideration was 49.5 million (GBP 33.3 million) and our valuation of technological assets purchased of 11.6 million more (GBP 7.8 million), led us to record a goodwill of 35.6 million. The cash acquired was an amount of 1.3 million (GBP 0.9 million).

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 TRADE ACCOUNTS AND NOTES RECEIVABLE

Analysis of trade accounts and notes receivables by maturity is as follows:

	December 31		
	2008	**2007**	**2006**
	(in millions of euros)		
Trade accounts and notes receivable gross current portion	522.9	409.1	207.5
Less: allowance for doubtful accounts	(12.4)	(6.8)	(8.3)
Trade accounts and notes receivables net current portion	**510.5**	**402.3**	**199.2**
Trade accounts and notes receivable gross non current portion	0.1	3.3	4.3
Less: allowance for doubtful accounts			
Trade accounts and notes receivables net non current portion	**0.1**	**3.3**	**4.3**
Recoverable costs and accrued profit, not billed	201.7	196.3	97.6
Total accounts and notes receivables	**712.3**	**601.9**	**301.1**

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 equipment 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. Such unbilled accounts receivable are generally billed over the 30 or 60 days following the project commencement.

The non current receivables as of December 31, 2008 amounted to 0.1 million for the geophysical equipment segment. The non current receivables as of December 31, 2007 amounted to 3.3 million for the geophysical equipment segment. The non current receivables as of December 31, 2006 amounted to 1.4 million for the geophysical services segment and to 2.9 million for the geophysical equipment segment.

As of December 31, the ageing analysis of trade receivables is as follows:

			Past due but not impaired					
		No past due	**30 days**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**> 120 days**	**Total**
			(in millions of euros)					
2008	Trade accounts and notes receivables net	335.3	81.2	49.9	15.4	7.1	21.7	**510.6**
2007	Trade accounts and notes receivables net	295.0	53.2	18.6	14.2	4.2	20.4	**405.6**

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 INVENTORIES AND WORK IN PROGRESS

Analysis of Inventories and work-in-progress is as follows:

	December 31, 2008			December 31, 2007			December 31, 2006		
	Cost	Valuation Allowance	Net	Cost	Valuation Allowance	Net	Cost	Valuation Allowance	Net
	(in millions of euros)								
Geophysical services									
Consumables and spares parts	31.7	(0.9)	30.8	38.5	(1.0)	37.5	30.3	(1.1)	29.2
Work in progress	39.3		39.3	30.3		30.3	8.0		8.0
Geophysical equipment									
Raw materials and spare parts	76.2	(6.2)	70.0	67.3	(7.9)	59.4	62.6	(8.0)	54.6
Work in progress	89.1	(4.2)	84.9	78.9	(4.1)	74.8	73.8	(4.3)	69.5
Finished goods	66.3	(3.4)	62.9	39.9	(1.7)	38.2	30.3	(2.9)	27.4
Inventories and work in progress	**302.6**	**(14.7)**	**287.9**	**254.9**	**(14.7)**	**240.2**	**205.0**	**(16.3)**	**188.7**

The item « Work in progress » for Geophysical Services includes transit costs of seismic vessels that are deferred and recognized over the contract period according to the technical progress ratio.

The variation of inventories and work in progress is as follows:

Variation of the period	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
		(in millions of euros)	
Balance at beginning of period	240.2	188.7	139.5
Variations	26.7	40.3	39.3
Movements in valuation allowance		1.0	0.7
Change in consolidation scope	18.9	18.7	3.1
Change in exchange rates	3.0	(8.7)	(4.6)
Others	(0.9)	0.2	10.7
Balance at end of period	**287.9**	**240.2**	**188.7**

The additions and deductions in valuation allowances for inventories and work-in-progress are presented in the consolidated statements of operations as Cost of sales .

The change in consolidation scope relates to the acquisition of Wavefield for 17.1 million and Metrolog for 1.8 million in 2008, to the acquisition of Veritas in 2007.

NOTE 5 OTHER CURRENT ASSETS

Detail of other current assets is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Personnel and other tax assets	20.9	24.3	15.4
Fair value of financial instruments (see note 14)	1.1	8.3	8.8
Other miscellaneous receivables	34.4	18.9	18.1
Supplier prepayments	19.8	12.3	10.6
Prepaid expenses[(a)]	25.3	25.8	10.2
Other current assets	**101.5**	**89.6**	**63.1**

(a) includes principally prepaid rent, vessel charters.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 ASSET VALUATION ALLOWANCE

Details of valuation allowances recorded against assets are as follows:

	December 31, 2008			
	Balance at beginning of year	Additions/ Deductions charged in income	Others[(a)]	Balance at end of period
	(in millions of euros)			
Trade accounts and notes receivables	6.8	5.6		12.4
Inventories and work-in-progress	14.7			14.7
Tax assets	1.0	(1.0)		
Other current assets	0.8	1.9	(0.9)	1.8
Loans receivables and other investments	1.1	0.3	(0.3)	1.1
Total assets valuation allowance	**24.4**	**6.8**	**(1.2)**	**30.0**

(a) includes the effects of exchange rate changes and changes in the scope of consolidation.

	December 31, 2007			
	Balance at beginning of year	Additions/ Deductions charged in income	Others[(a)]	Balance at end of period
	(in millions of euros)			
Trade accounts and notes receivables	8.3	(1.6)	0.1	6.8
Inventories and work-in-progress	16.3	(1.0)	(0.6)	14.7
Tax assets	0.8	(0.3)	0.5	1.0
Other current assets	0.7	0.2	(0.1)	0.8
Loans receivables and other investments	1.0	0.1		1.1
Total assets valuation allowance	**27.1**	**(2.6)**	**(0.1)**	**24.4**

	December 31, 2006			
	Balance at beginning of year	Additions/ Deductions charged in income	Others[(a)]	Balance at end of period
	(in millions of euros)			
Trade accounts and notes receivables	6.2	2.3	(0.2)	8.3
Inventories and work-in-progress	17.7	(0.7)	(0.7)	16.3
Tax assets	0.3	0.5		0.8
Other current assets	1.4	(0.7)		0.7
Loans receivables and other investments	1.3	(0.2)	(0.1)	1.0
Total assets valuation allowance	**26.9**	**1.2**	**(1.0)**	**27.1**

NOTE 7 INVESTMENTS AND OTHER FINANCIAL ASSETS

Detail of investments and other financial assets is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Non-consolidated investments	5.2	21.1	8.9
Loans and advances[(a)]	9.9	0.6	6.8
Other	11.1	10.3	3.5
Total	**26.2**	**32.0**	**19.2**

(a) includes loans and advances to companies accounted for under the equity method, at December 31, 2008 for 2.0 million and at December 31, 2006 for 6.0 million.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-consolidated investments are as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Assets available for sale investments			
Offshore Hydrocarbon Mapping[(a)]	0.3	16.4	
Other investments in non-consolidated companies			
Cybernetix[(b)]			4.1
Tronic s Microsystems SA[(c)]	3.9	3.9	3.9
Other investments in non-consolidated companies	1.0	0.8	0.9
Total non-consolidated investments	**5.2**	**21.1**	**8.9**

(a) The Group s shareholding in Offshore Hydrocarbon Mapping was 14.99% at December 31, 2008 and at December 31, 2007. As it is listed on Alternative Investment Market (London Stock Exchange), Offshore Hydrocarbon Mapping is recognized at the fair value based on closing share price of GBP0.05 pence as of December 31, 2008 and on closing share price of GBP 185.50 pence as of December 31, 2007. At December 31, 2008 a definitive impairment loss of 22.6 million was recognized in the line item Other revenues (expenses) (see note 21). At December 31, 2007, the change in fair value recognized in shareholders equity was a negative amount of 6.9 million.

(b) The Group s shareholding in Cybernetix was 21% interest and 17% of voting rights at December 31, 2006. Since June 30, 2007, Cybernetix has been accounted for under the equity method in our financial statements due to additional 112,125 shares acquired leading to 32.01% voting rights.

(c) The Group s shareholding in Tronic s Microsystems S.A. was 16.07% at December 31, 2008 and at December 31, 2007 and 15.90% at December 31, 2006.

NOTE 8 INVESTMENTS IN COMPANIES UNDER EQUITY METHOD

The variation of Investments in companies under equity method is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Balance at beginning of period	44.5	46.2	43.9
Change in consolidation scope	24.1	2.1	
Investments made during the year	0.1	0.9	1.0

Equity in income	3.0	4.2	10.1
Dividends received during the period, reduction in share capital	(1.4)	(5.3)	(4.3)
Changes in exchange rates	2.6	(3.6)	(4.5)
Balance at end of period	**72.9**	**44.5**	**46.2**

The change in consolidation scope in 2008 corresponds to the entrance of Norwegian Oilfield Services AS and Multifield Geophysics at December 31, 2008 as part of the acquisition of Wavefield. The change in consolidation scope in 2007 corresponded to the exit of Geomar which was fully consolidated since April 1, 2007 for 5.4 million, and the entrance of Cybernetix which was accounted for under equity method since June 30, 2007 for 7.5 million (see note 2).

The investments in 2007 corresponded to the subscription of the capital increase in Cybernetix, and to the subscription of the capital increase in VS Fusion LLC in 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments in companies accounted for under equity method are comprised of:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Argas	40.7	32.8	37.5
Norwegian Oilfield Services AS	24.1		
Cybernetix[(a)]	5.0	8.2	
JV Xian Peic/Sercel Limited	2.6	2.4	2.4
VS Fusion LLC	0.5	1.1	0.9
Geomar			5.4
Multifield Geophysics			
Investments in companies under the equity method	**72.9**	**44.5**	**46.2**

(a) the investment under equity method for Cybernetix includes an impairment of 2.7 million.

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

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Argas	36.4	28.5	33.2
Norwegian Oilfield Services AS	24.1		
Cybernetix	(3.5)	(0.3)	
JV Xian Peic/Sercel Limited	1.0	0.7	0.9
VS Fusion LLC	(0.7)	0.1	(0.3)
Geomar			(0.2)
Multifield Geophysics			
Total	**57.3**	**29.0**	**33.6**

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Analysis of Property, plant and equipment is as follows:

	December 31						
	2008			2007			2006
	Gross	Accumulated depreciation	Net	Gross	Accumulated depreciation	Net	Net
	(amounts in millions of euros)						
Land	7.0	(0.2)	6.8	7.7	(0.2)	7.5	4.5
Buildings	89.1	(40.7)	48.4	83.1	(41.1)	42.0	30.6
Machinery & equipment	1,131.6	(623.0)	508.6	910.8	(547.9)	362.9	183.7
Vehicles & vessels	405.3	(181.9)	223.4	374.4	(148.5)	225.9	221.4
Other tangible assets	61.8	(41.1)	20.7	50.0	(36.8)	13.2	9.5
Assets under constructions	14.5		14.5	8.5		8.5	5.5
Total Property, plant and equipment	**1,709.3**	**(886.9)**	**822.4**	**1,434.5**	**(774.5)**	**660.0**	**455.2**

At December 31, 2008, lands and buildings of the current Massy headquarters have been reclassified as Assets held for sale for 8.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Land, buildings and geophysical equipment recorded under capital leases are as follows:

	December 31						
	2008			2007			2006
	Gross	Accumulated depreciation	Net	Gross	Accumulated depreciation	Net	Net
	(amounts in millions of euros)						
Land and buildings under capital leases							
Geophysical equipment and vessels under capital leases	186.0	(44.9)	141.1	56.1	(17.9)	38.2	50.5
Other tangible assets under capital leases	0.5	(0.5)		0.4	(0.4)		
Total Property, plant and equipment under capital leases	**186.5**	**(45.4)**	**141.1**	**56.5**	**(18.3)**	**38.2**	**50.5**

In 2008, the increase in geophysical equipment and vessels under capital leases is related to the acquisition of Wavefield.

The decrease in geophysical equipment and vessels under capital leases in 2007 was due to the termination of a US$13 million (10 million) lease and impact of changes in exchange rate.

In July 2006, the time charter party agreement of our seismic vessel, the Laurentian, had been renewed with modified contractual conditions and still qualifies as a capital lease. The total lease obligation is approximately US$20.8 million (16 million) over its three-year term. The net present value of future lease payments under the capital lease was approximately US$7.8 million (6 million) and the remaining part of the obligation is accounted for as operating expenses over the agreement duration. The capital lease amount was depreciated over the agreement duration, maturing in September 2008.

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

Included in assets recorded under capital leases are land and buildings of the Massy headquarters, which were sold under a sale and leaseback agreement in 1990, which included a purchase option that was exercised in 2006. The assets were maintained at their original cost and the buildings continue to be depreciated over their initial estimated useful lives.

The variation of the period for tangible assets is as follows :

	December 31,		
	2008	**2007**	**2006**
	(in millions of euros)		
Balance at beginning of period	660.0	455.2	480.1
Acquisitions	142.2	214.1	133.3
Acquisitions through capital lease			0.1
Depreciation	(168.4)	(142.2)	(92.8)
Disposals	(7.8)	(7.8)	(3.6)
Changes in exchange rates	27.2	(64.4)	(41.1)
Change in consolidation scope	180.2	204.0	(6.5)
Reclassification of tangible assets as Assets held for sale	(8.0)		(0.4)
Other	(3.0)	1.1	(13.9)
Balance at end of period	**822.4**	**660.0**	**455.2**

The change in consolidation scope in 2008 corresponds to the fair value of Wavefield s tangible assets acquired for 179.8 million and of Metrolog s tangible assets acquired for 0.4 million.

The change in consolidation scope in 2007 corresponded to the fair value of Veritas tangible assets acquired for 173.3 million and the consolidation of Geomar, owner of the seismic vessel *Alizé* for 30.7 million, and in 2006 to the adjustment in the estimated fair value of assets acquired and liabilities assumed from the acquisition of Exploration Resources.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Reconciliation of acquisitions with the consolidated statements of cash flows and capital expenditures in note 19 is as follows:

	December 31, 2008	2007	2006
	(in millions of euros)		
Acquisitions of tangible assets (excluding capital lease) see above	142.2	214.1	133.3
Development costs capitalized see note 20	13.7	8.2	11.9
Additions in other tangible assets (excluding non-exclusive surveys) see note 10	5.9	3.8	4.1
Variance of fixed assets suppliers	(6.4)	4.4	(0.1)
Total purchases of tangible and intangible assets according to cash-flow statement	**155.4**	**230.5**	**149.2**
Acquisitions through capital lease see above			0.1
Increase in multi-client surveys see note 10	343.4	371.4	61.5
Less variance of fixed assets	6.4	(4.4)	0.1
Capital expenditures according to note 19	**505.2**	**597.5**	**210.9**

Repairs and maintenance expenses

Repairs and maintenance expenses included in cost of operations amounted to 79.6 million in 2008, 68.3 million in 2007 and 36.0 million in 2006.

NOTE 10 INTANGIBLE ASSETS

Analysis of intangible assets is as follows:

	December 31, 2008			2007			2006
	Gross	Accumulated depreciation	Net	Gross	Accumulated depreciation	Net	Net
	(amounts in millions of euros)						
Multi-client surveys Marine	1,326.3	(910.0)	416.3	955.8	(660.2)	295.6	71.8
Multi-client surveys Land	262.7	(143.4)	119.3	228.9	(89.1)	139.8	
	104.6	(19.6)	85.0	47.3	(12.8)	34.5	31.6

Development costs capitalized							
Software	45.8	(33.6)	12.2	41.0	(32.0)	9.0	7.3
Other intangible assets	249.9	(62.7)	187.2	239.4	(37.8)	201.6	16.9
Total intangible assets	**1,989.3**	**(1,169.3)**	**820.0**	**1,512.4**	**(831.9)**	**680.5**	**127.6**

The variation of the period for intangible assets is as follows:

	December 31,		
Variation of the period	**2008**	**2007**	**2006**
	(in millions of euros)		
Balance at beginning of period	680.5	127.6	136.3
Increase in multi-client surveys	343.4	371.4	61.5
Development costs capitalized	13.7	8.2	11.9
Others acquisitions	5.9	3.8	4.1
Depreciation on multi-client surveys	(260.8)	(308.5)	(80.6)
Other depreciation	(37.3)	(36.9)	(13.2)
Disposals		(21.9)	
Changes in exchange rates	32.5	(67.1)	(4.0)
Change in consolidation scope	62.1	584.8	11.4
Other	(20.0)	19.1	0.2
Balance at end of period	**820.0**	**680.5**	**127.6**

The change in consolidation scope in 2008 corresponds to the fair value of Wavefield s intangible assets acquired for 54.0 million, Metrolog for 4.8 million and Quest Geo for 3.3 million, in 2007 to the fair value of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Veritas intangible assets acquired (see note 2), and in 2006 to technology acquired in Sercel Vibtech s purchase accounting.

In 2007 the disposals of assets related mainly to the sale of certain of Veritas North Sea licenses and a Canadian asset (see note 2).

NOTE 11 GOODWILL

Analysis of goodwill is as follows:

Variation of the period	December 31, 2008	2007	2006
	(in millions of euros)		
Balance at beginning of period	1,928.0	267.4	252.9
Additions	25.8	1,883.6	35.6
Adjustments	4.3		2.9
Changes in exchange rates	97.0	(223.0)	(24.0)
Other			
Balance at end of period	**2,055.1**	**1,928.0**	**267.4**

The additions in 2008 correspond to the preliminary goodwill arising on the acquisition of Metrolog for 14.3 million, the acquisition of Wavefield for 8.6 million, and the acquisition of Quest for 2.8 million (see note 2).

The adjustments to goodwill in 2008 correspond to an increase of 9.1 million related to the deferred tax asset previously recognized on Veritas acquisition fees, and a decrease of 4.8 million arising from the use of Veritas foreign carry-forward losses existing prior to the merger and not recognized as an asset according to IAS 12.68 Income taxes Deferred tax arising from a business combination . This reduction of goodwill offsets the symmetrical tax credit recorded in the line item Other income taxes .

The additions in 2007, corresponded to the goodwill arising on the acquisition of Veritas for 1,883.6 million (US$2,480.7 million), and in 2006 to the goodwill arising on the acquisition of Vibtech renamed Sercel Vibtech for 35.6 million (GBP 24.4 million). The goodwill arising on the acquisition of Exploration Resources was adjusted in 2006 for 2.9 million, according to the adjustment of the fair value of Exploration Resources acquired assets and assumed liabilities, and was presented as Goodwill adjustments . The final goodwill of Exploration Resources amounted to 179.9 million.

Impairment review

Group management undertakes at least an annual impairment test covering goodwill, intangible assets and indefinite lived assets allocated to the cash generated units to consider whether an impairment is required.

The recoverable value retained by the Group corresponds to the discounted expected cash flows from the cash generating units or group of cash generating units.

The cash generating units are as follows:

- Equipment segment (test of the carrying value of the goodwill);
- Marine business line (test of carrying value of the goodwill, multi-client library and tangible assets corresponding mainly to the Veritas and Exploration Resources purchase accounting in 2007 and 2005);
- Processing & Imaging business line (test of the carrying value of the goodwill, intangible and tangible assets resulting from the Veritas purchase accounting in 2007);
- Land business line level (test of the carrying value of the goodwill and intangible and tangible assets resulting from the Veritas purchase accounting in 2007).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Key assumptions used in the determination of value in use

In determining the asset recoverability, management makes estimates, judgments and assumptions on uncertain matters. The recoverable amounts are determined based on economic and regulation assumptions and forecasted operating conditions as follows:

expected cash flows estimated in the 3-year business plans,

use of what is considered as normative cash flows beyond Year 3,

industrial outlook consisting in a slow down in 2009 and 2010, and recovery in 2011 and beyond,

average exchange rate of U.S.$1.35 for 1 ,

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

n 10.1% for the Equipment segment (corresponding to a pre-tax rate of 15.2%);

n 9.0%for the Marine business line (corresponding to a pre-tax rate of 11.2%);

n 9.6% for the Processing & Imaging business line (corresponding to a pre-tax rate of 12.2%); and

n 9.2% for the Land business line (corresponding to a pre-tax rate of 11.2%).

The result of the different impairment tests performed as of December 31, 2008, 2007 and 2006 is that no impairment loss was recorded in any year.

Sensitivity to changes in assumptions

Changing the assumptions selected by Group management, in particular the discount rate and the normative cash flows (EBITDAS) could significantly affect the Group s impairment evaluation and, hence, results.

The following changes to the assumptions used in the impairment test lead to the following:

	Excess of the expected future discounted cash-flows over the carrying	**Sensitivity on normative cash flows**	**Sensitivity on discount rate (after tax)**

	Goodwill	value of assets including goodwill	Decrease by 10%	Increase by 10%	Decrease by 1%	Increase by 1%
			(in millions of euros)			
Equipment segment	101	844	(148)	+ 148	+ 143	(127)
Marine	1,345	1,042	(890)	+ 890	+ 622	(507)
Processing & Imaging	323	277	(99)	+ 99	+ 118	(83)
Land	286	187	(189)	+ 189	+ 130	(101)

NOTE 12 OTHER CURRENT LIABILITIES

The analysis of other current liabilities is as follows:

	December 31, 2008	2007	2006
	(in millions of euros)		
Value added tax and other taxes payable	34.7	25.9	15.7
Deferred income	93.1	63.5	7.0
Fair value of financial instruments (see note 14)	10.2	1.1	0.6
Other liabilities	35.3	18.5	8.0
Other current liabilities	**173.3**	**109.0**	**31.3**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 FINANCIAL DEBT

Analysis of financial debt by type is as follows:

	December 31						
	2008			2007			
	Current	Non-current	Total	Current	Non-current	Total	2006 Total
	(amounts in millions of euros)						
Outstanding bonds		642.8	642.8		606.6	606.6	245.5
Bank loans	137.3	558.7	696.0	28.4	657.4	685.8	95.2
Capital lease debt	31.4	94.8	126.2	8.5	34.8	43.3	55.5
Sub-total	**168.7**	**1,296.3**	**1,465.0**	**36.9**	**1,298.8**	**1,335.7**	**396.2**
Bank overdrafts	8.2		8.2	17.5		17.5	6.5
Accrued interest	10.7		10.7	7.8		7.8	2.9
Other[(a)]	62.1		62.1				2.9
Total	**249.7**		**1,546.0**	**62.2**		**1,361.0**	**405.6**

(a) corresponds at December 31, 2008 to the 30.1% share capital of Wavefield that was subject to the mandatory public offer launched on December 30, 2008 and acquired on February 16, 2009 (see note 30).

The current portion corresponds to a one year maturity (See note 18).

Analysis of financial debt by currency is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Euro	35.1		1.5
U.S. dollar	1,423.8	1,335.6	394.6
Other currencies	6.1	0.1	0.1
Total	**1,465.0**	**1,335.7**	**396.2**

Analysis of financial debt by interest rate is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Variable rates (average effective rate December 31, 2008: 4.82%, 2007: 7.62%, 2006: 6.34%)	724.7	633.5	85.3
Fixed rates (average effective rate December 31, 2008: 7.46%, 2007: 7.65%, 2006: 7.30%)	740.3	702.2	310.9
Total	**1,465.0**	**1,335.7**	**396.2**

Variable interest rates generally are based on inter-bank offered rates of the related currency. The weighted average interest rate on bank overdrafts was 7.90%, 11.50% and 9.40% at December 31, 2008, 2007 and 2006 respectively.

Out of the fixed rate credit lines, no significant credit line is expected to be renewed within the next twelve months (see note 18).

The impact of hedging instruments has not been considered in the above two tables.

n Outstanding Bonds

High Yield bonds Additional notes (US$400 million, 73/4% Senior Notes, maturity 2017)

On February 9, 2007, we issued US$400 million of 7 3/4% Senior Notes due 2017. These notes were guaranteed on a senior basis by certain of our subsidiaries. The notes are listed on the Euro MTF market of the Luxembourg

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Stock Exchange. We used the net proceeds from the notes to repay one part of US$700 million outstanding under the bridge loan facility used to finance Veritas acquisition.

Those bonds include some covenants, specifically on additional indebtedness subscriptions, pledges arrangements, sales and lease-back transactions, issuance and sale of equity instruments and dividends payments by certain subsidiaries of the Group.

In addition, the ratio of EBITDAS to gross interest expenses has to be equal or greater than 3.

All those covenants were complied with at December 31, 2008. They were also complied with at December 31, 2007.

High Yield bonds Additional notes (US$200 million, 71/2% Senior Notes, maturity 2015)

On February 9, 2007, we issued an additional US$200 million in aggregate principal amount of 7 1/2% senior notes due 2015. These notes were guaranteed on a senior basis by certain of our subsidiaries. The notes are listed on the Euro MTF market of the Luxembourg Stock Exchange. We used the net proceeds from the notes to repay one part of US$700 million outstanding under the bridge loan facility used to finance Veritas acquisition.

Those bonds include some covenants, specifically on additional indebtedness subscriptions, pledges arrangements, sales and lease-back transactions, issuance and sale of equity instruments and dividends payments by certain subsidiaries of the Group.

In addition, the ratio of EBITDAS to gross interest expenses has to be equal to or greater than 3.

All those covenants were complied with at December 31, 2008. They were also complied with at December 31, 2007.

High Yield bonds Additional notes (US$165 million, 71/2% Senior Notes, maturity 2015)

On February 3, 2006, we issued an additional US$165 million principal amount of our dollar-denominated 71/2% Senior Notes due 2015 issued in April 2005 in a private placement with certain eligible investors. The notes were issued at a price of 1031/4% of their principal amount, resulting in a Yield-to-Worst of 6.9%. The net proceeds from the notes were used on February 10, 2006 to repay the US$140.3 million remaining outstanding under our US$375 million bridge credit facility used to finance the acquisition of Exploration Resources. On August 17, 2006, US$164 million in principal amount of these notes were exchanged for identical notes registered with the SEC.

Those bonds include some covenants, specifically on additional indebtedness subscriptions, pledges arrangements, sales and lease-back transactions, issuance and sale of equity instruments and dividends payments by certain subsidiaries of the Group.

In addition, the ratio of EBITDAS to gross interest expenses has to be equal to or greater than 3.

All those covenants were complied with at December 31, 2008. They were also complied with at December 31, 2007 and at December 31, 2006.

High Yield bonds (US$165 million, 71/2% Senior Notes, maturity 2015)

On April 28, 2005, we issued US$165 million of 71/2% Senior Notes due 2015. The net proceeds were used to redeem and pay accrued interest on all US$150 million outstanding aggregate principal of our existing 105/8% Senior Notes due 2007, on May 31, 2005 (see above).

Those bonds include some covenants, specifically on additional indebtedness subscriptions, pledge arrangements, sale and lease-back transactions, issuance and sale of equity instruments and dividends payments by certain subsidiaries of the Group.

In addition, the ratio of EBITDAS to gross interest expenses has to be equal to or greater than 3.

All those covenants were complied with at December 31, 2008. They were also complied with at December 31, 2007 and at December 31, 2006.

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Convertible bonds (7.75%, due 2012)

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 a total nominal amount of US$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 terms of the convertible bonds were amended as approved by the General Meeting of bondholders held on November 2, 2005, and approved by a General Meeting of CGG shareholders held on November 16, 2005. The early conversion period was open from November 17 to November 18 2005, inclusive. At the conclusion of the conversion period, 11,475 convertible bonds due 2012 were converted, leading to the issuance of 1,147,500 new shares. Thereafter 2,525 convertible bonds remained outstanding representing a nominal value of US$15.3 million. The Group paid a total premium of US$10.4 million (8.9 million) to the bondholders who converted its bonds. This premium has been recognized as a charge under the line item Other financial income (loss) in the income statement for the year ended December 31, 2005. In addition, the write-off of the deferred issuance costs linked to this redemption amounted to 3.7 million and has been recognized as a charge under the line item Other financial income (loss) in the income statement for the year ended December 31, 2005 (see note 23).

A component of our convertible bonds due 2012 issued on November 4, 2004 and denominated in US dollars constitutes an embedded derivative as the shares to be issued upon conversion are denominated in Euro. A portion of the issuance proceeds was deemed to relate to the fair value of the derivative on issuance and subsequent changes in fair value of the derivative are recorded through earnings. The allocation of a portion of the proceeds to the derivative created a discount on issuance that is being amortized to earnings over the life of the bonds.

The fair value of the embedded derivative has been determined using a binomial model.

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.$6 million in additional interest. At December 31, 2004 and at December 31, 2005, no expense related to this clause was booked since its realization was considered unlikely.

Approximately US$70 million of our US$85 million 7.75% convertible bonds due 2012 were converted in November 2005. A general meeting of bondholders, held on April 5, 2006, and a general meeting of CGG shareholders, held on May 11, 2006, approved a change to the terms and conditions of the remaining convertible bonds to grant bondholders a right to receive a cash payment upon immediate conversion of the bonds. The early conversion period was open on May 12, 2006 only. At the conclusion of the conversion period, all the remaining 2,525 convertible bonds were converted, leading us to issue of 274,914 new shares of CGG and pay a total premium of US$2.1 million (1.6 million) to the converting bondholders. This premium has been recognized as an expense under the line item Derivative and other expenses on convertible bonds in our income statement for the twelve months period ended December 31, 2006.

In addition, we wrote-off the deferred issuance costs attached to the remaining 2,525 convertible bonds in connection with the early conversion, corresponding to a 0.7 million expense under the line item Derivative and other expenses on convertible bonds in our income statement for the twelve months ended December 31, 2006 (see note 23).

The fair value of the derivative increased from 11.3 million at December 31, 2005 to 32.0 million at May 12, 2006 when the remaining 2,525 convertible bonds due 2012 were converted. At the conversion, the derivative of 32.0 million was reclassified to retained earnings in the balance sheet.

The increase in the value of the derivative of 20.7 million from January 1, 2006 to May 12, 2006 is explained principally by the increase in CGG share price, taking into account that the value was reduced by the time component upon the conversion in shares for an amount of 1.6 million. The corresponding income was accounted under the line item Derivative and other expenses on convertible bonds .

n Bank loans

At December 31, 2008, 617.7 million of bank loans were secured by tangible assets and receivables.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At December 31, 2008, the Group had 11.1 million available in unused short-term credit lines and overdraft facilities and 203.5 million in unused long-term credit lines.

Amendments to the credit agreement dated January 12, 2007 and the French revolver credit agreement dated February 7, 2007 (hereafter the credit agreements) :

An amendment to the credit agreements was signed on December 12, 2008. Such amendments give the Group a larger flexibility with respect to (i) the acquisition of companies through a tender offer process, (ii) share buyback and (iii) recapitalization of subsidiaries that are not Guarantors under the credit agreements.

In consideration of such amendments, the Company (i) reimbursed US$50 million on the signature date of such amendments and (ii) shall reimburse an additional US$100 million (in addition to the reimbursement initially scheduled) in 2009, to be paid in four quarterly installments of US$25 million. Half of these additional payments (US$75 million) correspond to early payment of compulsory reimbursements to be made in the first semester of 2010.

U.S.$1,140 million Senior Facilities

On January 12, 2007, the Group entered into a US$1.140 billion senior secured credit agreement with Credit Suisse, as administrative agent and collateral agent, and the lenders party thereto, pursuant to which credit agreement the Group borrowed a US$1.0 billion senior secured term loan B and obtained a US$140 million senior secured U.S. revolving facility (which revolving facility includes letter of credit and swingline subfacilities). We repaid US$100 million on June 29, 2007 of the Term Loan B early.

The proceeds of the term loan facility were used to:

- finance a portion of the cash component of the merger consideration;
- repay certain existing debt of CGG and Veritas; and
- pay the fees and expenses incurred in connection with the foregoing.

Proceeds of loans under the U.S. revolving facility may be used for the general corporate purposes of the borrower and other subsidiaries.

The obligations of CGGVeritas Services Holding (US) under the senior facilities are guaranteed by CGGVeritas and certain subsidiaries including the former Veritas group subsidiaries. Shares of CGGVeritas Services Holding (US) and of certain of its first-tier subsidiaries are pledged as well as those of other first-tier subsidiaries of CGGVeritas. In addition, certain guarantors have provided first-priority security interests in certain of their respective tangible and intangible assets, including (without limitation) certain vessels, real property, mineral rights, deposit accounts and intellectual property. In the case of certain of subsidiaries (most notably CGGVeritas Services Holding (US) and certain U.S. and Canadian subsidiaries), the collateral may comprise substantially all of their respective assets.

The interest rate applicable to the term loan facility is LIBOR + 200 bps. The interest rate applicable to the U.S. revolving facility of U.S.$140 million is LIBOR + 225 bps.

Pursuant to this agreement, the group is required to adhere to certain financial covenants including maximum ratio of total net debt to EBITDAS, and minimum ratio of EBITDAS less capital expenditures to total interest costs. Besides, the group is subject to affirmative and negative covenants that affect its ability, among other things, to borrow money, incur liens, dispose of assets and acquisitions and pay dividends or redeem shares.

U.S.$1,600 million Bridge Loan

On November 22, 2006, the Group entered into a US$1.6 billion senior secured bridge loan facility agreement with Credit Suisse International, as agent and security agent, and the lenders party thereto. On January 12, 2007, the Group borrowed US$700 million under the bridge loan facility, and the proceeds were used to:

- finance a portion of the cash component of the merger consideration;

- repay certain existing debt of CGG and Veritas; and

- pay the fees and expenses incurred in connection with the foregoing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Upon such borrowing and the concurrent funding of the US$1.0 billion term loan facility described above, the unused commitments of US$900 million were terminated.

We used the net proceeds of our February 2007 senior notes offering described above, together with cash on hand, to repay in full the bridge loan facility.

U.S.$375 million Bridge Loan (used credit line and presented as bank loans current portion)

On September 1, 2005, we entered into a single currency US$375 million term credit facility, which was amended on September 30, 2005, with Crédit Suisse, Paris Branch and BNP Paribas as arrangers, with a maturity date at September 1, 2006 with the option (upon our request and upon approval of a majority of the lenders) to extend it for a further six months. The use of proceeds for this credit facility was to fund our initial purchase of approximately 60% of Exploration Resources shares, our continuing purchases of Exploration Resources shares, our mandatory offer for the purchase of the remaining Exploration Resources shares and the squeeze out of remaining shareholders.

The credit facility bears interest at a graduated rate beginning with a base margin, depending on the credit rating assigned by either Moody s or Standard & Poor s to our outstanding U.S.$165 million 71/2% senior notes due 2015 (4.25% at BB /Ba3 or higher, 5.25% at B+/B1, 5.75% at B/B2 and 6.25% at B /B3 or lower), over US$ LIBOR until March 1, 2006, plus 0.50% from March 1, 2006 until June 1, 2006, plus 1.00% from June 1, 2006 until September 1, 2006 plus 2.00% from September 1, 2006 until the repayment. The interest expense represents 10.4 million for the year ended December 31, 2005.

In order to comply with the conditions of the acquisitions of Exploration Resources shares noted above, we obtained waivers from the lenders under our US$60 million syndicated credit facility dated March 12, 2004 of the negative pledge and any other relevant provisions hereunder, as well as amendments to the financial covenants (see below).

As a consequence of the capital increase dated December 16, 2005, we repaid, on December 23, 2005, US$234.7 million of the US$375 million which had been drawn on this credit facility. The unamortized portion of the deferred expenditures linked to this redemption amounted to 3.8 million and were recognized in the income statement as Cost of financial debt at December 31, 2005. At December 31, 2005, we have drawn down US$140.3 million (118.9 million), which was effectively repaid on February 10, 2006. The net proceeds from the notes issued on February 3, 2006 were used on February 10, 2006 to repay the US$140.3 million which remained outstanding under our US$375 million bridge credit facility used to finance the acquisition of Exploration Resources. We agreed to maintain some provisions under the bridge loan agreement: those were respected at December 31, 2005 and were invalid and void from February 10, 2006. The corresponding interest expense amounted to 2.0 million in 2006.

Additional asset financing agreement

On March 13, 2006, CGG Marine Resources Norge AS concluded an asset financing agreement for US$26.5 million with a bank. The purpose of this agreement was to finance the acquisition of newly-developed Sentinel streamers for the vessel Symphony. This financing agreement is guaranteed by a pledge on the streamers. At December 31, 2006, this facility was fully drawn. The outstanding value at December 31, 2008 is US$9.5 million.

Additional credit facility

On March 29, 2006, Exploration Resources concluded a credit facility of US$70 million. The proceeds from this credit facility were used to finance the conversion of the *Geo-Challenger* from a cable laying vessel to a 3D seismic vessel and seismic equipment for the vessels *C-Orion* and *Geo-Challenger*. At December 31, 2006, this facility was fully drawn. The outstanding value at December 31, 2008 is US$35 million.

U.S.$25 million Secured Term Loan Facility

On April 30, 2007, Geomar concluded a credit facility of US$25 million. The proceeds from this credit facility were used to refinance the seismic vessel *Alizé*. At December 31, 2007, this facility was fully drawn. The outstanding value at December 31, 2008 is US$19.6 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

U.S.$200 million Revolving Credit Agreement

On February 7, 2007, CGGVeritas entered into a US$200 million revolving credit agreement with Natixis as administrative agent and Crédit Suisse as collateral agent. The proceeds of this revolving credit agreement may be drawn in US$ or in , and may be used for the general corporate purposes of the borrower. At December 31, 2008, 35 million were drawn.

NOTE 14 FINANCIAL INSTRUMENTS

Because we operate internationally, we are exposed to general risks linked to operating abroad. Our major market risk exposures are changing interest rates and currency fluctuations. We do not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

n Foreign currency risk management

As a company that derives a substantial amount of its revenue from sales internationally, we are subject to risks relating to fluctuations in currency exchange rates. In the years ended December 31, 2008, 2007 and 2006, more than 80% of our operating revenues were denominated in U.S. dollar while in the same time the part of our operating expenses denominated in currencies other than euros grew to approximately three-quarters. These included U.S. dollars and, to a significantly lesser extent, other non-Euro Western European currencies, principally British pounds and Norwegian kroner.

Foreign currency sensitivity analysis

The reporting currency for the Group s consolidated financial statements is the euro. As a result, the Group s sales and operating income are exposed to the effects of fluctuations in the exchange rate of the euro against such other currencies, particularly the U.S. dollar. A depreciation of the U.S. dollar against the euro will negatively affect our reported results of operations since U.S. dollar denominated earnings that are converted to euros are stated at a decreased value. Based upon the level of operations we reached in year 2008, and given the current portfolio of currencies, a 10 cents variance of the U.S. dollar against the euro would impact by approximately 50 million dollars our dollar equivalent-value results of operations.

To mitigate the exposure, we attempt to match foreign currency revenues and expenses in order to balance our net position of receivables and payables denominated in foreign currencies. Nevertheless, during the past five years such dollar-denominated expenses have not equaled dollar-denominated revenues principally due to personnel costs payable in euros. In order to improve the balance of our net position of receivables and payables denominated in foreign currencies, we maintain our financing in U.S. dollars.

Foreign forward exchange contracts

In order to protect the Group against the reduction in the value of future foreign currency cash flows we follow 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 and in Australian dollars. This foreign currency risk management strategy has enabled us to reduce, but not eliminate, the positive or negative effects of exchange movements with respect to these currencies.

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Details of forward exchange contracts are as follows:

	December 31, 2008	2007	2006
Forward sales of U.S. dollars against euros			
Notional amount (in millions of US$)	418.8	255.9	305.9
of which forward sales qualifying as cash-flow hedges	408.8	255.9	305.9
of which forward sales not qualifying as cash-flow hedges	10.0		
Weighted average maturity	83 days	70 days	94 days
Weighted average forward US$/Euro exchange rate	1.4354	1.4065	1.2619
Forward sales of U.S. dollars against British pounds			
Notional amount (in millions of US$)	5.5	15.0	21.9
of which forward sales qualifying as cash-flow hedges	5.5	15.0	21.9
of which forward sales not qualifying as cash-flow hedges			
Weighted average maturity	8 days	26 days	123 days
Weighted average forward U.S.$/£ exchange rate	0.5055	1.9847	1.8956
Forward sales of U.S. dollars against Australian dollars			
Notional amount (in millions of US$)		9.5	
of which forward sales qualifying as cash-flow hedges		9.5	
of which forward sales not qualifying as cash-flow hedges			
Weighted average maturity		229 days	
Weighted average forward U.S.$/AUD$ exchange rate		0.8383	
Forward sales of U.S. dollars against Ren-min-bi Yuan			
Notional amount (in millions of US$)	6.5		
of which forward sales qualifying as cash-flow hedges	6.5		
of which forward sales not qualifying as cash-flow hedges			
Weighted average maturity	61 days		
Weighted average forward U.S.$/RMB exchange rate	6.8248		

Effects of forward exchange contracts on financial statements are as follows:

	December 31, 2008	2007	2006
	(in millions of euros)		
Carrying value of forward exchange contracts (see notes 5 and 12)	(7.6)	8.3	8.8
Fair value of forward exchange contracts	(7.6)	8.3	8.8
Gains (losses) recognized in profit and loss (see note 21)	(9.1)	18.7	8.9
Gains (losses) recognized directly in equity	(3.9)	(4.6)	8.7

Call contracts

In 2008, the Group has acquired call contracts in connection with the mandatory public offer to acquire the portion of Wavefield shares not yet acquired at December 31, 2008, so as to mitigate the exchange risk related to the cash consideration of the transaction in a context of appreciation of the Norwegian Kroner against Euro.

	December 31,		
	2008	2007	2006
Call NOK / Put			
Notional amount (in millions of NOK)	600.0		
of which qualifying as cash-flow hedges	600.0		
of which not qualifying as cash-flow hedges			
Maturity	33 days		
Exercise price (NOK/)	9.50		

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Effects of call contracts on financial statements are as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Carrying value of call contracts	1.0		
Fair value of call contracts	1.0		

n Interest rate risk management

Our policy is to manage interest rates through use of a combination of fixed and floating rate debt. Our exposure to interest rate fluctuations is reduced to the extent that part of our financial debt at December 31, 2008 consists of bond issues maturing in November 2015 and 2017 and bearing a fixed interest rate. However, our sources of liquidity include a Senior Term Loan B credit with financial institutions charging variable interest rates. We may also use interest rate swaps to adjust interest rate exposures when appropriate based upon market conditions.

Interest rate sensitivity analysis

Our sources of liquidity include credit facilities and debt securities which are or may be subject to variable interest rates. In particular, the Senior Facilities are subject to interest based on U.S. dollar LIBOR. As a result, our interest expenses could increase significantly if short-term interest rates increase. Each 50 basis point increase in the LIBOR will increase our interest expense by approximately $4 million per year.

Interest rate swap contracts

There is one outstanding agreement at December 31, 2008, subscribed by Exploration Resources on a variable rate loan in U.S. dollars to pay the interest at fixed rate of 5.67% and to receive interest at the variable rate of the loan. This contract is designated as a cash flow hedge starting January 1, 2008. The outstanding value of the loan at December 31, 2008 is US$35.0 million. The maturity of this agreement is June 2011.

Effects of interest rate swap on financial statements are as follows:

	At December 31,		
	2008	2007	2006
	(in millions of euros)		
Carrying value of interest rate swaps (see note 12)	(1.5)	(1.1)	(0.6)
Fair value of interest rate swaps	(1.5)	(1.1)	(0.6)
Gains (losses) recognized in profit and loss		(0.5)	(0.6)
Gains (losses) recognized directly in equity	(1.8)		

Interest rate cap contracts

There is no interest rate cap agreement as at December 31,2008.

n Credit risk management

We seek to minimize our counter-party risk by entering into hedging contracts only with highly rated commercial banks or financial institutions and by distributing the transactions among the selected institutions. Although our credit risk is the replacement cost at the then-estimated fair value of the instrument, we believe that the risk of incurring losses is remote and those losses, if any, would not be material. Our receivables and investments do not represent a significant concentration of credit risk due to the wide variety of customers and markets in which we sell our services and products and our presence in many geographic areas. In 2008, the Group s two most significant customers accounted for 3.9% and 3.8% of the Group s consolidated revenues compared with 4.5% and 2.8% in 2007 and 9.0% and 3.2% in 2006.

n Liquidity risk management

Our principal capital needs are for the funding of ongoing operations, capital expenditures (particularly repairs and improvements to our seismic vessels), investments in our multi-client data library and acquisitions (such as, most recently, Exploration Resources and Veritas).

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We intend to fund ongoing operations and debt service requirements through cash generated by operations. Our ability to make scheduled payments of principal, or to pay the interest or additional interest, if any, on, or to refinance our indebtedness, or to fund planned capital expenditures will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based upon the current level of operations, we believe that cash flow from operations, available cash and short-term investments, together with borrowings available under the U.S. revolving facility and the French revolving facility, will be adequate to meet our future liquidity needs for the next twelve months.

n Financial instruments by categories in the Balance sheet

The impact and the breakdown of the Group s financial instruments in the balance sheet at December 31, 2008 are as follows:

	December 31, 2008						
	Carrying Amount	Fair Value	Fair value in income statement	Available-for-sale assets	Loans, receivables	Debts at amortized cost	Derivatives
	(in millions of euros)						
Non-consolidated investments	5.2	5.2		5.2			
Financial and non-current assets	21.0	21.0			21.0		
Notes receivables	712.3	712.3			712.3		
Financial and current assets	1.1	1.1					1.1
Cash equivalents	77.5	77.5	76.5				1.0
Cash	439.4	439.4	439.4				
Total assets	**1,256.5**	**1,256.5**	**515.9**	**5.2**	**733.3**		**2.1**
Financial and non-current liabilities	1.4	1.4			1.4		
Financial debts[(a)]	1,546.0	1,551.5				1,546.0	
Notes payables	286.2	286.2			286.2		
Financial and current liabilities	10.2	10.2					10.2
Total liabilities	**1,843.8**	**1,849.3**			**287.6**	**1,546.0**	**10.2**

(a) Financial debts include long term debt, bank overdraft facilities and accrued interest (see note 13)

n Fair value information

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

	December 31,					
	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of euros)					
Cash and cash equivalents	516.9	516.9	254.3	254.3	251.8	251.8
Bank overdraft facilities	8.2	8.2	17.5	17.5	6.5	6.5
Bank loans, vendor equipment financing and shareholder loans:						
Variable rate	724.7	724.7	633.5	633.5	85.3	85.3
Fixed rate	740.3	745.8	702.2	1,106.9	310.9	369.2
Forward currency exchange contracts	(7.6)	(7.6)	8.3	8.3	8.7	8.7
Interest rate swaps	(1.5)	(1.5)	(1.1)		(0.6)	

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 (interest payments and reimbursements) analysis based on the Group s incremental borrowing rates for similar types of borrowing arrangements. At December 31, 2008, the rate of 17.5% (source Bloomberg) is used to

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determine the fair value of high yield bonds. For variable-rate bank loans, vendor equipment financing and the shareholder loans, fair values approximate carrying values.

The market value of forward sales is assessed based on forward rates, available on the financial markets for similar maturities.

NOTE 15 COMMON STOCK AND STOCK OPTION PLANS

The Company s share capital at December 31, 2008 consisted of 150,617,709 shares, each with a nominal value of 0.40.

Five-for-one stock split

On June 3, 2008 at the opening of the Paris stock exchange, CGGVeritas implemented a five-for-one stock split.

As a consequence:

- the market price of CGGVeritas shares listed on Euronext Paris was divided by 5;
- the number of outstanding shares was multiplied by 5;
- the par value of each share decreased from 2.00 to 0.40 each; and
- an ADS listed on the NYSE has one-to-one parity with an ordinary share listed on Euronext Paris.

This transaction did not require any specific formalities from CGGVeritas shareholders and did not involve additional costs.

As a consequence, the following information has been restated in order to reflect this split: granted / exercised or forfeited options have been multiplied by 5, and issued shares price or exercise option price have been divided by 5.

Rights and privileges related to ordinary shares

Ordinary shares give right to dividend. 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 amounted to 1,867.9 million at December 31, 2008.

Ordinary shares registered held for more than two years give a double voting right.

Issued Shares

In 2008, CGGVeritas S.A. issued 13,363,919 fully paid shares related to the following operations:

- 226 165 ordinary shares corresponding to allocated stock options;

237 500 ordinary shares corresponding to allocated performance shares;

12 925 749 ordinary shares corresponding to the acquisition of Wavefield;

25 495 cancellation of ordinary shares related to the acquisition of Veritas.

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Consolidated statements of changes in shareholders equity

	Number of shares issued	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Treasury shares**	**Income and expense recognized directly in equity**	**Cumulative translation adjustment**	**Total shareholders equity**	**Minority interest**	**Total sharehold equity and minorit interest**
	(amounts in millions of euros, except share data)									
lance at nuary 1, 2006	**85,408,400**	**34.2**	**372.3**	**283.2**	**(1.1)**	**(1.4)**	**11.3**	**698.5**	**11.7**	**710.**
pital increase	1,206,470	0.5	11.9					12.4		12.
nversion of nvertible bonds	1,374,570	0.5	10.7	31.0				42.2		42.
t income				157.1				157.1	1.6	158.
st of are-based yment				7.4				7.4	(0.3)	7.
erations on asury shares					4.1			4.1		4.
tuarial gains l losses of nsion ns(1)[b]				*(1.0)*				*(1.0)*		*(1.*
ancial truments: nge in fair ue and transfer income tement(2)[b]						*6.2*		*6.2*		*6.*
reign currency nslation: nge in fair ue and transfer income tement(3)[b]							*(49.9)*	*(49.9)*	*(1.6)*	*(51.*
ome and pense				(1.0)		6.2	(49.9)	(44.7)	(1.6)	(46.

ognized ectly in uity(1)+(2)+(3)										
anges in nsolidation ope									11.5	11.
lance at cember 31, 06	**87,989,440**	**35.2**	**394.9**	**477.7**	**3.0(a)**	**4.8**	**(38.6)**	**877.0**	**22.9**	**899.**
pital increase	47,914,350	19.7	1,425.1	44.1				1,488.9		1,488.
t income				245.5				245.5	4.1	249.
st of are-based yment				20.6				20.6		20.
erations on asury shares					(6.9)			(6.9)		(6.
tuarial gains d losses of nsion ns(1)(b)				*(3.8)*				*(3.8)*		*(3.*
nancial truments: ange in fair ue and transfer income tement(2)(b)						*(9.9)*		*(9.9)*		*(9.*
reign currency nslation: ange in fair ue and transfer income tement(3)(b)							*(209.8)*	*(209.8)*	*(2.5)*	*(212.*
ome and pense ognized ectly in uity(1)+(2)+(3)				(3.8)		(9.9)	(209.8)	(223.5)	(2.5)	(226.
anges in nsolidation ope									(0.5)	(0.
lance at cember 31, 07	**135,903,790**	**54.9**	**1,820.0**	**784.1**	**(3.9)**	**(5.1)**	**(248.4)**	**2,401.6**	**24.0**	**2,425.**
pital increase	13,363,919	5.3	144.7	(9.6)				140.4		140.
t income				332.8				332.8	7.2	340.
st of are-based yment				25.1				25.1	(1.4)	23.
					(14.2)			(14.2)		(14.

erations on asury shares										
tuarial gains d losses of nsion ns(1)[(b)]				0.6				*0.6*		*0.*
nancial truments: ange in fair ue and transfer income tement(2)[(b)]						*2.6*		*2.6*		*2.*
reign currency nslation: ange in fair ue and transfer income tement(3)[(b)]							*72.1*	*72.1*	*3.5*	*75.*
ome and pense ognized ectly in uity(1)+(2)+(3)				0.6		2.6		75.3	3.5	78.
anges in nsolidation ope and other				(0.8)			(0.1)	(0.9)	5.2	4.
lance at cember 31, 08	**150,617,709**	**60.2**	**1,964.7**	**1,132.2**	**(18.1)**	**(2.5)**	**(176.4)**	**2,960.1**	**38.5**	**2,998.**

(a) at December 31, 2006, CGGVeritas S.A. did not hold any own shares through the liquidity contract.

(b) net of deferred tax.

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.

Options granted under the provisions of the 2000 option plan expired on January 17, 2008.

Options granted under the provisions of the March 2001 option plan, which expires eight years from the date of grant, are vested by one fifth each year from March 2001 and could not generally be exercised before 2004 and for the options to subscribe for 1,000 shares or more, the shares resulting from the exercise of those options could not be sold before January 18, 2005.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Options granted under the May 2002 option plan, which expires eight years from the date of grant, are vested by one fifth each year from May 2002 and could not generally be exercised before 2005. Moreover, for options to subscribe for 1,000 shares or more, the shares resulting from the exercise of those options could not be sold before May 15, 2006.

Options granted under the May 2003 option plan, which expires eight years from the date of grant, are vested by one-fourth each year from May 2003 and could not generally be exercised before May 16, 2006. Moreover, for options to subscribe for 1,000 shares or more, the shares resulting from the exercise of those options could not be sold before May 16, 2007.

Options granted under the May 2006 option plan, which expires eight years from the date of grant, are vested by one fourth each year from May 2006 and could not generally be exercised before May 2010. Moreover, for options to subscribe for 1,000 shares or more, the shares resulting from the exercise of those options could not be sold before May, 2010. Out of the 1,012,500 options granted in May 2006, 680,000 were granted to the executive managers of the Group.

Options granted under the March 2007 option plan, which expires eight years from the date of grant, are vested by one third each year from March 2007 and, once vested, can be exercised at anytime. For the French tax residents, the shares resulting from the exercise of those options may not be sold before March 24, 2011. Out of the 1,308,750 options granted in March 2007, 675,000 were granted to the executive officers.

Options granted under the March 2008 option plan, which expires eight years from the date of grant, are vested by one third each year from March 2008 and, once vested, can be exercised at anytime. For the French tax residents, the shares resulting from the exercise of those options may not be sold before March 14, 2012. Out of the 1,188,500 options granted in March 2008, 584,742 were granted to the executive officers.

The exercise price of each option is the average market value of the share during the twenty-day period ending the day before the date the option is allocated.

Information related to options outstanding at December 31, 2008 is summarized below:

Date of Board of Directors	Resolution	Options granted	Options outstanding at Dec. 31, 2008	Exercise price per share ( )	Expiration date	Remaining duration
March 14, 2001		1,280,000	251,120	13.08	March 13, 2009	2.5 months
May 15, 2002		690,500	244,280	7.99	May 14, 2010	16.5 months
May 15, 2003		849,500	347,000	2.91	May 14, 2011	28.5 months
May 11, 2006		1,012,500	954,085	26.26	May 10, 2014	64.5 months

March 23, 2007	1,308,750	1,226,500	30.40	March 22, 2015	74.5 months
March 14, 2008	1,188,500	1,159,000	32.57	March 14, 2016	86.5 months
Total	**6,329,750**	**4,181,985**			

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

	2008		2007		2006	
	Number of options	**Weighted average exercise price ( )**	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
		(weighted average exercise price in euro)				
Outstanding-beginning of year	3,306,000	21.84	3,253,985	13.59	3,459,695	8.73
Granted	1,188,500	32.57	1,308,750	30.40	1,012,500	26.25
Exercised	(226,165)	11.55	(1,157,125)	7.89	(1,206,470)	10.30
Forfeited	(86,350)	22.89	(99,610)	26.94	(11,740)	9.67
Outstanding-end of year	**4,181,985**	**25.43**	**3,306,000**	**21.84**	**3,253,985**	**13.59**
Exercisable-end of year	1,728,276	18.05	1,077,935	7.90	1,896,535	8.44

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The average price of CGGVeritas share was 23.74 in 2008, 36.20 in 2007 and 25.60 in 2006.

Performance shares

The Board of Directors meeting held on April 29, 2008 resolved that the performance conditions set forth by the general regulations of the plan dated May 11, 2006 had been fulfilled and, as a result, finally allocated the performance shares to those beneficiaries that were employees or officers of the company or one of its subsidiaries at the time of the final allocation, i.e. May 12, 2008. 237,500 shares were thus allocated.

Additionally to our 2006 performance share allocation plan, the Board of Directors implemented, on March 23, 2007, a performance share allocation plan. The maximum number of performance shares that may be allocated is 408,750 shares, out of which 67,500 may be allocated to the executive officers. Performance shares are allocated according to the following conditions:

If the realization of the performance conditions described below has been enacted by the Board of Directors shares will be issued on the latest of the two following dates : March 23, 2009 or the date of the General Shareholders meeting approving the financial statements for the year ended December 31, 2008.

The beneficiaries would be allocated the shares only if such beneficiary still has a valid employment contract with CGGVeritas or one of its subsidiaries (subject to specific conditions) at the date the two-year acquisition period expires and if the conditions of allocation are met.

The Board of Directors defined two general performance conditions based on the Group s average consolidated net income per share for the year ended December 31, 2007 and 2008 and the average yearly return before tax on capital employed for the year ended December 31, 2007 and 2008 of either CGGVeritas, the Services segment, or the Equipment segment, according to the segment to which the beneficiary belongs.

Once allocated, the shares may not be sold for a two years conservation period from the date of the actual allocation.

In addition to our 2006 and 2007 performance share allocation plans, on March 14, 2008, the Board of Directors decided to allocate a maximum amount of 459,250 performance shares to senior executives and certain other employees of the Group. These shares will be allocated at the end of a two-year allocation period expiring on the later of March 14, 2010 or the date of the shareholders meeting convened to approve the 2009 financial statements.

Such allocation will be final provided (i) the Board resolves that the performance conditions provided for by the plan regulations, i.e. the achievement in fiscal years 2008 and 2009 of a minimum average consolidated net earning per share and an average operating income of either the Group, the Services segment or the Equipment segment, depending upon the segment to which each beneficiary belongs, and (ii) the beneficiary is still an employee or officer of the Group upon final allocation of the shares.

The allocated shares will have to be kept in registered form for a two-period as from the allocation date before they can be sold.

Compensation cost on stock options and performance shares

The following table lists the assumptions used to value the 2006, 2007 and 2008 options plan and the 2006, 2007 and 2008 performance shares allocation plan according to IFRS 2 :

	Options granted	Volatility	Risk-free rate	Fair value per share at the grant date ( )
2006 stock options plan	1,012,500	35%	3.80%	14.97(a)
2007 stock options plan	1,308,750	36%	3.95%	12.65(b)
2008 stock options plan	1,188,500	39%	3.47%	12.06

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Performance shares granted	Annual Turnover	Achievement of performance Conditions	Fair value per share at the grant date ( )
2006 performance shares allocation plan	266,000	2.5%	100%	31.64(c)
2007 performance shares allocation plan	408,750	2.5%	100%	31.02(c)
2008 performance shares allocation plan	459,250	5.0%	75%	30.58(c)

(a) the hypothetical exercise date was estimated at May 11, 2012, corresponding to the mid-term between the last acquisition date (May 11, 2010) and the end of the plan (May 11, 2014);

(b) the hypothetical exercise date was estimated at September 23, 2012, corresponding to the mid-term between the last acquisition date (March 23, 2010) and the end of the plan (March 23, 2015);

(c) corresponds to CGGVeritas share price at the date of allocation

According to IFRS 2, fair value of stock options and performance shares granted since November 7, 2002 must be recognized as an expense over the life of the plan. Detail of this expense is as follows:

	Year		
	2008	**2007**	**2006**
	(in millions of euros)		
2003 stock options plan[a]			0.2
2006 stock options plan[b]	2.5	5.6	4.8
2007 stock options plan[c]	5.1	8.1	
2008 stock options plan[d]	6.5		
2006 performance shares plan[e]	1.7	4.0	2.4
2007 performance shares plan[f]	4.1	2.9	
2008 performance shares plan[g]	3.9		
Total recognized expense according to IFRS 2	**23.8**	**20.6**	**7.4**

(a) of which 0.1 million for the executive managers of the Group in 2006;

(b) of which 1.3 million for the executive managers of the Group in 2008, 2.7 million in 2007, 3.2 million in 2006;

(c) of which 2.6 million for the executive managers of the Group in 2008, 3.9 million in 2007;

(d) of which 3.2 million for the executive managers of the Group in 2008;

(e) of which 0.3 million for the executive managers of the Group in 2008, 0.7 million in 2007, 0.6 million in 2006;

(f) of which 0.7 million for the executive managers of the Group in 2008, 1.5 million in 2007.

(g) of which 0.4 million for the executive managers of the Group in 2008.

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 PROVISIONS

Detail of provisions for liabilities and charges is as follows:

	Balance at 31 December, 2007	Additions	Deductions (used)	Deductions (non used)	Others[(a)]	Balance at 31 December, 2008
			(in millions of euros)			
Provisions for onerous contracts[(b)]	1.4	1.4	1.3		8.6	10.1
Provisions for restructuring costs	1.1	2.0	0.2		(0.4)	2.5
Provisions for litigations	0.9	0.4	0.6	0.1		0.6
Others provisions	6.2	5.8	3.7		(0.8)	7.5
Total current provisions	**9.6**	**9.6**	**5.8**	**0.1**	**7.4**	**20.7**
Customers Guarantee provisions	12.1	7.4	8.5		(0.4)	10.6
Retirement indemnity provisions	28.6	6.3	7.3		(2.1)	25.5
Other provisions	35.8	3.5			7.0	46.3
Total non current provisions	**76.5**	**17.2**	**15.8**		**4.5**	**82.4**
Total provisions	**86.1**	**26.8**	**21.6**	**0.1**	**11.9**	**103.1**

(a) includes the effects of exchange rates changes and acquisitions and divestitures

(b) the column other corresponds mainly to the impact of the fair value of unfavorable contracts recorded as part of the purchase price allocation related to Wavefield acquisition (see also note 2).

Customers Guarantee provisions

The increase of Customers Guarantee provisions is related to the warranty given by Sercel to external clients.

Retirement indemnity provisions

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 in France and 67 years old in Norway; and

actuarial rate and average rate of increase in future compensation.

In addition, a supplemental pension and retirement plan was implemented in December 2004 for the members of the Group s Management Committee and members of the management board of Sercel Holding. Contributions of 2.0 million on this pension plan were paid in 2007. No contribution was paid in 2008 and 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The status of the retirement indemnity plans is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Amount recognized in the balance sheet			
Present value of the obligation	68.4	79.9	21.0
Fair value of plan assets	(28.2)	(37.1)	(5.2)
Deficit (surplus) of funded plans	40.2	42.8	15.8
Unrecognized past service cost[a]	(15.0)	(16.3)	(3.2)
Payroll tax	0.3		
Net liability (asset) recognized in balance sheet	**25.5**	**26.5**	**12.6**
Amounts recognized in the income statement			
Current service cost	2.9	2.5	1.4
Interest cost	4.1	2.9	0.9
Expected return on plan assets	(2.1)	(1.7)	(0.2)
Amortization of past service costs	1.2	0.4	0.6
Payroll tax	0.2		
Net periodic expense[b]	**6.3**	**4.1**	**2.7**
Movements in the net liability recognized in the balance sheet			
Net liability at January 1	26.5	12.6	10.0
Expense as above	6.3	4.1	2.7
Actuarial gains (losses) recognized in the Sorie	(1.4)	6.3	1.1
Contributions paid	(3.0)	(12.2)	(0.6)
Benefits paid by the company	(2.9)	(0.7)	(0.5)
Consolidation scope entries and changes in exchange rates	(0.3)	16.8	(0.1)
Other	0.3	(0.4)	
Net liability at December 31	**25.5**	**26.5**	**12.6**
Change in benefit obligation			
Benefit obligation at January 1	79.9	21.0	18.2
Current service cost	2.9	2.5	1.4
Contributions paid	0.4	0.4	
Interest cost	4.1	2.9	0.9
Past service cost	0.1	13.6	
Benefits paid from plan	(5.6)	(0.8)	(0.5)
Actuarial (gains) losses recognized in the Sorie[c]	(7.1)	5.3	1.1
Consolidation scope entries and changes in exchange rates	(6.2)	34.4	(0.7)
Other	(0.1)	0.6	0.6
Benefit obligation at December 31	**68.4**	**79.9**	**21.0**
Change in plan assets			
Fair value of plan assets at January 1	37.1	5.2	5.0

Expected return on plan assets	2.1	1.7	0.2
Contributions paid	3.4	12.6	0.6
Benefits paid from plan	(2.8)	(0.1)	
Actuarial gains and losses recognized in the Sorie	(5.7)	(1.0)	
Consolidation scope entries and changes in exchange rate	(7.5)	17.6	(0.6)
Other	1.6	1.1	
Fair value of plan assets at December 31(d)	**28.2**	**37.1**	**5.2**
Key assumptions used in estimating the Group s retirement obligations are:			
Discount rate(e)	5.73%	5.44%	4.50%
Average rate of increase in future compensation	3.25%	6.15%	3.00%
Average expected return on assets(f)	5.17%	4.15%	4.00%

(a) Corresponds to the supplemental pension and retirement plan for the members of the Group s Management Committee and members of the management board of Sercel Holding. In 2007, this item also includes the impacts of a change in the French pension scheme for (13.5) million.

(b) The presentation of this line item has been changed in 2008, in order to include the expected return on plan assets as part of the net periodic expense. The effect of this change in presentation for 2007 is an additional expense of (1.7) million, and (0.2) million in 2006.

(c) Sorie corresponds to the statements of income and expenses attributable to shareholders.

(d) The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	December, 31	
	2008	2007
Equity securities	30%	43%
Debt securities	27%	22%
Real estate	7%	6,0%
Other	36%	28,0%

(e) The discount rate for entities belonging to the euro zone is 5.60%. It has been defined by comparison to the following rates at December 31, 2008:

Bloomberg Corporate 20 years: 5,20%

IBOXX 10 + AA: 6,28%

IBOXX 10 + AA financial: 7,08%

IBOXX 10+ AA Non financial: 5,26%

For entities not included in the euro zone , the discount rates used range from 4.50% to 6.20%

An increase of 0.25% of the discount rate would increase the DBO by 5.0 million, and a decrease of the discount rate of 0.25% would decrease the DBO by 5.5 million.

(f) Plan assets are located in the UK (79%), in Norway (13%) and in France (8%). The average expected return on assets is determined based on long term return by asset category assumptions at December 31, 2008. Plan assets are placed mainly in stocks, bonds and cash.

Actuarial gains and losses on plan assets correspond to the difference between actual and expected return on plan assets ((5.7) million in 2008 and (1.0) million in 2007).

A decrease of 0.25% of the expected return on assets rate would result in a decrease of 0.1 million the expected return of assets.

NOTE 17 OTHER NON-CURRENT LIABILITIES

Detail of other non-current liabilities is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		

Deposit and guarantees	1.4	1.2	
Research and development subsidies	5.5	5.4	5.5
Profit sharing scheme	23.0	20.4	18.2
Other non-current liabilities	**29.9**	**27.0**	**23.7**

NOTE 18 CONTRACTUAL OBLIGATIONS. COMMITMENTS AND CONTINGENCIES

Contractual obligations capital leases

The Group leases land, buildings and geophysical equipment under capital lease agreements expiring at various dates during the next five years. In addition, the Group operates seismic vessels under charter agreements over one to eight year periods.

Capital leases commitments included the sale-leaseback agreement with respect to the Group s head office in Massy, for which we exercised the purchase option in January 2006 (see Note 9).

Contractual obligations operating leases

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

Rental expense was 311.6 million in 2008, 236.8 million in 2007 and 73.5 million in 2006.

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COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contractual obligations present payments in future periods

The following table presents payments in future periods relating to contractual obligations as of December 31, 2008:

	Payments due by period				
	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
	(in millions of euros)				
Long-term debt obligations:					
Repayments : fixed rates	13.5	17.8	0.5	655.7	687.5
Repayments : variables rates	123.9	28.3	21.9	477.3	651.4
Bonds interests	50.8	101.7	101.7	120.8	375.0
Total Long-term debt flows	**188.2**	**147.8**	**124.1**	**1,253.8**	**1,713.9**
Capital Lease Obligations:					
Capital Lease Obligations : fixed rates	11.3	36.4	7.8	2.1	57.6
Capital Lease Obligations : variables rates	21.6	25.9	27.7	7.2	82.4
Total Capital Lease Obligations	**32.9**	**62.3**	**35.5**	**9.3**	**140.0**
Operating Leases	164.7	166.6	165.0	237.4	733.7
Total Contractual Obligations	**385.8**	**376.7**	**324.6**	**1,500.5**	**2,587.6**

The following table presents reconciliation between capital lease obligations and capital lease debts as of December 31, 2008:

	Less than 1 year	1-5 years	After 5 years	Total
	(in millions of euros)			
Capital Lease Obligations	**32.9**	**97.8**	**9.3**	**140.0**
Discounting	2.5	10.4	**0.9**	13.8
Capital lease debt (see note 13)	**30.4**	**87.4**	**8.4**	**126.2**

Other commitments

Outstanding commitments at December 31, 2008 include the following:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Guarantees issued in favor of clients[a]	271.5	338.7	161.6
Guarantees issued in favor of banks[b]	38.7	19.4	21.8
Other guarantees and commitments[c]	92.5	35.4	25.5
Total	**402.7**	**393.5**	**208.9**

(a) Guarantees issued in favor of clients relate mainly to guarantees issued by the Company to support bids made at the subsidiaries level.

(b) Guarantees issued in favor of banks related mainly to guarantees issued by the Company to support credit facilities made at the subsidiaries level.

(c) 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.

In 2008, in connection with the acquisition of Wavefield, CGGVeritas SA deposited in cash the equivalent of the banking guarantee issued in accordance with the provisions of Chapters 6-10 of the Norwegian Securities Trading Act., the cash refund being subject to the waiver of the guarantee, for NOK639 million (65 million).

In 2008, CGGVeritas signed a Letter of Intent to charter from Swire Pacific Offshore a newly built 2D seismic vessel the *Fearless*. The contract value amounts to approximately U.S.$83 million over a period of eight years. At the term of the eight years charter, CGGVeritas has both a purchase option and an option for another eight years charter extension. The seismic vessel should be delivered mid 2010.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2008, CGGVeritas and Eidesvik Offshore amended their agreement for Eidesvik to supply to CGGVeritas two large seismic vessels to be newly built, for a total contract value of approximately U.S.$420 million (U.S.$377 million previously). The two vessels should be delivered in 2010 under 12-year time charter agreements.

On June 13, 2008, CGGVeritas Services SA entered into a twelve-year lease agreement with Genefim and Finamur to finance the construction of Services new headquarters in Massy. A construction contract has been entered into between the two lessors, which own the building, and Bouygues Immobilier. The total value of the contract is approximately 80 million and it will take effect as of the building s completion, i.e. in 2010 and for a twelve-year period. CGGVeritas Services SA has a purchase option exercisable from the end of the sixth year until the end of the lease agreement.

In 2007 and 2006, the increase in guarantees issued in favor of clients related mainly to guarantees issued in bids or contracts achievements. This increase was due to the external growth of the Group.

In 2006, other guarantees represented essentially the guarantees given to the Swiss legal authorities for the unemployment funds related to the employees of CGGVeritas International based in Geneva for 16.9 million.

The duration of the guarantees and commitments is as follows:

	Due date				
	Less than 1 year	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
	(in millions of euros)				
Guarantees issued in favor of clients	246.6	11.7	13.2		271.5
Guarantees issued in favor of banks	24.6	13.4		0.7	38.7
Other guarantees and commitments	84.9	7.3	0.3		92.5
Total	**356.1**	**32.4**	**13.5**	**0.7**	**402.7**

In addition, the Group s agreements for the disposal of certain activities contain customary, reciprocal warranties and indemnities.

The Group has no off-balance sheet obligations under IFRS 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.

On July 7, 2008, CGGVeritas issued a writ against Arrow Seismic ASA in order to obtain compensation for the loss suffered by CGGVeritas (approximately USD70 million at the date of the claim) following Arrow Seismic ASA s withdrawal from the negotiations of a construction contract for a 3D seismic vessel. The negotiations were terminated after Arrow Seismic ASA was acquired by PGS. Discussions between CGGVeritas and Arrow Seismic ASA were at such an advanced stage that, in the Group s view, the parties were contractually committed. A decision is expected by the end of the second quarter 2009.

On October 20, 2006, a complaint was filed against CGG s subsidiary, Sercel Inc., in the United States District Court for the Eastern District of Texas. The complaint alleges that several of Sercel Inc. s seismic data acquisition products that include micro electromechanical systems (MEMS) infringe a U.S. patent allegedly owned by the plaintiffs. The plaintiff has requested a permanent injunction prohibiting Sercel Inc. from making, using, selling, offering for sale or importing the equipment in question into the United States. In addition, plaintiff has requested damages based on lost profits in the amount of $14,672,261 plus prejudgment interest of $775,254. In the alternative, plaintiff is requesting damages based on a reasonable royalty in the amount of $6,185,924 plus prejudgment interest of $374,898. Sercel is confident that the products in question do not infringe any valid claims under the patent in question and intends to contest this claim vigorously. During 2008, the discovery process was completed and the Court provided a claim construction opinion. The Court has found that three of the seven claims of the patent are invalid for indefiniteness and one claim is not infringed. We do not believe this litigation will have a material adverse effect on our financial position or results of operations. Accordingly, no provision has been recorded in our consolidated financial statements, except for the fees related to preparing the defense.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 and documentation, clients, and loss of profits resulting there from.

In October 2003, the Lisbon Commercial Court declared itself unqualified to give a decision on this issue. The company Parexpro appealed on this decision.

In 2005, Lisbon Appeal Court confirmed the decision of Lisbon Commercial Court and Parexpro introduced a new assignation on the Lisbon Civil Court, targeting the same persons and companies on the same basis. This action is still being processed.

The Company does not expect this claim to have any material impact on the Group s results of operation, financial position, or cash flows. Thus, no provision was recorded in the consolidated financial statements.

NOTE 19 ANALYSIS BY OPERATING SEGMENT AND GEOGRAPHIC ZONE

Financial information by operating segment is reported in accordance with the internal reporting system and shows internal segment information that is used to manage and measure the performance of CGGVeritas. We divide our business into two operating segments, geophysical services and geophysical equipment.

Our geophysical services segment comprises:

Land contract: seismic data acquisition for land, transition zones and shallow water undertaken by us on behalf of a specific client;

Marine contract: seismic data acquisition offshore undertaken by us on behalf of a specific client;

Multi-client land and marine: seismic data acquisition undertaken by us and licensed to a number of clients on a non-exclusive basis; and

Processing & Imaging: processing and imaging and interpretation of geophysical data, data management and reservoir studies for clients.

Our equipment segment, which we conduct through Sercel Holding S.A. and its subsidiaries, is our manufacturing and sales activities for seismic equipment used for data acquisition, both on land and offshore.

Inter-company sales between the two segments are made at prices approximating market prices and relate primarily to equipment sales made by the geophysical equipment segment to the geophysical services segment. These inter-segment sales, the related operating income recognized by the geophysical equipment segment, and the related effect on capital expenditures and depreciation expense of the geophysical services segment are eliminated in consolidation and presented in the column Eliminations and Adjustments in the tables 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.

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

Identifiable liabilities are those used in the operations of each industry segment and geographic zone. Unallocated and corporate liabilities consist primarily of corporate financial debts.

In 2008, the Group s two most significant customers accounted for 3.9% and 3.8% of the Group s consolidated revenues compared with 4.5% and 2.8% in 2007 and 9.0% and 3.2% in 2006.

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Analysis by operating segment

2008	Geophysical services	Geophysical equipment	Eliminations and Adjustments	Consolidated Total
	(in millions of euros)			
Revenues from unaffiliated customers	**1,837.3**	**765.2**		**2,602.5**
Inter-segment revenues	0.6	66.9	(67.5)	
Operating revenues	**1,837.9**	**832.1**	**(67.5)**	**2,602.5**
Other income from ordinary activities		1.7		1.7
Total income from ordinary activities	**1,837.9**	**833.8**	**(67.5)**	**2,604.2**
Operating income (loss)	**353.0**	**268.1**	**(80.5)[(a)]**	**540.6**
Equity income (loss) of investees	6.0	(3.0)		3.0
Capital expenditures[(b)]	504.2	26.3	(25.3)	505.2
Depreciation and amortization[(c)]	(467.7)	(22.5)	(4.1)	(494.3)
Identifiable assets	**4,561.1**	**767.1**	**(289.0)**	**5,039.2**
Unallocated and corporate assets				595.0
Total assets				**5,634.2**
of which equity method companies				72.9
Identifiable liabilities	**1,170.7**	**254.9**	**(154.0)**	**1,271.6**
Unallocated and corporate liabilities				1,364.0
Total liabilities				**2,635.6**

(a) Includes general corporate expenses of 46.7 million for year ended December 31, 2008.

(b) Includes (i) investments in multi-client surveys of 343.4 million, (ii) no equipment acquired under capital lease, (iii) capitalized development costs in the Services segment of 11.2 million, and (iv) capitalized development costs in the Equipment segment of 2.5 million for year ended December 31, 2008.

(c) Includes multi-client surveys amortization of 260.8 million for year ended December 31, 2008.

2007	Geophysical services	Geophysical equipment	Eliminations and Adjustments	Consolidated Total
		(in millions of euros)		
Revenues from unaffiliated customers	**1,694.5**	**679.6**		**2,374.1**
Inter-segment revenues	0.7	108.9	(109.6)	
Operating revenues	**1,695.2**	**788.5**	**(109.6)**	**2,374.1**
Other income from ordinary activities	0.2	1.0		1.2
Total income from ordinary activities	**1,695.4**	**789.5**	**(109.6)**	**2,375.3**
Operating income (loss)	**304.9**	**266.2**	**(82.0)[(a)]**	**489.1**
Equity income (loss) of investees	4.4	(0.2)		4.2
Capital expenditures[(b)]	614.1	25.6	(42.2)	597.5
Depreciation and amortization[(c)]	(479.2)	(19.8)	11.5	(487.5)
Identifiable assets	**3,953.3**	**659.4**	**(285.7)**	**4,327.0**
Unallocated and corporate assets				320.0
Total assets				**4,647.0**
of which equity method companies				44.5
Identifiable liabilities	**948.4**	**242.7**	**(196.6)**	**994.5**
Unallocated and corporate liabilities				1,226.7
Total liabilities				**2,221.2**

(a) Includes general corporate expenses of 54.3 million for year ended December 31, 2007.

(b) Includes (i) investments in multi-client surveys of 371.4 million, (ii) no equipment acquired under capital lease, (iii) capitalized development costs in the Services segment of 5.0 million, and (iv) capitalized development costs in the Equipment segment of 3.2 million for year ended December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) Includes multi-client surveys amortization of 308.5 million for year ended December 31, 2007.

2006	Geophysical services	Geophysical equipments	Eliminations and Adjustments	Consolidated Total
	(in millions of euros)			
Revenues from unaffiliated customers	**792.0**	**537.5**		**1,329.6**
Inter-segment revenues	0.9	72.6	(73.4)	
Operating revenues	**792.9**	**610.1**	**(73.4)**	**1,329.6**
Other income from ordinary activities	1.8			1.8
Total income from ordinary activities	**794.7**	**610.1**	**(73.4)**	**1,331.4**
Operating income (loss)	**150.3**	**174.2**	**(35.5)[(a)]**	**289.0**
Equity income (loss) of investees	9.8	0.4		10.2
Capital expenditures[(b)]	200.3	29.8	(19.2)	210.9
Depreciation and amortization[(c)]	(177.2)	(18.1)	7.2	(188.1)
Identifiable assets	**1,106.2**	**550.0**	**(181.0)**	**1,475.2**
Unallocated and corporate assets				306.9
Total assets				**1,782.1**
of which equity method companies				46.2
Identifiable liabilities	**508.8**	**243.9**	**(118.3)**	**634.4**
Unallocated and corporate liabilities				247.8
Total liabilities				**882.2**

(a) Includes general corporate expenses of 27.4 million for year ended December 31, 2006.

(b) Includes (i) investments in multi-client surveys of 61.5 million, (ii) equipment acquired under capital lease of 0.1 million, (iii) capitalized development costs in the Services segment of 8.2 million, and (iv) capitalized development costs in the Equipment segment of 3.7 million for year ended December 31, 2006.

(c) Includes multi-client surveys amortization of 80.6 million for year ended December 31, 2006.

Analysis by geographic zone

Analysis of operating revenues by location of customers

	2008		2007 (in millions of euros)		2006	
North America	725.0	28%	734.6	31%	344.2	26%
Central and South Americas	203.2	8%	244.0	10%	138.3	10%
Europe, Africa and Middle East	1,045.2	40%	767.2	32%	472.7	36%
Asia Pacific	629.1	24%	628.3	27%	374.4	28%
Consolidated total	**2,602.5**	**100%**	**2,374.1**	**100%**	**1,329.6**	**100%**

Analysis of operating revenues by category

	2008		2007 (in millions of euros)		2006	
Sales of goods	748.9	29%	646.5	27%	499.4	37%
Services rendered	1,667.7	64%	1,445.1	61%	688.2	52%
After-sales on multi-client surveys	175.7	6%	278.0	12%	133.5	10%
Leases	10.2	1%	4.5	0%	8.5	1%
Consolidated total	**2,602.5**	**100%**	**2,374.1**	**100%**	**1,329.6**	**100%**

COMPAGNIE GENERALE DE GEOPHYSIQUE-VERITAS, S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 RESEARCH AND DEVELOPMENT EXPENSES

Analysis of research and development expenses is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Research and development costs gross, incurred	(68.8)	(63.0)	(51.1)
Development costs capitalized	13.7	8.2	11.9
Research and development expensed	**(55.1)**	**(54.8)**	**(39.2)**
Government grants recognized in income	11.3	3.5	1.5
Research and development costs net	**(43.8)**	**(51.3)**	**(37.7)**

Research and development expenditures related primarily to:

for the geophysical services segment, projects concerning data processing services; and

for the equipment segment, projects concerning seismic data recording equipment.

NOTE 21 OTHER REVENUES AND EXPENSES

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Impairment of assets	(30.2)		(1.9)
Restructuring costs	(1.4)	(0.9)	(0.1)
Variation of reserves for restructuring	(1.9)	0.3	(0.5)
Other non-recurring revenues (expenses)	8.3		
Non-recurring revenues (expenses) net	**(25.2)**	**(0.6)**	**(2.5)**
Exchange gains (losses) on hedging contracts	(9.1)	18.7	8.9
Gains (losses) on sales of assets	(2.1)	0.3	5.3
Other revenues (expenses) net	**(36.4)**	**18.4**	**11.7**

Year ended December 31, 2008

The impairment of assets corresponds to the definitive impairment related to OHM investment for 22.6 million (see note 7) and to the write-off of fixed assets damaged due to the loss of propulsion incident of the *Symphony,* which occurred in April 2008. This write-off was totally offset by an insurance indemnity of 13 million in the line on the item Other non-recurring revenues .

Restructuring costs and reserves for a total of 3.3 million relate to the shutdown of Sercel Australia.

Exchange gains & losses on hedging contracts corresponded to the impact of financial hedging instruments allocated to the operating revenues of the period.

Year ended December 31, 2007

Exchange gains & losses on hedging contracts corresponded to the impact of financial hedging instruments allocated to the operating revenues of the period.

The provision for restructuring booked in 2003 was reversed for 0.3 million in 2007 once the restructuring expenses were incurred.

Gain on sale of assets included primarily a gain of 2.8 million on the disposal of Eastern Echo shares and a loss of 1.7 on damaged seismic recording equipment of the one of our seismic vessel.

Year ended December 31, 2006

The assets depreciation corresponds to the write-off of the share of Customers Relationships related to Veritas recognized as intangible asset in Sercel Australia, Veritas having merged with CGG on January 12, 2007

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(see note 2). This intangible asset had been recognized in 2004 when Sercel Australia acquired the seismic equipments activity of Thalès Underwater Systems.

The provision for restructuring booked in 2003 was reversed for 0.1 million in 2006 once the restructuring expenses were incurred. This provision was nevertheless readjusted in 2006 for 0.5 million.

Exchange gains & losses on hedging contracts corresponded to the impact of financial hedging instruments allocated to the operating revenues of the period.

Gain on sale of assets included primarily a gain of 5.3 million on the sale of 49% of CGG Ardiseis.

NOTE 22 COST OF FINANCIAL DEBT

Cost of financial debt includes expenses related to financial debt, composed of bonds, debt component of convertible bonds, bank loans, capital-lease obligations and other financial borrowings, net of income provided by cash and cash equivalents.

Analysis of cost of financial debt is as follows:

	December 31,		
	2008	**2007**	**2006**
	(in millions of euros)		
Current interest expenses related to financial debt	(90,1)	(109.7)	(29.2)
Amortization of deferred expenditures on financial debts	(2,9)	(12.0)	(2.6)
Income provided by cash and cash equivalents	9,2	12.6	6.4
Cost of financial debt, net	**(83,8)**	**(109.1)**	**(25.4)**

As described in note 13, we repaid US$50 million on the US$1.000 million Term Loan B senior facility.

As described in note 13, we repaid US$100 million on the US$1.000 million Term Loan B senior facility used to finance Veritas acquisition on June 29, 2007. The unamortized portion of the deferred expenditures linked to this redemption amounted to 1.5 million.

On February 2007, we fully repaid the US$700 million credit facility used to finance Veritas acquisition and borrowed on January 12, 2007. The unamortized portion of the deferred expenditures linked to this redemption amounted to 7.3 million and was recognized as *Cost of financial debt* .

On February 10, 2006, we repaid the remaining US$140.3 million on the US$375 million credit facility used to finance the acquisition of Exploration Resources. The unamortized portion of the deferred expenditures linked to this redemption amounted to 2.0 million.

NOTE 23 OTHER FINANCIAL INCOME (LOSS)

Analysis of other financial income (loss) is as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Variance in fair value of conversion option on convertible bonds			(20.7)
Premium paid for the early conversion of the convertible bonds			(1.6)
Write-off of issuance costs on convertible bonds recognized as expense at the time of the early conversion			(0.7)
Derivative and other expenses on convertible bonds			**(23.0)**
Exchange gains (losses) net	(7.9)	0.7	(4.1)
Other financial income	6.5		0.6
Other financial expenses	(10.1)	(5.9)	(5.3)
Other financial income (loss)	**(11,5)**	**(5.2)**	**(8.8)**
Other financial income (loss) including derivative and other expenses on convertible bonds	**(11,5)**	**(5.2)**	**(31.8)**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 24 INCOME TAXES

Income tax

Income tax expense consists of:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
France			
Current taxes expense before use of carry-forward losses		(30.2)	(31.0)
Adjustments on income tax recognized in the period for prior periods	0.4	(2.8)	
Current taxes income after use of carry-back losses	32.1		
Deferred taxes on reversal of temporary differences	(4.2)	(0.9)	2.5
Deferred taxes arising from previously unrecognized deferred tax on temporary differences			(12.5)
Deferred taxes arising from previously unrecognized deferred tax income			28.8
Total France	**28.3**	**(33.9)**	**(12.2)**
Foreign countries			
Current income taxes[a]	(112.9)	(126.0)	(84.3)
Adjustments on income tax recognized in the period for prior periods[b]	2.9	(0.5)	(1.0)
Deferred taxes on reversal of temporary differences	(14.5)	16.8	11.0
Deferred taxes on currency translation	(17.5)	11.0	2.2
Deferred taxes arising from previously unrecognized tax loss	5.4	3.2	1.1
Total Foreign countries	**(136.6)**	**(95.5)**	**(71.0)**
Total income tax expense	**(108.3)**	**(129.4)**	**(83.2)**

(a) includes withholding taxes

(b) corresponds in 2006 to the tax audit at CGG Nigeria see below

The Company and its subsidiaries compute income taxes in accordance with the applicable tax rules and regulations of the numerous tax 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The reconciliation between income tax expense in the income statement and the theoretical tax charge is detailed below:

	2008	2007	2006
	(in millions of euros)		
Net income (loss)	**340.0**	**249.6**	**158.7**
Income tax	**(108.3)**	**(129.4)**	**(83.2)**
Income before tax	**448.3**	**379.0**	**241.9**
Differences on tax basis :			
Equity investment companies income	(3.0)	(4.2)	(10.1)
Theoretical tax basis	**445.3**	**374.8**	**231.8**
Enacted tax rate in France	34.43%	34.43%	34.43%
Theoretical tax	**(153.3)**	**(129.0)**	**(79.8)**
Differences on tax :			
Differences in tax rates between France and foreign countries	6.4	1.7	3.2
Non-deductible part of dividends	(2.8)	(0.2)	(1.0)
Other permanent differences[(a)]	167.8	(15.4)	(19.5)
Tax on carry-forward losses net on the French tax group not recognized in the income statement[(b)]	(92.7)		16.3
Other unrecognized deferred tax in income statement on previous years[(c)]	5.4	3.2	1.1
Adjustments on the tax expense recognized in the period for the previous years[(d)]	3.3	(0.5)	(1.0)
Income tax and deferred tax on Argas net income (equity method company)[(e)]	(0.5)	(0.7)	(1.9)
Foreign deferred tax unrecognized on losses of the period	(12.4)	(5.1)	(3.2)
Deferred tax on currency translation adjustments[(f)]	(17.5)	11.0	2.2
Current and deferred tax on income subject to Norwegian tonnage tax system and other countries where the tax rate is nil	6.0	7.0	(0.6)
Others[(g)(h)]	(18.0)	(1.4)	1.0
Income tax	**(108.3)**	**(129.4)**	**(83.2)**

(a) In 2008, results mainly from the losses on internal disposals of investments performed as part of the Services segment legal reorganization, and includes a tax asset of 25 million corresponding to the 2007 carry back.

(b) In 2008, corresponds to the deficit of the French tax group not activated due to short and medium term uncertainties in using the losses carried forward, and historical tax losses generated in France.

At December 31, 2006, a 16.3 million deferred tax income was recognized relating to the tax position of the French tax group not recognized in 2005 due to unlikely tax perspectives.

(c) Corresponds in 2005 to 2.4 million on Mexican carry-forward losses and to 3.7 million on Norwegian carry-forward losses.

(d) Corresponds in 2006 to the tax notification received for CGG Nigeria.

(e) CGGVeritas, as shareholder of Argas, is directly required to pay income tax for Argas in Saudi Arabia for its share in Argas.

(f) Corresponds to the currency translation adjustment related to the translation in functional currency (U.S. dollar) of Norwegian and Brazilian entities books in local currency.

(g) In 2008 this corresponds to unrecognized deferred tax assets on temporary differences in Norway.

(h) Change in presentation of the tax reconciliation in 2007: the theoretical tax calculation is now based on the Income (loss) of consolidated companies before income taxes as stated in the Consolidated Statement of Operations whereas it was previously based on the Group share of the Income (loss) of consolidated companies before income taxes. The effects of this change in presentation is reported in the item Others for 0.5 million in 2006.

Income tax assets

Income tax assets at December 31, 2008 include mainly the carry back and other income tax credits recorded in France for a total amount of 53.9 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Net operating loss carried forward

Net operating loss carried forward available in France and in foreign jurisdictions, and not recognized as deferred tax assets at December 31, 2008, amounted to 257.0 million and are currently scheduled to expire as follows:

	France	Foreign countries
	(in millions of euros)	
2009 and thereafter		11.7
Available indefinitely	148.4	96.9
Total	**148.4**	**108.6**

The Group has recorded valuation allowances to fully provide for the potential tax benefit of carried forward losses by entities that have a recent history of generating losses or for which there is a dispute with tax authorities.

Tax losses carried forward and not recorded as a deferred tax asset mainly relate to United Kingdom tax losses incurred of GBP 64.3 million and to part of Norwegian tax losses incurred for NOK 378.2 million for which we are currently in discussion with Norwegian tax authorities.

Deferred tax assets and liabilities

The reconciliation of net deferred tax are as follows:

	December 31,		
	2008	2007	2006
	(in millions of euros)		
Non-deductible provisions (including pensions and profit sharing)	11.7	19.7	11.8
Tangible assets	20.4	23.9	3.8
Effect of currency translation adjustment not recognized in income statement	(8.3)	10.5	2.6
Multi-client surveys (including deferred revenues)	(5.4)	(17.9)	0.8
Assets reassessed in purchase price allocation of acquisitions	(102.8)	(99.1)	(35.3)
Development costs capitalized	(11.0)	(8.5)	(8.0)
Incomes and losses subject to Norwegian tax tonnage system			(6.8)
Incomes and losses subject to U.S. taxation system	0.7	(17.9)	
Other deferred revenues	(9.6)	(0.2)	
Financial instruments	1.0	(1.6)	(1.9)
Others	(17.7)	1.4	0.1
	(121.0)	**(89.7)**	**(32.9)**

Total deferred tax assets net of deferred tax (liabilities) related to timing differences			
Tax losses carried forward[(a)]	6.4	13.4	9.8
Total deferred tax assets net of deferred tax (liabilities)	**(114.6)**	**(76.3)**	**(23.1)**

(a) relating to loss carry forwards in United Kingdom, Norway.

Tax position and tax audit

A tax audit of CGGVeritas SA by the French tax authorities covering the 2005 to 2007 fiscal years has taken place. 2005 fiscal year is now prescribed. No material impact is expected.

A tax audit of CGGVeritas Services (ex CGG Services) covering the 2005 and 2006 fiscal years was notified end of December 2007 and started early 2008. The Group received a reassessment notice in December 2008 for fiscal years 2005 and 2006. The Group contests the tax authorities position.

In 2008, CGGVeritas Services U.S. Inc and CGG Americas are under a tax audit covering the second semester 2006. The control have not started at December 31, 2008.

With a retroactive effect of January 1 2008, Exploration Investment Resources II has opted for the new Norwegian tonnage tax system, which led to the reversal of the deferred tax liability related to the purchase price allocation of Exploration Resources acquisition for an amount of US$3.8 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The City of Rio (Brazil) is claiming 26.7 million euros (86.6 million Brazilian reals) against Veritas do Brazil concerning tax on services (ISS) relative to the years 2001 to 2008, which we contest. This risk was identified during the Veritas acquisition in 2007 and accrued for a total amount of 4.4 million (14.3 million Brazilian reals), which we believe corresponds to a fair estimate of the exposure, including advisory fees.

With a retroactive effect of January 1 2007, Exploration Vessel Resources and Exploration Vessel Resources II opted for the new Norwegian tonnage system tax which led to classifying deferred taxes on retained earnings into tax due (over a 10 years period) for an amount of NOK 44.6 million and to reverse the deferred tax liability related to the purchase price allocation of Exploration Resources acquisition of those two companies vessels for an amount of US$8.7 million.

Effective January 1, 2007, the Group has opted for a new tax amortization method for its multi-client library, based on the Geology & Geophysics method and on the long-term contract method.

NOTE 25 PERSONNEL

The analysis of personnel is as follows:

	Year ended December 31,		
	2008[(a)]	**2007**	**2006**
Personnel employed under French contracts performing Geophysical services	956	893	863
Equipment	922	765	703
Personnel employed under local contracts	6,988	6,451	2,934
Total[(a)]	**8,866**	**8,109**	**4,500**
Including field staff of:	2,726	2,079	739

(a) At December 31, 2008 the personnel of Wavefield is included for:

Equipments	79
Personnel employed under local contracts	317
Total	**396**
Including field staff of	236

The total cost of personnel employed by consolidated subsidiaries was 575.7 million in 2008, 528.3 million in 2007 and 265.7 million in 2006.

NOTE 26 DIRECTORS AND EXECUTIVE COMMITTEE MEMBERS REMUNERATION

Directors, Board and Executive Committee members remuneration was as follows:

	Year ended December 31,		
	2008	2007 (in euros)	2006
Short-term employee benefit paid[(a)]	5,270,989	5,807,202	3,590,163
Attendance fees	595,000	595,000	365,000
Long-term employee benefit pension[(b)]	119,507	18,314	16,903
Long-term employee benefit supplemental pension[(c)]	1,195,530	593,102	679,013
Share-based payments[(d)]	8,506,575	8,891,212	3,907,966

(a) Excludes tax on salary
(b) Cost of services rendered and interest cost
(c) Cost of services rendered and interest cost and amortization of past service cost on the supplemental pension implemented by the end of 2004.
(d) Expense in the income statement related to the stock options and performance shares plans.

On March 8, 2006, the Board of Directors authorized the Company to enter into an amendment to the employment contract of Mr BRUNCK which is currently suspended and to an amendment to the respective employment contract of each President. Such amendment provides that in case of dismissal or change of control, a special severance indemnity representing 250% of their reference annual compensation (gross fixed salary including, if applicable, salaries paid by foreign subsidiaries over the prior 12 months and the average bonuses

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

paid during the prior 3 years) would be paid. In addition, should they decide, in case of a change of control, to continue working for the Company, they would receive a loyalty bonus representing 150% of their reference annual compensation as defined above after the expiry of a 18-month period after change of control.

NOTE 27 RELATED PARTY TRANSACTIONS

The Group provides services to related parties, contracts associated with these services are concluded at arm s length. The Group also receives in counterpart services from related parties.

	2008	2007	2006
	(in millions of euros)		
Operating income			
Sales of geophysical equipment to Argas	63.5	25.5	0.8
Charter revenues received from LDA for the *Alizé*	7.8	8.2	9.0
Technical consulting services to Argas	4.5		
Sales of geophysical equipment to JV Xian Peic	3.3	4.2	4.1
Income	**79.1**	**37.9**	**13.9**
Expenses paid for *Alizé* ship management to LDA	5.5	6.5	4.9
Purchases of geophysical equipment from Tronic s	7.5	8.3	
Purchases of geophysical equipment from Cybernetix	3.8	1.1	
Expenses	**16.8**	**15.9**	4.9
Trade receivables from LDA			0.1
Trade receivables from Norwegian Oilfield AS	16.8		
Trade accounts and notes receivable	**16.8**		**0.1**
Accounts payable to LDA	0.4	0.2	0.3
Trade accounts and notes payables	**0.4**	**0.2**	**0.3**
Future rents commitments to LDA	49.3	54.8	16.1
Contractual Obligations	**49.3**	**54.8**	**16.1**

Louis Dreyfus Armateurs (LDA) provides ship management services for a portion of our fleet. In addition, LDA is the owner, together with the Group, of Geomar owner of the seismic vessel Alizé . Geomar provides vessel charter services to LDA.

Argas, JV Xian Peic and Cybernetix are companies consolidated under the equity method.

Norwegian Oilfield AS is consolidated under the equity method as at December 31, 2008, as part of the acquisition of Wavefield.

Tronic s is 16% owned by the group.

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

NOTE 28 SUPPLEMENTARY CASH FLOW INFORMATION

The Financial expenses paid for 2008 and 2007 included mainly fees and interest related to the US$1,000 million Term Loan B senior facility, the US$330 million 7 1/2 Senior Notes, the US$200 million 7 1/2 additional Senior Notes and the US$400 million 73/4% Senior Notes used to finance Veritas and Exploration Resources acquisitions (see note 13).

The Financial expenses paid for 2006 included mainly 2.0 million of fees and interest related to the remaining part of the US$375 million bridge loan used to acquire Exploration Resources that was eventually repaid on February 2006 and a 1.6 million premium paid to the bondholders on conversion in May 2006 (see note 13).

Proceeds from sales of assets correspond to the sale of Ardiseis shares in 2008, Eastern Echo shares in 2007 and in 2006 to the sale of 49% of Ardiseis.

Acquisitions in 2008 include Quest for 4.4 million acquired cash, Metrolog for 21.5 million, and Wavefield for (19.9) million acquired cash. These reflect total consideration 206.6 million less the 25.8 million cash held

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

by Wavefield and less the fair value of the increase in the capital of CGGVeritas for 139.0 million, and the debt to the minority interests corresponding to the 30.1% not yet acquired at December 31, 2008 for 62.1 million.

The 1,019.1 million total acquisition in 2007 corresponded to the net investment of 993.1 million for the acquisition of Veritas (Total consideration less the 97.4 million cash held by Veritas and less the increase in the capital of CGGVeritas for 1,435.8), the acquisition of OHM for 22.9 million and Cybernetix shares for 3.1 million.

The Sercel Vibtech s acquisition in 2006 represented an investment net of acquired cash of 48.3 million

In 2006 Other non-cash items include mainly the cancellation of the non-cash expense related to the change in fair value of the derivative on convertible bonds (see note 13).

The Impact of changes in exchange rate on financial items corresponds notably to the elimination of the unrealized exchange gains (losses) resulting from the gross financial debt in U.S. dollars located in those subsidiaries whose functional currency is euro; this elimination amounted to (19.0) million in 2008 to (47.9) million in 2007 and (12.3) million in 2006.

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

	Year ended December 31,		
	2008	**2007**	**2006**
	(in millions of euros)		
Equipment acquired under capital leases			0.1

The cash and cash equivalents are composed as follows:

	Year ended December 31,		
	2008	**2007**	**2006**
	(in millions of euros)		
Cash	422.4	169.3	114.0
Cash equivalents	77.5	85.0	137.8
Restricted cash	17.0		
Total cash and cash equivalents	**516.9**	**254.3**	**251.8**

At December 31, 2008, the restricted cash corresponds to the part of the cash and cash equivalent of Wavefield pledged in favor of financial institutions pursuant to the guarantees issued to clients in the normal course of business.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 29 EARNINGS PER SHARE

The following reflects the income and the share data used in the basic and diluted earnings per share computations:

	Year		
	2008	**2007[(1)]**	**2006[(1)]**
	(in millions of euros, excepted per share data)		
Net income attributable to shareholders (a)	332.8	245.5	157.1
Effect of dilution			
Ordinary shares outstanding at the beginning of the year (b)	137,253,790	87,989,440	85,408,400
Weighted average number of ordinary shares outstanding during the year (c)	656,598	46,577,700	1,451,235
Weighted average number of ordinary shares outstanding (d) =(b) +(c)	137,910,388	134,567,140	86,859,635
Dilutive potential shares from 2000 stock options		27,000	129,659
Dilutive potential shares from 2001 stock options	112,782	238,870	358,975
Dilutive potential shares from 2002 stock options	162,126	207,755	333,965
Dilutive potential shares from 2003 stock options	304,524	369,015	728,030
Dilutive potential shares from 2006 stock options	(2)	150,275	(2)
Dilutive potential shares from 2007 stock options	(2)	(2)	
Dilutive potential shares from 2008 stock options	(2)		
Total dilutive potential shares from stock options[(1)]	579,432	992,915	1,547,920
Dilutive potential shares from 2006 performance shares allocation		249,250	249,375
Dilutive potential shares from 2007 performance shares allocation	252,625	269,690	
Dilutive potential shares from 2008 performance shares allocation	322,438		
Total dilutive potential shares from performance shares allocation	575,063	518,940	249,375
Dilutive potential shares from stock convertible bonds[(1)]			
Dilutive weighted average number of shares outstanding adjusted when dilutive (e)	139,064,883	136,078,995	88,657,930
Earning per share			
Basic (a) / (d)	**2.41**	**1.82**	**1.81**
Diluted (a) / (e)	**2.39**	**1.80**	**1.77**

(1) For the years ended December 31, 2007 and December 31, 2006, number of shares and dilutive potential shares from stock options have been restated according the five-for-one split stock effective on June 3, 2008. As a consequence, number of shares and dilutive potential shares from stock options have been multiplied by 5.
(2) Exercise price of this stock options was higher than the average run stock exchange of the share.

NOTE 30 SUBSEQUENT EVENTS

On December 30, 2008, CGGVeritas SA launched a mandatory public offer on the remaining 38, 903,024 outstanding shares (i.e. 30.1% of the share capital) as well as on the 2,892,875 shares that could result from the exercise of stock options. The offer price calculated in accordance with the provisions of Chapter VI of the Norwegian Securities Trading Act amounted to NOK 15.17 per share to be paid in cash. At the end of this mandatory offer period which expired on January 27, 2009, CGGVeritas acquired 37,043,013 additional shares of Wavefield and held as a result thereof 98.6% of the share capital. CGGVeritas then decided to launch a squeeze-out process on the reaming outstanding shares of Wavefield at a price of NOK 15.17 per share to be paid in cash. Since February 13, 2009, CGGVeritas owns 100% of the share capital of Wavefield. Wavefield was de-listed from the Oslo Bors on February 16, 2008.

On February 23, 2009, CGGVeritas Services notified Louis Dreyfus Armateurs of its decision to exercise the purchase options it benefited from on the seismic vessels *Fohn* and *Harmattan,* pursuant to the time charter agreements entered into between the two companies on March 1 and May 7, 1996, respectively. The purchase value of each of these two vessels shall be approximately US$750 million.

Sercel Holding committed to participating in a reserved share capital increase of Cybernetix up to 4 million in November 2008. It was approved by the shareholder s meeting held on January 8, 2009, bringing Sercel holding

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

to 749,480 shares, representing 46.10% of Cybernetix s share capital and 43.08% of its voting rights. Since Sercel did not take control or management of Cybernetix further to this operation, the Autorité des Marchés Financiers granted, prior to the share capital increase, a waiver from the obligation to launch a take-over bid on Cybernetix further to passing the threshold of 33.33%. The share capital increase was finally completed in 2009 with a 2 million cash payment and the incorporation of a 2 million cash advance granted by Sercel in November 2008.

NOTE 31 LIST OF PRINCIPAL CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2008

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
	CGGVeritas Services Holding B.V.	Amsterdam, Netherlands	100,0
403 256 944	CGGVeritas Services SA	Massy, France	100,0
351 834 288	Geocal SARL	Massy, France	100,0
966 228 363	Geoco SAS	Paris, France	100,0
410 072 110	CGG Explo SARL	Massy, France	100,0
413 926 320	Geomar SAS	Paris, France	49,0
	CGGVeritas International SA	Geneva, Switzerland	100,0
	CGG Marine Resources Norge AS	Hovik, Norway	100,0
	CGGVeritas Services (Norway) AS	Bergen, Norway	100,0
	Exploration Investment Resources II AS	Bergen, Norway	100,0
	Exploration Vessel Resources AS	Bergen, Norway	100,0
	Optowave AS	Bergen, Norway	100,0
	Wavefield Inseis ASA	Oslo, Norway	100,0
	MPG Holding AS	Bergen, Norway	100,0
	Wavefield Exploration Ltd	London, United Kingdom	100,0
	Viking Global Offshore Limited	Crawley, United Kingdom	100,0
	Veritas DGC Limited	Crawley, United Kingdom	100,0
	Veritas Geophysical Limited	Crawley, United Kingdom	100,0
	Companhia de Geologia e Geofisica Portuguesa	Lisbon, Portugal	100,0
	Geoexplo	Almaty, Kazakhstan	100,0
	Veritas Caspian LLP	Almaty, Kazakhstan	50,0
	CGG Vostok	Moscow, Russia	100,0
	CGG do Brasil Participaçoes Ltda	Rio do Janeiro, Brazil	100,0
	Veritas do Brasil Ltda	Rio do Janeiro, Brazil	100,0
	Wavefield Inseis Do Brazil	Rio do Janeiro, Brazil	100,0
	Veritas DGC Land Guatemala SA	Guatemala	100,0
	Companía Mexicana de Geofisica	Mexico City, Mexico	100,0
	Veritas DGC (Mexico) S. de R.L. de CV	Mexico City, Mexico	100,0
	Veritas Servicios Geofisicos S. de R.L. de CV	Tabasco, Mexico	100,0
	Veritas Servicios Technicos S. de R.L. de CV	Mexico	100,0

Veritas Geoservices Ltd Sa	Venezuela	100,0
Veritas Geophysical (Chile) SA	Chili	100,0
Exgeo CA	Caracas, Venezuela	100,0
CGGVeritas Services Holding (U.S.) Inc	Delaware, United States	100,0
CGGVeritas Services (U.S.) Inc	Delaware, United States	100,0
CGGVeritas Land (U.S.) Inc	Delaware, United States	100,0
CGG Americas Inc.	Houston, United States	100,0
Alitheia Resources Inc	Delaware, United States	100,0
Veritas DGC Asia Pacific Ltd	Delaware, United States	100,0
Veritas Geophysical (Mexico) LLC	Delaware, United States	100,0
Veritas Investments Inc	Delaware, United States	100,0
Viking Maritime Inc	Delaware, United States	100,0
Wavefield Aim Inc.	Texas, United States	100,0
Inupiat Geophysical LLC	Alaska, United States	45,0
CGG Canada Services Ltd.	Calgary, Canada	100,0
CGGVeritas Services (Canada) Inc	Alberta, Canada	100,0
CGGVeritas Services (Canada) Partnership	Alberta, Canada	100,0
Hampson Russel GP Inc	Alberta, Canada	100,0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Siren Number[(a)]	Consolidated companies	Head Office	% of interest
	Hampson Russel Limited Partnership	Alberta, Canada	100,0
	Veritas MacKenzie Delta Ltd	Alberta, Canada	100,0
	Veri-Illuq Geophysical Ltd	Northwest Territoires, Canada	49,0
	Yamoria Geophysical Ltd	Northwest Territoires, Canada	49,0
	Veritas Geophysical (Canada) Corporation	Nova Scotia, Canada	100,0
	Veritas Geophysical III	Cayman Islands	100,0
	Veritas Geophysical IV	Cayman Islands	100,0
	Veritas DGC Australia Pty Ltd	Perth, Australia	100,0
	CGG Australia Services Pty Ltd.	Sydney, Australia	100,0
	Wavefield Inseis Australia Pty Ltd.	Perth, Australia	100,0
	Veritas Geophysical (Asia Pacific) Pte Ltd	Singapore	100,0
	Wavefield Inseis Singapore Pte Ltd	Singapore	100,0
	CGG Asia Pacific	Kuala Lumpur, Malaysia	100,0
	CGGVeritas Services (Malaysia) Sdn. Bhd	Malaysia	65,0
	PT CGG Indonesia	Djakarta, Indonesia	100,0
	P.T. Veritas DGC Mega Pratama	Djakarta, Indonesia	80,0
	CGGVeritas Services India Private Ltd	New Delhi, India	100,0
	CGGVeritas Technology Services (Beijing) Co. Ltd.	Beijing, Chine	100,0
	Ardiseis FZCO	Dubaï, United Arab Emirats	51,0
	Veritas Geophysical (Nigeria) Limited	Lagos, Nigeria	60,0
	CGGVeritas Services (B) Sdn. Bhd	Brunei	100,0
	CGG (Nigeria) Ltd.	Lagos, Nigeria	100,0
866 800 154	Sercel Holding SA	Carquefou, France	100,0
378 040 497	Sercel SA	Carquefou, France	100,0
	Sercel Australia	Sydney, Australia	100,0
	Hebei Sercel JunFeng[(c)]	Hebei, Chine	51,0
	Sercel Beijing Technology	Beijing, Chine	100,0
	Sercel Inc.	Tulsa, United States	100,0
	Sercel Singapore Pte Ltd.	Singapore	100,0
	Sercel England Ltd.	Somercotes, United Kingdom	100,0
	Sercel Canada Ltd.	Calgary, Canada	100,0
	Sercel Vibtech Ltd.	Stirlingshire, United Kingdom	100,0
	Seismic Support Services	Moscow, Russia	100,0
	Quest Geo Solutions Limited	Hampshire, United Kingdom	100,0
	Optoplan AS	Trondheim, Norway	100,0

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

(b)

CGG Asia Pacific, in which CGGVeritas owns 33.2% of the ordinary shares and 30% of the total shares, is consolidated according to IAS27

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

NOTE 32 CONDENSED CONSOLIDATING INFORMATION FOR CERTAIN SUBSIDIARIES

At December 31, 2008 the obligations to pay our outstanding Senior Notes (see Note 13) are guaranteed by certain subsidiaries: CGG Canada Services Ltd, CGG Americas Inc., CGG Marine Resources Norge A/S, CGGVeritas Services Holding Inc, Alitheia Resources Inc, Veritas DGC Asia Pacific Ltd., CGGVeritas Land (US) Inc., CGGVeritas Services (US) Inc., Veritas Geophysical (Mexico) LLC, Veritas Investments Inc., Viking Maritime Inc., CGGVeritas Services Holding BV as the Services guarantors , and Sercel Inc., Sercel Australia Pty Ltd and Sercel Canada Ltd as the Equipment guarantors .

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents condensed consolidated financial information in IFRS for the year ended December 31, 2008 for the Company, the Guarantor subsidiaries, the Non-Guarantor subsidiaries and and the Eliminations to arrive at CGGVeritas on a consolidated basis.

IFRS	CGG Veritas	Services Guarantors	Equipment Guarantors	Non Guarantors	Consolidating Adjustments	Group Consolidated
			(in millions of euros)			
Goodwill		1,782.1	45.0	233.8	(5.9)	2,055.1
Intangible assets (including multi client surveys)	0.3	479.5	5.8	374.0	(39.6)	820.0
Property, plant and equipment	3.8	360.0	33.5	492.5	(67.3)	822.4
Investment in affiliates	1,979.6	1,520.6	4.0	321.3	(3,825.5)	
Other non current assets	691.4	59.2		215.5	(757.8)	208.3
Current assets	462.8	372.2	214.1	1,453.1	(773.8)	1,728.4
Total assets	**3,137.9**	**4,573.6**	**302.4**	**3,090.2**	**(5,469.9)**	**5,634.2**
Financial debt (including bank overdrafts, current and non current portion)	768.0	1,162.2	1.2	348.8	(734.2)	1,546.0
Other non current liabilities (excluding financial debt)	11.7	200.7	7.8	117.4	(1.6)	336.0
Current liabilities (excluding current portion of debt)	274.6	204.1	49.4	1,134.1	(908.6)	753.6
Total liabilities (excluding equity)	**1,054.3**	**1,567.0**	**58.4**	**1,600.3**	**(1,644.4)**	**2,635.6**
Equity	**2,083.6**	**3,006.7**	**244.0**	**1,489.9**	**(3,825.5)**	**2,998.6**
Operating revenues	27.8	585.2	389.8	2,419.5	(811.7)	2,602.5
Depreciation and amortization	24.1	275.4	10.6	210.7	(26.5)	494.3
Operating income (loss)	(330.3)	184.9	79.9	390.3	215.9	540.6
Net income (loss) group share	**(98.1)**	**89.7**	**55.5**	**317.2**	**(24.2)**	**340.0**
Cash flow from operating activities	190.0	392.8	32.5	430.0	(159.1)	885.6

Cash flow from investing activities	(30.5)	(1,525.3)	(10.5)	(215.8)	1,278.6	(503.5)
Cash flow from financing activities	(1,339.8)	1,162.2	(8.5)	(162.8)	210.0	(138.9)
Cash at opening	**103.9**	**17.4**	**2.9**	**130.0**		**254.3**
Cash at closing	**232.7**	**64.4**	**16.3**	**203.4**		**516.9**

The following table presents condensed consolidated financial information in IFRS for the Company, on the one hand, and CGG Canada Services Ltd, CGG Americas, Inc., CGG Marine Resources Norge A/S, CGGVeritas Services Holding (U.S.) Inc., Alitheia Resources Inc, Veritas DGC Asia Pacific Ltd., CGGVeritas Land (US) Inc., CGGVeritas Services (US) Inc., Veritas Geophysical (Mexico) LLC, Veritas Investments Inc., Viking Maritime Inc

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(the Subsidiary Group), on the other hand, as of and for the years ended December 31, 2007 and 2006. The column Sercel Subsidiary Group includes Sercel Inc., Sercel Australia Pty Ltd and Sercel Canada Ltd.

IFRS	CGG Veritas	Services Guarantors	Equipment Guarantors	Non Guarantors	Consolidating Adjustments	Group Consolidated
			(in millions of euros)			
Goodwill		1,688.7	45.2	201.0	(7.0)	1,928.0
Intangible assets (including multi client surveys)	0.2	396.4	10.3	310.2	(36.6)	680.5
Property, plant and equipment	12.7	334.6	29.3	344.5	(61.1)	660.0
Investment in affiliates	1,999.4	257.8	3.7	307.9	(2,568.8)	
Other non current assets	575.9	257.0	0.1	128.7	(803.8)	157.9
Current assets	324.5	162.0	181.5	1,198.2	(645.6)	1,220.6
Total assets	2,912.7	3,096.6	270.1	2,490.5	(4.122.9)	4,647.0
Financial debt (including bank overdrafts, current and non current portion)	636.6	1,028.1	1.3	272.9	(577.9)	1,361.0
Other non current liabilities (excluding financial debt)	(1.3)	161.0	12.2	94.2	(4.9)	261.2
Current liabilities (excluding current portion of debt)	225.9	279.9	67.6	862.6	(836.7)	599.2
Total liabilities (excluding equity)	861.2	1,468.9	81.1	1,229.7	(1,419.5)	2,221.4
Operating revenues	34.8	618.1	362.1	2,136.8	(777.7)	2,374.1
Depreciation and amortization	0.6	198.1	9.8	296.7	(17.6)	487.6
Operating income (loss)	(50.7)	191.4	70.9	363.5	(85.9)	489.1
Net income (loss) group share	6.4	45.2	51.0	290.7	(143.6)	249.6
Cash flow from operating activities	(4.1)	178.6	9.5	411.7	51.6	647.3
Cash flow from investing activities	(424.9)	(1,462.6)	(12.6)	(239.7)	566.7	(1,573.1)
Cash flow from financing activities	372.3	1,094.8	0.1	(138.0)	(379.1)	950.2
Cash at opening	201.2	4.4	6.2	40.0		251.8

Cash at closing	103.9	17.4	2.9	130.1		254.3

IFRS	CGGVeritas	Subsidiary Group	Others	Consolidating adjustments	Consolidated	Sercel Subsidiary Group
2006						
Total assets	1,033.0	626.2	1,475.5	(1,352.6)	1,782.1	237.9
Operating revenues	263.4	607.5	1,092.0	(633.3)	1,329.6	341.6
Operating income (loss)	(7.7)	172.3	182.3	(57.9)	289.0	52.6
Net income (loss)	54.3	104.1	169.6	(169.3)	158.7	34.8