



REPORT OF THE CHAIRMAN ON BOARD OF DIRECTORS' COMPOSITION, PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK, ON INTERNAL CONTROL AND RISK MANAGEMENT

Compagnie Générale de Géophysique - Veritas
A French Public Limited Company with registered capital of € 60,602,443
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In accordance with section L.225-37 of the French commercial code, the purpose of this document is to report on the composition, the conditions of preparation and organization of the meeting of the Board of Directors, on the limitations of the authority of the general management as well as the internal control and risk management procedures put in place within Compagnie Générale de Géophysique – Veritas (hereinafter referred to as "the Company") and its consolidated subsidiaries (hereinafter collectively referred to as the "Group"). The Board of Directors approved this report in its session of February 24, 2011.

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

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

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

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

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

- Board of Directors' composition and preparation and organization of the Board of Directors' work (I),
- limitations of the authority of General Management (II),
- procedures of internal control and risk management implemented by the Company (III).

I. Board of Directors' composition and preparation and organization of the Board of Directors'work

I.1 Code of corporate governance applied by the Company:

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"). This code is available on the website of the MEDEF (www.medef.fr).

- The Company complies with the provisions of the AFEP-MEDEF Code except with respect to the current supplementary pension plan. This exception is described in paragraph I.6.

I.2 Composition of the Board of Directors as of the date of the present report:

The Board of Directors decided on June 30, 2010 to split the position of Chairman of the Board and Chief Executive Officer. Since that date, R. Brunck has remained Chairman of the Board (see paragraphs II. 1 & II.2).

Since the General Meeting held to approve the 2007 financial statements, the Directors are appointed for a four-year term. However, the terms of Directors that are currently in force remain as initially set until expiration of their term.

Name	Age	Positions	Initially appointed	Term expires
Robert BRUNCK ^{(2)(4)(*)} Nationality : French	61	Chairman of the Board of Directors	May 20, 1999 (director since September 9, 1998)	2012 General Meeting
Yves LESAGE ⁽¹⁾⁽⁴⁾ Nationality : French	73	Honorary Chairman and Director	September 29, 1988	2013 General Meeting
Olivier APPERT ⁽²⁾⁽³⁾ Nationality : French	61	Director	May 15, 2003	2012 General Meeting
Loren CARROLL ⁽¹⁾ (independent director) Nationality: American	67	Director	January 12, 2007	2013 General Meeting
Rémi DORVAL ⁽¹⁾⁽³⁾ (independent director) Nationality : French	59	Director	March 8, 2005	2014 General Meeting
Jean Dunand ⁽¹⁾ (independent director) Nationality : French	71	Director	September 8, 1999	2013 General Meeting
Anders FARESTVEIT ⁽⁴⁾ Nationality : Norwegian	72	Director	April 29, 2009	2013 General Meeting
Robert F. SEMMENS ^{(2)(3)(*)} (independent director) Nationality: American	53	Director	December 13, 1999	2011 General Meeting
Daniel VALOT ⁽¹⁾ (independent director) Nationality : French	66	Director	March 14, 2001	2012 General Meeting
David WORK ⁽³⁾⁽⁵⁾ (independent director) Nationality: American	65	Director	January 12, 2007	2013 General Meeting
Terence YOUNG ⁽⁴⁾⁽⁵⁾ (independent director) Nationality: American	64	Director	January 12, 2007	2013 General Meeting
Denis RANQUE ⁽⁴⁾⁽⁵⁾ Nationality: French	59	Director	May 5, 2010	2014 General Meeting
Kathleen SENDALL ⁽⁴⁾⁽⁵⁾ (independent director) Nationality: Canadian	58	Director	May 5, 2010	2014 General Meeting

⁽¹⁾ member of the Audit Committee

⁽²⁾ member of the Strategic Committee

⁽³⁾ member of the Appointment & Remuneration Committee

⁽⁴⁾ member of the Technology Committee

⁽⁵⁾ member of the HSE/Sustainable Development Committee

^(*) the renewal of this office will be submitted to the approval of general meeting of shareholders of May 4, 2011

The positions held by the members of the Board of Directors in other companies are provided in paragraph 13.1.2. of the management report.

Independent directors:

The Board reviews the qualification of the directors as independent on an annual basis before release of the "*Document de Référence*." Thus, in its meeting held on February 24, 2010, the Board resolved that seven out of thirteen directors qualified as independent (i.e. half of the board members which is compliant with the recommendation of the AFEP-MEDEF Code¹. Those directors are Messrs. Loren Caroll, Rémi Dorval, Jean Dunand, Robert Semmens, Daniel Valot, David Work and Terence Young. In addition, Ms. Kathleen Sendall appointed by the shareholders' meeting on May 5, 2010 is also, an independent director.

In accordance with the criteria established by the AFEP-MEDEF Code², those directors do not maintain any relationship with the Company, its Group or management which could impair their freedom of judgment.

Nevertheless, and as an exception to the AFEP-MEDEF Code, the Board of Directors estimates that:

- (i) the fact that until July 22, 2010, Mr. Robert Semmens has also been a member of the supervisory board of Sercel Holding, as well as the fact that MM. Loren Caroll, Rémi Dorval and Daniel Valot have been until September 1, 2010, members of the Supervisory Board of CGGVeritas Services Holding B.V, a wholly-owned subsidiary of the Company, do not impair their independence. To be noted that at the date of this report, these directors no longer hold any position in a Group subsidiary); and
- (ii) the fact that MM. Loren Caroll, David Work and Terence Young were directors of CGGVeritas Services Holding (US) Inc. (previously named Veritas DGC Inc.), one of the consolidated subsidiaries of the Company, over the past 5 years, does not impair their qualification as independent since they were already qualified as such in this entity.

¹ The AFEP-MEDEF Code recommends that independent directors should account for half the members of the Board of Directors in widely-held corporations without controlling shareholders.

² Note that the criteria set by the AFEP-MEDEF Code so as to establish the independence of directors are the following:

- not to be an employee or an executive director of the corporation, or an employee or director of its parent or a company that it consolidates, and not having been in such a position for the previous five years;
- not to be an executive director of a company in which the corporation holds a directorship, directly or indirectly, on in which an employee appointed as such or an executive director of the corporation (currently in office or having held such office going back five years) is a director;
- not to be a customer, supplier, investment banker or commercial banker:
 - that is material for the corporation or its group;
 - or for a significant part of whose business the corporation or its group accounts ;
- not to be related by close family ties to an executive director ;
- not to have been an auditor of the corporation within the past five years ;
- not to have been a director of the corporation for more than twelve years.
- As regards directors representing major shareholders of the corporation or its parent, these may be considered as being independent, provided that they are not involved in the control of the corporation. In excess of a 10% holding of stock or votes, the Board, upon a report from the appointments committee, should systematically review the qualification of a director as an independent director, having regard to the make-up of the corporation's capital and the existence of a potential conflict of interest.

Update on the company's application of the principle of a balanced representation of men and women on the board of directors:

The board of directors has taken the initiative to better balance the women and men representation in the board. As a first step, Ms Kathleen Sendall was appointed as director of the company by the shareholders' meeting held on May 5, 2010. As a second step, the board of directors will submit the appointment of Ms. Lombard and Ms. Myrberg to the shareholders' meeting to be held on May 4, 2011, with the objective to increase above 20% the number of women in the board in 2011.

Evaluation of the Board's activities:

In December 2005, the Board of Directors decided to follow the recommendation of the "*Institut Français des Administrateurs*" and to organize an annual evaluation of its activities. It is a self-evaluation analyzed by an outside consultant and completed every three year by a more in-depth evaluation which includes individual interviews with the outside consultant. Due to the appointment of new directors, the frequency of the evaluations with interview has been higher than expected and carried out every two years on average. In 2009 an in-depth evaluation was thus carried out, followed in 2010 by a self-evaluation completed by individual interviews of the two newly nominated directors. The feedback of these evaluations are analyzed once a year, reported on by the external consultant and result in action plans that are followed up annually, in particular by the Appointment and Remuneration Committee.

Rules applicable to the transactions carried out on the Company's shares by directors:

The directors may be led to hold information relative to the company that has come to their attention because of their position as director and which, if made public, might have an appreciable effect on the company's share price. The significant character of a piece of information is normally related to the influence it may have on the financial results of the listed company. A significant piece of information can relate to operating revenues, financial or budgetary estimates, investments, acquisitions or divestments, main discoveries, stops of important manufacturing units, launching or withdrawal of products, significant changes in shareholding or general management, transactions affecting the capital, the dividend, the appearance or the settlement of a dispute, etc.

In such a case, the internal regulations provide that the directors must refrain:

- from exploiting such information in their own behalf or in behalf of others, directly or through an intermediary, by purchasing or selling the company's securities or financial products connected with the said issue.
- from communicating the said information for purposes other than and for an activity other than the one in connection with which it is held.

In addition to the above, directors must abstain from carrying-out any transaction on the company's shares, of whatever nature, during the 30-calendar days preceding the publication of quarterly, semi annual or annual results. Such publications occur the last week of February, mid-May, the last week of July and mid-November.

In case of doubt, the directors are invited to contact the Group Chief Financial Officer.

Pursuant to the provisions of the general regulation of the *Autorité des Marchés Financiers*, the directors must notify directly to the *Autorité des Marchés Financiers* any transactions that they may carry out on the CGG Veritas shares, within the 5 trading days as from the date on which they have carried out such transactions. The obligation to notify such transactions is the direct responsibility of each director.

I.3 Preparation of meetings and information to be provided to directors:

The operating procedure of the Board is governed by internal rules and regulations (hereafter the "Internal rules and regulations of the Board of Directors") which are available on the Company's website (www.cggveritas.com). Their main provisions are summarized below.

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

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

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

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

I.4 Board meetings:

At every meeting, the Board is informed of the evolution of the operating and financial performance of the main segments of the Group since the last meeting.

This information per segment is supplemented by a particular review of the consolidated financial situation of the Group in terms of debt, cash flow and financial resources available available on a short-term basis and in the light of forecasts.

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

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

Pursuant to the Internal Rules and Regulations of the Board of Directors, directors may participate in Board proceedings through videoconferences or telephone conferencing provided such telecommunication means permit the identification of participants and allow them to effectively participate to the meeting in the conditions set forth in article L.235-37 of the French commercial code. They are in such cases counted as present for the calculation of the quorum

and majority in accordance with the rules of the Board of Directors. However, pursuant to law the said procedure may not be used in connection with the following decisions:

- establishment of the annual financial statements and of the management report;
- establishment of the consolidated financial statements and of the report concerning management of the group, if that is not included in the annual management report.

In addition, the Board of Directors decided that this restriction would also apply to decisions relating to the establishment of the half-year financial statements and related Board report.

1.5 Report of the activities of the Board of Directors during fiscal year 2010:

Pursuant to article L.225-35 of the French commercial code, the Board of Directors determines the broad lines of the Company's business and sees to their implementation. Subject to the powers expressly granted to shareholders' meetings, and within the limits of the corporate purpose, it reviews any question relating to the conduct of the company's business and decides all pertinent issues through its deliberations.

The Board of Directors carries out any controls and checks it deems appropriate.

In 2010, the Board of Directors of the Company met twelve times. The average attendance rate of directors at these meetings amounted to 87%.

During these meetings, the Board approved the Company's annual financial statements and the 2009 consolidated annual financial statements and reviewed the quarterly and half-year results for fiscal year 2010. The 2011 pre- budget was also reviewed by the Board.

The Board also convened the general meeting of shareholders held on May 2010 and the reports and resolutions to be submitted to such meeting approval, including the draft resolutions presented by the Works Council.

The Board decided to implement (i) three stock-options plans for some employees of the Group and a specific plan for R. Brunck, then Chairman of the Board and Chief Executive Officer, subject to performance conditions in conformity with the AFEP-MEDEF Code, and (ii) a performance shares plan for some employees and the Chairman of the Board and Chief Executive Officer.

The Board of Directors resolved, in addition, to split the position of Chairman of the Board and Chief Executive Officer of the Company and appointed, respectively, R. Brunck as Chairman of the Board and JG. Malcor, Chief Executive Officer. At the same time, the Board also approved the details of the compensation of these officers along with the terms and conditions of the protection letter of the Chief Executive Officer. This letter, as amended by a decision of the board of directors of February 24, 2011, shall be subject to the ratification of the annual shareholders' meeting convened to approve the 2011 financial statements.

With respect to financial operations, the Board also approved the execution of (i) an amendment to the "credit agreement" dated January 12, 2007, in July 2010, and (ii) an amendment to the French revolver dated February 7, 2007, in October 2010, which were both initially entered into for the purpose of financing the Veritas group acquisition.

Finally, the Board approved the updates made to its internal regulations and decided to have a dedicated focus on the HSE performance and the sustainable development of the Company, a topic that was previously regularly reviewed by the Audit Committee. To this end a new board

committee named HSE/Sustainable Development Committee was set up to become effective in 2011.

I.6 Committees established by the Board of Directors:

The Internal rules and regulations of the Board of Directors define the composition, duties and operating procedures of the Strategic Planning, Technology and HSE/Sustainable Development Committees. The Audit Committee and the Appointment and Remuneration Committee have their own charter. They are appended to the Internal Rules and Regulations of the Board of Directors and are available on the Company's website (www.cggveritas.com).

The Appointment-Remuneration Committee:

The responsibilities of this Committee in terms of propositions and/or recommendations to be made to the Board of Directors relate to:

1. the compensation to be paid to the senior executive officers (*"mandataires sociaux"*) to be appointed from time to time, including the procedures for setting the variable part thereof and the grant of possible benefits in kind;
2. all provisions relative to the retirement of the senior executive officers considered as *"mandataires sociaux"*;
3. for the *"mandataires sociaux"*, the deferred elements of the compensation packages (pension, severance payment) to be submitted to the shareholders' annual meeting;
4. the evaluation of financial consequences on the Company's financial statements of all compensation elements for *mandataires sociaux*;
5. the contracts between the Company and a *"mandataire social"*;
6. the possible candidacies for filling director's positions, positions as senior executive officer considered as *"mandataire social"* or positions as a member of a Board Committee.
7. the periodical review of the independence of Board members;
8. the Directors' fees level and their allocation rules;
9. the realization of capital increases reserved for the employees; and
10. the installation of equity-based plans.

In addition to the assignments here above described, this Committee is also in charge of:

1. examining the compensation of the Executive Committee members and its evolution;
2. carrying out the performance evaluation of the Board and its committees;
3. carrying out the performance evaluation of the Chairman of the Board and the Chief Executive Officer;
4. reviewing the succession planning process of Executive Committee members;
5. ensuring compliance of compensation and benefits policies with all applicable regulations;
6. 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
7. approving the policy and process of verification and reimbursements of expenses.

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

The Committee is also consulted with respect to the evolution of the compensation of the other members of the executive committee.

As of December 31, 2010, the members of the Committee were the following:

Robert Semmens (President)^(*)
Olivier Appert
Rémi Dorval^(*)
David Work^(*)

^(*) independent director

This Committee is composed of a majority of independent directors in conformity with the AFEP-MEDEF Code.

The work of the Committee is recorded in minutes. Besides, the Chairman of the Committee shall submit to the Board of Directors a report whenever the Board of Directors has to make a decision related to an appointment and remuneration issue.

Finally, the Board of Directors reviews, inter alia, the operating procedures of the Appointment-Remuneration Committee in the course of the annual review of its own performance as well as every three years when performing a more thorough review with the assistance of an external consultant.

In 2010, this Committee met ten times to decide, inter alia, on (i) the remuneration of the Chairman of the Board and of the Chief Executive Officer, (ii) the implementation of a protection letter for the Chief Executive Officer, (iii) the amount of the directors' fees and their allocation rules, (iv) the policy governing allocation of performance shares and stock-options within the Group, (v) the review of the qualification of directors as independent prior to its submission to the Board of Directors, (vi) the drafting of the annual reports' (management report, *Document de Référence*, Report 20-F) paragraphs regarding the compensation of the Senior Executive Officers ("*mandataires sociaux*"), (vii) the 2010 bonus plans (viii) the succession planning, (ix) the implementation of the evaluation process of the Board and of the Chairman and the Chief Executive Officer, (x) the organisation of a seminar and specific training sessions for the members of the Board of Directors, (xi) the review of the internal rules and regulation of the Board of Directors (xii) the appointment of three new directors, and (xiii) the constitution of the HSE/Sustainable Development Committee.

The average meeting attendance rate amounted to 95%.

Principles and rules to determine the remuneration of the executive officers:

Pursuant to article L. 225-37 of the French commercial code, it is specified that the compensation of the Chairman of the Board and of the Chief Executive Officer are determined by the Board of Directors upon proposal of the Appointment-Remuneration Committee. Such aggregate compensation includes a fixed element and a bonus. The bonus for a given fiscal year is determined and paid during the first semester of the following fiscal year.

For fiscal year 2010, this variable part is based on the achievement of personal objectives (representing one-third of the bonus) and financial objectives (representing two-thirds of the bonus). The chairman had also financial objectives given his executive role during the first six months of the year. These financial objectives relate to the Group EBIT (weighted 35%), the EBITDA less CAPEX (weighted 35%) and the Group EBI (weighted 30%).

In addition, it is to be noted that, the Company complies with the provisions of the AFEP-MEDEF Code relating to the remuneration of the executive officers of the company with the following exception relating to the supplementary pension plan,: in some particular circumstances (in case of the death, incapacity or dismissal of the beneficiary, except in case of gross or serious misconduct, after reaching the age of 55 and not followed by any other professional activity) a senior executive officer, although he is no longer an employee of the Group, may still benefit from the supplementary pension plan in force. Taking into consideration the circular no. 105/2004 issued by the French Social Security Department on the 8th March 2004, these exceptions are maintained with regard to the following elements:

- the current supplementary pension plan may continue to apply on a uniform and identical basis to all the other executive officers also benefiting from this plan without further consequences.
- given the seniority of certain beneficiaries of this plan and in light of their successful service throughout these years, it would be unjustified to have them lose the benefit of the pension commitments made by the Company toward them solely because of a departure arising under very special circumstances (death, disability) or occurring shortly before retirement, making it difficult to find further employment (dismissal without gross and serious misconduct, after the age of 55, not followed by any other professional activity).

A detailed description of the compensation paid in 2010 to the Chairman of the Board and to the Chief Executive Officer is set forth in paragraph 14 of the management report. Information relating to deferred severance indemnity and supplementary retirement plan are also included.

The strategic planning committee:

The Strategic Planning Committee's assignment is to study:

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

As of December 31, 2010, the members of the Committee were the following:

Robert Brunck (President)
Olivier Appert
Denis Ranque
Robert Semmens^(*)

^(*) independent director

This Committee customarily meets before each Board meeting and more often if necessary. During 2010, the Strategic Planning Committee met ten times. The average attendance rate of committee members amounted to 92.5%.

In 2010, the Committee was consulted regarding, inter alia, (i) the 2010-2011 forecasts, (ii) the set-up of a new organization for the group, (iii) the taking of a shareholding interest by the *Fonds Stratégique d'Investissements* in the share-capital of the Company, (iv) the Marine organization and fleet management, (v) the 2011 pre-budget, (vi) the external communication of the Company vis à vis the shareholders and the analysts.

The HSE/Sustainable Development Committee

This committee was created on November 17, 2010, by the Board of Directors, upon proposal of the Chairman of Board of Directors. It will be effective early 2011.

The Committee's assignments are the following:

- To determine the main axis for the improvement of the HSE performance on an ongoing basis and to assess on a regular basis the progress made by comparison with the other companies of the industry;
- To review the high- rated risks established or not (HPI), to examine the analysis of their causes and the related mitigation actions;
- To monitor any major HSE crisis and the related mitigation actions;
- To keep the Board of Directors informed of the measures undertaken by the Group in relation to HSE as well as the group initiatives with respect to sustainable development.

As of December 31, 2010, the members of the Committee were the following:

Kathleen Sendall^(*), (President)
Terence Young^(*)
Denis Ranque
David Work^(*)

^(*)independent director

The Audit Committee:

Pursuant to its Charter, the Audit Committee is responsible for assisting the Board of Directors and, as such for preparing its assignments.

In the scope of the duties of the Audit Committee as defined by law, the Audit Committee shall, inter alia:

- a. monitor the financial reporting process;
- b. monitor the effectiveness of the company's internal control and risk management systems;
- c. monitor the statutory audit of the annual and consolidated accounts;
- d. review and monitor the independence of the statutory auditors.

In this scope, the Committee is specifically in charge of:

- Assignments relating to accounts and financial information:
 - Reviewing and discussing with management and the statutory auditors the following items:
 - the consistency and appropriateness of the accounting methods adopted for establishment of the corporate and consolidated financial statements,
 - the consolidation perimeter,

- the draft annual and consolidated accounts, semi-annual and quarterly consolidated financial statements along with their notes, and especially off-balance sheet arrangements,
- the quality, comprehensiveness, accurateness and sincerity of the financial statements,
- Hearing the statutory auditors reporting on their review, including any comments and suggestions they may have made in the scope of their audit.
- Examining the draft press releases related to the Group financial results and propose any modification deemed necessary,
- Reviewing the report on form 20-F and the "document de reference",
- Raising any financial and accounting question that appears important to it.
- Assignments relating to risk management and internal control:
 - Review with the General Management (i) the Company's policy on risk management, (ii) the analysis made by the Company of its major risks (risk mapping) and (iii) the programs put in place to monitor them,
 - Review with the General Management (i) the role and responsibilities with respect to internal control ; (ii) the principles / rules of internal control defined by the Company on its general internal control environment (governance, ethics, delegation of authority, information systems...) and on the key processes (treasury, purchase, closing of the accounts, fixed assets...), (iii) the internal control quality as perceived by the Company and (iv) the significant deficiencies, if any, identified by the Company or reported by the external auditors (section L.823-16 of the French code of commerce) as well as the corrective actions put into place,
 - Review (i) the *Report of the Chairman on Board of Directors' Composition, Preparation and Organization of the Board of Directors' Work, on Internal Control and Risk Management* and (ii) the conclusions of the external auditors on such report.
- Assignments relating to internal audit:
 - Reviewing with General Management:
 - the organization and operation of internal audit,
 - Its activities and notably the missions proposed in the scope of the internal audit plan approved by the general management and presented to the Committee,
 - Results of internal audit reviews.
- Assignments relating to external audit:
 - Reviewing with the statutory auditors their annual audit plan,
 - Hearing, if necessary, the statutory auditors without the management being present,

- Monitoring the procedure for selection of the auditors and issuing a recommendation to the Board of Directors on the statutory auditors whose appointment is to be submitted to the shareholders' meeting,
 - Monitoring the independence of the statutory auditors on annual basis,
 - Discussing possibly individually the audit work with the statutory auditors and the management and reviewing regularly with the management the amount of the auditors' fees. Within the framework of a procedure that it determines annually, the Committee has sole authority to authorize performance by the auditors and/or by the members of their network of services not directly relating to their auditing mission,
- Other assignments:
 - Reviewing with management and, when appropriate, the external auditors the transactions binding directly or indirectly the Company and its executive officers,
 - Seeing to the handling, anonymously, of any feedback concerning a possible internal control problem or any problem of an accounting and financial nature,

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

The following persons are to attend the Committee meetings: the Chairman of the Board of Directors, the members of the Executive Committee, including the Chief Executive Officer and the Chief Financial Officer, the auditors, the Senior Vice-President Internal Audit, and any person whom the Committee wishes to hear.

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

As of December 31, 2010, the members of the Committee were the following:

Jean Dunand (President) (*)
 Loren Carroll(*)
 Rémi Dorval(*)
 Yves Lesage
 Daniel Valot(*)

(*) independent director

J. Dunand was appointed as Financial Expert by the Board of Directors in 2003 pursuant to section 407 of Sarbanes Oxley Act.

Both J. Dunand and L. Carroll qualify as independent members of the Committee with specific competences in financial and accounting matters pursuant to article L.823-19 of the French Commercial Code.

J. Dunand over the years he spent in the TOTAL Group has developed an extensive financial and accounting expertise through the various positions he has held especially as CFO of several TOTAL subsidiaries located in countries where the CGGVeritas Group also carries on business. As for L. Carroll, through the positions he held over 15 years within Arthur Andersen, he has developed an extensive accounting and auditing practice especially for public companies. He then became Chief Financial Officer of Smith International, a supplier of products and services to the oil and gas, petrochemical, and other industrial markets. Within Smith International, he was in charge of investor relations, supervision of financial activities of Public Corporation (NYSE) and merger, acquisitions and strategic development. Both J. Dunand and L. Carroll are therefore very familiar with the financial and accounting specificities of our industrial sector and those linked to our international activities. In conformity with the provisions of the AFEP-MEDEF Code, the Committee is composed of two-thirds of independent directors.

In 2010, the Audit Committee met nine times with an average attendance rate of committee members of 89 %.

In 2010, the Audit Committee reviewed draft versions of the annual consolidated financial statements for 2009, the consolidated financial statements for the first quarter, the first semester and the third quarter of 2010. It also reviewed the 2010 forecasts. The Audit Committee also provided to the Board its recommendations concerning these financial statements. The audit committee reviewed the 20-F Report and the "*Document de Référence*".

The Committee also determined and implemented a review plan of the main risks of the Group.

It examined the work to be performed by the statutory auditors in the scope of their audit on the 2010 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 2010 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 presented their respective conclusions.

The Audit Committee also follows the evolution of the Group's legal perimeter and, in particular the rationalization program of Group legal structures.

Furthermore, it carried out at year end a detailed review of the multi-client library and was regularly kept informed of the Group's situation with respect to cash, debt, cash flow forecasts and Group's hedging policy.

Finally, the Audit Committee reviewed the report issued by the French "*Autorité des Marchés Financiers*" on audit committees further to the publication of the *Ordonnance* dated December 8, 2008 related to the role and organization of the Audit Committee.

The Technology Committee:

The Committee's assignment is to assist the Board in reviewing:

- the technology offer from competitors and other oil service companies,
- 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,
- R&D budgets,
- the protection of intellectual property.

As of December 31, 2010, the members of the Committee were the following:

Robert Brunck (President)
Anders Farestveit
Yves Lesage
Terence Young^(*)
Kathleen Sendall^(*)

^(*) independent director

The Technology Committee usually meets twice a year. In 2010, the Committee met twice with an attendance rate of 100%.

During these meetings, the Committee reviewed the latest technological developments of the Group divisions, the Group R&D plan. Certain specific technological projects were also presented to the Committee.

I.7 Shareholders' attendance conditions at the shareholders' general meeting:

Subject to the provisions of sections L.225-104 and seq. of the French commercial code, the shareholders' attendance conditions at the shareholders' general meeting are set forth in articles 14, 15, and 16 of the Company's by-laws.

I.8 Information likely to have an influence in case of take-over bid:

Information set forth in article L.225-100-3 of the French commercial code related to the information likely to have an influence in case of take-over bid are described in paragraph 20 of the management report.

II. Limitations of the authority of General Management

II.1. Structure of General Management:

Pursuant to the harmonization of the Company's articles of association with the provisions of the law of May 15, 2001 (*Loi sur les Nouvelles Régulations Économiques*) by the combined shareholders' meeting of May 15, 2002, the Board of Directors had initially decided that the functions of Chairman of the Board of Directors and Chief Executive Officer would be combined. Until June 30, 2010, Robert Brunck held the position as Chairman of the Board and Chief Executive Officer.

When Jean-Georges Malcor joined the general management team of the Group in January 2010, it was announced that both functions would be split during the year. This split was effective as of June 30, 2010. Since that date, Jean-Georges Malcor has been Chief Executive Officer of the Company while Robert Brunck has remained Chairman of the Board.

Messrs. Brunck and Malcor have been appointed until the shareholders' meeting to be convened to approve the 2011 financial statements.

II.2. Role of the Chairman of the Board of Directors:

In conformity with article L. 225-51 of the commercial code, the Chairman of the Board of Directors organizes and animates the work to be performed by the Board and reports to the shareholders' meeting on the work performed by the Board. The Chairman of the Board of Directors also makes sure the corporate bodies of the company work appropriately and that the directors are in a position to adequately perform their duties.

In addition, the Chairman of the Board of Directors has the following assignments in close relation with the Chief Executive Officer:

- To plan effectively strategic matters, and to ensure that the Board shares and agrees with the corporate strategy proposed by the Chief Executive Officer, and thereafter monitors the implementation of that strategy.
- To represent the Company as a figure head at the highest level, and maintain a positive ongoing dialogue with key clients, governments, regulatory authorities, medias, shareholders, investors and general public, contributing to the success of the Group.
- To foster effective communication with major stakeholders (Oil companies, important partnerships, key suppliers etc), and ensure that their views are communicated and understood by the Board with integrity, probity and in a timely manner.
- To team up very closely with the Chief Executive Officer to ensure a close and trusting partnership between the Board and the Chief Executive Officer.
- To provide support, mentoring, advice and coaching to the Chief Executive Officer as appropriate and ensure effective liaison and continuity of communication on developments occurring between formal Board meetings.
- To provide support to the Chief Executive Officer in the selection of the key members of the executive team and ensure that succession plans are in place for all key executives.

II.2. Limitations of authority of the Chief Executive Officer:

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

III. Internal control and risk management procedures implemented by the Company

The Company's internal control and risk management, effected by the Board of Directors, the management and by other personnel is designed to provide reasonable assurance regarding the achievement of objectives in the following areas:

- completion and optimization of operations, including the safeguarding of resources,
- the reliability and sincerity of financial information, and

- compliance with applicable laws and regulations.

The principal objective of our Internal Control and Risk Management systems and processes is to identify and control risks related to the activities of the company, as well as the risks related to errors in accounting and financial reporting.

The Company is listed both in France and in the US; it is therefore subject to both the Sarbanes-Oxley Act and the French "*Loi de Sécurité Financière*". In the scope of implementation of the recommendations and provisions of the Sarbanes-Oxley Act relating to internal control, the Company decided to apply the COSO internal control integrated framework, established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The *Autorite des Marchés Financiers (AMF)* has subsequently integrated the principle elements of COSO in its frame of reference.

Pursuant to the Sarbanes-Oxley Act, the Company must include in its report on Form 20-F (the "20-F Report") filed with the Securities Exchange Commission, a management report on internal control over financial reporting. This report along with the opinion of the auditors on the Company's internal control will be included in item 15 of the 20-F Report for fiscal year 2010. A translation of this item 15 into French will be included in the "*Document de Référence*" for fiscal year 2010.

a) Control Environment:

The control environment is the foundation of all the components of internal control and risk management, providing discipline and structure. The discussion below describes the Company's Charts and Codes setting its expectations in integrity and ethics, it describes how the Company is organized and structured to assure internal control and risk management, and it describes how authority and responsibilities are delegated in the Company.

Integrity and Ethics

The Company's standards and expectations in integrity and ethics are codified in its Chart of Ethics in its Statement of Values and Code of Ethics and in its Code of Business Conduct. These documents are widely distributed globally in the Company and they are also available to all staff on the Company's employee internet portal, *InSite*.

On December 10, 2003, the Board of Directors implemented a code of ethics³ which is applicable to the Chairman, the Chief Executive Officer and the members of the Executive Committee and the Disclosure Committee. This code defines rules of conduct and integrity which the persons must follow in the performance of their function and obligations relating to disclosure. This Chart remains in full force and vigor.

Code of Ethics and Statement of Values applicable to all employees of CGGVeritas Group

The Company has developed and communicated widely to all its employees a statement of its Values – *Our Value*. This statement of values centers around the Company and its employees' commitment : *focus on performance, passion for innovation, powered by people and delivered with integrity* .

³ implemented in conformity with section 406 of the Sarbanes-Oxley Act

The Company's code of ethics represents a commitment by CGGVeritas to its clients, its shareholders, its employees and its partners to comply with local laws and regulations and to respect the principles of its Code of Business Conduct.

Code of Business Conduct

During 2010 the Company's Business Code of Conduct was re-issued with a letter from the Chief Executive Officer and was widely distributed throughout the Company.

The Company's Code of Business Conduct is a guide to appropriate conduct. In conjunction with the Company's statement of Mission, Vision and values it provides a framework for all employees to perform their jobs with integrity. The Business Code of Conduct addresses compliance with laws and regulations, prevention of conflicts of interest, respect for persons and the environment, protection of the Company's assets, financial security and transparency, internal verification and the role of Internal Audit.

To support the Business code of conduct, the Company has established an Ethics Committee which can be contacted anonymously by employees concerning issues related to conduct. The Company has also established a global ethics alert phone line, *Ethics Alert*, which is operational 24 hours, 7 days a week. This reporting line is in compliance with SOX and with CNIL (*Commission Nationale de l'Informatique et des Libertés*) recommendations.

Company organization

The Company's organizational structure provides the framework within which its activities for achieving its entity-wide objectives are planned, executed, controlled and monitored. Within this framework, key areas of authority and responsibility, as well as appropriate lines of reporting, are established. The organizational structure relative to internal control and risk management is described below.

The structure and responsibility of the Board of Directors having been described in Section I, it will not be described further in this section.

During the first part of 2010, that is, until July 1, 2010, CGGVeritas was organized in two Divisions, Services, encompassing the company's geophysical services and Equipment, encompassing equipment manufacturer Sercel. Following the acquisition of Veritas in 2007, the Services Division was organized along four geographic Regions: EAME, APAC, N. America and Latin America.

In the first half of 2010, the Company announced a re-organization intended to result in a simpler and more efficient structure with clear accountability and thus easier to navigate. The new organization was implemented in July 2010 and it is the organization described below.

The Company is structured in five Divisions, along the primary axes of our business, each responsible for its positioning, its operations and its financial performance. The five Divisions are the Marine Acquisition Division, Land Acquisition Division, Data Processing and Imaging Division, Multi-Client and New Ventures Division, and Equipment Division. Six Functions, at the Group level, ensure a global transverse approach and provide support across all activities. The six Functions are the Geomarkets and Global Marketing Function, Technology Function, Finance and Strategy Function, Human Resources Function, General Secretary Function and Global Operational Excellence Function. Each Division and each Function is managed by an Executive Vice President.

The Chief Executive Officer

The Chief Executive Officer in CGGVeritas is given wide authority by the Board of Directors to manage the company. The Company's Chief Executive Officer has ultimate ownership and responsibility for the internal control and risk management system. He ensures the existence of a positive control environment, and he is responsible for seeing that all components of internal control and risk management are in place. The Chief Executive Officer provides leadership and direction to the Executive Committee.

The Executive Committee (COMEX):

The Executive Committee assembles around the Chief Executive Officer the Executive Vice Presidents of each Division and each Function. The Executive Committee shapes the values, principles and major operating policies that form the foundation of the Company's internal control system. The Executive Committee takes actions concerning the Company's organizational structure, content and communications of key policies and the planning and reporting systems the Company will use. The Executive Committee monitors and controls the performance of each Company activity as well as the execution of its strategy, plans and projects across its Divisions and Functions.

The Executive Committee is directly responsible for internal control and risk management in the Company. It defines the orientations for internal control and it oversees its implementation. These obligations are cascaded through the organization in each Division and each Function.

The Chief Executive Officer's responsibilities are cascaded to the EVPs of each Division. Thus EVPs and their Senior Managers have responsibility for internal control and risk management related to their unit's objectives. They guide the development and implementation of internal control policies and procedures that address their unit's objectives and ensure that these are consistent with the Group's objectives.

In exercising their transverse roles, Functions in the Company play pivotal roles in internal control and risk management, as described below.

Finance and Strategy Function:

In the Finance and strategy Function, the following Departments play critical roles in internal control and risk management:

Financial Controller - oversees the budgeting process, prepares monthly, quarterly and annual financial reporting, prepares financial forecasts, assures on a regular basis, with Divisions, oversight of company operations, cost control and financial performance monitoring

Accounting and Consolidation – Prepares consolidated accounts. Elaborates and cascades through the organization accounting procedures and assures on a continual basis their adequacy relative to legal and regulatory reporting requirements. This Department also has oversight of Internal Control in the Company. It oversees the implementation of process and good practice to assure the effectiveness of Internal Control across the company. This responsibility is carried out under the company's Chief Compliance Officer.

Treasury – The Treasury Department manages risks associated with currency fluctuations, credit and counterparty risks and commercial political risks. Treasury also manages the available funds and their investment.

The Executive Vice President Finance and Strategy manages the Function and serves as the Company's Chief Financial Officer. CGGVeritas has established a Corporate Finance Committee which meets on a monthly basis to review the Company's financial situation especially on the basis of the information provided by the respective financial committees of the Divisions.

The Finance and Strategy Function carries out its missions according to the directives established by the Executive Committee in the *Financial Security Policy* and the *2010 Financial Security Objectives*.

General Secretary Function

The General Secretary Function plays a central role in Internal Control and Risk Management in the Company. It is delegated wide oversight of Governance, Risk and Compliance by the Executive Committee. The General Secretary Function supports the Executive Committee in the setting of global policies and objectives related to internal control and risk management. It also facilitates the activities of the Board of Directors and its Committees and supports the Board in its Internal Control and Risk management oversight responsibilities.

In the General Secretary Function, the following Departments play a pivotal role in internal control and risk management.

Internal Audit – Internal Audit has direct access to the Executive Committee and to the Board's Audit Committee; it assists them in carrying out their oversight responsibilities on the effectiveness of the Company's risk management, internal control and enterprise governance. As of the date of this report, the Corporate Internal Audit function was staffed with ten auditors, reporting to the SVP Internal Audit.

Internal Audit evaluates internal controls on the basis of the COSO framework and tools and in compliance with the code of conduct of the Institute of Internal Auditors. Internal Audit planning is based on a three-year cycle to ensure a timely review of the Company's significant entities. Priorities are established based on current operations and the supposed level of risk. The annual internal audit plan is defined by the Corporate Internal Audit department, approved by the Executive Committee and presented to the Audit Committee. Internal Audit conducts financial and accounting audits as well as operational audits. Recommendations issued as a result of the audits are approved by the Executive Committee and the associated action plans are carried out by line management and monitored by Internal Audit until all open issues have been resolved. Also included in the scope of Internal Audit is the performance of conformity tests of internal controls as they relate to the Sarbanes-Oxley Act requirements.

Over the past three years, the units audited have accounted for approximately 90% of the average revenues of CGGVeritas. In 2010, the internal audit activities, excluding those linked to Sarbanes-Oxley, were mostly dedicated to the major scope of activities of CGGVeritas (i.e., the sites where efforts to integrate the teams and the systems were the most significant, entities considered as being a priority based on the assessments of risks exposure carried out after the merger and partnerships, particularly in Marine activity). The annual budget of Internal Audit is close to 0.1% of CGGVeritas revenues which is in compliance with the standards existing for companies in the same industrial sector.

Group Legal Department – The Group Legal Department provides legal support to the Company's corporate functions as well as to the Company's Divisions and Geomarkets. It has oversight of Company compliance and more specifically on external reporting including filings and relations with market authorities. It oversees safeguarding of financial covenants and compliance with local

regulations. The Legal department provides support for corporate affairs such as mergers and acquisitions, financing, and corporate law.

Group Legal ensures the legal management of the top holding company of the Company, listed on Euronext and the New York Stock Exchange. It acts in the role of Corporate Secretary for the Board of Directors and its Committees as well as in Shareholders' meetings. It assists general management with the definition and implementation of corporate governance principles in line with best practices in the financial markets where the Company is listed. Group Legal oversees the establishment and maintenance of the list of Insiders.

The Group Legal Department oversees the delegation of authority and delegation of powers in the company, assuring their adaptation in the event of changes in the organization.

The Group Legal Department provides functional management of the Company's legal entities and branches, as well as the trademark portfolio of the Company.

Group Legal plays an active role in operations providing support to the Company's Divisions and Geomarkets in their day to day business to ensure:

- Timely delivery of business oriented solutions to operations;
- Prevention and management of legal risks;
- Compliance with laws and regulations and Company policies and instructions.

Group Legal drives the Company's bid and contract review process assuring that major risks related to bids and contracts, with both clients and sub-contractors, contain terms which protect the company.

Health Safety & Environment, Sustainable Development and Social Responsibility (HSE)

The HSE management system provides governance, develops process and procedures in the areas of employee and stakeholder health, safety, environment and the security of our operations. The HSE organizations provides oversight in these areas across all of the Group's operations

The HSE organization also addresses the Group's reputation risk through its Social Responsibility (SR) and Sustainable Development (SD) programs.

The HSE, SD & SR Department carries out its missions according to directives established by the Executive Committee in the *Quality, Health, Safety and Environment Policy*, as well as in specific policies addressing *Health and Wellness, Sustainable Development, Environment, and Security*. Annual objectives applicable to all Company activities are set in the *2010 Health, Safety and Environment Objectives* and in the *2010 Sustainable Development and Social Responsibility Objectives*. These objectives have been reviewed for 2011.

Group Communication - The Group Communication Department oversees the Company's communication processes and culture. It develops mechanisms to strengthen two way internal communication. Group Communication regularly measures the quality of internal communications through a global survey of the Company's staff. This Department also oversees the company's external communications to assure accurate, timely quarterly and annual reports and investor communications.

Group Communications carries out its mission according to the directives established by the Executive Committee in the *Media Release and Financial Communications Policy*, the *News Release Procedure* and the *Press Release Procedure*.

Enterprise Risk Management - This Department is described below under Risk Management.

Human Resources Function

The Human Resources Function plays a key role in Internal Control and Risk Management. As a driver and center of expertise in recruitment, development and the motivation of the Company's employees, it helps to assure that the Company's objectives are attained. The Human resources Function assures a coherent global vision and approach to recruitment, development and employee compensation and recognition. Human Resources supports the Company's change management efforts, anticipating the Company's needs and assuring that competent, talented employees are available to fill the Company's needs.

Recruitment – Global recruitment is managed by a cell of professionals dedicated to putting in place processes and tools to assure that the Company is well positioned to attract talent and to assure that open positions are communicated throughout the Company. Human Resources supports Divisions and Functions in their recruitment and assessment efforts for specific posts in their countries of operations.

Development – Four key processes are structured to support the development of human resources in the Company; position and competency mapping, employee reviews and assessments, talent reviews and career reviews.

- The company's positions, or functions, are mapped in the *Magellan* system on 9 levels in order to facilitate the assessment of the Company's needs by Division, Function, region and country. The system also structures and facilitates the identification of development and competency requirements for specific positions.
- Individual performance evaluations are conducted globally, throughout the Company, based on an intranet based toolset provided by Human resources. Evaluations of performance and competency are reviewed between managers or supervisors and their direct reports.
- Employees identified to have a significant potential for managerial or technical development are further evaluated and are reviewed by the Company's senior management in Talent Review meetings.

Training – Employee development is supported by a structured training program; CGGVeritas University is at the center of this training and competency program. It organizes training programs, using internal and external experts, to respond to the needs of the organization. Training is made available to all levels from new hires to experienced senior managers. Specific training modules are offered on *Internal Control* and on *Governance and Performance*.

Succession Planning – The future needs of the organization and the potential of the Company's employees are reconciled through a succession planning exercise carried out in each Function and each Division. These reviews are consolidated by Human Resources to provide a global view of the Company's needs in key areas and to identify development and training required to prepare its employees for future responsibilities.

Compliance – Human Resources professionals monitor local laws and regulations in their domain and ensure with local management that the Company remains in compliance.

Global Operational Excellence Function

The Global Operational Excellence Function plays an important role in assuring that Company objectives are met concerning the optimization of resources, the reliability of financial information and in the compliance with applicable laws and regulations. The following departments play key roles in Internal Control and Risk management.

Trade Compliance - The Trade Compliance department is set up to ensure that all levels of the Group are aware of and take the necessary steps to comply with laws and regulations regarding the export, re-export, import and transit of controlled goods and technologies. It plays a consulting role to operations and assists operations with export licenses and documentation.

Information Security - The Group's Information Security Department puts in place a global framework to protect information. It sets standards and implements process to assure the availability, integrity, security and reliability of information systems in the Group.

The Information Security Department carries out its mission according to the directives established by the Executive Committee in the *Information Security Policy* and in the *2010 Information Security Objectives*.

Global Sourcing and Supply Chain Department - The Global Sourcing and Supply Chain department oversees the purchasing of all equipment, parts, supplies and services of the Company. It manages and develops the Company's relationships with suppliers, optimizes their performance, and optimizes the Company's total cost of ownership while maintaining standards of quality and delivery. Global Sourcing and Supply Chain defines the Company's sourcing strategy, carries out the sourcing process with Divisions and Functions, and manages suppliers. It oversees key processes including the creation of a new supplier, approved supplier list, sourcing and validation of supplier bids and contracts.

The Global Sourcing and Supply Chain Department carries out its mission under the *Purchasing Code of Conduct* and the *Selling to Sercel* directives. In 2010, the newly released *Purchasing Code of Conduct* was sent to the top 100 suppliers for CGGVeritas, representing around 85% of the Company's suppliers.

Quality Department - The Group's Quality Department focuses on a systematic approach to the management of key processes, thereby identifying and structuring the mitigation of process risk. It supports the Group's Divisions on key process risk and helps reduce or eliminate the cost of non-quality related to operational risks, thus playing a critical role in the optimization of resources.

The Quality Department carries out its mission according to the directives of the Executive Committee in the *Quality Policy* and in the *2010 Quality Objectives*.

b) Risk Management

CGGVeritas has in place organization, process and procedure as well as working practices to manage risks across the organization. The management of risk is fully integrated in the decision making process in the Company. The Company identifies and evaluates the principal risks that can impact the Company's operational and financial objectives or compromise compliance with laws and regulations. The Group manages risk through robust management systems, departments focused on specific risk areas and through cross company processes.

Enterprise Risk Management (ERM)

As part of the Group's organizational change in July 2010, an Enterprise Risk Management department was created in the General Secretary Function. ERM has established a risk management framework for the Company; it animates the implementation of this framework. Through the framework it provides a risk management methodology. ERM identifies high level risks in the Company and defines, with Divisions and Functions, control and mitigation measures to manage these risks. Enterprise Risk management works through the Functional departments and through the Divisions, as described above, on the implementation of risk controls. It monitors the implementation and effectiveness of controls and provides to the Executive Committee a view of the high level risks faced by the Company.

The Group has implemented risk management flows throughout the organization to identify, assess and control risks. The risk management process naturally starts with the identification of events that can have an impact on the Company. The Company's risk identification methodology comprises a combination of techniques and supporting tools including event inventories, internal analyses, risk interviews, process flow analysis, leading event indicators and loss event data methodologies.

Risk assessments are conducted to determine the extent to which potential events may have an impact on the Company. Risks are evaluated in terms of impact and probability. In assessing risks, managers consider impacts on people, environment, financial, strategic and other business objectives, compliance with laws and regulations and the Company's reputation. The Group's risk assessment methodology comprises a combination of qualitative and quantitative techniques.

The Company has implemented robust processes for risk control; risks are controlled through avoidance, reduction, sharing or acceptance. The Company employs comprehensive processes to reduce risk probability or risk severity or both. Control activities flow from policies and procedures established to manage risks. Control activities occur throughout the organization at all levels and in all functions. Company policies, objectives, management instructions and procedures are available to all personnel in the *Document Management System (DMS)* available on the intranet.

The Group's Insurance department was transferred into Enterprise Risk Management in December of 2010 to assure an integrated approach to risk in the Company. A robust Insurance program has been implemented at the Group level to share or transfer risk. Each high level risk is evaluated to determine whether the risk can be transferred through insurance policies within a practical cost structure.

Risk Map

One of the products of the Company's risk management program is the CGGVeritas Risk Map. The Risk Map is a management tool which provides a shared view in the Group of the risks that have the potential of material impact on the Group. The risks in the Risk Map are organized by risk family: Operational risks, Technology risks, Financial risks, HR risks and Communications risks.

The Risk Map was presented to both the Executive Committee (COMEX) and to the Board's Audit Committee in 2010.

c) Financial Security Management and Internal Control

Specific processes and controls have been put in place by the Group to assure that financial reporting is reliable and pertinent.

Financial information

- Key processes such as the preparation of consolidated financial statements, documents for the Board of Directors and the Audit Committee, preparation of budgets, etc., are formally described.
- Instructions of the Executive Committee with respect to Financial Security principles and objectives are regularly renewed to remind all financial and operational managers of each unit, the importance of internal control and the necessity to constantly see to its implementation, based on annual objectives and training at demand.
- The Company has an accounting manual which sets forth Group accounting practices, instructions and reporting rules. The accounting manual applies to all Group entities and is designed to ensure that the accounting rules are applied across the Group in a reliable and homogeneous way. It details procedures for closing the books, preparation of the income statement, balance sheet, cash flow statement as well as the consolidation process. Additionally, it outlines the principles for producing the notes to the consolidated financial statements.
- To limit risks of fraud, processes of segregation of duties are in place from approval of the orders to payment of the vendors and suppliers.
- All CGGVeritas entities process consolidated accounts in the format chosen by the Company using a standardized package. All reclassifications from the corporate accounts to the consolidated accounts are documented using a specific standard format.
- Intercompany transactions are carried out in various areas (different services, geophysical equipment sales, software licenses). The corresponding fees vary according to the nature of the transaction and in compliance with market conditions and transfer pricing policy.
- Management software packages implemented within the Company in finance, logistics and procurement are critical organizational components of the internal control system as they define in detail the processes to be applied in each of these areas. A convergence project of the management software existing within CGG and Veritas was initiated in 2007 and was completed in 2010.

Information technology infrastructure and information systems security

- Access to the internal networks of the Group's companies and information systems are regulated.
- The networks are protected by firewalls and antivirus systems. External access is possible through secure and encrypted connections.
- Users are duly authenticated before being granted access to the system.

- Data backup, archiving and recovery systems have been put into place. Procedures are created, modified and updated by competent personnel and approved by the appropriate management. Once a year, an internal audit is carried out to test the effectiveness of such procedures, including some intrusion tests with assistance of external IT experts.

Control of the disclosure of information externally

- The Company has a procedure which outlines rules for preparing, validating and approving press releases by the Chief Executive Officer
- The Company follows a pre-determined process for the preparation and distribution of its regulatory documents.

Disclosure Committee

Within the framework of the implementation of the Sarbanes-Oxley Act, the Chief Executive Officer and Chief Financial Officer created a Disclosure Committee in February 2003 to assure they will be able to properly issue the certificate provided for by section 302 of the Sarbanes-Oxley Act which must accompany annual financial statements filed by the Company with the Securities and Exchange Commission.

The principle functions of this Committee are to:

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

On the date of this report, the Committee is chaired by the Executive Vice President, General Secretary. The other members of the Committee are:

- Executive Vice President, Land Division
- Executive Vice President , Marine Division
- Executive Vice President, Processing, Imaging and Reservoir Division
- Executive Vice President, Multi-Client and New Ventures Division
- Executive Vice President, Equipment Division
- Chief Financial Officer, Equipment Division
- Senior Vice President, Deputy Group CFO and Group Controller
- Senior Vice President, Group Internal Audit
- Senior Vice President, Investor Relations
- Senior Vice President, Group Chief Accounting Officer

- Senior Vice President, Group Tax Director
- Senior Vice President, Group General Counsel

The Committee meets quarterly before periodic disclosures of the Company are published. A self-evaluation is performed each year and is adjusted for ongoing improvement of the committee functioning.

Delegation of powers and areas of responsibility

Delegations of Power are authorized by the Chief Executive Officer and cascaded to successive levels of management through a formal, documented process that clarifies the responsibilities related to the delegation. The approval of offers and contracts as well as capital expenses and operating expenses are controlled through these delegations. Approval levels for investments, leases, sale-and-lease back transactions and other expenses are also defined.

Delegations of Authority are carried out according to directives established by the Executive Committee in the *General Instruction on Delegation of Authority and Delegation of Powers*.

The process for preparing offers, and controlling and approving contracts signed between the Company's legal entities on the one hand, and its customers, partners and subcontractors on the other hand, is managed through the bid and tender review process. The process includes authorization rules to be applied with respect to contractual commitments and in particular the limits where a prior review and authorization by the Executive Committee is required. This review process cuts across all Functions that contribute to the control of risks in bid and contract review including the Legal Department, the Tax department, Treasury, and the HSE Department.

d) Control activities

Processes implemented by the Company to identify necessary control procedures are based on risk assessments and on the necessary processes required to fulfill the Group's objectives.

Internal control procedures

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

System of evaluation of internal control

Approximately thirty prerequisites – “Must Haves” – have been defined for Financial Security both for Group operations and support functional departments. These prerequisites must be entirely observed (100%) and regularly assessed by self assessment forms and by management visits. The CGGVeritas Financial Security objectives define the frequency of these evaluations.

Financial and accounting controls

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

- The financial statements of all the Company's subsidiaries are reviewed by the Finance Function. Physical inventories are carried out on a regular basis at each site, comparing the

balance sheet values of inventories with those of the physical inventories. Variances noted are then corrected.

- Access to the accounting information systems is formally restricted in accordance with the function and responsibilities of each user.
- Current management information systems make it possible to record transactions in a complete and exact manner, to trace them and regularly back them up.
- All Intercompany transactions are documented and reconciled on given dates according to the transactions.
- The Company monitors its off-balance sheet commitments.
- Comparisons and reconciliations are performed at various levels, particularly between reporting and consolidation. The consolidated financial statements are reviewed by the Chief Financial Officer at corporate level and the Chief Financial Officers of the divisions.
- In accordance with requirements of the Sarbanes-Oxley Act, in 2005, the Group has put in place a system to evaluate the effectiveness of internal controls over financial reporting. The system was operational in 2006 and was subsequently integrated with the existing system of Veritas after the merger. The integrated system is fully functional as of the end of 2009.

The Executive Committee fully supports this project as a contribution to a proper business control, which is also in line with the implementation of values and the application of the financial security program with our personnel.

e) Information and Disclosure

The Company's ability to meet its objectives depends on effective dissemination of information at all levels of the Company.

Quality standards, security requirements or legal and professional obligations demand that the procedures be documented and accessible. The Company encourages the sharing of knowledge and best practices. An intranet site provides all personnel with access to charters, CCGVeritas policies, annual objectives, general instructions, procedures, standards and other documents on which the Company's Management System is based. Additionally, the Company publishes an internal newsletter, with the objective to achieve a better communication and cooperation between the Group entities and among the operating and support functions.

The Company organizes annual seminars for the Board members, for the Executive Committee, for Senior Management and for key managers around the globe.

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

Senior management evaluates the performance of the Group on the basis of both internal and external information.

f) Monitoring and Management Review

The Group's business environment is by nature continuously changing and evolving. As a result, the internal control system is continuously adapted taking into account the environmental conditions and past experience.

Operations are managed and evaluated against performance criteria on a day to day basis and monitored by successive levels of management in the organization, finally being reviewed by the Executive Committee. Management carries out periodic evaluations, taking into account the nature and importance of any changes which may have occurred.

The monitoring of risks is built into our business review processes at the project level, at the Division level and at the Executive Committee (COMEX) level. Key indicators have been identified to signal risk environment changes and adverse trends. These are reviewed in management meetings at each level. Functions assist Divisions in monitoring these indicators and when necessary focus attention on specific Group risks.

The Group has implemented a global incident monitoring system for round the clock alerts; actual incidents and High Potential Incidents (HPIs) anywhere in our operations are reported within 24 hours to the relevant management level through our internet based system PRISM.

The Executive Committee regularly reviews the Group's key risks and the measures put in place to control these risks. The Executive Committee reviews the Group's Risk Map annually as well as the Insurance policies put in place to transfer the company's risks. The Executive Committee establishes a schedule of key risks which it reviews in more depth during the year.

The Board, through its committees regularly reviews key risks faced by the Company. The Board receives annually a mapping of the key risks facing the Group and is informed on the organization of the Company's risk management program as well as on the key risk controls put in place. Through the Audit Committee, the Technology Committee, the Appointment and Remuneration Committee and the Strategic Committee, specific risks in the domain of each committee are reviewed.

g) Reasonable Assurance

Every system of internal control, however well-designed and effective, has inherent limitations. Notably, there is an inherent risk that controls may be circumvented or bypassed. This means that the internal control system can offer only a reasonable assurance as to the reliability and sincerity of financial statements. Furthermore, the effectiveness of internal control procedures may vary over time, in response to new circumstances.

In order to evaluate the effectiveness of internal control procedures on a regular and formal basis and beyond the related actions undertaken by the internal audit management, the Company has put in place a tool for internal control self-evaluation for all units of the Company. At the Corporate level a compliance officer has been appointed thus showing the Company's commitment to good corporate governance rules.