Annual Report 2017

Refocused & Reenergized

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Refocused Reenergized

PGS has reorganized to build a better foundation to meet our customers' needs. Project turnaround will benefit and it will be simpler to do business with us. We've cut costs without sacrificing operational reliability or data quality, and the best aspects of our company culture are preserved.

Annual Report 2017

Refocused & Reenergized

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PGS' Four Pillars of Corporate Responsibility

- People
- Environment
- Conduct
- Stakeholders

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Letter from the CEO

Dear PGS shareholder

In 2017 we completed our new build program by taking delivery of *Ramform Hyperion*. In the second half of the year we initiated and completed a reorganization of PGS to position the Company to generate positive cash flow in a flat market environment.

We experienced a slow start to 2017 with weak vessel utilization, few MultiClient acquisition projects and low prices for marine contract work during the winter. However, we were able to increase our order book significantly during the first quarter and entered the summer with well pre-funded MultiClient programs, good visibility and higher prices for secured work. The price increase for contract jobs was mainly driven by more

Refocused Energized

production seismic and some industry capacity constraints in local markets. Despite the oil price fluctuations during the summer we were able to deliver overall good results from our MultiClient business. The contract performance suffered somewhat from challenging project execution on certain jobs and idle time. Into the fourth quarter, vessel utilization and pricing in the marine contract market dropped significantly as the seismic acquisition market again suffered from lower demand in the winter season.

I am very pleased to see that we achieved a strong finish to our MultiClient sales from all regions in the fourth quarter, confirming the attractiveness of our MultiClient library, as well as an improved cash flow position among our clients. Overall, our revenues and EBITDA were better in 2017 than the previous year, mainly driven by a larger fleet, somewhat better pricing for marine contract work and higher MultiClient revenues.

Over the last four years, fundamentals in our industry have changed significantly. Our market is smaller, weaker and more uncertain. The MultiClient share of acquisition has increased significantly. Faced with a lower oil price compared to 2014, our customers have changed their priorities. Centralization is visible throughout the industry, and governments are reversing local content requirements to attract investments from oil companies.

Our response was to centralize, simplify and streamline the Company during the fourth quarter 2017. With effect from January 2018 we started operating in a smaller, simpler and more flexible project organization, working across all service lines and involving all stakeholders to become more effective and achieve the best possible results for our clients and for PGS.

With a centralized, simplified and streamlined organization and a more flexible fleet strategy we expect to reduce our gross cash cost by more than $100 million in 2018, compared to 2017. At the same time revenue capacity is maintained into 2018 due to comparable streamer capacity, but operated by a more flexible fleet, at a significant lower cost. The new organization maintains the competitive advantages from the previous structure with an emphasis on Ramform vessel productivity and GeoStreamer technology differentiation. We also believe the new set-up will make our position in the MultiClient market even stronger by including more reservoir expertise and imaging capabilities into the process of identifying and initiating MultiClient projects. I, and the rest of the executive team, believe this is what it takes to make PGS financially resilient in the current market environment.

During 2017 we saw evidence of improved cash flow among our clients and with an oil price in the range of $60-70 per barrel their earnings power have increased further. We believe that the improved cash flow among oil companies combined with low reserve replacement ratios over recent years will benefit the marine 3D market fundamentals going forward.

We do not yet have any hard evidence of a sustainable and lasting market recovery. For this reason, we are conservatively planning our cost and capital expenditures for 2018 targeting positive cash flow post debt service without any general market improvement from 2017 to 2018. Should the market improve we are well positioned to take advantage of that.

We believe that offering MultiClient, marine contract and imaging services in combination with controlling vessels and differentiating technology is the right strategy for PGS. Pairing this with a more conservative balance sheet in the future will position us well to create shareholder value.

Rune Olav Pedersen
President and CEO

Petroleum Geo-Services ASA and its subsidiaries ("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 library is among the largest in the seismic industry, with modern 3D coverage in all significant offshore hydrocarbon provinces of the world.

Business Highlights 2017

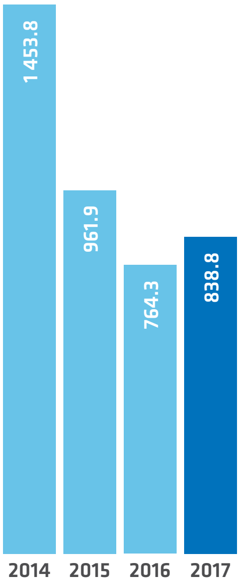
- Took delivery of the *Ramform Hyperion*, the last new build in a series of four Ramform Titan-class vessels. By completing the new build program PGS capital expenditures ("capex") will significantly reduce going forward.
- In May the former President & CEO, Jon Erik Reinhardsen, announced his retirement.
- In August Rune Olav Pedersen was appointed new President & CEO of PGS, and he started in the position on September 1.
- Late October, PGS initiated a process to reduce gross cash cost by more than $100 million in 2018 compared to 2017 and thereby generate positive cash flow after debt service without any market improvement in 2018.
- In November, PGS entered into an agreement with the tax authorities in Rio de Janeiro to settle all ongoing disputes related to Municipal Service Tax ("ISS") on the licensing of MultiClient data with a positive liquidity effect of approximately $55 million.
- Capex, excluding new builds, were kept at a low level.
- PGS achieved a pre-funding ratio of 140% on $213.4 million of capitalized MultiClient cash investment.
- The MultiClient sales-to-investment ratio ended at close to 2.5 times for the full year 2017, continuing the positive trend from 2016 when the ratio for the year was 2.3 times.

Financial Calendar

Annual General Meeting	**April 25**, 2018
Q1 2018 Earnings Release	**April 26**, 2018
Q2 2018 Earnings Release	**July 19**, 2018
Q3 2018 Earnings Release	**October 18**, 2018
Q4 2018 Earnings Release	**January 31**, 2019

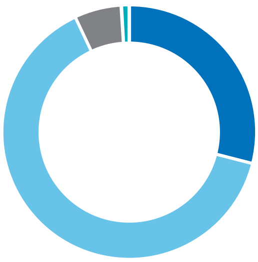
* When the terms "PGS" and "the Company" are used in this report, these will as a main rule include both Petroleum Geo-Services ASA and its subsidiaries. However, in certain sections and paragraphs hereof, these references will only include Petroleum Geo-Services ASA as context indicates.

Key Figures



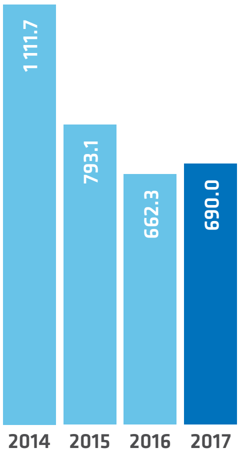
PGS Revenues

USD millions



Revenue Split

29% Contract **64%** MultiClient
6% Imaging **1%** Other



PGS Gross Cash Cost

USD millions

Number of Patents Granted

Patents granted under the laws of the US, the UK and Norway

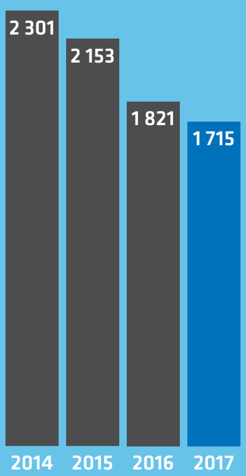
552 as of year-end 2016

632 as of year-end 2017

Key Financial Figures

In USD million except per share data	2017	2016	2015	2014
Revenues	838.8	764.3	961.9	1 453.8
EBITDA (as defined)	374.1	313.3	484.4	702.6
EBIT ex. impairment charges	(147.1)	(137.5)	15.8	177.3
EBIT as reported	(383.6)	(180.3)	(430.4)	104.2
Net income	(523.4)	(293.9)	(527.9)	(50.9)
EPS	(1.55)	(1.21)	(2.43)	(0.24)
Net cash provided by operating activities	281.8	320.9	487.9	584.3
Capital expenditures	154.5	208.6	165.7	371.3
Cash investment in MultiClient library	213.4	201.0	303.3	344.2
Total assets	2 482.8	2 817.0	2 914.1	3 563.0
MultiClient library	512.3	647.7	695.0	695.2
Cash and cash equivalents	47.3	61.7	81.6	54.7
Shareholders equity	879.5	1 359.4	1 463.7	1 901.6
Net interest bearing debt	1 139.4	1 029.7	994.2	1 048.0

As of January 2018 PGS started operating in a smaller, simpler and more flexible project organization, working across all service lines to become more effective and achieve the best possible results.

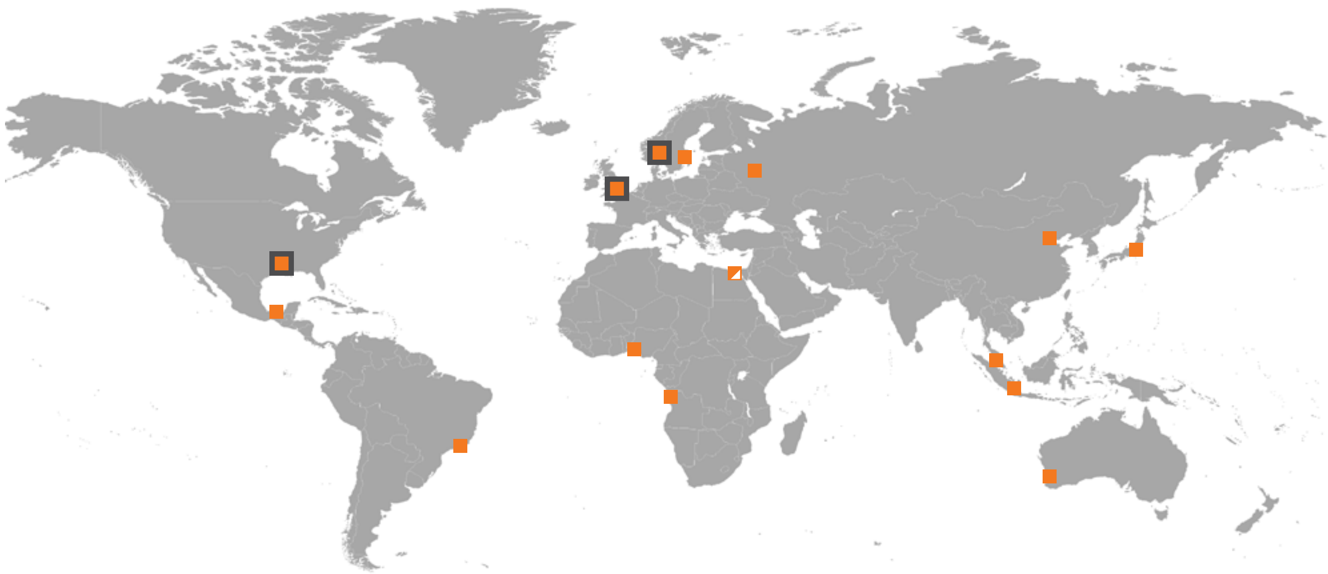


Average Number of Employees Through the Year

Centralized Locations

Offices

Headquartered in Oslo, Norway, PGS has offices in 15 countries around the world as of year-end 2017 and operates regional centres in London and Houston.



Simplified Structure

Sales & Services

Sales & Marketing
MultiClient, Contract and Imaging

New Ventures
Building new MultiClient programs and strategic positioning in new basins

Imaging
Streamlined and effective Imaging organization

Operations & Technology

Project Planning & Bidding
Servicing MultiClient & Contract Sales

Project Delivery
One project execution team

Seismic Acquisition & Support
Continue efficiency improvements

Geoscience & Engineering
Differentiating technology development

Refocused
Energized

Ready to Help Find More Oil & Gas

Focus

Investing in a MultiClient Library for Tommorrow

PGS utilizes its seismic acquisition and imaging expertize to build a MultiClient library which meets clients' future needs.

Developing Differentiating Technology

PGS remains committed to investing in innovation and will continue to differentiate on technology.

Lean & Responsive Structure

Fewer, focused customer contact points will enable a more responsive service and faster turnaround.

Highest HSEQ Standards

PGS' safety-culture is unchanged and fundamental to how the Company operates.

Derisk with Best in Class Imaging

Building on GeoStreamer technology PGS delivers solutions that provide more reliable images.

Operational Efficiency & Delivery

Closely integrating project planning with project delivery provides a better service with higher efficiency and data quality.

Strategic Positioning in Frontier Basins

PGS' geology and geophysics experts help the Company target exploration hot spots. MultiClient data is revealing new plays in Brazil, Canada, Egypt, Malaysia and the Barents Sea.

Pioneering New Technologies

Advanced GeoStreamer data is acquired and imaged with the latest technology. PGS is also researching alternative and more environmentally friendly sources.

Lowest Total Recordable Case Frequency ("TRCF")

PGS crews have continued to operate with the utmost reliability. In fact, PGS is getting better. TRCF was reduced in 2017, compared to 2016.

An Integrated Approach to 4D Monitoring

Identifying both acquisition and imaging solutions is part of survey planning. Ramform plus Geostreamer provides ultimate repeatability for the accurate detection of reservoir changes over time.

Least-Squares Brings the Subsurface into Focus

PGS uses primaries and multiples to enhance image illumination and resolution. This dramatically improves interpretation accuracy in basins with complex structures like the Gulf of Mexico and North Sea.

Dedicated Reliable Pioneer

PGS has reduced its workforce by more than 40% since 2014, but still delivers reliable results in all key markets, thanks to teamwork, technology and track record.

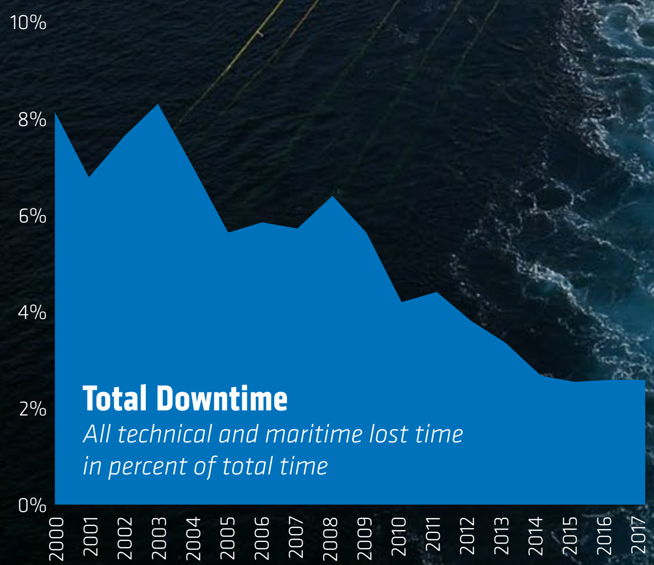
Running a Reliable Modern Fleet

Eight Vessel Fleet

PGS operates a fleet of eight 3D vessels, of which two are used selectively to address seasonal demand swings.

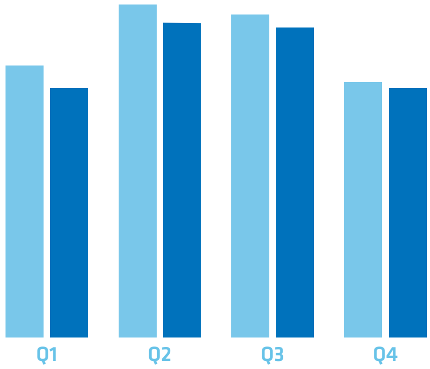
Newest and Highest Streamer Count

The active PGS fleet has an average age of 5 years (as of December 2017) with an average streamer count of 14.5 per vessel.



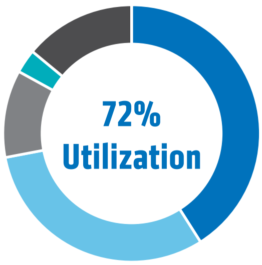
Total Downtime
All technical and maritime lost time in percent of total time

Performance
Actual production of seismic in percent of available production time



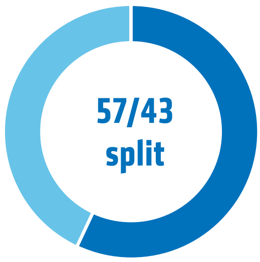
Earnings Capacity Maintained

2018 Streamer Capacity *in line with*
2017 Streamer Capacity



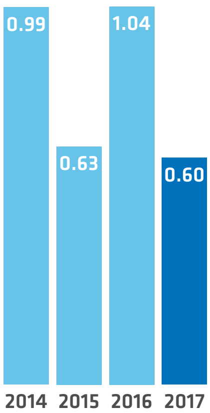
Vessel Utilization 2017

41% Contract **31%** MultiClient
11% Steaming **3%** Yard
14% Standby



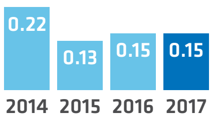
Active Vessel Time 2017

57% Marine Contract
43% MultiClient



Total Recordable Case Frequency (“TRCF”)

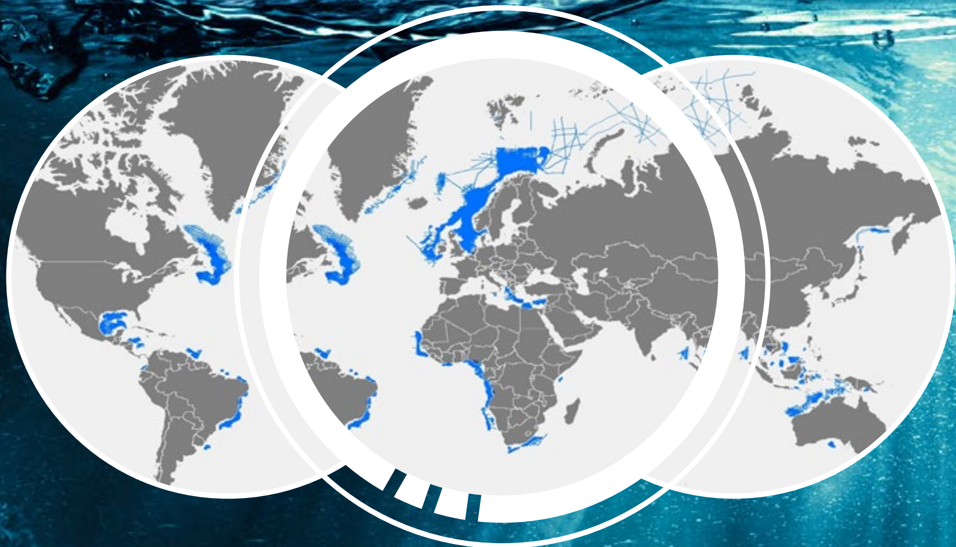
Per million man-hours.



Lost Time Injury Frequency (“LTIF”)

Per million man-hours.

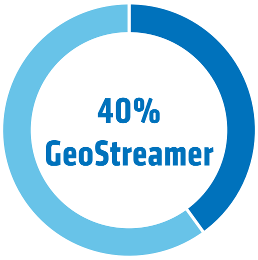
MultiClient & Contract



Enhancing the MultiClient Library Through 2017

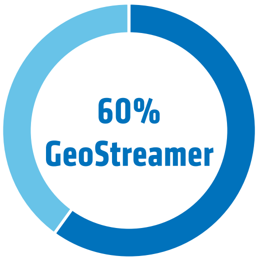
PGS had good geographical spread of its MultiClient activities during 2017. The Company added 68 000 sq. km of 3D MultiClient data and 21 000 line km of MultiClient 2D data in 2017. In addition PGS reprocessed key data in Brazil, Europe and Egypt.

MultiClient Revenues
USD millions



PGS MultiClient 3D Library

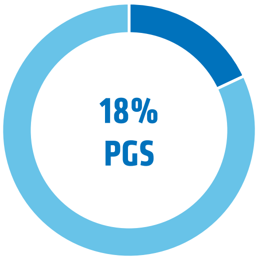
Comprising almost **790 000** sq.km, of which approximately **40%** is GeoStreamer 3D data.



PGS MultiClient 2D Library

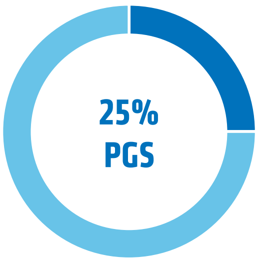
Comprising approximately **650 000** line kilometers, of which approximately **60%** is GeoStreamer 2D data.

Robust MultiClient Library Performance



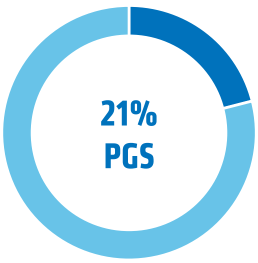
Net Book Value

18% PGS
82% Rest of Peer Group*



Revenues

25% PGS
75% Rest of Peer Group*



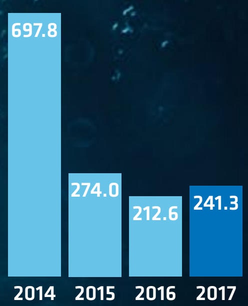
Cash Investment

21% PGS
79% Rest of Peer Group*

*Peer Group comprise WG, TGS, CGG and PGS.

Capitalizing on Differentiators

The new PGS organizational structure combined with the flexible fleet plan enables PGS to improve vessel scheduling. The Company will have a more focused presence in the marine contract market targeting attractive projects aligned to take advantage of PGS GeoStreamer technology, imaging capabilities and superior fleet. 4D projects is a core part of PGS contract business.



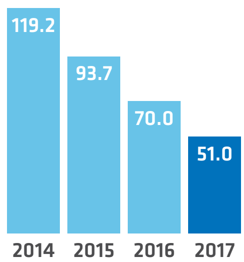
Marine Contract Revenues

USD millions

Centralized Imaging Centres

Resized and Optimized

PGS has adapted its imaging capabilities to the market environment and implemented a more pronounced hub-satellite model to optimize resource utilization globally. More capacity will be directed towards internal MultiClient projects, while the presence in the external market will be reduced and more focused on the high-end segment.



External Imaging Revenues

USD millions

The PGS History

1991

Geoteam and Precision Seismic merge to form PGS. Later the Company merged with Nopec. PGS' vision was to provide the most efficient acquisition of 3D marine seismic data.

1992

PGS was incorporated as a public limited liability company, Petroleum Geo-Services ASA, and listed on Oslo Stock Exchange.

1993

Initial public offering on NASDAQ in the United States. With the acquisition of Tensor Inc., specialists in 3D processing and depth imaging, PGS expanded into the data processing field.

1994

Acquisition of ERC (reservoir c onsultancy group).

1995

Ramform seismic vessel technology was introduced with delivery of the *Ramform Explorer*. From 1995 to 1999, PGS designed, built, and deployed six proprietary Ramform survey vessels and grew to become a worldwide leader in the development and industrialization of 3D marine seismic acquisition.

1997

PGS was listed on the New York Stock Exchange. PGS Production is conceived with the acquisition of Golar-Nor and the FPSOs *Petrojarl I* and *Petrojarl Foinaven*.

1998

The production services business Atlantic Power was acquired. PGS added the *Ramform Banff* to the fleet of FPSO vessels.

1999

A fourth FPSO, the *Petrojarl Varg*, was bought from Saga Petroleum.

2000

PGS sold its subsidiary Spinnaker Exploration.

2001

The Company's data management business was sold to Landmark Graphics Corporation. *Ramform Victory* tows the world's first 16 streamer spread.

2002

PGS bought into the Varg field in the North Sea from Norsk Hydro and Statoil and established the exploration and production company Pertra. PGS completes the world's 1st commercial Multi Azimuth ("MAZ") survey at Varg.

2003

PGS sold Atlantis to Sinochem. An inability to meet debt obligations made PGS file for Chapter 11 under the US Bankruptcy code in July. PGS emerged from Chapter 11 in November the same year.

2005

Pertra was sold to Talisman, and PGS became a dedicated oil services company. In December the same year a full refinancing of the Company was completed.

2006

PGS de-merged its floating production business by listing and distributing to shareholders the company Petrojarl ASA. PGS becomes a dedicated geophysical services company and announces a plan to build two Ramform S-class vessels.

2007

In 2007 PGS introduced the GeoStreamer, the first ever dual sensor streamer. The Company sells *Ramform Victory* to the Japanese Ministry of Economy Trade and Industry ("METI"). PGS acquired Arrow Seismic, MTEM and Applied Geophysical Services ("AGS"). The first dividend in PGS history was paid.

2008

PGS took delivery of the *Ramform Sovereign* and the vessel sets new industry record with deployment of 17 streamers.

2009

PGS took delivery of the *Ramform Sterling* and launches the imaging technology hyperBeam®.

2010

PGS emerged as a focused marine geophysical company, following sale of its Onshore seismic business. PGS was reorganized into global product lines within four business areas: Marine Contract, MultiClient, Operations and Imaging & Engineering. *PGS Apollo* joined the fleet.

2011

PGS orders two new Ramform Titan-class vessels from Mitsubishi Heavy Industries Shipbuilding Co. Ltd in Japan, with options for two additional vessels.

2012

PGS exercised options to build another two Ramform Titan-class vessels. PGS launched its Towed EM streamer technology, made a successful installation of an OptoSeis® permanent reservoir monitoring system at the Jubarte field in Brazil and launched Separated Wavefield Imaging – SWIM.

2013

PGS took delivery of the *Ramform Titan*, the first vessel in a series of four Ramform Titan-class ships. The company re-entered the Gulf of Mexico with acquisition of the Triton Full Azimuth GeoStreamer MultiClient survey.

2014

Ramform Atlas, the second Ramform Titan-class vessel was delivered in January. The Company delivered on the 2014 cost reduction program.

2015

In an uncertain market environment PGS focused on cash flow and increased its liquidity reserve. The Company implemented substantial reductions in cost and capital expenditures, took proactive steps to address overcapacity and further strengthened its productivity leadership and fleet flexibility. *Ramform Titan* deployed the world's largest streamer spread offshore Myanmar.

2016

Ramform Tethys was delivered, the third in a series of four Ramform Titan-class vessels, improving fleet capabilities further with excellent operational performance. Continued high focus on keeping costs and capital expenditures low. Refinanced the Company in order to extend maturities and reduce debt and interest expense.

2017

Ramform Hyperion delivered, the last in a series of four Ramform Titan-class vessels. Rune Olav Pedersen was appointed new President & CEO, he initiated and completed a process to centralize, simplify and streamline the organization.

TO BE CONTINUED

Rune Olav Pedersen

President & CEO

Mr. Pedersen has been with PGS since October 2010. He joined the Company as General Counsel and head of legal. In September 2014 he also became responsible for Group Communication, Strategic Customer Relations and Marketing. His responsibilities were further expanded in September 2015 to also include Corporate Development.

Prior to joining the Company, Mr. Pedersen was, for more than four years, a partner in the law firm Arntzen de Besche and previous to that Lawyer and Associate in the same firm. He started his career as a Junior Research Fellow at the University of Oslo, and has also served as a Deputy Judge in a District Court of Norway. Mr. Pedersen earned his law degree from the University of Oslo, and enhanced his expertise within European competition law with a post graduate diploma from Kings College London. In 2014 Mr. Pedersen earned an Executive MBA from London Business School.

Executive Team

Gottfred Langseth
Executive Vice President & CFO

Mr. Langseth joined the Company in November 2003 and was appointed Executive Vice President and Chief Financial Officer as of January, 2004. Before joining PGS he was Chief Financial Officer of the information technology company Ementor ASA from 2000 to 2003. Mr. Langseth was Senior Vice President of Finance and Control at the offshore engineering and construction company Aker Maritime ASA from 1997 to 2000. Mr. Langseth worked at Arthur Andersen Norway from 1991 to 1997. Mr. Langseth was certified as a Norwegian state authorized public accountant in 1993 and holds a Master of Business Administration degree from the Norwegian School of Economics and Business Administration.

Sverre Strandenes
Executive Vice President, Sales & Services

Mr. Strandenes was appointed Executive Vice President MultiClient in May 2010, and after the reorganization, he is now Executive Vice President Sales & Services. Previously he was the Group President, Imaging & Engineering since November 2006. Mr. Strandenes has held several senior PGS management positions, including President, Marine Geophysical EAME Region (Europe, Africa, and Middle East). Prior to joining the Company in 1995, Mr. Strandenes was the Geosciences department manager at Norsk Hydro Research Center. During his 14 years at Norsk Hydro he held several geophysics and management positions. Mr. Strandenes is a Board Member of Azimuth Ltd, Azimuth II Ltd and Azimuth III Ltd and Chairperson of the Board of Norsar. Mr. Strandenes was awarded a Master of Science degree (Cand. Real) from the University of Bergen in 1981.

Per Arild Reksnes
Executive Vice President, Operations & Technology

Mr. Reksnes was appointed Executive Vice President in April 2010, initially to run the Company's New Ventures business area, then responsible for Marine Contract, followed by Operations, and after the reorganization he is now Executive Vice President Operations & Technology. From 2007–2010, he was PGS Marine's President, EAME (Europe, Africa, Middle East) and CIS. His job titles in the Company have included President for Geoscience and Engineering, President for Technology, Vice President for Profiling and Marketing, and Vice President Technical Marketing. Mr. Reksnes joined the Company in 2001 from his position as Chief Professional Geophysics at Norsk Hydro. During his 16 years at Norsk Hydro, he held several geophysics and management positions. Mr. Reksnes holds a Master's degree in Applied Geophysics from the University of Oslo and a Master's degree in Technology Management from MIT/NTH (Norwegian University of Science and Technology).

Refocused Reenergized

The business unit Sales & Services is responsible for all market focused and revenue generating activities. The business unit promotes and sells all products and services through one customer and marketing approach and is responsible for building new MultiClient programs worldwide and strategic positioning in new basins. Imaging activities are closely integrated with the development and delivery of MultiClient and Contract projects, while external Imaging services are focused primarily on the high-end depth imaging market.

Sales & Services

Sales & Services is PGS' commercial arm and covers all the Company's products and services. Within Sales & Services there are three departments; Sales & Marketing, New Ventures and Imaging.

All the activities within Sales & Services generate revenues and deliver competitive products and solutions to meet clients' needs.

The new Sales & Services organization has fewer more focused touch points facilitating easier communication between clients and PGS. Furthermore, the new structure enables full utilization and generation of synergies across all products and services within PGS.

Sales & Marketing promotes, markets and sells the full spectrum of PGS' product and service offerings including Contract, MultiClient, and Imaging. The sales organization is organized in an account management structure. This enables a coordinated approach towards clients, enabling sales at local, regional and global scale. This department is responsible for MultiClient library sales once the acquisition of a MultiClient project is complete. It relies on a skilled and knowledgeable sales force, and leverages the sub-surface expertise integrated within the Sales & Services organization.

When a sales lead for a contract job is identified, the account management team engages the Project Planning & Bidding department within the Operations & Technology business unit. They calculate the bid price for the job, and provide clients with technical and commercial proposals for the project.

Execution of both contract and MultiClient acquisition projects is handled by the Project Delivery group within Operations & Technology. Project Delivery is fully accountable for delivering all projects in a safe, reliable and cost efficient manner.

New Ventures initiates and develops new MultiClient projects to position PGS in both frontier and mature geo-markets.

MultiClient will continue to be a dominant business model for PGS going forward. The ability to identify and initiate new MultiClient programs with solid economics over the life of the survey is a key success criterion in this market, and is the most important activity for the New Ventures department. Commercially, New Ventures is responsible for securing pre-funding for all new projects, their role lasts until acquisition is completed at which point they hand over to Sales & Marketing.

The reservoir organization, comprising personnel with geological expertise in sub-surface interpretation and reservoir characterization, is integrated into New Ventures. Partly as a local resource and partly as a central resource supporting the whole Sales & Services business unit.

New Ventures also has the responsibility to generate novel business opportunities across the full PGS service range.

Imaging has been refocused and repositioned with a somewhat reduced presence in the external market and closer links to other PGS business activities. Imaging remains a core part of the Company's MultiClient products, and will to a larger extent be focused towards supporting the development of new MultiClient projects, as well as maintaining and rejuvenating the existing MultiClient library. External market focus will be directed towards high-end high-value products and services. This includes PGS unique GeoStreamer based imaging technology as well as reservoir and 4D oriented processing solutions.

Sverre Strandenes
Executive Vice President, Sales & Services

Refocused Reenergized

The business unit Operations & Technology manages support and execution functions relating to marine seismic acquisition projects, including fleet management, vessel operations, project planning and execution, as well as research and technology development.

Operations & Technology

The operational business unit of PGS is responsible for acquisition project planning and execution, as well as research and development of new technology. Operations & Technology comprise seven departments: HSEQ, Project Planning & Bidding, Project Delivery, Maritime, Operation Geophysics, Technical, and Geoscience & Engineering.

Preparing bids, planning projects, estimating costs, driving effective vessel operation and improving efficiency and data quality through technology research are the main activities for Operations & Technology. On each project, cooperation with the commercial business unit, Sales & Services, is a priority in order to deliver the best possible product in the most effective manner for all stakeholders.

HSEQ provides expertise within safety, health, environment and quality management. In addition, the department has responsibility for developing and maintaining PGS systems and processes within HSEQ.

Project Planning & Bidding estimate costs, assess risk and plan MultiClient projects initiated by the New Ventures department. Once approved, the New Ventures department take the commercial responsibility and secure pre-funding for the project until acquisition is completed. For contract work, Project Planning & Bidding take over a sales lead once it materializes to a formal bid request. Then there will be an iteration between the Sales unit and Project Planning & Bidding to prepare and finalize the bid.

Project Delivery ensures that seismic acquisition projects are executed in the best possible way. Once a MultiClient project has been approved and is ready for commercial launch, or PGS has been awarded a survey contract, Project Delivery takes over. Project managers are assigned to a specific project, and have full responsibility to deliver on, or better than, the term sheet for the project. Clear project ownership, with one manager throughout the execution phase, ensures optimized delivery.

Maritime is responsible for ship management including maritime crew, small-boat management, maritime technical advisory and fuel management.

Technical is in charge of the seismic equipment, inventory and optimizing use of the seismic gear onboard the vessels. With more than 25 years of experience, PGS has developed procedures for efficient onboard operations that minimize cost and maintain low downtime.

Operations Geophysics constitutes onboard geophysics tasked with real time quality control of the seismic data as well as generating and validating the acquisition deliverables, including what is known as the GeoStreamer P-UP signal from the acquired data.

Geoscience & Engineering develops and delivers differentiating technology. Their focus is on geophysical and engineering solutions where PGS can create commercially attractive solutions that improve operational efficiency, enhance data quality or shorten delivery times for imaging projects.

The Sales & Services and Operations & Technology business units work hand in hand to achieve the best possible result for all projects PGS embarks on. This is a project-driven organization that behaves in a unified manner, involving and engaging all relevant teams within the Company to focus on joint success.

Per Arild Reksnes
Executive Vice President, Operations & Technology

The PGS Share

The PGS share has its primary listing on the Oslo Stock Exchange in Norway. In the United States, PGS' ADS are traded over the counter.

Share Facts

PGS has 338 579 996 shares outstanding, including American Depository Shares ("ADS"), all of which are of the same class, and carry equal voting and dividend rights. Each share has a par value of NOK 3. The ticker code for PGS at the Oslo Stock Exchange is "PGS" and the shares are denominated in Norwegian kroner ("NOK"). The Company's ADS are traded over the counter in the US, have the ticker code "PGSVY" and are denominated in US dollars ("USD"). Each ADS represents one share. An American Depository Receipt, with the acronym ADR, is the actual physical certificate confirming ADS ownership. The term ADR is often used for both the certificates and the securities themselves.

On average, approximately 3.3 million PGS shares were traded daily on the Oslo Stock Exchange in 2017.

The liquidity of PGS' ADS is significantly lower; the average daily ADS trading volume was approximately 3 574 in 2017.

Shareholders

PGS had 6 908 shareholders on record as of December 31, 2017, according to the Norwegian Central Securities Depository ("VPS"). By year-end 2017 Norwegian investors owned approximately 43% of the outstanding PGS shares. UK based investors had the second largest holding and accounted for 18% ownership, while US based investors held approximately 10% of the outstanding shares. The remaining 29% were mainly held by investors in other Western European countries.

As of December 31, 2017, Ferd was the largest PGS shareholder, owning 35.8 million shares or 10.6% of the Company. As of year-end 2017, the Company held 7 888 own shares.

Distribution of Information and IR Activities

All Company information considered material to the capital markets is published via the Oslo Stock Exchange's news service: www.newsweb.no, and posted on the Company's website: www.pgs.com. PGS holds public presentations and arranges conference calls in connection with quarterly earnings releases. The Company hosts an annual capital markets day presentation for the investment community, and management regularly meets with investors and participates at investor conferences.

Analyst Coverage

As of December 31, 2017, there were 21 sell-side analysts covering PGS on a regular basis, with market updates and estimates of PGS' financial results. Of these, six are based in the UK, one in France, one in India and the rest in Norway. An updated list of analyst coverage is published on the Company's website: www.pgs.com.

2018 Annual General Meeting

PGS' 2017 Annual General Meeting is scheduled for April 25, 2018 at 15:00 CET at the Company's headquarters at Lilleakerveien 4C, 0216 Oslo, Norway. Each PGS share is entitled to one vote. Please note that Norwegian regulations stipulate that shares must be registered in the name of a specific owner in order for that person (or duly authorized agent) to be allowed to vote. Shareholders who wish to attend the Annual General Meeting are requested to pre-register via the Company's registrar. The registrar's contact information follows:

DNB Bank ASA
Registrar Services
PO Box 1600 Sentrum
NO-0021 Oslo, Norway

Phone: +47 232 68 021
Email: kua@dnb.no

Owners of American Depository Shares can vote by surrendering their shares to the ADS depositary bank, Deutsche Bank, so that title to the shares in question is appropriately recorded in the share register maintained by Norway's VPS prior to the meeting date.

Contact Information for ADS Shareholders

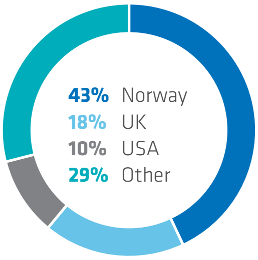
The depositary bank for PGS' ADS shares is Deutsche Bank; the contact information is as follows:

Deutsche Bank Shareholder Services
American Stock Transfer & Trust Company
6201 15th Avenue Brooklyn, NY 11219, USA

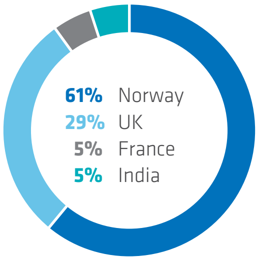
Phone: +1 718 921 8137
E-mail: DB@amstock.com

Corporate Credit Rating

PGS corporate rating is 'CCC+' with a stable outlook by Standard and Poor's (updated January 11, 2017) and 'B3' with a stable outlook by Moody's Investor Service (updated March 13, 2018). Both rating agencies assign the same rating as their corporate rating to PGS' corporate secured debt facility, which includes the Term Loan B and the Revolving Credit Facility. The USD 26.9 million 2018 notes are rated B3 by Moody's Investor Service while rating for the same note is withdrawn by Standard and Poor's. The 2020 notes are not rated.

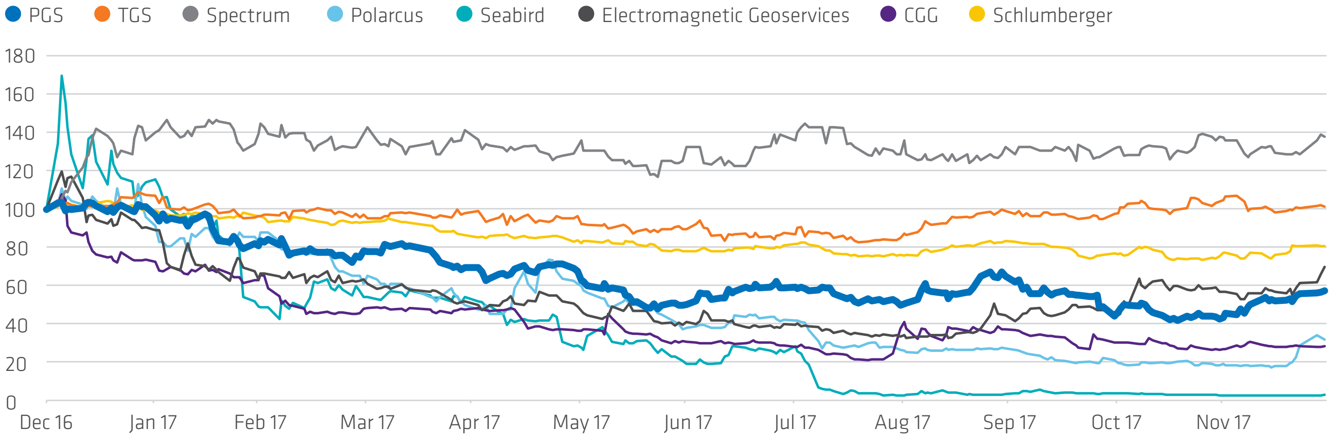


Citizenship of Shareholders



PGS Sell-side Analyst Location

PGS Share Price Performance During 2017 Relative to Peers



20 Largest PGS Shareholders

	December 31, 2017	
	Total shares	**Ownership %**
Ferd AS	35 823 200	10.6
DNB Asset Management AS	32 253 894	9.5
M&G Investment Management Ltd.	20 110 104	5.9
Coltrane Asset Management L.P.	18 528 264	5.5
Edinburgh Partners Limited	15 752 275	4.7
Lancaster Investment Management LLP	15 651 691	4.6
Allianz Global Investors GmBH	14 772 945	4.4
Folketrygdfondet	11 653 735	3.4
Hermes Investment Management Ltd.	8 687 346	2.6
Nordea Funds Oy	7 299 440	2.2
Sheffield Asset Management L.L.C.	6 181 401	1.8
Schroder Investment Management Ltd.	4 393 227	1.3
Legal & General Investment Management Ltd.	4 295 481	1.3
Danske Invest Rahastoyhtiö Oy	4 000 000	1.2
Contrarius Investment Management	3 537 852	1.0
Bellevue Asset Management AG	3 417 000	1.0
Dimensional Fund Advisors L.P.	3 106 171	0.9
Carmignac Gestion	3 000 000	0.9
SAFE Investment Company Limited	2 852 055	0.8
Third Avenue Management LLC	2 785 957	0.8
Other shareholders	120 477 958	35.6
Total	**338 579 996**	**100.0**

The data is provided by Nasdaq Advisory Services and is obtained through an analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians in relation to the PGS share register provided by VPS. Every reasonable effort has been made to verify the data, however neither PGS nor Nasdaq Advisory Services can guarantee the accuracy of the analysis.

Corporate Governance

PGS is committed to maintaining high standards of corporate governance. We believe that effective corporate governance is essential to our Company's success and establishes the framework by which we conduct ourselves in delivering services to our customers and creating value for our shareholders.

PGS is registered in Norway as a public limited liability company, and our corporate governance model is based on Norwegian corporate law, the Continuing Obligations of Stock Exchange Listed Companies issued by Oslo Stock Exchange, the Rules and Regulations of the Luxembourg Stock Exchange, and the Norwegian Code of Practice for Corporate Governance (the "NUES Recommendations"). To the extent practicable, PGS adheres to requirements applicable to registrants of foreign securities in the United States, where our ADS are publicly traded. We have also implemented corporate governance guidelines particularly suited to our Company and the industry in which we operate.

The Norwegian Public Limited Liability Companies Act section 5-6 (4) requires that the Annual General Meeting ("AGM") approves the statement of Corporate Governance. Consequently, this report will be presented to the General Meeting on April 25, 2018.

Our corporate governance principles, which have been adopted by our Board of Directors, are summarized below. Our website provides full versions of our basic corporate governance documents and an overview of our governance structure. These items include the Company's Articles of Association, the Board of Directors' Rules of Procedure, and the charters for the Company's Audit Committee, Remuneration and Corporate Governance Committee, and Nomination Committee. The documents can be downloaded from our website: www.pgs.com.

In accordance with the Norwegian Accounting Act section 3-3b, PGS is required to give a statement of our corporate governance in the Board of Directors report. In the Board of Directors report we refer to this document.

1. Code of Conduct, Core Values and Corporate Responsibility

We have adopted a Code of Conduct that reflects our commitment to our shareholders, customers, and employees to carry out our business with the utmost integrity. Our Code of Conduct and Core Values are available in full on our website: www.pgs.com.

At the heart of our Core Values is also a principled approach to Corporate Responsibility. We have built our framework for Corporate Responsibility around four key areas: People, Environment, Conduct, and Stakeholders. For a further description, see our Corporate Responsibility Report, which is available at www.pgs.com.

2. Business

PGS 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 library is among the largest in the seismic industry. The Company operates on a worldwide basis with headquarters in Oslo, Norway.

Our business purpose, as presented in the Company's Articles of Association, is as follows:

"The business of the Company is to provide services to and participate and invest in energy related businesses."

Our business operations and the goals and strategies for our business areas are presented in greater detail on pages 10-16 and 20-23 of this annual report.

3. Equity and Dividends

The shareholders' equity as of December 31, 2017 was $879.5 million, corresponding to 35% of total assets.

The Board of Directors believes that the Company's net interest bearing debt should be at moderate levels. The current guideline is to plan for a net interest bearing debt not to exceed two times annual EBITDA in the weak part of a business cycle and not to exceed one time the annual EBITDA in a strong market. As a result of a weak market over recent years combined with investments in fleet renewal, the current net interest bearing debt of $1 139.4 million is above this guideline. In a situation where net interest bearing debt exceeds the targeted level, actions to come back inside may be gradual and take place over a period of time. It is also the Company's intention to reduce the net interest bearing debt. The Board continually monitors the adequacy of the Company's equity in light of its objectives, strategy, and risk profile.

The Company's funding and equity positions are considered adequate by the Board of Directors.

The Company has used above the alternative performance measures being "EBITDA" and "Net Interest Bearing Debt". These terms are defined in the annual report.

The Board of Directors has adopted a dividend policy whereby it is the intention to distribute 25 to 50 percent of annual net income as dividends over time. The Board of Directors has no general authorization to distribute dividends. Any year's dividend is decided by the AGM after a proposal from the Board of Directors.

The Company has not distributed dividends in recent years due to weak market, operating losses and a need to maintain an adequate liquidity reserve. Going forward, the Company's capacity to pay dividend will be assessed by the Board of Directors in light of, among other things, the market outlook and the Company's equity and funding positions. Since the Company currently has a net interest bearing debt which is above the targeted level, priority will going forward be given to debt reduction before resuming dividend payments. In addition, the Company is restricted in its combined Revolving Credit and Term Loan B facility from proposing a dividend for 2017 and while the facility remains in place it provides certain requirements to be in place before the Company can propose a dividend.

The Board of Directors is authorized to buy back up to 10 percent of the

Company's share capital (treasury shares). The current authorization expires on June 30, 2018. However, a new authorization will, in line with past practice, be proposed at the next AGM. Purchase of treasury shares are subject to restrictions in the Revolving Credit and Term Loan B facility identical to those applicable for distribution of dividends.

It has been an ongoing practice of PGS shareholders to grant authorizations to the Board of Directors permitting it to increase the Company's share capital or issue convertible loans for up to 10 percent of the Company's share capital for certain defined purposes. The current authorizations expire on June 30, 2018. New authorization in line with past practice will be proposed at the next AGM.

Separate General Meeting votes are held for (a) authorizations to increase the share capital for certain business purposes, (b) authorization to issue convertible loans and (c) authorization to acquire treasury shares. When a proposed resolution encompasses share capital increases and/or the issuance of convertible loans and/or acquisition of treasury shares for various purposes, the Company does not find it practical to hold separate votes on each element of proposals. This is a deviation from the NUES Recommendation (identified below) No. 3 where it is recommended that when the General Meeting is to consider mandates to the Board of Directors for the issue of shares for different purposes, each mandate should be considered separately by the meeting.

4. Equal Treatment of Shareholders and Transactions with Close Associates

PGS has a single share class and all shares carry the same rights. At our General Meetings, each share carries one vote. Our Board of Directors is committed to equal treatment of shareholders in all respects.

When applicable, transactions involving the Company's own shares are carried out through a stock exchange, or at prevailing stock-exchange prices if carried out in an alternative manner.

Transactions between the Company and shareholders, a shareholder's parent company, members of the Board of Directors, executive officers, or close associates of any such party (referred to as "Close Associates") shall be conducted at arm's length and at market terms. Material transactions with Close Associates will be subject to independent valuation by third parties. According to PGS' Code of Conduct, our employees shall not have any personal or financial interest that might conflict with those of PGS nor influence, or appear to influence judgments or actions in carrying out their responsibilities on behalf of the Company. According to the Board of Directors' Rules of Procedure, a member of our Board of Directors may not participate in discussions or decision-making as to issues in which the director or any person closely associated with the director has a material personal or financial interest. The Code of Conduct and Rules of Procedure are available on our website: www.pgs.com.

5. Freely Transferable Shares

The Company's shares are freely transferable.

6. General Meetings

Through participation in General Meetings, our shareholders exercise ultimate authority over the Company and elect the members of its Board of Directors and the chairperson of the Board of Directors.

Pursuant to the Company's Articles of Association, the notice of an AGM is distributed at least four weeks in advance of the meeting to shareholders or their depository banks. For ADS holders, the record date for notice-distribution purposes is set at approximately five weeks prior to the AGM. A copy of the call notice with appendices will be posted on our website: www.pgs.com.

Notices convening Extraordinary General Meetings ("EGM") must be distributed at least three weeks ahead of the meeting. The Board of Directors is to call shareholders to an EGM upon a written demand by the Company's independent auditor or shareholders representing at least five percent of the share capital, or for other purposes.

Shareholders who wish to attend a General Meeting must notify the Company's registrar or PGS by the deadline stated in the meeting notice, which must be at least two working days before the General Meeting.

According to the Company's Articles of Association, documents to be considered at the General Meeting may be published on our website. The same applies to documents that, due to statutory requirements must be attached to, or included in the notice calling the General Meeting. If the documents are published in such a manner, the statutory requirements for distribution shall not apply. Nevertheless, shareholders are entitled to request that documents to be considered by the General Meeting be sent to them via regular mail.

To vote at General Meetings, in person or by proxy, a shareholder must be registered with VPS. Holders of ADS may vote according to the underlying shares by: (a) having the underlying shares transferred to an account with the Norwegian Central Securities Depository in the name of the holder, (b) attending the meeting as a shareholder by providing their name and address and a confirmation from Deutsche Bank, depositary for the ADS, to the effect that they are the beneficial owner of the underlying shares, or (c) authorizing Deutsche Bank to vote the ADS on their behalf in accordance with specific guidelines.

An owner with shares registered through a custodian has voting rights equivalent to the number of shares covered by the custodial arrangement, provided that the owner of the shares, within two working days ahead of the General Meeting, provides PGS with his or her name and address together with written confirmation from the custodian to the effect that he or she is the beneficial owner of the shares held in custody.

Written and/or electronic voting in accordance with the Norwegian Public Limited Liability Companies Act, section 5-8b, shall be allowed for meetings where such method of voting is arranged by the Board of Directors.

All directors generally attend the AGM together with the chairperson of the Nomination Committee and the auditor. In accordance with the Company's Articles of Association, the chairperson of the Board of Directors chairs General Meetings. This is a deviation from the NUES Recommendation No. 6 for making arrangements to ensure an independent chairperson for the General Meetings. The reason for this deviation is that the Company has found this more practical and that PGS wishes to ensure that General Meetings are chaired by a competent person having proper insight into PGS' overall operations.

7. Nomination Committee

According to our Articles of Association, the Company has a Nomination Committee comprised of three members to be elected by our shareholders at the AGM. The majority of Nomination Committee members shall qualify as independent parties, pursuant to the NUES Recommendations. The term of service shall be two years unless the General Meeting determines that the period shall be shorter.

The Nomination Committee's main responsibilities, which are set out in the Nomination Committee Mandate and Charter, are to propose nominees for election as members and chairperson of the Board of Directors and the Nomination Committee. Further, the Nomination Committee proposes remuneration to be paid to members of the Board of Directors and Nomination Committee. The remuneration is approved by the General Meeting. Annually, the Nomination Committee produces a written report containing its nominations and proposals, which is distributed in advance of each AGM.

Once a year, the Nomination Committee meets with each director individually and discusses how the Board and its committees function and whether there is a need for changes to the Board. The Nomination Committee also keeps contact with shareholders and the Chief Executive Officer as part of its work.

Nomination Committee Members

The Nomination Committee comprises Harald Norvik (Chairperson), C. Maury Devine, and Terje Valebjørg. Mr. Norvik was a first time electee at the AGM held May 10, 2017, whereas Mrs. Devine and Mr. Valebjørg at the same AGM were re-elected, all for a service period ending with the 2018 AGM.

Shareholders who wish to propose new Board members or new members of the Nomination Committee may do so by submitting a candidate's name to PGS' investor relations staff via the Company's website: "Nominate a Board Member." The deadline for submissions each year is January 31. Alternatively, candidates can be proposed by letter to PGS attn. General Counsel or via email to: ir@pgs.com. PGS does not employ any Nomination Committee members and none is a member of the Board of Directors.

In 2017, the Nomination Committee held four meetings and conference calls. The Nomination Committee's report on its work and recommendations will be distributed with the notice of the 2018 AGM.

8. Board of Directors – Composition and Independence

According to the Company's Articles of Association, our Board of Directors shall have from three to thirteen directors. The period of service for members of the Board of Directors shall be one year.

The Board has adopted its own Rules of Procedure that establish in more detail its roles and responsibilities, including:

- Directors' qualifications
- Requirement that a majority of the shareholder elected Directors in the Board, a majority of the shareholder elected Directors being members of the Remuneration and Corporate Governance Committee, and all shareholder elected Directors being members of the Audit Committee are considered to be independent directors
- Annual review and determination of the independence of each director.

The composition of the Board of Directors is a reflection of the Company's commitment to protect the common interests of all shareholders and the Company's need for expertise, capacity, and diversity.

As of December 31, 2017, the Board of Directors comprised seven shareholder representatives and three directors elected among the employees. Current board members are presented on the Company's website: www.pgs.com and in this annual report.

All shareholder elected Directors are independent of the Company's management. All such Directors are also per December 31, 2017, independent of our major business relations. Mr. Borge is the Chief Executive Officer in Ferd AS. Ferd AS owns ~11% of the shares in the Company. No shareholder elected Director may be an executive of PGS. Such Directors are not permitted to perform paid consultancy work for PGS. Seven Directors, directly or indirectly, own PGS shares.

Shareholders and other interested parties may communicate directly with our shareholder elected Directors by written correspondence addressed to Petroleum Geo-Services ASA, Board of Directors (shareholder elected members), Secretary of the Board of Directors or to the Company's General Counsel Lars Ragnar van der Bijl Mysen, PO Box 251, NO-0216 Oslo, Norway. Further, our website: www.pgs.com invites shareholders wishing to discuss corporate governance or corporate responsibility matters to contact Mr. Mysen by phone or arrange a meeting with him.

9. The work of the Board of Directors

In accordance with Norwegian corporate law, our Board of Directors has overall responsibility for management of the Company, while the Company's Chief Executive Officer ("CEO") is responsible for day-to-day management.

Visit our website for further documentation and regulations

The Board of Directors provides oversight of the CEO's day-to-day management and company activities in general. The Board of Directors is also responsible for ensuring that appropriate management, guidelines, and control systems are in place and are followed. The CEO, as agreed with the chairperson of the Board of Directors, annually submits a schedule of the meetings of the Board of Directors in the upcoming calendar year. The schedule is subject to Board approval. In 2017, the Board of Directors held fourteen meetings including conference calls. During 2017, all the current shareholder elected Directors participated in all prescheduled board meetings and conference calls, with the exception of Mr. Morten Borge who missed two prescheduled meetings.

Key elements of the Rules of Procedure cover the Board of Directors' responsibilities to determine the Company's financial targets, set strategies along with the CEO and executive committees, and approve business plans, budgets, and budgetary and risk frameworks. In its supervision of the Company's business activities, the Board of Directors will seek to ensure that satisfactory procedures are in place for monitoring and follow-up of Board-approved corporate principles and guidelines covering areas such as ethical conduct; adherence to laws, rules, and regulations; health, safety and environment; and corporate social responsibility.

The Rules of Procedure also require an annual self-evaluation to determine whether the Board of Directors and its committees are functioning effectively. The annual self-evaluation is prepared and facilitated by the Remuneration and Corporate Governance Committee. An anonymous survey is carried out and the findings are discussed by the Board of Directors. The survey's findings are made available to the Nomination Committee. The chairperson of the Nomination Committee also shares with the Board relevant information for improvement of Board processes that may come up in their annual interviews with individual Directors.

Each scheduled Board of Directors meeting includes a separate session at which issues may be discussed without the presence of the Company's management.

The tasks and duties of the CEO vis-à-vis the Company's Board of Directors are also outlined in the Rules of Procedure, along with the tasks and duties of the chairperson of the Board of Directors. The CEO participates in all board meetings other than closed sessions. The Board of Directors elects a vice chairperson to chair board meetings in the chairperson's absence. The full text of the Board of Directors' Rules of Procedure is available at www.pgs.com.

Our governance structure is organized as described below.

Our Board of Directors is responsible for the supervision of our business activities. The Board has established an Audit Committee and a Remuneration and Corporate Governance Committee to assist in organizing and carrying out its responsibilities. The mandate and charter for the Audit Committee and the Remuneration and Corporate Governance Committee is available at www.pgs.com.

Board responsibilities include:

- The Board of Directors appoints the Company's CEO
- The Board of Directors, along with the CEO, is committed to operating PGS in an effective and ethical manner in order to create value for the Company's shareholders. Our Code of Conduct requires management to maintain an awareness of the risks involved in carrying out our business strategies. Personal interests must not override or conflict with the interests of PGS.

The responsibilities of the CEO include:

- Day-to-day management of company activities
- Organizing PGS' Executive Committees and the Disclosure Committee to further assist the CEO
- The CEO, under the guidance and supervision of the Board of Directors and the Audit Committee, is responsible for ensuring that the Company's financial statements in all material respects fairly present the Company's financial condition and the results of its operations. Timely disclosure of issues to the Board of Directors is also essential to the assessment of the Company's financial condition, business performance and risks.

Board of Directors Committees

As of December 31, 2017, our Audit Committee comprises Directors Anne Grethe Dalane (Chairperson), Carol Bell, Daniel J. Piette, Anette Valbø and Hege Renshus. All shareholder elected Director's being members of the committee are considered independent of the Company. The committee's functions are to assist the Board of Directors in its supervision of the integrity of PGS' financial statements; to monitor the independent auditor's qualifications, independence and performance; to monitor the performance of the internal audit function; and to promote and review compliance with laws and regulatory requirements.

As of December 31, 2017, the PGS' Remuneration and Corporate Governance Committee comprises Directors Holly Van Deursen (Chairperson), Morten Borge, Richard Herbert, and Espen Grimstad. The function of the committee is to assist in matters relating to compensation, benefits, and perquisites of the CEO and other senior executives. Review and modification of the Company's guidelines for good corporate governance are also committee responsibilities.

10. Risk Management and Internal Control

The Board of Directors is responsible for ensuring that appropriate guidelines, monitoring, and internal control systems are in place. These are to include embedding risk management, designating risk ownership, and implementing risk responses and controls.

The Board of Directors has systems in place to assess that the CEO exercises appropriate and effective management. The Board of Directors' Audit Committee assesses the integrity of PGS' accounts. It also inquiries into, on behalf of the Board of Directors, issues related to financial review and external audit of PGS' accounts. Further, the Board of Directors and the Audit Committee supervise and verify that effective internal control systems are in place, including systems for risk management and financial reporting.

The Board of Directors and the Audit Committee take steps to ensure that the Company's internal control functions are working as intended and that necessary measures are taken to reduce extraordinary risk exposure. Furthermore, the Board of Directors makes certain that there are satisfactory routines for follow-up of principles and guidelines adopted by the Board of Directors governing ethical conduct; compliance with laws, rules and regulations; health, safety and working environment; and corporate social responsibility.

The Company's anti-corruption program includes a policy, a management statement, and procedures as to several ethical issues, periodic training, high risk area assessment and monitoring, compulsory contract wording, etc. The policy and procedures are available at www.pgs.com. The program is evaluated on a regular basis by the Audit Committee.

Management maintains and regularly reviews a risk matrix setting out the main risks for the Company. These risk factors and the Company's risk mitigating activities are subject to discussion in the Board of Directors at least once a year.

Management conducts day-to-day follow-up of financial management and reporting. Management has established a structured process to ensure that Internal Control over Financial Reporting is effective. The process includes identification and assessment of all material financial reporting risks, identifying and documenting relevant controls to address these risks, and monitoring that controls are implemented and performed. For controls that are not operationally effective at year-end, their potential financial exposure and impact on the consolidated financial statements are evaluated.

Internal Audit Department
PGS has an Internal Audit Department reporting directly to the Audit Committee on its audit planning and audit reports. The purpose of the Internal Audit Department is to perform independent, objective assurance and consulting activities that add value and improve the Company's initiatives in financial, operational and compliance areas.

The scope of work for the Internal Audit Department includes determining whether the Company's risk management, control, and governance processes, as designed and represented by management, are adequate and well-functioning. The department has established a process for monitoring that adequate internal control-related activities are integrated into significant PGS business operations worldwide and that focus is directed towards areas of perceived high risk. Any non-conformance is systematically followed up and corrective measures are implemented and their effects monitored.

11. Remuneration of the Board of Directors and Executive Management

Remuneration of shareholder elected Directors is not linked to performance, but is based on participation in meetings and is subject to annual approval by the General Meeting. Shareholder elected Directors shall not solicit or accept specific assignments for PGS beyond their role as Directors. Shareholder elected Directors do not hold any PGS share options.

For details on compensation to individual Directors, please see Note 28 to the financial statement of PGS.

Remuneration payable to the shareholder elected Directors will be proposed by the Nomination Committee according to its Mandate and Charter, and is submitted to the AGM for approval.

Executive remuneration is one of the primary tasks of the Remuneration and Corporate Governance Committee. The committee annually reviews the total compensation level, the mix between fixed and performance related compensation and the mix between short, medium and long-term compensation. The Remuneration and Corporate Governance Committee has developed an annual schedule in order to ensure and facilitate a structured approach to the annual review of executive compensation. The committee normally also engages an external advisor for this work.

A specific peer group of comparable companies and an executive remuneration philosophy have been adopted. As per December 31, 2017, the peer group currently consists of nineteen companies from Norway, Europe, and the Americas. All companies are of comparable size and have international operations in the oil service sector. The external advisor collects and compiles relevant information on peer group companies. This information is used by the Remuneration and Corporate Governance Committee for benchmarking executive remuneration. The executive remuneration policy document includes certain targets and guidelines on how the Company's executives should compare to the peer group. These tools, amongst others, are used by the Remuneration and Corporate Governance Committee to decide on an appropriate remuneration structure and to set appropriate total remuneration.

Compensation for the CEO adheres to the same process as that used for other executives, but is also subject to approval by the Board of Directors.

PGS currently has a compensation structure for executive managers that include a base salary, benefits such as newspaper and mobile phone subscriptions, cash bonuses, pension plans, and stock-based long-term incentive programs. Features of these programs include an absolute ceiling on performance-related remuneration.

For further details on the compensation structure and total compensation to executive team members, see Note 28 to the financial statement of PGS, and also the Board of Directors' Statement on Remuneration to the CEO and Executive Officers set forth as Appendix VIII to the Calling Notice to the 2018 AGM.

12. Information and Communications

The Board of Directors is committed to reporting financial results and other relevant information based on openness and the requirement of equal treatment of all shareholders and securities market participants. The Company complies with relevant disclosure rules and regulations. Announcements are released through the Nasdaq OMX reporting channel and posted on the Oslo Stock Exchange's news service: www.newsweb.no. In addition, all announcements are available on the Company's website: www.pgs.com. The Company's policy of accessibility for shareholders is also presented on the Company's website.

The Company has an investor relations function to ensure that requests for information from shareholders, analysts and other interested parties are satisfied. The Company has an active investor communication program which includes senior management roadshows in connection with reporting of financial results, presentations at relevant investor conferences, and availability for one-on-one meetings. The Company hosts a Capital Markets Day presentation once a year.

The Board of Directors and the Nomination Committee send a letter to the 30 largest shareholders once a year inviting them to join in a dialog on corporate governance and corporate responsibility matters. The letter is also posted on www.pgs.com and any shareholder may initiate communication with the Company on these matters. During 2017, three meetings and phone conferences were conducted with shareholders under this initiative.

13. Takeover Bids

The Board of Directors has established guiding principles for how it will act in the event of a takeover bid. The Board of Directors will ensure that all shareholders are treated equally and seek to prevent disruptions to, or interference with, Company operations to the extent possible. In the event of a takeover bid, the Board of Directors will, in accordance with its overall responsibilities and good corporate governance, act in the best interest of shareholders and ensure that they are given sufficient information in the matter. If a takeover bid is made, the Board of Directors will issue a statement containing a recommendation as to whether the shareholders should accept or reject the offer, including an independent valuation of the offer. The Company's Articles of Association do not contain any restrictions, limitations, or defense mechanisms against acquisition of its shares.

14. Auditor

The Audit Committee shall support the Board of Directors in the administration and exercise of its responsibility for supervision of the work of the independent auditor, who shall keep the Board of Directors informed of all aspects of its work for PGS. This duty includes submission of an annual plan for the audit of PGS. The auditor attends all Audit Committee meetings and, at least twice a year, meets with the Audit Committee without the presence of management. In-house policies govern the use of the auditor's services. Use of the auditor for services other than the audit of PGS requires pre-approval by the Audit Committee.

The independent auditor meets with the full Board of Directors at least once a year in connection with the preparation of the annual financial statements and, at least once a year, presents a review of PGS' financial reporting and internal control procedures for financial reporting. At least once a year, the independent auditor meets with the Board of Directors without the presence of any member of the executive management.

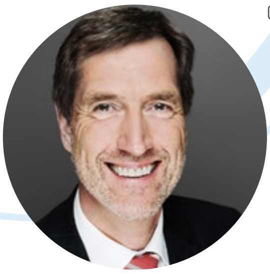
Remuneration paid to the auditor for mandatory and other audit services will be reported to the AGM for approval.

15. Compliance with Laws, Rules, Regulations and Recommendations

As part of PGS' Business Practice outlined on www.pgs.com, PGS is inter alia committed to comply with relevant laws, rules, and regulations, as well as the Continuing Obligations of Stock Exchange Listed Companies issued by Oslo Stock Exchange and the Rules and Regulations of the Luxembourg Stock Exchange. In addition, PGS complies with the current recommendations set forth in the NUES Recommendations, subject only to deviations identified and justified in this report. The NUES Recommendations are available at www.nues.no.

The Board of Directors further conducts periodic reviews of PGS' corporate governance policies and procedures, including the Board of Directors' Rules of Procedure. This process is conducted annually and managed by the Remuneration and Corporate Governance Committee. Any changes to policies or procedures are presented to the Board of Directors for approval.

Board of Directors



Walter Qvam
Chairperson (Elected 2016)
Board Member since 2013
Shareholding: 25 000

Mr. Qvam was, until June 6, 2016, the President and CEO of Kongsberg Group ASA. He has previously held leading positions in various prominent Norwegian and international businesses in a variety of fields, including oil & gas and shipping, (DNV; Det Norske Veritas), IT (Capgemini), transportation (the Norwegian State Railway) and consultancy (Gemini Consulting). In addition to his role as Chairperson of PGS, Mr. Qvam is also the Chairperson of the Council of Stiftelsen Det Norske Veritas and the Chairperson of the Board of the research organization SINTEF as well as DigitalNorway AS. Mr. Qvam graduated Master of Science (M.Sc.) from the Norwegian University of Science and Technology (1979).

Daniel J. Piette
Vice Chairperson (Elected 2016)
Board Member since 2007
Audit Committee Member
Shareholding: 12 000

Mr. Piette is a Board Member of Headwave Inc, a software company that offers technology for interpretation and manipulation of upstream exploration data. He also serves on the Board of Visitors for the University of Wisconsin – Madison School of Geological Engineering and of Bike Houston, a non-profit bicycling advocacy group. Mr. Piette acts as an advisor to Blueware, a technology delivery company. Until January of 2013, he was the President, CEO and Chairperson of TerraSpark Geosciences Inc. Previously, Mr. Piette was President, CEO, and Board Member of Object Reservoir. He was President and CEO of OpenSpirit Corporation from 2003 to 2011. After receiving his B.Sc. with honors in Mining Engineering from the University of Wisconsin-Madison in 1980, he held several executive management positions in the oil and gas industry, including Business Unit Manager at Input/Output, President and CEO of Bell Geospace, and Vice President and General Manager of the Asia Pacific region for Landmark Graphics.

Holly Van Deursen
Board Member since 2006
Remuneration and Corporate Governance Committee Chairperson
Shareholding: 2 000

Ms. Van Deursen currently holds non-executive director positions with PGS, Bemis Company, Inc., Actuant Corporation, Capstone Turbine Corporation, and Anson Industries, Inc. She served on BP plc's Top-Forty Executive Team as Group Vice President, Petrochemicals from 2003 to 2005 and Group Vice President, Strategy from 2001 to 2003. Prior to these executive appointments, Ms. Van Deursen held a variety of senior positions with BP and Amoco in Chicago, London, and Hong Kong and has served on the boards of directors of the American Chemistry Council and Amoco's joint ventures in Korea, Taiwan, and Japan. Ms. Van Deursen holds a B.Sc. in Chemical Engineering from the University of Kansas and an MBA from the University of Michigan.

Dr. Carol Bell
Board Member since 2009
Audit Committee Member
Shareholding: 5 560

Dr. Bell has over 35 years of experience in the energy industry, with particular expertise in investment and financing in the oil and gas sector. She is a non-executive director of Ophir Energy plc and the BlackRock Commodities Investment Trust plc (both listed in London), Bonheur ASA and Tharisa plc (listed in Johannesburg and London). She is also a director of the Development Bank of Wales. Dr. Bell has held senior positions in investment banking, including Managing Director of the Global Oil & Gas Group at Chase Manhattan Bank, Head of European Equity Research at JPMorgan and Global Head of its Oil and Gas Equity Research Team. She began her career in corporate planning and development with RTZ Oil and Gas and later worked at Charterhouse Petroleum plc. She was awarded a Ph.D in May 2005 for her research on the evolution of economic and trade relations in the Ancient Eastern Mediterranean across the Late Bronze/Iron Age transition, and in 2006 published a book on this subject. She was educated as a scientist, earning an M.A. in Biochemistry from Cambridge University, a B.A. in Geology from the Open University, and a Ph.D. in Archaeology from University College, London.

Anne Grethe Dalane

Board Member since 2013
Audit Committee Chairperson
Shareholding: 10 000

Ms. Dalane is a Senior Executive at Yara International and previously held a number of senior positions at Norsk Hydro. She is currently Chief Financial Officer Crop Nutrition at Yara International. Her previous experience covers a range of fields including HR as well as oil and gas. She has been Region Director Latin America and Country Manager of Argentina. Ms. Dalane's background is in economics and she holds a business degree from the Norwegian School of Economics NHH.

Morten Borge

Board Member since 2015
Remuneration and Corporate Governance Committee Member
Shareholding: 0

Mr. Borge is CEO of the family owned investment company Ferd. Earlier he was Investment Director and co-head responsible for the overall concept and execution of strategy in the same firm. He has previously been CFO in Interwell AS and held various positions within the audit company PwC. He currently serves as Board Member for Aibel AS, and Interwell AS. Morten Borge holds a Master of Science (M.Sc.) Finance from the Norwegian School of Management where he also qualified as a Certified Public Accountant.

Richard Herbert

Board Member since 2017
Remuneration and Corporate Governance Committee Member
Shareholding: 0

Mr. Herbert is a petroleum geologist who has worked in the global upstream industry for more than 36 years. He is currently employed as an independent advisor. He started his career with Phillips Petroleum, then spent 19 years with BP working on international exploration and development projects with senior positions in Thailand, Mexico, USA, Colombia, and Angola as well as the UK North Sea. From 2003-2008 he worked for TNK-BP in Russia, first as Exploration Vice-President and subsequently as Executive Vice President of Technology. He then joined Talisman Energy in Calgary, Canada as Exploration Vice President before returning to BP in 2013 to join the upstream executive team as Chief Operating Officer, Exploration. Richard Herbert retired from BP at the end of 2016. He holds a BSc in Geology from the University of Bristol in the UK.

Anette Valbø

Board Member since 2015
– Employee Elected
Audit Committee Member
Shareholding: 7 142

Ms. Valbø joined PGS in 2002. Her current position is Bid Manager, Operations & Technology. She has previously held varius Business Controller positions within Marine Contract and Operations business area. Prior to joining the Company, Ms. Valbø served in various positions within auditing and accounting in Frontline Ltd. and DNB. Ms. Valbø holds a bachelor degree in accounting and auditing from Molde University College, Norway.

Espen Grimstad

Board Member since 2015
– Employee Elected
Remuneration and Corporate Governance Committee Member
Shareholding: 917

Mr. Grimstad is Senior Navigation Specialist in PGS and has worked for the Company since 2001. After 10 years offshore, working with navigation, he joined Operations Technical Support at PGS headquarters. Grimstad holds a Master of Science (M.Sc.) in Geomatics from the Norwegian University of Life Science at Ås and the University of Glasgow. He is also the employee representative of PGS Tekna.

Hege Renshus

Board Member since 2017
– Employee Elected
Audit Committee Member
Shareholding: 1 918

Ms. Renshus is Senior Navigation Specialist in PGS. She joined PGS in 1995, initially working offshore as a seismic navigator and subsequently in the Oslo office, in various technical and management positions. Ms. Renshus holds an M.Sc. in Engineering from the Norwegian University of Science and Technology.

Board of Directors' Report

PGS revenues and EBITDA improved in 2017, compared to 2016, but the financial results suffered from a slow start of the year, a still very challenging market for contract services and low vessel utilization. The MultiClient activities delivered growth both related to late sales and pre-funding revenues on new projects. The Company initiated and completed a reorganization to centralize, simplify and streamline the organization and reduce cost with a target of being able to deliver positive cash flow after debt servicing in 2018 without any general market improvement from 2017. Rune Olav Pedersen was appointed new President & CEO, and commenced the position in September.

PGS is a focused marine geophysical company providing a broad range of seismic and reservoir services, including acquisition, imaging, interpretation, and field evaluation. The Company's MultiClient 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.

Following the reorganization, effective from January 1, 2018, PGS is organized in two primary business units: Sales & Services and Operations & Technology.

- The business unit Sales & Services is responsible for all market focused and revenue generating activities. The business unit promotes and sells all products and services through one customer and marketing approach and is responsible for building new MultiClient programs worldwide and strategic positioning in new basins. Imaging activities are closely integrated with the development and delivery of MultiClient and Contract projects, while external Imaging services are focused primarily on the high-end depth imaging market. Sales & Services is organized in three departments; Sales, New Ventures and Imaging.
- The business unit Operations & Technology manages support and execution functions relating to marine seismic acquisition projects, including fleet management, vessel operations, project planning and execution, as well as research and technology development. Operations & Technology comprise seven department: HSEQ, Project Planning & Bidding, Project Delivery, Maritime, Operation Geophysics, Technical, and Geoscience & Engineering

2017 Business Highlights

In March, PGS took delivery of the *Ramform Hyperion* the last new build in a series of four Ramform Titan-class vessels. By completing the new build program PGS capital expenditures ("capex") will significantly reduce going forward.

In May, the former President & CEO, Jon Erik Reinhardsen, announced his retirement. In August Rune Olav Pedersen was appointed new President & CEO of PGS, and he started in the position on September 1.

Late October, PGS initiated the process to centralize, simplify and streamline the organization. The reorganization makes PGS better suited for the current market environment and is expected to reduce gross cash cost by more than $100 million in 2018, compared to 2017.

In November, PGS entered into an agreement with the tax authorities in Rio de Janeiro to settle all ongoing disputes related to Municipal Service Tax (ISS) on the licensing of MultiClient data with a positive liquidity effect of approximately $55 million.

Capex, excluding new builds, were kept at a low level in 2017. The Company has an inventory of seismic in-sea equipment from cold-stacked vessels which is used to re-supply equipment used by vessels in operation, securing low capex related to maintenance. In addition the Company has reduced and deferred investments related to other activities.

PGS achieved a pre-funding ratio of 140% on $213.4 million of capitalized MultiClient cash investment. The MultiClient sales-to-investment ratio ended at close to 2.5 times for the full year 2017, continuing the positive trend from 2016 when the ratio for the year was 2.3 times. This highlights the robustness of PGS' MultiClient activities, contributing significantly to the full year EBITDA and cash flow from operation.

Strategy Review

PGS' strategy is anchored in five core pledges:

- To perform over the cycle,
- To deliver productivity leadership,
- To develop superior data quality,
- To innovate and
- To care

Short contract duration and low visibility is an inherent characteristic of the seismic market and it is important for PGS to be positioned *to perform over the cycle*. The current downturn in the seismic industry has been deeper and longer than anticipated. PGS has taken a number measures to reduce costs, including cold-stacking vessels, staff reductions and office closures. In the fourth quarter 2017 management initiated and executed on a reorganization of the Company to further centralize, simplify and streamline the organization, which has become more effective and operates at a lower cost level. In the process more than 500 employees will leave the Company, some smaller offices with low strategic importance were closed, fleet flexibility was improved, imaging capacity was centralized and reduced, and the Company's electromagnetic offering was suspended. In addition the Company has started a process to explore a divestment of its OptoSeis technology. The combined initiatives are expected to reduce gross cash cost in 2018 by more than $100 million. The lower cost combined, while at the same time maintaining the revenue generation capacity in 2018 at approximately the same level as in 2017, makes PGS well positioned to be cash flow positive after debt servicing in 2018, assuming a flat market. Beyond 2018 the Company will focus on profitability and reducing debt.

Productivity leadership is built on PGS' fleet of Ramform vessels. As part of the reorganization PGS has adapted a flexible fleet strategy to be better positioned for the seasonal demand swings in the current challenging market environment. The core of the PGS fleet is now the four Ramform Titan-class and the two Ramform S-class vessels. In addition the Company operates two conventional hulled vessels, *PGS Apollo* and *Sanco Swift*. PGS near term baseline for vessel operations is to operate eight vessels during the summer season and six vessels during the winter season. In addition to the vessels in operation, PGS has six cold-stacked vessels and is well positioned to take advantage of a market recovery.

Oil companies are ultimately seeking *superior seismic data quality*. PGS introduced GeoStreamer in 2007 and was the first to offer a dual-sensor streamer technology. PGS claims with pride that GeoStreamer has been the greatest game-changer in the seismic industry since the launch of 3D seismic, and it is a supreme example of PGS' technology differentiation. To further advance the GeoStreamer technology platform, the Company has developed a number of products and technologies, such as Separated Wavefield Imaging ("SWIM") and innovative survey designs based on the SWIM methodology. The Company expects these technologies to become important market differentiators going forward as reservoirs yet to be found will be smaller than before and situated in more complex geology. In the growing 4D market, superior data quality is increasingly important for the oil companies in order to optimize development and production of existing oil and gas fields.

Besides productivity leadership, PGS differentiates on technology and will continue *to innovate*. PGS has scaled down on research and development activity through the downturn, but still spends significant resources, focusing primarily on technology that can provide differentiation over time.

PGS has a strong commitment *to care* for employees' health and safety, the environment and the Company's customers. PGS' vision is to be best in class in HSEQ in the world-wide geophysical industry with zero injury to people and minimum harm to the environment. HSEQ leadership requires continuous improvement through identifying, assessing, mitigating, and managing risk affecting PGS employees, contractors, and the environment.

Markets and Main Businesses

PGS is one of the largest participants in the global marine 3D seismic market, with a market share in 2017 of approximately 30%, measured by number of streamers.

It was a slow start to 2017 with a challenging winter season, weak utilization and low prices for marine contract work. Industry visibility and utilization improved before start of the summer season with better pricing for contract jobs, more appetite for new MultiClient surveys and increased sales from MultiClient libraries.

The improved cash flows reported among the oil companies during 2017 in combination with a significantly stronger oil price in the second half of the year impacted the MultiClient sales towards the end of the year positively. However, vessel utilization was challenging for PGS in the fourth quarter due to a very low volume of available projects after the end of the North Atlantic season.

The total square kilometers of marine 3D seismic acquired in 2017 ended below 300,000 square kilometers for the first time in many years, while PGS estimates that revenues for marine seismic companies increased by approximately 10% in 2017, compared to 2016. This is primary explained by higher sales of MultiClient data, especially in the fourth quarter, and more 4D surveys, which generally are smaller and more complex than a conventional 3D exploration survey.

The market still has an oversupply of vessels, particularly in the winter season when the global project activity is lowest. Since the peak in 2013 industry 3D capacity has been reduced by approximately 50% in terms of streamers operated. A significant portion of the decommissioned vessels are small and old, and not likely to return to operation in a stronger market. The more competitive cold-stacked vessels with potential to re-enter operations will have to be equipped with streamers and other in-sea equipment, because this has, in most cases, been redistributed to be used by vessels in operation to keep capex at a low level. Re-entering a competitive cold-stacked vessel will require an estimated investment of $50-60 million for the seismic in-sea equipment, with an estimated lead time from the decision is made until the vessel is in operation of approximately one year.

The streamer inventory level among companies in the industry is becoming a limiting factor for seismic supply. There has been limited re-investment in streamers and seismic in-sea equipment over the last 4-5 years. With an economic life in the range of 7-10 years, inventories are reduced and ageing.

PGS currently has a streamer inventory which is expected to be sufficient for the current fleet operations through 2019. In addition to the eight vessels in operation, PGS has six cold-stacked vessels. A majority of them are expected to be used in the next up-cycle and are likely to be phased in when earnings are sufficient to provide an acceptable rate of return on the investments needed to reintroduce these vessels.

Technology

PGS has invested considerable resources to develop and deliver solutions for customers focusing on efficiency and best-in-class imaging quality.

GeoStreamer, the first-ever dual-sensor streamer and a proprietary PGS technology, represented a game changer in streamer technology and the best proof of PGS' technology differentiation. GeoStreamer affects the entire E&P life cycle, reducing exploration risk, improving the delineation of reservoir details, enabling accurate reservoir characterization and better production management.

High efficiency technologies enable high-end solutions. For example, the unique design of GeoStreamer has created several new paradigms for how seismic data is used by PGS customers. SWIM is a technology that significantly improves understanding of shallow geology and drilling hazards whilst simultaneously enabling improvements in survey efficiency – a concept previously viewed as contradictory. Complete Wavefield Imaging ("CWI") is an associated seismic workflow that uses seismic wavefield information previously inaccessible to geophysicists to improve the understanding of seismic velocities in rocks, especially those in the first kilometer below the seafloor where historically available methods have failed. This renewed confidence translates to a more accurate structural understanding of deep drilling targets, higher resolution at all depths, and reduced exploration and drilling risk. SWIM and CWI are examples of unique solutions made possible by GeoStreamer data.

Financial Results

Total revenues in 2017 were $838.8 million, compared to $764.3 million in 2016, an increase of 10%. The revenue increase reflects a higher overall spend on seismic in 2017, compared to 2016. Both MultiClient and marine contract revenues increased in 2017 compared to 2016, while imaging revenues were significantly lower compared to 2016.

Marine contract revenues ended at $241.3 million, an increase of $28.7 million, or 13%, compared to 2016, primarily as a result of generally higher prices, partly offset by challenging operations on some projects and less active 3D vessel capacity allocated to contract work.

In 2017, MultiClient pre-funding revenues ended at $299.4 million, an increase of $57.1 million or 24%, compared to 2016. The increase is mainly due to more vessel capacity allocated to MultiClient activities and higher sales from surveys in the processing phase.

MultiClient late sales in 2017 were $235.0 million, an increase of $8.2 million, or 4%, compared to 2016.

Total MultiClient revenues (pre-funding and late sales combined) increased by $65.3 million or 14%, compared to 2016 and ended at $534.4 million.

Cash investments in the MultiClient library increased by $12.4 million, or 6%, to $213.4 million in 2017, compared to 2016. The increased cash investments in the MultiClient library are mainly driven by more capacity allocated to MultiClient activities and a larger fleet from *Ramform Hyperion* commencing operation early Q2 2017.

Pre-funding as a percentage of capitalized cash investment was 140% in 2017, compared to 121% in 2016. The continued high pre-funding level illustrates the Company's ability to generate solid MultiClient projects attracting strong customer interest, combined with industry leading project execution and reduced cost, as well as ability to generate sales from surveys during the processing phase.

The fleet allocation ratio, active 3D vessel time for marine contract versus MultiClient data acquisition, was approximately 57:43 in 2017, compared to 61:39 in 2016.

Net operating expenses, which include cost of sales, expensed research and development costs, and selling, general and administrative costs, totaled $464.7 million in 2017, compared to $451.1 million in 2016, an increase of $13.5 million, or 3%. The increase is primarily due to more vessel capacity in operation, higher fuel cost and less favorable exchange rates, partly offset by a general cost reduction and somewhat more cost capitalized to the MultiClient library.

Full year 2017, gross research and development ("R&D") costs decreased by $0.3 million, or 1%, to $29.4 million. This was more than offset by higher capitalized development costs in 2017, compared to 2016, causing the overall R&D costs in 2017 to be lower than in 2016. The Company's R&D costs are mainly incurred to support and develop core business activities of marine seismic acquisition and imaging.

The Company monitors development of the gross cash costs (operating expenses before capitalization to MultiClient library and development costs) closely. In 2017 gross cash cost ended at $690.0 million, an increase of $27.7 million, or 4%, compared to 2016, primarily due to more capacity in operation and higher fuel cost. Over the last three years the Company has reduced gross cash cost by almost 40% compared to the $1,111.7 million reported for the full year 2014. Capacity reduction, office closures, staff reductions and other general cost savings measures are the principal contributors to these cost savings, in addition to lower fuel prices and beneficial development of currency exchange rates compared to 2014.

Further cost reductions were implemented in Q4 2017. The Company centralized, simplified and streamlined its organization and implemented more flexibility for vessels and imaging capacity in order to reduce costs by more than $100 million in 2018, compared to 2017, excluding restructuring costs.

MultiClient amortization (including accelerated amortization) for 2017 increased by $73.0 million, or 25%, to $366.8 million, compared to 2016. MultiClient amortization as a percentage of total MultiClient revenues was 69% in 2017, compared to 63% for the full year 2016.

MultiClient library impairments of $59.4 million for the full year 2017 relates to surveys performing weaker than anticipated, primarily in the Gulf of Mexico, where the Company has achieved lower sales than expected. The carrying value of the Company's MultiClient library was $512.3 million as of December 31, 2017, compared to $647.0 million as of December 31, 2016.

Gross depreciation increased by $7.3 million, to $226.0 million in 2017 primarily due to *Ramform Hyperion* entering operation early Q2 2017, partly offset by lower book values due to impairment charges. Capitalized depreciation increased by $9.9 million, or 16%, compared to full year 2016 owing to more vessel capacity allocated to MultiClient projects.

PGS recorded an impairment charge on property and equipment of $40.6 million for the full year 2017, compared to $12.0 million in 2016, primarily relating to a reduced baseline for 3D vessel capacity, including the cold stacking of *Ramform Vanguard*.

As a result of a continued weak seismic market and related to the reorganization of the Company, PGS recognized a $33.0 million impairment on its EM technology assets. The impairment primarily reflects management's suspension of the Company's EM activities until the activity is able to generate sufficient cash to cover operating costs. The Company also recognized a $20.0 million impairment on its OptoSeis technology assets. Management is currently exploring possibilities of divesting the OptoSeis technology.

The Company has recorded significant impairment charges the last three years. The market for seismic data is still uncertain 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, intangible assets and MultiClient library may arise in future periods.

Other charges, net for the full year 2017 relates primarily to onerous lease contracts for vessels and office space where there is uncertainty as to whether the capacity will be placed in service prior to expiration of the lease period; loss from settling all Municipal Services Tax ("ISS") disputes on licensing of MultiClient data with the tax authorities of Rio de Janeiro; and employee severance costs arising from the reorganization completed in Q4 2017.

As of December 31, 2017, the Company's provision for onerous customer contracts amounted to a total of $9.7 million, an increase of $2.4 million compared to December 31, 2016. The provision represents the estimated loss in future periods relating to certain binding customer contracts where revenues are lower than the full cost, including depreciation, of completing the contract.

Operating loss in 2017 was $383.6 million, compared to an operating loss of $180.3 million in 2016.

For the full year 2017, the share of results from associated companies amounted to a loss of $20.7 million, compared to $30.1 million in 2016. The loss was primarily related to exploration expense in the Azimuth Group and loss on dilution of PGS ownership interest in the Azimuth Group from 44% to 32%, as a result of PGS not fully participating in recent capital increases. PGS retains the option to, throughout 2018 and first half 2019, acquire shares in the Azimuth companies on certain conditions with the aim to in fully or partly neutralize the effect of the dilution, and bring back PGS' ownership to approximately 44%.

Gross interest expense amounted to $64.4 million in 2017, compared to $66.6 million in 2016, a decrease of $2.2 million, or 3%, as a result of a lower debt level. Capitalized interest amounted to $6.6 million in 2017 a decrease of $13.9 million, or 68%, compared to the full year 2016 due to lower aggregate new building capex and a lower volume of MultiClient surveys in progress.

Other financial expense, net, of $6.0 million in 2017 is primarily related to currency loss, compared to other financial expense, net of $6.4 million in 2016.

Income tax expense, which consists of current and deferred tax expense, was $55.2 million in 2017, compared to $32.2 million in 2016. The 2017 current tax expense was $12.3 million, up from $6.3 million in 2016, and relates primarily to foreign taxes, including withholding taxes. The deferred tax expense for the full year 2017 was $43.0, compared to $24.9 million in 2016. The Company has incurred several years of consecutive tax losses in the Norwegian tax jurisdiction, including 2017 and the outlook for 2018 remains uncertain. As a result, the remaining deferred tax asset in the balance sheet was expensed in 2017.

Through November 2017, the Company had an ongoing dispute in Brazil related to ISS on the licensing of MultiClient data. The Company had made deposits in local currency equivalent to USD $71.3 million allowing it to file lawsuits covering a number of the disputed years seeking to confirm that licensing of MultiClient data is not subject to ISS. Amounts deposited were held in an interest-bearing bank account with Banco do Brazil. The deposit was presented as long-term restricted cash in the statements of financial position (see Note 21 of this annual report for more details). In Q4 2017 the Municipality of Rio de Janeiro published new regulations relating to licensing of MultiClient data and PGS settled all ongoing ISS tax disputes with the Municipality under the provisions of these regulations. The Company recovered $59.4 million of the amount on deposit resulting in a net expense of $14.4 million presented in Other charges.

PGS is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. PGS has identified issues in several jurisdictions that could eventually make the Company liable to pay taxes relating to prior years in excess of the liability recognized in financial statements. Reference is made to Note 9 and 21 of this annual report for a description of significant tax contingencies.

Loss to equity holders of PGS ASA was $523.4 million in 2017, compared to a loss of $293.9 million in 2016.

Cash Flow, Financial Position and Financing

Net cash provided by operating activities totaled $281.8 million in 2017, compared to $320.9 million in 2016. The decrease was primarily driven by an increase in working capital, primarily accounts receivable and accrued revenues, caused by the significantly higher revenues generated in Q4 2017 compared to Q4 2016.

Cash and cash equivalents totaled $47.3 million as of December 31, 2017, compared to $61.7 million as of December 31, 2016. The liquidity reserve, cash and cash equivalents and the undrawn part of the Revolving Credit Facility ("RCF"), was $257.3 million as of December 31, 2017, compared to $271.7 million as of December 31, 2016.

As of December 31, 2017, drawings of $190.0 million were outstanding on the RCF. The RCF maturing in 2020 currently has a drawing limit of $400.0 million, with a step down to $350.0 million in September 2018.

Restricted cash of $43.3 million includes $38.3 held in debt service reserve and retention accounts related to the export credit financing ("ECF") of *Ramform Titan*, *Ramform Atlas*, *Ramform Tethys* and *Ramform Hyperion*.

At December 31, 2017, the Company had approximately 52% of its debt at fixed interest rates. The 2017 weighted average cash interest cost of gross debt reflects an interest rate of approximately 4.7%, including credit margins paid on the debt. PGS has a debt structure with no material scheduled maturities until 2020, except on the ECF. The ECF is repaid in separate semi-annual instalments. Total annual ECF installments for 2018 will be approximately $47.2 million and each subsequent year until it tapers off following maturity of one after one of the four facilities in the period 2025 to 2027.

The undrawn portion of the RCF constitutes a significant portion of the Company's liquidity reserve. As a part of the refinancing completed in Q4 2016 the stepdown of the Total Leverage Ratio ("TLR") covenant, with which the Company must comply in order to draw on the RCF, was amended to a flatter profile. It started with a maximum of 5.50:1 in Q4 2016 through Q2 2017, then tightening by 0.25:1 in Q3 2017, another 0.50:1 in Q4 2017 and Q1 2018, and thereafter by 0.25:1 for each of the subsequent quarters down to 2.75:0 by Q3 2019 to stay at that level for the remaining life of the facility. At December 31, 2017 the total leverage ratio was 3.63:1, well below the maximum level of 4.75:1.

If the Company were to breach the TLR covenant, this would represent a 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.

PGS interest-bearing debt is comprised the following components:

	December 31,	
(In USD million)	**2017**	**2016**
Secured:		
Term Loan B	385.0	389.0
Revolving Credit Facility	190.0	190.0
Japanese Export Credit Financing	416.5	374.4
Unsecured:		
Senior Notes, due 2018	26.0	26.0
Senior Notes, due 2020	212.0	212.0
Total	**1 229.5**	**1 191.4**

Net interest bearing debt (interest bearing debt less cash and cash equivalents, restricted cash, and interest bearing investments) was $1 139.4 million as of December 31, 2017, compared to $1 029.7 million as of December 31, 2016.

Investments

In 2017, total MultiClient cash investment, excluding capitalized interest, amounted to $213.4 million, compared to $201.0 million in 2016, an increase of $12.4 million. The increase is primarily due to more 3D vessel capacity allocated to MultiClient.

Capex, whether paid or not, totaled $154.5 million in 2017, compared to $208.6 million in 2016, a decrease of $54.1 million, or 26%. The decrease is primarily driven by lower capex related to new builds.

Financial Market Risk

The Company is exposed to market risks such as interest rate risk, currency exchange risk, credit risk, liquidity risk and commodity risk, as discussed below. The Company's risk management policies are approved by the Board of Directors. The treasury function reports regularly to the Company management and any breach of limits set in the policy shall be reported to the Board of Directors.

Interest Rate Risk

PGS has a mixture of fixed and floating interest rate debt combined with financial instruments, such as interest rate swaps, to manage the impact of interest rate fluctuations.

As of December 31, 2017, the debt structure of PGS included $719.4 million of floating interest rate debt, with interest rates based on up to six month LIBOR rates, plus a margin. $125.0 million of this floating interest debt is swapped into fixed interest by use of interest rate swaps. Fixed interest rate debt amounted to $510.1 million. Taking the interest rate swaps into account, $594.4 million of the Company's debt is exposed to floating interest rates while $635.1 million have fixed interest rates. For every (hypothetical) one percentage point increase in LIBOR, the annual net interest expense of the PGS' net debt, including finance leases, would increase (with some delay) by approximately $5.5 million.

Currency Exchange Risk

PGS conducts business primarily in US dollars ("$" or "USD"), but also in several other currencies, including British pounds ("GBP"), Norwegian kroner ("NOK"), Brazilian real ("BRL"), euro ("EUR"), and occasionally currencies like Egyptian Pounds ("EGP") and Nigerian Naira ("NGN"). PGS is subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing, and investment transactions in currencies other than the US dollar.

PGS predominantly sells products and services in US dollars, and to a limited extent in other currencies. In addition to USD, a significant proportion of PGS' operating expenses are incurred in NOK and GBP. Less substantial amounts are incurred in various other currencies. Thus, regarding expenses and revenues in currencies other than US dollars, such expenses will typically exceed revenues.

A stronger US dollar reduces PGS' operating expenses as reported in US dollars. It is estimated that a 10% change of the US dollar against the two most significant non-USD currencies, NOK and GBP, would have an annual impact on gross cash cost of $15-20 million, and $5-8 million, respectively, before currency hedging.

PGS hedges parts of the foreign currency exposure related to operating income and expenses by entering into forward currency exchange contracts. While PGS enters into these contracts with the purpose of reducing the Company's exposure to exchange rate fluctuations, the contracts are not treated as hedges unless they are specifically designated as hedges of firm commitments or certain cash flows. Consequently, these forward currency exchange contracts are recorded at estimated fair value with gains and losses included as currency exchange gain (loss) in Other financial expense in the consolidated statements of profit and loss.

As of December 31, 2017, PGS had net open forward contracts to buy/sell GBP and NOK. The total nominal amount of these contracts was approximately $101.7 million, compared to $122.8 million as of December 31, 2016. Of the total nominal amounts of forward exchange contracts, $31.9 million was accounted for as cash flow hedges, as of December 31, 2017 and $8.6 million was accounted for as fair value hedges and $25.8 million as cash flow hedges as of December 31, 2016. Outstanding contracts at year-end 2017 had a net positive fair value of $1.1 million, compared to a net negative fair value of $4.3 million at year-end 2016.

A 10% depreciation of the US dollar against all the currencies in which PGS holds derivative contracts would increase the fair value of these contracts by approximately $10.3 million. The effect on the consolidated statements of profit and loss would have been $6.9 million.

All interest-bearing debts are denominated in US dollars.

Credit Risk
PGS' accounts receivable are primarily from multinational, integrated oil companies and independent oil and natural gas companies, including companies that are owned in whole or in part by governments. PGS manages the exposure to credit risk through ongoing credit evaluations of customers. Due to the nature of PGS' customer base, a low level of losses on accounts receivable has been incurred over the years. Due to the current market circumstances, where requests for extended credit terms may be more frequent and credit risk is generally increasing, PGS has implemented additional processes to monitor and follow up credit risk.

PGS has a structured approach to monitor the credit risk of the Company's banking partners, including derivatives counterparties and the institutions in which cash is held on deposit.

Liquidity Risk
As of December 31, 2017, PGS had cash and cash equivalents of $47.3 million and the total liquidity reserve, including cash and cash equivalents and the undrawn part of the RCF, was $257.3 million as of December 31, 2017, compared to $61.7 million and $271.7 million respectively as of December 31, 2016. At December 31, 2017 the total leverage ratio was 3.63:1, well below the maximum level of 4.75:1.

The un-drawn portion of the RCF is a significant portion of PGS' liquidity reserve. According to the loan agreement the TLR has to be below 3.50:1 by December 31, 2018, with subsequent step downs, as described above.

PGS' actual TLR was substantially below the required level at December 31, 2017 and, based on current plans and projections, the Company expects to be in compliance with the required TLR level going forward. Still there is a risk, due to the weak market, that PGS' TLR may increase in the future to be close to or exceed the agreed maximum TLR. If and when such risk becomes significant, PGS would seek to agree further amendments to ensure that the RCF is available for drawing or to implement other available measures to avoid a covenant breach. If PGS ultimately ends up breaching this covenant, the breach would represent an event of default under the loan agreement. In such case PGS may be able to continue to access the RCF if PGS receives a waiver of the breach or implements remedial actions acceptable to the lenders thereunder. Should a breach continue without a waiver or remediation by PGS, the RCF agent or a majority of the RCF lenders would be entitled to declare default and demand a repayment of drawings under the RCF. However, this scenario is in PGS' view unlikely since firstly the Company believes it has plans and available measures to avoid an event of default and secondly, even in an event of default, several viable alternatives to avoid acceleration would exist.

Based on the year-end un-restricted cash balance, available liquidity resources, and the current structure and terms of the Company's debt, it is the Board's opinion that PGS has sufficient funding and liquidity to support the Company's operations and investment needs.

Commodity Risk
Operation of seismic vessels requires substantial fuel purchases, thus PGS is exposed to fuel price fluctuations. Based the current oil price and the Company's fuel consumption in 2017, a 10% increase in fuel prices would increase the total fuel costs and operating expenses by approximately $0.5 million per month. The Company seeks to pass fuel price risk to customers on a majority of contract work.

Operational and Other Risks
Demand for the Company's products and services depend on the level of spending by oil and gas companies on hydrocarbon-resource exploration, field development, and production. Spending levels are heavily influenced by oil and gas prices and the oil and gas companies' focus areas. In addition to the risk of less demand for PGS' services or for data from the MultiClient library, the Company is subject to a large number of other risk factors including, but not limited to increased competition, the attractiveness of technology, changes in governmental regulations affecting the markets, technical downtime, licenses and permits, and operational hazards such as weather conditions.

Contracts for services are occasionally modified by mutual consent and in certain instances may be cancelled by customers on 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.

Shares, Share Capital and Dividend
As of December 31, 2017 PGS had 338 579 996 shares issued and outstanding, all of which are of the same class and carry equal voting and dividend rights. Each share has a par value of NOK 3.

PGS' ordinary shares are listed on the Oslo Stock Exchange (ticker: PGS) and denominated in Norwegian kroner. The PGS share continues to be traded as an ADS over the counter in the US (ticker: PGSVY). Quotes are denominated in US dollars and each ADS represents one share.

As of December 31, 2017, the Company held 7 888 treasury shares.

Due to the current market conditions, the Company's operating losses, the Company's need to maintain an adequate liquidity reserve and limitations in existing loan agreements a dividend will not be proposed for 2017.

Health, Safety, Environment and Quality ("HSEQ")

Assessment and mitigation of risk, to people and assets, are at the heart of how PGS manages its business. Over the years, health and safety performance has continued to improve throughout the Company.

The PGS organization (core fleet vessels and PGS offices) had the following health and safety incident levels in 2017:

Incident	2017	2016
Fatalities	0	0
Lost time injuries	1	1
Restricted work day cases	0	4
Medical treatment cases	3	2
High potential incidents	3	1

The Company's activity level (core fleet vessels and PGS offices) in 2017 was similar to that of 2016, with man-hours* in 2017 comprising 6 708 271, compared to 6 708 997 in 2016.

Incident frequencies*	2017	2016
Lost Time Injury Frequency ("LTIF")	0.15	0.15
Total Recordable Case Frequency ("TRCF")	0.60	1.04

*The man-hours and frequency figures are not comparable to previous reports; in 2017 IAGC resolved to standardize the reporting based on a 12 man-hour basis (instead of 24 man-hour basis as reported in previous years).

The number of high potential incidents and near misses involving workboat operations and interaction with fishing vessels, especially in less developed countries, increased in 2017. In response, a workboat incident awareness campaign was distributed fleet-wide in 2017, and development of revised guidelines for safe co-existence and interactions with fisheries was initiated in Q1 2018.

To continue minimizing the number of incidents going forward, the Company will keep focus on long-term key areas, such as HSEQ leadership and behavior, risk management and ongoing improvement of the HSEQ management system.

Organization

PGS had an average of 1 715 and 1 821 regular active employees in the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, PGS employees represented 55 nationalities; 32% of the office based employees are women (4% of offshore employees are women). Among staff working in Norway, 36% are women. The Board of Directors has four male and three female shareholder elected directors plus one male and two female employee-elected ordinary directors.

At the headquarters in Oslo, 29% of management positions are held by women, and 8% of women working for the Norwegian organization of PGS work part-time. PGS consciously strives to improve the gender diversity of staff through reporting and actively encouraging development and promotion of women to management roles. The primary development processes are Performance Management and Potential Assessment. Improving gender diversity has become increasingly challenging due to the weak seismic market, but it is a continued priority for the Company.

Being a global company PGS has implemented long-standing practices to ensure that offshore crews are culturally diverse, and that cultural sensitivity training is offered to employees.

The average monthly salary of all active regular employees as of December 2017 was $8 150 ($6 724 for female employees and $8 549 for male employees) based on February 1, 2018 exchange rates.

PGS headquarter is located in Oslo, Norway. The Company also has offices in other cities in Norway, and in 15 other countries: Angola, Australia, Brazil, China, Egypt, Indonesia, Japan, Malaysia, Mexico, Nigeria, Russia, Singapore, Sweden, United Kingdom and United States of America.

Board of Directors and Corporate Governance

As of December 31, 2017, the Board of Directors has the following members: Walter Qvam (Chairperson), Daniel J. Piette (Vice Chairperson), Holly Van Deursen, Carol Bell, Anne Grethe Dalane, Richard Herbert, Morten Borge, Anette Valbø, Hege Renshus and Espen Grimstad. The latter three are employee elected Board members.

The Board has established two sub-committees: an Audit Committee, comprising Anne Grethe Dalane (Chairperson), Carol Bell, Daniel J. Piette, Anette Valbø and Hege Renshus, and the Remuneration and Corporate Governance Committee, consisting of Holly Van Deursen (Chairperson), Morten Borge, Richard Herbert and Espen Grimstad. The committees act as preparatory bodies for the Board of Directors and assist the Directors in exercising their responsibilities.

PGS also has a Nomination Committee elected by the shareholders. As of December 31, 2017 this committee consists of Harald Norvik (Chairperson), C. Maury Devine, and Terje Valebjørg.

PGS' corporate governance principles are adopted by the Board of Directors. The Board periodically reviews these principles. Statements of the corporate governance structure are described in more detail in the corporate governance section of this annual report. The Company's articles of association, in addition to full versions of the rules of procedures for the Board of Directors, the Audit Committee charter, the Remuneration and Corporate Governance Committee charter, the Nomination Committee charter, and PGS' Code of Conduct are available on the Company's website www.pgs.com (follow the links: "About us" – "Corporate Governance").

Since 2004, PGS has maintained a compliance hotline operated by an external service provider in order to facilitate reporting of any concerns regarding inappropriate business conduct. The Company encourages use of the hotline by anyone who has concerns relating to compliance with laws and regulations, breaches of the code of conduct, fair treatment, or any other matter. Concerns can also be raised directly with the General Counsel or any Board member.

Corporate responsibility reports were published in combination with annual reports for 2011, 2013, 2014, 2015, 2016 and will be done in combination with the 2017 annual report as well. The Company has signed up to UN Global Compact and going forward, progress of corporate responsibility activities will be reported in accordance with the 10 principles of UN Global Compact and published on the Company web site.

Outlook

Demand for oil and gas is growing. Even though renewables are the fastest growing energy source, fossil fuels is, and will remain the dominant source of global energy supplies. At the same time discoveries of oil and gas continues to decline, and the discoveries made tend to be smaller than before. Oil discovery levels over recent years are unsustainable to meet future energy demand, which is reflected in a record low reserve replacement ratio among the oil companies.

Integrated oil companies have adjusted to a lower oil price environment compared to 2013 and reported solid cash flows after capex and dividend payments in 2017. As long as the oil price remains above $50 per barrel they will continue to generate positive cash flows, which will benefit the seismic market fundamentals going forward.

While PGS expects the market sentiment to improve during 2018, there is a risk that a market recovery will take some time. For this reason the Company is planning its cost and capex for 2018 targeting a positive cash flow post debt service in a flat market, compared to 2017.

The Board emphasizes that valuations in the financial statements and forward looking statements contained in this report are based on various assumptions made by management, depend on factors beyond its control, and are subject to risks and uncertainties. Accordingly, actual results may differ materially.

Pursuant to section 3-3a of the Norwegian Accounting Act, the Board confirms that the 2017 financial statements have been prepared based on the assumption of a going concern and that it believes that this assumption is appropriate.

Allocation of Parent Company's result for 2017

The financial statements of the parent company, Petroleum Geo-Services ASA ("PGS ASA"), are prepared and presented in accordance with generally accepted accounting principles in Norway ("NGAAP"). PGS ASA reported a net loss of NOK 5 318.2 million for 2017, compared to a net loss of NOK 1 600.2 million in 2016. PGS ASA is a holding company with no material operating activities.

The Board proposes that the net loss for 2017 of NOK 5 318 227 000 is transferred from other equity. Total shareholders' equity in PGS ASA as of December 31, 2017 was NOK 5 113 400, corresponding to 29% of total assets.

London, February 28, 2018
Board of Directors
Petroleum Geo-Services ASA

Walter Qvam
Chairperson

Daniel J. Piette
Vice Chairperson

Carol Bell

Holly Van Deursen

Morten Borge

Richard Herbert

Hege Renshus

Anette Valbø

Espen Grimstad

Anne Grethe Dalane

Rune Olav Pedersen
Chief Executive Officer

Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Petroleum Geo-Services ASA, for the year ending and as of December 31, 2017.

Petroleum Geo-Services ASA's consolidated financial statements have been prepared and presented in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of December 31, 2017. The separate financial statements for Petroleum Geo-Services ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of December 31, 2017. The Board of Directors report for the group and the parent company is in accordance with the requirements of the Norwegian Accounting Act and Norwegian accounting standard 16, as of December 31, 2017.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2017 have been prepared in accordance with applicable accounting standards.
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position, and result of operations as a whole as of December 31, 2017, for the group and the parent company.
- The Board of Directors' report for the group and the parent company include a true and fair review of:
  - The development and performance of the business and the position of the group and the parent company.
  - The principal risks and uncertainties the group and the parent company face.

London, February 28, 2018
Board of Directors
Petroleum Geo-Services ASA

Walter Qvam
Chairperson

Daniel J. Piette
Vice Chairperson

Carol Bell

Holly Van Deursen

Morten Borge

Richard Herbert

Hege Renshus

Anette Valbø

Espen Grimstad

Anne Grethe Dalane

Rune Olav Pedersen
Chief Executive Officer

Alternative Performance Measures

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, 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

Management believes that EBIT excluding impairments and other charges 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 levels

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 defined as the sum of long-term and short-term interest bearing debt, less cash and cash equivalents and restricted cash. Management believes that Net Interest Bearing Debt (NIBD) is a useful measure because it provides indication of the hypothetic minimum necessary debt financing to which the Company is subject at balance sheet date.

Capital expenditures, whether paid or not

Capital expenditures means investments in property and equipment irrespective of whether paid in the period, but excluding capitalized interest cost.

Liquidity reserve

Liquidity reserve is defined as the sum of cash and cash equivalents and the un-drawn part of the Revolving Credit Facility. 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 and net operating expenses

Gross cash costs are defined as the sum of reported net operating expenses (excluding depreciation, amortization, impairments and other charges, net 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.

Net operating expenses is defined as gross cash costs (as per above) less capitalized investments in the MultiClient library and capitalized development costs and is reconciled in Note 2. Management believes this figure is a useful measure because it provides an indication of the level of net cash costs incurred by the Company in running current period commercial activities that are not devoted to investment.

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.

APM Reconciliations

EBITDA is reconciled as follows:	Year ended December 31,	
(In millions of US dollars)	2017	2016
Operating profit (loss)	(383.6)	(180.3)
Other charges, net	82.8	0.6
Amortization and impairment of MultiClient library	426.3	323.9
Depreciation and amortization of long term assets (excl. MultiClient library)	154.4	157.0
Impairment and loss on sale of long-term assets (excl. MultiClient library)	94.2	12.0
EBITDA ex other charges, net	**374.1**	**313.3**

EBIT ex. impairment and other charges, net is reconciled as follows:	Year ended December 31,	
(In millions of US dollars)	2017	2016
Operating profit (loss)	(383.6)	(180.3)
Other charges, net	82.8	0.6
Impairment of MultiClient library	59.4	30.1
Impairment and loss on sale of long-term assets (excl. MultiClient library)	94.2	12.0
EBIT ex. impairment and other charges, net	**(147.2)**	**(137.5)**

Net interest bearing debt is reconciled as follows:	December 31,	
(In millions of US dollars)	2017	2016
Cash and cash equivalents	47.3	61.7
Restricted cash (current and long-term)	43.3	101.0
Short-term debt and current portion of long-term debt	(77.6)	(38.8)
Long-term debt	(1 135.8)	(1 132.0)
Adjustment for deferred loan costs (offset in long-term debt)	(16.5)	(21.6)
Net interest bearing debt	**(1 139.4)**	**(1 029.7)**

Total capital expenditures, whether paid or not is reconciled as follows:	December 31,	
(In millions of US dollars)	2017	2016
Seismic equipment	35.7	18.9
Vessel upgrades/yard	18.7	20.1
Processing equipment	6.6	12.8
Newbuilds	89.0	154.4
Other	4.5	2.4
Total capital expenditures, whether paid or not	**154.5**	**208.6**
Adjustment to prior years capital expenditures	5.3	-
Change in working capital and capital leases	(10.9)	9.6
Investment in property and equipment	148.9	218.2

Cash cost, gross and Net operating expenses are reconciled as follows:	Year ended December 31,	
(In millions of US dollars)	2017	2016
Cost of sales before investment in MultiClient library	(624.5)	(594.2)
Research and development costs before capitalized development costs	(17.6)	(29.7)
Sellling, general and administrative costs	(36.0)	(38.4)
Cash costs, gross	**(678.1)**	**(662.3)**
Cash investment in MultiClient library	213.4	201.0
Capitalized development costs	11.8	10.2
Net operating expenses	**(452.9)**	**(451.0)**

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Petroleum Geo-Services

Consolidated Statements of Profit and Loss

(In millions of US dollars)	Note	Year ended December 31, 2017	2016
Revenues	5	**838.8**	**764.3**
Cost of sales	4	(411.0)	(393.2)
Research and development costs		(17.6)	(19.5)
Selling, general and administrative costs		(36.0)	(38.4)
Amortization and impairment of MultiClient library	6	(426.3)	(323.9)
Depreciation and amortization of long term assets (excl. MultiClient Library)	6	(154.4)	(157.0)
Impairment and loss on sale of long-term assets (excl. MultiClient Library)	6	(94.2)	(12.0)
Other charges, net	17	(82.8)	(0.6)
Total operating expenses		**(1 222.4)**	**(944.6)**
Operating profit (loss)		**(383.6)**	**(180.3)**
Share of results from associated companies	16	(20.7)	(30.1)
Interest expense	7	(57.8)	(46.1)
Other financial expense, net	8	(6.0)	(6.4)
Income (loss) before income tax		**(468.2)**	**(262.8)**
Income tax	9	(55.2)	(31.2)
Profit (loss) for the year		**(523.4)**	**(293.9)**

Earnings (loss) per share, to ordinary equity holders of PGS ASA:	10		
- Basic		($1.55)	($1.21)
- Diluted		($1.55)	($1.21)

Petroleum Geo-Services

Consolidated Statements of Comprehensive Income

(In millions of US dollars)	Note	Year ended December 31, 2017	2016
Profit (loss) for the year		**(523.4)**	**(293.9)**
Other comprehensive income			
Actuarial gains (losses) on defined benefit pension plans	24	11.2	(32.8)
Income tax effect on actuarial gains and losses	9	(10.8)	0.1
Items that will not be reclassified to statements of profit and loss		0.4	(32.7)
Revaluation of cash flow hedges:			
Gains (losses) arising during the period		2.3	0.5
Reclassification adjustments for losses (gains) included in profit and loss		0.3	-
Revaluation of shares available-for-sale:			
Gains (losses) arising during the period		-	(0.6)
Reclassification adjustments for losses (gains) included in the statements of profit and loss		-	0.6
Other comprehensive income (loss) from associated companies		0.6	(1.4)
Items that may be subsequently reclassified to statements of profit and loss		3.2	(0.9)
Other comprehensive income (loss), net of tax		**3.6**	**(33.6)**
Total comprehensive income (loss) to equity holders of PGS ASA		**(519.8)**	**(327.5)**

Petroleum Geo-Services

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to equity holders of PGS ASA					
(In millions of US dollars)	Share capital	Treasury shares	Additional paid-in capital	Accumulated earnings	Other capital reserves	Shareholders' equity
Balance as of January 1, 2016	**104.0**	**(1.1)**	**622.8**	**745.1**	**(7.1)**	**1 463.7**
Profit (loss) for the period	-	-	-	(293.9)	-	(293.9)
Other comprehensive income (loss)	-	-	-	(32.7)	(0.9)	(33.6)
Share issue (a)	29.7	-	187.4	-	-	217.1
Share based payments	-	0.3	6.1	(0.3)	-	6.1
Balance as of December 31, 2016	**133.7**	**(0.8)**	**816.3**	**418.2**	**(8.0)**	**1,359.4**
Profit (loss) for the period	-	-	-	(523.4)	-	(523.4)
Other comprehensive income (loss)	-	-	-	0.4	3.2	3.6
Share issue (b)	4.8	-	30.6	-	-	35.4
Share based payments	-	0.8	4.5	(0.8)	-	4.5
Balance as of December 31, 2017	**138.5**	**-**	**851.4**	**(105.6)**	**(4.8)**	**879.5**

(a) Transaction costs amounting to $0.2 million are recognized against "Accumulated earnings".
(b) Transaction costs amounting to $5.3 million are recognized against "Additional paid-in capital".

Petroleum Geo-Services

Consolidated Statements of Financial Position

(In millions of US dollars)	Note	December 31, 2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	20	47.3	61.7
Restricted cash	11	19.8	32.3
Accounts receivable	20	162.8	98.4
Accrued revenues and other receivables	12	133.2	120.3
Other current assets	13	84.6	69.1
Total current assets		**447.7**	**381.9**
Long-term assets			
Property and equipment	14	1 297.6	1 391.5
MultiClient library	15	512.3	647.7
Restricted cash	11	23.5	68.7
Deferred tax assets	9	-	55.5
Other long-term assets	16	78.5	113.1
Other intangible assets	18	123.2	158.6
Total long-term assets		**2 035.1**	**2 435.1**
Total assets		**2 482.8**	**2 817.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	19, 20	77.6	38.8
Accounts payable	20	81.5	54.9
Accrued expenses	22	186.8	133.3
Income taxes payable	9	21.4	19.4
Total current liabilities		**367.2**	**246.4**
Long-term liabilities			
Long-term debt	19, 20	1 135.8	1 132.0
Deferred tax liabilities	9	0.8	2.5
Other long-term liabilities	23	99.5	76.7
Total long term liabilities		**1 236.1**	**1 211.2**
Shareholders' equity			
Share capital; par value NOK 3; issued and outstanding 338 579 996 shares	25	138.5	133.7
Treasury shares, par value	25	-	(0.8)
Additional paid-in capital	25	851.4	816.3
Total paid-in capital		989.9	949.2
Accumulated earnings		(105.6)	418.2
Other capital reserves		(4.8)	(8.0)
Total shareholders' equity		**879.5**	**1 359.4**
Total liabilities and shareholders' equity		**2 482.8**	**2 817.0**

London, February 28, 2018
Board of Directors
Petroleum Geo-Services ASA

Walter Qvam
Chairperson

Daniel J. Piette
Vice Chairperson

Carol Bell

Holly Van Deursen

Morten Borge

Richard Herbert

Hege Renshus

Anette Valbø

Espen Grimstad

Anne Grethe Dalane

Rune Olav Pedersen
Chief Executive Officer

Petroleum Geo-Services

Consolidated Statements of Cash Flows

(In millions of US dollars)	Note	Year ended December 31, 2017	2016
Cash flows provided by operating activities:			
Profit (loss) for the year		(523.4)	(293.9)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization, impairment and loss on sale of long-term assets	6	674.7	493.0
Share of results from associated companies	16	20.7	30.1
Interest expense	7	57.8	46.1
Loss on sale and retirement of assets		(2.9)	4.5
Change in deferred tax		42.9	24.7
Income taxes paid		(12.7)	(7.4)
Other items		14.9	0.7
(Increase) decrease in accounts receivable, accrued revenues and other receivables		(77.3)	52.2
Increase (decrease) in accounts payable		18.7	9.9
Change in other short-term items related to operating activities		43.4	(33.0)
Change in other long-term items related to operating activities		25.0	(6.1)
Net cash provided by operating activities		**281.8**	**320.9**
Cash flows provided by (used in) investing activities:			
Investment in MultiClient library	15	(213.4)	(201.0)
Investment in property and equipment	14	(148.8)	(218.2)
Investment in other intangible assets	18	(17.0)	(11.1)
Investment in other current- and long-term assets		(2.3)	(93.1)
Proceeds from sale of other current- and long-term assets		23.7	2.5
(Increase) decrease in long-term restricted cash		57.7	(7.8)
Net cash provided by (used in) investing activities		**(300.1)**	**(528.7)**
Cash flows provided by (used in) financing activities:			
Proceeds, net of deferred loan cost, from issuance of long-term debt	19	76.4	102.5
Repayment of long-term debt	19	(51.8)	(235.3)
Net drawdown of Revolving Credit Facility	19	-	165.0
Proceeds from sale of treasury shares/share issue	25	35.4	217.1
Interest paid		(56.3)	(61.4)
Net cash provided by (used in) financing activities		**3.7**	**187.9**
Net increase (decrease) in cash and cash equivalents		(14.4)	(19.9)
Cash and cash equivalents as of January 1		61.7	81.6
Cash and cash equivalents as of December 31		**47.3**	**61.7**

Note 1 — General Information about the Company and Basis of Presentation

General information

Petroleum Geo-Services ASA ("PGS ASA") is a public limited liability company established under the laws of the Kingdom of Norway in 1991. Unless stated otherwise, references herein to the "Company" and "PGS" refer to Petroleum Geo-Services ASA and its subsidiaries.

PGS is a technologically focused oilfield service company principally involved in providing geophysical services worldwide. PGS provides a broad range of seismic and reservoir services, including acquisition, imaging, interpretation and field evaluation. The Company's headquarters is at Oslo, Norway.

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The consolidated financial statements are prepared using the historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in millions of US Dollars ("$" or "dollars"), unless otherwise indicated.

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2018.

Note 2 - Summary of Significant Accounting Policies

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. Currently exercisable and potential voting rights are considered when assessing whether the Company controls another entity. In addition the Company considers to control an entity when it is exposed, or has rights, to variable returns from its involvement, and has the ability to affect those returns through its power over the entity.

Joint arrangements and investments in associated companies

A joint arrangement is a contractual arrangement whereby the Company undertakes an economic activity that is subject to joint control and which strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. A joint arrangement is classified as joint operation if the parties have joint control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. If the parties in the joint arrangement have rights to the net assets of the arrangement, it is classified as a joint venture.

An associated company is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Company accounts for its investments in joint ventures and associates using the equity method of accounting. Under the equity method, investments are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets (i.e. profit or loss and equity adjustments), less impairment in the value of individual investments. Losses in excess of the Company's investment (which includes long-term interests that, in substance, form part of the Company's net investment) are not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the investment. Profits and losses resulting from sales of assets between the Company and the investee are deferred to the extent of the interest in the investee, and recognized when the assets are sold to an independent party or otherwise expensed.

The Company accounts for its investment in a joint operation by recognizing its relative share of the investee's assets, liabilities, revenues and expenses. The Company periodically reviews its net investments to determine whether there is an indication of impairment. If such indication exists, the recoverable amount of the net investment is estimated in order to determine the extent of the impairment (if any). The Company has cooperation agreements to invest in certain MultiClient data projects with other parties. These agreements are classified as joint operations where the parties have rights to the assets and liabilities of the investment. The Company recognizes its relative share of the investment in MultiClient data and its share of revenue, amortization and costs.

Long-term assets held-for-sale

Long-term assets are classified as held-for-sale when their carrying amount will be recovered principally through sale rather than through continuing use. This condition is deemed to exist when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the consolidated statements of financial position.

Cash and cash equivalents and restricted cash

Cash and cash equivalents include demand deposits and all highly liquid financial instruments purchased with original maturities of three months or less. Cash and cash equivalents that are restricted from the Company's use are presented separately in the consolidated statements of financial position and are classified as current or long-term depending on the nature of the restrictions.

Foreign currency translation and transactions

The financial statements of subsidiaries and associates whose functional currency is not US dollar are translated using the current exchange rate. Assets and liabilities are translated at the foreign exchange rate in effect at the period end; share par value and paid-in capital are translated at historical exchange rates; and revenues and expenses are translated at the average rate of exchange in effect during the period. Translation adjustments are recorded as a separate component in the consolidated statements of other comprehensive income.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of realized and unrealized monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of profit and loss, except when recognized in the consolidated statements of other comprehensive income as qualifying cash flow hedges.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment. The cost of internally generated intangible assets, other than those specified below, is expensed as incurred.

MultiClient library

The MultiClient library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. Costs directly incurred in acquiring, imaging and otherwise completing seismic surveys are capitalized to the MultiClient library. Costs incurred while relocating or "steaming" a vessel or crew from one location to another and borrowing costs incurred during the acquisition and imaging phases of the survey are also capitalized to the MultiClient library.

A project remains in surveys-in-progress until imaging is complete which may be some months or up to more than a year after data acquisition ends, at which point it is transferred to completed surveys.

The Company records the costs incurred on the MultiClient library in a manner consistent with its capital investment and operating decision analysis, which generally results in each component of the MultiClient library being recorded and evaluated separately. The cost of projects within the same political regime, with similar geological traits and that are marketed collectively are recorded and evaluated as a group by year of completion.

Sales based amortization – While a survey is in progress, the Company amortizes each MultiClient survey based on the ratio of aggregate capitalized survey cost to forecasted sales. On an annual basis each survey is placed in an amortization category based on this ratio. These categories range from 30-95% of sales amounts with 5% intervals, with a minimum of 45% for pre-funding. Each category includes surveys where the remaining unamortized cost as a percentage of remaining forecasted sales is less than or equal to the amortization rate applicable to each category.

Straight-line amortization – Upon completion of a survey, straight-line amortization commences over its estimated useful life which is generally over a period of 4 years from the date it is transferred to completed surveys.

Accelerated amortization – Following the adoption of the straight-line amortization policy for completed surveys, recognition of impairment of library may be necessary in the event that sales on a completed survey are realized disproportionately sooner within that survey's 4-year useful life. This accelerated amortization is included in "Amortization and impairment of MultiClient library" in the condensed consolidated statements of profit and loss and specified in Note 6.

Impairment of MultiClient library – The Company updates its sales forecast for each survey at each year-end and when an impairment indicator is deemed to exist. In the event the net book value of survey exceeds its net present value of estimated future cash flows an impairment is recorded in the amount of the excess. This impairment is included in "Amortization and impairment of MultiClient library" in the condensed consolidated statements of profit and loss and specified in Note 6.

Research and development costs

Research costs are expensed as incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if all of the following have been demonstrated: technical and commercial feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development to use or sell the intangible asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date on which the intangible asset first satisfies the recognition criteria above. All other development costs are expensed as incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment, on the same basis as intangible assets acquired separately. Capitalized development costs are amortized on a straight-line basis over the estimated useful life of the asset.

Patents, licenses and technology

Patents, licenses and technology are stated at cost less accumulated amortization and accumulated impairment. Amortization is calculated on a straight-line basis over the estimated period of benefit, ranging from one to fifteen years.

Property and equipment

Property and equipment are stated at cost, excluding the costs of the day-to-day servicing, less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the useful life of the assets based on cost less estimated residual values. The estimated useful lives for property and equipment are as follows:

Years	
Seismic vessels	25 - 30
Seismic and operations equipment, incl. computers	3 - 15
Buildings and related leasehold improvements	1 - 10
Fixture, furniture, fittings and office computers	3 - 5
Major overhauls	3 - 7.5

Subsequent expenditures and major inspections/overhauls are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of replaced asset components are derecognized. All other repairs and maintenance are charged to the consolidated statements of profit and loss during the period in which they are incurred.

The assets' residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at least at each year-end.

Assets under construction are carried at cost, less accumulated impairment. Cost includes borrowing costs incurred during construction in accordance with the Company's accounting policy as stated below. Depreciation commences when the asset is ready for its intended use.

A component of property and equipment is derecognized upon disposal or when no future economic benefit is expected from its use or disposal. Gains and losses arising on de-recognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of profit and loss in the year derecognized.

Significant spare parts are capitalized along with the assets to which they relate. Other spare parts, consumables and bunker inventory are classified as other current assets and stated at cost.

Steaming costs

Steaming costs relate to relocating or "steaming" a vessel and its crew from one location to another. Steaming costs are deferred to the extent the probable future economic inflows from the projects to which the vessel will steam are sufficient to recover the cost of the steam. The recoverable steaming cost associated with MultiClient surveys is capitalized as a part of the MultiClient library (see above). The recoverable steaming costs associated with exclusive contract surveys is deferred and charged to the consolidated statements of profit and loss.

Impairment of property, equipment and intangibles

Tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. An asset's recoverable amount is the higher of (i) its fair value less cost to sell and (ii) its value in use. This determination is made for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount and the impairment is recognized immediately.

Goodwill does not generate cash flows independently of other assets or groups of assets and is allocated to the cash-generating units expected to benefit from the synergies of the combination that gave rise to the goodwill.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Goodwill (and the cash-generating unit to which goodwill is allocated) and intangible assets not yet available for use are evaluated for impairment annually, or whenever there is an indication that the asset may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit (including goodwill allocation), the impairment is applied first to reduce the carrying amount of goodwill and then to reduce the carrying amount of the other assets in the unit pro-rata, based on their relative carrying amounts.

Reversal of an impairment is recognized if the circumstances that gave rise to the impairment no longer exist. The carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount may not exceed the carrying amount that would have existed had no impairment been recognized for the asset (cash-generating unit). Impairment recognized on goodwill is not subject to reversal.

Derivative financial instruments and hedging

The Company uses derivative financial instruments to reduce its exposure related to fluctuations in foreign currency rates and interest rates. Derivative instruments are recognized in the consolidated statements of financial position at their fair values. Realized and unrealized gains and losses attributable to derivative instruments that do not qualify for hedge accounting are recognized as other financial items, net, as they arise.

In limited circumstances, the Company may apply hedge accounting if it meets certain criteria at hedge inception and on an ongoing basis.

Fair value hedges

Fair value hedges are used to hedge currency risk on equipment purchases denominated in currencies other than USD. The change in fair value of the hedging instrument is recognized in the consolidated statements of profit and loss. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statements of profit and loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated statements of profit and loss.

Cash flow hedges

Cash flow hedging is used to hedge interest rate risk. The effective portion of the gain or loss on the hedging instrument is recognized in the consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of profit and loss. Amounts recorded in the consolidated statements of other comprehensive income are transferred to the consolidated statements of profit and loss when the hedged transaction affects the consolidated statements of profit and loss. If a cash flow hedge is discontinued due to the hedging instrument being sold, exercised, expired or the forecasted transaction is no longer highly probable, but is still expected to occur, any subsequent change in value is recorded directly to the consolidated statement of profit and loss. The fair value of the derivatives at the time is retained in other comprehensive income and amortized as an adjustment to the effective interest rate over the term of highly probable expected cash flow.

Revenue recognition

The Company recognizes revenue when (i) a legally binding sale arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the sales price is fixed or determinable and collection is reasonably assured. The Company defers the unearned component of payments received from customers for which the revenue recognition requirements have not been met. Consideration is generally allocated among the separate units of accounting based on their estimated relative fair values when elements have stand-alone value. If an element of a customer agreement does not have stand-alone value, revenue is deferred and recognized over the period services are provided. The Company's revenue recognition policy is described in more detail below.

Sales of MultiClient library data

Late sales – The Company grants a license to a customer, which entitles the customer to have access to a specifically defined portion of the MultiClient data library. The Company recognizes revenue for late sales on completed surveys when the customer executes a valid license agreement and has received the underlying data or has the right to access the licensed portion of the data, the customer's license payment is fixed and determinable and collection is reasonably assured.

Pre-funding arrangements – The Company obtains funding from a limited number of customers before a seismic survey project is completed. In return for the pre-funding, the customer typically gains the ability to direct or influence the project specifications, to access data as it is being acquired and to pay discounted prices. The Company recognizes pre-funding revenue on surveys-in-progress as the services are performed on a proportional performance basis. Progress is measured in a manner generally consistent with the physical progress on the project, and revenue is recognized based on the ratio of the project's progress to date, provided that all other revenue recognition criteria are satisfied.

Proprietary sales/Marine contract sales/Imaging revenues

The Company performs seismic services under contract for a specific customer, whereby the seismic data is owned by that customer. The Company recognizes proprietary/contract revenue as the services are performed and become chargeable to the customer on a proportionate performance basis over the term of each contract. Progress is measured in a manner generally consistent with the physical progress of the project, and revenue is recognized based on the ratio of the project's progress to date, provided that all other revenue recognition criteria are satisfied.

Other services

Revenue from other services is recognized as the services are performed, provided all other recognition criteria are satisfied.

Income taxes

Income tax expense is comprised of the sum of current tax expense (or benefit) plus the change in deferred tax liabilities and assets during the period, except for current and deferred income tax relating to items recognized in the consolidated statements of other comprehensive income, in which case the tax is also recognized in the consolidated statements of other comprehensive income.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated using the liability method for all temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and for tax purposes, including tax losses carried forward. A deferred tax liability is not recognized on temporary differences arising from the initial recognition of goodwill.

Deferred income tax is recognized on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that estimated future taxable profit will be sufficient to recover all or part of the deferred tax assets. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent it has become probable that estimated future taxable profit is sufficient to recover the deferred tax assets. The probability assessment is based on Management's judgment and estimates of future taxable income, including the estimated effect of tax planning opportunities (see note 3).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the estimated year of realization or settlement, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes are related to the same taxable entity and the same taxation authority. Deferred tax assets and liabilities are classified as long-term in the consolidated statements of financial position.

Accounting for uncertain tax positions is described in note 3.

Employee benefits

Pension obligations

The Company operates various pension plans. The plans are funded through payments to insurance companies or trustee-administered funds. The Company has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation.

The liability recognized for defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period and reduced by the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using estimated interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Past service costs, which is an increase in the present value of the defined benefit obligation for employee services in prior periods due to current period changes to a defined benefit plan, are recognized immediately in the consolidated statements of profit and loss unless the changes to the defined benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are recognized on a straight-line basis over the vesting period.

Actuarial gains and losses due to current period changes in assumptions applied are recognized immediately in other comprehensive income.

For defined contribution plans, the Company pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Bonus plans

The Company recognizes a provision for bonus where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

Restricted Stock Unit Plans are measured at the grant date using the current market value reduced by expected dividends paid before the vesting date, which is then further discounted.

Performance Restricted Stock Unit Plans, approved at the Annual General Meetings in 2015 and 2016, are measured at the grant date using a Monte Carlo simulation with relative total shareholder return. The model simulates the future stock prices based on historical values over the length of the lifetime for the PRSU. The Relative TSR is calculated against a group of peer companies, where every company is ranked based on the simulations. If the rank is in the 25th percentile, 0% of the performance is met, if the rank is in the 75th percentile, 100% of the performance is met. There is a linear relationship between the percentiles. The awards are adjusted for expected future dividends. Social security tax on the PRSU is based on the intrinsic value as of the end of the reporting period. For Performance Restricted Stock Unit Plan approved at the Annual General Meeting 2017, there was an additional measure on the Company's achievement of free cash flow after capital expenditures in the three full financial years prior to settlement date.

Provision for onerous contracts

A provision is made for legally binding obligations (contracts) whereby the unavoidable costs of fulfilling the contracts exceed the economic benefits expected to be received. All costs (including depreciation of assigned assets) directly related to contract fulfillment are included in the calculation.

Interest bearing debt and borrowings

Interest bearing loans are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest bearing loans are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of profit and loss when the liabilities are derecognized as well as through the amortization process.

Financial assets and liabilities

Financial assets and liabilities are recognized when the Company becomes party to the contractual obligations of the financial instrument and are initially recognized at fair value.

Financial assets and liabilities are classified into categories as follows:

Financial assets and liabilities measured at fair value through the consolidated statements of profit and loss

This category is comprised of financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as measured at fair value through the consolidated statements of profit and loss.

Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are classified as held-for-trading unless designated as effective hedging instruments.

After initial recognition, financial assets and liabilities in this category are measured at fair value with unrealized gains and losses recognized through the consolidated statements of profit and loss.

Financial assets and liabilities measured at amortized cost

This category is comprised of loans and receivables and other non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. These financial assets and liabilities are initially recognized at fair value, with additions for directly attributable transaction costs. After initial measurement, they are carried at amortized cost using the effective interest method less any allowance for impairment.

Financial assets and liabilities measured at fair value through the consolidated statements of other comprehensive income

This category is comprised of financial assets and liabilities that are non-derivatives and are either designated as available-for-sale or not classified in any of the other categories. After initial measurement, they are measured at fair value with unrealized gains or losses recognized in the consolidated statements of other comprehensive income. When the asset or liability is disposed of, the cumulative gain or loss previously recorded in the consolidated statements of other comprehensive income is reversed and recognized in the consolidated statements of profit and loss.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market's transaction, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 20.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments designated as available-for-sale, a significant or prolonged decline in the fair value of the instrument below its cost is an indication of impairment. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any previously recognized impairment – is reversed through the consolidated statements of other comprehensive income and recognized in the consolidated statements of profit and loss. Impairments recognized in the consolidated statements of profit and loss on equity instruments are not reversed. Impairment testing of trade receivables is described in Note 20 "Credit risk".

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value through the consolidated statements of profit and loss.

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For diluted earnings per share, dilutive potential ordinary shares are determined independently for each period presented. When the number of ordinary shares outstanding changes (e.g. share split) the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively. The dilutive effect of outstanding Restricted Stock Units and Performance Restricted Stock Units is reflected as additional share dilution in the computation of earnings per share.

Standards issued but not yet effective (which the Company has not early adopted)

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

IFRS 9 Financial Instruments

IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. In order to expedite the replacement of IAS 39, the IASB divided the project into phases: classification and measurement, hedge accounting and impairment. New principles for impairment were published in July 2014 and the standard is now completed. The parts of IAS 39 that have not been amended as part of this project have been transferred into IFRS 9. The Company will implement IFRS 9 from January 1, 2018. The standard will not have a significant effect on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

The IASB have issued a new revenue recognition standard, IFRS 15 Revenue from Contracts with Customers. The standard replaces existing IFRS revenue recognition standards. The core principle of IFRS 15 is that revenue is recognized to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company will adopt IFRS 15 from January 1, 2018. The Company has performed an analysis of the impact from applying the standard on the Company's consolidated financial statements. The Company does not expect IFRS 15 to have material impact on the accounting for proprietary / contract sales and MultiClient late sales, except for more comprehensive note information.

Under the current revenue recognition policy for MultiClient Pre-funding revenue, the acquisition and processing of MultiClient data is considered to represent a provision of services to the pre-funders, and therefore revenue is recognized over time as MultiClient data is acquired and processed. Under IFRS 15, it is probable that part of, or all the MultiClient Pre-funding licensing contracts are considered to be sales of "right to use" licenses which are to be recognized at the point in time when the "right to use" license is transferred to the customer, which would typically be upon completion of processing of the survey and granting of access to the finished survey or delivery of the finished data.

The Company will apply the modified retrospective approach for transition. Under this approach, the comparative periods are not restated, and the cumulative effect of initially applying IFRS 15 is recognized at the date of initial application, i.e. in the 2018 opening balance. As a consequence, if MultiClient Pre-funding revenues are considered to be sales of "right to use" licenses instead of a provision of a service, MultiClient Pre-funding revenues and MultiClient library amortization recognized in prior periods will be recognized in the 2018 and future periods statement of profit, without those prior periods being restated. In the 2018 financial statements, the effect of applying IFRS 15 in 2018 as compared to applying the current policy will be disclosed.

The Company has analyzed the 2018 opening balance effect of adopting IFRS 15 for those pre-funding licensing contracts for which the customer had not yet received or been granted access to the finished data as of December 31, 2017. Based upon this analysis, the effect of adopting IFRS 15 will result in a deferral of revenue, increase in MultiClient Library and a reduction of consolidated shareholders equity by approximately $80 million, if MultiClient Pre-funding revenues are considered to be sales of "right to use" licenses instead of a provision of a service.

IFRS 16 Leases

The new standard requires that discounted right-of-use leases be recognized in the statement of financial position as lease obligations in current and long-term liabilities and the capital value of the related leased asset recognized in Property and Equipment. The cost of the lease payments will no longer be included in cost of sales. Rather the cost of the lease will be reflected as depreciation of the capitalized asset over the lease term and as interest cost arising from the effect of discounting. As a consequence of this change, the aggregate impact to the statement of profit and loss over the entire lease term will be that: Cost of Sales will decrease by the amount of the lease payments no longer expensed to cost of sales; depreciation expense will increase due to the capitalization of the leased asset yielding a net increase to operating profit. The net increase to operating profit will be offset by an increase in financial expense from the imputed interest arising from the effect of discounting. The Company will implement IFRS 16 from January 1, 2019. As of December 31, 2017, the Company has identified certain vessel and property leases eligible for capitalization.

A preliminary estimate, based on existing lease contracts, indicate around $ 220 million in additional lease liabilities as of January 1, 2019.

Other amendments issued are not yet effective, are not applicable for the group and/or will not have a significant impact on the financial statements.

Note 3 - Critical Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities. In many circumstances, the ultimate outcome related to the estimates, assumptions and judgments may not be known for several years after the preparation of the financial statements. Actual amounts may differ materially from these estimates due to changes in general economic conditions, changes in laws and regulations, changes in future operating plans and the inherent imprecision associated with estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of seismic vessel and equipment, MultiClient library and other intangible assets

Marine seismic market outlook

Cautious spending pattern among oil companies continues to adversely impact seismic demand. Seismic spending is expected to remain at low levels in 2018 with generally low visibility. The impact on profitability of reduced customer demand has been partially offset by reductions in industry vessel capacity reflecting the recent retirement and cold stacking of less efficient vessels.

Management believes that, during 2018, there will be some improvements in the current weak marine seismic market. However, a relatively high correlation between E&P activity and oil companies' reserve replacement ratio will, in the long term, support a recovery of the marine seismic market. During weak market periods, the returns on MultiClient activity are expected to be somewhat better relative to the returns on exclusive contract activity. Cost effectiveness will continue to be a central driver in achieving adequate cash flow. In this regard, management believes the PGS vessel fleet, is well-positioned as the industry leader with respect to the ratio of cash operating costs to productive streamer capacity.

Discount rate

The Company applied a pre-tax discount rate of 11% in determining discounted cash flows in connection with the impairment evaluations of seismic vessels and equipment, intangible assets and the MultiClient library. The rates reflect the estimated weighted average cost of capital for Company activities.

Forecast sales of MultiClient library

At least annually, management forecasts future sales for each MultiClient library survey for purposes of determining the amount of impairment, and for those surveys still in work-in-progress, the amortization rate to be applied against pre-funding revenues. In forecasting sales, management considers past experience, market developments as described above, general prospects for hydrocarbons in the area, political risk, likelihood and timing of exploration licensing rounds, existence of competitor data sets and general economic conditions. Because of the inherent difficulty in forecasting sales and future developments, it is possible that the amount of impairment could vary significantly between periods and the amortization rate applied to surveys in progress may also vary between periods. In addition, future revenues from a survey may not be sufficient to cover the existing carrying value. To the extent the future actual revenues achieved prove to be less than forecasted, future periods will reflect lower profitability with increased amortization rates and/or impairments of MultiClient library surveys

Sensitivity of forecasted sales on MultiClient impairment evaluation

A 5% reduction in the sales forecast for all surveys with a net book value as of December 31, 2017 would have resulted in an additional impairment of approximately $8 million. A 10% reduction in the sales forecast for all surveys with a net book value as of December 31, 2017 would have resulted in an additional impairment of approximately $20 million.

Impairment of seismic vessels and equipment

Seismic vessels and equipment are regularly reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Future cash flows expected to be generated from the use and eventual disposal of the assets are estimated to determine the amount of impairment, if any.

Estimating future cash flows requires management to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are subject to uncertainty as they require assumptions about demand for our products and services, future market conditions and technological developments. Significant and unanticipated changes in these assumptions could result in impairments in a future period.

In estimating future cash flows of the seismic fleet, management has assumed that revenue levels for each vessel will be negatively impacted by a weak market in 2018 and thereafter start to increase, ultimately reaching levels that generate operating profit (EBIT) margins similar to average historic margins. Had EBIT margins that are 3 percentage points lower than average historic EBIT margins been assumed for the long term, then additional impairment of the fleet vessels would result totaling approximately $60 million as of December 31, 2017. Had EBIT margins that are 5 percentage points lower than average historic EBIT margins been assumed for the long term, then additional impairment of the fleet vessels would result totaling approximately $160 million as of December 31, 2017. See note 6 and 14 for recognized impairments.

Forecast future revenues from services and products related to intangible assets

At least annually, management forecasts future cash flows from services and products related to intangible assets, hereof approximately $20 million in the aggregate relating to towed EM and OptoSeis activities (see note 18). In forecasting cash flows, management considers current pricing indicators, expected benefit to customers, the future market demand, extent of completion, technological and engineering requirements and the likelihood and timing of completing the service or product offering. Because of the inherent difficulty in estimating these factors, it is possible that future revenues and cash flows from these activities will not be sufficient to recover the existing carrying value of the related assets.

In estimating future cash flows management has estimated that the cash flows of the Towed EM and OptoSeis services will occur over a period of up to 10 years. The timing of the cash flows is dependent upon the roll-out of the technology, level of interest of customers, completion of development in yielding efficient solutions. An assumption that the roll-out and/or increase in customer interest takes 3 years longer to establish would result in an aggregate additional impairment of approximately $15 million as of December 31, 2017 for the assets of these activities.

Depreciation of seismic vessels and equipment

Depreciation is based on management estimates of the future economic benefits and expected useful lives of seismic vessels and equipment. These estimates may change due to changes in market conditions including competition, technological development, use of the assets and strategic considerations.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to estimate the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profit in the nearer term (generally 2 to 3 years forward). In recent years, the Company has experienced tax losses in most of the jurisdictions in which it operates and combined with a nearer-term outlook of continued tax losses has resulted in a write-down of the remaining deferred tax assets in 2017, primarily in Norway (see Note 9).

As of December 31, 2017, aggregate unrecorded deferred tax assets of the Company amount to $ 322.4 million.

Provision for contingencies, claims and tax litigations

The Company records accruals for contingencies, claims and other uncertain liabilities, including tax contingencies, when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or new or additional information becomes available. In estimating the likelihood of an unfavorable outcome, management evaluates the specific facts and circumstances in light of the related laws and regulations; advice from external counsel; and the outcome of similar cases, if any. Because of the inherent uncertainty in estimating the future outcome of such matters, it is possible that some of these matters will ultimately result in the Company incurring a material liability. See note 9 and 21 for further descriptions.

Note 4 – Cost of Sales

(In millions of US dollars)	Year ended December 31, 2017	2016
Vessel operating cost	(385.3)	(360.3)
Sales, project and project management cost	(108.1)	(95.5)
Imaging, Geoscience and Engineering cost	(111.4)	(123.2)
Other	(19.7)	(15.2)
Total cost of sales, gross	(624.5)	(594.2)
Less amount capitalized to MultiClient library	213.4	201.0
Total cost of sales, net	**(411.1)**	**(393.2)**

Note 5 – Segment, Revenue and Geographic Information

Executive management regularly evaluates the operating segments operational and financial performance. The financial information disclosed is consistent with that used by executive management in controlling the Company's business, for making strategic decisions and for allocating resources. The Company's operating segments are managed separately and represent strategic business product lines.

Both Marine Contract and MultiClient provide similar seismic services and seismic data. The segments serve a similar worldwide market and the customers are primarily composed of the same major multi-national, independent and national or state-owned oil companies. The segments operate under the same regulatory environments. Marine Contract and MultiClient segments have similar economic characteristics and satisfy the aggregation criteria under IFRS 8 Operating segments, and as such, are presented as a combined Marine reporting segment.

Revenues by service lines within Marine segment:

(In millions of US dollars)	Year ended December 31, 2017	2016
Marine Contract	241.3	212.6
MultiClient pre-funding	299.4	242.3
MultiClient late sales	235.0	226.8
Imaging	51.0	70.0
Other	12.1	12.6
Total revenues	**838.8**	**764.3**

Because the Company provides services worldwide to the oil and gas industry, a substantial portion of the property and equipment is mobile, and their respective locations at the end of each period (as listed in the tables below together with the MultiClient library) are not necessarily indicative of the earnings generated by the related property and equipment during the period. Property and equipment and other non-current assets are classified based upon location of ownership. The geographic classification of statements of profit and loss items is based upon location of performance or, in the case of MultiClient seismic data sales, the geographic area covered by the data being licensed.

Revenues external customers

(In millions of US dollars)	Year ended December 31, 2017	2016
Americas (excluding Brazil and Canada)	51.7	87.0
Brazil	88.7	73.9
Canada	89.4	72.5
UK	66.7	71.4
Norway	177.0	160.1
Asia/Pacific	131.7	181.2
Africa (excluding Angola)	36.5	83.0
Angola	105.5	7.9
Middle East/Other	91.6	27.3
Total	**838.8**	**764.3**

Revenues, including inter-area	Year ended December 31,	
(In millions of US dollars)	2017	2016
Americas (excluding Brazil and Canada)	59.7	110.0
Brazil	90.1	77.8
Canada	89.4	72.5
UK	80.3	84.8
Norway	177.9	160.2
Asia/Pacific	131.8	181.2
Africa (excluding Angola)	36.5	87.8
Angola	107.0	7.9
Middle East/Other	91.6	27.3
Elimination inter-area revenues	(25.5)	(45.3)
Total	**838.8**	**764.3**

Total non-current assets (a)	December 31,	
(In millions of US dollars)	2017	2016
Americas (excluding Brazil)	176.2	233.0
Brazil	24.9	30.0
UK	54.4	80.6
Norway	1 472.1	1 282.7
Asia/Pacific (excluding Singapore)	63.9	58.4
Singapore	2.0	292.2
Africa	69.4	101.1
Middle East/Other	140.1	209.4
Total	**2 003.0**	**2 287.4**

(a) Consists of property and equipment, MultiClient library, Investments in associated companies (note 16) and Other intangible assets.

In 2017, aggregate revenues from the two largest customers accounted for 12.8% and 9.1% of the Company's consolidated revenues compared to 10.4% and 8.0% in 2016, respectively.

Note 6 – Depreciation, Amortization and Impairments of Long-Term Assets

Amortization and impairment of the MultiClient library consist of the following:

	Year ended December 31,	
(In millions of US dollars)	2017	2016
Amortization of MultiClient library (note 15)	(366.4)	(279.2)
Accelerated amortization of MultiClient library (note 15)	(0.4)	(14.6)
Impairment of MultiClient library (note 15)	(59.4)	(30.1)
Amortization and impairment of MultiClient library	**(426.2)**	**(323.9)**

Amortization and depreciation of long term assets (excluding MultiClient library) consist of the following:

	Year ended December 31,	
(In millions of US dollars)	2017	2016
Gross depreciation and amortization	(226.0)	(218.7)
Depreciation capitalized and deferred, net	71.6	61.7
Depreciation and amortization of long term assets (excl. MultiClient Library)	**(154.4)**	**(157.0)**

Impairments and reversal of impairments of long-term assets (excluding MultiClient library) consist of the following:

	Year ended December 31,	
(In millions of US dollars)	2017	2016
Impairment of property and equipment (note 14)	(40.6)	(12.0)
Impairment other intangible assets (note 18)	(53.6)	-
Impairment and loss on sale of long-term assets (excl. MultiClient Library)	**(94.2)**	**(12.0)**

Note 7 – Interest Expense

Interest expense consists of the following:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Interest cost, gross	(64.4)	(66.6)
Interest capitalized to the MultiClient library (note 15)	4.8	12.6
Interest capitalized to construction in progress (note 14)	1.8	7.9
Total	**(57.8)**	**(46.1)**

The average interest rate used to determine the amount of interest cost eligible for capitalization was 4.5% for the years ended December 31, 2017 and 2016, respectively.

Note 8 – Other Financial Expense, Net

Other financial expense, net consists of the following:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Interest income	1.4	3.4
Currency exchange loss	(7.3)	(5.2)
Other	0.1	(4.5)
Total	**(5.8)**	**(6.4)**

Note 9 – Income Taxes

Income tax consists of the following:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Current taxes (a)	(12.3)	(6.3)
Deferred taxes	(43.0)	(24.9)
Total income tax expense	**(55.3)**	**(31.2)**

(a) Current tax mainly relates to withholding taxes in countries of operation.

The deferred tax asset recognized in other comprehensive income arises from the following temporary differences:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Pensions (Note 24)	-	(7.9)
Total recognized in other comprehensive income	**-**	**(7.9)**

The income tax differs from the amounts computed when applying the Norwegian statutory tax rate to income (loss) before income tax as a result of the following:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Income (loss) before income tax	(468.2)	(262.8)
Norwegian statutory rate	24%	25%
Provision for income taxes at statutory rate	112.4	65.7
Increase (reduction) in income taxes from:		
Effect of tax rates other than statutory tax rate in Norway	(4.5)	(7.2)
Tax exempt income within tonnage tax regimes net of vessel impairments (a)	11.0	(22.6)
Losses from equity investments	(2.4)	(7.5)
Foreign taxes not creditable in home country	(8.7)	(4.8)
Change in tax rate (b)	(2.6)	(4.4)
Currency effects (c)	(10.6)	(2.3)
Changes in unrecognized deferred tax assets	(177.2)	(46.9)
Prior period adjustments (a)	26.2	2.8
Other permanent items	1.1	(3.9)
Income tax	**(55.3)**	**(31.2)**

Notes to selected items in the preceding table:

(a) The Company's vessel operations related to the Ramform Titan class vessels are held within the Norwegian Tonnage Tax regime under which operating profit is tax exempt. With effect from 2016, the Company chose to transfer vessel operations related to all other vessels from the Norwegian Tonnage Tax regime to the general Norwegian tax regime, under which operating profit is taxable. The impact is included in the above table as part of prior period adjustments.

(b) The Norwegian corporate income tax rate was reduced from 24% to 23% effective from January 1, 2018. As a result, a reduction in deferred tax assets of $1.9 million was attributed to this change in 2017. Effective January 1, 2017, the Norwegian corporate income tax rate was reduced from 25% to 24% which reduced the deferred tax assets with $3.6 million in 2016. In addition, further reductions in the UK corporate income tax rate were enacted both in 2017 and 2016.

c) Currency effects primarily relate to translating tax positions in local currency to US dollar functional currency.

The tax effects of the Company's temporary differences are as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Deferred tax assets		
MultiClient library	(3.6)	(6.9)
Derivatives	-	(1.1)
Employee benefits	(12.7)	(13.1)
Tax loss carry-forwards	(298.7)	(205.2)
Tax credits	(11.0)	(13.3)
Unrealized exchange loss	(10.8)	(17.4)
Property and equipment	(3.9)	-
Other	(34.3)	(26.9)
Deferred tax assets, gross	**(375.0)**	**(283.7)**
Deferred tax liabilities		
Property and equipment	-	42.0
Intangible assets	16.6	27.9
Current accruals/liabilities	28.4	14.6
Deferred taxable gain/revenue	8.4	2.7
Deferred tax liabilities, gross	**53.4**	**87.1**
Deferred tax assets, net	(321.6)	(196.6)
Deferred tax assets not recognized in the consolidated statements of financial position	322.4	143.6
Net recognized deferred tax assets and liabilities	**0.8**	**(53.0)**

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Deferred tax assets	-	(55.5)
Deferred tax liabilities	0.8	2.5
Income tax assets, gross	**0.8**	**(53.0)**

The Company has incurred several years of consecutive tax losses in the Norwegian tax jurisdiction, including for 2017 and the outlook for 2018 remains uncertain. Although the Company believes it will eventually attain a satisfactory level of profitability, sufficient convincing evidence of such as required by International Accounting Standard 12 is not present. Accordingly, the remaining deferred tax asset was expensed in 2017.

Deferred tax assets specified by jurisdiction, both recognized and unrecognized, and tax losses including expiration periods as of December 31, 2017 are as follows:

(In millions of US dollars)	**Tax losses**	**Expiry dates**	**Recognized deferred tax assets**	**Unrecognized deferred tax assets**
Brazil	40.9	None	-	18.8
Norway	931.9	None	-	223.1
Singapore	7.2	None	-	1.3
UK	139.5	None	-	43.0
Other	120.1	None, 2035 for US	-	36.3
	1 239.6		**0.0**	**322.4**

It is the Company's current view that unremitted earnings from international operations in subsidiaries are expected to be reinvested indefinitely, and as a result, no withholding tax have been provided for unremitted earnings.

With its multi-national operations, the Company is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. The Company has matters in several jurisdictions that could eventually make it liable for material amounts of taxes relating to prior years.

Total provision for uncertain tax positions are recognized as follows:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Other long-term liabilities (see "Other" note 23)	2.0	3.3
Total provision for uncertain tax positions	**2.0**	**3.3**

Tax Contingencies
The Company estimates the likelihood of unfavorable outcomes for tax contingencies amounting to approximately $12 million as reasonably possible (20-50%) and approximately $30 million as remote (less than 20%) which are not provided for.

Note 10 – Earnings Per Share Information

Specification of average number of shares:

	Year ended December 31,	
	2017	**2016**
Weighted average basic shares outstanding (a)	337 860 603	242 555 132
Dilutive potential shares	2 374 029	1 088 467
Weighted average diluted shares outstanding	**340 234 632**	**243 643 599**

(a) Weighted average basic shares outstanding for each year is reduced by the average number of treasury shares owned by the Company during the year (see Note 25)

Note 11 – Restricted Cash

Restricted cash consists of the following:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Current:		
Restricted cash debt service (Note 19)	15.3	24.0
Restricted payroll withholding taxes	4.5	4.3
Other	-	4.0
Total restricted cash, current	19.8	32.3
Long-term:		
Deposits ISS disputes (Note 21)	-	68.0
Restricted cash debt service	23.0	-
Other	0.5	0.7
Total	**43.3**	**101.0**

Note 12 – Accrued Revenues and Other Receivables

Accrued revenues and other receivables consist of the following:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Accrued revenues (a)	131.5	115.2
Other receivables	1.7	5.1
Total	**133.2**	**120.3**

(a) Accrued revenues relates to services for which revenues have been recognized and which will be invoiced and collected within 12 months.

Note 13 – Other Current Assets

Other current assets consist of the following:

(In millions of US dollars)	December 31, 2017	December 31, 2016
Consumables, supplies and fuel inventory	40.5	38.5
Deferred steaming and project costs	14.9	3.1
Prepaid operating expenses	12.0	14.3
Withholding taxes and taxes receivable	8.8	5.1
Prepaid reinsurance	3.0	1.9
Unrealized gain on on firm commitment subject to hedge accounting	1.7	3.9
Other	3.7	2.3
Total	**84.6**	**69.1**

Note 14 – Property and Equipment

The changes in property and equipment are as follows:

(In millions of US dollars)	Construction of vessels in progress	Seismic vessels and equipment	Buildings, fixtures and furniture	Total
Cost as of January 1, 2016	**269.4**	**2 639.4**	**104.2**	**3 013.0**
Capital expenditures/recoveries	154.4	49.2	4.9	208.5
Capitalized interest	7.9	-	-	7.9
Asset transfers	(280.3)	280.3	-	-
Asset retirements	-	(87.2)	(10.0)	(97.2)
Cost as of December 31, 2016	**151.4**	**2 881.7**	**99.1**	**3 132.2**
Capital expenditures/recoveries	88.8	65.3	0.4	154.5
Capitalized interest	1.8	-	-	1.8
Asset transfers	(242.0)	242.0	-	-
Reclassification	-	4.5	-	4.5
Asset retirements	-	(202.6)	(28.6)	(231.2)
Cost as of December 31, 2017	**0.0**	**2 990.9**	**70.9**	**3 061.8**

(In millions of US dollars)				
Accumulated depreciation as of January 1, 2016	**-**	**1 426.6**	**59.7**	**1 486.3**
Impairments as of January 1, 2016	**-**	**129.2**	**-**	**129.2**
Depreciation	-	194.7	10.6	205.3
Impairments	-	12.0	-	12.0
Asset retirements	-	(82.3)	(10.0)	(92.2)
Depreciation as of December 31, 2016	**-**	**1 546.9**	**60.3**	**1 607.3**
Impairments as of December 31, 2016	**-**	**133.3**	**-**	**133.3**
Depreciation	-	200.3	8.6	208.9
Impairments	-	39.2	1.4	40.6
Asset retirements	-	(197.3)	(28.6)	(225.9)
Depreciation as of December 31, 2017	**-**	**1 549.9**	**40.3**	**1 590.3**
Impairments as of December 31, 2017	**-**	**172.5**	**1.4**	**173.9**
Balance as of December 31, 2016	**151.4**	**1 201.4**	**38.8**	**1 391.6**
Balance as of December 31, 2017	**0.0**	**1 268.4**	**29.2**	**1 297.6**

Impairments

Management regularly evaluates its fleet plan and capital expenditure levels in light of market conditions. In 2017 and 2016 management performed such evaluations and made decisions which resulted in impairments of certain vessels in the fleet described below. Refer to note 3 for information in estimates.

2017 impairments

PGS recorded aggregate impairment charges of $40.6 million in 2017 primarily related to a reduced baseline for 3D vessel capacity to be operated going forward. The impairment primarily reflects a write-down to an average estimated recoverable value of $9.0 million for each of the three Ramform V-class vessels that are cold stacked.

2016 impairments

In late 2016, following management's evaluation of expected future fleet capacity needs, Ramform Challenger was impaired by $7.0 million down to its estimated salvage value of $0.7 million reflecting a greater uncertainty with respect to the probability that this cold-stacked vessel will return to service before the end of its scheduled useful life.

A summary of vessel impairments and losses is as follows:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
2D and source vessels	-	(0.8)
Ramform Challenger	-	(7.0)
V-Class vessels	(36.5)	-
Atlantic Explorer	(2.7)	-
Impairment of seismic equipment	-	(4.2)
Total impairment and loss on disposal of vessels	**(39.2)**	**(12.0)**

New build program – Ramform Titan-class vessels

Ramform Hyperion was delivered in March 2017 from Mitsubishi Heavy Industries Shipbuilding Co. Ltd. in Japan. With delivery of *Ramform Hyperion*, the Titan-class vessels new-build program is completed.

Note 15 – MultiClient Library

The changes in the MultiClient library are as follows:

(In millions of US dollars)	**2017**	**2016**
Balance as of January 1,	**647.7**	**695.0**
Capitalized cash costs	213.4	201.0
Capitalized interest	4.8	12.6
Capitalized depreciation	67.9	62.1
Amortization expense	(366.4)	(279.2)
Accelerated amortization	(0.4)	(14.6)
Impairments (see note 3)	(59.4)	(30.1)
Other	4.7	0.9
Balance as of December 31,	**512.3**	**647.7**

The net carrying value of the MultiClient library, by the year of survey completion is as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Completed surveys:		
Completed during 2012	-	9.3
Completed during 2013	7.6	16.6
Completed during 2014	35.5	61.2
Completed during 2015	69.3	117.1
Completed during 2016	185.7	303.4
Completed during 2017	90.8	-
Completed surveys	**388.9**	**507.6**
Surveys in progress	**123.4**	**140.1**
MultiClient library	**512.3**	**647.7**

PGS has cooperation agreements to invest in certain MultiClient data projects with other parties. These agreements are classified as joint operations where the parties have rights to the assets and liabilities of the investment. PGS recognizes its relative share of the investment in MultiClient data and its share of revenue, amortization and costs. The following is a summary of the financial information:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Total gross revenues for the projects	258.8	90.2
Revenue share to other parties	92.8	30.7
Total amortization for the projects	(90.5)	(44.6)
Total impairment for the projects	(7.3)	-
PGS' part of the joint MultiClient Library	67.9	52.4

Note 16 – Other Long-Term Assets

Other long-term assets consist of the following:

	December 31,	
(In millions of US dollars)	2017	2016
Investments in associated companies (a)	70.5	89.6
Other receivables	8.0	23.5
Total	**78.5**	**113.1**

(a) Specification of investments in and loans to associated companies as follows:

	December 31, 2017		December 31, 2016	
(In millions of US dollars)	Net book value	Ownership	Net book value	Ownership
Azimuth Ltd.	-	35%	-	44%
Azimuth II Ltd.	47.5	32%	46.9	44%
Azimuth III Ltd.	22.8	44%	42.5	45%
Other	0.2	-	0.2	-
Total	**70.5**	**-**	**89.6**	**-**

PGS share of income (loss) from associated companies is calculated as follows:

	Year ended December 31, 2017			Year ended December 31, 2016		
(In millions of US dollars)	Profit (loss) for the year	Adjustments (a)	Share of income (loss)	Profit (loss) for the year	Adjustments (a)	Share of income (loss)
Azimuth Ltd.	(2.6)	2.6	-	(5.5)	5.6	0.1
Azimuth II Ltd.	(8.5)	(5.1)	(13.6)	(8.6)	1.0	(7.6)
Azimuth III Ltd.	(4.7)	(2.4)	(7.1)	-	(22.5)	(22.5)
Other	-	-	-	-	-	-
Total			**(20.7)**			**(30.1)**

(a) Adjustments relate to accounting for exploration costs in Azimuth; losses on dilution of ownership and recoverable investment value; and loss limitation entries to reflect investment balance at no less than nil.

Exploration costs, hereof seismic data purchased by Azimuth (including data purchased from PGS) is capitalized in the Azimuth financial statements and subject to impairment testing. In its equity method accounting for the investment in Azimuth, PGS charges to expense most of Azimuth's exploration costs, including seismic data purchased by Azimuth from PGS.

In 2017 the Company incurred a $6.4 mill loss on dilution of its investment in Azimuth II by not fully participating in Azimuth II share capital increases. The Company also recognized a loss in its investment in Azimuth III by $7.0 mill based upon an assessment of recoverable value.

As of December 31, 2017 and 2016, PGS' share of cumulative losses (as adjusted for PGS accounting principles) in Azimuth Limited exceeded PGS investment in that associate. Because PGS has no further obligation to fund its share of losses for Azimuth Limited, PGS' share of cumulative losses recognized from this associate are limited to its investment. Unrecognized losses amounted to $1.0 million and $1.7 million for the year ended December 31, 2017 and 2016, respectively. Cumulative unrecognized losses amount to $9.0 million and $8.0 million as December 31, 2017 and 2016, respectively.

The Company owns 35% (44% in 2016) of Azimuth Limited, 32% of Azimuth II Limited (44% in 2016) and 44% of Azimuth III Limited, which together are the holding companies of the Azimuth Group. The remaining shares are held by a majority shareholder and minority shareholder comprised of employees of Azimuth. The investments are therefore accounted for as associated companies. The Azimuth Group consists of several operating entities which invest in Exploration and Production (E&P) companies and exploration assets.

The Company has contributed nil and $74.1 million to the Azimuth Group in 2017 and 2016, respectively. During 2017 and 2016 the Azimuth Group purchased data and services from the Company for $ 0.7 million and $60.8 million, respectively.

The Company has entered into a cooperation agreement whereby the Company provides certain services to the Azimuth Group. The Azimuth Group has the right to buy, for cash and at fair value, up to 50% of any future equity settlement that the Company may receive as payment for its library or services. The Company has a right, but no obligation to provide further funding of Azimuth Group and has no guarantees outstanding.

The following table illustrates the summarized financial information (100% basis) as of December 31:

(In millions of US dollars)	Azimuth Limited 2017 (preliminary)	Azimuth Limited 2016(a)	Azimuth II Limited 2017 (preliminary)	Azimuth II Limited 2016(a)	Azimuth III Limited 2017 (preliminary) (a)	Azimuth III Limited 2016
Current assets	7.1	7.2	25.2	24.5	4.6	14.4
Non-current assets	8.7	11.6	157.1	152.5	40.0	50.0
Current liabilities	8.9	7.3	2.6	2.5	50.0	64.5
Non-current liabilities	20.6	16.3	-	-	-	-
Equity	(13.7)	(4.8)	179.7	174.5	(5.4)	(0.1)
Revenue	-	-	-	-	-	-
Operating expenses	1.7	4.4	1.3	6.7	11.3	0.1
Financial (income) expenses	7.4	5.6	21.0	16.8	(0.5)	-
Income (loss) before tax	(9.1)	(10.0)	(22.3)	(23.5)	(10.8)	(0.1)
Income tax	-	-	-	-	-	-
Profit (loss) for the year	(9.1)	(10.0)	(22.3)	(23.5)	(10.8)	(0.1)
Other comprehensive income	0.2	0.3	0.5	0.4	-	-
Total comprehensive income	(8.9)	(9.7)	(21.8)	(23.1)	(10.8)	(0.1)

(a) The preliminary 2016 financial statements numbers for the Azimuth companies included in the 2016 Annual report have been updated to reflect final numbers.

Note 17 – Other charges, net

Other charges, net consist of the following:

(In millions of US dollars)	December 31, 2,017	2016
Severance cost	(34.5)	(4.7)
Onerous lease contracts	(21.8)	-
Loss on ISS settlement	(14.4)	-
Onerous contracts with customers	(2.4)	3.7
Other	(9.7)	0.4
Total	**(82.8)**	**(0.6)**

Note 18 – Other Intangible Assets

The changes in other intangible assets are summarized as follows:

(In millions of US dollars)	Patents, licenses, technology and other (b)	Intangible assets in development	Total
Cost as of January 1, 2016	**308.3**	**63.2**	**371.6**
Additions to costs	0.1	10.2	10.3
Asset retirements	(6.4)	-	(6.4)
Asset transfers	18.7	(18.7)	-
Cost as of December 31, 2016	**320.7**	**54.7**	**375.5**
Additions to costs	23.5	11.8	35.3
Asset retirements	(5.6)	-	(5.6)
Asset transfers	28.9	(28.9)	-
Impairment	-	(0.4)	(0.4)
Cost as of December 31, 2017	**367.5**	**37.2**	**404.8**
Amortization as of January 1, 2016 (a)	**209.9**	**-**	**209.9**
Amortization expense	13.4	-	13.4
Asset retirements	(6.4)	-	(6.4)
Amortization as of December 31, 2016 (a)	**216.9**	**-**	**216.9**
Amortization expense	17.2	-	17.2
Impairment	53.1		53.1
Asset retirements	(5.6)	-	(5.6)
Amortization as of December 31, 2017 (a)	**281.6**	**-**	**281.6**
Balance as of December 31, 2016	**103.8**	**54.7**	**158.6**
Balance as of December 31, 2017	**85.9**	**37.2**	**123.2**
Estimated useful life	1 to 15 years		

(a) The accumulated impairment charge on intangibles other than goodwill was $ 184.8 and $131.7 million as of December 31, 2017 and 2016.
(b) Includes net book value of approximately $7 million relating to towed EM technology and $10 relating to optic technology development.

2017 Impairments

As a result of a continued weak seismic market and as a consequence of the reorganization the Company evaluated its intangible assets for possible impairment.

The Company recognized a $33 million impairment of capitalized development costs on its EM technology, writing down the assets to an aggregate recoverable value of $10 million as of December 31, 2017. The impairment primarily reflects management's suspension of the Company's EM activities until the activity is able to generate sufficient cash to cover operating costs.

The Company recognized a $20.0 million impairment on its OptoSeis technology assets due to reduced estimated future cash flow. Management is also exploring possibilities of divesting the OptoSeis technology.

Note 19 – Debt and Guarantees

Long-term debt:

(In millions of US dollars)	December 31, 2017	December 31, 2016
Secured:		
Term loan B, Libor (minimum 75 bp) + 250 Basis points, due 2021	385.0	389.0
Export credit financing, due through 2025	161.4	182.3
Export credit financing, due through 2027	255.1	192.1
Revolving credit facility, due 2020 (a)	190.0	190.0
Unsecured:		
Senior notes, Coupon 7.375%, due 2018	26.0	26.0
Senior notes, Coupon 7.375%, due 2020	212.0	212.0
Total	1 229.5	1 191.4
Less current portion	(77.2)	(37.8)
Less deferred loan costs, net of debt premiums	(16.5)	(21.6)
Total long-term debt	**1 135.8**	**1 132.0**

Undrawn facilities consists of:

	December 31,	
(In millions of US dollars)	2017	2016
Secured:		
Revolving credit facility, due 2020 (a)	210.0	210.0
Export credit financing	-	91.2
Unsecured:		
Bank facility (NOK 50 mill)	6.1	5.8
Performance bond	11.3	12.5
Total	**227.4**	**319.5**

(a) The latest amendment of the Senior secured credit facility which govern the Term Loan and the Revolving Credit Facility took effect on December 23, 2016, when the maturity date of the Revolving Credit Facility was extended with two years to 2020. This amendment reduced the Revolving Credit Facility from $500 million to $400 million and a scheduled a further reduction to $350 million from its original maturity date in September 2018 to September 2020.

Reconciliation of debt arising from financing activities:

			Non-cash changes			
(In millions of US dollars)	January 1, 2017	Cash flows	Foreign exchange movement	Change in fair value	Other (a)	December 31, 2017
Debt to financial institutions	953.4	24.6	-	-	13.5	991.5
Bond debt	238.0	-	-	-	-	238.0
Total liabilities from financing activities	**1,191.4**	**24.6**	**-**	**-**	**13.5**	**1,229.5**

(a) Other consists mainly of $ 12.6 million in proceeds from issuance of long term debt classified as restricted cash.

Credit Facility

The Senior Secured Credit Facility (the "Credit Facility") as amended originated in 2007 and is currently comprised of a $400 million term loan B (the "Term Loan") and a $400 million Revolving Credit Facility (the "Revolving Credit Facility") with Petroleum Geo-Services ASA and PGS Finance, Inc., as co-borrowers. At December 31, 2017, the Company had $385.0 million (2016 - $389.0 million) outstanding under the Term Loan and $190.0 million (2016 - $190.0 million) outstanding under the Revolving Credit Facility. Revolving loans may be made at any time prior to the final maturity of the Revolving Facility. Borrowings under the Credit Facility are secured by pledges of shares of material subsidiaries and are guaranteed by the same material subsidiaries.

In November 2016 the maturity date on the Revolving Credit Facility was extended to September 18, 2020 and the facility was reduced from $500 to $400 million with a further reduction to $350 million effective from September 18, 2018. Pursuant to the terms of the Revolving Credit Facility, our total leverage ratio could not exceed 5.50:1 for the quarter ending December 31, 2016 through and including the quarter ending June 30, 2017. For the quarter ending September 30, 2017, the maximum total leverage ratio was 5.25:1 ; and for the quarter ending December 31, 2017, the ratio was 4.75:1. For the quarter ending March 31, 2018, the ratio will be 4.25:1. Thereafter, the maximum total leverage ratio will be tightened by 0.25:1 each quarter through the quarter ending June 30, 2019. From the period ending September 30, 2019, the maximum total leverage ratio will remain at 2.75:1. Borrowings under the Revolving Credit Facility have an interest rate equal to an adjusted LIBOR rate plus a margin in the interval from 3.25% to 6.25% dependent on the reported total leverage ratio at the end of the previous quarter through September 17, 2019 and from 3.75% to 6.75% dependent on the reported total leverage ratio from and after September 18, 2019, with additional utilization fees dependent on the amount drawn (less than $150 million: 0.25%; between $150 million and $300 million: 0.50%; over $300 million: 0.80%), and a commitment fee on undrawn amounts of 50% of the applicable margin.

The Term Loan as amended, matures in 2021; carries a floating interest rate of LIBOR (but minimum 0.75%) + 2.50%; and is amortized by $4 million per year. The Term Loan has no financial maintenance covenants.

The Credit Facility contains financial covenants and negative covenants that restrict the Company in various ways.

The facility provides that:

i) for the Revolving Credit Facility part the total leverage ratio may not exceed the threshold agreed in the November 2016 extension and amendment (maintenance covenant). The Credit Facility combined (Revolving Credit Facility and Term Loan) has an incurrence test prohibiting the Company from incurring more senior indebtedness, with certain exceptions, if the total leverage ratio is above 3.00:1.0. The Credit Facility loan agreement permits us to borrow an additional sum of specific secured debt limited to: $1 850 million less the sum of (A) any Revolving Credit Facility commitments outstanding, (B) Term Loans outstanding and (C) Permitted vessel financing indebtedness outstanding, provided that the total leverage ratio does not exceed 2.75:1. Such potential additional borrowing is not committed, but would be secured by the same collateral that secures the Term Loan and borrowings under the existing Revolving Credit Facility. As long as the Company does not exceed a total leverage ratio of 3.00:1, the Company can incur further senior unsecured debt. Drawing of the committed Revolving Credit Facility and Permitted vessel financing indebtedness (see "—Export Credit Financing" below) is exempted from the incurrence test.

The Revolving Credit Facility also contains a minimum consolidated liquidity covenant as long as the total leverage ratio exceeds 2.75:1. If total leverage ratio exceeds 2.75:1, consolidated unrestricted cash and cash equivalents and the unused and available revolving commitments shall not be less than the amount equal to the greater of (a) $75 million and (b) 5% of the consolidated net interest-bearing indebtedness. Dividends may not be declared or paid before April 1, 2017 and can only be declared or paid only if our total leverage ratio is below 2.75:1 for the two most recent fiscal quarters and the total leverage ratio requirement is reset to 2.75:1 for the remaining term of the Credit Agreement.

(ii) the Credit Facility generally requires the Company to apply 50% of excess cash flow to repay outstanding Term Loan borrowings for financial years when the total leverage ratio exceeds 2.5:1 or the senior secured leverage ratio exceeds 2:1. Excess cash flow for any period is defined as net cash flow provided by operating activities less capital expenditures (excluding capital expenditure financed by certain borrowings), MultiClient investments and scheduled debt services (excluding certain debt incurred to finance capital expenditures) during that period, and on the Company's option minus income taxes to be paid in the next period and capital expenditure committed in the period but to be paid in future periods. The Company may make optional prepayments to reduce the outstanding principal balance at no penalty.

In addition, the Credit Facility and Notes Indenture (described below) restrict or could restrict our ability, among other things, to sell assets without the sales proceeds being reinvested in the business or used to repay debt; incur additional indebtedness or issue preferred shares; prepay interest and principal on our other indebtedness (including restrictions when our total leverage ratio exceeds 3.0 to 1.0); pay dividends and distributions or re-purchase our capital stock; create liens on assets; make investments, loans, guarantees or advances; make acquisitions; engage in mergers or consolidations; enter into sale and leaseback transactions; engage in transactions with affiliates; amend material agreements governing our indebtedness; change our business; enter into agreements that restrict dividends from subsidiaries; and enter into speculative financial derivative agreements.

The Revolving Credit Facility has a $60 million sub-limit for issuance of letters of credit. Under the Revolving Credit Facility, the Company may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, for working capital and for general corporate purposes. At December 31, 2016, the Company had zero outstanding standby letters of credit under the Revolving Facility.

Old Notes

The Old Notes were issued in two separate transactions. On November 15, 2011, the Company issued $300 million aggregate principal amount of 7.375% Senior Notes due 2018 (the "Original Notes") in an offering that was not subject to the registration requirements of the U.S. Securities Act. The Company issued an additional $150 million aggregate principal amount of 7.375% Senior Notes due 2018 in a transaction on December 27, 2012 (the "Additional Notes"). Both the Original Notes and the Additional Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange.

The Old Notes are governed by the Old Notes Indenture. The Old Notes are the Company's senior obligations and rank equally in right of payment with all existing and future senior indebtedness of the Company and senior in right of payment to all existing and future indebtedness of the Company that is subordinated in right of payment to the Old Notes. The Old Notes are guaranteed, jointly and severally, on a senior basis by the subsidiaries of the Company that provide a guarantee in respect of obligations under the Credit Facility. Each guarantee ranks equally in right of payment with all existing and future senior indebtedness of such guarantor and senior in right of payment to all existing and future indebtedness of such guarantor that is subordinated in right of payment to its guarantee. The Original Notes and the Additional Notes together constitute a single class of debt securities under the Old Notes Indenture and vote as a single class for purposes of amendments or waivers. As part of the Exchange Offer an amendments was made to the Old Notes' Indenture eliminating substantially all of the negative covenants, all of the reporting covenants and certain of the events of default in the Old Notes Indenture.

The Old Notes will mature on December 15, 2018. Interest is payable in cash semi-annually on each June 15 and December 15. Currently, the Company may redeem all or a portion of the Old Notes at 100.0% of their principal amount plus accrued and unpaid interest, if any, to the redemption date. At December 31, 2017, and December 31, 2016, the Company had $26.0 million outstanding under the Old Note.

The New Notes

On December 23, 2016, the Company issued $212 million in aggregate principal amount of 7.375% Senior Notes due 2020 (the "New Notes") as part of the Exchange Offer in an offering that was not subject to the registration requirements of the U.S. Securities Act. The New Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange.

The New Notes are governed by the New Notes Indenture. The New Notes are the Company's senior obligations and rank equally in right of payment with all existing and future senior indebtedness of the Company and senior in right of payment to all existing and future indebtedness of the Company that is subordinated in right of payment to the New Notes. The New Notes are guaranteed, jointly and severally, on a senior basis by the subsidiaries of the Company that provide a guarantee in respect of obligations under the Credit Facility. Each guarantee ranks equally in right of payment with all existing and future senior indebtedness of such guarantor and senior in right of payment to all existing and future indebtedness of such guarantor that is subordinated in right of payment to its guarantee. The New Notes Indenture contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to incur or guarantee additional indebtedness; pay dividends, repurchase shares and make distributions of certain other payments; make certain investments; create certain liens; merge or consolidate with other entities; enter into certain transactions with affiliates; sell, lease or transfer certain assets, including shares of any restricted subsidiary of the Company; and guarantee certain types of other indebtedness of the Company and its restricted subsidiaries without also guaranteeing the New Notes.

The New Notes will mature on December 15, 2020. Interest is payable in cash semi-annually on each June 15 and December 15. The Company may redeem all or a portion of the Old Notes at 103.688% of their principal amount plus accrued and unpaid interest, if any, from December 15, 2017, with the specified premium declining to 101.844% on December 15, 2018 and to par on December 15, 2019. At December 31, 2017, the Company had $212.0 million outstanding under the New Note.

Export credit financing

The Export credit financing arrangement is comprised of four loan agreements each with Japan Bank for International Cooperation ("JBIC") and Sumitomo Mitsui Banking Corporation ("SMBC") and with an aggregate value of $544.2 million. The loans are incurred by the subsidiary, PGS Titans AS, for the financing of the four Ramform Titan class vessels. As of December 31, 2017, the full amount has been drawn on the four loans pursuant to the delivery of the four vessels during the period 2013-2017, of which $127.7 million has been repaid. The loans are senior facilities secured by first priority mortgages over the vessels and fittings on board (but excluding "in sea" equipment such as streamers), pledge of the borrower's right under a debt service reserve account and assignment of insurance rights in the vessels. The loans will be repaid over 12 years in semiannual equal installments and each will have two tranches whereby JBIC and SMBC each receive 50%. The JBIC tranche bears a fixed interest and is repaid from the 7th to 12th year after draw down, while the SMBC tranche bears a floating interest based on 6 months Libor plus a margin and is repaid from 1st to 6th year after draw down. SMBC has received credit insurance from Nippon Export and Investment Insurance ("NEXI") and the insurance premium is paid by PGS Titans AS.

Letters of credit and guarantees

The Company has $20 million uncommitted bid and performance bond facilities ($20 million in 2016) intended for operational use. Drawings under these facilities totaled $8.7 million and $7.5 million as of December 31, 2017 and 2016, respectively.

The Company had aggregate outstanding letters of credit and similar guarantees (incl. the $8.7 million and $7.5 million above), not reflected in the accompanying consolidated statements of financial position, of $42.8 million and $15.6 million as of December 31, 2017 and 2016, respectively.

PGS ASA has guaranteed the payment obligation under the lease of PGS Apollo (see note 21).

Note 20 — Financial Instruments

Fair values

The Fair Value Hierarchy discloses how fair value is determined for financial instruments recorded at fair value in the consolidated financial statement.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.
Level 3: techniques for which all inputs which have a significant effect on the recorded fair value that is not based on observable market data.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accrued revenues and other receivables, other current assets, accounts payable and accrued expenses approximate their respective fair values because of the short maturities of those instruments. The fair values of the long-term debt instruments, forward exchange contracts and interest rate swaps are estimated using quotes obtained from dealers in such financial instruments or latest quoted prices or indexes at Reuters or Bloomberg. Where market prices are not observed or quotes from dealers are not obtained, an indirect method is used by use of implied credit spread from debt instrument with similar risk characteristics.

The carrying amounts, estimated fair values of debt and derivatives instruments including how fair value is determined are summarized as follows:

	December 31, 2017			December 31, 2016		
(In millions of US dollars)	Carrying amounts	Fair values	Hierarchy Level	Carrying amounts	Fair values	Hierarchy Level
Financial assets measured at fair value						
Investments	-	-		15.8	15.8	1
Foreign exchange contracts used for hedging	1.4	1.4	2	-	-	2
Other foreign exchange contracts (Note 13, "Other" 16)	0.6	0.6	2	-	-	
Interest rate swaps hedge accounted	0.6	0.6	2	-	-	
Financial liabilities measured at fair value						
Foreign exchange contracts used for hedging (note 22)	-	-	2	(0.9)	(0.9)	2
Other foreign exchange contracts (See note 22)	(0.9)	(0.9)	2	(3.4)	(3.4)	2
Interest rate swaps hedge accounted	-	-	2	(0.2)	(0.2)	2
Financial liabilities not measured at fair value						
Debt with fixed interest rate	(510.1)	(485.7)	2	(465.5)	(446.4)	2
Debt with variable interest rate	(719.4)	(664.6)	2	(725.9)	(653.9)	2

Financial risk management policies

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders such as dividends and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The management of the capital structure involves active monitoring and adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Company may refinance its debt, buy or issue new shares or debt instruments, sell assets or return capital to shareholders.

The Company monitors debt on the basis of the leverage ratio and other covenants in credit agreements. The Total Leverage Ratio (TLR) is calculated as total indebtedness divided by adjusted EBITDA less non pre-funded MultiClient library investments. At December 31, 2017, the total indebtedness was $1 319.6 million and adjusted EBITDA less non pre-funded MultiClient library was $363.8 million. At December 31, 2017 and 2016, the TLR was 3.63 and 3.94, respectively. Based on the total indebtedness at December 31, 2017 there was an EBITDA headroom of $86 million up to the maximum maintenance covenant leverage ratio.

In addition, the Company monitors leverage based on net debt. Net debt is calculated as total debt (including short-term and long-term debt as reported in the consolidated statement of financial position) less cash and cash equivalents, including restricted cash. The Company generally seeks to keep net debt below two times annual EBITDA in the weak part of a business cycle and below one times annual EBITDA in a strong market, dependent on several factors including capital spending commitments, the state of the seismic market and macro risks. In a situation where the net debt is above these levels, actions to come back inside may be gradual and take place over a period of time. As of December 31, 2017 and 2016, the ratio of net debt to EBITDA was 3.00 and 3.21, respectively.

The Company is exposed to market risks such as interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. The Company's risk management policies are approved by the Board of Directors. The treasury function reports regularly to the Company management and any breach of limits set in the policy shall be reported to the Board of Directors.

Interest rate exposure

The Company is subject to interest rate risk on debt, including finance leases. The risk is managed by using a combination of fixed -and variable rate debt, together with interest rate swaps, where appropriate, to fix or lower the borrowing costs.

	December 31, 2017		December 31, 2016	
	Notional amounts	Weighted average interest rate	Notional amounts	Weighted average interest rate
Debt at fixed interest rate	510.1	5.03%	465.5	5.17%
Debt at variable interest rate based on US dollar plus a margin	594.4	5.09%	600.9	4.25%
Variable interest rate debt with interest fixed	125.0	1.62%	125.0	1.62%

After giving effect to the Company's interest rate swaps, for every one-percentage point hypothetical increase in LIBOR, our annual net interest expense on our variable rate debt, inclusive non-restricted cash holdings, would have increased by $5.5 million and $5.4 million approximately measured from December 31, 2017 and 2016, respectively.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Company's loans and borrowings, after the impact of hedge accounting. All other variables are held constant and the effect is calculated based on the Company's financial instrument as of December 31.

(In millions of US dollars)	Increase/(decrease) in basis points	Effect on profit before tax	Effect on other comprehensive income
2017	100	(5.9)	1.8
2016	100	(6.0)	3.1

Foreign exchange rate exposure

The Company is exposed to currency fluctuation due to the effects of a predominantly USD based revenue stream, while the Company's operating expenses and capital expenditures are mainly denominated in USD, GBP, NOK and EUR. The Company maintains a foreign currency risk management strategy that uses foreign currency exchange contracts to reduce volatility in the income statement and protect against fluctuations in cash flow caused by volatility in currency exchange rates. The Company had open forward contracts to buy and sell GBP, NOK and GBP, NOK, BRL at December 31, 2017 and 2016, respectively. The table shows exposures and foreign exchange contracts in currencies that the Company hedges on a regular basis.

	December 31, 2017			December 31, 2016		
	NOK	GBP	BRL	NOK	GBP	BRL
Restricted cash	37.1	-	-	37.3	-	221.2
Current assets	5.6	1.3	26.0	4.5	1.4	2.2
Current liabilities	(190.9)	(4.6)	(8.8)	(80.2)	(3.7)	(8.9)
Pension liabilities	(34.2)	(34.0)	-	(29.4)	(44.4)	-
Other long term liabilities	(54.0)	(2.3)	-	(53.5)	(2.2)	-
Net statements of financial position exposure	**(236.4)**	**(39.6)**	**17.2**	**(121.3)**	**(48.9)**	**214.5**
Hedged committed operational cash flow and capital expenditure:						
Next year	(201.9)	-	-	(216.2)	-	-
1-2 years	(70.2)	-	-	(48.4)	-	-
2-3 years	-	-	-	-	-	-
Net forward commitments	**(272.1)**	**-**	**-**	**(264.6)**	**-**	**-**
Forward exchange contracts	457.1	34.7	-	389.6	25.8	(142.0)
Net exposure	**(51.4)**	**(4.9)**	**17.2**	**3.7**	**(23.1)**	**72.5**

	Average rate		Year end spot	
	2017	2016	2017	2016
USD / NOK	8.287	8.402	8.223	8.614
GBP / USD	1.288	1.346	1.350	1.228
USD / BRL	3.312	3.465	3.197	3.253

Foreign exchange rate sensitivity

A 10% depreciation of the USD would have increased the fair value of the Company's foreign currency derivatives by approximately $10.3 million (NOK, GBP) and $3.4 million (NOK, GBP, BRL) and the effect on income before tax would have been $6.9 and nil million as of December 31, 2017 and 2016, respectively. The Company's debt and interest swaps are denominated in USD.

(In millions of US dollars)	December 31, 2017		December 31, 2016	
Change in fair value of derivatives with a 10% depreciation of USD:	**Gross effect**	**Effect on Income before tax**	**Gross effect**	**Effect on Income before tax**
NOK	5.6	2.2	5.0	1.6
GBP	4.7	4.7	3.2	3.2
BRL	-	-	(4.8)	(4.8)
Total	**10.3**	**6.9**	**3.4**	**-**

Exposure to credit risk

The approximate maximum credit exposure related to financial assets is as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Cash and cash equivalents	47.3	61.7
Restricted cash (Note 11)	43.3	101.1
Accounts receivable	162.8	98.4
Accrued revenues and other receivables (Note 12)	133.2	120.3
Total	**386.6**	**381.5**

We continually monitor the counterparty credit risk of our banking partners, including derivatives counterparties and the institutions in which our cash is held on deposit. Trade receivables are primarily with multinational integrated oil companies and independent oil and natural gas companies, including companies owned in whole or in part by governments. The Company manages its exposure to credit risk through ongoing credit evaluations of customers and counterparties and has provided for potential credit losses through an allowance for doubtful accounts. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in accounts receivable from trade customers and is based on a number of factors consisting mainly of aging of accounts, historical experience, customer concentration, customer creditworthiness and current industry and economic trends. As of December 31, 2017, approximately $17 million are over 60 days past due.

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Accounts receivable - trade	169.5	102.1
Allowance for doubtful accounts	(6.7)	(3.7)
Total	**162.8**	**98.4**

The Company is also exposed to credit risk relating to off-balance items such as agreements to provide future services to customers and counterparties on derivatives and where cash is held on deposit. The Company manages its exposure to such risks through continuously monitoring of counterparties.

Exposure to liquidity risk

The Company tries to minimize liquidity risk through ensuring access to a diversified set of funding sources, and management of maturity profile on debt and derivatives. The Company is exposed to liquidity risk related to the following:

December 31, 2017			Contractual cash flows						
(In millions of US dollars)	**Carrying amount**	**Notional value**	**Total**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Thereafter**
Non-derivative financial liabilities									
Trade payables	(81.5)	-	(81.5)	(81.5)	-	-	-	-	-
Debt with fixed interest rates	(510.2)	-	(611.5)	(51.8)	(29.0)	(256.5)	(31.8)	(48.2)	(194.2)
Debt with variable interest rates	(719.3)	-	(818.8)	(83.5)	(79.1)	(249.7)	(400.6)	(5.9)	-
Total	**(1 311.0)**	**-**	**(1 511.8)**	**(216.8)**	**(108.1)**	**(506.2)**	**(432.4)**	**(54.1)**	**(194.2)**
Derivative financial assets/liabilities									
Interest rate swaps hedge accounted	0.6	125.0	0.7	0.3	0.4	-	-	-	-
Forward exchange contracts used for hedging	1.4	31.9	1.4	1.1	0.3	-	-	-	-
Other foreign exchange contracts	(0.3)	69.8	(0.3)	(0.3)	-	-	-	-	-
Total	**1.7**	**226.7**	**1.8**	**1.1**	**0.7**	**-**	**-**	**-**	**-**

December 31, 2016			Contractual cash flows						
(In millions of US dollars)	Carrying amount	Notional value	Total	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter
Non-derivative financial liabilities									
Trade payables	(54.9)	-	(54.9)	(54.9)	-	-	-	-	-
Debt with fixed interest rates	(465.5)	-	(580.3)	(23.8)	(50.2)	(27.4)	(254.8)	(30.1)	(194.0)
Debt with variable interest rates	(725.9)	-	(850.5)	(65.6)	(68.3)	(64.5)	(244.5)	(400.8)	(6.8)
Total	**(1 246.3)**	**-**	**(1 485.7)**	**(144.3)**	**(118.5)**	**(91.9)**	**(499.3)**	**(430.9)**	**(200.8)**
Derivative financial assets/liabilities									
Interest rate swaps hedge accounted	(0.2)	125.0	(0.3)	(0.6)	0.1	0.2	-	-	-
Forward exchange contracts used for hedging	(0.9)	34.4	(0.9)	(0.8)	(0.1)	-	-	-	-
Other foreign exchange contracts	(3.4)	88.4	(3.4)	(3.4)	-	-	-	-	-
Total	**(4.5)**	**247.8**	**(4.6)**	**(4.8)**	**-**	**0.2**	**-**	**-**	**-**

In addition, the Company has operating lease commitments and CAPEX commitments, see Note 14 and 21.

As of December 31, 2017, the Company had cash and cash equivalents of $47.3 million and a total liquidity reserve, including available unutilized drawings of the Revolving Credit Facility, of $257.3 million, compared to $61.7 million and $271.7 million respectively at year-end 2016. The Company has a structured approach to monitoring of credit risk against financial counterparties and has no reason to doubt their ability to meet their funding commitments if and when called upon to do so.

The Company does not have any material scheduled debt maturities until second half of 2020, except scheduled installments on the export credit debt and any remaining Old Notes. The export credit debt is paid back in separate semi-annual installments and scheduled principal payments in aggregate approximately $47 million for 2018 and each year forward to it taper off following the maturity of one after one of the four facilities in the period 2025 to 2027.

The un-drawn portion of the Revolving Credit Facility (“RCF”) constitutes a significant portion of the Company’s liquidity reserve. In the current market it is likely that the Company will continue to use the RCF during the coming year. In 2016 the TLR with which the Company must comply in order to draw on the RCF, was amended. The maximum for Q4 2017 was 4.75 which steps down during 2018 to 4.25 for Q1 2018, 4.00 for Q2 2018, 3.75 for Q3 2018 and 3.50 for Q4 2018.

While PGS’ actual TLR was substantially below this level at December 31, 2017, there is a risk, due to the weak market, that PGS’ TLR may increase in the future to be close to or exceed the agreed maximum TLR. If and when such risk becomes significant, PGS would seek to agree further amendments to ensure that the RCF is available for drawing or to implement other available measures to avoid a covenant breach. If PGS ultimately ends up breaching this covenant, the breach would represent an event of default under the loan agreement. In such case PGS may be able to continue to access the RCF if PGS receives a waiver of the breach or implements remedial actions acceptable to the lenders thereunder. Should a breach continue without a waiver or remediation by PGS, the RCF agent or a majority of the RCF lenders would be entitled to declare default and demand a repayment of drawings under the RCF, which in turn would represent an event of default in most of the Company’s other loan agreements and debt instruments. However, this scenario is in the Company’s view highly unlikely since firstly it believes that it has plans and available measures to avoid an event of default and secondly, even in an event of default, several viable alternatives to avoid acceleration would exist.

Based on the year-end cash balance, available liquidity resources, and the current structure and terms of the Company’s debt, it is the Board’s opinion that PGS has sufficient funding and liquidity to support its operations and investment programs.

Interest rate hedge accounting

In December 2016, the Company entered into interest rate swaps, with a total notional amount of $125 million, to fix the interest rate on part of its floating rate debt. The fair value of the interest rate swaps were recorded in other comprehensive income as the effective portion of the designated and qualifying hedging instrument. The profit and loss impact of the cash flow hedges are estimated to be in the same year as the effect of the cash flows. The Company has not excluded any components of the derivative instruments’ gain or loss from the assessment of hedge effectiveness with respect to the qualifying interest rate swaps. The interest rate swaps had a positive fair value $0.6 million, and negative fair value of $0.2 million recorded in other comprehensive income at December 31, 2017 and 2016, respectively.

Foreign exchange rate hedge accounting

The company entered into derivatives accounted for under fair value hedge relationships to hedge the currency risk related to NOK equipment purchases. A summary of fair value hedging relationships follows:

	December 31, 2017			December 31, 2016		
(In millions of US dollars)	Notional value	Fair value	Change in fair value	Notional value	Fair value	Change in fair value
Foreign currency derivatives designated as fair value hedging instruments	-	-	0.2	8.6	(0.5)	0.6
Firm commitments to purchase equipment (note 13)	-	-	(0.1)	8.1	3.9	(0.6)
Foreign currency derivatives designated as cash flow hedging instruments	31.9	1.4	0.3	25.8	(0.4)	0.3
Foreign currency derivatives not designated as hedges	69.8	0.3	0.9	88.4	(0.4)	(18.8)

The difference between the change in the value of the derivatives and the change in the fair value of the firm commitment is primarily caused by the fact that only the spot element of the derivative is designated to hedge the object and that in previous years derivatives at the hedge designation date were already carried at fair value.

Note 21 – Leases, Contingent Liabilities and Provisions

Operating Leases

The Company has operating lease commitments expiring at various dates through 2027. Future minimum payments related to non-cancellable operating leases were as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
2017	-	83.1
2018	84.2	68.2
2019	67.6	61.0
2020	51.6	50.6
2021	41.3	36.4
2022	40.7	27.9
thereafter	81.7	73.9
Total	**367.1**	**401.1**

The future minimum payments under the Company's operating leases are for the following types of property:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Marine seismic and support vessels	282.2	296.9
Buildings	78.0	83.6
Imaging equipment	6.9	20.6
Total	**367.1**	**401.1**

Rental expense for operating leases, including leases with terms of less than one year, was $136.7 million and $126.7 million for the years ended December 31, 2017 and 2016, respectively.

Seismic support vessels

The Company leases four seismic support vessels under time-charter agreements which expire in 2024-2025. The lessor holds options to purchase each vessel from the 3rd party owner at certain times during each lease and at the end of the lease term. At the end of each lease, the 3rd party owner may also require the lessor to purchase the vessel for a pre-determined amount. Should the lessor not purchase the vessel, the 3rd party owner may require PGS to purchase the vessel for a price of $5.5 million which is estimated to be less than fair value.

Time-charter agreements

The Company leases two 3D vessels, Sanco Swift and Sanco Sword, under operating lease time charter agreements which expire in 2023 and 2020, respectively. The Sanco Swift agreement has two 2-year renewal options, and the Sanco Sword agreement has three 2-year renewal options.

Sale and leaseback

In 2015, the Company entered into a sale and operating bareboat leaseback for the 3D vessel PGS Apollo. The remaining leaseback period is 8 years with an option to extend for a 5-year period. PGS has the option but no obligation, to acquire the vessel after end of year 5 (in 2020) and year 8 (in 2023).

Contingent liabilities

Settlement of Brazil service tax claim on MultiClient data

Up through November 2017, the Company had an ongoing dispute in Brazil related to Municipal Services Tax ("ISS") on the licensing of MultiClient data. The Rio de Janeiro municipality contended that licensing of MultiClient data is equal to providing a service to the Group's clients. ISS is a local service tax and the Company's primary view was that licensing of MultiClient data is not a service under the relevant provisions, and therefore should not be subject to ISS.

The Company had made deposits in local currency equivalent to USD $71.3 million ($68 million as December 31, 2016) allowing it to file lawsuits covering a number of the disputed years seeking to confirm that licensing of MultiClient data is not subject to ISS. Amounts deposited were held in an interest-bearing bank account with Banco do Brazil. The deposited amount including interest was equivalent to $108.8 million ($98.7 million as of December 31, 2016). Only the deposit exclusive of interest was recognized as an asset by the Company. The deposit was presented as long-term restricted cash in the statements of financial position.

In Q4 2017 the Municipality of Rio de Janeiro published new regulations relating to licensing of MultiClient data and PGS settled all ongoing ISS tax disputes with the Municipality of Rio de Janeiro under the provisions of these regulations. As a consequence of the resolution, the Company recovered $59.4 million of the amount on deposit resulting in a net expense of $14.4 million presented in Other charges.

Brazil service tax claim on charter

The Company 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 and other direct taxes, amount to $47.5 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.

Petrojarl

Following the demerger of Petrojarl (today part of Teekay) in 2006, the Company retained a joint secondary liability for certain obligations of Petrojarl. Petrojarl agreed to indemnify the Company from liabilities related to its operations. The Company remains with a joint secondary liability with Petrojarl under their FPSO service agreement with the customer for the Petrojarl Banff FPSO. The guarantee is not capped. If the claim is made and Petrojarl does not honor its obligation to indemnify PGS, it could adversely affect the Company's business, results of operation or financial condition.

Note 22 – Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
(In millions of US dollars)	2017	2016
Accrued Severance pay a)	31.1	0.4
Accrued revenue share	32.1	21.2
Accrued employee benefits	20.4	22.3
Accrued vessel operating expenses	16.7	13.0
Accrued sales tax and VAT	14.7	14.4
Customer advances and deferred revenue	13.9	8.4
Onerous contracts	10.6	7.4
Accrued project costs	10.5	11.0
Accrued commissions	8.3	6.7
Accrued office lease expenses	6.4	6.1
Accrued interest expenses	3.7	1.6
Received, not invoiced, property and equipment	1.3	0.9
Unrealized loss on hedging	0.9	4.3
Other	16.2	15.5
Total	**186.8**	**133.3**

a) Accrued Severance pay is estimated based on severance packages granted as part of the restructuring and will be paid during 2018.

Note 23 – Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	December 31,	
(In millions of US dollars)	2017	2016
Pension liability (Note 24)	50.0	58.0
Onerous lease contracts	25.1	-
Lease incentives	14.4	14.5
Other	10.0	4.2
Total	**99.5**	**76.7**

Note 24 – Pension Obligations

Defined benefits plans

Plan characteristics

The Company has a defined benefit pension plan for certain UK employees. The plan is funded through a separate pension trust. It is the Company's general practice to fund defined benefit plans in accordance with applicable statutory requirements. The UK defined benefit plan was closed for new entrants in 2006, with defined contribution plans established for new employees. The UK defined benefit plan was, as described below, closed to further accrual at year end 2015. The defined benefit plan has a total of 596 pensioners and deferred members as of December 31, 2017.

In addition, as described in Note 28, the CEO and two executive officers have an early retirement plan allowing for termination of employment without cause when the CEO or the executive officers reach the age of 62. The plan is not funded. Full early retirement benefits are defined as 60% of the last base salary beginning in the year of retirement. The CEO is eligible for 85% of full benefits if he retires at the age of 62 and full benefits if he retires at the age of 65. The two executive officers are eligible for full benefits if they retire at the age of 62. The early retirement benefits ceases when the CEO and executive officers reach the age of 67.

Actuarial valuations and assumptions

The actuarial valuations are performed by independent actuaries in Norway and UK.

Risks

Actuarial valuations as applied in the consolidated financial statements are based upon financial and demographic assumptions which may be impacted by future events. Such future events include, but are not limited to, changes in discount rates, compensation rates and mortality rates. Changes to assumptions may have significant effect on present net pension liabilities, future pension cost and future cash requirements to fund the plans.

Plan amendment and settlement

In 2015, the Company decided to amend the UK defined benefit plan, at which time the plan was closed for further accrual. For service after December 31, 2015, the participants have the opportunity to join the defined contribution plan.

Financial impact

A summary of changes in the plans' aggregate projected benefit obligations and fair values of assets are summarized as follows:

(In millions of US dollars)	2017	2016
Projected benefit obligations (PBO) as of January 1, (a)	**186.5**	**170.4**
Service cost	0.4	0.3
Interest cost	5.2	6.0
Employee contributions	-	-
Social security tax	0.1	0.1
Actuarial loss (gain), arising from changes in demographic assumptions	-	(5.7)
Actuarial loss (gain), arising from changes in financial assumptions	(2.2)	51.8
Actuarial loss (gain) due to scheme experience	0.2	(0.0)
Plan settlements	-	-
Benefits paid	(6.3)	(2.8)
Exchange rate effects	18.3	(33.5)
Projected benefit obligations (PBO) as of December 31, (a)	**202.0**	**186.5**

(a) $ 4.1 million and $3.4 million arise from unfunded plans as of December 31, 2017 and 2016, respectively.

Change in fair value of pension plan assets:

(In millions of US dollars)	2017	2016
Fair value of plan assets as of January 1,	**128.5**	**133.3**
Expected return on plan assets	3.6	4.8
Employer contributions	4.2	4.4
Employee contributions	-	-
Actuarial gain (loss) arising from return on plan assets	8.5	13.6
Benefits paid	(6.1)	(2.8)
Exchange rate effects	13.3	(24.8)
Fair value of plan assets as of December 31,	**152.0**	**128.5**

The aggregate funded status of the plans and amounts recognized in the Company's consolidated statements of financial position are summarized as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Projected benefit obligation (PBO)	202.0	186.5
Fair value of plan assets	152.0	128.5
Net pension liability	**50.0**	**58.0**

Net amount recognized as accrued pension liability is presented as other long-term liabilities (see note 23).

Net periodic pension cost for the Company's defined benefit pension plans are summarized as follows:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Service cost	0.4	0.3
Interest cost	5.1	6.0
Expected return on plan assets/net interest cost	(3.5)	(4.8)
Plan settlements	-	-
Social security tax	0.1	0.1
Net periodic pension cost	**2.0**	**1.6**

Net periodic actuarial gains and losses arising from the Company's defined benefit plans and recorded in other comprehensive income is as follows:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Actuarial gain (loss), arising from changes in demographic assumptions	-	5.8
Actuarial gain (loss), arising from changes in financial assumptions	2.4	(52.4)
Actuarial gain (loss) due to scheme experience	(0.2)	(0.0)
Actuarial gain (loss) arising from return on plan assets	9.1	13.8
Net actuarial gain (loss) recognized in other comprehensive income	**11.2**	**(32.8)**

Significant acturial assumptions:

	2017		2016	
	Norway	UK	Norway	UK
Discount rate	2.30%	2.68%	2.60%	2.70%
Return on plan assets	-	2.68%	-	2.70%
Compensation increase	2.50%	-	2.50%	-

The discount rate assumptions used for calculating pensions reflect the rates at which the obligations could be effectively settled. Observable long-term rates on corporate bonds are used for the Norwegian and UK plans.

Plan asset allocation

The Company's pension plan assets only relate to the UK plan and allocation, by asset category, is as follows:

	December 31,	
(In millions of US dollars)	2017	2016
Fair value plan assets	152.0	128.5

Plan assets at fair value with quoted prices in active markets for identical assets		
Equity/diversified growth funds	47%	45%
Debt securities	40%	40%
Real estate	11%	12%
Other	2%	3%
Total	**100%**	**100%**

Management of plan assets must comply with applicable laws and regulations in the UK. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Sensitivity

The following table show the sensitivity to the principal assumptions of the present value of the defined benefit obligation. The sensitivities shown below are aproximate and each sensitivity considers one change in isolation.

(In millions of US dollars)	Change in assumptions	Change in liabilities
Discount rate	Decrease of 1.0% p.a.	29.6%
Inflation rate	Increase of 1.0% p.a.	25.8%

The Company expects to contribute approximately $4.5 million to its defined benefit pension plans in 2018.

Defined contribution plans

Substantially all employees not eligible for coverage under the defined benefit plans in Norway and the UK are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans. For some of the plans, subject to statutory limitations, employees may make voluntary contributions in addition to the Company's contributions. Plan contributions made by the Company aggregated $6.8 million and $7.3 million for 2017 and 2016, respectively. Plan contributions made by employees aggregated $5.9 million and $6.0 million for 2017 and 2016, respectively.

Note 25 — Shareholder Information

At the Annual General Meeting ("AGM") held on May 10, 2017, authority was given for the Board of Directors to acquire treasury shares at a maximum face value of in total NOK 101 573 998. Under no circumstances can the Company acquire shares leading to an aggregate number of treasury shares exceeding 10 percent of the total number of shares. The shares may be used to meet obligations arising from employee incentive schemes; as part of consideration payable for acquisitions made by the Company; as part of consideration for any mergers, demergers or acquisitions; by way of cancellation of the shares in part or full; to raise funds for specific investments; for the purpose of repaying loans (including convertible loans); or to strengthen the Company's capital base. The Board is free to choose the method of disposal considered expedient for such purposes. Further, authority was given at the 2017 AGM to the Board of Directors to increase the Company's share capital by a total amount of NOK 101 573 998 through one or more subscriptions. The authorization shall be utilized in connection with potential acquisitions of companies or businesses within the oil and energy sector, including the oil service sector, settlement of obligations (including convertible loans), funding of material investments, debt repurchases or to raise funds to strengthen the Company's capital base. The authorization includes the right to increase the Company's share capital in return for non-cash contributions and the right to assume special obligations on behalf of the Company. The Board was, at the 2017 AGM, also authorized to issue convertible bonds at a total amount of NOK 3 500 000 000. The share capital of the Company may be increased by a total amount of NOK 101 573 998 as a result of the convertible loans being converted into equity. The right to issue convertible bonds and the right to increase the share capital is jointly capped at 10% of the share capital of the Company. These authorizations are valid until June 30, 2018 unless earlier revoked by the AGM. The Board of Directors will propose to the 2018 AGM to revoke the authorizations given at the 2017 AGM, and renew these authorizations at the 2018 AGM to be valid until June 30, 2019.

As of December 31, 2016, Petroleum Geo-Services ASA had a share capital of NOK 975 239 988 on 325 079 996 shares of par value NOK 3 each, all fully paid. On January 12, 2017, the share capital was increased through a public placement with gross proceeds of NOK 303.8 million. As a result, the share capital as of December 31, 2017, was NOK 1 015 739 988 on 338 579 996 shares of par value NOK 3 each, all fully paid.

All shares have equal voting rights and equal rights to dividends. Any distribution of the Company's equity is dependent on the approval of the shareholders, and the ability to make distributions is limited by certain debt covenants and Norwegian Corporate Law. The ordinary shares are listed on the Oslo Stock Exchange.

The Board of Directors will not propose any dividend to the 2018 AGM for the year ended December 31, 2017.

The Company's holding of treasury shares reconciles as follows:

	Treasury shares	% of total shares outstanding
Balance as of January 1, 2016	**1 395 569**	**0.58%**
Used to fulfill employee benefit programs in 2016 (note 27)	(705 665)	
Balance as of December 31, 2016	**689 904**	**0.21%**
Used to fulfill employee benefit programs in 2017 (note 27)	(682 016)	
Balance as of December 31, 2017	**7 888**	**0.00%**

The 20 largest shareholders (a) in Petroleum Geo-Services ASA were as follows:

	December 31, 2017	
	Total shares	**Ownership percent**
Ferd AS	35 823 200	10.58
DNB Asset Management AS	32 253 894	9.53
M & G Investment Management Ltd.	20 110 104	5.94
Coltrane Asset Management, L.P.	18 528 264	5.47
Edinburgh Partners Limited	15 752 275	4.65
Lancaster Investment Management LLP	15 651 691	4.62
Allianz Global Investors GmbH	14 772 945	4.36
Folketrygdfondet	11 653 735	3.44
Hermes Investment Management Ltd.	8 687 346	2.57
Nordea Funds Oy	7 299 440	2.16
Sheffield Asset Management, L.L.C.	6 181 401	1.83
Schroder Investment Management Ltd. (SIM)	4 393 227	1.30
Legal & General Investment Management Ltd.	4 295 481	1.27
Danske Invest Rahastoyhtiö Oy	4 000 000	1.18
Contrarius Investment Management Ltd.	3 537 852	1.04
Bellevue Asset Management AG	3 417 000	1.01
Dimensional Fund Advisors, L.P.	3 106 171	0.92
Carmignac Gestion	3 000 000	0.89
SAFE Investment Company Limited	2 852 055	0.84
Third Avenue Management LLC	2 785 957	0.82
Other	120 477 958	35.58
Total	**338 579 996**	**100.0**

(a) The data in this table is provided by Nasdaq Advisory Services and is obtained through an analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians in relation to the PGS share register provided by the Norwegian Central Securities Depository (VPS). Every reasonable effort has been made to verify the data, however neither PGS nor Nasdaq Advisory Services can guarantee the accuracy of the analysis.

Shares owned or controlled by members of the Board of Directors, Chief Executive Officer and Other Executive Officers were as follows:

	December 31, 2017	
	Total shares	**Ownership percent**
Board of Directors		
Walter Qvam, Chairperson	25 000	(a)
Holly Van Deursen	2 000	(a)
Daniel J. Piette	12 000	(a)
Carol Bell	5 560	(a)
Anne Grethe Dalane	-	-
Richard Herbert	-	-
Morten Borge	-	-
Anette Valbø	7 142	(a)
Espen Vollan Grimstad	917	(a)
Hege Renhus	1 918	(a)

Chief Executive Officer and Other Executive Officers		
Rune Olav Pedersen, President and Chief Executive Officer	90 617	(a)
Gottfred Langseth, Executive Vice President and Chief Financial Officer	190 106	(a)
Per Arild Reksnes, Executive Vice President Operations	59 263	(a)
Sverre Strandenes, Executive Vice President MultiClient	64 583	(a)

(a) Less than 1% of the Company's shares as of December 31, 2017.

Note 26 – Related Party Transactions

The following transactions were carried out with related parties:

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Sale of goods and services		
Associates – MultiClient data	0.7	58.5
Associates – Other services	-	2.3
Purchase of goods and services		
The Kongsberg Group (a)	-	5.3

(a) The Chairperson Mr. Walter Qvam left the position as CEO of the Kongsberg Group in June 2016. The disclosed transactions for 2016 are for the period until his resignation.

The Company did not have any significant outstanding balances with related parties as of December 31, 2017 and 2016.

All transactions with related parties are priced on an arm's length basis.

Chief Executive Officer (CEO), other Executive Officers and Directors of the Company are also on the Board of certain customers and suppliers. As of December 31, 2017 and 2016, the Company did not have any significant outstanding balances with any of these companies.

Note 27 – Share Based Payment Programs

Options, RSU's and PRSU's granted under the Company's employee share based programs are as follows:

Grant Year	Options, RSU's and PRSU's granted	Additional options granted year	Additional options granted	Description
2013	768 425	2014/2016	10 500/2 000	Restricted Stock Plan (RSU)
2014	739 500	2015/2017	2 000/17 500	Restricted Stock Plan (RSU)
2015	657 100	-	-	Restricted Stock Plan (RSU)
2015	776 100	-	-	Performance Based Restricted Stock Plan (PRSU)
2016	647 150	-	-	Restricted Stock Plan (RSU)
2016	762 150	-	-	Performance Based Restricted Stock Plan (PRSU)
2017	456 320	-	-	Restricted Stock Plan (RSU)
2017	839 480	-	-	Performance Based Restricted Stock Plan (PRSU)

The programs

The Restricted Stock Units ("RSU") awarded under long term incentive plans ("LTI Plans") approved by the Annual General Meeting ("AGM") in 2015, 2016 and 2017, requires the participant's continued employment with the Company (or a subsidiary) and is settled three years after grant. Upon settlement, the participant will receive at no charge a number of shares in the Company which equals the number of RSUs awarded.

In 2015, 2016 and 2017, the Company also granted Performance based Restricted Stock Units ("PRSU") as approved by the respective years' AGM. Settlement of the PRSUs granted from the 2015 and 2016 LTI Plans and subsequent transfer of shares to the eligible employee will take place three years after the grant subject to the Company achieving a satisfactory Total Shareholder Return compared to the companies in STOXX TMI Oil Equipment, Services & Distribution index adjusted for dividends. For PRSUs granted under the 2017 LTI Plan, 75% of the PRSUs will settle subject to the TSR goal as outlined for the 2015 and 2016 LTI Plans above, , and the remaining 25% of the PRSUs will settle subject to a goal on free cash flow after capex in the three full financial years prior to settlement date.

Effect on financial statements

For the years ended December 31, 2017 and 2016, the Company recognized compensation cost with a corresponding increase in shareholders' equity of $4.5 million and $6.1 million, respectively. Total net unrecognized compensation cost as of December 31, 2017 was $4.1 million (RSU's and PRSU's), which is expected to be recognized over a period of 3 years.

The tables below detail the Company's outstanding options and share awards (RSU and PRSU) for the years presented.

Year ended December 31, 2017

Grant date	RSU share awards outstanding December 31, 2016	RSU's granted in 2017	RSU's forfeited in 2017	RSU's exercised in 2017	RSU share awards outstanding December 31, 2017	Weighted-average remaining contractual term
2013	9 500	-	-	(7 500)	2 000	-
2014	674 350	17 500	(5 600)	(666 750)	19 500	0.03 years
2015	623 050	-	(59 200)	-	563 850	0.42 years
2016	644 650	-	(60 625)	-	584 025	1.44 years
2017	-	456 320	(34 940)	-	421 380	2.47 years
Total	**1 951 550**	**473 820**	**(160 365)**	**(674 250)**	**1 590 755**	**1.34 years**

Grant date	PRSU share awards outstanding December 31, 2016	PRSU's granted in 2017	PRSU's forfeited in 2017	PRSU's exercised in 2017	PRSU share awards outstanding December 31, 2017	Weighted-average remaining contractual term
2015	738,050	-	(59,200)	-	678,850	0.42 years
2016	759,650	-	(60,625)	-	699,025	1.44 years
2017	-	839,480	(52,410)	-	787,070	2.47 years
Total	**1,497,700**	**839,480**	**(172,235)**	**-**	**2,164,945**	**2.15 years**

Year ended December 31, 2016

Grant date	Options outstanding December 31, 2015	Options exercised in 2016	Options forfeited in 2016	Options expired in 2016	Options outstanding December 31, 2016	Weighted-average remaining contractual term	Options exercisable December 31, 2016
2011	1 260 500	-	-	1 260 500	-	-	-
Total	**1 260 500**	**-**	**-**	**1 260 500**	**-**	**-**	**-**

Grant date	RSU share awards outstanding December 31, 2015	RSU's granted in 2016	RSU's forfeited in 2016	RSU's exercised in 2016	RSU share awards outstanding December 31, 2016	Weighted-average remaining contractual term
2013	698 330	2 000	(4 975)	(685 855)	9 500	0.8 years
2014	691 600	-	(17 250)	-	674 350	0.5 years
2015	639 250	-	(16 200)	-	623 050	1.4 years
2016	-	647 150	(2 500)	-	644 650	2.4 years
Total	**2 029 180**	**649 150**	**(40 925)**	**(685 855)**	**1 951 550**	**1.4 years**

Grant date	PRSU share awards outstanding December 31, 2015	PRSU's granted in 2016	PRSU's forfeited in 2016	PRSU's exercised in 2016	PRSU share awards outstanding December 31, 2016	Weighted-average remaining contractual term
2015	754 250	-	(16 200)	-	738 050	1.4 years
2016	-	762 150	(2 500)	-	759 650	2.4 years
Total	**754 250**	**762 150**	**(18 700)**	**-**	**1 497 700**	**1.9 years**

The table below details the Company's assumptions used to calculate estimated fair value at grant date:

Grant date	Options, RSU's and PRSU's outstanding December 31, 2016	Average exercise price	Weighted average share price at grant date	Risk free rate	Dividend yield	Volatility factor	Weighted average life	Estimated fair value at grant date (average NOK/USD per share option/ RSU/PRSU)
2013 (a)	2 000	NOK 0	NOK 83.85	N/A	-	N/A	N/A	NOK 73.03/$12.63
2014 (a)	19 500	NOK 0	NOK 63.89	N/A	-	N/A	N/A	NOK 54.76/$9.14
2015 (a)	563 850	NOK 0	NOK 49.35	N/A	-	N/A	N/A	NOK 43.90/$5.61
2015 (b)	678 850	NOK 0	NOK 49.37	N/A	-	N/A	N/A	NOK 31.73/$4.05
2016 (a)	584 025	NOK 0	NOK 24.55	N/A	-	N/A	N/A	NOK 24.54/$2.99
2016 (b)	699 025	NOK 0	NOK 24.56	N/A	-	N/A	N/A	NOK 18.99/$2.32
2017 (a)	421 380	NOK 0	NOK 14.59	N/A	-	N/A	N/A	NOK 14.59/$1.71
2017 (b)	787 070	NOK 0	NOK 14.59	N/A	-	N/A	N/A	NOK 10.17/$1.19
Total	**3 755 700**							

(a) Restricted Stock Units ("RSU")
(b) Performance based Restricted Stock Units ("PRSU")

The estimated fair value of the RSU and PRSU's granted are lower than the weighted average share price at the same date as the fair value calculations include adjustment for expected dividends up to vesting. In addition, the fair value of the PRSU's is reduced due to the performance conditions in the program.

Note 28 – Salaries and Other Personnel Costs, Number of Employees, and Remuneration to the Board of Directors, Executive Officers and Auditors

Salary and social expenses that are included in cost of sales, research and development costs and selling, general and administrative costs consist of:

	December 31,	
(In millions of US dollars)	**2017**	**2016**
Salaries and bonuses	206.9	181.9
Social security	14.9	14.7
Pension	8.8	8.9
Other benefits	28.1	30.2
Total	**258.7**	**235.7**

The Company had an average of 1 715 and 1 821 employees during the years ended December 31, 2017 and 2016, respectively.

Chief Executive Officer (CEO) and Other Executive Officers

In 2017, the Company paid compensation to its President and CEO and other executive officers as follows:

	Total compensation paid in 2017 (a)					
Name	**Fixed salary**	**Bonus**	**Other benefits (b)**	**Total paid salary and compensation (in dollars)**	**Pension benefits (c)**	**Accrued target bonus as of December 31, 2017**
Jon Erik Reinhardsen						
President and Chief Executive Officer, until Aug 31 (d)	543 742	-	91 233	634 975	326 379	-
Rune Olav Pedersen						
President and Chief Executive Officer, from Sept 1 (d)	165 232	-	51 708	216 940	80 037	-
Rune Olav Pedersen						
Executive Vice President and General Counsel, until Aug 31 (d)	287 375	-	33 704	321 079	38 510	-
Gottfred Langseth						
Executive Vice President and Chief Financial Officer	440 228	-	71 197	511 425	143 716	-
Guillaume Cambois						
Executive Vice President, Imaging & Engineering (e)	228 314	-	675 032	903 346	78 586	-
Magne Reiersgard						
Executive Vice President, Operations	476 464	-	132 205	608 669	43 106	-
Per Arild Reksnes						
Executive Vice President, Marine Contract	414 468	-	64 063	478 531	96 445	-
Sverre Strandenes						
Executive Vice President, MultiClient	412 223	-	70 398	482 621	195 303	-

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2017 of NOK/USD 8.271.
(b) Includes items such as severance pay, RSU's, car allowance, telephone, internet and other minor benefits.
(c) Contribution to defined contribution plans (Norway) and earned benefits for members of the defined benefit plan.
(d) Rune Olav Pedersen succeded Jon Erik Reinhardsen as President and Chief Executive Officer with effect from September 1, 2017.
(e) Guillaume Cambois left the Company in November 2017.

RSUs and PRSU's held by the CEO and executive officers as of December 31, 2017 were as follows:

Name	**RSUs as of December 31, 2016**	**RSUs granted 2017**	**RSUs forfeited 2017**	**RSUs exercised 2017**	**RSUs expired 2017**	**RSUs as of December 31, 2017**	**Weighted average remaining contractual term**
Jon Erik Reinhardsen	88 000	-	-	(36 000)	-	52 000	-
Rune Olav Pedersen	70 600	9 000	-	(34 600)	-	45 000	-
Gottfred Langseth	57 600	9 000	-	(21 600)	-	45 000	-
Guillaume Cambois	57 600	9 000	-	(21 600)	-	45 000	-
Magne Reiersgard	57 600	9 000	-	(21 600)	-	45 000	-
Per Arild Reksnes	57 600	9 000	-	(21 600)	-	45 000	-
Sverre Strandenes	57 600	9 000	-	(21 600)	-	45 000	-

Name	PRSUs as of December 31, 2015	PRSUs granted 2016	PRSUs forfeited 2016	PRSUs exercised 2016	PRSUs expired 2015	PRSUs as of December 31, 2016	Weighted average remaining contractual term
Jon Erik Reinhardsen	158 000	-	-	-	-	158 000	-
Rune Olav Pedersen	54 000	36 000	-	-	-	90 000	-
Gottfred Langseth	54 000	36 000	-	-	-	90 000	-
Guillaume Cambois	54 000	36 000	-	-	-	90 000	-
Magne Reiersgard	54 000	36 000	-	-	-	90 000	-
Per Arild Reksnes	54 000	36 000	-	-	-	90 000	-
Sverre Strandenes	54 000	36 000	-	-	-	90 000	-

In 2016, the Company paid compensation to its President and CEO and other executive officers as follows:

	Total compensation paid in 2016 (a)					
Name	Fixed salary	Bonus	Other benefits (b)	Total paid salary and compensation (in dollars)	Pension benefits (c)	Accrued target bonus as of December 31, 2016
Jon Erik Reinhardsen						
President and Chief Executive Officer	617 387	-	140 343	757 730	344 195	-
Gottfred Langseth						
Executive Vice President and Chief Financial Officer	420 756	-	95 314	516 070	142 258	-
Rune Olav Pedersen						
Executive Vice President, General Counsel	379 504	-	50 358	429 863	57 630	-
Guillaume Cambois						
Executive Vice President, Imaging & Engineering	367 158	-	180 871	548 029	7 504	-
Magne Reiersgard						
Executive Vice President, Operations	489 000	-	90 655	579 655	99 290	-
Per Arild Reksnes						
Executive Vice President, Marine Contract	395 747	-	89 697	485 443	98 755	-
Sverre Strandenes						
Executive Vice President, MultiClient	395 312	-	94 155	489 466	192 250	-

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2016 of NOK/USD 8.416.
(b) Includes items such as RSU's, car allowance, telephone, internet and other minor benefits.
(c) Contribution to defined contribution plans (Norway) and earned benefits for members of the defined benefit plan.

Share options RSU's and PRSU's held by the CEO and executive officers as of December 31, 2016 were as follows:

Name	Options as of December 31, 2015	Options granted 2016	Options forfeited 2016	Options exercised 2016	Average exercise price on exercised options (NOK)	Options expired 2016	Options as of December 31, 2016	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardsen	75 000	-	-	-	-	(75 000)	-	-	-
Gottfred Langseth	45 000	-	-	-	-	(45 000)	-	-	-
Rune Olav Pedersen	20 000	-	-	-	-	(20 000)	-	-	-
Guillaume Cambois	45 000	-	-	-	-	(45 000)	-	-	-
Magne Reiersgard	45 000	-	-	-	-	(45 000)	-	-	-
Per Arild Reksnes	45 000	-	-	-	-	(45 000)	-	-	-
Sverre Strandenes	45 000	-	-	-	-	(45 000)	-	-	-

Name	RSUs as of December 31, 2015	RSUs granted 2016	RSUs forfeited 2016	RSUs exercised 2016	RSUs expired 2016	RSUs as of December 31, 2016	Weighted average remaining contractual term
Jon Erik Reinhardsen	103 500	26 000	-	(41 500)	-	88 000	1.34
Gottfred Langseth	64 500	18 000	-	(24 900)	-	57 600	1.40
Rune Olav Pedersen	63 660	18 000	-	(11 060)	-	70 600	1.34
Guillaume Cambois	64 500	18 000	-	(24 900)	-	57 600	1.34
Magne Reiersgard	64 500	18 000	-	(24 900)	-	57 600	1.34
Per Arild Reksnes	64 500	18 000	-	(24 900)	-	57 600	1.34
Sverre Strandenes	64 500	18 000	-	(24 900)	-	57 600	1.34

Name	PRSUs as of December 31, 2015	PRSUs granted 2016	PRSUs forfeited 2016	PRSUs exercised 2016	PRSUs expired 2016	PRSUs as of December 31, 2016	Weighted average remaining contractual term
Jon Erik Reinhardsen	79 000	79 000	-	-	-	158 000	1.93
Gottfred Langseth	27 000	27 000	-	-	-	54 000	1.93
Rune Olav Pedersen	27 000	27 000	-	-	-	54 000	1.93
Guillaume Cambois	27 000	27 000	-	-	-	54 000	1.93
Magne Reiersgard	27 000	27 000	-	-	-	54 000	1.93
Per Arild Reksnes	27 000	27 000	-	-	-	54 000	1.93
Sverre Strandenes	27 000	27 000	-	-	-	54 000	1.93

See Note 25 for shares held by the Company's CEO and other executive officers and Note 27 for further information on the share based payments programs.

Rune Olav Pedersen, President and CEO of the Company, has a mutual 6-months period of notice. The CEO is, both during and after the employment, obliged to refrain from taking employment with companies that are in direct or indirect competition with PGS. This prohibition applies for a period of two years from the termination date unless the Company sets a shorter period of time.

Other executive officers have similar provisions in their employment terms, with periods of notice of twelve months or less.

Further information on compensation of the CEO and other executive officers are provided in the statement on remuneration below.

Board of Directors

None of our Directors has any contract with us providing benefits upon termination of service.

The table below provides information about our Directors and compensation for 2017:

Name	Position	Director since	Term expire	Compensation (In dollars)
Walter Qvam	Chairperson	2013	2018	112 250
Daniel J. Piette	Vice Chairperson	2007	2018	113 750
Holly Van Deursen	Director	2006	2018	113 000
Carol Bell	Director	2009	2018	96 750
Anne Grethe Dalane	Director	2013	2018	87 500
Morten Borge	Director	2015	2018	74 000
Richard Herbert	Director	2017	2018	63 694
Berit Osnes (a)	Director	2015	2017	-
Hege Renshus	Director	2017	2019	-
Anette Valbø	Director	2015	2019	-
Espen Vollan Grimstad	Director	2015	2019	-
			Total	**660 944**

(a) Berit Osnes left the Board of Directors in 2017.

The table below provides information about our Directors and compensation for 2016:

Name	Position	Director since	Term expire	Compensation (In dollars)
Francis Gugen (a)	Chairperson	2003	2016	47 861
Harald Norvik (a)	Vice Chairperson	2003	2016	29 566
Walter Qvam	Chairperson	2013	2017	102 138
Daniel J. Piette	Vice Chairperson	2007	2017	106 444
Holly Van Deursen	Director	2006	2017	102 750
Carol Bell	Director	2009	2017	97 750
Anne Grethe Dalane	Director	2013	2017	91 750
Morten Borge	Director	2015	2017	81 250
Berit Osnes	Director	2015	2017	-
Anette Valbø	Director	2015	2017	-
Espen Vollan Grimstad	Director	2015	2017	-
			Total	**659 509**

(a) Francis Gugen and Harald Norvik left the Board of Directors in 2016.

See Note 25 for shares held by the Company's Board of Directors.

Board of Directors' statement on remuneration to the CEO and the Executive Officers

In accordance with §6-16a of the Norwegian Public Limited Companies Act, the Board of Directors of Petroleum Geo-Services ASA ("PGS" or "the Company") has prepared a statement related to the determination of salary and other benefits for our CEO and other executive officers. The guidelines set out below for our CEO and other executive officers salary and other benefits, for the coming fiscal year, will be presented to the shareholders for their advisory vote at the 2018 Annual General Meeting ("AGM"), however such that the elements contained herein on award of Performance based Restricted Stock Units ("PRSUs") to the CEO and executive officers will be presented to the AGM for approval.

PGS is an international company operating in the global geophysical industry. Our operations are conducted world-wide and our employment base is and needs to be largely international. The total compensation package for our CEO and other executive officers shall therefore be competitive both within the Norwegian labor market and internationally. Both the level of total compensation and the structure of the compensation package for our CEO and other executive officers shall be such that it may attract and retain highly qualified international leaders. This will require the use of several different instruments and measures also meant to provide incentives for enhanced performance and to ensure common goals and interest between the shareholders and management.

The current remuneration package for our CEO and other executive officers includes fixed elements and variable elements. The fixed elements consist of a base salary and other benefits. Other benefits include car allowance, newspaper subscription, mobile phone, internet and similar benefits. The fixed elements also include a defined contribution pension scheme.

The CEO and two executive officers have an early retirement plan allowing for termination of employment without cause when the CEO or the executive officers reach the age of 62. Full early retirement benefits are defined as 60% of the last base salary beginning in the year of retirement. The CEO is eligible for 85% of full benefits if he retires at the age of 62 and full benefits if he retires at the age of 65. The two executive officers are eligible for full benefits if they retire at the age of 62. The early retirement benefits cease when the CEO and executive officers reach the age of 67.

The variable elements today consist of a performance bonus scheme and participation in performance based restricted stock unit programs.

Participation in the performance bonus scheme and the target levels and the maximum levels of the annual performance bonus scheme are determined annually. Normally payment under the performance bonus scheme is based partly on achievements of agreed financial key performance indicators ("KPIs") for the group and partly on achievements of agreed operational, financial and organizational KPIs included in a personal performance contract.

The Annual General Meetings in 2013, 2014, 2015, 2016 and 2017 authorized a performance based restricted stock unit program in order to ensure continued long term incentives which were linked to the development of the Company's share price. The Board of Directors will propose to the 2018 Annual General Meeting a Long Term Incentive Plan ("LTI Plan") that for the CEO and executive officers will consist of 100% Performance based Restricted Stock Units ("PRSU").Settlement of the PRSUs and subsequent transfer of shares to the eligible employee will take place three years later subject to; (i) Total Shareholder Return ("TSR") achievements compared to the companies in STOXX TMI Oil Equipment, Services & Distribution index (the "LTI Plan Comparator Group") adjusted for dividends for the said period, (ii) the Company's achievement of earnings before interest and tax ("EBIT") in the three full financial years prior to settlement compared to a goal for the said period, and (iii) the timely completion of the refinancing of the Company's current 2020/2021 debt maturities and the Company achieving a goal (defined as a range) on Net Leverage Ratio ("NLR") at December 31,2020, compared with an NLR goal. Settlement of the PRSUs and subsequent transfer to the eligible employee of shares in the Company will take place three years after the grant subject principally to further employment by the Company. Further details of the LTI Plan is set out in Appendix IX to the 2018 AGM Calling Notice.

The Board of Directors will propose for approval by the Annual General Meeting a pool of PRSUs which will be granted to eligible employees in 2018. The full LTI Plan including all goals, terms and conditions will be presented to the Annual General Meeting on 25 April 2018 for approval. The Board of Directors will not distribute any other share based incentives than the LTI Plan to the CEO or any executive officer during 2018.

This statement deals primarily with the remuneration of our CEO and other executive officers. However, the above described remuneration policy is to a large extent applicable to a broad group of key employees within the Company. Enhanced performance by the management groups is not achieved by our CEO and other executive officers alone but rather is dependent on a large number of managers and key employees throughout the Company. Therefore, a large number of managers and key employees are normally included in performance based remuneration schemes, which contain all or some of the above mentioned elements. In addition, all other employees may traditionally receive up to a maximum of one month salary in annual bonus. However, for 2018 this bonus is capped at maximum 50% of one month salary.

Remuneration of the CEO and other executive officers are evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors. The Remuneration and Corporate Governance Committee annually reviews the total compensation level, the mix between fixed and performance related compensation and the mix between short and long term compensation. The Remuneration and Corporate Governance Committee has developed an annual schedule in order to ensure and facilitate a structured approach to the annual review of executive compensation. The committee normally engages an external advisor for this work.

A specific peer group of comparable companies and an executive remuneration philosophy have been adopted. As per 31 December 2017, the peer group consisted of nineteen companies from Norway, Europe and the Americas. All companies are of comparable size and have international operations in the oil service sector. An external advisor collects and combines relevant information related to the companies in the peer group. This is used by the Remuneration and Corporate Governance Committee and the Board of Directors for benchmarking of executive remuneration. The executive remuneration philosophy document includes certain guidelines on how the Company's CEO and executive officers should compare to the peer group. These tools amongst others are used by the Remuneration and Corporate Governance Committee and the Board of Directors to decide on an appropriate remuneration structure and to set appropriate total remuneration for the CEO and executive officers.

Since the Annual General Meeting in May 2017 the Board of Directors have followed the guidelines then approved by the Annual General Meeting with respect to remuneration of the CEO and the other executive officers.

Remuneration of auditor

Fees for audit and other services provided by the Company's auditor EY, are as follows (exclusive VAT and including out of pocket expenses):

	Year ended December 31,	
(In millions of US dollars)	**2017**	**2016**
Audit fees	1.6	1.6
Tax and other services	0.3	0.4
Total	**1.9**	**2.0**

Note 29 – Subsidiaries

The ownership percentage in subsidiaries as of December 31, 2017, was as follows:

Company	Jurisdiction	Shareholding and voting rights
PGS Onshore (Algeria) EURL	Algeria	100%
PGS Australia Pty. Ltd.	Australia	100%
Seahouse Insurance Ltd.	Bermuda	100%
PGS Investigacào Petrolifera Limitada	Brazil	100%
PGS Suporte Logistico e Servicos Ltda.	Brazil	100%
PGS Overseas Operation (Cyprus) Limited	Cyprus	89.9%
PGS Data Processing Middle East SAE	Egypt	100%
PGS Egypt for Petroleum Services	Egypt	100%
PGS Ghana Limited	Ghana	90%
PT Nusantara	Indonesia	94%
PGS Marine Services (Isle of Man) Ltd.	Isle of Man	100%
PGS Japan K.K.	Japan	100%
PGS Asia Pacific Labuan Ltd.	Malaysia	100%
Petroleum Geo-Services Exploration (M) Sdn. Bhd.	Malaysia	100%
PGS Data Processing & Technology Sdn. Bhd.	Malaysia	100%
P.G.S Imaging S.A. de C.V	Mexico	100%
PGS Geophysical (Netherlands) B.V.	Netherlands	100%
PGS Exploration (Nigeria) Ltd.	Nigeria	100%
Multiklient Invest AS	Norway	100%
PGS Falcon AS	Norway	100%
PGS Geophysical AS	Norway	100%
PGS Shipping AS	Norway	100%
PGS Titans AS	Norway	100%
Natuna Ventures Pte. Ltd.	Singapore	100%
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100%
PGS Technology (Sweden) AB	Sweden	100%
PGS Geophysical (UK) Ltd.	United Kingdom	100%
PGS Geophysical Services (UK) Ltd.	United Kingdom	100%
Arrow Seismic Invest IV Ltd.	United Kingdom	100%
Arrow Seismic Invest VI Ltd.	United Kingdom	100%
Panoceanic Energy Limited	United Kingdom	100%
Petroleum Geo-Services (UK) Ltd.	United Kingdom	100%
PGS EM Limited	United Kingdom	100%
PGS Exploration (UK) Ltd.	United Kingdom	100%
PGS Geophysical (Angola) Ltd.	United Kingdom	100%
PGS Pension Trustee Ltd.	United Kingdom	100%
PGS Reservoir Ltd.	United Kingdom	100%
PGS Seismic (UK) Ltd.	United Kingdom	100%
PGS Seismic Services Ltd	United Kingdom	100%
Seismic Exploration (Canada) Ltd.	United Kingdom	100%
Deep Gulf LP	United States	50.1%
Petroleum Geo-Services, Inc.	United States	100%
PGS Americas, Inc.	United States	100%
PGS Imaging, Inc.	United States	100%
PGS Finance, Inc.	United States	100%
PGS Ocean Bottom Seismic, Inc.	United States	100%
Overseas CO., C.A.	Venezuela	100%
Venezuela Overseas Co., C.A.	Venezuela	100%
PGS Ocean Bottom Seismic, Inc.	United States	100 %
Overseas CO., C.A.	Venezuela	100 %
Venezuela Overseas Co., C.A.	Venezuela	100 %

Subsidiaries with minority interests are not considered significant and as such, are not disclosed in the consolidated statements of financial position and the consolidated statement of changes in shareholders' equity.

Financial Statements — Parent Company

Petroleum Geo-Services ASA (Parent Company)

Statements of Profit and Loss

(In millions of NOK)	Note	Year ended December 31, 2017	2016
Revenue	2	**63.6**	**65.9**
Cost of sales		(2.4)	3.2
Selling, general, administrative and other costs	2, 14	(78.7)	(77.1)
Total operating expenses		**(81.1)**	**(73.9)**
Operating loss		**(17.5)**	**(8.0)**
Interest expense, net	2, 3	(215.3)	(370.0)
Gain (loss) on sales or liquidation of subsidiaries		(207.5)	
Impairment, net of reversal of impairment on shares in subsidiaries/			
Intercompany receivables	1, 6	(4 521.5)	(921.7)
Dividends/group contributions received from subsidiaries	2	12.5	204.0
Other financial items, net	2, 4	95.6	(109.4)
Income (loss) before income taxes		**(4 853.7)**	**(1 205.1)**
Income tax	5	(464.5)	(395.1)
Net income (loss)		**(5 318.2)**	**(1 600.2)**

Petroleum Geo-Services ASA (Parent Company)

Statements of Financial Position

(In millions of NOK)	Note	December 31, 2017	December 31, 2016
ASSETS			
Long-term assets:			
Deferred tax assets	5	-	461.3
Shares in subsidiaries	1, 6	12 472.7	12 094.3
Intercompany receivables	1, 2, 6	4 795.7	7 730.2
Other long-term assets		7.9	135.9
Total long-term assets		**17 276.3**	**20 421.7**
Current assets:			
Short-term intercompany receivables	2	55.1	151.9
Other current assets		16.2	1.3
Restricted cash	7	2.2	36.7
Cash and cash equivalents		65.5	138.0
Total current assets		**139.0**	**328.0**
Total assets		**17 415.3**	**20 749.7**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity:			
Common stock; par value NOK 3; issued and outstanding 338,579,996 shares	8	1 015.7	975.2
Treasury shares, par value	8	-	(2.1)
Additional paid-in capital	8	5 235.9	4 937.9
Total paid in capital		6 251.6	5 911.1
Other equity	8	(1 138.2)	4 161.4
Total shareholders' equity		**5 113.4**	**10 072.5**
Long-term liabilities:			
Long-term debt	9, 10	6 368.2	6 910.9
Intercompany debt	1, 2	5 592.8	3 582.9
Other long-term liabilities	11	24.9	23.4
Total long-term liabilities		**11 985.9**	**10 517.1**
Current liabilities:			
Short-term intercompany debt	2	-	1.6
Accrued expenses and other short-term liabilities	13	316.0	158.5
Total current liabilities		**316.0**	**160.1**
Total liabilities and shareholders' equity		**17 415.3**	**20 749.7**

London, February 28, 2018
Board of Directors
Petroleum Geo-Services ASA

Walter Qvam Chairperson	Daniel J. Piette Vice Chairperson	Carol Bell	Holly Van Deursen	Morten Borge	Richard Herbert
Hege Renshus	Anette Valbø	Espen Grimstad	Anne Grethe Dalane	Rune Olav Pedersen Chief Executive Officer	

Petroleum Geo-Services ASA (Parent Company)

Statements of Cash Flows

(In millions of NOK)	Notes	Year ended December 31, 2017	2016
Cash flows provided by (used in) operating activities:			
Net income (loss)		(5 318.2)	(1 600.2)
Adjustments to reconcile net income to net cash used in operating activities:			
Changes in deferred tax assets	5	461.3	404.8
Impairment, net of reversal of impairment of shares/intercompany receivables	6	4 314.0	921.7
Dividends/group contributions	2	(12.5)	(204.0)
Foreign exchange (gain) loss, unrealized	4	(61.3)	(76.7)
Changes in current assets and current liabilities		433.3	395.3
Other items		32.8	27.2
Net cash provided by (used in) operating activities		**(150.7)**	**(131.9)**
Cash flows provided by (used in) investing activities:			
Investment in subsidiaries and changes intercompany receivables, net	6	142.5	(675.1)
Investment in other current- and long-term assets		0.0	(143.0)
Change in restricted cash		28.9	(34.0)
Net cash provided by (used in) investing activities		**171.4**	**(852.1)**
Cash flows provided by (used in) financing activities:			
Deferred loan costs from debt refinancing and amendments	9	(3.3)	(97.6)
Net drawdown of Revolving Credit Facility	9	14.0	1 414.4
Proceeds from sale of treasury shares/share issue	8	301.3	1 878.3
Repayment of long-term debt	9	(33.0)	(1 813.3)
Interest paid		(365.2)	(436.4)
Net cash provided by (used in) financing activities		**(86.2)**	**945.4**
Net increase (decrease) in cash and cash equivalents		**(65.5)**	**(38.6)**
Effect of exchange rate changes on cash and cash equivalents		(7.0)	(4.4)
Cash and cash equivalents at beginning of year		138.0	181.0
Cash and cash equivalents at end of year		**65.5**	**138.0**

Note 1 — Summary of Significant Accounting Policies

Petroleum Geo-Services Group ("the Company") prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, while Petroleum Geo-Services ASA ("PGS ASA") prepares its financial statements in accordance with the Norwegian Accounting Act and accounting principles generally accepted in Norway ("N GAAP").

PGS ASA applies the same accounting policies as described in Note 2 in the notes to the consolidated financial statements where relevant, except that unrealized foreign exchange gain (loss) on long-term intercompany loans is recognized in the statements of profit and loss. The financial statements are presented in Norwegian kroner ("NOK") as this is the reporting currency. The functional currency is US dollars ("USD").

Shares in subsidiaries (see Note 6) are presented at cost less impairment. Impairment is recognized based upon the carrying value of the individual shares and net intercompany receivables in the subsidiaries less the estimated recoverable amount (based on discounted estimated future cash flows). If and when estimated recoverable amounts increase, impairment charges are reversed. There is no fixed plan for repayment of long-term intercompany receivables.

The statement of cash flows is set up using the indirect method.

Note 2 — Intercompany transactions

PGS ASA has significant intercompany transactions with its subsidiaries. Transactions with subsidiaries are mainly related to business support functions and financing activities. Dividends/group contributions from subsidiaries were NOK 12.5 and NOK 204.0 million in 2017 and 2016, respectively. In addition, PGS Geophysical AS allocated costs to PGS ASA amounting to NOK 12.8 and NOK 10.6 million in 2017 and 2016, respectively. Intercompany transactions in the statements of profit and loss consist of:

Subsidiaries	**Year ended December 31, 2017**		
(In millions of NOK)	**Revenues**	**Net interests**	**Net Receivables/ Liabilities**
Arrow Seismic Invest VI Ltd.	-	-	52.0
Multiklient Invest AS	19.4	75.2	1 283.2
Natuna Ventures Pte. Ltd.	-	-	95.4
Petroleum Geo-Services, Inc.	-	20.1	570.7
Petroleum Geo-Services (UK) Ltd.	-	(52.3)	(749.4)
PGS Americas, Inc	0.2	3.7	152.0
Petroleum Geo-Services Asia Pacific Pte. Ltd.	2.4	(64.0)	(3 827.1)
PGS Australia PTY Ltd	0.9	-	590.6
PGS Data Processing S.A. de C.V.	0.7	-	108.8
PGS Data Processing Middle East SAE (Egypt)	0.3	(4.8)	(116.0)
PGS Egypt for Petroleum Services	1.8	(0.5)	(84.7)
PGS EM Ltd.	-	30.5	746.7
PGS Exploration (M) SDN BHD	3.7	-	119.9
PGS Geophysical Nigeria Limited	0.2	-	78.1
PGS Exploration (UK) Ltd	11.0	15.7	(300.3)
PGS Falcon AS	-	57.0	178.2
PGS Geophysical Netherlands BV	-	7.4	127.4
PGS Geophysical AS	11.8	59.8	1 467.1
PGS Ghana Limited	-	4.5	81.6
PGS Imaging, Inc	2.5	6.9	76.2
PGS Investigacào Petrolifera Ltda.	6.6	-	168.8
PGS Japan K.K.	-	(1.2)	(28.1)
PGS Geophysical (UK) Ltd.	-	(1.7)	(38.7)
PGS Geophysical Services (UK) Ltd.	-	(1.1)	(27.6)
PGS Marine Services (Isle of Man) Ltd.	-	0.2	16.7
PGS Onshore do Brazil Participacões Ltda.	-	-	42.8
PGS Reservoir Ltd	0.4	(1.4)	(27.5)
PGS Seismic Sevices Ltd.	-	0.5	13.8
PGS Shipping AS	-	17.4	28.0
PGS Suporte Logistico e Servicos Ltda.	0.3	-	37.3
PGS Titans AS	-	17.4	307.8
PT Petroprima Geo-Servis Nusantara	0.5	-	123.1
Seahouse Insurance Ltd.	0.9	(7.5)	(188.1)
Seismic Exploration (Canada) Ltd.	-	(3.0)	(73.1)
Other	0.1	(0.2)	(30.4)
Sum transactions intercompany			975.2
Accumulated impairment			(1 717.2)
Net transactions intercompany	**63.6**	**178.8**	**(742.0)**

Subsidiaries	Year ended December 31, 2016		
(In millions of NOK)	Revenues	Net interests	Net Receivables/ Liabilities
Arrow Seismic Invest IV Ltd.	-	10.6	293.2
Arrow Seismic Invest VI Ltd.	-	-	54.4
Multiklient Invest AS	19.4	72.2	1 858.4
Natuna Ventures Pte. Ltd.	-	-	98.9
Petroleum Geo-Services, Inc.	0.1	35.1	912.0
Petroleum Geo-Services (UK) Ltd.	-	(43.9)	(1 253.7)
PGS Americas, Inc	0.8	(8.3)	61.6
Petroleum Geo-Services Asia Pacific Pte. Ltd.	5.1	(46.0)	(1 510.6)
PGS Australia PTY Ltd	3.6	-	603.5
PGS Data Processing S.A. de C.V.	1.1	-	137.9
PGS Data Processing and Technology Sdn. Bhd	0.1	-	(11.1)
PGS Data Processing Middle East SAE (Egypt)	0.7	(4.3)	(95.5)
PGS Egypt for Petroleum Services	0.6	0.5	(1.7)
PGS EM Ltd.	-	26.7	743.9
PGS Exploration (M) SDN BHD	1.2	-	53.2
PGS Geophysical Nigeria Limited	0.4	-	104.7
PGS Exploration (UK) Ltd	9.7	15.8	369.3
PGS Falcon AS	-	22.0	1 477.6
PGS Geophysical Netherlands BV	-	47.6	1 481.7
PGS Geophysical AS	11.3	40.5	415.1
PGS Imaging, Inc	3.2	(17.4)	(246.7)
PGS Investigacào Petrolifera Ltda.	5.6	-	223.9
PGS Japan K.K.	-	(0.7)	(29.4)
PGS Geophysical (UK) Ltd.	-	(1.5)	(41.4)
PGS Geophysical Services (UK) Ltd.	-	(1.0)	(27.6)
PGS Geophysical (Angola) Ltd.	-	(0.3)	(12.1)
PGS Onshore do Brazil Participacões Ltda.	-	-	44.8
PGS Reservoir Ltd	0.6	(2.1)	(49.4)
PGS Seismic (UK) Ltd.	-	(1.8)	(49.1)
PGS Servicios CA	-	-	15.9
PGS Shipping AS	-	(14.9)	567.8
PGS Suporte Logistico e Servicos Ltda.	1.3	(0.2)	38.8
PGS Technology (Sweden) AB	-	(0.6)	(15.0)
PGS Titans AS	-	5.7	281.8
PGS Venezuela de C.A.	-	-	34.0
PT Petroprima Geo-Servis Nusantara	-	-	70.5
Seahouse Insurance Ltd.	0.6	(5.7)	(141.9)
Seismic Exploration (Canada) Ltd.	-	(2.6)	(73.8)
Other	0.4	(8.2)	(3.8)
Sum transactions intercompany			6 380.1
Accumulated impairment			(2 082.5)
Net transactions intercompany	**65.9**	**117.2**	**4 297.7**

Note 3 – Interest Expense, Net

Interest expense, net, consists of:

	Year ended December 31,	
(In millions of NOK)	**2017**	**2016**
Interest income, external	7.5	15.6
Interest income, intercompany	354.2	266.0
Interest expense, external	(401.6)	(502.8)
Interest expense, intercompany	(175.4)	(148.8)
Total	**(215.3)**	**(370.0)**

Note 4 – Other Financial Items, Net

Other financial items, net, consist of:

	Year ended December 31,	
(In millions of NOK)	**2017**	**2016**
Foreign currency (loss) gain, realized and unrealized	80.1	(124.6)
Other	15.5	15.2
Total	**95.6**	**(109.4)**

Note 5 – Income Taxes

The income tax expense differs from the amounts computed when applying the Norwegian statutory tax rate to income before income taxes as a result of the following:

	Year ended December 31,	
(In millions of NOK)	**2017**	**2016**
Income before income taxes	(4 853.7)	(1 205.1)
Norwegian statutory tax rate	24%	25%
Provision for income taxes at the statutory rate	1 164.9	301.3
(Increase) reduction in income taxes from:		
Change in Norwegian statutory tax rate (a)	(39.2)	(39.2)
Foreign taxes	(2.4)	7.3
Impairment (reversal) of shares in subsidiaries	(1 120.9)	(249.9)
Impairment of intercompany receivables	9.5	57.8
Other permanent items	(35.3)	6.5
Correction previous year	(19.4)	-
Other changes in temporary differences	(10.5)	-
Changes in unrecognized deferred tax assets	(411.2)	(478.8)
Income tax (expense) benefit	**(464.5)**	**(395.1)**

(a) The Norwegian corporate income tax rate was reduced from 24% to 23% effective from January 1, 2018. As a result, a reduction in deferred tax asset of 39.2 million was recognized in 2017. Effective January 1, 2017 the Norwegian corporate income tax rate was reduced from 25% to 24% which reduced the deferred tax asset with 39.2 million in 2016.

	Year ended December 31,	
(In millions of NOK)	**2017**	**2016**
Temporary differences relate to:		
Pension liabilities (b)	5.5	4.8
Intercompany receivables	57.8	86.5
Unrealized exchange gain (loss)	-	9.3
Other	6.0	17.2
Tax losses carried forward	820.7	822.2
Deferred tax assets, net	890.0	940.2
Deferred tax assets not recognized in the statement of financial position	(890.0)	(478.8)
Net recognized Deferred tax assets	**-**	**461.3**

(b) Change in deferred tax for actuarial gains/losses on pensions are recognized directly to shareholder’s equity (see note 8 and 12).

Note 6 – Shares in Subsidiaries and Intercompany Receivables

Shares in subsidiaries are recognized in PGS ASA balance sheet at cost less any impairment.

	Registered office	Shareholding (a)	Book value as of 12/31/2016 (in millions of NOK) (b)	Equity as of 12/31/2016 (in millions of NOK) (b)	Impairments 2016 (in millions of NOK)	Net income 2016 (in millions of NOK) (b)
PGS Geophysical AS	Oslo	100%	5 154.4	4 010.1	(1 527.3)	(1 329.7)
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100%	3 148.7	3 899.1	-	(220.0)
PGS Titans AS	Oslo	100%	1 390.0	1 691.2	(33.5)	373.3
Petroleum Geo-Services (UK) Ltd.	London	100%	1 177.5	1 177.5	(255.9)	(266.5)
PGS Falcon AS	Oslo	100%	1 199.2	1 199.2	(1 478.5)	(1 182.9)
PGS Shipping AS	Oslo	100%	145.6	145.6	(1 449.2)	(469.5)
Multiklient Invest AS	Oslo	100%	10.0	853.1	-	(136.7)
Seahouse Insurance Ltd.	Bermuda	100%	27.6	210.0	-	42.4
PGS Japan K.K.	Japan	100%	0.6	30.9	-	(2.6)
PGS Geophysical Nigeria Ltd.	Nigeria	100%	-	(53.9)	-	(7.4)
PGS EM Ltd.	Scotland	100%	-	(745.9)	-	(34.2)
Petroleum Geo-Services, Inc.	Houston	100%	-	(386.5)	-	(81.3)
PGS Seismic Services Ltd.	Isle of Man	100%	-	(9.7)	-	(1.3)
PGS Australia Pty Ltd	Perth	100%	-	(295.6)	-	(132.6)
PGS Venezuela de C.A.	Venezuela	100%	-	-	-	38.8
PGS Investigacào Petrolifera Ltda.	Brazil	99%	219.2	221.4	73.9	361.0
PGS Suporte Logistico e Servicios Ltda. (c)	Brazil	1%	-	(56.9)	-	(3.0)
PGS Onshore do Brazil Participacões Ltda. (c)	Brazil	0%	-	(50.6)	-	-
PT Petroprima Geo-Servis Nusantara	Indonesia	93%	-	(47.3)	-	19.2
PGS Data Processing S.A. de C.V.	Mexico	100%	-	(28.7)	-	(18.6)
PGS Data Processing Middle East SAE (Egypt)	Egypt	99%	-	117.6	-	0.7
Total			**12 472.7**		**(4 670.6)**	

(a) Voting rights are equivalent to shareholding for all companies.
(b) The numbers are preliminary and statutory audit has not been completed.
(c) The remaining shareholding is held by Geophysical AS.

In 2017, in addition to the NOK 4,670.6 million impairment of shares in subsidiaries, PGS ASA recognized net reversal of impairment charges on intercompany receivables totalling NOK 149.1 million, compared to net reversal of impairment charges of NOK 77.9 million in 2016.

As of December 31, 2017, PGS ASA has accumulated impairment charges related to shares in subsidiaries and intercompany receivables totalling NOK 14.8 billion and NOK 1.7 billion, respectively.

For additional information on impairment of shares in subsidiaries and intercompany receivables, see Note 1.

Note 7 – Restricted Cash

Restricted cash consists of:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Payroll withholding taxes	2.2	2.3
Deposit investment	-	34.5
Total	**2.2**	**36.7**

Note 8 – Shareholders' Equity

Changes in shareholders' equity for the years ended December 31, 2016 and 2015 are as follows:

		Paid-in capital			
(In millions of NOK)	Common stock	Own shares, par value	Additional paid-in capital	Other equity	Shareholders' equity
Balance as of January 1, 2016	**718.7**	**(4.2)**	**3 264.5**	**5 758.7**	**9 737.7**
Share issue	256.50	-	1 621.8	-	1 878.3
Employee benefit plans	-	2.1	8.6	(2.1)	8.6
Employee share options recharged to subsidiaries	-	-	43.0	-	43.0
Interest rate swaps (net of tax)	-	-	-	4.6	4.6
Actuarial gains and losses charged to equity (net of tax)	-	-	-	0.5	0.5
Net income	-	-	-	(1 600.2)	(1 600.2)
Balance as of December 31, 2016	**975.2**	**(2.1)**	**4 937.9**	**4 161.4**	**10 072.5**
Share issue	40.5	-	260.7	-	301.2
Employee benefit plans	-	2.1	8.9	(2.1)	8.9
Employee share options recharged to subsidiaries	-	-	28.4	-	28.4
Interest rate swaps (net of tax)	-	-	-	22.3	22.3
Actuarial gains and losses charged to equity (net of tax)	-	-	-	(1.6)	(1.6)
Net income	-		-	(5 318.2)	(5 318.2)
Balance as of December 31, 2017	**1 015.7**	**-0.0**	**5 235.9**	**(1 138.1)**	**5 113.5**

As of December 31, 2016 the share capital was NOK 975,239,988 divided into 325,079,996 shares of par value NOK 3 each, all fully paid. On January 16, 2017, the share capital was increased through a public placement with gross proceeds of NOK 303.8 million, net of transaction costs of NOK 2.6 million. As a result, the share capital as of December 31, 2017 was NOK 1,015,739,988 on 338,579,996 shares of par value NOK 3 each, fully paid.

All shares have equal voting rights and are entitled to dividends. Distribution of PGS ASA's equity is dependent upon the approval of the shareholders, and the ability to make distributions is limited by certain debt covenants and Norwegian Corporate Law (see Note 9 and Note 19 to the consolidated financial statements). A listing of PGS ASA's largest shareholders is provided in Note 25 to the consolidated financial statements.

Note 9 – Debt and Guarantees

Long-term debt

Long-term debt consists of the following:

	December 31,	
(In millions of NOK)	2017	2016
Secured:		
Term loan B, Libor (minimum 75 bp) + 250 Basis points, due 2021	3 166.0	3 350.7
Revolving credit facility, due 2020 (a)	1 562.4	1 636.6
Unsecured:		
Senior notes, Coupon 7.375%, due 2018	213.8	224.0
Senior notes, Coupon 7.375%, due 2020	1 743.4	1 826.1
Total	**6 685.6**	**7 037.4**
Less current portion	(246.7)	(34.5)
Less deferred loan costs, net of debt premiums	(70.7)	(92.1)
Total long-term debt	**6 368.2**	**6 910.9**

Undrawn facilities consist of the following:

	December 31,	
(In millions of NOK)	2017	2016
Secured:		
Revolving credit facility, due 2020 (a)	1 726.9	1 808.9
Unsecured:		
Bank facility (NOK 50 mill)	50.0	50.0
Performance bond	92.7	107.7
Total	**1 869.6**	**1 966.6**

(a) The latest amendment of the Senior secured credit facility took place with effective date in December 23, 2016, when the maturity date of the RCF was extended with two years to 2020. The RCF was by this amendment reduced from $500 million to $400 with a further reduction to $350 from its original maturity date in September 2018 to September 2020.

Credit Facility

At December 31, 2017, the Company had $385.0 million outstanding under the Term Loan and $190.0 million outstanding under the Revolving Facility. For additional information see Note 20 in the Group Financial Statements.

Old Notes

The Old Notes will mature on December 15, 2018. Interest is payable in cash semi-annually on each June 15 and December 15. Currently, the Company may redeem all or a portion of the Old Notes at 101.844% of their principal amount plus accrued and unpaid interest, if any, to the redemption date, with the specified premium declining to par on December 15, 2017. At December 31, 2017, the Company had $26.0 million outstanding under the Old Note. For additional information see Note 20 in the Consolidated Financial Statements.

The New Note

The New Notes will mature on December 15, 2020. Interest is payable in cash semi-annually on each June 15 and December 15. The Company may redeem all or a portion of the Old Notes at 103.688% of their principal amount plus accrued and unpaid interest, if any, from December 15, 2017, with the specified premium declining to 101.844% on December 15, 2018 and to par on December 15, 2019. At December 31, 2017, the Company had $211.0 million outstanding under the New Note. For additional information see Note 20 in the Consolidated Financial Statements.

Letters of credit and guarantees

The Company has $20 million uncommitted bid and performance bond facilities ($20 million in 2016) intended for operational use. Drawings under these facilities totaled $8.7 million and $7.5 million as of December 31, 2017 and 2016, respectively..

The Company had aggregate outstanding letters of credit and similar guarantees, not reflected in the accompanying consolidated statements of financial position, of $42.8 million and $15.6 million as of December 31, 2017 and 2016, respectively.

PGS ASA has guaranteed the payment obligation under the lease of Apollo (see note 21 in the notes to the consolidated financial statements) and office rental.

Note 10 – Financial Instruments

Fair values of financial instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accrued revenues and other receivables, other current assets, accounts payable and accrued expenses approximate their respective fair values because of the short maturities of those instruments.

PGS ASA disclose the hierarchy of how fair value is determined for financial instruments recorded at fair value in the financial statements as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.

Level 3: techniques for which all inputs which have a significant effect on the recorded fair value that is not based on observable market data.

The fair values of the long-term debt instruments, forward exchange contracts and interest rate swaps are estimated using quotes obtained from dealers in such financial instruments or latest quoted prices or indexes at Reuters or Bloomberg. Where market prices are not observed or quotes from dealers are not obtained, an indirect method is used by use of implied credit spread from debt instrument with similar risk characteristics.

The carrying amounts, estimated fair values of debt and derivatives instruments including how fair value is determined are summarized as follows:

	December 31, 2017			December 31, 2016		
(In millions of NOK)	Carrying amounts	Fair values	Level	Carrying amounts	Fair values	Level
Financial assets measured at fair value						
Investments	-	-	-	135.9	135.9	1, 2
Foreign exchange contracts used for hedging	11.8	11.8	2	-	-	2
Other foreign exchange contracts	4.8	4.8	2	0.3	0.3	2
Interest rate swaps hedge accounted	5.3	5.3	2	-	-	2
Financial liabilities measured at fair value						
Foreign exchange contracts used for hedging (note 11 / 13)	-	-	2	(7.8)	(7.8)	2
Other foreign exchange contracts (note 11 / 13)	(7.4)	(7.4)	2	(29.9)	(29.9)	2
Interest rate swaps hedge accounted (note 11 / 13)	-	-	2	(1.5)	(1.5)	2
Financial liabilities not measured at fair value						
Debt with fixed interest rate	(1 957.2)	(1 756.7)	2	(2 050.1)	(1 886.1)	2
Debt with variable interest rate	(4 728.5)	(4 277.3)	2	(4 987.3)	(4 367.6)	2

Interest rate exposure

PGS ASA is subject to interest rate risk on debt, including finance leases. The risk is managed by using a combination of fixed -and variable rate debt, together with interest rate swaps, where appropriate, to fix or lower the borrowing costs.

	December 31, 2017		December 31, 2016	
(In millions of NOK)	Notional amounts	Weighted average interest rate	Notional amounts	Weighted average interest rate
Debt at fixed interest rate	(1 957.2)	7.38%	(2 050.1)	7.38%
Debt at variable interest rate based on US dollar plus a margin	(3 700.6)	4.91%	(3 910.6)	4.00%
Variable interest rate debt with interest fixed	(1 027.9)	1.62%	(1 076.7)	1.62%

Liquidity risk exposure

As of December 31, 2017, the Company, including its subsidiaries, had cash and cash equivalents of $47.3 million and a total liquidity reserve, including available unutilized drawings of the Revolving Credit Facility, of $257.3 million, compared to $61.7 million and $271.7 million respectively at year-end 2016. The Company has a structured approach to monitoring of credit risk against financial counterparties and has no reason to doubt their ability to meet their funding commitments if and when called upon to do so.

The Company does not have any material scheduled debt maturities until second half of 2020, except scheduled installments on the export credit debt and any remaining Old Notes.

The un-drawn portion of the Revolving Credit Facility ("RCF") constitutes a significant portion of the Company's liquidity reserve. In the current market it is likely that the Company will continue to use the RCF during the coming year. In 2016 the TLR with which the Company must comply in order to draw on the RCF, was amended. The maximum for Q4 2017 was 4.75 which steps down during 2018 to 4.25 for Q1 2018, 4.00 for Q2 2018, 3.75 for Q3 2018 and 3.50 for Q4 2018.

While PGS' actual TLR was substantially below this level at December 31, 2017, there is a risk, due to the weak market, that PGS' TLR may increase in the future to be close to or exceed the agreed maximum TLR. If and when such risk becomes significant, PGS would seek to agree further amendments to ensure that the RCF is available for drawing or to implement other available measures to avoid a covenant breach. If PGS ultimately ends up breaching this covenant, the breach would represent an event of default under the loan agreement. In such case PGS may be able to continue to access the RCF if PGS receives a waiver of the breach or implements remedial actions acceptable to the lenders thereunder. Should a breach continue without a waiver or remediation by PGS, the RCF agent or a majority of the RCF lenders would be entitled to declare default and demand a repayment of drawings under the RCF, which in turn would represent an event of default in most of the Company's other loan agreements and debt instruments. However, this scenario is in the Company's view highly unlikely since firstly it believes that it has plans and available measures to avoid an event of default and secondly, even in an event of default, several viable alternatives to avoid acceleration would exist.

Based on the year-end cash balance, available liquidity resources, and the current structure and terms of the Company's debt, it is the Board's opinion that PGS has sufficient funding and liquidity to support its operations and investment programs.

Foreign exchange rate exposure

PGS ASA and its subsidiaries are exposed to currency fluctuation due to the effects of a predominantly USD based revenue stream, while the companies operating expenses and capital expenditures are mainly denominated in USD, GBP, NOK and EUR. PGS ASA maintains a foreign currency risk management strategy that uses foreign currency exchange contracts to reduce volatility in the income statement and protect against fluctuations in cash flow caused by volatility in currency exchange rates. PGS ASA had open forward contracts to buy and sell GBP, NOK and GBP, NOK, BRL at December 31, 2017 and 2016, respectively.

Note 11 – Other Long-Term Liabilities

Other long-term liabilities consist of:

	December 31,	
(In millions of NOK)	2017	2016
Unrealized loss hedge contracts (note 10)	-	2.2
Pension liability (note 12)	24.1	20.2
Other long-term liabilities	0.8	1.0
Total	**24.9**	**23.4**

Note 12 – Pension Obligations

PGS ASA is required to maintain a pension plan in accordance with the Norwegian Pension Benefit Act. The pension plans of PGS ASA comply with the requirements set forth in the Norwegian Pension Benefit Act.

Defined benefit plan

In 2014 the defined benefit pension plan for the Norwegian employees was terminated and the participants were transferred to the defined contribution plan. The assets and liabilities relating to the defined benefit pension plan were de-recognized.

As described in Note 28 to the consolidated financial statements there is an early retirement plan for the CEO and three executive officers allowing for termination of employment without cause when they reach the age of 62 and providing certain defined benefits from the date of retirement and until reaching the age of 67. Two employees in PGS ASA are in this plan. The plan is accounted for as a defined benefit obligation and is not funded.

The components of net periodic pension cost for PGS ASA's defined benefit pension plans are summarized as follows:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Service cost	2.4	2.0
Interest cost	0.5	0.4
Payroll tax	0.4	0.3
Net periodic pension cost	**3.3**	**2.8**

The aggregate funded status of the plan and amounts recognized in other long-term liabilities (see note 11) is as follows:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Projected benefit obligations	21.0	17.7
Accrued payroll tax	3.0	2.5
Net pension liability (a)	**24.0**	**20.2**

The accumulated actuarial gains recognized in other equity are as follows:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Accumulated actuarial gains	13.5	15.1
Deferred tax	-	(3.7)
Accumulated actuarial gains recognized in other equity	**13.5**	**11.4**

Assumptions used to determine benefit obligations:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Discount rate	2.3%	2.6%
Compensation increase	2.5%	2.5%

Defined contribution plan

The defined contribution plan was established in 2005, and ASA's contributions to this plan for the years ended December 31, 2017 and 2016 was NOK 1.3 million and NOK 1.5 million, respectively.

Note 13 – Accrued Expenses and Other Short-term Liabilities

Accrued expenses and other short-term liabilities consist of the following:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Accrued unrealized loss on hedging (note 10)	7.4	37.0
Current portion of long-term debt	246.7	34.5
Foreign taxes	27.3	26.8
Account payables	8.1	21.5
Accrued employee benefits	6.1	6.7
Accrued interest expense	17.1	5.3
Other	3.3	26.7
Total	**316.0**	**158.5**

Note 14 – Salaries and Other Personnel Costs, Number of Employees, and Remuneration to the Board of Directors, Executive Officers and Auditors

Salary and social expenses that are included in cost of sales and selling and general and administrative costs consist of:

	December 31,	
(In millions of NOK)	**2017**	**2016**
Salaries and bonus	44.5	46.3
Social security	5.8	6.5
Pension	6.3	6.2
Other benefits	4.6	2.7
Total	**61.2**	**61.6**

As of December 31, 2017, PGS ASA had 24 employees. Man-years for the years 2017 and 2016 were 23.4 and 22.4, respectively.

Compensation to Board of Directors, CEO and Other Executive Officers

For a full listing of Board of Directors, CEO and Other Executive Officers and their compensation, see note 28 to the consolidated financial statements.

PGS ASA has not provided loans or guarantees to the Board of Directors, CEO or Other Executive Officers as of December 31, 2017.

Sharebased incentive programs

The Restricted Stock Unit programs ("RSU") (granted in each of 2012 to 2016) requires the participant's continued employment with the Company (or a subsidiary) and is settled three years after grant. Upon settlement, the participant will receive at no charge a number of shares in the Company which equals the number of RSUs awarded. In 2015 and 2016, the Company also granted Performance based Restricted Stock Unit programs ("PRSU"). Settlement of the PRSUs and subsequent transfer of shares to the eligible employee will take place three years later subject to achieving a satisfactory Total Shareholder Return compared to the companies in STOXX TMI Oil Equipment, Services & Distribution index adjusted for dividends and further employment by the Company.

See note 27 to the consolidated financial statements for further information on the share option programs, RSU's and PRSU's.

For the years ended December 31, 2017 and 2016, PGS ASA recorded compensation costs of NOK 8.9 million and NOK 8.6 million, respectively, recognized in additional paid-in capital. Total net unrecognized compensation cost as of December 31, 2017 was NOK 33.8 million related to PRSU's and RSU's, which is expected to be recognized over a period of 3 years.

Remuneration of auditor

Fees for audit and other services provided by PGS ASA's auditor EY who was elected in May 2014, are as follows (exclusive VAT and inclusive out of pocket expenses):

	December 31,	
(In millions of NOK)	**2017**	**2016**
Audit fees	1.8	1.8
Fees for tax services (a)	0.1	0.1
All other fees	1.5	1.2
Total	**3.4**	**3.1**

(a) Include fees for tax filing services and other tax assistance.

Auditors' Report

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Petroleum Geo-Services ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Petroleum Geo-Services ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the statements of financial position as at 31 December 2017, the statements of profit and loss and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the consolidated statements of financial position as at 31 December 2017, the consolidated statements of profit and loss, comprehensive income, cash flows and changes in shareholders' equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment evaluation of vessels and seismic equipment

Vessels and related equipment account for $1,268.4 million or approximately 51 % of total consolidated assets as of 31 December 2017. The Group performed impairment tests to determine the recoverable amounts and recorded impairments of $39.2 million in 2017.

Management has identified certain impairment indicators such as market capitalization being lower than book equity at the time of testing, continued operating losses and low spending on seismic activities by customers. The Group therefore assessed the recoverable amount by determining value in use for each vessel. Estimating the value in use requires management judgment including estimates of future revenues, operating expenses, growth rates, useful lives and capital expenditures and determining the discount rate. Management's impairment evaluation is a key audit matter due to the multiple variables and the significant management judgement involved in estimating future cash flows in the continued uncertain market conditions.

Our procedures included assessing the assumptions and methods used by management in the impairment evaluation. We tested the key assumptions and underlying data by comparing them to external market information and historical data, and by analyzing sensitivities. We also assessed the historical accuracy of management's estimates and tested the mathematical accuracy of the impairment model. We involved a valuation specialist to assist us in evaluating the calculation and components of the applied discount rate. We also assessed the disclosures regarding the assumptions and the recorded impairment losses of vessels.

We refer to notes 3 and 14 of the consolidated financial statements.

Impairment evaluation of MultiClient library

MultiClient library accounts for $512.3 million or approximately 21 % of total assets of the Group as of 31 December 2017. The Group performed impairment testing to determine value in use and recorded an impairment of $59.4 million in 2017.

The Group uses forecasts for future sales when determining value in use. These forecasts are based on budgets and assumptions, thus requiring considerable insight and judgment by management about future market conditions and spending on exploration and production by oil companies, including licensing activities and farm-ins. Impairment evaluation of MultiClient library is a key audit matter due to the significant management judgment involved and the continued uncertain market conditions.

We evaluated management's assessment of impairment indicators for the MultiClient library. Our audit procedures included inquiries of management, including senior sales personnel and test of controls. Our audit procedures also included analyses and evaluation of historical accuracy of prior year's forecast. We further evaluated the assumptions used in the sales forecasting process based on the current market situation, expectations about oil prices, licensing rounds and exploration activities. Furthermore, we evaluated the valuation methodology and the discount rate applied in the value in use model. We also tested the mathematical accuracy of the value in use calculations and performed sensitivity analysis of key assumptions. We used a valuation specialist to assist us in evaluating the calculation and components of the applied discount rate. We also assessed the Group's disclosures regarding those assumptions and the recorded impairment losses of MultiClient library.

We refer to notes 3 and 15 of the consolidated financial statements.

Impairment evaluation of other intangible assets

Other intangible assets accounts for $123.2 million or approximately 5 % of total assets of the Group as of 31 December 2017. The recoverable amount of the other intangible assets has been determined based on value in use. Each assessment contains a number of variables that are subject to significant judgment, e.g. future sales and timing, capital expenditure, expectations to future price of oil, operating expenses, useful life, scenarios and discount rate. The Group recognized an impairment of other intangible assets of $53.6 million in 2017. Management's assessment of the valuation of other intangible assets was a key audit matter to our audit because of the significant management judgment involved and the continued uncertain market conditions.

We evaluated management's assessment of impairment indicators for other intangible assets. We tested management's assumptions used in the value in use calculations and assessed the historical accuracy of management's estimates, including outcome of tender activities subsequent to year-end. We compared revenues and operating expenses to agreed budgets and historical data, current tender activity and the current market situation. We discussed the scenarios with management and assessed the probability weighting to each applied scenario. Our audit procedures also included testing of the mathematical accuracy of the valuation model. We involved our valuation specialist to assist us in evaluating the calculation and components of the applied discount rate. We also tested sensitivity analyses disclosed by management, and assessed the consistency of valuation methodologies within the Group. We also assessed the Group's disclosures regarding the recorded impairment losses of other intangible assets.

We refer to notes 3 and 18 of the consolidated financial statements.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 1 March 2018
ERNST & YOUNG AS

Petter Larsen
State Authorised Public Accountant (Norway)

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