CGG
Form 6-K
May 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of May, 2014

Commission File Number 001-14622

CGG

(Translation of registrant s name into English)

Tour Maine Montparnasse

33, avenue du Maine

75015 Paris

France

(33) 1 64 47 45 00

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F x Form 40-F

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FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements . We have based these forward-looking statements on our current views and assumptions about future events.

These forward-looking statements involve certain risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the following factors:

- the impact of the current economic and credit environment, including on our customers and suppliers;
- the social, political and economic risks of our global operations;
- our ability to integrate successfully the businesses or assets we acquire;
- the risks associated with activities operated through joint ventures in which we hold a minority interest;
- any write-downs of goodwill on our balance sheet;
- our ability to sell our seismic data library;
- exposure to foreign exchange rate risk;
- our ability to finance our operations on acceptable terms;
- the impact of fluctuations in fuel costs on our marine acquisition business;
- the weight of intra-group production on our results of operations;
- the timely development and acceptance of our new products and services;
- difficulties and costs in protecting intellectual property rights and exposure to infringement claims by others;
- our ability to attract and retain qualified employees;

- ongoing operational risks and our ability to have adequate insurance against such risks;
- the level of capital expenditures by the oil and gas industry and changes in demand for seismic products and services;
- our clients ability to unilaterally terminate certain contracts in our backlog;
- the effects of competition;
- difficulties in adapting our fleet to changes in the seismic market;
- high level of fixed costs that are incurred regardless of business activity;
- the seasonal nature of our revenues;
- the costs of compliance with governmental regulation, including environmental, health and safety laws;
- our substantial indebtedness and the restrictive covenants in our debt agreements;
- 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;
- exposure to interest rate risk; and
- our success at managing the foregoing risks.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur.

Certain of these risks are described in our annual report on Form 20-F for the year ended December 31, 2013 that we filed with the SEC on April 10, 2014. Our annual report on Form 20-F is available on our website at www.cgg.com or on the website maintained by the SEC at www.sec.gov. You may request a copy of our annual report on Form 20-F, which includes our complete audited financial statements, at no charge, by calling our investor relations department at + 33 1 6447 3831, sending an electronic message to invrelparis@cgg.com or invrelhouston@cgg.com or writing to CGG Investor Relations Department, Tour Maine Montparnasse 33, avenue du Maine 75015 Paris, France.

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Item 1: FINANCIAL STATEMENTS

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UNAUDITED INTERIM CONSOLIDATED STATEMENT OF OPERATIONS

		Three months ended March 31,	
		2014	**2013**
Amounts in millions of U.S.$, except per share data or unless indicated			
Operating revenues		**806.2**	**870.7**
Other income from ordinary activities		0.4	0.6
Total income from ordinary activities		**806.6**	**871.3**
Cost of operations		(672.5)	(675.2)
Gross profit		**134.1**	**196.1**
Research and development expenses, net		(26.4)	(26.1)
Marketing and selling expenses		(29.5)	(28.4)
General and administrative expenses		(41.9)	(51.0)
Other revenues (expenses), net		(1.8)	61.2
Operating income		**34.5**	**151.8**
Expenses related to financial debt		(48.2)	(46.9)
Income provided by cash and cash equivalents		0.6	0.6
Cost of financial debt, net		**(47.6)**	**(46.3)**
Other financial income (loss)		2.5	(5.0)
Income (loss) of consolidated companies before income taxes		**(10.6)**	**100.5**
Deferred taxes on currency translation		(1.0)	(6.7)
Other income taxes		(10.9)	(25.3)
Total income taxes		**(11.9)**	**(32.0)**
Net income (loss) from consolidated companies		**(22.5)**	**68.5**
Share of income (loss) in companies accounted for under equity method		(16.5)	10.6
Net income (loss)		**(39.0)**	**79.1**
Attributable to :			
Owners of CGG SA	$	(40.4)	76.7
Owners of CGG SA (1)		(29.5)	57.7
Non-controlling interests	$	1.4	2.4
Weighted average number of shares outstanding		176,890,866	176,423,717
Dilutive potential shares from stock-options		(2)	734,668
Dilutive potential shares from performance share plan		(2)	267,509
Dilutive potential shares from convertible bonds		(2)	24,150,635
Dilutive weighted average number of shares outstanding adjusted when dilutive		176,890,866	201,576,529
Net income (loss) per share			
Basic	$	(0.23)	0.43
Basic (1)		(0.17)	0.33
Diluted	$	(0.23)	0.42
Diluted (1)		(0.17)	0.32

(1) *Converted at the average exchange rate of U.S.$1.371 and U.S.$1.329 per for the periods ended March 31, 2014 and 2013, respectively.*

(2) *As our net result was a loss, stock-options, performance shares plans and convertible bonds had an accretive effect; as a consequence, potential shares linked to those instruments were not taken into account in the dilutive weighted average number of shares, or in the calculation of diluted loss per share.*

See notes to Interim Consolidated Financial Statements

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UNAUDITED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Amounts in millions of U.S.$	March 31, 2014	March 31, 2013
Net income (loss) from statements of operations	**(39.0)**	**79.1**
Other comprehensive income to be reclassified in profit (loss) in subsequent period:		
Gain (loss) on cash flow hedges	(0.5)	(1.1)
Income taxes	0.2	0.4
Net gain (loss) on cash flow hedges	**(0.3)**	**(0.7)**
Exchange differences on translation of foreign operations	**(1.7)**	**10.6**
Net other comprehensive income to be reclassified in profit (loss) in subsequent period (1)	**(2.0)**	**9.9**
Other comprehensive income not to be classified in profit (loss) in subsequent period:		
Gain (loss) on actuarial changes on pension plan	(0.3)	0.2
Income taxes	0.1	(0.1)
Net gain (loss) on actuarial changes on pension plan	**(0.2)**	**0.1**
Net other comprehensive income not to be reclassified in profit (loss) in subsequent period (2)	**(0.2)**	**0.1**
Other comprehensive income (loss) for the period, net of taxes, in companies accounted for under the equity method (3)		
Total other comprehensive income (loss) for the period, net of taxes (1) + (2) + (3)	**(2.2)**	**10.0**
Total comprehensive income (loss) for the period	**(41.2)**	**89.1**
Attributable to :		
Owners of CGG SA	*(42.2)*	*86.5*
Non-controlling interests	*1.0*	*2.6*

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CONSOLIDATED BALANCE SHEET

	March 31, 2014 (unaudited)	December 31, 2013
Amounts in millions of U.S.$, unless indicated		
ASSETS		
Cash and cash equivalents	458.9	530.0
Trade accounts and notes receivable, net	874.1	987.4
Inventories and work-in-progress, net	486.0	505.2
Income tax assets	120.8	118.1
Other current assets, net	197.5	175.6
Assets held for sale, net	39.2	37.7
Total current assets	**2,176.5**	**2,354.0**
Deferred tax assets	226.0	222.6
Investments and other financial assets, net	67.1	47.8
Investments in companies under equity method	296.2	325.8
Property, plant and equipment, net	1,528.3	1,557.8
Intangible assets, net	1,406.1	1,271.6
Goodwill, net	2,483.6	2,483.2
Total non-current assets	**6,007.3**	**5,908.8**
TOTAL ASSETS	**8,183.8**	**8,262.8**
LIABILITIES AND EQUITY		
Bank overdrafts	3.4	4.5
Current portion of financial debt	388.1	247.0
Trade accounts and notes payable	506.3	557.6
Accrued payroll costs	216.2	251.1
Income taxes liability payable	75.0	73.9
Advance billings to customers	50.3	52.4
Provisions current portion	73.5	73.1
Other current liabilities	210.6	283.9
Total current liabilities	**1,523.4**	**1,543.5**
Deferred tax liabilities	130.1	148.9
Provisions non-current portion	142.2	142.5
Financial debt	2,495.0	2,496.1
Other non-current liabilities	42.1	41.7
Total non-current liabilities	**2,809.4**	**2,829.2**
Common stock 301,746,055 shares authorized and 176,890,866 shares with a 0.40 nominal value issued and outstanding at March 31, 2014 and 176,890,866 at December 31, 2013	92.7	92.7
Additional paid-in capital	3,180.4	3,180.4
Retained earnings	577.7	1,273.9

Other reserves	(46.7)	(46.1)
Treasury shares	(20.6)	(20.6)
Net income (loss) for the period attributable to the owners of CGG	(40.4)	(698.8)
Cumulative income and expense recognized directly in equity	(8.0)	(7.6)
Cumulative translation adjustment	24.7	26.0
Equity attributable to owners of CGG SA	**3,759.8**	**3,799.9**
Non-controlling interests	91.2	90.2
Total equity	**3,851.0**	**3,890.1**
TOTAL LIABILITIES AND EQUITY	**8,183.8**	**8,262.8**

See notes to Interim Consolidated Financial Statements

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UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended March 31,	
	2014	**2013**
Amounts in millions of U.S.$		
OPERATING		
Net income (loss)	(39.0)	79.1
Depreciation and amortization	104.0	111.8
Multi-client surveys depreciation and amortization	80.2	71.6
Depreciation and amortization capitalized to multi-client surveys	(34.0)	(27.0)
Variance on provisions	(0.7)	19.1
Stock based compensation expenses	3.6	5.0
Net gain (loss) on disposal of fixed assets	1.2	(99.7)
Equity income (loss) of investees	16.5	(10.6)
Dividends received from affiliates	8.4	
Other non-cash items	0.2	5.5
Net cash including net cost of financial debt and income tax	**140.4**	**154.8**
Less net cost of financial debt	47.6	46.3
Less income tax expense	11.9	32.0
Net cash excluding net cost of financial debt and income tax	**199.9**	**233.1**
Income tax paid	(41.0)	(33.2)
Net cash before changes in working capital	**158.9**	**199.9**
- change in trade accounts and notes receivable	77.1	16.9
- change in inventories and work-in-progress	18.8	(15.2)
- change in other current assets	(19.6)	(1.1)
- change in trade accounts and notes payable	(45.8)	(89.5)
- change in other current liabilities	(71.5)	(51.1)
Impact of changes in exchange rate on financial items	(0.1)	2.9
Net cash provided by operating activities	**117.8**	**62.8**
INVESTING		
Capital expenditures (including variation of fixed assets suppliers, excluding multi-client surveys)	(101.8)	(76.1)
Investment in multi-client surveys, net cash	(155.9)	(127.2)
Proceeds from disposals of tangible and intangible assets	1.3	
Total net proceeds from financial assets		33.7
Acquisition of investments, net of cash and cash equivalents acquired	(6.5)	(938.0)
Impact of changes in consolidation scope		
Variation in loans granted	(16.0)	(0.5)
Variation in subsidies for capital expenditures		
Variation in other non-current financial assets	(2.0)	0.2
Net cash used in investing activities	**(280.9)**	**(1,107.9)**
FINANCING		
Repayment of long-term debts	(13.2)	(77.9)
Total issuance of long-term debts	119.2	111.8

Lease repayments	(2.2)	(5.4)
Change in short-term loans	0.2	(0.7)
Financial expenses paid	(12.1)	(7.5)
Net proceeds from capital increase		
- from shareholders		0.7
- from non-controlling interests of integrated companies		
Dividends paid and share capital reimbursements		
- to shareholders		
- to non-controlling interests of integrated companies		
Acquisition/disposal from treasury shares		
Net cash provided by (used in) financing activities	**91.9**	**21.0**
Effects of exchange rates on cash	0.1	20.7
Net increase (decrease) in cash and cash equivalents	**(71.1)**	**(1,003.4)**
Cash and cash equivalents at beginning of year	**530.0**	**1,520.2**
Cash and cash equivalents at end of period	**458.9**	**516.8**

See notes to Interim Consolidated Financial Statements

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UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of U.S.$, except share data	Number of Shares issued	Share capital	Additional paid-in capital	Retained earnings	Other reserves	Treasury shares	Income and expense Recognized directly in equity	Cumulative translation adjustment	Equity attributable to owners of CGG SA	Non-controlling interests	Total equity
Balance at January 1, 2013	***176,392,225***	**92.4**	**3,179.1**	**1,265.8**	**(27.8)**	**(20.6)**	**(7.6)**	**1.9**	**4,483.2**	**98.7**	**4,581.9**
Capital increase	*61,533*	0.1	0.6						0.7		**0.7**
Net income				76.7					76.7	2.4	**79.1**
Cost of share-based payment				5.0					5.0		**5.0**
Net gain (loss) on actuarial changes on pension plan (1)				0.1					0.1		**0.1**
Net gain (loss) on cash flow hedges (2)							(0.7)		(0.7)		**(0.7)**
Exchange differences on foreign currency translation (3)				0.6			0.3	9.5	10.4	0.2	**10.6**
Other comprehensive income (1)+(2)+(3)				**0.7**			**(0.4)**	**9.5**	**9.8**	**0.2**	**10.0**
Exchange differences on foreign currency translation generated by the mother company					7.6				7.6		**7.6**
				(0.9)					(0.9)	0.3	**(0.6)**

Changes in consolidation scope and other											
Balance at March 31, 2013	***176,453,758***	**92.5**	**3,179.7**	**1,347.3**	**(20.2)**	**(20.6)**	**(8.0)**	**11.4**	**4,582.1**	**101.6**	**4,683.7**

Amounts in millions of U.S.$, except share data	**Number of Shares issued**	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Treasury shares**	**Income and expense Recognized directly in equity**	**Cumulative translation adjustment**	**Equity attributable to owners of CGG SA**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2014	***176,890,866***	**92.7**	**3,180.4**	**575.1**	**(46.1)**	**(20.6)**	**(7.6)**	**26.0**	**3,799.9**	**90.2**	**3,890.1**
Capital increase											
Net income				(40.4)					(40.4)	1.4	**(39.0)**
Cost of share-based payment				2.9					2.9		**2.9**
Net gain (loss) on actuarial changes on pension plan (1)				(0.2)					(0.2)		**(0.2)**
Net gain (loss) on cash flow hedges (2)							(0.3)		(0.3)		**(0.3)**
Exchange differences on foreign currency translation (3)								(1.3)	(1.3)	(0.4)	**(1.7)**
Other comprehensive income (1)+(2)+(3)				**(0.2)**			**(0.3)**	**(1.3)**	**(1.8)**	**(0.4)**	**(2.2)**
Exchange differences on foreign currency translation generated by the mother company					(0.6)				(0.6)		**(0.6)**
				(0.1)			(0.1)		(0.2)		**(0.2)**

Changes in consolidation scope and other											
Balance at March 31, 2014	***176,890,866***	**92.7**	**3,180.4**	**537.3**	**(46.7)**	**(20.6)**	**(8.0)**	**24.7**	**3,759.8**	**91.2**	**3,851.0**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

These interim condensed consolidated financial statements have been authorized by the Audit Committee on May 6, 2014 for issue.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates due to the change in economic conditions, changes in laws and regulations, changes in strategy and the inherent imprecision associated with the use of estimates.

The interim condensed consolidated financial statements are presented in U.S.dollars and have been prepared on a historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

Critical accounting policies

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group s annual financial statements as of and for the year ended December 31, 2013 included in its report on Form 20-F for the year 2013 filed with the SEC on April 10, 2014.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group s annual financial statements for the year ended December 31, 2013, except for the adoption of the following new Standards and Interpretations:

Amendment to IFRS7 / IAS32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets

Amendments to IAS 39 Financial Instruments novation of derivatives and continuation of hedge accounting

The adoption of these Standards and Interpretations had no significant impact on the Group s interim financial statements.

At the date of issuance of these consolidated financial statements, the following Standards and Interpretations were issued but not yet adopted by the European Union and were thus not effective:

IFRS 9 Financial instrument classification and valuation of financial assets

IFRIC 21 Levies recognition of a liability for a levy imposed by a government

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Annual Improvements (2010-2012)

Annual Improvements (2011-2013)

We are currently reviewing these standards and interpretations to measure their potential impact on our consolidated financial statements.

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Use of judgment and estimates

Key judgments and estimates used in the financial statements are summarized in the following table:

Judgments and estimates	Key assumptions
Fair value of assets and liabilities acquired through purchase price allocation	Pattern used to determine the fair value of assets and liabilities
Recoverability of client receivables	Assessment of clients credit default risk
Valuation of investments	Financial assets fair value Equity method companies fair value
Amortization and impairment of multi-client surveys	Expected margin rate for each category of surveys Expected useful life of multi-client surveys
Depreciation and amortization of tangible and intangible assets	Assets useful lives
Recoverable value of goodwill and intangible assets	Expected geophysical market trends Discount rate (WACC)
Post-employment benefits	Discount rate Participation rate to post employment benefit plans Inflation rate
Provisions for risks, claims and litigations	Assessment of risks considering court rulings and attorney s positions
Revenue recognition	Contract completion rates Assessment of fair value of customer loyalty programs Assessment of fair value of contracts identifiable parts
Development costs	Assessment of future benefits of each project
Deferred tax assets	Hypothesis supporting the achievement of future taxable benefits

Operating revenues

Operating revenues are recognized when they can be measured reliably, and when it is likely that the economic benefits associated with the transaction will flow to the entity, which is at the point that such revenues have been realized or are considered realizable.

Multi-client surveys

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

Pre-commitments generally, we obtain commitments from a limited number of customers before a seismic project is completed. These pre-commitments cover part or all of the survey area blocks. In return for the commitment, the customer typically gains the right to direct or influence the project specifications, advance access to data as it is being acquired, and favorable pricing. We record payments that we receive during periods of mobilization as advance billing in the balance sheet in the line item Advance billings to customers .

We recognize pre-commitments as revenue when production has started based on the physical progress of the project, as services are rendered.

After sales generally, we grant a license entitling non-exclusive access to a complete and ready for use, specifically defined portion of our multi-client data library in exchange for a fixed and determinable payment. We recognize after sales revenue upon the client executing a valid license agreement and being granted access to the data.

In case after sales agreements contain multiple deliverable elements, the revenue is allocated to the various elements based on specific objective evidence of fair value, regardless of any separate allocations stated within the contract for each element. Each element is appropriately accounted for under the applicable accounting standard.

After sales volume agreements we enter into a customer arrangement in which we agree to grant licenses to the customer for access to a specified number of blocks of the multi-client library. These arrangements typically enable the customer to select and access the specific blocks for a limited period of time. We recognize revenue when the blocks are selected and the client has been granted access to the data and if the corresponding revenue can be reliably estimated.

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Exclusive surveys

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

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

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

Equipment sales

We recognize revenues on equipment sales upon delivery to the customer when risks and rewards are fully transferred. Any advance billings to customers are recorded in current liabilities.

Software and hardware sales

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

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

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

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

Other geophysical sales/services

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

Customer loyalty programs

We may grant award credits to our main clients. These award credits are contractually based on cumulative services provided during the calendar year and attributable to future services.

These credits are considered as a separate component of the initial sale and measured at their fair value by reference to the contractual rates and the forecasted cumulative revenues for the calendar year. These proceeds are recognized as revenue only when the obligation has been fulfilled.

Multi-client surveys consist of seismic surveys to be licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized into the multi-client surveys (including transit costs when applicable). The value of our multi-client library is stated on our balance sheet at the aggregate of those costs less accumulated amortization or at fair value if lower. We review the library for potential impairment at each balance sheet date at the relevant level (independent surveys or groups of surveys).

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Multi-client surveys

Multi-client surveys are classified into a same category when they are located in the same area with the same estimated sales ratio, such estimates generally relying on the historical patterns.

We amortize the multi-client surveys over the period during which the data is expected to be marketed using an amortization rate applied to recognized revenues.

Depending on the category of the survey, we generally use amortization rates from 50% to 80% corresponding to the ratio of total estimated costs over total estimated sales, unless specific indications lead to apply a different rate.

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

Development costs

Expenditures on research activities undertaken with the prospect of gaining new scientific or technological knowledge and understanding are recognized in the income statement as expenses as incurred and are presented as Research and development expenses net . Expenditures on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if:

- the project is clearly defined, and costs are separately identified and reliably measured,
- the product or process is technically and commercially feasible,
- we have sufficient resources to complete development, and
- the intangible asset is likely to generate future economic benefits, either because it is useful to us or through an existing market for the intangible asset itself or for its products.

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

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

We amortize capitalized developments costs over 5 years.

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

NOTE 2 ACQUISITIONS AND DIVESTITURES

None.

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NOTE 3 ANALYSIS BY OPERATING SEGMENT AND GEOGRAPHIC AREA

Since February 1, 2013, as a result of the acquisition of the Fugro s Geoscience division, we organized our activities into three divisions which we also use as segments for our financial reporting. These segments are:

- **Acquisition**, which comprises the following operating segments:
  - Marine: offshore seismic data acquisition undertaken by us on behalf of a specific client or for our Multi-client business line (internal activity);
  - Land and Airborne: other seismic data acquisition undertaken by us on behalf of a specific client, or for our Multi-client business line (internal activity);
- **Geology, Geophysics & Reservoir (GGR)**. This operating segment comprises the Multi-client business line (development and management of seismic surveys that we undertake and license to a number of clients on a non-exclusive basis) and the Subsurface Imaging and Reservoir business line (processing and imaging of geophysical data, reservoir characterization, geophysical consulting and software services, geological data library and data management solutions). Both business lines regularly combine their offerings, generating overall synergies between their respective activities.
- **Equipment**, which comprises our manufacturing and sales activities for seismic equipment used for data acquisition, both on land and marine. We carry out the activity in the Equipment segment through our subsidiary Sercel.

Financial information by segment is reported in accordance with our internal reporting system and provides internal segment information that is used by the chief operating decision maker to manage and measure the performance.

As a complement to the operating income, EBIT is defined as one of our main performance indicator. EBIT is used by Management as a performance indicator because it captures the contribution to our results of the significant businesses that are managed through our joint-ventures. We define EBIT as operating income plus our share of income in companies accounted for under the equity method.

Inter-company transactions between segments are made at arm s length prices. They relate primarily to geophysical equipment sales made by the Equipment segment to the Acquisition segment and to services rendered by the Acquisition segment to the GGR segment for the multi-client seismic library.

These inter-segment revenues and the related earnings are eliminated in consolidation in the tables that follow under the column Eliminations and other .

The inter-segment sales and the related earnings recognized by the Equipment segment are eliminated and presented in the tables that follow as follows: (i) operating income and EBIT for our Acquisition segment are presented after elimination of amortization expenses corresponding to capital expenditures between our Equipment segment and Acquisition segment; and (ii) capital expenditures for our Acquisition segment are presented after elimination of inter-segment margin.

Operating income and EBIT may include non-recurring items, which are disclosed in the reportable segment if material. General corporate expenses, which include Group management, financing, and legal activities, have been included in the column Eliminations and other in the tables that follow. The Group does not disclose financial expenses or financial revenues by segment because they are managed at the Group level.

Identifiable assets are those used in the operations of each segment. Unallocated and corporate assets consist primarily of financial assets, including cash and cash equivalents. Due to the constant changes in work locations, the group does not track its assets based on country of origin or ownership.

Capital employed is defined as total assets excluding cash and cash equivalents less (i) current liabilities excluding bank overdrafts and current portion of financial debt and (ii) non-current liabilities excluding financial debt.

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The following tables also present operating revenues, operating income and EBIT by segment, and operating revenues by geographic area (by location of customers).

Analysis by operating segment

In millions of U.S.$, except for assets and capital employed in billions of U.S.$	Three months ended March 31, 2014					2013				
	Acquisition	**GGR**	**Equipment**	**Eliminations and Other**	**Consolidated Total**	**Acquisition**	**GGR**	**Equipment**	**Eliminations and Other**	**Consolidated Total**
Revenues from unaffiliated customers	352.9	289.9	163.4		806.2	421.3	259.6	189.8		870.7
Inter-segment revenues	206.4		42.8	(249.2)		172.7		60.9	(233.6)	
Operating revenues	**559.3**	**289.9**	**206.2**	**(249.2)**	**806.2**	**594.0**	**259.6**	**250.7**	**(233.6)**	**870.7**
Depreciation and amortization (excluding multi-client surveys)	(77.7)	(16.4)	(9.9)		(104.0)	(88.4)	(12.0)	(11.4)		(111.8)
Depreciation and amortization of multi-client surveys		(80.2)			(80.2)		(71.6)			(71.6)
Operating income	**0.5**	**63.5**	**41.3**	**(70.8)**	**34.5**	**38.1**	**79.2**	**69.1**	**(34.6)**	**151.8**
Share of income in companies accounted for under equity method (1)	(16.2)	(0.3)			(16.5)	9.1	1.5			10.6
Earnings before interest and tax (2)	**(15.7)**	**63.2**	**41.3**	**(70.8)**	**18.0**	**47.2**	**80.7**	**69.1**	**(34.6)**	**162.4**
Capital expenditures (excluding multi-client surveys) (3)	58.7	17.9	18.9	6.3	101.8	57.0	11.2	6.7	1.2	76.1
		155.9			155.9		127.2			127.2

Investments in multi-client surveys, net cash										
Capital employed	**2.6**	**2.9**	**0.8**		**6.3**	**3.3**	**2.7**	**0.8**		**6.8**
Total identifiable assets	**3.1**	**3.1**	**1.0**	**0.5**	**7.7**	**3.9**	**2.9**	**1.1**	**0.4**	**8.3**

(1) Share of operating results of companies accounted for under equity method were U.S.$(14.3) million and U.S.$11.6 million for the three months ended March 31, 2014 and 2013, respectively.

(2) For the three months ended March 31, 2014, eliminations and other included U.S.$(17.2) million of general corporate expenses.

GGR EBIT for the three months ended March 31, 2013 included a gain of U.S.$19.8 million related to the sale of the Company s shareholding interest in Spectrum ASA.

For the three months ended March 31, 2013, eliminations and other included U.S.$(13.5) million of general corporate expenses, U.S.$(56.0) million of intra-group margin and U.S.$34.9 million of non recurring items related to the acquisition of Fugro s Geoscience Division: (i) a gain of U.S.$84.5 million related to the contribution of shallow-water and OBC assets to our Seabed joint-venture with Fugro; (ii) restructuring costs of U.S.$(31.1) million related to the acquired vessels from Fugro; and (iii) acquisition costs of U.S.$(18.5) million.