

CGG VERITAS  
Form 20-F  
May 07, 2007

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Compagnie Générale de Géophysique-Veritas  
Annual Report 2006  
Form 20-F

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2006  
OR
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from to

Commission File Number 001-14622

**Compagnie Générale de Géophysique-Veritas**  
*(Exact name of registrant as specified in its charter)*  
**CGG Veritas**  
*(Translation of registrant's name into English)*  
**Republic of France**  
*(Jurisdiction of incorporation or organization)*  
**Tour Maine Montparnasse**  
**33, avenue du Maine**  
**75015 Paris France**  
**(33) 1 64 47 45 00**  
*(Address of principal executive offices)*

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| <b>Title of each class</b>  | <b>Name of each exchange on which registered</b> |
|---|--|
| <b>American Depositary Receipts representing<br/>Ordinary Shares, nominal value 2 per share</b><br>Securities registered or to be registered pursuant to Section 12(g) of the Act.<br><b>None</b><br><b>(Title of class)</b><br>Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.<br><b>7 1/2% Senior Notes due 2015</b><br><b>7 3/4% Senior Notes 2017</b><br><b>(Title of class)</b> | <b>New York Stock Exchange</b>                   |

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**17,597,888 Ordinary Shares, nominal value 2 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**PRESENTATION OF INFORMATION**

On September 4, 2006, CGG entered into a definitive merger agreement with Veritas to acquire Veritas in a part cash, part stock transaction. The merger (the merger ) was completed on January 12, 2007, and upon completion of the merger, CGG was renamed Compagnie Générale de Géophysique-Veritas (abbreviated as CGG Veritas). Accordingly, where this annual report provides information for dates on or prior to December 31, 2006, such information relates to CGG only. We have also provided certain information relating to Veritas on or prior to December 31, 2006. Information in this annual report as of the latest practicable date before the date of filing relates to CGG Veritas.

As used in this annual report CGG refers to Compagnie Générale de Géophysique and its subsidiaries, except as otherwise indicated, Veritas refers to Veritas DGC Inc. and its subsidiaries before the merger between CGG and Veritas and to CGGVeritas Services Inc. following such merger, CGG Veritas refers to Compagnie Générale de Géophysique-Veritas, and, we, us and our refers to Compagnie Générale de Géophysique-Veritas and its subsidiaries, after merger and Compagnie Générale de Géophysique and its subsidiaries, before the merger except as otherwise indicated.

In this annual report, references to United States or U.S. are to the United States of America, references to U.S. dollars, \$ or U.S.\$ are to United States dollars, references to France are to the Republic of France, references to Norway are to the Kingdom of Norway, references to NOK are to Norwegian kroner and references to euro or ar are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Union.

As our shares are listed on the New York Stock Exchange (in the form of American Depositary Shares), we are required to file an annual report on Form 20-F with the SEC including our annual financial statements reconciled to accounting principles generally accepted in the United States ( U.S. GAAP ).

We adopted International Financial Reporting Standards ( IFRS ) as adopted by the European Union as our primary accounting principles as of January 1, 2005. For the years ended December 31, 2002, 2003 and 2004, we prepared our consolidated financial statements in accordance with French generally accepted accounting principles ( French GAAP ).

The differences between IFRS and U.S. GAAP as they relate to us, and the reconciliation of net income and shareholders equity to U.S. GAAP, are described in note 32 to our annual consolidated financial statements included in this annual report on Form 20-F.

Unless otherwise indicated, statements in this annual report relating to market share, ranking and data are derived from management estimates based, in part, on independent industry publications, reports by market research firms or other published independent sources. Any discrepancies in any table between totals and the sums of the amounts listed in such table are due to rounding.

**FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking statements within the meaning of the federal securities laws, which involve risks and uncertainties, including, without limitation, certain statements made in the sections entitled Information on the Company and Operating and Financial Review and Prospectus . You can identify forward-looking statements because they contain words such as believes, expects, may, should, seeks, approximately, intend, estimates, or anticipates or similar expressions that relate to our strategy, plans or intentions. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may

differ materially from those that we expected. We have based these forward-looking statements on our current views and assumptions about future events. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this annual report.

Important factors that could cause actual results to differ materially from our expectations ( *cautionary statements* ) are disclosed under *Item 3: Key Information Risk Factors* and elsewhere in this annual report,

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including, without limitation, in conjunction with the forward-looking statements included in this annual report. Some of the factors that we believe could affect our actual results include:

- our ability to develop an integrated strategy for CGG Veritas;
- difficulties and delays in achieving synergies and cost savings;
- our substantial indebtedness;
- changes in international economic and political conditions and, in particular, in oil and gas prices;
- exposure to the credit risk of customers;
- our ability to finance our operations on acceptable terms;
- the timely development and acceptance of our new products and services;
- the complexity of products sold;
- changes in demand for seismic products and services;
- the effects of competition;
- the social, political and economic risks of our global operations;
- the costs and risks associated with pension and post-retirement benefit obligations;
- changes to existing regulations or technical standards;
- existing or future litigation;
- difficulties and costs in protecting intellectual property rights and exposure to infringement claims by others;
- the costs of compliance with environmental, health and safety laws;
- the timing and extent of changes in currency exchange rates and interest rates;
- the accuracy of our assessment of risks related to acquisitions, projects and contracts and whether these risks materialize;
- our ability to integrate successfully the businesses or assets we acquire, including Veritas;
- our ability to monitor existing and targeted partnerships;
- our ability to sell our seismic data library;
- our ability to access the debt and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and on our credit ratings for our debt obligations;
- and

our success at managing the risks of the foregoing.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements included in this annual report, including those described in Item 3: Key Information Risk Factors of this annual report.

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**PART I**

**Item 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**Item 2: OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3: KEY INFORMATION**

**Selected Financial Data**

In accordance with regulations adopted by the European Union in July 2002, all companies incorporated under the laws of one of the member states of the European Union and whose securities are publicly traded within the European Union were required to prepare their consolidated financial statements for the fiscal year starting on or after January 1, 2005, on the basis of accounting standards issued by the International Accounting Standards Board. Therefore, in accordance with these requirements, we converted from using French generally accepted accounting principles to IFRS, as adopted by the European Union.

The tables below set forth our selected consolidated financial and operating data:

as of and for each of the three years in the period ended December 31, 2006 in accordance with IFRS; and

as of and for each of the five years in the period ended December 31, 2006 in accordance with U.S. GAAP.

The selected data included below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and **Item 5: Operating and Financial Review and Prospects** included elsewhere in this annual report. The selected data included below are for CGG prior to the merger with Veritas, which was completed on January 12, 2007. The selected financial data for each of the years in the three-year period ended December 31, 2006 have been derived from our audited consolidated financial statements prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP.

The differences between IFRS and U.S. GAAP as they relate to us, and the reconciliation of net income and shareholders' equity to U.S. GAAP are described in Note 32 to our consolidated financial statements included in this annual report.

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|   | <b>At and for the year ended December</b> |             |             |
|---|---|-------------|-------------|
|   | <b>31,</b>                                |             |             |
|   | <b>2006</b>                               | <b>2005</b> | <b>2004</b> |
|   | <b>(in million except</b>                 |             |             |
|   | <b>for number of shares and</b>           |             |             |
|   | <b>operational data)</b>                  |             |             |
| <i>Amounts in accordance with IFRS:</i>                           |   |             |             |
| <b>Statement of Operations Data:</b>                              |   |             |             |
| Operating revenues  | 1,329.6                                   | 869.9       | 687.4       |
| Other revenues from ordinary activities                           | 1.8                                       | 1.9         | 0.4         |
| Cost of operations  | (890.0)                                   | (670.0)     | (554.0)     |
| Gross profit  | 441.4                                     | 201.8       | 133.8       |
| Research and development expenses, net                            | (37.7)                                    | (31.1)      | (28.8)      |
| Selling, general and administrative expenses                      | (126.4)                                   | (91.2)      | (78.6)      |
| Other revenues (expenses)   | 11.7                                      | (4.4)       | 19.3        |
| Operating income  | 289.0                                     | 75.1        | 45.7        |
| Cost of financial debt, net                                       | (25.4)                                    | (42.3)      | (27.8)      |
| Variance on derivative on convertible bonds                       | (23.0)                                    | (11.5)      | (23.5)      |
| Other financial income (loss)                                     | (8.8)                                     | (14.5)      | 0.8         |
| Income taxes  | (83.2)                                    | (26.6)      | (10.9)      |
| Equity in income of affiliates                                    | 10.1                                      | 13.0        | 10.3        |
| Net income (loss)   | 158.7                                     | (6.8)       | (5.4)       |
| Attributable to minority interests                                | 1.6                                       | 1.0         | 1.0         |
| Attributable to shareholders                                      | 157.1                                     | (7.8)       | (6.4)       |
| Net income (loss) per share:                                      |   |             |             |
| Basic <sup>(1)</sup>  | 9.04                                      | (0.64)      | (0.55)      |
| Diluted <sup>(1)</sup>  | 8.86                                      | (0.64)      | (0.55)      |
| <b>Balance sheet:</b>   |   |             |             |
| Cash and cash equivalents   | 251.8                                     | 112.4       | 130.6       |
| Working capital <sup>(2)</sup>                                    | 210.4                                     | 154.1       | 116.4       |
| Property, plant & equipment, net                                  | 455.2                                     | 480.1       | 204.1       |
| Multi-client surveys  | 71.8                                      | 93.6        | 124.5       |
| Total assets  | 1,782.1                                   | 1,565.1     | 971.2       |
| Gross financial debt <sup>(3)</sup>                               | 405.6                                     | 409.6       | 252.4       |
| Shareholders' equity  | 877.0                                     | 698.5       | 393.2       |
| <b>Other financial historical data and other ratios:</b>          |   |             |             |
| EBITDA <sup>(4)</sup>   | 483.0                                     | 221.4       | 178.2       |
| Capital expenditures (Property, plant & equipment) <sup>(5)</sup> | 149.3                                     | 125.1       | 49.8        |
| Capital expenditures for multi-client surveys                     | 61.5                                      | 32.0        | 51.1        |
| Net financial debt <sup>(6)</sup>                                 | 153.8                                     | 297.2       | 121.8       |
| Gross financial debt <sup>(3)</sup> /EBITDA <sup>(4)</sup>        | 0.8x                                      | 1.9x        | 1.4x        |
| Net indebtedness <sup>(6)</sup> /EBITDA <sup>(4)</sup>            | 0.3x                                      | 1.3x        | 0.7x        |
| EBITDA <sup>(4)</sup> /Net financial expenses                     | 19.0x                                     | 5.2x        | 6.4x        |

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|  | <b>At and for the year ended December 31,</b>                         |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | <b>2006</b>   | <b>2005</b> | <b>2004</b> | <b>2003</b> | <b>2002</b> |
|  | <b>(in millions except for number of shares and operational data)</b> |             |             |             |             |
| <b>Amounts in accordance with U.S. GAAP:</b> |   |             |             |             |             |
| <b>Statement of Operations Data:</b>         |   |             |             |             |             |
| Operating revenues                           | 1,348.7   | 860.8       | 709.5       | 645.6       | 719.0       |
| Operating income                             | 289.6   | 61.9        | 55.0        | 42.7        | 81.9        |
| Net income (loss)                            | 123.9   | 8.3         | (20.2)      | 3.1         | 15.1        |
| Per share amounts:                           |   |             |             |             |             |
| Basic common stock holder <sup>(1)</sup>     | 7.13  | 0.69        | (1.73)      | 0.27        | 1.29        |
| Diluted common stock holder <sup>(7)</sup>   | 6.99  | 0.67        | (1.73)      | 0.26        | 1.29        |
| <b>Balance sheet:</b>                        |   |             |             |             |             |
| Total assets                                 | 1,785.7   | 1,573.8     | 975.8       | 924.2       | 1,036.8     |
| Gross financial debt <sup>(3)</sup>          | 411.1   | 416.7       | 251.7       | 234.0       | 318.3       |
| Shareholders equity                          | 831.9   | 689.5       | 372.2       | 413.4       | 431.0       |
| <b>Operational data (end of period):</b>     |   |             |             |             |             |
| Land teams in operations                     | 9   | 11          | 8           | 12          | 14          |
| Operational Streamers <sup>(8)</sup>         | 56  | 46          | 39          | 42          | 42          |
| Data processing centers                      | 29  | 27          | 26          | 26          | 26          |

- (1) Basic (under IFRS and U.S. GAAP) and diluted (under IFRS) per share amounts have been calculated on the basis of 17,371,927 issued and outstanding shares in 2006, 12,095,925 issued and outstanding shares in 2005 and 11,681,406 issued and outstanding shares in 2004. Basic per share amounts under U.S. GAAP have been calculated on the basis of 11,680,718 issued and outstanding shares in 2003 and 2002.
- (2) Working capital consists of trade accounts and notes receivable, inventories and work-in-progress, tax assets, other current assets and assets held for sale less trade accounts and notes payable, accrued payroll costs, income tax payable, advance billings to customers, current provisions and other current liabilities.
- (3) Gross financial debt means total financial debt, including current maturities, capital leases, bank overdrafts and accrued interest.
- (4) EBITDA is defined as operating income (loss) plus depreciation and amortization and plus the accounting expense of stock-options plans and our free shares allocation plan. EBITDA is presented as additional information because we understand that it is one measure used by certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. However, other companies may present EBITDA differently than we do. EBITDA is not a measure of financial performance under French GAAP, U.S. GAAP or IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with French GAAP, U.S. GAAP or IFRS. EBITDA differs from ORBDA (also referred to in the past as Adjusted EBITDA), which is the measure that CGG has previously included in its periodic reports and public communications. See Item 5: Operating and Financial Review and Prospects Liquidity and Capital Resources EBITDA for a reconciliation of EBITDA to operating income.

- (5) Capital expenditures is defined as purchases of property, plant and equipment plus equipment acquired under capital lease.

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The following table presents a reconciliation of capital expenditures to purchases of property, plant and equipment and equipment acquired under capital lease for the periods indicated:

|   | <b>For the year ended<br/>December 31,</b> |              |             |
|---|--|--------------|-------------|
|   | <b>2006</b>                                | <b>2005</b>  | <b>2004</b> |
|   | <b>(in million)</b>                        |              |             |
| Purchase of Property, Plant and Equipment | 149.2                                      | 107.7        | 41.1        |
| Equipment acquired under capital lease    | 0.1  | 17.4         | 8.7         |
| <b>Capital expenditures</b>               | <b>149.3</b>                               | <b>125.1</b> | <b>49.8</b> |

- (6) Net financial debt means bank overdrafts and financial debt including current portion (including capital lease debt) net of cash and cash equivalents.
- (7) Diluted per share amounts under U.S. GAAP have been calculated on the basis of 17,731,386 issued and outstanding shares in 2006, 12,357,779 issued and outstanding shares in 2005, 11,681,406 issued and outstanding shares in 2004, 11,760,630 issued and outstanding shares in 2003 and 11,680,718 issued and outstanding shares in 2002. In 2002 and 2004, the effects of stock options were not dilutive (as a result of applying the treasury stock method).