

# Earnings Release

## Q2 - 2016

Productivity and Technology Leadership

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# Cost Reductions Continue Healthy MultiClient Sales

## Highlights Q2 2016

- Revenues of \$183.0 million, compared to \$255.8 million in Q2 2015
- EBITDA of \$68.8 million, compared to \$125.1 million in Q2 2015
- EBIT excluding impairments and other charges/(income) of negative \$36.2 million, compared to a profit of \$15.9 million in Q2 2015
- MultiClient pre-funding revenues of \$47.2 million with a corresponding pre-funding level of 113%, compared to \$112.0 million and 152%, respectively, in Q2 2015
- MultiClient late sales of \$46.0 million, compared to \$33.5 million in Q2 2015
- Gross cash cost further reduced, ending at \$158.4 million, compared to \$207.6 million in Q2 2015
- Cash flow from operations of \$42.4 million, compared to \$83.1 million in Q2 2015
- Liquidity reserve of \$429.7 million, compared to \$545.7 million in Q2 2015
- *Ramform Tethys* and *Sanco Swift* commenced operations in the North Sea
- Settled EM patent dispute between PGS and EMGS
- Leverage ratio maintenance covenant of the Revolving Credit Facility amended to increase headroom



“With the gradual recovery of the oil price from its lows in early Q1, we are starting to see early signs of a stabilizing market and improving sentiment. We believe that this has started to impact our MultiClient performance positively. The marine contract market is still characterized by very low pricing, but here too we see indications of more predictable patterns in customer survey planning and contracting processes. Due to stacking of capacity, the seismic vessel supply/demand balance has improved substantially since this time last year.

Capital expenditures were relatively high in the quarter, primarily due to the yard installment at floating and equipment for our last new build, *Ramform Hyperion*. Of the guided \$165 million in new build capital expenditures this year we have already incurred \$140 million in the first half and thus our cash flow will be more balanced for the remainder of the year.

Our liquidity position is adequate and there are no material debt maturities until late 2018. With the amended maintenance covenant for the Revolving Credit Facility we have strengthened our ability to navigate beyond the trough of this cycle and created a substantial time window to address 2018 refinancing needs in tune with how the market develops. We continue to focus on what we can control through relentless sales efforts, strict cost discipline, operational excellence and capitalizing on the youngest and most productive fleet in the industry.”

A handwritten signature in black ink, appearing to read 'Jon Erik Reinhardsen'. The signature is fluid and cursive, written on a white background.

Jon Erik Reinhardsen,  
President and Chief Executive Officer

## Outlook

The oil price and reduced oil company spending continue to impact seismic demand. Despite some oil price recovery and signs of an improved market sentiment, PGS expects the market uncertainty to continue through 2016.

Based on the current operational projections and with reference to disclosed risk factors, PGS expects full year 2016 gross cash cost at or below \$700 million.

MultiClient cash investments are expected to be approximately \$225 million, with a pre-funding level of approximately 100%.

40-45% of active 3D vessel time is currently planned for MultiClient acquisition.

Capital expenditures are expected to be approximately \$225 million, of which approximately \$165 million is for the new builds *Ramform Tethys* and *Ramform Hyperion*.

The order book totaled \$230 million at June 30, 2016 (including \$123 million relating to MultiClient), compared to \$204 million at March 31, 2016 and \$259 million at June 30, 2015.

## Key Financial Figures

(In millions of US dollars, except per share data)	Quarter ended		Six months ended		Year ended
	June 30,		June 30,		December 31,
	2016	2015	2016	2015	2015
Revenues	183.0	255.8	386.1	506.9	961.9
EBITDA (as defined, see note 13)	68.8	125.1	147.5	252.6	484.4
EBIT ex. impairment and other charges/ (income)	(36.2)	15.9	(66.3)	29.5	15.8
EBIT as reported	(44.6)	(45.7)	(76.1)	(34.8)	(430.4)
Income (loss) before income tax expense	(57.7)	(57.9)	(119.6)	(67.9)	(505.5)
Net income (loss) to equity holders	(51.8)	(63.8)	(108.7)	(83.3)	(527.9)
Basic earnings per share (\$ per share)	(0.22)	(0.30)	(0.46)	(0.39)	(2.43)
Net cash provided by operating activities	42.4	83.1	175.8	295.4	487.9
Cash investment in MultiClient library	41.8	73.6	90.1	137.6	303.3
Capital expenditures (whether paid or not)	51.9	63.3	160.9	104.8	165.7
Total assets	2 970.3	3 297.4	2 970.3	3297.4	2 914.1
Cash and cash equivalents	49.7	57.6	49.7	57.6	81.6
Net interest bearing debt	1 207.6	995.0	1 207.6	995.0	994.2

## Condensed Consolidated Statements of Profit and Loss and Other Comprehensive Income

(In millions of US dollars)	Note	Quarter ended		Six months ended		Year ended
		June 30,		June 30,		December 31,
		2016	2015	2016	2015	2015
Revenues	1	183.0	255.8	386.1	506.9	961.9
Cost of sales	2	100.8	115.5	206.9	222.1	413.1
Research and development costs	2	4.7	5.2	10.5	11.1	20.3
Selling, general and administrative costs	2	8.7	10.0	21.2	21.1	44.1
Depreciation and amortization	3	105.0	109.1	213.8	223.1	468.5
Impairment and loss on sale of long-term assets	3	4.2	56.9	4.2	56.9	397.2
Other charges/(income)	3	4.2	4.7	5.6	7.4	49.0
<b>Total operating expenses</b>		<b>227.6</b>	<b>301.5</b>	<b>462.2</b>	<b>541.8</b>	<b>1 392.3</b>
Operating profit (loss)/EBIT		(44.6)	(45.7)	(76.1)	(34.8)	(430.4)
Share of results from associated companies	4	(1.0)	(2.4)	(26.3)	(10.0)	(16.1)
Interest expense	5	(11.0)	(7.4)	(17.8)	(15.2)	(29.5)
Other financial expense, net	6	(0.9)	(2.3)	0.7	(7.7)	(29.6)
Income (loss) before income tax expense		(57.7)	(57.9)	(119.6)	(67.9)	(505.5)
Income tax expense (benefit)	7	(5.9)	5.9	(11.0)	15.4	22.4
<b>Net income (loss) to equity holders of PGS ASA</b>		<b>(51.8)</b>	<b>(63.8)</b>	<b>(108.7)</b>	<b>(83.3)</b>	<b>(527.9)</b>
<b>Other comprehensive income</b>						
Items that will not be reclassified to profit and loss	12	(3.9)	1.0	(9.4)	(2.4)	1.3
Items that may be subsequently reclassified to profit and loss	12	1.0	0.3	1.3	0.7	(2.4)
<b>Other comprehensive income for the period, net of tax</b>		<b>(2.9)</b>	<b>1.3</b>	<b>(8.1)</b>	<b>(1.7)</b>	<b>(1.1)</b>
<b>Total comprehensive income to equity holders of PGS ASA</b>		<b>(54.7)</b>	<b>(62.5)</b>	<b>(116.8)</b>	<b>(85.0)</b>	<b>(529.0)</b>

## Condensed Consolidated Statements of Financial Position

(In millions of US dollars)	Note	June 30,		December 31,
		2016	2015	2015
<b>ASSETS</b>				
Cash and cash equivalents	10	49.7	57.6	81.6
Restricted cash	10	28.4	19.7	19.0
Accounts receivable		86.5	137.9	112.8
Accrued revenues and other receivables		134.3	148.8	158.1
Other current assets		90.4	119.0	98.8
Total current assets		389.2	483.0	470.3
Property and equipment	8	1 454.2	1 508.9	1 397.5
MultiClient library	9	686.1	749.9	695.0
Restricted cash	10	66.6	63.2	52.5
Deferred tax assets		96.2	97.4	79.4
Other long-term assets		118.4	64.3	57.7
Goodwill		-	139.9	-
Other intangible assets		159.8	190.8	161.6
Total long-term assets		2 581.2	2 814.4	2 443.8
<b>Total assets</b>		<b>2 970.3</b>	<b>3 297.4</b>	<b>2 914.1</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Short-term debt and current portion of long-term debt	10	37.7	24.8	24.8
Accounts payable		52.3	66.0	52.6
Accrued expenses and other current liabilities		158.0	194.7	196.5
Income taxes payable		21.8	34.2	24.4
Total current liabilities		269.9	319.7	298.4
Long-term debt	10	1 290.6	1 099.6	1 099.9
Deferred tax liabilities		-	16.1	1.6
Other long-term liabilities		59.6	62.2	50.5
Total long-term liabilities		1 350.1	1 177.8	1 152.0
Common stock; par value NOK 3; issued and outstanding 239,579,996 shares		104.0	96.5	104.0
Treasury shares, par value		(0.9)	(1.7)	(1.1)
Additional paid-in capital		626.2	530.5	622.8
Total paid-in capital		729.3	625.3	725.7
Accumulated earnings		691.0	1 237.0	799.9
Other comprehensive income		(70.0)	(62.5)	(61.9)
Total shareholders' equity		1 350.3	1 799.9	1 463.7
<b>Total liabilities and shareholders' equity</b>		<b>2 970.3</b>	<b>3 297.4</b>	<b>2 914.1</b>

## Condensed Consolidated Statements of Cash Flows

(In millions of US dollars)	Quarter ended		Six months ended		Year ended
	June 30,		June 30,		December 31
	2016	2015	2016	2015	2015
<b>Net income (loss) to equity holders of PGS ASA</b>	<b>(51.8)</b>	<b>(63.8)</b>	<b>(108.7)</b>	<b>(83.3)</b>	<b>(527.9)</b>
Depreciation, amortization, impairment and loss on sale of long-term assets	109.4	166.0	218.2	280.0	865.8
Share of results in associated companies	1.0	2.4	26.3	10.0	16.1
Interest expense	11.0	7.4	17.8	15.2	29.5
Loss (gain) on sale and retirement of assets	0.8	(3.7)	1.8	(2.7)	0.3
Income taxes paid	(2.8)	(4.8)	(4.3)	(16.4)	(25.2)
Other items	1.8	5.0	6.1	7.7	14.5
(Increase) decrease in accounts receivable, accrued revenues & other receivables	(5.9)	9.0	50.2	156.3	172.1
Increase (decrease) in accounts payable	14.7	23.6	13.4	(9.0)	(33.9)
Change in other current items related to operating activities	(27.5)	(61.6)	(27.4)	(43.5)	0.4
Change in other long-term items related to operating activities	(8.5)	3.6	(17.7)	(18.9)	(23.6)
<b>Net cash provided by operating activities</b>	<b>42.4</b>	<b>83.1</b>	<b>175.8</b>	<b>295.4</b>	<b>487.9</b>
Investment in MultiClient library	(41.8)	(73.6)	(90.1)	(137.6)	(303.3)
Investment in property and equipment	(67.0)	(72.2)	(181.4)	(102.9)	(164.0)
Investment in other intangible assets	(2.5)	(3.6)	(5.4)	(8.5)	(19.0)
Investment in other current -and long-term assets	0.2	(21.1)	(93.1)	(16.0)	(24.2)
Proceeds from sale and disposal of assets	-	84.1	-	84.1	88.6
Increase in long-term restricted cash	(0.6)	(0.2)	(1.7)	(2.1)	(5.0)
<b>Net cash used in investing activities</b>	<b>(111.7)</b>	<b>(86.6)</b>	<b>(371.7)</b>	<b>(183.0)</b>	<b>(426.9)</b>
Proceeds, net of deferred loan costs, from issuance of long-term debt	34.2	-	112.8	-	35.8
Repayment of long-term debt	(8.6)	(6.2)	(14.8)	(12.4)	(24.8)
Net drawdown of Revolving Credit Facility	-	(40.0)	95.0	(50.0)	(75.0)
Proceeds from sale of treasury shares/share issue	-	-	-	-	104.2
Dividend paid	-	(20.3)	-	(20.3)	(20.3)
Interest paid	(23.2)	(21.3)	(29.0)	(26.8)	(54.0)
<b>Net cash (used in) provided by financing activities</b>	<b>2.4</b>	<b>(87.8)</b>	<b>164.0</b>	<b>(109.5)</b>	<b>(34.1)</b>
Net increase (decrease) in cash and cash equivalents	(66.9)	(91.3)	(31.9)	2.9	26.9
Cash and cash equivalents at beginning of period	116.6	148.9	81.6	54.7	54.7
<b>Cash and cash equivalents at end of period</b>	<b>49.7</b>	<b>57.6</b>	<b>49.7</b>	<b>57.6</b>	<b>81.6</b>

## Condensed Consolidated Statements of Changes in Shareholders' Equity

### For the six months ended June 30, 2015

(In millions US of dollars)	Attributable to equity holders of PGS ASA					
	Common stock	Treasury shares	Additional paid-in capital	Accumulated earnings	Other comprehensive income	Shareholders equity
	par value	par value	capital	earnings	income	equity
<b>Balance as of January 1, 2015</b>	<b>96.5</b>	<b>(1.9)</b>	<b>526.9</b>	<b>1 340.9</b>	<b>(60.8)</b>	<b>1 901.6</b>
Total comprehensive income	-	-	-	(83.3)	(1.7)	(85.0)
Dividend paid (1)	-	-	-	(20.3)	-	(20.3)
Employee benefit plans	-	0.2	3.6	(0.2)	-	3.6
<b>Balance as of June 30, 2015</b>	<b>96.5</b>	<b>(1.7)</b>	<b>530.5</b>	<b>1 237.0</b>	<b>(62.5)</b>	<b>1 799.9</b>

(1) NOK 0.70 per share was paid as ordinary dividend for 2014

### For the six months ended June 30, 2016

(In millions US of dollars)	Attributable to equity holders of PGS ASA					
	Common stock	Treasury shares	Additional paid-in capital	Accumulated earnings	Other comprehensive income	Shareholders equity
	par value	par value	capital	earnings	income	equity
<b>Balance as of January 1, 2016</b>	<b>104.0</b>	<b>(1.1)</b>	<b>622.8</b>	<b>799.9</b>	<b>(61.9)</b>	<b>1 463.7</b>
Total comprehensive income	-	-	-	(108.7)	(8.1)	(116.8)
Employee benefit plans	-	0.2	3.4	(0.2)	-	3.4
<b>Balance as of June 30, 2016</b>	<b>104.0</b>	<b>(0.9)</b>	<b>626.2</b>	<b>691.0</b>	<b>(70.0)</b>	<b>1 350.3</b>

## Notes to the Condensed Interim Consolidated Financial Statements Second Quarter and First Half 2016 Results

### Note 1 – Revenues

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Marine revenues by service type:					
- Contract seismic	69.9	84.4	129.1	153.2	274.0
- MultiClient pre-funding	47.2	112.0	107.1	198.6	380.4
- MultiClient late sales	46.0	33.5	111.3	90.2	194.3
- Imaging	17.9	23.5	34.5	53.8	93.7
- Other	2.1	2.4	4.2	11.1	19.6
<b>Total revenues</b>	<b>183.0</b>	<b>255.8</b>	<b>386.1</b>	<b>506.9</b>	<b>961.9</b>

#### Vessel allocation(1):

	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Contract	58 %	35 %	62 %	32 %	35 %
MultiClient	21 %	42 %	22 %	37 %	39 %
Steaming	19 %	13 %	15 %	13 %	11 %
Yard	2 %	0 %	1 %	3 %	3 %
Stacked/standby	0 %	10 %	0 %	15 %	12 %

1) The statistics exclude cold-stacked vessels.

*In the first half of 2016* revenues for Petroleum Geo-Services ASA (“PGS” or “the Company”) decreased by \$120.8 million, or 24%, compared to the first half of 2015. The reduction is mainly driven by a 46% decline in MultiClient pre-funding revenues and 16% lower marine contract revenues. This was partially offset by a 23% increase in MultiClient late sales revenues. The reduction in consolidated revenues reflects lower spending amongst oil companies and less vessel capacity in operation.

Although more capacity was allocated to marine contract in the first half of 2016, compared to the first half of 2015, the revenues were lower as a result of more challenging market conditions and lower average pricing.

The lower MultiClient pre-funding revenues in the first half of 2016, compared to the first half of 2015 is primarily due to less capacity allocated to MultiClient and lower sales from surveys in the processing stage.

MultiClient late sales revenue in the first half of 2016 increased by \$21.1 million compared to the first half of 2015. Late sales in the first half were distributed across most of the Company’s key library regions. In Q1 2016 the Company had \$37.0 million of late sales to the associated company Azimuth Ltd.

External imaging revenues in the first half of 2016 were down 36%, compared to the first half of 2015. The decrease reflects the challenging global market and a greater portion of resources allocated to MultiClient projects.

*In Q2 2016*, revenues for PGS decreased \$72.8 million, or 28%, compared to Q2 2015. The lower revenues are mainly due to a 58% reduction in MultiClient pre-funding revenues, a 17% reduction in contract revenues and less vessel capacity in operation, partially offset by a 37% increase in MultiClient late sales revenues.

The reduced contract revenues in Q2 2016, compared to Q2 2015 are primarily due to lower average pricing.

The reduced MultiClient pre-funding revenues in Q2 2016, compared to Q2 2015 is mainly due to less capacity allocated to MultiClient, but also lower pre-funding levels for ongoing projects. The revenues in the quarter were primarily from surveys offshore Norway and Canada.

The increased MultiClient late sales revenues in Q2 2016, compared to Q2 2015 primarily relates to increased sales from the library in North America and Europe.

External imaging revenues in Q2 2016 were down 24% compared to Q2 2015. The decrease is mainly due to the challenging global market.

## Note 2 – Net Operating Expenses excluding Depreciation, Amortization, Impairments and Other Charges/(Income)

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Cost of sales, gross	142.6	189.1	297.0	359.6	716.4
Research and development costs, gross	7.2	8.5	15.0	17.3	32.6
Selling, general and administrative costs	8.7	10.0	21.2	21.1	44.1
Cash costs, gross	<b>158.4</b>	<b>207.6</b>	<b>333.2</b>	<b>398.0</b>	<b>793.1</b>
Cash investment in MultiClient library	(41.8)	(73.6)	(90.1)	(137.6)	(303.3)
Capitalized development costs	(2.5)	(3.3)	(4.5)	(6.2)	(12.3)
<b>Total</b>	<b>114.2</b>	<b>130.7</b>	<b>238.6</b>	<b>254.2</b>	<b>477.5</b>

Reported net operating expenses for the Group (excluding depreciation, amortization, impairments and other charges/(income)) in the first half 2016 were \$15.6 million, or 6%, lower than in the first half of 2015. Most of the reduction was achieved in Q2 2016 and is a combination of lower gross cash costs from cost reduction initiatives, partially offset by a lower amount capitalized as investment to the MultiClient library. The first half 2016 gross cash costs included approximately \$14.8 million relating to vessels that were not in operation. The amount includes the charter and other costs for *Sanco Sword* and *Sanco Swift* until commencing operations, as well as costs relating to stacked vessels.

The Company continuously monitors the development of its gross cash operating cost base, which is the sum of the reported net operating expenses (excluding depreciation, amortization, impairments and other charges/(income)) and the cash operating costs capitalized as investments in the MultiClient library as well as capitalized development costs. Total cost savings for the full year 2015 amounted to \$318.5 million (compared to full year 2014). Significant initiatives were implemented in the second half of 2015. Combining the full year effects for 2016 with foreign exchange savings, reduced fuel price and further cost initiatives, the Company expects gross cash costs to be reduced by at least \$90 million this year. Gross cash cost in the second half of 2016 is expected to be higher than in the first half since the Company will operate more vessels and, on average, expect higher project related cost. The Company expects full year 2016 gross cash cost to be at or below \$700 million.

The decrease of R&D costs in the first half and Q2 2016, compared to the corresponding periods for 2015 is driven by overall cost reductions and focus on supporting, validating and deploying existing projects. The Company's R&D costs mainly relate to the current core business activities of marine seismic acquisition and imaging.

## Note 3 – Depreciation, Amortization, Impairments and Other Charges/(Income)

Depreciation, amortization and impairment consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Gross depreciation	56.5	64.2	108.6	130.8	245.2
Depreciation capitalized and deferred, net	(14.4)	(29.7)	(25.8)	(54.8)	(104.2)
Amortization of MultiClient library	62.9	74.6	131.0	147.1	327.6
Impairment and loss on sale of long-term assets	4.2	56.9	4.2	56.9	397.2
Other charges/(income)	4.2	4.7	5.6	7.4	49.0
<b>Total</b>	<b>113.4</b>	<b>170.7</b>	<b>223.6</b>	<b>287.4</b>	<b>914.8</b>

### Depreciation and amortization

In the first half of 2016 gross depreciation decreased compared to the first half of 2015 as a result of a general reduction in capital expenditures related to maintenance as well as impairment charges. Capitalized depreciation decreased due to less vessel capacity allocated to MultiClient projects.

Amortization of the MultiClient library as a percentage of MultiClient revenues was 60% in the first half of 2016, compared to 51% in the first half of 2015. PGS estimates the amortization expense in 2016 to be approximately \$300 million. With effect January 1, 2016 PGS amended its accounting policy for MultiClient amortization as explained in Note 13.

In Q2 2016, gross and capitalized depreciation decreased due to the same reason as mentioned above for the first half.

Amortization of the MultiClient library was 67% in Q2 2016, compared to 51% in Q2 2015. The amortization level can vary from quarter to quarter depending on the MultiClient sales mix and other factors.

#### *Impairment and loss on sale of long-term assets*

The \$4.2 million impairment recorded in Q2 2016 relates to adjustments to the expected schedule for returning stacked vessels to operation.

The Company recorded significant impairment charges in 2015. The market for seismic data is still uncertain, despite some early signs of improved sentiment, and depending on several factors, including market developments and the Company's projections and plans, further impairment of long-term assets, including property and equipment, MultiClient library and deferred tax asset may arise in future periods.

#### *Other charges/(income)*

Other charges/(income) in the first half of 2016 primarily consist of changes in the provision for onerous contracts and restructuring cost.

As of June 30, 2016 the Company's provision for onerous contracts amounted to a total of \$13.8 million, an increase of \$3.3 million compared to March 31, 2016 and of \$2.7 million compared to December 31, 2015. The provision primarily represents the estimated loss in future periods relating to binding customer contracts where revenues are lower than the full cost of completing the contract.

Fleet adjustment and other cost reductions have led to reorganization costs relating to restructuring activities. The Company recorded \$3.4 million of charges relating to restructuring and severance cost in the first half of 2016.

#### **Note 4 – Share of Results from Associated Companies**

*In the first half of 2016* the share of results from associated companies amounted to a loss of \$26.3 million and was primarily related to exploration expenses in Azimuth Ltd, compared to a loss of \$10.0 million in the first half of 2015, again primarily related to Azimuth Ltd. In its equity accounting for the investment for the 45% interest in Azimuth, PGS charges to expense most of Azimuth's exploration activities. The loss in the first half of 2016 mostly relates to Azimuth's MultiClient data purchase from PGS in Q1.

#### **Note 5 – Interest Expense**

Interest expense consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Interest expense, gross	(16.3)	(14.4)	(31.2)	(28.7)	(58.2)
Capitalized interest, MultiClient library	3.9	4.8	8.8	9.6	19.6
Capitalized interest, construction in progress	1.3	2.1	4.6	3.8	9.1
<b>Total</b>	<b>(11.0)</b>	<b>(7.4)</b>	<b>(17.8)</b>	<b>(15.2)</b>	<b>(29.5)</b>

Interest expense in both Q2 and the first half 2016 increased somewhat compared to the corresponding periods in 2015 as a result of a higher debt level.

Slightly more interest expense was capitalized to construction in progress in the first half of 2016, compared to the first half 2015 due to higher aggregate capital expenditures for new builds in construction.

#### **Note 6 – Other Financial Expense, Net**

Other financial expense, net consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Interest income	0.6	0.3	1.8	0.8	2.7
Currency exchange gain (loss)	0.2	0.3	1.4	(4.4)	(18.5)
Other	(1.8)	(3.0)	(2.5)	(4.2)	(13.7)
<b>Total</b>	<b>(0.9)</b>	<b>(2.3)</b>	<b>0.7</b>	<b>(7.7)</b>	<b>(29.6)</b>



Other financial expense, net, improved both in Q2 and the first half 2016, compared to the corresponding periods in 2015 due to currency exchange gain and higher interest income.

The Company holds foreign currency positions to manage its operational currency exposure. These positions are marked to market at each balance sheet date together with receivables and payables in non-US currencies. Foreign currency positions larger than the monetary balance sheet items in the same currency will generally cause a currency exchange loss when the US dollar appreciates.

## Note 7 – Income Tax Expense (Benefit) and Contingencies

Income tax expense (benefit) consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Current tax expense	1.7	5.1	5.1	14.3	19.6
Deferred tax expense (benefit)	(7.6)	0.8	(16.1)	1.1	2.8
<b>Total</b>	<b>(5.9)</b>	<b>5.9</b>	<b>(11.0)</b>	<b>15.4</b>	<b>22.4</b>

Current tax expense in Q2 2016 and the first half of 2016 primarily relates to foreign tax. Deferred tax benefit for the quarter and the first half of 2016 relates to reported losses, but no deferred tax benefit has been recognized on share of loss from associated companies and losses within tonnage tax regimes.

### Tax Contingencies

The Company also has ongoing tax disputes related to charter of vessels into Brazil. The assessments, which seek to levy 15% withholding tax and 10% CIDE (service) tax, amount to \$33.2 million in total. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

The Company also has other tax contingencies as described in more detail in the 2015 financial statements Note 9.

### Other contingencies

The Company has an ongoing dispute in Brazil related to 5% ISS tax on the sale of MultiClient data from year 2000 and onwards. As of June 30, 2016, the exposure is \$133.2 million, including possible penalties and interest. PGS has made deposits covering \$66.6 million of the total exposure. There has been no major development in the quarter, except that the USD amounts have increased due to a significant strengthening of the Brazilian Real. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

On April 13, 2016, PGS and EMGS announced they have settled the patent disputes between the companies. The Settlement agreement grants PGS a license to the EMGS patent for operation of its Towed Streamer EM system. EMGS is similarly granted a license to the PGS patent. Both licenses are royalty free and valid world-wide for the validity period of the relevant patent.

## Note 8 – Property and Equipment

Capital expenditures 1) consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Seismic equipment	3.6	(2.2)	3.4	1.9	17.6
Vessel upgrades/Yard	2.5	5.2	14.0	10.2	10.9
Processing equipment	1.4	1.6	2.2	3.0	5.3
Newbuilds	43.7	55.4	140.1	76.6	116.6
Other	0.7	3.3	1.2	13.1	15.3
<b>Total</b>	<b>51.9</b>	<b>63.3</b>	<b>160.9</b>	<b>104.8</b>	<b>165.7</b>

1) Includes capital expenditure incurred, whether paid or not.

In Q2 2016 the *Ramform Hyperion*, the last in a series of four Ramform Titan-class vessels, was set afloat triggering the second last installment to the shipyard Mitsubishi Heavy Industries Shipbuilding Co. Ltd (“MHIS”) in Japan. PGS has agreed with MHIS to move the delivery date of the last Ramform Titan-class vessel, *Ramform Hyperion*, to Q1 2017. The agreement on *Ramform Hyperion* is subject to the lenders’ consent in the process of being obtained.

The cash capital expenditure of *Ramform Hyperion* is expected to be approximately \$265-270 million, including commissioning and a comprehensive seismic equipment package, but excluding capitalized interest and post-delivery cost. The cost is reduced compared to earlier indications due to various cost savings, as well as re-use of available seismic equipment.

The agreement with the shipyard provides for payment based on five defined milestones per vessel, with 50% payable at delivery. Seismic equipment is procured by PGS separately from the shipbuilding contract. Accumulated capital expenditures related to *Ramform Hyperion* as of June 30, 2016 was \$162.8 million.

In Q4 2015, PGS entered into charter agreements with Sanco Shipping AS for the modern high capacity conventional 3D vessels *Sanco Swift* and *Sanco Sword*. PGS took delivery of the two vessels in Q1 2016. PGS completed rigging and commenced operation of *Sanco Swift* late April. *Sanco Sword* was initially planned to be rigged simultaneously with the cold stacking of *Ramform Vanguard* in second half of 2016. The rigging of *Sanco Sword* has been postponed until 2017, and PGS will until further continue to operate *Ramform Vanguard*, possibly with periods of warm stacking over the winter season.

## Note 9 – MultiClient Library

The net book-value of the MultiClient library by year of completion is as follows:

(In millions of US dollars)	June 30,		December 31,
	2016	2015	2015
Completed during 2010		6.1	-
Completed during 2011	5.4	15.9	10.8
Completed during 2012	14.3	27.6	19.1
Completed during 2013	21.6	43.0	25.9
Completed during 2014	77.0	105.9	91.5
Completed during 2015	141.6	130.3	175.7
Completed during 2016	251.4	-	-
Completed surveys	511.4	328.8	323.1
Surveys in progress	174.7	421.1	371.9
<b>MultiClient library, net</b>	<b>686.1</b>	<b>749.9</b>	<b>695.0</b>

Key figures MultiClient library:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
MultiClient pre-funding revenue	47.2	112.0	107.1	198.6	380.4
MultiClient late sales	46.0	33.5	111.3	90.2	194.3
Cash investment in MultiClient library	41.8	73.6	90.1	137.6	303.3
Prefunding as a percentage of MultiClient cash investment	113 %	152 %	119 %	144 %	125 %
Capitalized interest in MultiClient library	3.9	4.8	8.8	9.6	19.6
Capitalized depreciation (non-cash)	10.3	30.9	23.0	54.7	107.0
Amortization of MultiClient library	62.9	74.6	131.0	147.1	327.6

In the first half of 2016 MultiClient pre-funding revenues corresponded to 119% of capitalized MultiClient cash investment (excluding capitalized interest), compared to 144% in the first half 2015. The Company expects to achieve a pre-funding level of approximately 100% for the full year 2016.

The reduced MultiClient cash investment in the first half of 2016, compared to the first half of 2015 is mainly due to less capacity allocated to MultiClient projects, and a lower cost level.

In Q2 2016 MultiClient pre-funding revenues corresponded to 113% of capitalized MultiClient cash investment (excluding capitalized interest), compared to 152% in Q2 2015.

The reduced MultiClient cash investment in Q2 2016, compared to Q2 2015 is explained by the same factors as for the first half.

## Note 10 – Liquidity and Financing

In the first half of 2016 net cash provided by operating activities was \$175.8 million, compared to \$295.4 million in first half 2015. The decrease is mainly due to lower earnings and a more moderate improvement in working capital. Still, the working capital development for the first half of 2016 has been favorable, positively impacting cash flow.

In Q2 2016, net cash provided by operating activities was \$42.4 million, compared to \$83.1 million in Q2 2015. The decrease is mainly due to lower earnings. In Q2 2016 there was a slight reversal of the strong working capital improvement seen in Q1, primarily due to a portion of MultiClient revenues being concluded late in the quarter.

In the current market environment some clients are seeking extended payment terms, which have put some upward pressure on the working capital.

The liquidity reserve, including cash and cash equivalents and the undrawn part of the revolving credit facility ("RCF"), was \$429.7 million as of June 30, 2016, compared to \$496.6 million as of March 31, 2016 and \$545.7 million as of June 30, 2015. In addition, the Company has \$91.2 million of undrawn credit on the Export Credit Financing ("ECF") facility to cover the final yard installment on the *Ramform Hyperion* new build scheduled for delivery in Q1 2017.

Long term debt consists of the following:

(In millions of US dollars)	June 30,		December 31,
	2016	2015	2015
<i>Secured</i>			
Term loan B, Libor (min. 75 bp) + 250 Basis points, due 2021	391.0	395.0	393.0
Export credit financing, due 2025	192.7	213.5	203.1
Export credit financing, due 2027	198.6	38.1	76.1
Revolving credit facility, due 2018	120.0	50.0	25.0
<i>Unsecured</i>			
Senior notes, Coupon 7.375%, due 2018	450.0	450.0	450.0
<b>Total</b>	<b>1 352.3</b>	<b>1 146.6</b>	<b>1 147.2</b>
Less current portion	(37.7)	(24.8)	(24.8)
Less deferred loan costs, net of debt premiums	(24.0)	(22.2)	(22.5)
<b>Total long-term debt</b>	<b>1 290.6</b>	<b>1 099.6</b>	<b>1 099.9</b>

Fair value of the long term debt was \$1,108.3 million and \$1,099.2 million as of June 30, 2016 and 2015, respectively.

Undrawn facilities consists of the following:

(In millions of US dollars)	June 30,		December 31,
	2016	2015	2015
<i>Secured</i>			
Revolving credit facility, due 2018	380.0	450.0	475.0
Export credit financing	91.2	258.5	220.5
<i>Unsecured</i>			
Bank facility (NOK 50 mill)	6.0	6.3	5.7
Performance bond	1.3	16.3	10.7
<b>Total</b>	<b>478.5</b>	<b>731.1</b>	<b>711.9</b>

Summary of net interest bearing debt:

(In millions of US dollars)	June 30,		December 31,
	2016	2015	2015
Cash and cash equivalents	49.7	57.6	81.6
Restricted cash (current and long-term)	95.0	82.9	71.5
Interest bearing receivables	-	11.2	-
Short-term debt and current portion of long-term debt	(37.7)	(24.8)	(24.8)
Long-term debt	(1 290.6)	(1 099.6)	(1 099.9)
Adjustment for deferred loan costs (offset in long-term debt)	(24.0)	(22.2)	(22.5)
<b>Total</b>	<b>(1 207.6)</b>	<b>(995.0)</b>	<b>(994.2)</b>

The relatively high level of restricted cash relates primarily to deposits made in 2010 and 2011 to initiate law suits with the Rio de Janeiro courts to seek confirmation that sale of MultiClient data in Brazil is not subject to ISS tax (see annual report 2015 for more details). The deposits are denominated in Brazilian Real and the carrying value at end Q2 2016 is approximately \$66.6 million. Restricted cash also includes \$23.9 million held in debt service reserve accounts related to the export credit financing of *Ramform Titan, Atlas and Tethys*.

At June 30, 2016, the Company had approximately 50% of its debt at fixed interest rates. The weighted average cash interest cost of gross debt reflects an interest rate of approximately 4.4%, including credit margins paid on the debt. PGS does not have any major debt maturities before the second half of 2018.

The undrawn portion of the RCF constitutes a significant portion of the Company's liquidity reserve. In Q2 2016 the Total Leverage Ratio ("TLR") covenant, with which the Company must comply in order to draw on the RCF, was amended from a

maximum of 4.00:1 to a maximum of 5.50:1 from Q2 2016 through Q1 2017, thereafter tightening the maximum TLR by 0.50:1 in each of the subsequent two quarters, then returning to the previous TLR of 3.25:1 in Q4 2017. From Q4 2017 the TLR will be tightened by 0.25:1 each quarter down to 2:75 by Q2 2018. At June 30, 2016 the total leverage ratio was 3.86:1.

If the Company ends up breaching the TLR covenant, this would represent an event of default under the loan agreement. In such case the Company may be able to continue to access the RCF if it receives a waiver of the breach or if the Company implements remedial actions acceptable to the banks.

## Note 11 – Earnings per Share

Earnings per share, to ordinary equity holders of PGS ASA:

	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
- Basic	(0.22)	(0.30)	(0.46)	(0.39)	(2.43)
- Diluted	(0.22)	(0.30)	(0.45)	(0.39)	(2.42)
Weighted average basic shares outstanding	238 375 544	214 272 550	238 279 985	214 194 199	217 310 643
Weighted average diluted shares outstanding	239 187 079	215 180 046	239 166 416	215 086 173	218 441 710

## Note 12 – Other Comprehensive Income

Changes to Other comprehensive income consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Actuarial gains (losses) on defined benefit pensions plans	(4.8)	1.3	(11.5)	(3.0)	3.0
Income tax effect on actuarial gains and losses	0.9	(0.3)	2.1	0.6	(1.7)
<b>Items that will not be reclassified to profit and loss</b>	<b>(3.9)</b>	<b>1.0</b>	<b>(9.4)</b>	<b>(2.4)</b>	<b>1.3</b>
<i>Cash flow hedges</i>					
Gains (losses) arising during the period	(0.4)	-	1.5	-	(1.1)
Shares available for sale	0.6	-	0.6	-	-
Other comprehensive income (loss) of associated companies	0.8	0.1	(0.8)	1.0	(0.8)
Translation adjustments and other	-	0.2	-	(0.3)	(0.5)
<b>Items that may be subsequently reclassified to profit and loss</b>	<b>1.0</b>	<b>0.3</b>	<b>1.3</b>	<b>0.7</b>	<b>(2.4)</b>

Changes to Other comprehensive income consists of the following:

(In millions of US dollars)	Quarter ended June 30,		Six months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Actuarial gains (losses) on defined benefit pensions plans	(4.8)	1.3	(11.5)	(3.0)	3.0
Income tax effect on actuarial gains and losses	0.9	(0.3)	2.1	0.6	(1.7)
<b>Items that will not be reclassified to profit and loss</b>	<b>(3.9)</b>	<b>1.0</b>	<b>(9.4)</b>	<b>(2.4)</b>	<b>1.3</b>
<i>Cash flow hedges</i>					
Gains (losses) arising during the period	(0.4)	-	1.5	-	(1.1)
Reclassification adjustments for losses (gains) included in profit	-	-	-	-	-
Shares available for sale	0.6	-	0.6	-	-
Other comprehensive income (loss) of associated companies	0.8	0.1	(0.8)	1.0	(0.8)
Translation adjustments and other	-	0.2	-	(0.3)	(0.5)
<b>Items that may be subsequently reclassified to profit and loss</b>	<b>1.0</b>	<b>0.3</b>	<b>1.3</b>	<b>0.7</b>	<b>(2.4)</b>

## Note 13 – Basis of Presentation

The Company is a Norwegian limited liability company and has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The consolidated condensed interim financial statements have been prepared in accordance with international Accounting Standards ("IAS") No. 34 "Interim Financial Reporting". The interim financial information has not been subject to audit or review.

The condensed interim consolidated financial statements reflect all adjustments, in the opinion of PGS' management, that are necessary for a fair presentation of the results of operations for all periods presented. Operating results for the interim period are not necessarily indicative of the results that may be expected for any subsequent interim period or year. The condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015, with the exception of the amendments to IAS 38 as described below.

The Company adopted the amendments to IAS 38 "Intangible Assets" effective from January 1, 2016. The amendments are applied prospectively. The main amendments to accounting for the seismic MultiClient libraries are (i) during the work in progress ("WIP") phase, amortization will continue to be based on total cost versus forecasted total revenues of the project. (ii) After a project is completed, a straight-line amortization is applied. The straight-line amortization will be assigned over a remaining useful life, which for most projects is expected to be four years. The straight-line amortization will be distributed evenly through the financial year independently of sales during the quarters.

Recognition of impairment of finished library may be necessary in the event that sales on a survey are realized disproportionately sooner within that survey's 4-year useful life. This accelerated amortization (impairment) is classified as amortization expense in the condensed consolidated statements of profit and loss and amounted to \$14.6 million in the first half of 2016. The Company will continue to classify as amortization expense in its condensed consolidated statements of profit and loss, impairment of individual MultiClient surveys that are based on changes in project specific expectations. The Company expects this additional amortization expense to occur regularly because each individual survey is evaluated at least annually for impairment or when specific indicators exist.

The Company continues to classify as impairment in its condensed consolidated statements of profit and loss write-downs related to fundamental changes in estimates affecting a larger part of the Company's MultiClient library where the effects are material.

The European Securities and Markets Authority (ESMA) issued guidelines on Alternative Performance Measures ("APMs") that came into force on 3 July 2016. The Company has defined and explained the purpose of the following APMs:

#### *EBITDA*

EBITDA, when used by the Company, means EBIT excluding other charges/ (income), impairment and loss on sale of long-term assets and depreciation and amortization. EBITDA may not be comparable to other similarly titled measures from other companies. The Company has included EBITDA as a supplemental disclosure because management believes that the measure provides useful information regarding the Company's ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

#### *EBIT excluding impairments and other charges/ (income)*

Management believes that EBIT excluding impairments and other charges/(income) is a useful measure because it provides an indication of the profitability of the Company's operating activities for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently.

#### *MultiClient prefunding level*

The MultiClient prefunding level is calculated by dividing the MultiClient prefunding revenues by the cash investment in MultiClient library, as reported in the Statements of Cash Flows. Management believes that the MultiClient prefunding percentage is a useful measure in that provides some indication of the extent to which the Company's financial risk is reduced on new MultiClient investments.

#### *Net Interest Bearing Debt*

Net interest bearing debt is reconciled in note 10 above. Management believes that Net Interest Bearing Debt (NIBD) is a useful figure because it provides some indication of the hypothetical minimum necessary debt financing to which the Company is currently subject at balance sheet date.

#### *Liquidity reserve*

Liquidity reserve is defined in note 10. Management believes that Liquidity reserve is a useful measure because it provides an indication of the amount of funds readily available to the Company in the very short term at balance sheet date.

#### *Gross cash costs*

Gross cash costs are defined as the sum of reported net operating expenses (excluding depreciation, amortization, impairments and other charges/(income)) and the cash operating costs capitalized as investments in the MultiClient library as well as capitalized development costs. Management believes that the gross cash costs figure is a useful measure because it provides an

indication of the level of cash costs incurred by the Company irrespective of the extent to which the fleet is working on MultiClient projects or the extent to which its R&D expenditures qualify for capitalization.

*Order book*

Order book is defined as the aggregate value of future work on signed customer contracts or letters of award. Management believes that the Order Book figure is a useful measure in that it provides an indication of the amount of customer backlog and committed activity in the coming periods.

**Note 14 - Risk Factors**

The Company emphasizes that the information included herein contains certain forward-looking statements that address activities, events or developments that the Company expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, many of which are beyond its control and all of which are subject to risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to the demand for seismic services, the demand for data from the Company's MultiClient data library, the attractiveness of PGS' technology, changes in governmental regulations affecting markets, technical downtime, licenses and permitting, currency and fuel price fluctuations, and extreme weather conditions.

Contracts for services are occasionally modified by mutual consent and in certain instances may be cancelled by customers at short notice without compensation. Consequently, the order book as of any particular date may not be indicative of actual operating results for any succeeding period.

For a further description of other relevant risk factors we refer to the Annual Report for 2015. As a result of these and other risk factors, actual events and actual results may differ materially from those indicated in or implied by such forward-looking statements.

Oslo, July 20, 2016

Walter Qvam  
*Chairperson*

Daniel J. Piette  
*Director*

Carol Bell  
*Director*

Anne Grethe Dalane  
*Director*

Holly A. Van Deursen  
*Director*

Berit Osnes  
*Director*

Espen Grimstad  
*Director*

Anette Valbø  
*Director*

Morten Borge  
*Director*

Jon Erik Reinhardsen  
*Chief Executive Officer*

## Responsibility Statement

We confirm that, to the best of our knowledge. The condensed set of financial statements for the first half year 2016, which has been prepared in accordance with IAS 34 Interim Financial reporting gives a true and fair view of the Company's consolidated assets, liabilities, financial position and result of operations, and that the first half 2016 report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Oslo, July 20, 2016

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*Chairperson*

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*Director*

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*Director*

Morten Borge  
*Director*

Jon Erik Reinhardsen  
*Chief Executive Officer*

\*\*\*\*

*Petroleum Geo-Services ("PGS" or "the Company") is a focused Marine geophysical company that provides a broad range of seismic and reservoir services, including acquisition, imaging, interpretation, and field evaluation. The Company's MultiClient data library is among the largest in the seismic industry, with modern 3D coverage in all significant offshore hydrocarbon provinces of the world. The Company operates on a worldwide basis with headquarters in Oslo, Norway.*

*PGS has a presence in 18 countries with regional centers in London, Houston and Kuala Lumpur. Our headquarters is in Oslo, Norway and the PGS share is listed on the Oslo stock exchange (OSE: PGS).*

*For more information on Petroleum Geo-Services visit [www.pgs.com](http://www.pgs.com).*

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*The information included herein contains certain forward-looking statements that address activities, events or developments that the Company expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, which are beyond its control and are subject to certain additional risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to the demand for seismic services, the demand for data from our multi-client data library, the attractiveness of our technology, unpredictable changes in governmental regulations affecting our markets and extreme weather conditions. For a further description of other relevant risk factors we refer to our Annual Report for 2015. As a result of these and other risk factors, actual events and our actual results may differ materially from those indicated in or implied by such forward-looking statements. The reservation is also made that inaccuracies or mistakes may occur in the information given above about current status of the Company or its business. Any reliance on the information above is at the risk of the reader, and PGS disclaims any and all liability in this respect.*

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**Board of Directors:**

Walter Qvam (Chairperson)  
Holly Van Deursen  
Daniel J. Piette  
Anne Grethe Dalane  
Carol Bell

Morten Borge  
Anette Valbø (employee elected)  
Espen Grimstad (employee elected)  
Berit Osnes (employee elected)

**Executive Officers:**

Jon Erik Reinhardsen	President and CEO
Gottfred Langseth	EVP & CFO
Rune Olav Pedersen	EVP & General Counsel
Magne Reiersgard	EVP Marine Contract
Sverre Strandenes	EVP MultiClient
Guillaume Cambois	EVP Imaging & Engineering
Per Arild Reksnes	EVP Operations

**Other Corporate Management:**

Terje Bjølseth - SVP Global Human Resources  
Joanna Oustad - SVP HSEQ

**Web-Site:**

[www.pgs.com](http://www.pgs.com)

**Financial Calendar:**

Q3 2016 report	October 27, 2016
CMD	December 1, 2016
Q4 2016 report	February 16, 2017

The dates are subject to change.