Petroleum Geo-Services ASA

ANNUAL REPORT 2009

Contents

Financial Calendar 2010

Annual General Meeting
April 29, 2010

Q1 2010 Earnings Release
April 30, 2010

Q2 2010 Earnings Release
July 29, 2010

Q3 2010 Earnings Release
October 29, 2010

Key Financial Figures (continuing operations)

	2009	2008
In millions of US dollars, except per share data		
Revenues	1,350.2	1,647.4
Adjusted EBITDA	672.1	893.0
Adjusted EBITDA incl. Onshore	690.8	967.8
Operating profit excl. special items	386.9	691.4
Net income	165.8	417.4
EPS basic	0.88	2.37
EPS diluted	0.88	2.36
Cash flow from operations	676.1	914.6
Capital expenditures	231.2	414.5
MultiClient investments	183.1	229.0
Total assets	2,929.3	3,064.8
MultiClient library	293.2	294.6
Cash and cash equivalent	126.0	95.2
Shareholders equity	1,449.0	1,139.7
Net interest bearing debt	774.0	1,135.6

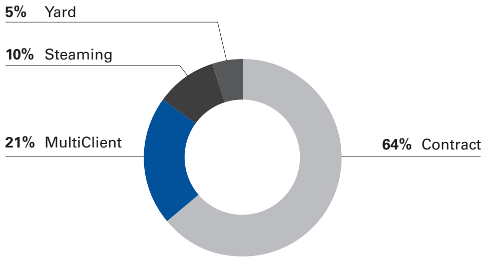
Non Financial Figures

	2009	2008
Head count	2,116[1]	2,269[1]
Lost Time Incident Frequency (LTIF)	0.28	0.52
Total Recordable Case Frequency (TRCF)	1.17	1.71

1. For continuing operations. Onshore business employed 3,710 and 2,937 in 2009 and 2008 respectively, of which 3,146 and 2,223 were temporary employees.

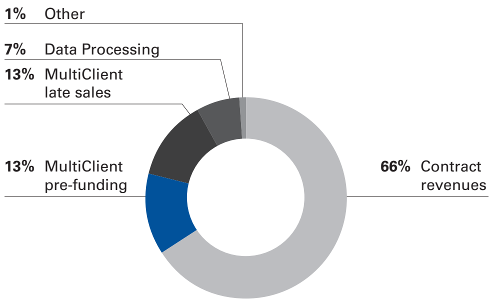
Vessel Utilization

In percent of total streamer months



Marine Revenues

Split of total revenues in percent



2009 HIGHLIGHTS

EBITDA, excluding Onshore, of $672.1 million.

CASH FLOW from operations of $676.1 million.

NET DEBT was reduced by $361.5 million to $774.0 million at year-end 2009.

A solid **ORDER BOOK** at the start of 2009 was transformed into strong earnings and cash flow.

MARINE SEISMIC CONTRACT operating profit margin of 39 percent.

MARINE MULTICLIENT late sales amounted to $181.6 million, in line with average late sales for the past six years.

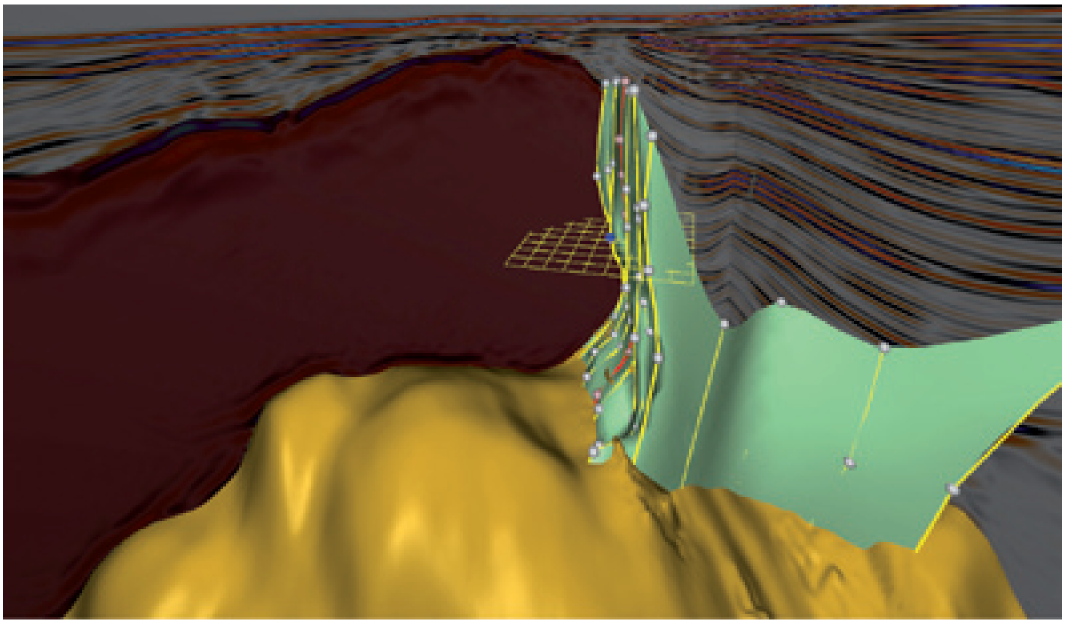
HIGH TOTAL PRE-FUNDING levels (92 percent of capitalized MultiClient investments, excluding capitalized interest).

SUCCESSFUL COMMERCIALIZATION OF 3D GEOSTREAMER® with six 3D GeoStreamer® surveys completed in 2009 demonstrating increased efficiency and exceptionally good data quality.

The first Ramform vessel, **RAMFORM CHALLENGER, WAS EQUIPPED WITH GEOSTREAMER®** in November. Three more Ramforms are scheduled for GeoStreamer® upgrade in 2010. Half of PGS' streamer capacity is expected to be GeoStreamer® by year-end 2010.

DELIVERY OF THE NEW RAMFORM STERLING in June, the second of the Ramform S-class vessels, further improves our fleet's productivity, efficiency, and flexibility.

PGS took delivery of *Ramform Sterling* in June 2009, the second Ramform S-class vessel.



The launch of hyperBeam in 2009 simplifies velocity model building. This illustrates how to use the interactive multi-z value horizon tool. The control points can be moved so that the green surface builds up the flank of the salt structure. The yellow horizon is the base of the salt and the salt model is imposed on the seismic in the background.

Launch of **PGS HYPERBEAM** — a differentiating data processing technology unique to PGS.

Sale of the vessel **GEO ATLANTIC** for $58.0 million in cash.

Implemented measures to reduce capacity by converting **OCEAN EXPLORER** and **NORDIC EXPLORER** from 3D to 2D/source vessels and by returning Orient Explorer to the vessel's owner when the charter expired at year-end 2009.

CANCELLATION OF ARROW SEISMIC VESSEL new-builds 532 and 533 (NB 532 and NB 533).

CAROL BELL AND INGAR SKAUG were elected as new Board Members in October.

Successful private **PGS SHARE PLACEMENT** directed at professional Norwegian and international investors, with net proceeds of approximately $119.0 million.

FRANCIS GUGEN WAS APPOINTED CHAIRMAN OF THE BOARD following Jens Ulltveit-Moe, who decided to resign from the chairmanship after serving for six years.

SOLD ONSHORE TO GEOKINETICS for approximately $205 million, of which approximately $184 million was paid in cash and the remaining amount in Geokinetics' common shares.

WORLD WIDE OFFICES

NORTH AMERICA
- Canada, Calgary (Marine)
- USA, Austin (Data Processing and Technology)
- USA, Houston (Marine, Data Processing and Technology)

CENTRAL AMERICA
- Mexico, Villahermosa (Data Processing and Technology)

SOUTH AMERICA
- Brazil, Rio de Janeiro (Marine, Data Processing and Technology)

EUROPE
- France, Pau
- Netherlands, Leiden
- Norway, Bergen
- Norway, Lysaker
- Norway, Stavanger
- Norway, Tronheim
- Russia, Moscow
- Russia, Gelendjik
- Sweden, Stockholm
- UK, Aberdeen
- UK, Edinburgh
- UK, Maidenhead
- UK, Weybridge

AFRICA
- Angola, Luanda
- Egypt, Cairo
- Nigeria, Lagos

ASIA
- China, Bejing
- India, Mumbai
- India, New Dehli
- Indonesia, Jakarta
- Japan, Makuhari
- Japan, Tokyo
- Kazakhstan, Almaty
- Malaysia, Kuala Lumpur
- Malaysia, Cyberjaya
- Oman, Muscat
- United Arab Emirates, Abu Dhabi
- Singapore
- Vietnam, Hanoi

AUSTRALIA
- Australia, Perth

PGS MAIN OFFICES

OSLO
Petroleum Geo-Services ASA
Strandveien 4
P.O.Box 89
NO-1325 Lysaker, Norway

Phone: +47 67 52 64 00
Fax: +47 67 52 64 64

HOUSTON
Petroleum Geo-Services, Inc.
15150 Memorial Drive
Houston, Texas 77079, USA

Phone: +1 281 509 8000
Fax: +1 281 509 8500

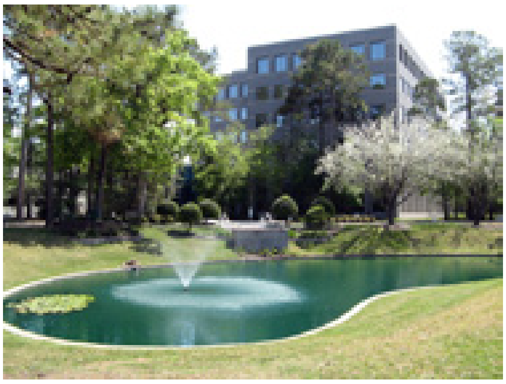
LONDON
Petroleum Geo-Services (UK) Ltd.
4, The Heights
Brooklands
Weybridge
Surrey KT13 0NY

Phone: +44 1932 37 6000
Fax: +44 1932 37 6100

SINGAPORE
Petroleum Geo-Services Asia
111 Somerset Road
#15-05/06
Triple One Somerset
Singapore 238164

Phone: +65 6735 6411
Fax: +65 6735 6413

PGS headquarters is located in Lysaker (Oslo), Norway



PGS' Houston office

PGS' new Weybridge office

LETTER FROM THE CEO

«WE HAVE THE WORLD'S MOST PRODUCTIVE AND COST-EFFECTIVE SEISMIC FLEET AND DELIVER COMPETITIVE RETURNS ON MULTICLIENT INVESTMENTS»

Dear Fellow Shareholder

PGS has navigated successfully through the challenges we faced entering into 2009. We strengthened our balance sheet and became better aligned with current market conditions. PGS's passage was facilitated by its high efficiency/low cost and its market leading technology. PGS is positioned better than ever to take advantage of the future marine geophysical market.

When the market turned in the latter half of 2008, we deliberately went as long as possible with respect to our order book and tried to lock in rates on attractive terms. As a consequence PGS could execute projects from a solid order book in the first three quarters of 2009, generate good margins and a strong cash flow. Average vessel booking reached a low of five months in April 2009, and has since improved. Continuous vessel booking is vital to maximize the efficient use of our assets and I am pleased to report that we were able to go through 2009 without any vessels being idle due to lack of work. I am truly proud of all our people who managed to execute our operational plans and helped us achieve such consistency.

We have the world's most productive and cost-effective seismic fleet and deliver competitive returns on MultiClient investments. Cutting-edge data processing capabilities and other leading proprietary technologies reinforce our strong market position. But most importantly, we have a highly experienced and dedicated staff that is recognized for their quality of work, adaptability, and innovation. Our people, state-of-the-art seismic vessels and technologies uniquely position us for continued solid performance.

In a challenging market with such a focus on execution and improved delivery, it is vital to remain vigilant regarding all aspects of health, safety, environment, and quality — HSEQ. Leadership in HSEQ is one of our core values. PGS is committed to operating in a manner that causes no harm to people, environment and equipment. The Company's systematic approach generates results; our HSEQ performance in 2009 was significantly better than in the previous year. Our Lost Time Incident Frequency (LTIF) for 2009 was 0.28 per million man-hours compared with 0.52 per million man-hours in 2008, and our Total Recordable Case Frequency (TRCF) was 1.17 per million man-hours in 2009 vs. 1.71 per million man-hours in 2008.

Deleveraging was a priority throughout 2009, and we actively pursued measures to strengthen the balance sheet. We carried out the $200 million asset sale plan that was launched in late 2008. Proceeds from the sale of the *Geo Atlantic*; divestiture of stakes in three smaller-sized exploration and production (E&P) companies, Genesis, Borders & Southern, and Endeavour; and leasing of data processing and technology equipment instead of buying, generated approximately half the targeted sales. Refund guarantees from cancellation of the first two Arrow new-builds will contribute in excess of another $100 million.

PGS further strengthened its financial position through a private share placement, which raised about $119 million. An active approach to freeing up cash, funding from shareholders, strong cash flow from operations, and a substantial reduction of capital expenditures enabled the Company to trim net interest bearing debt to $774 million at year-end 2009, down from a peak of $1.2 billion. At the end of the year we have a strong liquidity reserve of $472 million.

In the fourth quarter of 2009, we sold our Onshore business segment to Geokinetics. Combining Geokinetics and PGS' Onshore activities will create the second largest onshore seismic acquisition company in the world in terms of crew counts — and the largest such company operating in the

«PGS IS POSITIONED BETTER THAN EVER TO TAKE ADVANTAGE OF THE FUTURE MARINE GEOPHYSICAL MARKET»

Jon Erik Reinhardsen
Chief Executive Officer and President

Western Hemisphere. The transaction brings needed consolidation to a highly fragmented onshore industry and creates value for all stakeholders. Geokinetics paid a total of $205 million for the Onshore business, of which $184 mill in cash and 2.15 million shares were issued to PGS, which represent 12 percent of the outstanding shares in Geokinetics. The transaction closed February 12, 2010, and the proceeds will further strengthen PGS' financial position.

Financial performance in our Marine segment declined in 2009 compared to last year. Reduced demand and global vessel oversupply were the main reasons for lower revenues and margins. However, significant reduction in market capacity has improved the supply demand balance. PGS has converted two vessels from 3D operations to 2D/source, and one vessel was returned to its owner when its charter period expired at year-end 2009. Furthermore, we cancelled the new-build contracts for our first two Arrow class survey vessels due to shipyard construction delays that allowed for such termination with all installments to be refunded.

«DELEVERAGING WAS A PRIORITY THROUGHOUT 2009, AND PGS' MANAGEMENT ACTIVELY PURSUED MEASURES TO STRENGTHEN THE BALANCE SHEET»

Asset quality is a hallmark of PGS operations. Now that the newly built *Ramform Sterling* has entered service, our fleet is even more efficient, automated, and standardized. As the size and complexity of surveys continue to grow, the productivity of the PGS fleet gives us an even more decisive competitive edge. Our customers can gain faster access to better quality seismic data and thereby improve their profitability. Similarly, our MultiClient business once again demonstrated its industry-leading return on invested capital, with among the highest pre-funding levels in the industry.

Our Data Processing business has continued to grow and investments in improved efficiency and high-end imaging capabilities are paying off. An important contribution to the business unit in 2009 was the launch of PGS hyperBeam, a tool for near real-time velocity model building that can reduce the cycle time from months to days or minutes. Risk reduction is further enhanced by enabling multiple velocity model scenarios to be tested, which until now was not financially viable. Customers have shown great interest in PGS hyperBeam, which we will continue to develop in tandem with our high-end imaging portfolio, including AGS Beam Migration technology.

GeoStreamer® – 3D rollout
The GeoStreamer® was launched in June 2007. Heralded as the most significant breakthrough in streamer technology in 60 years, the first-ever dual-sensor streamer yields greater depth penetration, enhanced resolution, and improved operational efficiency. GeoStreamer® technology is unique in its ability to generate sharper, more precise imaging beneath salt, basalt, and other complex geological structures. We rolled out the technology on 2D vessels to demonstrate its advantages to customers in 2008, following on with successful 3D GeoStreamer® surveys in 2009. Installation and operations proceeded smoothly; during the North Sea season, two of our seismic vessels deployed the new streamer technology.

GeoStreamer® constitutes a very unique future business and technology platform for PGS, and we continue strong developments both on the streamer technology as well as data processing. Since the launch of the GeoStreamer® we are now on the 3rd generation hardware, providing significant improvements in noise levels and we have developed several differentiating processing capabilities to take full advantage of this technology.

As the world's future oil and gas resources become increasingly difficult to discover, we expect GeoStreamer® seismic to play a key role in locating these valuable resources. Based on feedback and client interest, we have decided to accelerate GeoStreamer® rollout. By the end of 2010, approximately half of our capacity will be GeoStreamer®. In late 2009, *Ramform Challenger* became the first Ramform vessel converted to GeoStreamer® surveying; three more Ramform vessels are scheduled to be equipped with the new streamer technology in 2010.

Within the Technology division in 2009 we maintained the level of technology spending on GeoStreamer® and technologies related to vessel productivity and data quality. We restructured parts of PGS EM to better align our electromagnetic survey unit with market demand. Despite the downsizing, we remain confident about our EM business. Successful field testing in 2009 of a towed EM system has advanced the evolution of cost-effective marine EM applications. PGS EM will continue to refine processing and inversion methods to stimulate further customer acceptance of EM's position in oil companies' value chains.

PGS' technologies rank among the best in the market, and in some areas they are unparalleled. Our marine fleet is the industry's most efficient.

Even in a weak market such as 2009 and early 2010, PGS is well-positioned to generate healthy cash flows.

Worldwide, PGS has approximately 2,100 employees. Our company has 42 offices, including 21 data processing centers, in 24 countries. Our employee base is truly international.

Entering 2010, PGS has an average vessel booking of six months, forming a strong foundation for projected earnings. Our customer base is solid with predominantly super majors, national oil companies, and larger independent oil companies as clients. We are currently seeing increased interest from most customers and in particular from the smaller independent companies, representing the marginal increase in demand needed to achieve higher prices.

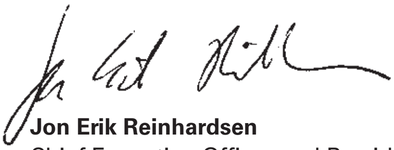
Outlook

Oil prices increased substantially in 2009 and at the time of writing, were hovering between $70 and $80 per barrel. The correlation between oil prices and demand for seismic services is strong. Recovery in pricing will not occur as quickly as oil prices have increased, primarily because of the current overcapacity in the seismic market. Oil companies need to feel confident that oil prices have stabilized before revising budgets and current planning prices. We assume contract prices in 2010 will remain flat, based on current order book and market activity. We are well positioned to handle a flat market, due to our competitive services, leading technologies, and long-term financing. For the same reasons, we believe we will emerge from this downturn stronger, relative to our competitors.

The world will need to find and put into production six times Saudi Arabia's oil production capacity over the next 20 years to meet predicted demand, according to the 2009 IEA World Energy Outlook report. The long-term prospects for our industry are good.

Energy companies are searching for new hydrocarbon resources in deepwater regions with extreme reservoir depths and complex geologies. The age of easy oil is over. We firmly believe these factors will intensify demand for advanced Higher Density 3D and 4D (HD3D and HD4D) seismic services. We continue to see demand growth in HD4D seismic over producing reservoirs, a product area less exposed to cyclical demand. The results of more HD4D surveys are increased oil and gas recovery from existing fields and extended field life. Approximately 50 percent of all PGS vessel months are currently spent on acquiring HD3D and HD4D seismic — substantially higher than industry average. Our advanced fleet is uniquely positioned to compete and earn solid margins in the high density markets in the years to come.

PGS became a stronger player in 2009. Financial risk was reduced, marine operations received more focus, and we deploy an even better fleet. Further commercialization of proprietary technology and new technology launches won considerable customer approval. PGS is positioned better than ever to take advantage of the future marine geophysical market.



Jon Erik Reinhardsen
Chief Executive Officer and President

«IN THE FOURTH QUARTER OF 2009, WE SOLD OUR ONSHORE BUSINESS SEGMENT TO GEOKINETICS»

ROBUST PERFORMANCE THROUGH THE CYCLE

«PGS PROVIDES A BROAD RANGE OF GEOPHYSICAL AND RESERVOIR SERVICES WORLDWIDE»

Petroleum Geo-Services ASA (PGS or the Company) is a focused marine geophysical company. Noted for technological innovation, PGS ranks among the world's three largest marine seismic survey, data processing, reservoir analysis, and MultiClient library suppliers. After the sale of the Onshore business the Company's operations are organized within Marine and Data Processing & Technology.

PGS provides a broad range of geophysical and reservoir services worldwide. Key market niches are seismic and electromagnetic data acquisition, survey data processing, reservoir interpretation, and field evaluation. PGS operates through the business units: Marine and Data Processing & Technology. In 2009, the Company sold its Onshore business activities to US-based Geokinetics Inc. (Geokinetics) for a total amount of $205 million. The sale provides consolidation in a fragmented Onshore market. PGS Onshore is a good industrial fit for Geokinetics in terms of skills, technology, and geographical presence. The combined company constitutes the second largest provider of onshore seismic data acquisition services in the world in terms of crew count and the largest such enterprise based in the Western Hemisphere. PGS will continue its presence as a significant Geokinetics shareholder. The larger and more comprehensive Geokinetics enterprise offers a broad range of technologies that includes marine transition zone surveys, ocean-bottom cable and land vibroseis data acquisition. Acquiring PGS' Onshore operations enables Geokinetics to compete even more effectively across the entire onshore seismic value chain of planning, acquisition, processing and interpretation services.

As a marine geophysical company, PGS can concentrate its resources on further developing its Marine business segment. The business model is to acquire and market seismic data worldwide to oil and natural gas companies and governments. Customers use the data to identify hydrocarbons, to determine the size and structure of reservoirs, and to optimize reservoir production. A highly efficient seismic fleet and acquisition technologies are key competitive advantages of PGS.

PGS acquires and processes seismic data under exclusive contracts with individual customers or, alternatively, for PGS' library of MultiClient field surveys. PGS invests in MultiClient seismic surveys, and the processed data sets and imaging are marketed to multiple customers on a non-exclusive basis. MultiClient has two revenue sources: customers who are pre-funding surveys and so-called late sales from its MultiClient library of acquired and processed data.

Data Processing & Technology (DP&T) is managed as a separate organization, because of its distinctive specializations. However, DP&T activities are included in the financial reporting of PGS' Marine business segment. DP&T has four departments: DATA PROCESSING provides a full range of processing, advanced imaging, and reservoir-related processing services to a global exploration and production customer base — and to PGS' MultiClient library and regional MegaSurveys. GEOSCIENCE & ENGINEERING constitutes the Company's R&D unit. Core activities are GeoStreamer® dual-sensor streamer technology, survey fleet efficiency, high-end imaging and automation, electromagnetic (EM) acquisition research, and Reservoir Services consulting. Reservoir Services' industry-leading team of subsurface and production geoscientists provides interpretation and reservoir characterization expertise to PGS and external customers. COMMERCIALIZATION & NEW VENTURES focuses on introducing new technology and products to the marketplace. The department is also the process owner of the PGS innovation value chain, established to ensure maximum return on technology investments, such as optoSeis®, PGS' fiber optic monitoring system that is permanently installed on the seabed. The fourth department is PGS EM where the Company manages its EM activities.

PGS History
Petroleum Geo-Services was established in 1991 through the merger of Geoteam and Nopec. PGS was listed on the Oslo Stock Exchange in 1992 and on NASDAQ in 1993. In 1997, the Company transferred trade in its American Depository Shares (ADS) to the New York Stock Exchange. Today, PGS is listed on the Oslo Stock Exchange while ADS trade is quoted on the US Pink Sheets. During 1995 to 1999, PGS designed, built, and deployed six Ramform survey vessels and grew to become one of the worldwide leaders in developing and industrializing 3D Marine seismic acquisition.

In 1998 PGS acquired Golar-Nor, and the acquisition gave the Company a foothold in the Floating Production Storage and Offloading (FPSO) market. As the year 2000 approached, PGS' financial situation deteriorated. Aggressive growth in a declining market strained the Company's liquidity. Sale of shares in the subsidiary Spinnaker Exploration, a Gulf of Mexico oil company, and sale of PGS' global Petrobank Data Management business and related software provided some relief.

In an attempt to secure maximum utilization of its FPSO fleet, PGS bought a 70-percent license interest in the Varg field in the North Sea from Norsk Hydro and Statoil in 2001 and established the exploration and production company Pertra. PGS' liquidity situation remained challenging and the Company tried to sell another non-core asset, the exploration and production company Atlantis. While trying to sell Atlantis, PGS management discussed a possible merger with Veritas DGC. One of the conditions Veritas DGC set forth in the proposed merger agreement was that Atlantis had to be sold prior to the merger. The protracted effort to sell Atlantis remained unsuccessful, and the merger negotiations ceased. Finally, in early 2003, PGS and Sinochem reached an agreement, but at a significantly lower price than PGS' original asking price. The low Atlantis sale price at a time when the seismic market was weak, and an inability to meet debt installment payments left PGS with no alternative other than to voluntarily file for reorganization under Chapter 11 of the US Bankruptcy Code in July 2003. PGS emerged from Chapter 11 four months later.

In March 2005, the exploration and production company Pertra was sold to Talisman and PGS became a dedicated oil services company. Divestments continued. In 2006, PGS demerged its floating production unit Petrojarl. In late 2009, an agreement was entered into to sell PGS' Onshore seismic business to Houston-based Geokinetics. PGS is now a focused marine geophysical company; competitive advantages include advanced data processing and imaging capabilities and the Company's Ramform seismic fleet, offering proven operational capabilities, superior efficiency, and leading technologies. PGS holds the industry record of towing and handling the greatest number of streamers. The deployment of newly built *Ramform Sovereign* in March 2008 and *Ramform Sterling* in June 2009 enhanced fleet capacity and efficiency. The two Ramform S-class vessels are the world's most advanced seismic vessels, capable of towing 22 streamers at a record-wide streamer spread of 1.3 kilometers.

«THE TWO RAMFORM S-CLASS VESSELS ARE THE WORLD'S MOST ADVANCED SEISMIC VESSELS»

PGS Key Figures
In 2009, PGS proved its ability to deliver robust performance through the industry cycle and maintained acceptable revenues from continuing operations and earnings despite a challenging market. Revenues from continuing operations in 2009 were $1.35 billion. Earnings before interest, tax, depreciation, and amortization (EBITDA) in 2009 amounted to $672 million, and operating profit (EBIT), excluding special items, was $387 million. EBITDA was down 25 percent, compared with 2008 and EBIT decreased 44 percent from 2008. The average EBIT margin for marine contract acquisition work in 2009 was 39 percent, compared with 49 percent in 2008.

PGS headquarters are located at Lysaker (Oslo), Norway. The Company is represented in 24 countries around the world, with larger regional offices in London, Houston, and Singapore. At year-end 2009, PGS had approximately 2,100 full time employees in continuing operations.

MARINE

PGS' BUSINESS UNIT MARINE ACQUIRES AND MARKETS SEISMIC DATA THAT IS USED BY OIL AND NATURAL GAS COMPANIES AND GOVERNMENTS GLOBALLY. THEY USE THE DATA TO FIND HYDROCARBONS, TO DETERMINE THE SIZE AND STRUCTURE OF RESERVOIRS AND TO HELP OPTIMIZE THE PRODUCTION OF EXISTING RESOURCES.

PGS MARINE

STATE-OF-THE-ART FLEET
EFFICIENCY AND PRODUCTIVITY LEADERSHIP
THE WORLD'S MOST DIVERSE HIGH-TECHNOLOGY MULTICLIENT LIBRARY
ACCELERATED GEOSTREAMER® ROLLOUT

Strong Performance in a Challenging Market

During the first three quarters of 2009, PGS' Marine segment successfully transformed an attractive order book, mainly projects contracted late 2008, into strong earnings and cash flow. Building order book continuity to maximize vessel utilization was a key priority throughout 2009. The Marine organization managed operations and signing up new orders exceptionally well in a challenging market. GeoStreamer® rollout continues — in 2009 the technology was sucessfully implemented on the first 3D vessel.

PGS — one of the world's three largest marine seismic companies — owns the industry's most diverse and high-technology marine 3D MultiClient library.

At year end 2009, PGS' Marine 3D streamer fleet operations consisted of:

- Seven Ramform vessels, capable of towing up to 22 streamers
- Two classic streamer vessels, capable of towing six streamers
- Three 2D vessels

PGS took delivery of the new *Ramform Sterling* in June 2009. It is a state-of-the-art, purpose-built seismic vessel capable of towing up to 22 streamers. The first vessel in the Ramform S-class family, *Ramform Sovereign*, was delivered in March 2008. PGS will take delivery of the 10-12 streamer vessel *PGS Apollo* late first quarter 2010.

Capacity Reductions in 2009

Demand for seismic survey work dropped sharply in late 2008 as a result of the financial crisis and falling oil prices. Focus among oil companies shifted from growth to preserving cash and cutting costs. Although demand has decreased, the supply of seismic capacity is increasing. During 2009 significant capacity has been taken out of the 3D market by converting, stacking, or scrapping older vessels, and cancelling newbuild orders.

During 2009, PGS converted the 3D vessels *Nordic Explorer* and *Ocean Explorer* to 2D/source vessels. The *Orient Explorer*, which PGS had chartered until year-end 2009, was returned to its owner. In addition, PGS has cancelled the first two, out of four new-builds in Spain (Arrow new-builds), due to shipyard delays. At the time PGS acquired Arrow Seismic the company was constructing four 3D vessels. The two first where originally chartered the WesternGeco. The two other vessels, *PGS Apollo* and *PGS Artemis*, are intended to be a part of PGS seismic operations. PGS also converted the *Beaufort Explorer* from 3D to 2D in 2008. By year-end 2009, PGS had reduced capacity by approximately 40 streamers.

The Ramform Advantage

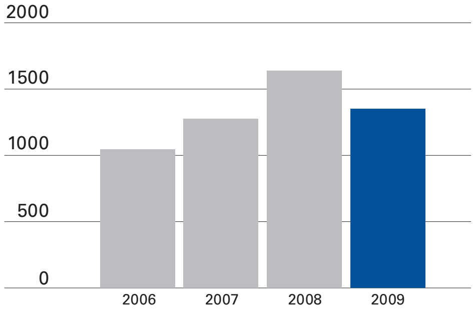
PGS is recognized throughout the industry for its Ramform vessels. The vessels have a delta-shaped hull with a characteristic extreme maximum aft beam, twice that of a conventional vessel. This allows for efficient retrieval and deployment of streamers and air-blast sources. Ramform's propulsion power is industry leading. The Ramform S-class has enough thrust to tow a 1.3-kilometer-wide spread with streamers that are more than eight kilometers long. The acknowledged efficiency and productivity benefits of the Ramform vessels and the operational effectiveness of PGS personnel makes the Company's fleet industry leading. (See business case on page 19 for further information.)

2009 HSEQ Performance

PGS Marine had a Lost Time Incidents Frequency (LTIF) of 0.76 per million man-hours in 2009, compared with an LTIF of 1.26 in 2008. Further, Marine had a Total Recordable Case Frequency (TRCF) of 2.40 per million man-hours in 2009, compared with 2.17 in 2008. The decrease in incident frequency is

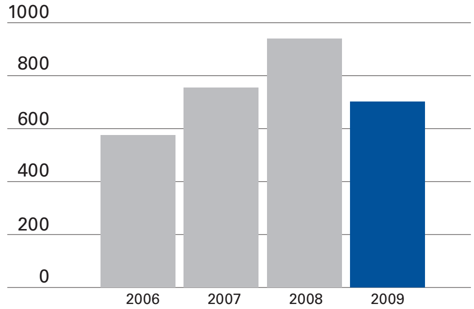
Marine Revenues

In millions of US dollars



Adjusted EBITDA

In millions of US dollars



PGS is a pioneer in towing large spreads with the Ramform vessels. Already in 2001 the Company successfully towed 16 streamers with the *Ramform Victory* (now Shigen).

due to implementation of enhanced induction training for new recruits along with awareness campaigns for the most common causes of accidents and a general renewal of focus on HSEQ training throughout the Group. The 2009 results are in line with a multi-year trend of steady improvements.

2009 Operational Performance

The Marine business unit conducts contract seismic, where data is acquired under exclusive contractual agreements with a customer, and MultiClient seismic, for which PGS itself invests in seismic surveys, which are then marketed to multiple customers on a non-exclusive basis. As a result of a more challenging market, Marine revenues decreased by approximately 18 percent compared with 2008 and ended at $1,349.7 million in 2009. Marine contract revenues were $893.1 million, down 16 percent compared with 2008. The decrease is primarily due to lower prices. MultiClient revenues were $350.7 million in 2009, down 20 percent compared with the previous year. Europe, the Mediterranean, and the Gulf of Mexico were areas that provided significant MultiClient revenue contributions in 2009.

Pre-funding as a percentage of cash investments in MultiClient data, excluding capitalized interest, decreased to 92 percent in 2009 from 112 percent in 2008. Similarly, capitalized cash investments in the MultiClient library, excluding capitalized interest, decreased from $223.7 million in 2008 to $183.1 million in 2009. In 2009, the Company used 75 percent of active vessel time to acquire contract seismic and 25 percent to acquire MultiClient seismic. The comparative

2008 figures were approximately 80 percent and 20 percent, respectively. In 2010, the Company expects to invest approximately the same amount in MultiClient as in 2009. Activity levels can be ramped up to take advantage of GeoStreamer® benefits in the MultiClient segment, where it can be marketed to multiple customers on a non-exclusive basis and used to showcase its benefits.

At year-end 2009, the order book for Marine and Data Processing was $438 million, compared with $871 million at year-end 2008.

HD3D®

High Density 3D (HD3D®) seismic is a premium seismic data product. HD3D® delivers the highest resolution, highest-quality 3D data products to address a broad range of challenges in areas such as exploration, detailed reservoir description, and time-lapse reservoir monitoring (4D).

PGS intends to grow and consolidate its HD3D® strengths by developing new technologies that further improve efficiencies and fully exploit the potential value of properly sampled seismic data.

Of the total market, HD3D® activity accounts for approximately 30 percent, measured in vessel months. On average competition allocates approximately 25 percent of all vessel months to HD3D-type assignments, while approximately 50 percent of PGS' vessel months are dedicated to the same segment. A strong presence in the HD3D® market is important since demand for these surveys is relatively stable despite a challenging market. PGS' cost-effective and high-end Ramform fleet is well suited to conducting HD3D® surveys and positions PGS uniquely in the race among oil companies to find hydrocarbons at deeper targets and in more complex structures.

Rollout of GeoStreamer®

GeoStreamer® is a proprietary, dual sensor streamer technology unique to PGS. With the quest for remaining oil and gas fields getting more difficult, deeper reservoirs are being sought, under more challenging overburdens and within increasingly complex stratigraphic traps. GeoStreamer® offers oil companies better penetration, enhanced resolution, reduced risk, and improved imaging and attributes. Demand has surpassed all expectations. During 2008, the technology was commercialized, followed by wide acceptance among oil companies. PGS rolled out the new streamer technology on 2D vessels in 2008 to prove its benefits to customers. In 2009, PGS extended the rollout to 3D operations, and the *Atlantic Explorer* was the first 3D vessel to have the new streamer technology installed. During the North Sea season, in the second and third quarters of the year, the 3D vessel *Nordic Explorer* was temporarily equipped with GeoStreamer®.

In addition to better seismic data quality, the GeoStreamer® can be towed deeper than a conventional streamer, which significantly improves operational efficiency under rough conditions. For example, a 3D GeoStreamer® vessel in the North Sea recorded 80 percent less weather downtime than a conventional vessel operating nearby. In Arctic regions, greater operational efficiency becomes even

PGS took delivery of the vessel *PGS Apollo* **late first quarter 2010.** The newest vessel in the Company's fleet.

THE FLEET TO BEAT

The Ramform vessel is a distinctive PGS trademark. The concept of the delta-shaped hull with a characteristic extreme maximum aft beam, twice the beam of a conventional vessel, was introduced with the *Ramform Explorer* in 1995. In her first North Sea season, she became the first vessel to tow eight streamers. The benefits of the Ramform vessel were immediately obvious, and PGS continued to order more of these purpose-built seismic vessels. *Ramform Challenger*, the next in the series, entered the market in 1996, followed by *Ramform Viking* and *Valiant* two years later and *Ramform Vanguard* and *Victory* (now *Shigen*) in 1999.

Early on, PGS differentiated itself as the most efficient player in the industry. In the mid-1990s, PGS built vessels that towed 8-12 streamers, while the competitors built vessels with four to six streamers. During the late 1990s, PGS built vessels with 16-18 streamers while the competition at that time built vessels with six to eight streamers. PGS was well ahead of its time and rapidly gained a productivity advantage over its competitors, which has become more pronounced in the past five years. The size of a seismic survey is the most important factor in establishing pricing and the quicker the job gets done, the greater the margin an operator can earn.

PGS has continued to focus on high-capacity vessels. The *Ramform Sovereign* and *Ramform Sterling*, which entered service in 2008 and 2009, respectively, were even larger and more capable than the first Ramform generations. With seven Ramforms in operation (eight if *Shigen*, the vessel sold to the Japanese Ministry of Economy, Trade and Industry is included), PGS has by far the most cost-effective fleet measured in cost per streamer per day. PGS' position on the industry cost curve will improve further in 2010 as *Ramform Explorer* (the first Ramform vessel in the Company's fleet delivered in 1995) will get more propulsion power in order to tow 10 streamers rather than eight on a regular basis.

Ramform vessels - the distinctive PGS trademark was introduced with the *Ramform Explorer* in 1995. In 2010 the vessel will be upgraded and get more propulsion power and again become one of the best and most efficient vessels in the industry.

Now that the age of easy oil is history, customers are surveying deeper targets in more complex areas. The inherent capabilities of the Ramform vessels become more apparent as customers increasingly demand high-capacity vessels, both for time-lapse surveys (4D) and exploration purposes. PGS performed the first 16-streamer survey using the *Ramform Victory* (now *Shigen*) in April 2001. This is still a pioneering achievement, considering competition only rarely performs surveys with more than 10 streamers.
During the 2009 North Sea season, both the *Ramform Viking* and *Vanguard* successfully performed 16-streamer jobs. In 2008, the *Ramform Sovereign* set two industry records: simultaneous towing of 17 streamers, and towing the widest spread achieved by a single vessel (14 streamers of eight kilometers' length, each with 100-meter separation = 1.3 kilometer-wide spread).

more apparent. Late third quarter/early fourth quarter 2009, a PGS GeoStreamer® vessel acquired seismic data offshore Greenland, and slashed the total survey time by 50 percent compared with a survey using conventional streamers. Improved operational efficiency is a clear PGS advantage and a contributor to increased margins — while customers benefit from shorter cycle times.

Based on feedback and demand from clients, PGS will accelerate GeoStreamer® rollout. Installation of the new streamer technology continued in the fourth quarter of 2009, as *Ramform Challenger* became the first Ramform vessel to be equipped with GeoStreamer®. In 2010, three more Ramform vessels are scheduled for GeoStreamer® upgrades and by year-end 2010, approximately 50 percent of PGS' streamer capacity will be GeoStreamer®.

Market and Market Position

PGS Marine has a market share of approximately 28 percent measured in acquired square kilometers of 3D seismic. Based on number of streamers, its market share is 25 percent; the figure reflects the efficiency of the PGS fleet. The Company's main competitors are WesternGeco and CGGVeritas. Other established, but smaller-sized players are Fugro, via its Geoscience Division, and TGS Nopec. New market entrants include Polarcus and the smaller Reflect Geophysical, Bergen Oilfield Services, and MultiClient Geophysical. Smaller-sized seismic companies competing in the low-end segment are facing strong competition from peers as well as established players. The seismic company Scan Geophysical filed for bankruptcy in the summer of 2009.

Additionally, there are several niche players such as Electromagnetic Geoservices, Offshore Hydrocarbon Mapping, Seabird Exploration, and Reservoir Exploration Technology — all of which are active within limited areas of PGS' overall service scope.

In 2007, there were two significant company acquisitions in the seismic industry: WesternGeco acquired EasternEcho and PGS acquired Arrow Seismic. The seismic market consolidated further when CGGVeritas merged with Wavefield Inseis in early 2009. The three largest companies in the seismic industry has approximately 80 percent of total streamer capacity.

MultiClient Library

PGS owns a substantial library of marine MultiClient seismic data in all of the major oil and gas basins of the world. The marine MultiClient data library comprises more than 400,000 square kilometers of 3D and more than 200,000 line kilometers of recent 2D seismic. In addition, PGS has integrated 240,000 square kilometers of third-party data to build MegaSurveys with a total coverage of 390,000 square kilometers. MegaSurveys integrate multiple surveys into a single contiguous dataset to offer high-quality data for full basin-wide prospectivity and regional modeling studies.

In the fourth quarter of 2009, PGS commenced a Wide Azimuth (WAZ) survey in the Gulf of Mexico at East Breaks. The survey marks a continuation of PGS' Gulf of Mexico WAZ campaign, which has received strong industry support. The acquisition phase at East Breaks is estimated to last approximately six months with first image delivery scheduled for the fourth quarter of 2010 (the business case on page 21 presents the survey in greater detail).

Goals and Strategies

PGS Marine aims to capture value from its strong operating platform by leveraging productivity leadership, increasing vessels streamer counts, and maximizing the Company's capacity utilization.

PGS will focus on high-end value-added products and services such as GeoStreamer®, HD3D®, Wide Azimuth, Multi Azimuth, 4D, and MegaSurveys and will continue to build the MultiClient library with an emphasis on these technologies.

Outlook for 2010

PGS expects Marine contract revenues to decrease despite additional PGS capacity coming on stream in 2010. The decrease reflects a decline from the high-margin work signed in 2008 and executed in most of 2009. Price pressure has leveled off, and the Company projects stable Marine contract pricing throughout 2010. The accelerated rollout of GeoStreamer® will increase capital expenditures and also slightly increase time spent at yard compared with a normal year. MultiClient investment in 2010 is expected to be in line with the level seen in 2009.

EAST BREAKS — ON TRACK IN THE GULF OF MEXICO

In early November 2009, PGS began data acquisition for the amply pre-funded East Breaks Wide Azimuth survey in the Gulf of Mexico (GoM). The survey will cover 449 OCS blocks, or 10,488 square kilometers, and is the third Wide Azimuth (WAZ) survey in the GoM acquired by PGS. This survey is positioned in the western part of the GoM to allow oil companies to explore the Wilcox play, the more distal part in which the huge Tiber discovery was made. The two first WAZ surveys acquired by PGS — Crystal I and Crystal II — are located in the Garden Banks, Keathley Canyon, Green Canyon, and Walker Ridge area. These surveys combined cover 580 OCS blocks or almost 13,000 square kilometers.

East Breaks marks the return for PGS to the GoM, after a 1.5-year hiatus. Acquisition design of the survey is different from the first two WAZ surveys, in the sense that there is a single pass WATS configuration with two Ramform V-class vessels, the *Ramform Valiant* and the *Ramform Viking*, towing a source and streamers, together with the two source vessels *Ocean Explorer* and *Harrier Explorer*. The design of Crystal I and Crystal II had the *Ramform Viking* towing the streamers and two vessels, *Falcon Explorer* and *Aquila Explorer*, providing the source.

The acquisition phase of the East Breaks is estimated to run approximately six months, while first image delivery is scheduled for the fourth quarter of 2010. East Breaks is designed to overcome the challenges associated with complex sub-salt imaging and subsequent data processing; leading-edge technology will be utilized, such as Tilted Transverse Isotropy Beam and Reverse Time Migration. Good pre-funding levels demonstrate a vote of confidence from the industry in PGS delivering a dataset with superior imaging in order to minimize exploration risks in the East Breaks area.

Ramform Valiant is acquiring seismic data on the East Breaks MultiClient Survey in the Gulf of Mexico together with *Ramform Viking* and the two source vessels *Ocean Explorer* and *Harrier Explorer.*

DATA PROCESSING AND TECHNOLOGY

PGS' DATA PROCESSING AND TECHNOLOGY HAS FOUR DEPARTMENTS. THE DATA PROCESSING ORGANIZATION INCLUDES SPECIALIZED DEPTH IMAGING AND RESERVOIR RELATED CONSULTING ACTIVITIES. TECHNOLOGY DEVELOPMENT AND DEPLOYMENT IS CONDUCTED BY THE GEOSCIENCE & ENGINEERING ORGANIZATION WITH A GLOBAL RESPONSIBILITY FOR RESEARCH AND DEVELOPMENT, AS WELL AS GEOPHYSICAL SUPPORT FOR THE SEISMIC OPERATIONS. THE COMMERCIALIZATION & NEW VENTURES GROUP HAS THE OVERALL RESPONSIBILITY FOR INTRODUCING NEW TECHNOLOGY PRODUCTS TO THE MARKET. PGS EM IS WHERE THE COMPANY MANAGE ITS ELECTROMAGNETIC OPERATIONS.

PGS DATA PROCESSING AND TECHNOLOGY

DATA PROCESSING
GEOSCIENCE & ENGINEERING
COMMERCIALIZATION & NEW VENTURES
PGS EM

A Top Tier Position

Despite the downturn in 2009, PGS continued to grow its Data Processing (DP) business and launched new technologies that will help differentiate PGS in today's and tomorrow's market. Achievements in 2009 included acquiring and processing the first-ever 3D GeoStreamer® survey, launching the PGS hyperBeam technology, establishing a record revenue order book, and receiving two highly coveted awards for the new London MegaCentre.

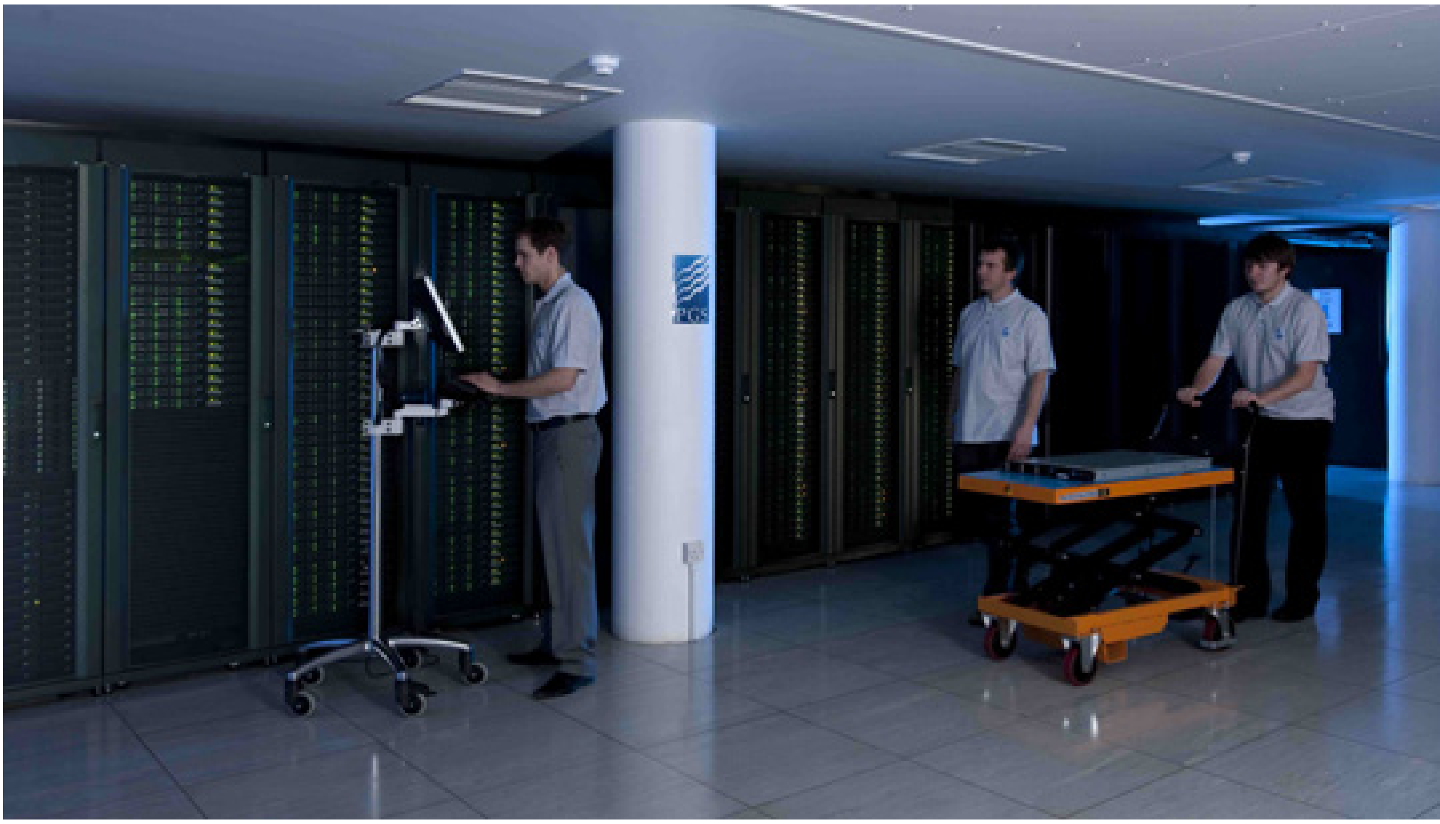
Data Processing
Data Processing focuses on delivering geophysical solutions that offer significantly improved imaging and characterization of customers' reservoirs. In 2008, PGS introduced a number of state-of-the-art imaging products that in 2009 led to several long-term contracts utilizing these technologies, especially the AGS Beam Migration. Strong growth in multiyear contracts with national oil companies and international oil majors has resulted in a record order book and six percent growth in a generally depressed market.

GeoStreamer® has been implemented on a global scale. The first-ever 3D survey was conducted last year in the DeSoto Canyon area of the Gulf of Mexico, followed by several 3D surveys in the North Sea. PGS' GeoStreamer® fleet comprises two 3D vessels and three 2D vessels. More than 100,000 line kilometers of 2D and nearly 10,000 square kilometers of 3D had been acquired and processed (or were under processing) by year-end 2009. The data was gathered for both proprietary and MultiClient surveys. Data Processing has established GeoStreamer® processing teams at all major PGS centers around the world.

The GeoStreamer® technology has proved its capabilities on a variety of tough geological challenges, ranging from complex salt structures to shallow carbonates and many other highly challenging areas for seismic imaging. The results have been exceptional; every single line acquired and processed has delivered improved frequency bandwidth and data quality.

Applied Geophysical Services (AGS) Beam Migration is used in 80 percent of PGS' data processing centers around the world. AGS Beam Migration is the velocity model building tool for PGS and its customers. AGS was acquired by PGS in 2007. PGS' Villahermosa, Mexico data processing center was established largely to apply PGS' high-end imaging services with Beam Migration as the center's technology choice. PGS hyperBeam, which is based on the integration of AGS Beam Migration and holoSeis, was launched at the European Association of Geoscientists and Engineers (EAGE) in Europe and Society of Exploration Geophysicists (SEG) in the US in 2009. The newest addition to PGS' imaging technologies has been well received by customers. PGS hyperBeam technology provides improved client workflows from conception to production. The integration of holoSeis with the AGS Beam Migration allows customers to iterate velocity models quickly, enabling them to make faster, more informed decisions that cut their costs and reduce risk. High-end imaging technology has contributed an additional 30 percent of revenue to PGS data processing and has resulted in higher-quality data, shorter cycle times, and better-informed decision-making by customers.

The upgrade of the London MegaCentre in 2008 increased PGS' computing capacity significantly. The center design resulted in greater power savings exceeding expectations of the original design. The British Computer Society named the London MegaCentre "Environmental Project of the Year." Datacenter Dynamics declared it the winner for "Innovation in a Medium Data Center" for energy conservation and innovation resulting



in a cost-effective and environmentally conscious data center. These and other cost savings, the result of efficient data centers and optimization of algorithms, such as 3D SRME (5X faster), allow PGS' data processing business to reduce costs in a highly competitive industry.

Reservoir Services

PGS Reservoir is a leading provider of integrated geoscience services staffed by seasoned experts in sub-surface interpretation and reservoir characterization. The team provides skills that are integral to PGS MultiClient, MegaSurvey, Electromagnetic survey, and Data Processing businesses. Reservoir staff are also consultants to national, major, and independent oil companies, governments, and financial institutions.

The team produces interpretation products and services, including exploration play studies and AVO and inversion volumes that complement PGS MultiClient services and enhance the value of PGS data. Through these projects, PGS has gained a depth of knowledge of petroleum basins around the globe and an ability to accurately assess the variety of sub-surface risks a client faces.

Pioneering work for over a decade has made PGS Reservoir the recognized world leader for ultra-large-scale regional interpretation projects. Called the PGS MegaSurvey, some interpretation projects exceed 300,000 square kilometers in size. The projects are licensed on a MultiClient basis to oil companies and governments to assist in primary and secondary exploration.

With the upgrade of the London MegaCentre PGS' computing power increased significantly. The British Computer Society also named the London MegaCentre "Environmental Project of the Year," due to its design and power savings.

PGS' comprehensive MegaSurvey regional basin knowledge is also sought after by oil companies to evaluate exploration acreage for licensing applications or farm-in and farm-out opportunities. The Reservoir team has particularly strong experience from working on basins in the North Sea, off the coasts of East and West Africa, and in parts of Southeast Asia.

With increasing industry focus on enhancing oil recovery and improving reservoir understanding, PGS is investing in state-of-the-art reservoir characterization skills and technologies. In 2009, PGS concluded an exclusive agreement with DownUnder GeoSolutions to access its unique software tools. This technology collaboration has helped ensure that PGS now has a strong range of reservoir characterization tools that include the relative inversion technique, Prospect Scanner, for rapid exploration screening through to detailed fluid and lithology prediction at considerable depths.

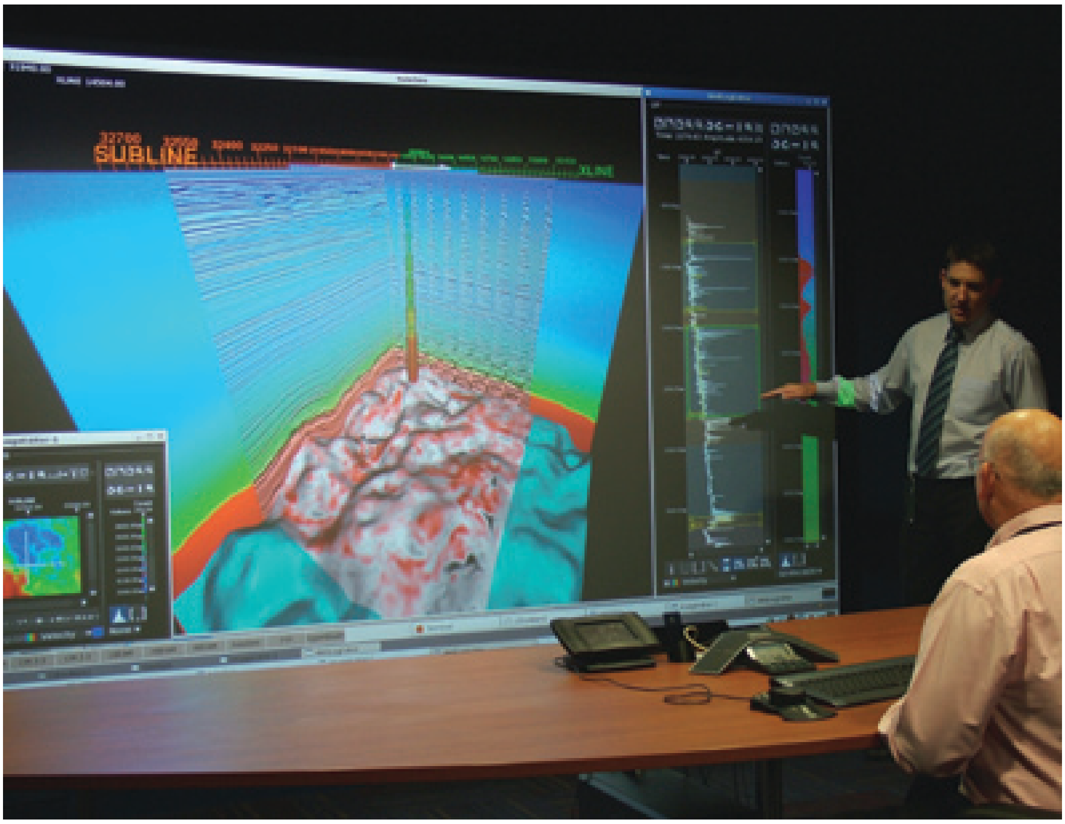
It is PGS' goal to provide clients with more integrated seismic data, processing, characterization, and interpretation solutions — which are necessary responses to the growing pressure to improve hydrocarbon recovery. These reservoir-focused services will help clients better image their reservoirs, quantify reservoir and fluid properties, and ultimately improve drilling success.

PGS Reservoir is moving its headquarters to Weybridge in the UK, where other PGS businesses have a strong presence. This move will ensure PGS is well placed to strengthen its range of integrated services.

Life of Field Seismic
Seismic monitoring of field production improves recovery and can offer field owners a very high return on such investments. PGS has developed a unique fiber-optic technology for permanently installed seismic monitoring. In 2009, the main effort was elaborate robustness testing of the design for 20 years service at water depths of up to 3,000 meters.

Geoscience & Engineering
PGS' research and development (R&D) is focused on marine seismic acquisition and data processing as well as cable-based and towed electromagnetic (EM) technology. PGS has large R&D departments in the United States, UK, and Norway with additional groups in the Netherlands; Sweden; Perth, Australia; and Singapore.

PGS' objective for R&D is to develop technology and services that sustain a leadership position in operational efficiency and that differentiate the Company's service provisions in finding and characterizing customers' complex reservoirs.



A lot of effort is put into building velocity models. Here they are using a well log to make sure they tie the known depth measured in the well with the depth in the model.

PGS HYPERBEAM — AN INDUSTRY-LEADING INTEGRATED VELOCITY MODEL BUILDING AND EDITING SOLUTION

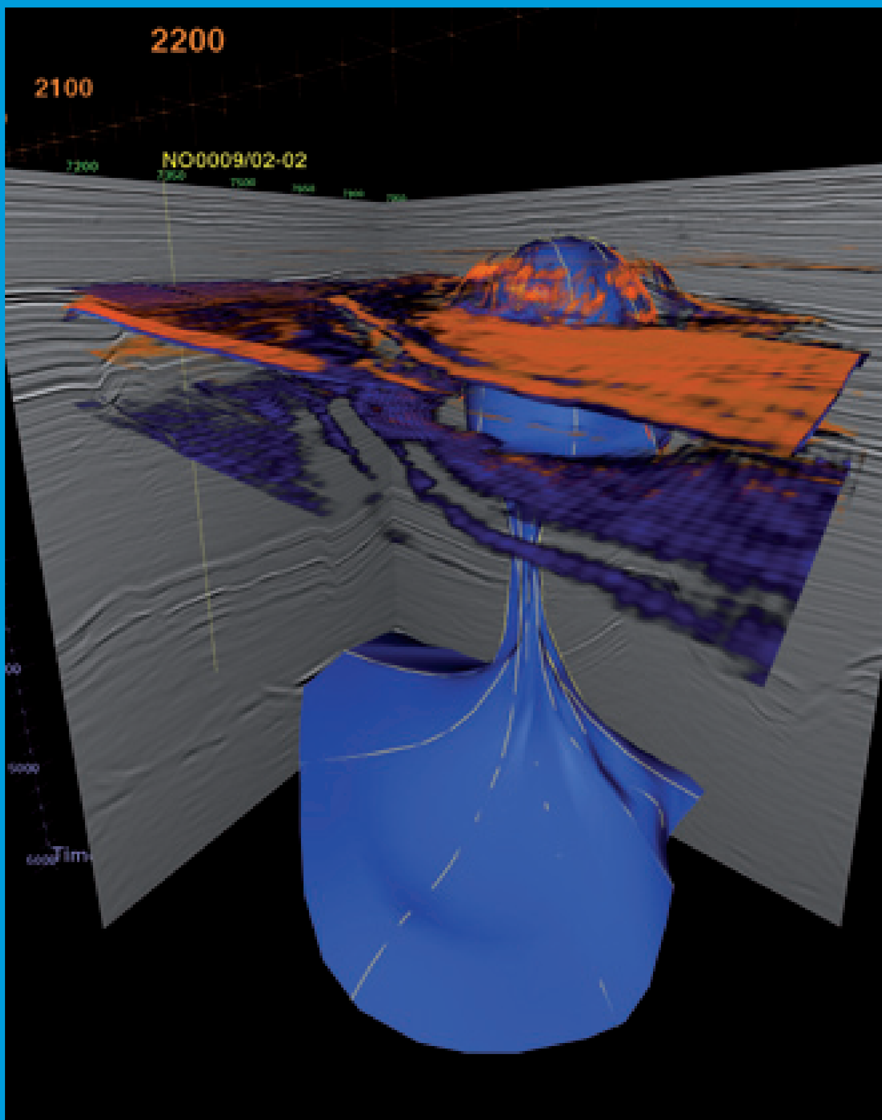
Depth imaging is firmly established as a key technology for producing optimal subsurface images for the exploration and production of oil and gas resources. The technology depends on the accuracy of the velocity model. Industry wide, this is too often associated with lengthy cycle times and a fragmented process, which limit scenario testing and lead to inaccurate models. PGS has produced an industry-leading solution through the integration of the holoSeis interactive 3D visualization capabilities with the fast AGS Beam Migration technology. Launched in 2009, PGS hyperBeam now allows cross-disciplinary teams from PGS and its customers to hold collaborative work sessions that generate faster and better models. Interest has been strong, and many oil companies have now proved the technology on their own projects.

From subsalt in the Gulf of Mexico to the layered models typical of the North Sea, PGS hyperBeam provides a wide array of interpretation capabilities suited to all geologies and acquisition geometries. Data can be interrogated and dissected with a maximum degree of flexibility so that each oil and gas prospect is processed through more scenarios in less time.

The PGS hyperBeam system features a high degree of flexibility, with capabilities for isotropic and anisotropic (VTI and TTI) velocity-model building, imaging, and tomography with applicability to all land and marine surveys, including Multi- and Wide Azimuth acquisition. Scanning for different velocity models allows the model builder and interpreter to directly interact when the interpretation is being applied to the velocity model. This capability is particularly useful when working with complex structures such as salt or carbonates. The impact on the model, and the resulting definition of the oil reservoirs, can be evaluated in one or two hours rather than requiring days or weeks.

Through collaborative workflows, PGS hyperBeam makes the vital transition from processing to interpretation more effective by bringing the geologist and geophysicist closer together, creating faster and more precise velocity models. These capabilities improve interpretation processes and shorten the time span between initial exploration and field production.

Below is an interpretation of a salt structure in the North Sea, together with seismic data both displayed inline and crossline, and also as a semi transparent volume. PGS hyperBeam is a tool for building better and more efficient velocity models as the one seen here.



Modeling and Visualization
Successful seismic surveys require careful planning to balance cost and quality objectives. PGS has developed one of the best and most comprehensive survey-planning software packages: Nucleus™. PGS proprietary Nucleus™ software is widely used throughout the oil and gas industry. It can simulate the results of a seismic survey with different source and receiver configurations through sophisticated seismic modeling. The recent release of Nucleus+™ has increased user efficiency significantly.

During 2009, the Nucleus+™ software's electromagnetic survey (EM) application was further developed and rigorously tested. The current release 1.8.10 is a useful tool in feasibility studies, survey planning, and EM data analysis. An important new feature is a common grid format for Nucleus+™ and holoSeis. This provides a powerful way to handle and build 3D resistivity structures. In particular, seismic data are used in holoSeis to create 3D resistivity grids that are exported to Nucleus+™ and then used in EM forward modeling for model evaluation purposes and better understanding of the data sensitivity to various sub-bottom resistivity variations.

At PGS, 3D visualization has become an integral part of the geophysical workflow. The Company's unique holoSeis visualization technology is part of the workflow — from quality control of seismic data during acquisition, to building complex velocity models for pre-stack depth migration and to visualize the end product for customers. The Company has more than 500 holoSeis installations worldwide in offices and onboard seismic vessels that provide the capability to visualize exceptionally large volumes of 3D data.

Marine Acquisition Technology
GeoStreamer®, PGS' unique dual-sensor solid streamer, will see further development, and significant R&D efforts are deployed toward improving all elements of the Company's acquisition systems and capabilities.

The first GeoStreamer® Steering System was successfully installed on a 2D vessel in 2009. The installation is the first step toward introducing lateral streamer steering for GeoStreamer®. When fully deployed, the new system will consist of three main parts: the eBird three-wing depth and lateral force device, the PGS proprietary onboard steering control system, and a new inline acoustic system for positioning seismic streamers. The eBird is a new type of inline depth and lateral force device developed in cooperation with Kongsberg Seatex. The system will provide benefits in several areas, including efficiency, HSE, and data quality.

In 2009, PGS successfully tested its new Towed EM system over the Peon Gas Field in the North Sea (see business case on page 29). The Towed EM system employs a single vessel to tow an EM source and an EM streamer. This system is under development and promises to be significantly more efficient than the conventional node-based CSEM systems currently offered to the industry. PGS is also using its patented multi-transient technology, which enables the Towed EM system to acquire EM data with a wider bandwidth and has the potential to deliver significant advantages, particularly in shallow waters. The offshore test was a major milestone in the Towed EM project, and the acquisition test system proved to be an excellent platform on which to start developing a commercial product.

Processing Technology
PGS has made considerable efforts to deliver efficient data processing solutions and technological differentiators to its clients. In the realm of time processing, this has included a client-rated "best in class" 3D SRME demultiple solution, a well-received proprietary suite of multi-dimensional regularization algorithms and technologically advanced solutions for the automated selection of dense velocity fields including Optivel (which uses a generic algorithm to quickly provide the optimum velocity and anisotropic parameter fields on even the densest processing grids). Focus is also placed on development projects to ensure that each processing project is completed with optimum efficiency, ensuring that clients receive value for their money.

PGS is offering GeoStreamer® as an integrated acquisition and processing solution. PGS has developed proprietary technology and built up considerable know-how concerning the generation of upgoing pressure wavefield data (P-UP) and full processing through to the final product delivery. The deployment of the GeoStreamer® wavefield separation process onboard PGS' 3D vessels is currently underway. Its launch is scheduled for late first quarter 2010. Workflows have been implemented to match the new generation of GeoStreamer® data with non-GeoStreamer® legacy data in the context of 4D processing. Full backward compatibility has been demonstrated.

The enhanced low-frequency signal content delivered by GeoStreamer® technology and the ability to separate the recorded wavefield into up- and down-going components can be used to improve velocity-model building and depth imaging. PGS processing technology has been upgraded to take full advantage of these benefits.

The additional energy at the low-frequency end is also used as input to full waveform inversion, an automated method to refine seismic velocity models. The application of the technique to GeoStreamer® 2D data has been proved. Current development is focusing on application to 3D GeoStreamer® data.

Innovation

PGS is investing in a significant portfolio of technology R&D projects. It is of the utmost importance to invest in the right R&D projects and also to ensure that project performance adheres to best practices. During 2009, PGS introduced significant process improvements for idea management, R&D portfolio management, and product development.

Early in the year, PGS implemented a revised technology strategy as a basis for technology roadmapping and technology R&D policies.

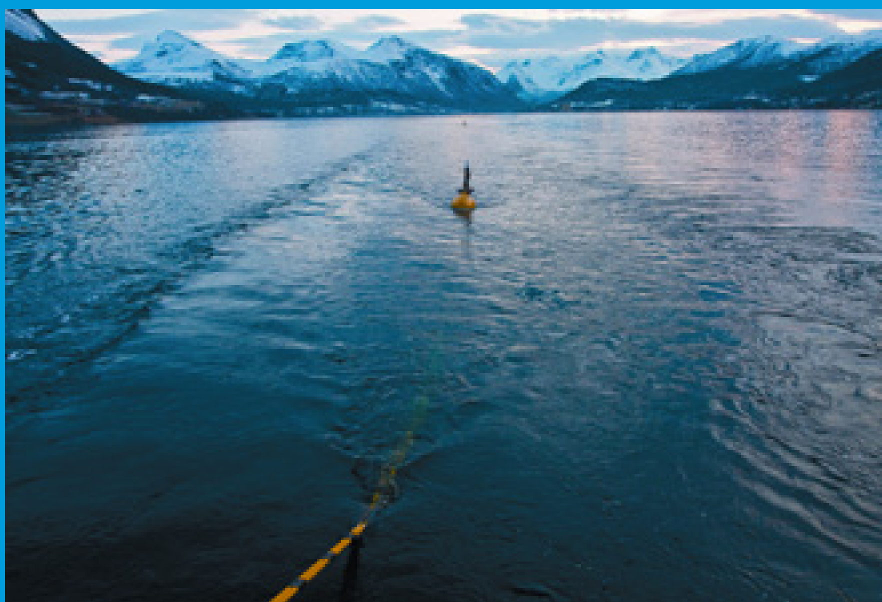
Intellectual Property

PGS' patents, trademarks, service marks, copyrights, and licenses protect its proprietary technology. Intellectual property rights include GeoStreamer®, Multi-Transient Electro Magnetic (MTEM®), optoSeis® and HD3D® seismic solution software, and PGS hyperBeam®. The Company's intellectual property rights collectively represent a material asset to its business. As of December 31, 2009, PGS held 143 patents under the laws of the US, the UK, and Norway. PGS has continued to increase the number of patents filed with 37 distinct new applications during 2009 in alignment with the Company's increased focus on competitive advantage through technological differentiators.

SUCCESSFUL FIRST TOWED EM STREAMER TEST

The Peon Field test showed that the Towed EM system is capable of acquiring EM data of sufficiently high signal-to-noise ratio to enable the detection and characterization of the highly resistive anomaly associated with the hydrocarbon accumulation of the Peon Gas Field. The Peon Gas Field is located in waters 400 meters deep; the reservoir is located 160 meters below the seabed. The EM source was deployed at a depth of 10 meters and the new EM streamer was deployed at 100 meters. The three kilometer long streamer contains 14 receivers, and data was collected along two survey lines using a surface-towed source with source strength 700A at 400 meter electrode separation.

More than 220 kilometers of EM data were acquired during this test, verifying the strong efficiency advantage of the towed EM system. Real-time monitoring and quality control were performed on source and receiver systems. Onboard processing showed clear detection of Peon reservoir hydrocarbon accumulation from acquired data. Further analysis showed sufficient quality and signal-to-noise ratio of the electric field data for successful detection and inversion of the highly resistive reservoir area, including distinction of some of the shallow gas accumulations above the reservoir. Client interest has been keen regarding this development project, which promises to bring a new level of efficiency to EM data acquisition that is comparable to the efficiency of seismic data techniques. PGS is preparing to test the Company's Towed EM system on deeper and more challenging targets.



A towed EM system will increase efficiency of EM acquisition significantly. The picture shows a field trial of a towed EM system.

CORPORATE SOCIAL RESPONSIBILITY

«PGS COMPLIES WITH THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE AND ADHERES TO INTERNATIONAL, NATIONAL, REGIONAL, AND STATE REGULATIONS»

PGS addresses many of the subject areas commonly associated with Corporate Social Responsibility (CSR) via a variety of means. In-house, PGS applies a number of initiatives, policies, and practices across the Company, which include corporate governance, core values, compliance with laws and regulations, and business conduct and practices.

PGS makes strenuous efforts to improve Health, Safety, Environment, and Quality (HSEQ) performance. Programs and practices encompass community development, care for employees, and employee conduct monitoring. As a leading geophysical company with operations in more than 20 countries, PGS is attuned to the need to identify and implement improvements in the way the Company does business worldwide.

In 2009, PGS established an in-house CSR group, chaired by CEO Jon Erik Reinhardsen, tasked with reviewing how PGS currently addresses the many aspects of CSR and how the Company can improve performance. With assistance from external experts in the field, a process is underway to refine and, if necessary, re-define the Company's ambition levels guided by the principles of globally recognized benchmark initiatives. In accordance with the Company's corporate governance structure, recommendations and outcomes from this group will be reviewed and evaluated by the PGS Board of Directors.

«REDUCING CARBON EMISSIONS PER UNIT OF PRODUCTION IN MARINE FIELD OPERATIONS CONTINUES TO BE A PGS FOCUS AREA»

Values and Compliance
PGS complies with the Norwegian Code of Practice for Corporate Governance and adheres to international, national, regional, and state regulations. The Company also comply with any industry-driven standards or best practices that are relevant to its core business activities and operations.

PGS' Code of Conduct reflects the Company's commitment to shareholders, customers, suppliers, and employees that PGS will conduct its business with the utmost integrity.

PGS' Core Values guide how the employees of the Company interact with colleagues, suppliers, customers, and others the Company encounter in day-to-day work. These documents are available on www.pgs.com.

PGS HSEQ Policy has been updated, which reflects the Company's commitment to manage its business in such a way that it minimizes risks to the health and safety of employees and others affected by the Company's activities. PGS vision is to be the safest company in the global geophysical industry.

Protecting the environment wherever we live and work is the collective responsibility of individuals, governments, companies, and society in general. PGS is committed to preventing harm to the environment by reducing risk associated with its operations.

PGS' Environment Statement describes the Company's commitment to effective environmental management. PGS have implemented an updated company-wide framework, which is based on the ISO 14001 environmental management standard.

As part of The Road Ahead HSEQ initiative, PGS is working toward certification according to international standards for occupational health (OHSAS 18001) and environmental management (ISO 14001).

Innovation and Investment
PGS is a technology-intensive company. The Company continually invest in the development and implementation of new technologies to enhance the efficiency of exploration activities worldwide and reduce the risk associated with PGS' operations.

Continued investment in Ramform vessel technology enables a higher average seismic streamer utilization for 3D survey operations, which provides increased data coverage (seismic survey unit of production) per vessel or fuel effort. Reducing carbon emissions per unit of production in Marine field operations continues to be a PGS focus area.

PGS is investing in new technologies both in the field and in the office. One example is the energy reduction program implemented at the Company's London MegaCentre, which won the British Computer Society's 2009 Environmental Project of the Year award.

PGS' new US MegaCentre will open in 2010. The US MegaCentre will benefit from advanced power management technologies that reduce overall power consumption compared with older facilities.

PGS People Drive Change
PGS employees' capabilities are essential to successful innovation and implementation of new technologies, systems, and tools in the field and at the Company's data processing and reservoir services activities.

Community Development and Stakeholder Engagement
PGS personnel employed at offices, and in the field around the world provide knowledge transfer at the local level and build relationships with local authorities, communities, and suppliers.

PGS engages in dialogue with a number of non-governmental organizations (NGOs), such as the World Bank, Transparency International, and the United Nations Global Compact.

Carbon Management
PGS has identified carbon management as a key environmental focus area that has been incorporated in PGS updated company-wide environmental management framework.

PGS believes it is important at the outset to establish a consistent method for collecting, quantifying, and understanding the various greenhouse gas (GHG) emissions and energy consumption characteristics associated with the Company's activities in order to manage them effectively.

PGS is in an early stage of developing and implementing robust and consistent GHG emissions management and reporting processes as part of the Company's effort to improve Groupwide environmental performance.

PGS joined the Carbon Disclosure Project (CDP) initiative in 2007 (reporting year-end 2006 data). The Carbon Disclosure Leadership Index (CDLI) presents a score for each participating company based on its carbon footprint data as well the transparency and quality of the information reported to the project.

In 2007, PGS' data was limited to vessel fuel use only, which can vary considerably due to market trends and demands for geophysical services. During 2008 and 2009, the Company introduced improved in-house reporting mechanisms for Onshore field activities and at the Company's main offices. PGS has also invested significantly in new technologies — both for field work, particularly the Company's S-class Ramform survey vessels and at its offices, examples of which are the significant energy reduction measures implemented at the UK and US data centers.

PGS' carbon management efforts have significantly improved the Company's CDLI score over the three years the Company have participated in the Carbon Disclosure Project. Read more about PGS' commitments on: www.pgs.com.

«PGS' CARBON MANAGEMENT EFFORTS HAVE SIGNIFICANTLY IMPROVED THE COMPANY'S CDLI SCORE»

«PGS HAS IDENTIFIED CARBON MANAGEMENT AS A KEY ENVIRONMENTAL FOCUS AREA»

HEALTH SAFETY ENVIRONMENT & QUALITY

«IN 2009, PGS INTRODUCED AND SUCCESSFULLY ROLLED OUT ITS NEW GOLDEN RULES OF SAFETY»

Health, Safety, Environment & Quality (HSEQ) management and reporting are key parameters for the evaluation of business performance at all management levels and by the Company's Board of Directors.

In 2009, PGS introduced and successfully rolled out its new Golden Rules of Safety — a set of simple HSEQ rules and guidelines that apply throughout the organization. The Golden Rules of Safety are an integral part of the The Road Ahead initiative launched in 2008, a five-year HSEQ strategy aimed at securing industry-leading performance.

PGS's global operations in 2009 amounted to 28,263,479 man-hours, including subcontractors' workhours. The PGS organization (Marine, Onshore, and Data Processing & Technology) experienced the following health and safety incident rates:

- 0 fatalities compared with 1 in 2008,
- 8 Lost Time Incidents compared with 13 in 2008,
- 11 Restricted Work Day Cases compared with 12 in 2008,
- 14 Medical Treatment Cases compared with 18 in 2008, and
- 12 High Potential Incidents compared with 22 in 2008.

«THE REDUCTION IN LTIS IN 2009 SHOWS THAT THERE HAS BEEN SIGNIFICANT IMPROVEMENT OVER THE COMPARABLE STATISTICS FOR 2008»

The overall Lost Time Incident Frequency (LTIF) improved to 0.28 per million man-hours in 2009, compared with 0.52 in 2008. The Total Recordable Case Frequency (TRCF) improved to 1.17 per million man-hours from 1.71 in 2008.

The reduction in LTIs, Medical Treatment Cases, and High Potential Incidents in 2009 shows that there has been significant improvement over the comparable statistics for 2008.

PGS is developing and implementing improved reporting mechanisms in order to measure, monitor, and assess the environmental performance of the Company's operations worldwide relative to the key companywide environmental focus areas. In 2009, PGS decided to seek certification of its HSEQ Management System through an external accredited certifying body. The following certifications will be attained:

- Health and Safety OHSAS 18001, and
- Environmental management ISO 14001.

PGS is currently in the process of selecting a certification body. Once that organization is identified, a gap analysis will be conducted that compares the current status of the Company's existing management system throughout PGS and the requirements of these two standards. The next steps involve planning for full implementation of OHSAS (health and safety) certification in 2011 and ISO (environmental) in 2013.

Marine Operations

In 2009, PGS' Marine business unit experienced a continued improvement in HSEQ performance. LTIF was 0.76 incidents per million man-hours, compared with an LTIF of 1.26 in 2008. Total man-hours performed in the Marine business unit amounted to 9,156,288 in 2009.

The Marine business unit experienced the following incidents:

- 0 fatalities compared with 1 in 2008,
- 7 Lost Time Incidents compared with 12 in 2008,
- 10 Restricted Work Day Cases compared with 5 in 2008,
- 5 Medical Treatment Cases compared with 3 in 2008, and
- 4 High Potential Incidents compared with 8 in 2008.

Total Recordable Incidents increased from 20 in 2008 to 22 in 2009; the TRCF rose from 2.17 per million man-hours in 2008 to 2.40 in 2009. PGS Marine recorded four High Potential Incidents in 2009 compared with eight in 2008.

A large proportion of the incidents listed

above were attributable to the Company's subcontractors, and on many occasions these incidents involved the most severe injuries and high potential incidents.
PGS acknowledges the challenges the Company face with regard to managing its subcontractors and continuously engage with them through improved communication at all levels. Other 2009 focus areas have been quality of investigation improvement, regular HSEQ-related initiatives that modify behavior, and introduction of the PGS Golden Rules of Safety.

Office HSEQ
In 2009 targeted effort was devoted to raising overall HSEQ standards at PGS offices worldwide. Measures included:

- Adoption of the Golden Rules of Safety,
- Introduction of an HSEQ Focal Point at every office,
- Establishing common documentation and incident reporting processes,
- Monthly HSE statistical reporting,
- Identification and Risk Assessment of all office hazards,
- Adoption of control measures to mitigate identified hazards,
- Implementation of Emergency Response Plans, and
- Introduction of waste management systems.

An "Office HSE Improvement Plan" has been established. The plan was implemented by the Office HSE Focal Point at each office during 2009. The plan consists of five independent phases:

- *Phase 1*
  Establish an Office HSE Focal Point.
- *Phase 2*
  Establish common HSE documents and processes at all PGS offices.
- *Phase 3*
  Ensure consistent reporting of all HSEQ incidents by all offices.
- *Phase 4*
  Standard hazard identification and risk assessments (partly completed/ongoing).
- *Phase 5*
  Ongoing implementation of Office HSE Improvement Plans throughout 2010.

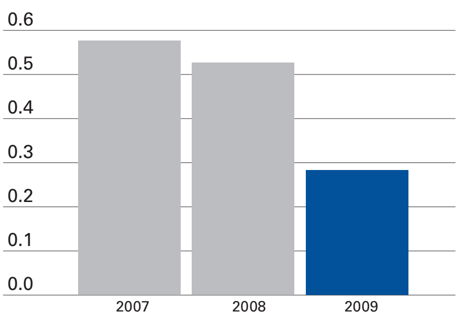
PGS offices were also tasked with creating an Office Emergency Response Plan using a standard framework. Another assignment was improving offices' environmental footprint by implementing, wherever possible, waste and energy consumption monitoring and recycling. Adoption and use of PGS' Golden Rules of Safety was monitored via feedback from HSE Focal Points.

«PGS IS DEVELOPING AND IMPLEMENTING IMPROVED REPORTING MECHANISMS IN ORDER TO MEASURE, MONITOR, AND ASSESS THE ENVIRONMENTAL PERFORMANCE OF THE COMPANY'S OPERATIONS WORLDWIDE»

«PGS OFFICES WERE TASKED WITH CREATING AN OFFICE EMERGENCY RESPONSE PLAN USING A STANDARD FRAMEWORK»

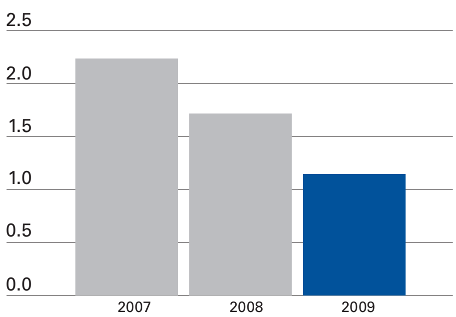
Lost Time Incidents Frequency

(LTIF)



Total Recordable Case Frequency

(TRCF)



«PGS IS IMPROVING OFFICES' ENVIRONMENTAL FOOTPRINT BY IMPLEMENTING, WHEREVER POSSIBLE, WASTE AND ENERGY CONSUMPTION MONITORING AND RECYCLING»

Company offices now report monthly HSE statistics, in line with Marine's reporting. The overall LTIF at offices was 0.26 for the full year 2009.

2009 was a year of implementation for the Golden Rules of Safety. Targets for 2010 will involve training, which is the next step in the Road Ahead initiative.

Onshore Operations

In 2009, Onshore experienced continued improvement in HSEQ performance. The Onshore LTIF was 0.07 incidents per million man-hours, compared with an LTIF of 0.08 in 2008. The business unit recorded more than 15 million workhours in 2009 vs. 15.32 million in 2008. Onshore experienced only a single Lost Time Incident (LTI) in 2009: in May, an employee fell from a horse while participating in a scouting program in Colombia.

Total Recordable incidents also declined, from 23 in 2008 to 10 in 2009, with a corresponding reduction in TRCF of 1.73 per million man-hours in 2008 to 0.65 in 2009. PGS Onshore's TRCF figure declined 63 percent in 2009. Onshore recorded three High Potential Incidents in 2009.

There are numerous examples of superior incident prevention performance by individual Onshore crews. All Mexico crews exceeded 1 million hours without a single LTI in 2009: Crew 348 recorded 4.38 million hours; Crew 346 recorded 3.69 million hours for the year in addition to having worked LTI-free since August 2007 for more than eight million hours. Crews in the USA, including Alaska, worked more than two million man-hours in 2009 and 2008 without recording a single LTI. The Transition Zone Project in Trinidad was completed without a single recordable incident.

Severity of incidents has also declined significantly, from 14.28 days to 3.59 days per million man-hours; down 75 percent from 2009. (Severity rate provides an average of lost days plus the number of days on duty at a reduced work level.)

The Onshore business unit did not experience a reportable environmental release or spill in 2009.

PGS Onshore continued its focus on people, department heads, managers, and subcontractors during 2009. The business unit continued its implementation of computer-based basic HSEQ training. Regarding subcontractors, Onshore continued implementation of its subcontractor management standard, which includes complete prequalification and review audits of all current subcontractors for North America and Trinidad assignments, as well as IMCA audits of all subcontracted vessels. All aviation contractors were audited by third parties. Onshore continued the forceful implementation of vehicle management, design, tracking, and dedicated driver monitoring supervision programs in 2009. The last mentioned program continued to lower the number of vehicle incidents; 21 events were recorded for the 13.89 million kilometers driven in 2009. No recordable injuries were due to vehicle incidents.

Onshore completed the introduction of the PGS Golden Rules of Safety to all crews. In particular, more resources were applied to HSEQ training, HSEQ meetings, manager visits, and HSEQ drills. The goal is continuing improvement over the world-class performance the Company achieved in 2009.

In 2009 targeted effort was devoted to raising overall HSEQ standards at PGS offices worldwide.

THE PGS SHARE

«COMPARED WITH THE SHARE PRICE PERFORMANCE OF OTHER LARGE INTERNATIONAL SEISMIC COMPANIES, PGS' 2009 PERFORMANCE WAS BETTER»

Oslo Stock Exchange is the primary exchange for PGS share trading. In the United States, shares are quoted on the Pink Sheets and trade as American Depository Shares (ADS) in the OTC market. PGS' share price improved in 2009 and performed well in comparison with its peer group and relevant indices.

Share Price Development
During 2009, the PGS share price growth was very good, up 141 percent, outperforming all peers, except TGS Nopec, and all comparable indices. TGS Nopec's share price increased 202 percent in 2009. Share prices of SeaBird Exploration and Electromagnetic Geoservices, two other Norwegian seismic companies, rose 97 percent and 47 percent, respectively. However, Reservoir Exploration Technology shares declined 60 percent and Scan Geophysical went bankrupt in the summer of 2009.

«INTEREST AMONG INVESTORS FOR PGS SHARES IS STRONG»

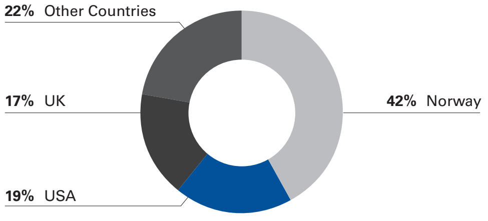
Compared with the share price performance of other large international seismic companies, PGS' 2009 performance was better. Shares of Fugro, Schlumberger (which owns WesternGeco), and CGGVeritas increased 96 percent, 55 percent, and 42 percent, respectively. Looking at total return for the four companies, measured in US dollars, PGS outperformed its peers by even wider margins. Not only did the PGS share outperform peers, it also outperformed indices by a wide margin. PGS outperformed the OSE Benchmark Index with 76 percentage points. PGS is included in the OBX index, which consists of the 25 largest and most traded shares listed on the Oslo Stock Exchange (OSE).

Interest among investors for PGS shares is strong. On average, 3.9 million shares traded daily in 2009, which made PGS the eighth most traded OSE stock, measured in terms of value. Liquidity of American Depository Share (ADS) traded on the US Pink Sheets is significantly lower; the average daily trading volume was approximately 25,000.

Share Facts
PGS has 197,999,999 shares outstanding (including American Depository Shares), all of which are of the same class, with equal voting and dividend rights. Each share has a par value of NOK 3. In late May 2009, a private share placement directed at professional Norwegian and international investors was completed. The placement comprised 17,999,999 new shares and sale of 3,625,223 treasury shares. The NOK 36.50 per-share price was determined under an accelerated book-building process; total proceeds from the private placement were approximately $119 million. Interest among investors were significant — the issues were oversubscribed by more than 500 percent. The purpose of

Citizenship

as of December 31, 2009



20 Largest PGS Shareholders as of December 31, 2009

Rank	Shareholder	Shares held	Ownership (%)
1	FOLKETRYGDFONDET	16 706 260	8.44
2	STATE STREET BANK (NOMINEE)	8 837 963	4.46
3	ULLTVEIT-MOE REDERI	6 607 089	3.34
4	CITIBANK, HOLDER OF AMERICAN DEPOSITORY SHARES (ADS) (NOMINEE)[1]	5 358 387	2.71
5	CLEARSTREAM BANKING (NOMINEE)	4 191 053	2.12
6	DnB NOR Bank ASA	4 168 509	2.11
7	STATE STREET BANK (NOMINEE)	4 089 675	2.07
8	JPMORGAN CHASE BANK (NOMINEE)	3 468 400	1.75
9	HANDELSBANKEN	3 275 000	1.65
10	JPMORGAN CHASE BANK (NOMINEE)	3 252 511	1.64
11	UMOE AS	3 068 733	1.55
12	STATE STREET BANK (NOMINEE)	3 028 311	1.53
13	THE NORTHERN TRUST (NOMINEE)	3 000 000	1.52
14	JPMORGAN CHASE BANK (NOMINEE)	2 811 680	1.42
15	UBS AG, LONDON BRANCH (NOMINEE)	2 588 352	1.31
16	PENSJONSKASSEN STATOIL	2 350 300	1.19
17	UBS (LUXEMBOURG) S.A (NOMINEE)	2 328 020	1.18
18	ODIN OFFSHORE	2 300 000	1.16
19	FERD AS INVEST	2 244 000	1.13
20	CITIBANK (NOMINEE)	2 223 244	1.12
	Total, 20 largest shareholders	**85 897 487**	**43.40**

1. The beneficial owners of American Depository Shares that are held by depositaries are not disclosed in the above table due depository agreement terms.

the private placement was to strengthen the Company's balance sheet and to better position PGS in a challenging market.

PGS' ordinary shares are listed on the Oslo Stock Exchange (ticker: PGS) and denominated in Norwegian kroner (NOK). The Company's American Depository Shares trade on the US Pink Sheets (ticker: PGSVY). Quotes are denominated in US dollars and each ADS represents one share.

Information Policy

All company information that is considered material to shareholders is published via the Oslo Stock Exchange's news service: www.newsweb.no, and posted on the Company's website: www.pgs.com and other news platforms. PGS holds public presentations and arranges conference calls and webcasts in connection with the release of quarterly results. The Company hosts an annual Capital Markets Day presentation for the investment community and management regularly meets with investors and participates in conferences.

PGS has been awarded both the Information symbol (I) and the English symbol (E) by the Oslo Stock Exchange. The symbols accompany material published by OSE. The Information symbol is awarded to companies that meet defined standards for investor relations and website presentations. The English symbol is awarded to companies whose English-language material meets all requirements for bearing the OSE's Information symbol.

«PGS HAS BEEN AWARDED BOTH THE INFORMATION SYMBOL (I) AND THE ENGLISH SYMBOL (E) BY THE OSLO STOCK EXCHANGE»

On January 1, 2008, the new Norwegian Securities Trading Act and Stock Exchange Act went into effect. A requirement of the new legislation and regulations is that all companies whose shares trade on the Oslo Stock Exchange must publish their financial reports in Norwegian. PGS has been exempted from this requirement. The exemption stems from factors that include the Company's international operations; PGS' listing on the Pink Sheets in the US, which requires press releases to be in English; the composition of PGS' shareholder base, which has remained international for several years;

and the use of English as the Company's in-house language.

Treasury Shares
PGS is authorized to purchase up to 10 percent of its own share capital. The authorization was granted by the shareholders at the Annual General Meeting (AGM) held on May 14, 2009 and remains valid until the next AGM scheduled for April 29, 2010. As of December 31, 2009, the Company owned 0 percent of total shares outstanding.

Dividend
As of the publication of this annual report, there are no plans to pay ordinary dividends to shareholders. Factors considered by the Board of Directors regarding recommending any future dividend payments include results from operations, financial strength, financing commitments and other financial factors, future business prospects, legal or contractual restrictions that may apply, and other factors that the Board considers relevant.

«AS OF DECEMBER 31, 2009, THERE WERE 27 SELL-SIDE ANALYSTS COVERING PGS ON A REGULAR BASIS»

Analyst Coverage
As of December 31, 2009, there were 27 sell-side analysts covering PGS on a regular basis with market updates and estimates of PGS' financial results. Of these, nine are based in the UK, two in France, one in Lithuania, and one in Singapore; the rest are based in Norway. An updated list can be found on the Company's website: www.pgs.com.

Shareholders
PGS had 7,647 registered shareholders as of December 31, 2009, according to the Norwegian Central Securities Depository (VPS).

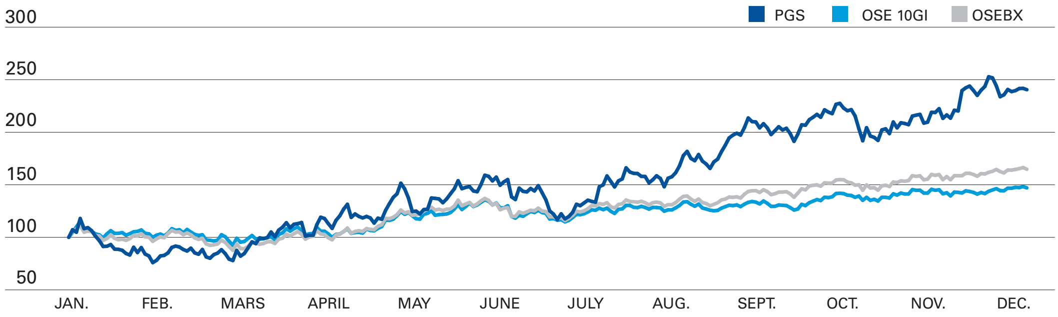
By year-end 2009, non-Norwegian investors owned approximately 58 percent of outstanding shares, of which US (19 percent) and UK (17 percent) shareholdings were the largest. As a result of the financial crisis, foreign investors sold off a significant proportion of their PGS holdings in late 2008 and early 2009. At the lowest point, US based investors held 17 percent of PGS shares while UK based investors held as little as 13 percent. Before stock markets started to decline, US shareholders owned approximately 35 percent of PGS shares, while UK investors held just under 20 percent. During the second half of 2009, non-Norwegian shareholders have shown strong interest in the PGS share and their holdings rose to the aforementioned year-end 2009 levels.

As of December 31, 2009, Folketrygdfondet (The Norwegian State Pension Fund) was the largest PGS shareholder, owning 8.4 percent of outstanding shares. The former PGS Board Chairman, Jens Ulltveit-Moe, reduced his PGS shareholding after he stepped down from the Board and owns less than 5 percent of outstanding shares.

2010 Annual General Meeting
PGS' Annual General Meeting is scheduled for April 29, 2010 at the Company's headquarters at Strandveien 4, Lysaker, Oslo, Norway. Each share is entitled to one vote. Please note that Norwegian regulations stipulate that shares must be registered in a specific owner's name in order for that person (or duly authorized agent) to be allowed to vote. Accordingly, for ADS to qualify to vote at an annual or extraordinary general meeting, a specific shareholder must be registered with Norway's VPS as the holder of title to said shares at least two business days before the general meeting.

Shareholders who wish to attend the AGM are requested to pre-register via the Company's registrar. Registration and proxy forms will be mailed to shareholders' registered addresses along with meeting documents. The registrar's contact information follows:

PGS vs. Norwegian Markets in 2009



Nordea Bank Norge ASA
Issuer Services
P.O. Box 1166 Sentrum
NO-0107 Oslo

Tel: +47 22 48 62 62
Fax: +47 22 48 63 49
Email: issuerservices.no@nordea.com

Owners of American Depository Shares can vote by surrendering their shares to the ADS depositary bank, Citibank, 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' American Depository Shares (ADS) is Citibank, as follows:

Citibank Shareholder Services
PO Box 43077
Providence, RI 02940-3077
United States of America

Toll free: +1 877 CITI ADR
Outside the US: +1 781 575 4555
Fax: +1 201 324 3284
Email: citibank@shareholders-online.com.

Corporate Debt Rating
As of December 31, 2009, PGS debt was rated "Ba2" by Moody's Investors Service and "BB- (Stable)" by Standard & Poor's. Ratings in 2009 were unchanged from 2008. Further, PGS' convertible bond was rated 'B' by Standard & Poor's.

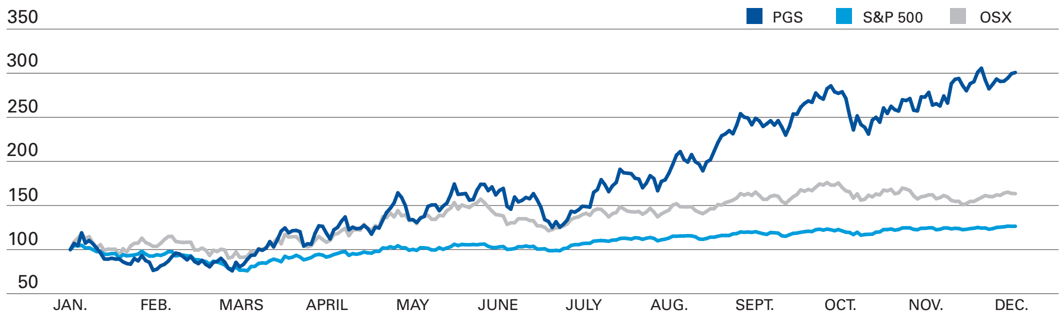
International Financial Reporting Standards (IFRS)
PGS began preparing and presenting its financial statements based on IFRS as of January 1, 2007. A transition document was published that quantifies certain accounting differences between IFRS reporting and PGS' prior reporting according to US GAAP. The document is available on the Company's website: www.pgs.com.

Discontinued Operations
In fourth quarter 2009 PGS entered into a definitive agreement to sell the Onshore business to Geokinetics. Combining Geokinetics and PGS' Onshore activities will create the second-largest onshore seismic acquisition company in the world in terms of crew counts — and the largest such company operating in the Western Hemisphere. The transaction was completed on February 12, 2010. Geokinetics paid $184 million in cash for the Onshore business, and PGS received 2.15 million shares in Geokinetics, corresponding to 12 percent of outstanding shares. The transaction brings needed consolidation to a highly fragmented onshore industry and creates value for all stakeholders.

Revenues and cost of the Onshore business are excluded from consolidated revenues and cost and reported separately as income from discontinued operations net of tax for all periods presented. In the consolidated statements of financial position as of December 31, 2009 Onshore is reported as assets/liabilities held-for-sale under current assets/liabilities until closing.

«PGS HAD 7,647 REGISTERED SHAREHOLDERS AS OF DECEMBER 31, 2009»

PGS vs. US Markets in 2009



CORPORATE GOVERNANCE

«OUR BOARD OF DIRECTORS IS COMMITTED TO EQUAL TREATMENT OF SHAREHOLDERS IN ALL RESPECTS»

We are 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.

Petroleum Geo-Services ASA is registered in Norway as a public limited liability company, and our corporate governance model is based on Norwegian corporate law and the Norwegian Code of Practice for Corporate Governance. We adhere to requirements applicable to registrants of foreign securities in the United States, where our American Depositary Shares (ADS) are publicly, traded to the extent practicable. We also have implemented corporate governance guidelines that are particularly suited to our industry and our company.

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 government documents. These items include the Company's articles of association, corporate governance policy, the Board's Rules of Procedure, and the charters for PGS' Audit Committee, Remuneration and Corporate Governance Committee, and Nomination Committee. The documents can be downloaded from our website: www.pgs.com.

Code of Conduct and Core Values

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

Business Purpose

Our business purpose statement, 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 11, 20, 59, and page 60 of this annual report.

Equity and Dividends

The Board continually monitors the adequacy of the Company's equity in light of its objectives, strategy, and risk profile.

PGS does not pay dividends on a regular basis. Dividends were last paid in 2007. Any future dividend will be subject to determination based on our results of operations and financial condition, our business prospects, any applicable legal or contractual restrictions, and other factors that the Board considers relevant. The Board is authorized to buy back up to 10 percent of the Company's share capital.

It has been an ongoing practice of the shareholders to grant limited authorizations to the Board of Directors that permit it to increase the Company's share capital and/or acquire the Company's shares (treasury shares) for certain defined purposes. Separate General Meeting votes are held for (a) authorizations related to employee stock option programs and (b) authorizations for other purposes. When a proposed authorization encompasses share capital increases and/or acquisition of treasury shares for various purposes, the Company does not find it practicable to hold separate votes on each proposed purpose. Authorizations are time-limited; they expire at the next Annual General Meeting (AGM).

Equal Treatment of Shareholders and Transactions with Closely Related Parties

PGS has a single share class. 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 should be carried out via a stock exchange, or at prevailing stock-exchange prices if carried out in another manner.

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 of the General Meeting, provides us 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.

Transactions between the Company and closely related parties shall be conducted at arm's length and at market terms. Material transactions 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 or influence, or appear to influence judgments or actions in carrying out their responsibilities on behalf of the Company. According to our Rules of Procedure, a member of our Board may not participate in discussions or decisions of issues in which the director, or any person closely related to 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.

Freely Transferable Shares

Our shares are freely transferable.

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 Board's Chairperson.

Pursuant to PGS' Articles of Association, the notice of an Annual General Meetings (AGM) is distributed at least four weeks in advance to shareholders or their depositary 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 must be distributed at least two weeks ahead of the meeting. The Board is to call shareholders to an Extraordinary General Meeting 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 date 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 that shall 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 calling notice to the general meeting. If the documents are published in such a manner, the statutory requirements for distribution shall not apply. A shareholder may still request to get sent documents that shall be considered by the general meeting.

To vote at General Meetings, in person or by proxy, a shareholder must be registered with the Norwegian Registry of Securities. Holders of ADS may vote the shares underlying the ADS 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 Citibank, depositary for the ADS, to the effect that they

«TRANSACTIONS BETWEEN THE COMPANY AND CLOSELY RELATED PARTIES SHALL BE CONDUCTED AT ARM'S LENGTH AND AT MARKET TERMS»

«THE BOARD IS TO CONDUCT AN ANNUAL SELF-EVALUATION TO DETERMINE WHETHER IT AND ITS COMMITTEES ARE FUNCTIONING EFFECTIVELY»

are the beneficial owner of the underlying shares, or (c) authorizing Citibank to vote the ADS on their behalf.

In accordance with our Articles of Association, the Chairperson of the Board chairs General Meetings.

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 Chairperson of the Nomination Committee is elected at the General Meeting. The majority of the members of the Nomination Committee shall qualify as independent pursuant to the Norwegian Code of Practice for Corporate Governance. The term of service shall be two years unless the General Meeting attendees determine that the period shall be shorter. The Nomination Committee's main responsibilities are to propose nominees for election as members and Chairperson of the Board of Directors and the Nomination Committee, and to propose remuneration to be paid to Board and Nomination Committee members. Remuneration is approved by the General Meeting. The Nomination Committee is to explain its recommendations to shareholders prior to the AGM.

Current Nomination Committee
The current Nomination Committee comprises Roger O'Neil (Chairperson), C. Maury Devine and Hanne Harlem. They were all re-elected at the AGM held May 14, 2009 for a new service period ending with the 2010 AGM. Shareholders who wish to propose new Board Members to PGS may do so by submitting a candidate's name to our administration via the Company's website: www.pgs.com by following the link, "Nominate a Board Member." Alternatively, candidates can be proposed by letter to PGS or via email to ir@pgs.com. We do not employ any of the members of our Nomination Committee and none of them is a member of our Board of Directors. In 2009, our Nomination Committee held three meetings. A report regarding the work of our Nomination Committee and its recommendations will be distributed with the call notice for the 2010 AGM.

Board of Directors — Composition and Independence
According to our Articles of Association, our Board shall have from three to thirteen directors. Terms of office are not to exceed two years for each elected period. The Board has adopted its own Rules of Procedure that establish in more detail its role and responsibilities, including:

- Directors' qualifications,
- Qualification of a majority of the Board and all members of the Audit and Remuneration Committees as "independent directors," and
- Annual review and determination of the independence of each director.

All directors are independent of the Company's management. All directors are also independent of our major business relations, with the exception of Ingar Skaug. Mr. Skaug is CEO of Wilh. Wilhelmsen ASA, a company that provided maritime management services to PGS totaling $5.0 million in 2009. Seven of our eight current shareholder-elected directors are independent of our largest shareholders. Vice Chairperson Harald Norvik is a member of the Board of Directors of Umoe. As of December 31, 2009, the Umoe Group owned 4.89 percent of PGS shares. No member of our Board may be an executive of PGS. Directors are not permitted to perform paid consultancy work for us. Four Board Members, directly or indirectly, own PGS shares.

Shareholders and other interested parties may communicate directly with our independent directors by written correspondence addressed to Petroleum Geo-Services, Board of Directors (Independent Members), General Counsel Espen Sandvik, PO Box 89, NO-1325 Lysaker, Norway.

Current Board of Directors
As of December 31, 2009, the Board consisted of eight shareholder representatives. Neither the Chief Executive Officer (CEO) nor any other member of PGS' executive management is a Board of Directors member. Current Board Members are presented on the Company's website: www.pgs.com and in this annual report. Board meeting attendance in 2008-2009 exceeded 75 percent for each Board Member elected at the last AGM.

The Board's work
In accordance with Norwegian corporate law, our Board has overall responsibility for management of our company, while our CEO is responsible for day-to-day management. The Board supervises our CEO's day-to-day management and company activities in general. The Board is also responsible for ensuring that appropriate management, guidelines, and control systems are in place and are followed. Our CEO, as agreed with the Board Chairperson, annually submits a schedule for Board meetings in the next calendar year; the Board is to approve the schedule. In 2009, the Board of Directors held 11 meetings.

Our Board has adopted Rules of Procedure, which establish in more detail its role and responsibilities as to the Company's management and its supervision. Key rules cover the Board's responsibilities to determine the Company's financial targets, set overriding 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 will seek to ensure that satisfactory routines exist 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 also require an annual self-evaluation to determine whether the Board and its committees are functioning effectively. The tasks and duties of our CEO vis-à-vis PGS' Board are also outlined in the rules, along with the tasks and duties of the Board Chairperson. The CEO participates in all Board meetings other than closed sessions. The Board elects a Vice Chairperson to chair Board meetings in the Chairperson's absence. The full text of the Board's Rules of Procedure is available at: www.pgs.com.

Our governance structure is organized as described below.

Our Board is responsible for the development and 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 Board appoints PGS' CEO,
- The CEO is responsible for the day-to-day management of company activities,
- The CEO organizes PGS' Executive Committees and our Disclosure Committee to further assist the CEO,
- The Board, along with the CEO, is committed to operating PGS in an effective and ethical manner in order to create value for our 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, and
- The CEO, under the oversight and guidance of our Board and Audit Committee, is responsible for ensuring that the Company's financial statements in all material respects, fairly present our financial condition and the results of operations. Timely disclosure of issues to the Board is also essential to the assessment of the Company's financial condition, business performance, and risks.

Board Committees
Our Audit Committee consists of board

«PGS HAS AN APPROPRIATE AND EFFECTIVE INTERNAL AUDITING SYSTEM»

«AS A LISTED COMPANY, WE COMPLY WITH RELEVANT DISCLOSURE RULES AND REGULATIONS»

members Harald Norvik (Chairperson), Carol Bell, Wenche Kjølås and Daniel J. Piette. The majority of committee members are considered independent of the Company. The committee's function is to assist our Board in its oversight 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 ensure that PGS is in compliance with legal and regulatory requirements.

PGS' Remuneration and Corporate Governance Committee comprises Board Members Holly Van Deursen (Chairperson), Annette Malm Justad, and Ingar Skaug. The function of the committee is to assist in matters relating to the compensation, benefits, and perquisites of our CEO and other senior executives. Review and modification of the Company's guidelines for good corporate governance are also committee responsibilities.

Risk Management and Internal Control

The Board is responsible for ensuring that appropriate guidelines, oversight, and internal control systems are in place and effective.

The Board ensures that the CEO exercises appropriate and effective management and applies effective internal control systems, including systems for risk management and financial reporting. The Board makes sure that the internal control functions are working as intended and that necessary measures are taken to reduce extraordinary risk exposure. Furthermore, the Board makes certain that satisfactory routines exist to ensure follow-up of principles and guidelines adopted by the Board governing ethical conduct; compliance with laws, rules, and regulations; health, safety, and working environment; and corporate social responsibility.

PGS' management conducts day-to-day follow-up of financial management and reporting. The Board's Audit Committee assesses the integrity of our accounts. It also inquires into, on behalf of the Board, issues related to financial review, internal control, and external audit of PGS' accounts.

PGS has an appropriate and effective internal auditing system, and the Board ensures that it is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough attention.

The Board conducts an annual self-evaluation to determine whether it and its committees are functioning effectively. This evaluation is discussed by the Board and appropriate actions or responses are made. In addition, the Board shall conduct a periodic review of PGS' corporate governance policies and procedures, including the Board's Rules of Procedure. The Remuneration and Corporate Governance Committee shall assist the Board in its annual self-evaluation and any periodic reviews of corporate governance policies and procedures.

Any nonconformance is systematically followed up and corrective measures are implemented and monitored.

Remuneration of the Board of Directors and Executive Management

Remuneration of Board Members is not linked to performance but is based on participation in meetings and is approved annually by the General Meeting. Board Members shall not solicit or accept specific assignments for PGS beyond their role as Board Members. Board Members do not hold any PGS share options.

For details on compensation for individual Board Members, please see Note 34 to the financial statement of Petroleum Geo-Services ASA.

Remuneration paid to Board Members will be proposed by the Nomination Committee, according to its charter, and submitted to the AGM for approval.

The compensation structure and guidelines for executive managers are subject to annual review by the Remuneration and Corporate Governance Committee and are subject to approval by the Board. PGS currently has a compensation structure for our executive managers that include base salary, cash bonus, share bonus, a retention bonus, and stock option programs. For further details on our compensation structure and total compensation to executive team members, see Note 34 to the financial statement of Petroleum Geo-Services ASA.

Information and Communications
Our Board is committed to reporting financial results and other relevant information based on openness and the requirement for equal treatment of all shareholders and securities market participants. As a listed company, we comply with relevant disclosure rules and regulations. Announcements are released through the Hugin 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. Our policy of accessibility for shareholders is also presented on the Company's website.

Takeovers
The Board has established guiding principles for how it will act in the event of a takeover bid. The Board will not seek to hinder or obstruct any takeover bid for our activities or shares, or exercise mandates or pass any resolutions that obstruct takeover bids. In the event of a takeover bid, the Board will, in accordance with its overall responsibility according to good corporate governance, act for the benefit of our shareholders and ensure that they are given sufficient information in the matter. If a takeover bid is made, the Board will issue a statement evaluating the offer and making a recommendation as to whether our shareholders should accept or reject it. PGS' Articles of Association do not contain any restrictions, limitations, or defense mechanisms against acquisition of our shares.

Auditor
Our Audit Committee shall support the Board in the administration and exercise of its responsibility for supervisory oversight of the work of the independent auditor, who shall keep the Board 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 once a year, meets with our Audit Committee, without the presence of management. Our internal procedures regulate the use of auditors' services.

The independent auditor meets with our 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 our financial reporting and internal control procedures for financial reporting. The remuneration paid to the auditor for mandatory and other audit services will be reported to the AGM for approval.

«THE COMPENSATION STRUCTURE AND GUIDELINES FOR EXECUTIVE MANAGERS ARE SUBJECT TO ANNUAL REVIEW BY THE REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE»

BOARD OF DIRECTORS

FRANCIS GUGEN
Chairperson (Elected 2003)

MR. GUGEN, who was elected PGS Board Chairman in May 2009, is currently active in the energy industry as a consultant and investor. He worked for Amerada Hess for 18 years, from 1982 to 2000, serving as Chief Executive Officer of the UK from 1995 to 1998 and of North West Europe from 1998 to 2000. Mr. Gugen is Chairman of, and an investor in, one other publicly quoted company IGas Energy Plc and is Chairman of, and an investor in, a number of private companies. Mr. Gugen earlier worked for Arthur Andersen and is a UK chartered accountant. As of April 8, 2010 Mr. Gugen owns 30,000 shares in PGS.

HARALD NORVIK
Vice Chairperson (Elected 2003)
Audit Committee Chairperson

MR. NORVIK is currently Strategic Advisor at the consulting company ECON. He is Board Chairman of Telenor, Chairman of the Board of Directors of Aschehoug publishing company, Board Member of ConocoPhillips, and Board Member of the service and technology provider Ability Group. Mr. Norvik was President and Chief Executive Officer of Statoil from 1988 to 1999. Previously, he was Finance Director and a Member of the Executive Board of the Aker Group from 1981 to 1988. He served as Personal Secretary to the Prime Minister of Norway and as State Secretary in the Ministry of Petroleum and Energy from 1979 to 1981. Mr. Norvik received his Master of Science in Business from the Norwegian School of Economics and Business Administration. As of April 8, 2010 Mr. Norvik owns 8,000 shares in PGS.

CAROL BELL
Board Member (Elected 2009)
Audit Committee Member

DR. BELL has over 25 years of experience in the energy industry, with particular expertise in investment and financing in the oil and gas sector. She is Senior Advisor on Oil & Gas to Europe Partners, a corporate finance advisory firm. She is also a non-executive director of Hardy Oil and Gas plc and a member of the Investment Advisory Committee of Gemini Oil and Gas, a private investment fund. Dr. Bell is Chair of the Investment Committee of Girton College in Cambridge and Group Chairman of Barcud Derwen, the largest television and film facilities company in the UK located outside of London. Before joining Europe Partners, she was Managing Director, Global Oil & Gas Group at Chase Manhattan Bank. Prior to that she was Head of European Equity Research at JP Morgan and Global Head of its Oil and Gas Equity Research Team. Dr. Bell 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 published a book on her thesis topic in 2006. Dr. Bell is Honorary Treasurer of the British School at Athens. 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. As of April 8, 2010 Dr. Bell does not own any shares in PGS.

MS. VAN DEURSEN currently divides her time between advising and investing in start-up companies and non-executive director positions at Petroleum Geo-Services, Anson Industries, and a not-for-profit school. 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. She 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.S. in Chemical Engineering from the University of Kansas and an MBA from the University of Michigan. As of April 8, 2010 Ms. Van Deursen does not own any shares in PGS.

HOLLY VAN DEURSEN
Board Member (Elected 2006)
Remuneration and Corporate Governance Committee Chairperson

MS. MALM JUSTAD is Chief Executive Officer of Eitzen Maritime Services. She has served as Vice President and Head of Purchasing of Yara International ASA, Vice President and Fleet Manager of Norgas Carriers AS, and held various technical and commercial positions at Norsk Hydro ASA. Ms. Malm Justad holds a Master's Degree in Technology Management from MIT/NTH and a Master's Degree in Chemical Engineering from NTH (now NTNU, Norwegian University of Science and Technology). Ms. Malm Justad is also a Board Member of Camillo Eitzen & Co ASA and Aker American Shipping ASA. As of April 8, 2010 Ms. Malm Justad does not own any shares in PGS.

ANNETTE MALM JUSTAD
Board Member (Elected 2008)
Remuneration and Corporate Governance Committee Member

MS. KJØLÅS is Manging Director in Grieg Maturitas AS from 2009, previously she was Chief Financial Officer of Grieg Logistics from 2006. Before that she was Chief Financial Officer of the food producer Kavli Holding AS. She was Managing Director of O.Kavli AS, Norway, from 1997 to 1999, and Financial Director of Kavli Holding AS from 1995. From 1993 to 1995, Ms. Kjølås was Financial Manager of food retailer Hakon Gruppen AS in Bergen. Prior to joining the Hakon Group (now ICA Norge), she worked at Touche Ross Management Consultants as a management consultant from 1990 to 1992 and as a Manager from 1986 to 1992 in Bergen. Ms. Kjølås has board experience from several companies, including the aquaculture company Cermaq ASA, the offshore vessel company DOF ASA, the shared services provider Grieg Group Resources AS, O.Kavli AS, and the dairy Q-Meieriene AS. She is also a member of the Corporate Council of Vesta Insurance AS, and the General Assembly of the DNB NOR Savings Bank Foundation (Sparebankstiftelsen DnB NOR). As of April 8, 2010 Ms. Kjølås has an equity interest in Jawendel AS who owns 2,000 shares in PGS.

WENCHE KJØLÅS
Board Member (Elected 2006)
Audit Committee Member

DANIEL J. PIETTE
Board Member (Elected 2007)
Audit Committee Member

MR. PIETTE is the Chief Executive Officer of OpenSpirit Corporation, an independent software company that provides exploration and production companies with upstream application and data integration solutions. Mr. Piette received a B.S. in Mining Engineering with Honors from the University of Wisconsin. Before joining OpenSpirit Corporation in 2003, Mr. Piette was a Business Unit Manager at Input/Output and was in charge of the company's Land Data Acquisition Systems group from 2002 to 2003. Previously, he was Chief Operations Officer of S/N Technologies, which was acquired by Input/Output in 2002. He ran his own Houston-based consulting business during 2000 and 2001. At Bell Geospace, a venture funded start-up that used military technology to collect gravity gradient data for natural resource exploration, Mr. Piette was Vice President, Sales and Marketing from 1996 and became President and CEO in 1999. He held several positions at Landmark Graphics from 1989 to 1996, the last of which was Vice President and General Manager for the Asia Pacific region, based in Singapore. Prior professional experience includes employment with Terra-Mar, DPC&A and Exxon in the United States. As of April 8, 2010 Mr. Piette owns 2,000 shares in PGS.

INGAR SKAUG
Board Member (Elected 2009)
Remuneration and Corporate Governance Committee Member

MR. SKAUG has been Group CEO of the maritime industrial group Wilh. Wilhelmsen ASA since 2003, after having served in several senior management positions within the group since 1990. Previously, Mr. Skaug was VP and Deputy Chief Operating Officer of SAS Airlines, a position that capped nearly three decades with the airline. Mr. Skaug holds a number of non-executive board positions within the Wilhelmsen group. Other Board memberships include ferry line DFDS AS, offshore safety monitoring innovator Miros, travel bureau Berg-Hansen, Notraship, classification society DNV, and marine insurer GARD P& I. He is also Chairman of the Center for Creative Leadership and of Bery Maritime, and Deputy Board Chairman of J. Lauritzen AS. Mr. Skaug received his MBA degree from the University of Nürnberg, Germany. As of April 8, 2010 Mr. Skaug does not own shares in PGS.

EXECUTIVE MANAGEMENT

MR. REINHARDSEN joined PGS in April 2008 as President and Chief Executive Officer. Prior to joining PGS, he was Alcoa's President, Global Growth, Primary Products. In this position, he was responsible for developing and realizing major primary metals and refining growth opportunities for the company worldwide. From 2002 to 2005, Mr. Reinhardsen was Group Executive Vice President for Aker Kvaerner ASA (now Aker Solutions). From 1983 to 2002 Mr. Reinhardsen was Executive Vice President for Aker Maritime ASA's Products and Technology division. During this time he was also in charge of Corporate Business development where he launched the marine seismic company Aker Geo AS. Mr. Reinhardsen holds a Master's Degree in Applied Mathematics and Geophysics from the University of Bergen, Norway. He also completed the International Executive Program at the Institute for Management Development (IMD) in Lausanne, Switzerland. Mr. Reinhardsen is a director of the Board of Cameron International Inc., Leif Hoegh & Co Ltd. and Hoegh Autoliners Holding AS.

JON ERIK REINHARDSEN
President and CEO
(Born 1956)

MR. LANGSETH joined PGS in November 2003 and was appointed Executive Vice President and Chief Financial Officer as of January 1, 2004. 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; he was certified as a Norwegian state-authorized public accountant (CPA) in 1993. Mr. Langseth received his Master of Business Administration degree from the Norwegian School of Economics and Business Administration.

GOTTFRED LANGSETH
Senior Vice President and CFO
(Born 1966)

MR. ENG was appointed President of the Marine business unit in August 2004. He joined PGS in 1997 as Area Manager, Scandinavia, and from 2000 he served as President of the EAME Region (Europe, Africa, and Middle East). Prior to joining PGS, Mr. Eng held several executive positions with Fugro-Geoteam; assignments included serving on the board of directors of Sevoteam, a Russian-Norwegian joint venture engaged in offshore seismic surveys and data processing. While a Senior Consultant at Digital Equipment Computing, Mr. Eng advanced the application of reservoir simulation in the oil industry. Mr. Eng holds a B.S. in Applied Geophysics from the University of Oslo and an M.S. from Chalmers University of Technology in Sweden.

RUNE ENG
Group President Marine
(Born 1961)

MR. STRANDENES was appointed Group President, Data Processing and Technology in November 2006. Mr. Strandenes has held several senior PGS management positions; before taking charge of IT operations in late 2006, he was President, Marine Geophysical EAME Region (Europe, Africa, and Middle East). Prior to joining PGS in 1995, Mr. Strandenes was the Geosciences department manager at Norsk Hydro Research Centre. Mr. Strandenes received his M.S. in Geophysics from the University of Bergen in 1981.

SVERRE STRANDENES
Group President
Data Processing and Technology
(Born 1956)

BOARD OF DIRECTORS' REPORT

In 2009, PGS successfully navigated through a challenging market, made significant improvements to the balance sheet, and delivered solid financial results. The Company remains very competitively positioned.

Petroleum Geo-Services (PGS) is a focused Marine geophysical company providing a broad range of seismic and reservoir services, including acquisition, processing, interpretation, and field evaluation. We also possess the world's most diverse high-technology MultiClient data library. We operate on a worldwide basis with headquarters at Lysaker, Norway.

In 2009, we operated our business in the two segments:

- *Marine*, which consists of streamer seismic data acquisition, our marine MultiClient library, data processing, technology and reservoir consulting, and
- *Onshore*, which consists of all seismic operations on land, in shallow water and transition zones and includes an onshore MultiClient library.

In December 2009, we entered into an agreement to sell the Onshore business (Onshore) to Geokinetics, Inc. (Geokinetics). The transaction was completed on February 12, 2010. The sale of Onshore makes PGS a focused Marine geophysical company. In the Consolidated statements of operations, Onshore is reported as "(loss) income from discontinued operations, net of tax" for all periods presented.

2009 business highlights

- EBITDA, excluding Onshore, of $672.1 million.
- Cash flow from operations of $676.1 million.
- Net debt was reduced by $361.5 million to $774.0 million at year-end 2009.
- A solid order book at the start of 2009 was transformed into strong earnings and cash flow.
- Marine seismic contract operating profit margin of 39 percent.
- Marine MultiClient late sales amounted to $181.6 million, in line with average late sales for the past six years.
- High total pre-funding levels (92 percent of capitalized MultiClient investments, excluding capitalized interest).
- Successful commercialization of 3D GeoStreamer® with six 3D GeoStreamer® surveys completed in 2009 demonstrating increased efficiency and exceptionally good data quality.
- The first Ramform vessel, *Ramform Challenger,* was equipped with GeoStreamer® in November. Three more Ramforms are scheduled for GeoStreamer® upgrade in 2010. Half of PGS' streamer capacity is expected to be GeoStreamer® by year-end 2010.
- Delivery of the new *Ramform Sterling* in June, the second of the Ramform S-class vessels, further improves our fleet's productivity, efficiency, and flexibility.
- Launch of PGS hyperBeam — a differentiating data processing technology unique to our Company.
- Sale of the vessel *Geo Atlantic* for $58.0 million in cash.
- Implemented measures to reduce capacity by converting *Ocean Explorer* and *Nordic Explorer* from 3D to 2D/source vessels and by returning *Orient Explorer* to the vessel's owner when the charter expired at year-end 2009.
- Cancellation of Arrow Seismic vessel new-builds 532 and 533 (NB 532 and NB 533).
- Successful private PGS share placement directed at professional Norwegian and international investors, with net proceeds of approximately $119.0 million.
- Francis Gugen was appointed Chairman of the Board after Jens Ulltveit-Moe decided to resign from the chairmanship after serving for six years.
- Carol Bell and Ingar Skaug were elected as new Board Members in October.
- Sold Onshore to Geokinetics for approximately $205 million, of which

approximately $184 million was paid in cash and the remaining amount in Geokinetics' common shares.

Health, Safety, Environment and Quality (HSEQ)

HSEQ management and reporting are key elements in the evaluation of business performance at all management levels and by the Board of Directors.

In 2009, we introduced and successfully rolled out our Golden Rules of Safety — a set of HSEQ rules and guidelines for the entire organization. The Golden Rules are an integral part of 'The Road Ahead' initiative that was launched in 2008. The Road Ahead is a five-year HSEQ strategy aimed at securing industry-leading HSEQ performance.

In 2009, we decided to seek accreditation of our HSEQ Management System through an external certification and accreditation body for the following certifications:

- Health and Safety OHSAS 18001, and
- Environmental management ISO 14001.

We are currently in the process of selecting a Certification Body and once chosen, a gap analysis will be undertaken to establish the current status and the requirements of the two standards. The process will lead to the development of plans that target compliance with the safety standards in 2011 and the environmental standards in 2013.

We are committed to preventing harm to the environment by reducing risk associated with our operations. PGS' Environment Statement describes our commitment to effective environmental management (for more details on environmental impact see separate CSR and HSEQ sections in this annual report).

In 2009, our operations aggregated 28.2 million man-hours, during which the organization (Marine, Onshore, and Data Processing & Technology) recorded the following:

- 0 fatalities compared to 1 in 2008,
- 8 Lost Time Incidents compared to 13 in 2008,
- 11 Restricted Work Day Cases compared to 12 in 2008,
- 14 Medical Treatment Cases compared to 18 in 2008, and
- 12 High Potential Incidents compared to 22 in 2008.

Our overall Lost Time Incident Frequency (LTIF) improved, declining to 0.28 per million man-hours in 2009, compared to 0.52 per million man-hours in 2008. The Total Recordable Case Frequency (TRCF) also improved, declining to 1.17 per million man-hours in 2009 from 1.71 per million man-hours in 2008.

The reduction in LTIs, Medical Treatment Cases and High Potential Incidents in 2009 demonstrates considerable improvement compared to 2008.

In 2009, a great deal of effort was targeted at improving HSEQ practices in the office environments at PGS offices worldwide to the same levels as for the crew and vessel operations.

While 2009 was a year of implementation of the Golden Rules of Safety, 2010 targets will further enhance training, which is the next step in the Road Ahead initiative.

The sick leave rate of our Norwegian operations was 2.4 percent in 2009, unchanged from 2008.

Markets and main businesses

Marine

PGS is one of the three major participants in the global marine 3D market, with a market share of approximately 28 percent, measured in terms of acquired square kilometers of 3D seismic. When measured according to the number of streamers as of year-end 2009, our market share was approximately 25 percent, which reflects the efficiency of our fleet.

As a result of the global financial crisis, the exploration and production (E&P) spending growth seen over the previous three to four years did not continue in 2009, in fact activity fell. Consequently, there was oversupply in the marine seismic market in 2009 and prices for seismic services reduced significantly compared to 2008. During 2009 significant capacity has been taken out of the 3D market by converting vessels to 2D or source vessel operations, stacking, or scrapping old vessels and cancelling newbuild orders. During 2009, we converted the 3D vessels *Nordic Explorer* and *Ocean Explorer* to 2D/source vessels. The *Orient Explorer*, a 3D vessel PGS was chartered through year-end 2009 and has now been returned to the vessel's owner. Further, we cancelled the first two Arrow new-builds due to delays exceeding allowed limits stipulated in the shipbuilding contracts. The *Beaufort Explorer* was converted from 3D to 2D in 2008. At year-end 2009, our 3D acquisition fleet totaled nine vessels. Seven Ramform vessels in the high-end segment make our fleet the most efficient in the industry. We also operate two six-streamer 3D vessels.

After delivery of the first Ramform S-class vessel, *Ramform Sovereign*, in early March 2008, we took delivery of the *Ramform Sterling*, our second S-class vessel, in late June 2009. *Ramform Sterling*, which was delivered on time and on budget, adds significant value to our cost-effective and homogenous fleet which further enhances our competitive advantage.

The marine 3D market was weak in 2009; the contraction was driven by the financial crisis and a sharp decline in oil prices accompanied by reduced exploration and production spending. The EBIT margin achieved still remained at a relatively strong level in 2009 due to our efforts to build order book continuity and lock in good rates before the market began the major part of its decline. The EBIT margin for marine contract work in 2009 was 39 percent, compared to our best-ever EBIT margin of 49 percent recorded in 2008. As of December 31, 2009, the order book for the Marine business, including data processing, was $438 million, compared to $871 million as of December 31, 2008. The decline reflects current market conditions, including lower prices.

Seismic acquisition can be performed as contract seismic, where data is acquired under exclusive contractual agreements with a customer, and as MultiClient, for where we invest in seismic surveys that are subsequently marketed to multiple customers on a non-exclusive basis. MultiClient revenues are two-fold: pre-funding revenues relating to ongoing surveys and late sales from our library of completed MultiClient data.

Contract seismic work continued to dominate our business activities in 2009; approximately 75 percent of active vessel time was used for contract work. MultiClient cash investments in 2009 were $183.1 million, down from $223.7 million in 2008. The lower level of MultiClient cash investments is mainly attributable to conducting less reprocessing and 2D seismic than in 2008. Pre-funding of new MultiClient investments continued at good levels during the year, and amounted to 92 percent for 2009.

Data Processing & Technology
Historically, Marine acquisition has been the area in which we have most strongly differentiated our Company from peers. Our next priority has become to develop excellent skills and technologies within the data processing segment in order to add value to acquired seismic data. We believe this will grow and reposition the data processing business.

The acquisition of Applied Geophysical Services Inc, (AGS) in 2007 significantly enhanced our depth imaging capabilities, and we capitalized on this acquisition throughout 2008 and 2009. AGS Beam Migration has been a key vehicle for advancing our Company to a leading position in high-end data processing imaging. In 2008 and 2009 we caught up and in some areas surpassed our peers in this arena. An important milestone in 2009 was our launch of PGS hyperBeam, a tool for near real-time velocity model building that reduces cycle times from weeks and months to as little as days or minutes. Customer risk is further reduced by enabling multiple velocity model scenarios to be tested, an option that previously was not financially viable. Customers have shown great interest in PGS hyperBeam which, along with our AGS Beam Migration technology, constitutes a major contribution to developing our data processing capabilities into those of a top-tier player. Our ambition for data processing remain firm. We intend that our offer be recognized as world-class, that we consistently maintain best-in-class MultiClient data processing capabilities, and that we secure a 15-20 percent market share by 2012.

Data processing for external customers is becoming an increasingly important revenue contributor. In 2009, revenues from this activity were $90.2 million, up from $86.0 million in 2008, despite the market downturn.

GeoStreamer®, the first-ever dual-sensor streamer and a proprietary PGS technology, represents a step change in streamer technology. The technology delivers enhanced resolution, better penetration, and improved operational efficiency. In 2008, we commercialized the GeoStreamer® by acquiring approximately 30,000 line-kilometers of 2D data on a contract basis to showcase the technology and prove its benefits to customers. Commercialization continued in 2009; the vessel *Atlantic Explorer* completed the first 3D GeoStreamer® survey in the Gulf of Mexico with exceptional efficiency and stunning data quality. During the 2009 North Sea season, the *Nordic Explorer* was also equipped with GeoStreamer®. The efficiency and data quality of GeoStreamer® vessels show unparalleled benefits, compared to vessels towing conventional streamers. By year-end 2009, we had acquired approximately 100,000 line-kilometers of 2D and 10,000 square kilometers of 3D GeoStreamer® data.

Commercialization of GeoStreamer® in the 3D market has been a success. Following strong demand for the dual-sensor streamer technology, we have decided to accelerate the GeoStreamer® rollout. By year-end 2010, approximately 50 percent of our streamer capacity is expected to be GeoStreamer®. *Ramform Challenger* was the first Ramform vessel to be equipped with dual-sensor streamer technology. The vessel started acquisition surveys off the west coast of Africa in the fourth quarter of 2009. During 2010, three more Ramform vessels are scheduled for GeoStreamer® upgrades.

optoSeis® is a fiber-optic seismic monitoring system that is permanently installed on the seabed. The system helps optimize reservoir recovery at producing fields by providing on-demand seismic monitoring of reservoir changes over time. This technology is still in the early phase of commercialization and market activity is at a relatively low level.

Onshore

We were a significant worldwide operator in the onshore seismic services market. In December 2009, we entered into an agreement to sell our Onshore business to Geokinetics. The combination of Geokinetics and PGS' Onshore activities creates the world's second-largest onshore seismic acquisition company in terms of crew counts and the largest such company based in the Western Hemisphere. The sale provides consolidation in a highly fragmented onshore industry and added value for all stakeholders. The transaction was completed on February 12, 2010. Gross proceeds were approximately $205 million, of which $184 million was paid in cash and the remaining amount in Geokinetics' common shares. Following the transaction, we own a total of 2.15 million Geokinetics' shares, giving us a 12 percent ownership interest. Sale of Onshore further strengthened our financial position and made PGS a focused Marine geophysical company.

The Onshore operation is reported under the line item "(loss) income from discontinued operations, net of tax". Accordingly the reported revenues and costs in the consolidated statements of operations exclude revenues and costs relating to Onshore activities.

Other activities

Revenues from our Electro Magnetic survey (EM) business have declined, and the overall market development has been weaker than expected. Thus, we reorganized PGS EM in the first quarter of 2009 to align resources and costs to current market conditions. We remain confident about our EM technology. Successful field trials of a towed EM system in 2009 have furthered the evolution of cost-effective solutions for the marine environment. We have retained critical operational and engineering expertise that will enable us to mobilize marine and land EM operations for key, select clients and the general market as demand warrants.

Financial results

Total revenues (from continuing operations) were $1,350.2 million, compared to $1,647.4 million in 2008, an 18 percent decrease. Revenues from contract seismic acquisition decreased by $172.0 million, from $1,065.0 million in 2008 to $893.1 million in 2009; the decline was primarily driven by a more challenging marine seismic market and resultant lower prices. Total MultiClient revenues (pre-funding and late sales combined) decreased by $88.7 million, or 20 percent, to $350.7 million in 2009, due to lower pre-funding revenues.

Marine reduced cash investments in the MultiClient library by $40.7 million, or 18 percent, to $183.1 million in 2009. Pre-funding as a percentage of cash investments in MultiClient data was 92 percent in 2009, compared to 112 percent in 2008. The decrease in pre-funding level was driven by a generally weaker market and the Wide Azimuth project that commenced in early November 2009 in the Gulf of Mexico, where the level of pre-funding is generally lower than in other regions. In 2009, the fleet allocation factor (active 3D vessel time) for contract vs. MultiClient data acquisition was approximately 75:25 percent, compared to 80:20 percent in 2008.

Operating costs, which include cost of sales, expensed research and developments costs, and selling and general administrative costs, totaled $678.1 million in 2009 compared to $754.4 million in 2008, a decrease of $76.4 million or 10 percent. Our costs generally decreased in 2009, as activity levels decreased and we focused on cost reduction and increasing cash flow. In late 2008, we returned most chartered vessels to their owners so that by year-end 2009, only the 2D vessel *Harrier Explorer* remained on charter. In early 2009 we restructured our EM activities to reduce cost relating to EM operations and focus on development of a towed EM solution. Other factors were a general reduction in travel expenses, fuel costs, yard and maintenance and project-related costs.

Reported research and development costs increased by $3.4 million, or 18 percent, to $22.8 million. The expenses mainly relate to the core business activities of marine seismic acquisition and processing, as well as our efforts to develop a towed EM solution. Capitalized development projects totaled $8.7 million in 2009, compared to $11.5 million in 2008. Capitalized development costs primarily relate to optoSeis® and towed EM. Depreciation and amortization for 2009 amounted to $285.3 million, compared to $273.2 million in 2008, an increase of $12.1 million or four percent. The increase in depreciation is mainly due to the entry of *Ramform Sovereign* in March 2008 and *Ramform Sterling* in June 2009 partially offset by reduced depreciation after the sale of *Geo Atlantic* in June 2009.

MultiClient amortization for 2009 increased by $7.9 million, or five percent compared to 2008. MultiClient amortization as a percentage of total MultiClient revenues was 44 percent in 2009, compared to 33 percent in 2008. The increase is driven by an increase in the share of sales relating to newer MultiClient data, which carry a higher book value. Amortization also includes a write down of certain specific MultiClient surveys due to weaker than planned performance.

The net book value of our MultiClient library, excluding Onshore, was $293.2 million as of December 31, 2009, compared to $294.6 million as of December 31, 2008.

In 2009, we recorded $153.6 million in impairment charges on long-lived assets. The impairments primarily relate to the cancellation of the two Arrow NB's 532 and NB 533, and the sale of the *Geo Atlantic* vessel.

Operating profit was $233.3 million in 2009. Excluding impairment charges for long-lived assets, 2009 operating profit was $386.9 million. The corresponding 2008 operating profit was $619.8 million, excluding impairment charges for long-lived assets and the gain of $71.6 million from the sale of *Ramform Victory* in 2008.

Interest expense was $45.2 million in 2009, compared to $58.5 million in 2008. The decrease is due to lower interest-bearing debt and reduced interest rates, which was partially offset by a decrease in capitalized interest associated with the MultiClient library and construction in progress.

Other financial items (which includes other financial income, other financial expense and currency exchange gain/loss) amounted to a net gain of $38.2 million in 2009, compared to a loss of $17.2 million in 2008. The primary reason for the improvement was foreign currency gains of $24.8 million as a result of weakening in the US dollar during 2009. A strong US dollar generally favors our operations, because a significant proportion of our costs of operation are incurred in currencies other than the US dollar. We hold foreign currency positions, including derivative financial instruments, to balance our operational currency exposure. These positions are generally not accounted for as hedges, but marked to market at each balance sheet date together with receivables and payables in non-US currencies; accordingly, the short-term effect is positive when the US dollar depreciates.

Income tax expense was $51.9 million in 2009, compared to $26.1 million in 2008. The income tax expense for 2008 was positively impacted by the entry of parts of our vessel operations into the new tonnage tax regime for ships in Norway, effective January 1, 2008, and developments relating to exit from the previous shipping tax regime, effective January 1, 2002, which totaled $107.0 million.

In 2009 we received the final tax assessment from the Tax Appeal Board of Norway's Central Tax Office (CTO) regarding exit from the previous shipping tax regime, effective January 1, 2002. The final assessment had a lower taxable exit gain than the draft assessment from the CTO, and therefore positively impacted income tax expense in 2009 by $31.8 million. Uncertainty remains as to whether we will be granted a change of tax depreciation in tax returns for previous years based on the final assessment. We have based our accounting on the final assessment with an assumption that historical tax depreciation can be changed, but we are considering taking the case to court, since our primary position is that we had a loss at the time of exit. The 2009 tax expense was negatively impacted by the write-down relating to $21.0 million of prepaid income tax in Brazil.

The 2009 tax expense includes a current tax expense of $50.1 million, compared to a current tax expense of $77.4 million in 2008. Current tax expense relates primarily to foreign taxes or income taxes in countries in which we have no carry forward losses or where there are limitations on the application of such losses.

We have substantial deferred tax assets in various jurisdictions, but predominantly in Norway. At year-end 2009, deferred tax assets, in the consolidated statements of financial position amounted to $207.9 million, while remaining unrecognized deferred tax assets in other jurisdictions were $115.2 million. We have some significant unresolved tax contingencies as described in more detail in note 10 and 27 in the consolidated financial statements, including the exit from the previous shipping tax regime in 2002 and ISS (service tax) in Brazil.

The loss from discontinued operations, net of tax, was $8.2 million in 2009, compared to income of $5.8 million in 2008. The loss in 2009 primarily relates to Onshore activities. Onshore revenues for 2009 totaled $194.6 million, a decrease of $78.5 million, or 29 percent, from 2008. The decrease is primarily due to lower activity levels in North America, including MultiClient, and in North Africa, which were partially offset by higher activity in Mexico.

Net income to equity holders of PGS ASA was $165.8 million in 2009, compared to $417.4 million in 2008.

Arrow vessel new-builds
At the time of acquisition of Arrow Seismic ASA including its subsidiaries (Arrow) in 2007, the company was constructing four 10-12 streamer seismic 3D vessels at the Factorias Vulcano shipyard group in Spain. The first two vessels (NB 532 and 533) were chartered to WesternGeco (WG), whereas the other two new-builds (NB 534 and 535), now named *PGS Apollo* and *PGS Artemis*, were to be integrated into our seismic operations when completed.

Arrow cancelled the contracts for NB 532 and 533 in March and August 2009, respectively, due to vessel construction delays. WG was released from its charter obligations related to the now cancelled vessel new-builds. The yard disputed Arrow's right to terminate, and initiated arbitration proceedings against Arrow in Norway. In the first arbitration case, which concerned NB 532, the yard was ordered to pay Arrow the full amount it had claimed, which was EUR 39.7 million, in addition to interest and full legal expenses. The proportion of the award covered by bank refund guarantees, EUR 32 million plus interest of EUR 5 million, was received by us in the first quarter of 2010. The remaining amount is subject to debt collection procedures against the yard. The hearing in the second arbitration case concerning NB 533 is scheduled for June 2010. The amount claimed and the proportion of this sum covered by bank guarantees is in line with the amounts in the first arbitration case.

Work on *PGS Apollo* is progressing and we took delivery of the vessel on March 26, 2010.

Work on *PGS Artemis* has shown limited progress to date. According to the new-build contract, the vessel is to be completed at Factorias Vulcano's subsidiary in Gijon, Factorias Juliana, which is currently in a bankruptcy process. We have decided to defer any further purchase commitments on seismic equipment for *PGS Artemis* and intend to equip the vessel with existing equipment from our 6-streamer fleet if the vessel is delivered. We are entitled to terminate the newbuild contract if the vessel is not delivered within 200 days of January 31, 2010.

Arrow has paid all scheduled pre-delivery yard installments on *PGS Artemis*; which amounts to approximately EUR 40 million. Arrow has received bank guarantees for the full amount plus interest. In the event the shipbuilding contract is terminated (either by Arrow due to delayed delivery or by the shipyard as a result of its financial condition), Arrow is entitled to demand payment of the bank guarantee and should realize a significant cash recovery. Such termination would however most likely result in a material additional impairment charge.

Cash flows, financial position and financing
Net cash provided by operating activities totaled $676.1 million in 2009, compared to $914.6 million in 2008. The decline is largely attributable to lower profitability.

Cash and cash equivalents (excluding restricted cash) totaled $126.0 million as of December 31, 2009, compared to $95.2 million at year-end 2008.

In June 2007, we refinanced and established a $600 million Term Loan B maturing in 2015 and a $350 million revolving credit facility maturing in 2012. As of December 31, 2009 $572.0 million remained outstanding on the term loan and the revolving credit facility was undrawn.

The outstanding balance on our Oslo Seismic Notes was $33.9 million as of December 31, 2009.

We issued $400 million of convertible notes in December 2007. The coupon interest rate on the convertible bond is 2.7 percent and the conversion price is NOK 216.19 per PGS share. We have repurchased $55.5 million of the nominal value of the convertible notes, representing 14 percent of the total issue. As of December 31, 2009, $344.5 million of nominal value remained outstanding, with a corresponding balance sheet carrying value of $307.9 million.

In the fourth quarter of 2009, noteholders consented to certain amendments to the convertible notes. We requested the amendments in order to increase flexibility and to harmonize terms and conditions with those of other debt instruments. Total fees and costs for us related to the amendment process were $6.9 million and were expensed in the fourth quarter of 2009.

Entering 2009, we had a $125 million secured term loan and credit facility relating to the Arrow vessels. In 2009, we cancelled this facility and repaid the outstanding amount of $76.9 million.

Total interest-bearing debt, including capital leases but excluding deferred loan costs, amounted to $918.0 million as of December 31, 2009, compared to $1,249.2 million as of December 31, 2008.

Net interest-bearing debt (interest-bearing debt less cash and cash equivalents, restricted cash, and interest-bearing investments) was $774 million as of December 31, 2009, compared to $1,135.6 million as of December 31, 2008.

Our interest-bearing debt consisted of the primary components shown in the table at the bottom of this page.

Investments
During 2009, we made total cash investments for continuing operations, excluding capitalized interest, of $183.1 million in the MultiClient data library, compared to $229.0 million in 2008, a decrease of $45.9 million. The decrease is primarily due to lower 2D MultiClient activity and reprocessing of existing MultiClient data, in addition to fewer chartered-in vessels used for MultiClient surveying.

Capital expenditures for continuing operations totaled $231.2 million in 2009, compared to $414.5 million in 2008, a decrease of $183.3 million or 44 percent. The decline is largely attributable to reduced capital expenditures for vessel new-builds.

Financial market risk
We are exposed to certain market risks, including adverse changes in interest rates and foreign currency exchange rates, as discussed below.

Interest rate risk
We enter into financial instruments, such as interest rate swaps, to manage the impact of interest rate fluctuations.

As of December 31, 2009, our debt structure included $572.0 million in floating-rate interest-bearing debt with interest based on three month LIBOR rates, plus a margin. The fixed-interest-rate debt had a book value of $345.6 million. To reduce the adverse effects of any interest rate increases, we have a portfolio of interest rate swaps (IRS) that have a total nominal value of $400.0 million. The fair value of the IRS portfolio was negative $31.8 million as of December 31, 2009. The swaps are for periods of six months to five years. Taking into account the effect of interest rate swaps, for every (hypothetical) one percentage point increase in LIBOR, the annual net interest expense for our debt, including capital leases, would increase by approximately $1.7 million.

Currency exchange risk
We conduct business in various currencies, including the US Dollar (USD), Brazilian Real, Indian Rupee, Euro (EUR), Singapore Dollar, Kazakhstan Tenge, Mexican Peso, Moroccan Dirham, Nigerian Naira, Peruvian Nuevo Sol, Saudi Riyal, British Pound (GBP), and the Norwegian Kroner (NOK). We are subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing, and investment transactions in currencies other than the USD.

	Dec. 31, 2009	Dec. 31, 2008
In millions of US dollars		
Unsecured:		
10% Senior Notes, due 2010	4	5
Secured:		
Term loan, LIBOR + margin, due 2015	572	572
Revolving credit facility, due 2012	0	230
8.28% first preferred mortgage notes, due 2011	34	49
Revolving credit facility (Arrow), due 2017	-	38
Term loan (Arrow), LIBOR + margin, due 2017	-	46
Convertible notes:		
Convertible notes, due 2012	308	306
Total long-term debt	**918**	**1,246**

We predominantly sell our products and services in USD, but also to some extent in other currencies. In addition to USD, a significant proportion of our operating expenses are incurred in GBP and NOK; less substantial amounts are incurred in Singapore dollars and various other currencies. Thus, regarding expenses and revenues in currencies other than USD, such expenses will typically exceed revenues.

A stronger US dollar reduces our operating expenses as reported in US dollars. We estimate that a 10 percent appreciation of the US dollar against the two most significant non-USD currencies, NOK and GBP, would have an annual net positive EBIT impact of $15 to $20 million and $7 to $10 million, respectively, before currency hedging.

We hedge part of our foreign currency exposure related to operating income and expenses by entering into forward currency exchange contracts. While we enter into these contracts with the purpose of reducing our exposure to changes in exchange rates, we do not treat these contracts 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 in other financial items, net.

As of December 31, 2009, we had net open forward contracts to buy/sell British pounds, Norwegian kroner, Euro, Singapore dollars, and Brazil's real. The total nominal amount of these contracts was approximately $318.9 million, compared to $514.2 million at year-end 2008. Of the aforementioned, contracts with a notional value of $8.7 million are accounted for as fair value hedges, compared to $150.8 million in 2008. There were no designated foreign currency cash flow hedges in 2009, as was the case in 2008. Outstanding contracts at year-end 2009 had a positive fair value of $14.4 million, compared to a negative fair value of $35.3 million as of December 31, 2008.

A further 10 percent appreciation of the US dollar against all the currencies we have derivative contracts in, would decrease the fair value of these contracts by approximately $14.0 million. The profit and loss effect of this change would be $13.2 million (loss).

All interest bearing debt is denominated in US dollars.

Credit risk
Our accounts receivable are primarily from multinational, integrated oil companies and larger independent oil and natural gas companies, including companies that are owned in whole or in part by governments. We manage our exposure to credit risk through ongoing credit evaluations of customers. We believe our exposure to credit risk is relatively limited due to the nature of our customer base, the long-term relationship we have with most of our customers, and the historic low level of losses on our accounts receivable.

We also monitor the counterparty credit risk of our banking partners, including derivatives counterparties and the institutions in which our cash is held on deposit. In addition, we are exposed to certain off-balance-sheet counterparty credit risk related to refunds from the Spanish shipyard Factorias Vulcano and the refund guarantees from Spanish banks related to the Arrow new-builds. Except for the risk posed by the tight liquidity situation at the shipyard, we believe that counterparties have the ability to meet their obligations when they fall due.

Liquidity risk
At December 31, 2009, we had an unrestricted cash balance of $126.0 million and a liquidity reserve of $472 million, compared to $95.2 million and $211.0 million, respectively, at year-end 2008. We continuously monitor our banks and have no reason to doubt their ability to meet their funding commitments if and when called upon to do so.

Based on the year-end cash balance, available liquidity resources, and the current structure and terms of our debt, we believe we have adequate liquidity to support our operation and investment program.

The credit agreements for the $350 million revolving credit facility and the $600 million Term Loan B generally require the Company to apply 50 percent of excess cash flow to repaying outstanding borrowings for years when the senior leverage ratio (total indebtedness less unsecured debt)/(preceding 12 month EBITDA less preceding 12 month MultiClient investments) exceeds 2.0:1 or if the total leverage ratio (same as senior leverage ratio, but including unsecured debt) exceeds 2.5:1. As of December 31, 2009, the senior leverage ratio was 1.34 and the total leverage ratio was 1.94. Excess cash flow in any period is defined as net cash flow provided by operating activities during that period less capital expenditures made in that period or committed to be made in the next period, less debt service payments, and less accrued income taxes to be paid in the next period.

The $350 million revolving credit facility includes a covenant requiring the total leverage ratio to be within 3.25:1 in 2009 and 2010, and 3.0:1 thereafter. The Term Loan B has no such maintenance covenant.

Before entering 2009, we aimed for asset sales of $200 million to improve liquidity, reduce debt, and position the Company better in a weaker market. We have outperformed our asset sales plan, and freed up nearly $330 million since the start of 2009 (including amounts received so far in 2010). In addition, we expect another $70 million in cash in 2010 from the refunds relating to the cancellations of NB 532 and 533.

We have a solid debt structure as to existing debt, with no material scheduled maturities until 2012 and financial covenants that are not unduly restrictive. However, materially adverse future market developments, could require us to implement measures to meet financial covenants or refinance debt.

Commodity risk
Operation of our seismic vessels consumes substantial quantities of fuel. Thus, we are exposed to changes in fuel prices. Based on our fuel consumption in 2009, a 10 percent increase in fuel prices would raise the Company's total fuel costs, and operating expenses, by approximately $0.5 million per month. We do not hedge this exposure, but we are seeking cost adjustments on long-term contracts. The price of oil is a primary driver for demand for our services and future profitability, and therefore constitutes a natural fuel-price hedge.

Shares, share capital, and dividend
We have 197,999,999 shares issued and outstanding, all of which are of the same class and with equal voting and dividend rights. Each share has a par value of NOK 3. In late May 2009, we carried out a private share placement directed at professional Norwegian and international investors. The placement included a share issuance of 17, 999,999 new shares and a sale of 3,625,223 treasury shares. The price of NOK 36.50 per share was established in an accelerated book-building process. Total proceeds from the private placement amounted to $119.0 million. Interest among investors was significant, and the issue was oversubscribed by more than five times. The purpose of the private placement was to strengthen our financial position in order to be better positioned in a challenging market.

Our ordinary shares are listed on the Oslo Stock Exchange (ticker: PGS) and denominated in Norwegian kroner (NOK). The PGS share is still trading as an American Depositary Share (ADS) on the US Pink Sheets (ticker: PGSVY). Quotes are denominated in US dollars ($) and each ADS represents one share.

We do not propose any dividend to be paid to shareholders for 2009. In general, any future dividend will be proposed to the Annual General Meeting (AGM), based on our result from operations, financial strength and other financial issues, future business prospects, any applicable legal or contractual restrictions, and other factors that we consider relevant.

At the AGM held May 14, 2009, the authorization for a share repurchase program for up to 10 percent of our share capital, initially granted in 2006, was extended for another year. We plan to propose an extension of the authorization at the April 2010 AGM.

As of December 31, 2009, we did not own any PGS shares. We use share repurchases primarily as a means to adjust our financial leverage within our targeted range. We expect to use most of 2010's projected cash flow for continued execution of committed projects, GeoStreamer® rollout, increased MultiClient activity to the extent there are attractive MultiClient projects, and to further strengthen our balance sheet.

Organization
The table on the bottom of page 59 presents employment statistics at year-end for the past three years for full-time positions:

The nature of our business requires a high degree of technological expertise from our employees. As an employer and as expressed in our core values, we strive for balance and equality with respect to gender, age, and cultural diversity among our staff. As of December 31, 2009, our employees represented 81 nationalities; 20 percent of our employees are women and 80 percent are men. Among our staff working in Norway, 36 percent are women and 64 percent are men. Our Board of Directors has four male and four female directors.

At our headquarters in Lysaker, 22 percent of management positions are held by women. Eleven percent of women working for our organization in Norway are part-time employees.

University educated employees include geophysicists, geologists, engineers, and other professionals. The average monthly salary of a PGS employee in 2009 was $6,293 ($4,217 for women and $6,614 for men).

Our headquarters are located at Lysaker (Oslo), Norway. We also have offices in other cities in Norway, and in 23 other countries: Angola, Australia, Brazil, Canada, China, Egypt, France, India, Indonesia, Japan, Kazakhstan, Malaysia, Mexico, the Netherlands, Nigeria, Oman, Russia, Singapore, Sweden, United Kingdom, United Arab Emirates, United States of America, and Vietnam.

Board of Directors and corporate governance
Our Board of Directors consists of Francis Gugen (Chairperson), Harald Norvik (Vice Chairperson), Holly Van Deursen, Annette Malm Justad, Wenche Kjølås, Daniel J. Piette, Carol Bell, and Ingar Skaug. The two latter Board Members were elected as Directors at the extraordinary general meeting held on October 14, 2009 for terms ending with the Company's Annual General Meeting (AGM) scheduled for April 29, 2010. The other Directors were re-elected at the AGM held in May 2009.

The Board has established two sub-committees: an Audit Committee, consisting of Harald Norvik (Chairperson), Carol Bell, Wenche Kjølås and Daniel J. Piette, and the Remuneration and Corporate Governance Committee, consisting of Holly Van Deursen (Chairperson), Annette Malm Justad and Ingar Skaug. The committees act as preparatory bodies for the Board of Directors and assist the Directors in exercising their responsibilities.

We also have a Nomination Committee, elected by our shareholders, consisting of Roger O'Neil (Chairperson), C. Maury Devine and Hanne Harlem.

The Board of Directors held 11 meetings in 2009.

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

PGS is registered in Norway as a public limited liability company, and our governance model builds on Norwegian corporate law. We also implement corporate governance guidelines beneficial to our business.

Our corporate governance principles are adopted by the Board of Directors. The Board periodically reviews these principles. Key aspects of our corporate governance structure are described in more detail in the corporate governance section of this annual report. Our articles of association, in addition to full versions of the rules of procedures for our Board of Directors, the Audit Committee charter, the Remuneration and Corporate Governance Committee charter, the Nomination Committee charter, and our code of conduct are available on our website www.pgs.com (under Corporate Governance).

Since 2004, we have maintained a compliance hotline operated by an external service provider in order to facilitate reporting of any concerns regarding inappropriate business conduct. We encourage use of the hotline by anyone who has concerns relating to compliance with laws and regulations, breaches of our code of conduct, fair treatment, or any other matter. Concerns can also be raised directly with our general counsel or any Board Member.

Outlook
The seismic industry was hit hard by sharp declines in oil prices and exploration and production spending by oil companies in late 2008. In 2009, oil prices have recovered and oil is currently trading at $70 to $80 a

	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Marine & Data Processing	1,841	1,991	1,593
Other[2]	275	278	255
Total continuing operations	**2,116**	**2,269**	**1,848**
Onshore permanent employees	564	714	731
Onshore temporary employees[1]	3,146	2,223	644
Total	**5,826**	**5,206**	**3,223**

1. Onshore temporary employees include crew hired for specific time periods (generally the length of a specific project). Crews working in Mexico account for 2,799 of the total of 3,146 Onshore temporary employees as of December 31, 2009.
2. Includes corporate functions and Global Shared Services.

barrel. Sustainability at these levels has triggered most oil companies to plan for higher exploration and production spending in 2010, compared to 2009, which is expected to have a positive impact on our industry. The correlation between oil prices and demand for seismic services is strong.

During 2009, significant capacity has been taken out of the marine 3D market as a result of converting vessels to 2D or source vessel operations, stacking or scrapping old vessels, and cancelling or deferring new-builds. This has resulted in an improved market balance, but there is still some overcapacity in the seismic market.

While we observe increased activity levels and expect that seismic spending will increase, we do not plan for a quick market recovery.

The long-term fundamentals in the seismic market are considered intact, especially for more advanced seismic since most of the easily accessible oil has been extracted. Looking at the low reserve replacement ratio for the industry and the forecasted decline in oil supplies, we expect demand fundamentals for seismic services to be strong.

In 2009, we have focused on cost reductions and adapted to a tougher market. Our cost focus will continue in 2010.

We have a competitive advantage in our cost-effective, efficient and uniform fleet. This advantage will be increasingly important for us in order to maintain industry-leading margins and generate robust cash flows going forward.

For Marine 3D acquisition we enter 2010 with an order book horizon of approximately six months. We expect Marine revenues to decline in 2010 since a significant part of the work executed in 2009 was booked at higher prices, while work scheduled for 2010 reflects current market levels.

We expect to use approximately the same proportion of our 3D fleet capacity for MultiClient acquisition in 2010 as we did in 2009. MultiClient cash investment is also expected to be around the same level in 2010 as in 2009. As a result of increased MultiClient activity in the Gulf of Mexico, where pre-funding levels are generally lower than in other regions, pre-funding for 2010 is expected to be slightly below what we achieved in 2009.

We expect capital expenditures to decrease compared to 2009, mainly due to completing our vessel new build projects. However, accelerated GeoStreamer® rollout, where we expect to spend more than $100 million in 2010, will offset some of the capital expenditures reduction.

The Board emphasizes that forward looking statements contained in this report are based on various assumptions made by management, depend on factors beyond our control, and are subject to certain risks and uncertainties as disclosed in our filings with the Oslo Stock Exchange. Accordingly, actual results may differ materially from those contained in forward looking statements.

Pursuant to §3-3a of the Norwegian accounting act, the Board confirms that the 2009 financial statements have been prepared based on the assumption of a going concern and that the assumption of a going concern is appropriate.

Allocation of the parent company's profit for 2009

The financial statements of Petroleum Geo-Services ASA are prepared and presented in accordance with generally accepted accounting principles in Norway (N GAAP). Net income was NOK 1,905.0 million for 2009, compared to NOK 358.6 million in 2008. PGS ASA is a holding company with no operating activities.

The Board proposes to allocate the 2009 net income of NOK 1,904,958,000 to other equity. Other equity as of December 31, 2009 was NOK 7,524,568,000 of which NOK 6,852,050,000 was unrestricted equity.

Lysaker, March 25, 2010
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen *Chairperson*	Harald Norvik *Vice Chairperson*	Carol Bell	Holly Van Deursen	Annette Malm Justad
Wenche Kjølås	Daniel J. Piette	Ingar Skaug	Jon Erik Reinhardsen *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 PGS ASA, for the year ending and as of December 31, 2009.

PGS 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, 2009. The separate financial statements for PGS ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of December 31, 2009. 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, 2009.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2009 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, 2009, 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.

Lysaker, March 25, 2010
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen *Chairperson*	Harald Norvik *Vice Chairperson*	Carol Bell	Holly Van Deursen	Annette Malm Justad
Wenche Kjølås	Daniel J. Piette	Ingar Skaug	Jon Erik Reinhardsen *Chief Executive Officer*	

PETROLEUM GEO-SERVICES

CONSOLIDATED STATEMENTS OF OPERATIONS

		Years ended December 31,		
(In thousands of dollars)	Note	2009	2008	2007
Revenues	6	$1 350 202	$1 647 401	$1 275 527
Cost of sales (1)		605 980	662 286	481 761
Research and development costs (1)		22 806	19 357	8 524
Selling, general and administrative costs (1)		49 270	72 798	63 171
Depreciation and amortization	6, 7	285 269	273 164	245 199
Impairments of long-lived assets	7	153 615	161 140	-
Other operating income	16, 20	-	(71 561)	(6 768)
Total operating expenses		1 116 940	1 117 184	791 887
Operating profit	6	233 262	530 217	483 640
Income (loss) from associated companies	20	1 901	(16 166)	(1 563)
Interest expense	8	(45 232)	(58 459)	(38 470)
Other financial income	9	24 489	27 219	10 702
Other financial expense	9	(11 117)	(14 594)	(12 233)
Currency exchange gain (loss)		24 806	(29 843)	4 896
Income before income tax expense		228 109	438 374	446 972
Income tax expense (benefit)	10	51 942	26 098	(12 512)
Income from continuing operations and minority interest		176 167	412 276	459 484
Income (loss) from discontinued operations, net of tax	4	(8 248)	5 814	11 339
Net income		$ 167 919	$ 418 090	$ 470 823
Net income attributable to minority interests		2 094	706	814
Net income to equity holders of PGS ASA		$ 165 825	$ 417 384	$ 470 009

(1) Excluding depreciation and amortization, which is shown separately.

Earnings per share, to ordinary equity holders of PGS ASA:	11			
- Basic		$ 0.88	$ 2.37	$ 2.65
- Diluted		$ 0.88	$ 2.36	$ 2.65
Earnings per share from continuing operations, to ordinary equity holders of PGS ASA:	11			
- Basic		$ 0.92	$ 2.34	$ 2.59
- Diluted		$ 0.92	$ 2.33	$ 2.59

Lysaker, March 25, 2010
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen
Chairperson

Harald Norvik
Vice Chairperson

Carol Bell

Holly Van Deursen

Annette Malm Justad

Wenche Kjølås

Daniel J. Piette

Ingar Skaug

Jon Erik Reinhardsen
Chief Executive Officer

PETROLEUM GEO-SERVICES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years ended December 31,		
(In thousands of dollars)	Note	2009	2008	2007
Net income		$ 167 919	$ 418 090	$ 470 823
Other comprehensive income				
Cash flow hedges	26	15 582	(24 588)	(22 718)
Deferred tax on cash flow hedges (1)	12	(4 388)	12 994	-
Revaluation of shares available-for-sale	13	(2)	725	(2 221)
Translation adjustments and other		26	(676)	(203)
Other comprehensive income, net of tax		11 218	(11 545)	(25 142)
Total comprehensive income		179 137	406 545	445 681
Total comprehensive income attributable to minority interest		2 094	706	814
Total comprehensive income to equity holders of PGS ASA		$ 177 043	$ 405 839	$ 444 867

(1) Effective January 1, 2008, the Company calculated deferred tax on the temporary differences related to the qualifying cash flow hedge instruments charged directly to other comprehensive income ($4.9 million).

PETROLEUM GEO-SERVICES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of dollars)	Note	December 31, 2009	December 31, 2008
ASSETS			
Current assets:			
Cash and cash equivalents		$ 125 961	$ 95 248
Restricted cash	12	7 977	8 360
Shares available-for-sale	13	2 039	5 977
Accounts receivable	14	197 098	228 903
Accrued revenues and other receivables	15	216 846	179 331
Assets classified as held-for-sale	16	227 292	5 250
Other current assets	17	90 148	143 258
Total current assets		867 361	666 327
Long-term assets:			
Property and equipment	18	1 283 463	1 562 421
Multi-client library	19	293 238	294 601
Restricted cash	12	10 014	10 014
Deferred tax assets	10	207 890	221 786
Investments in associated companies	20	7 043	14 391
Shares available-for-sale	13	10 004	272
Other long-lived assets	21	12 053	20 142
Goodwill	22	139 852	175 092
Other intangible assets	23	98 490	99 759
Total long-term assets		2 062 047	2 398 478
Total assets	6	$ 2 929 408	$ 3 064 805
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt and current portion of long-term debt	24, 25	$ 26 109	$ 20 459
Current portion of capital lease obligations	27	348	1 180
Accounts payable		87 153	98 036
Liabilities classified as held-for-sale	16	26 008	-
Accrued expenses	28	286 079	340 308
Income taxes payable	10	54 914	75 683
Total current liabilities		480 611	535 666
Long-term liabilities:			
Long-term debt	25	882 580	1 212 065
Long-term capital lease obligations	27	-	2 871
Deferred tax liabilities	10	31 228	34 398
Other long-term liabilities	29	85 952	140 125
Total long-term liabilities		999 760	1 389 459
Shareholders' equity:			
Paid-in capital:			
Common stock; par value NOK 3;			
issued and outstanding 197,999,999 shares at December 31, 2009;			
issued and outstanding 180,000,000 shares at December 31, 2008	31	86 583	78 208
Treasury shares, par value	31	-	(1 868)
Additional paid-in capital		237 542	134 658
Total paid-in capital		324 125	210 998
Accumulated earnings		1 147 551	963 334
Cumulative translation adjustment and other reserves		(23 444)	(34 662)
Minority interests		805	10
Total shareholders' equity		1 449 037	1 139 680
Total liabilities and shareholders' equity		$ 2 929 408	$ 3 064 805

PETROLEUM GEO-SERVICES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)	Years ended December 31, 2009	2008	2007
Cash flows provided by operating activities:			
Net income	$ 165 825	$ 417 384	$ 470 009
Adjustments to reconcile net income to net cash			
Provided by operating activities:			
Depreciation and amortization, continuing operations	285 269	273 164	245 199
Depreciation and amortization, discontinued operations	22 701	62 352	67 894
Impairments of long-lived assets	153 615	161 140	-
(Gain) loss on sale of assets	47	(75 581)	454
Interest expense	45 035	56 648	-
Deferred income taxes	7 095	(49 035)	(54 341)
Net decrease (increase) in restricted cash	383	41 049	(40 143)
Income taxes paid	(65 487)	(49 741)	(68 868)
Gain on sale of shares	(8 670)	-	-
Other items	1 007	22 394	10 031
Decrease (increase) in accounts receivable, net	(15 703)	13 451	(38 127)
Decrease (increase) in unbilled and other receivables	45 721	(32 104)	(23 053)
Decrease (increase) in other current assets	39 354	(13 688)	(45 814)
Decrease (increase) in other long-lived assets	6 963	8 885	(7 669)
Increase (decrease) in accounts payable	(6 686)	10 089	(8 934)
Increase in accrued expenses and income taxes payable	21 394	87 404	222 662
Decrease in other long-term liabilities	(21 781)	(19 196)	(6 481)
Net cash provided by operating activities	676 082	914 615	722 819
Cash flows (used in) provided by investing activities:			
Investment in MultiClient library	(183 083)	(228 988)	(214 552)
Investment in MultiClient library, discontinued operations	(3 599)	(61 043)	(68 245)
Capital expenditures	(231 227)	(414 516)	(234 973)
Capital expenditures on new-builds on charter	(3 839)	(31 979)	(9 749)
Capital expenditures, discontinued operations	(10 538)	(36 103)	(25 468)
Investments in other intangible assets	(7 811)	(12 304)	(9 500)
Investments in other intangible assets, discontinued operations	(4 577)	(156)	-
Proceeds from sale of assets and assosiated companies	12 143	6 297	448
Proceeds from assets held-for-sale	58 000	24 605	103 648
Investment in available-for-sale shares	(8 128)	-	-
Proceeds from available-for-sale shares	14 681	-	-
Payment for purchase of subsidiaries, net of cash acquired	-	(77)	(700 148)
Other items, net	1 956	962	(16 932)
Net cash used in investing activities	(366 022)	(753 302)	(1 175 471)
Cash flows (used in) provided by financing activities:			
Proceeds from issuance of common stock, net	98 523	-	-
Proceeds from issuance of long-term debt	20 000	33 702	995 092
Repayment of long-term debt	(354 538)	(149 078)	(282 926)
Principal payments under capital leases	(3 703)	(7 686)	(6 862)
Net (decrease) increase in bank facility and short-term debt	-	(10 000)	239 873
Purchase of treasury shares	-	-	(119 486)
Proceeds from sale of treasury shares	20 276	-	-
Proceeds from exercise of employee share options	-	2 671	10 241
Dividend paid to minorities in subsidiaries	(1 299)	(737)	(776)
Dividend paid to shareholders of PGS ASA	-	-	(302 368)
Termination fee, UK leases	-	-	(7 831)
Interest paid	(58 606)	(80 232)	(50 993)
Net cash (used in) provided by financing activities	(279 347)	(211 360)	473 964
Net (decrease) increase in cash and cash equivalents	30 713	(50 047)	21 312
Cash and cash equivalents as of January 1	95 248	145 295	123 983
Cash and cash equivalents as of December 31	$ 125 961	$ 95 248	$ 145 295
Cash flow from (used in) discontinued operation (Onshore) (a):			
Net cash provided by operating activities	23 045	48 676	56 793
Net cash used in investing activities	(17 350)	(96 597)	(93 710)
Net cash used in financing activities (capital leases)	-	(6 707)	(6 430)
Net cash from (used in) discontinued operation	$ 5 695	$ (54 628)	$ (43 347)

(a) included in the consolidated statement of cash flow above.

PETROLUEM GEO-SERVICES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands of dollars, except for share data)	Common stock Number	Common stock Par value	Treasury shares Par value	Additional paid-in capital	Acc-umulated earnings (deficit)	Cumulative translation adjustm. and other reserves	Total	Minority interests	Total equity
	Attributable to equity holders of PGS ASA								
Balance at January 1, 2008	180 000 000	$ 78 208	$ (2 034)	$ 124 820	$ 562 816	$ (23 117)	$ 740 693	$ 41	$ 740 734
Deferred tax on convertible notes and other (1)	-	-	-	-	(19 035)	4 921	(14 114)	-	(14 114)
Total comprehensive income	-	-	-	-	417 384	(16 466)	400 918	706	401 624
Transferred treasury shares (MTEM)	-	-	94	-	(94)	-	-	-	-
Employee share options	-	-	-	9 838	-	-	9 838	-	9 838
Exercise, employee share options	-	-	72	-	2 599	-	2 671	-	2 671
Dividend to minority interests	-	-	-	-	-	-	-	(737)	(737)
Repurchase of convertible notes	-	-	-	-	(336)	-	(336)	-	(336)
Balance at December 31, 2008	180 000 000	$ 78 208	$ (1 868)	$ 134 658	$ 963 334	$ (34 662)	$ 1 139 670	$ 10	$ 1 139 680
Total comprehensive income	-	-	-	-	165 825	11 218	177 043	2 094	179 137
Share issue (17,999,999 shares) (2)	17 999 999	8 375	-	91 083	-	-	99 458	-	99 458
Sale of treasury shares (3)			1 779	-	18 497	-	20 276	-	20 276
Transferred treasury shares (MTEM)	-	-	89	-	(89)	-	-	-	-
Employee share options	-	-	-	11 801	-	-	11 801	-	11 801
Dividend to minority interests	-	-	-	-	-	-	-	(1 299)	(1 299)
Repurchase of convertible notes	-	-	-	-	(16)	-	(16)	-	(16)
Balance at December 31, 2009	197 999 999	$ 86 583	$ -	$ 237 542	$ 1 147 551	$ (23 444)	$1 448 232	$ 805	$ 1 449 037

(1) Effective January 1, 2008, the Company calculated deferred tax on the temporary differences related to the convertible notes and qualifying cash flow hedge instruments charged directly to Shareholders' Equity.
(2) Transaction costs amounting to $3.4 million are recognized against "Additional paid-in-capital" net of related income benefits of $0.9 million.
(3) Transaction costs amounting to $0.7 million are recognized against "Accumulated earnings (deficit)".

The components of other comprehensive income, recognized in cumulative translation adjustments and other reserves are as follows:

(In thousands of dollars)	Net foreign currency translation adjustments	Net unrealised gain (loss) investments	Net gain (loss) cash flow hedges Interest rate	Net gain (loss) cash flow hedges Exchange rate	Cumulative translation adjustments and other reserves
Balance at January 1, 2008	$ (625)	$ (679)	$ (19 208)	$ (2 605)	$ (23 117)
Year ended December 31, 2008:					
Revaluation of cash flow hedges	-	-	(27 193)	2 605	(24 588)
Deferred tax on cash flow hedges	-	-	12 994	-	12 994
Other	(676)	725	-	-	49
Balance at December 31, 2008	$ (1 301)	$ 46	$ (33 407)	$ -	$ (34 662)
Year ended December 31, 2009:					
Revaluation of cash flow hedges	-	-	15 582	-	15 582
Deferred tax on cash flow hedges	-	-	(4 388)	-	(4 388)
Other	26	(2)	-	-	24
Balance at December 31, 2009	$ (1 275)	$ 44	$ (22 213)	$ -	$ (23 444)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 majority owned subsidiaries and affiliates, companies in which it has and controls a majority voting interest.

PGS is a technologically focused oilfield service company principally involved in providing geophysical services worldwide. PGS provides a broad range of geophysical and reservoir services, including seismic data acquisition, processing, interpretation and field evaluation. The Company's headquarters are at Lysaker, Norway. See further discussion of the Company's services in Note 6.

The Company has prepared 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 differ 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 have been prepared under the historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value and assets impaired that are measured on value-in-use. The consolidated financial statements are presented in US Dollars ("$" or "dollars"), which is defined as the presentation currency.

The consolidated financial statements were authorised for issue by the Board of Directors on March 25, 2010.

Significant transactions and events, including subsequent events
In March and August 2009, the Company cancelled the new-builds contracts for new-build ("NB") 532 and 533 due to late delivery and recognized impairment charges of $95.6 million. See Note 18 for further information.

In June 2009, the Company took delivery of the new-build seismic vessel *Ramform Sterling*. See Note 18 for further information.

In July 2009, the Company sold *Geo Atlantic* to GC Rieber for $58 million in cash. The sale resulted in impairment charges of $48.1 million. See Note 18 for further information.

In December 2009, the Company entered into an agreement to sell its Onshore business ("Onshore") to Geokinetics Inc ("Geokinetics"). The transaction was closed at February 12, 2010. Geokinetics paid $184 million in cash and the Company received 2.15 million shares, representing approximately 12% of the current outstanding common shares of Geokinetics. See Note 4 for further information.

Income from discontinued operations for the years ended December 31, 2009 2008 and 2007, include Onshore activities and additional proceeds that were contingent on certain events related to discontinued operations sold in 2003 (Atlantis) and 2002 (Production Services). See Note 4 for additional information.

Note 2 - Summary of Significant Accounting Policies

Adoption of new and revised policies and standards and interpretations
The Company has adopted the following standard and interpretation for all periods presented, as follows:

Amendment to IAS 1 - Presentation of Financial Statements
The amendment to IAS 1 affect the presentation of owner changes in equity and of comprehensive income and does not impact on recognition and measurement as required by any other IFRS standards. The Company has presented consolidated statements of comprehensive income separately, which include all non-owner changes in shareholders' equity. All changes in shareholders' equity resulting from transactions with owners in their capacity as owners are presented in shareholder's equity.

Amendment to IFRS 7 – Financial instruments
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

Consolidation

Subsidiaries and business combinations

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated in the financial statements from the point in time when the Company gains control. The acquisition of subsidiaries is accounted for using the purchase method of accounting. Acquisition cost is assigned to the assets and liabilities of the subsidiaries, including previously unrecognized intangible assets and contingent liabilities, using their fair value at the date of acquisition. Any excess of purchase cost over fair value of assets and liabilities is recorded as goodwill. Following initial recognition, goodwill is not amortized, but measured at cost less any accumulated impairment losses. All inter-company transactions and balances have been eliminated in the consolidation. In those cases where the subsidiaries are not wholly owned, the minority interests are presented separately in the consolidated statements of operations and consolidated statements of financial position. See Note 5 for further description of acquisitions.

Investments in associated companies

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 results and assets and liabilities of associated companies are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale (see below). Under the equity method, investments in associates 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 of the associated company (i.e. profit or loss and equity adjustments), less any impairment in the value of individual investments. Losses of an associated company in excess of the Company's interest in that associated company (which includes any long-term interests that, in substance, form part of the Company's net investment in the associated company) are not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the associated company. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company periodically reviews its investments in associated companies to determine whether there is any indication of an impairment loss. If such indication exists, the recoverable amount of the associate is estimated in order to determine the extent of the impairment loss (if any).

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Company undertake an economic activity that is subject to joint control under which strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The Company reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held-for-sale (see below).

When the Company contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction and any gain or loss of such transactions are eliminated to the extent of the Company's interest in the joint venture. When the Company purchases assets from the joint venture, the Company does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

The Company periodically reviews its net investments in joint ventures to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of the joint venture is estimated in order to determine the extent of the impairment loss (if any).

Held-for-sale and discontinued operations

Results of subsidiaries or operations disposed of during the financial year are included in the Company's profit up to the effective date of disposal. When the Company intends to dispose of, or classify as held-for-sale, a business component that represents a separate major line of business it would classify such operations as discontinued. The result from discontinued operations are reported net of tax and presented separately in the consolidated statements of operations. Assets and liabilities are presented as separate line items in the consolidated statements of financial position. Comparative consolidated statements of operations and cash flow information is restated based on the classification (as continuing and discontinued) at the current reporting date. For further details about subsidiaries sold or operations that were discontinued, see Note 4.

Non-current 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 on the face of the consolidated statements of financial position. Comparative amounts are not restated when an asset is classified as held-for-sale.

Cash and cash equivalents
The carrying amounts of cash and cash equivalents approximate fair value. 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. Such restrictions primarily relate to cash collateral for bid or performance bonds, employee tax withholdings, certain health insurance and restricted deposits under contracts.

Foreign currency translation and transactions
The financial statements of non-US subsidiaries having their respective local currency as their functional currency are translated using the current exchange rate method. Assets and liabilities are translated at the rate of exchange 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 of shareholders' equity.

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 s of operations, except when deferred in shareholders' equity as qualifying cash flow hedges and qualifying net investment hedges.

Operational and capital leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Company has significant operating lease arrangements in all of its operating segments and also has some capital lease arrangements relating to marine seismic equipment and Spanish and UK leases for vessels (see below).

Capital leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are expensed in the consolidated statements of operations on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are expensed in the period in which they are incurred.

See Note 27 for description of the Company's Spanish and UK leases.

Goodwill
Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

MultiClient library
The MultiClient library consists of seismic data surveys to be licensed to customers on a nonexclusive basis. Costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized to the MultiClient library. Also included are costs incurred while relocating or "steaming" a vessel or crew from one location to another and capitalized borrowing costs.

The Company records the costs incurred on 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. Projects that are covered by the same political regime, with similar geological traits and that are marketed collectively are recorded and evaluated as a group by year of completion.

Amortization of the MultiClient library is generally recorded in proportion to revenue recognized in a period as a percentage of the total remaining expected revenue. On an annual basis the Company categorizes each MultiClient survey into one of four amortization categories with amortization rates of 90%, 75%, 60% or 45% of sales. Classification of each project into a rate category is based on the ratio of its remaining net book value to estimated remaining sales. Each category therefore is comprised of surveys for which the remaining book value as a percentage of estimated remaining sales is less than or equal to the amortization rate applicable to that category.

An integral component of amortization of the MultiClient library is the minimum amortization policy. Under this policy, the book value of each survey or group of surveys of the MultiClient library is reduced to a specified percentage by year-end, based on the age of the survey or group of surveys in relation to its year of completion. This requirement is applied each year-end regardless of future sales estimates for the MultiClient library survey or groups of surveys. The specified percentage generates the maximum permitted book value for each MultiClient library survey or group of surveys as the product of the percentage multiplied by the original book value of the MultiClient library survey or group of surveys at the respective period end. Any additional or ‘‘minimum’’ amortization charges required are then determined through a comparison of the remaining book value to the maximum permitted book value allowed for each survey or group of surveys of the MultiClient library.

The specified percentages used to determine the maximum book value of its MultiClient library components are summarized as follows:

Calendar year after project completion	5-year profile	3-year profile
Year 0 (a)	100%	100%
Year 1	80%	66%
Year 2	60%	33%
Year 3	40%	0%
Year 4	20%	
Year 5	0%	

(a) Represents the year in which the survey is classified as completed.

All Marine and Onshore MultiClient projects have a 5-year profile starting in the year after project completion. All derivative processed products have a 3-year profile starting in the year after data delivery. Derivative products are mainly reprocessing that creates data that can be sold as a separate project.

The Company classifies as amortization expense in its consolidated statements of operations any impairment of individual MultiClient surveys that are based on changes in project specific expectations and that are not individually material. The Company expects this additional, non-sales related, amortization expense to occur regularly because the Company evaluates each individual project at least annually for impairment or when specific indicators exist. The Company classifies as impairment in its consolidated statements of operations write-downs related to fundamental changes in estimates affecting a larger part of the Company’s MultiClient library where the effects are material, see *impairment of property, equipment and intangibles* below.

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, and only if, all of the following have been demonstrated: the technical 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 and 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 when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development costs are expensed as incurred.

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

Patents, licenses and technology

Patents, licenses and technology are stated at cost less accumulated amortization and any impairment charges. Amortization is calculated on a straight-line basis over the estimated period of benefit, ranging from one to twenty 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 losses. 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 computer equipment	3 - 15
Buildings and related leasehold improvements	1 - 17
Fixture, furniture, fittings and office computers	3 - 5

Subsequent expenditures and major inspections/overhaul 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 any replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of operations during the financial 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 financial year-end.

Assets under construction are carried at cost, less any impairment loss. Cost includes borrowing costs capitalized in accordance with the Company's accounting policy as stated below. Depreciation of these assets commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of operations in the year the asset is derecognized.

Significant spare parts are capitalized with the asset to which they pertain, while other spare parts, consumables and bunkers are classified as other current assets and stated at cost.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are expensed as incurred.

Steaming and mobilization costs
Steaming costs relate to relocating or "steaming" a vessel or crew from one location to another, while onsite project costs such as positioning, deploying and retrieval of equipment at the beginning and end of a project are considered to be mobilization or demobilization costs. The Company includes such costs in the cost of the MultiClient survey or exclusive contract with which the costs are associated. The steaming, mobilization or demobilization costs related to MultiClient survey are capitalized as a part of the MultiClient library (see above). Steaming and mobilization costs on exclusive surveys are deferred and charged to expense based upon the percentage of completion of the project.

Both for MultiClient and exclusive surveys the estimated probable future economic inflows which are documented at inception must cover the costs capitalized or deferred. If the projects are not able to cover all of the costs which could be capitalized or deferred then only those costs that are recoverable (discounted cash inflow of the project or activity undertaken exceeds the discounted cash outflow) are capitalized/deferred.

Impairment of property, equipment and intangibles
The Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined 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 pre-tax discount 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 recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately and presented separately in the consolidated statements of operations.

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 has been allocated) and intangible assets not yet available for use are tested 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 loss goes first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets of the unit pro-rata on the basis of the carrying amount of each assets in the unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. That increased carrying amount can not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately and presented separately in the consolidated statements of operations. Impairment loss recognized for goodwill cannot be reversed in future periods.

Derivative financial instruments and hedging
The Company accounts for derivative financial instruments in accordance with IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). The Company uses derivative financial instruments to reduce risk 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 while 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.

The Company applies either fair value or cash flow hedge accounting when a transaction meets the specified criteria in IAS 39 for hedge accounting. To qualify for hedge accounting the instrument should be designated as a hedge at inception of a hedge relationship. At the time a financial instrument is designated as a hedge, the Company documents the relationship between the hedging instrument and the hedged item. Documentation includes risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Company formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been “highly effective” in offsetting changes in the fair value or cash flows of the hedged item. A hedge is normally regarded as “highly effective” if, at inception and throughout its life, it can be expected, and actual results indicate, that changes in the fair value or cash flows of the hedged item are effectively offset by the changes in the fair value or cash flows of the hedging instrument. Actual results must be within a range of 80% to 125%. Hedge accounting will be discontinued when (a) the Company determines that a derivative is not, or has ceased to be, highly effective as a hedge, (b) the derivative expires, or is sold, terminated or exercised, (c) the hedged item matures or is sold or repaid, or (d) a forecast transaction is no longer deemed highly probable.

The Company accounts for hedges that meet these criteria as follows:

Fair value hedges: The change in fair value of the hedging instrument is recognized in the consolidated statements of operations. 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 operations. 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 operations.

Cash flow hedges: The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the consolidated statements of operations. Amounts recorded to equity are transferred to the consolidated statements of operations when the hedged transaction affects the consolidated statements of operations.

Revenue recognition
The Company recognizes revenue when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, 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.

(a) 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 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.

Volume sales agreements - The Company grants licenses to the customer for access to a specified number of blocks of MultiClient library within a defined geographical area. These licenses typically enable the customer to select and access the specific blocks over a period of time. Although the license fee is fixed and determinable in all cases, the payment terms of individual volume sales agreements vary, ranging from payment of the entire fee at the commencement of the agreement, to instalment payments over a multi-year period, to payment of the license fee as the specific blocks are selected.

Revenue recognition for volume sales agreements is based on a proportion of the total volume sales agreement revenue, measured as the customer executes a license for specific blocks and the customer has received the data or has been granted access to the data and collection is reasonably assured.

Pre-funding arrangements - The Company obtains funding from a limited number of customers before a seismic 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 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.

(b) Proprietary sales/contract sales

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.

(c) 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 represents the sum of the current tax expense (or recovery) plus the change in deferred tax liabilities and asset during the period, except for current and deferred income tax relating to items recognized directly in equity, in which case the tax is also recognized directly in equity.

Current tax assets and liabilities for the current and prior periods 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. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred income tax is recognized on temporary differences arising on investments in subsidiaries, associates and interests in joint ventures, 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 Company includes deductions/benefits from uncertain tax positions when it is probable that the tax position will be sustained in a tax review.

The carrying amount of deferred income tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The probability assessment is based on Management’s judgment and estimates in regards to future taxable income and tax planning opportunities (see separate note describing accounting estimates below).

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at 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 is classified as long-term in the consolidated statements of financial position.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of operations net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Onerous contracts

An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Existing obligations arising under onerous contracts are recognized and measured as a provision.

Employee benefits

Pension obligations

The Company operates various pension schemes. The schemes 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 that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period as adjusted for unrecognized actuarial gains or losses and past service costs, and as 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 (or government bonds where there is no deep market in high quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation (the “corridor”) are recognized in the consolidated statements of operations over the employees’ expected average remaining working lives.

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 income 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.

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 they are 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 where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model is based on management’s best estimate and takes into account the effects of non-transferability, exercise restrictions and behavioural considerations. Social security tax on options is based on the share value as of the end of the reporting period is recorded as a liability and is recognized over the option period.

The dilutive effect of outstanding options is reflected as additional share dilution in computation of earnings per share.

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 operations 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 instrument and are initially recognized at fair value.
Financial assets and liabilities are classified into categories as follows:

(a) Financial assets and liabilities measured at fair value through the consolidated statements of operations

This category includes financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value with change in fair value through the consolidated statements of operations. After initial measurement, financial assets and liabilities in the category are measured at fair value with unrealized gains and losses being recognized through the consolidated statements of operations.

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 also classified as held-for-trading unless they are designated as effective hedging instruments. Gains and losses on financial assets held-for-trading are recognized in the consolidated statements of operations.

(b) Financial assets and liabilities measured at amortized cost

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

(c) Financial assets and liabilities measured at fair value through shareholders' equity
The category includes 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, financial assets and liabilities in the category are measured at fair value with unrealized gains or losses being recognized directly in net unrealised gain (loss) investments in shareholders' equity. When the asset or liability is disposed of, the cumulative gain or loss previously recorded in shareholders' equity is recognized in the consolidated statements of operations.

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 is 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 measures are provided in Note 26.

The Company assesses at 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 considered as an indicator that the instrument is impaired. If any 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 impairment loss on that financial asset previously recognized in profit and loss – is removed from shareholders' equity and recognized in the consolidated statements of operations. Impairment losses recognized in the consolidated statements of operations on equity instruments are not reversed through the consolidated statements of operations. Impairment testing of trade receivables is described above under "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 operations.

Treasury shares (own shares)
Own equity instruments which are reacquired (treasury shares) are recorded as a reduction of shareholders' equity. No gain or loss is recognized in the consolidated statements of operations on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 in issue 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, diluted 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. Basic and diluted earnings per share are presented separately for continuing and discontinued operations.

Classification in the consolidated statements of financial position
An asset or liability is classified as current when it is part of a normal operating cycle, when it is held primarily for trading purposes, when it falls due within 12 months and when it consists of cash or cash equivalents at the end of the reporting period. Other items are long-term. A dividend does not become a liability until it has been formally approved by the Annual General Meeting.

Consolidated statements of cash flows
The Company's consolidated statements of cash flows is prepared in accordance with the indirect method, where cash flows from operating activities are incorporated as a part of the consolidated statement of cash flow, and where the cash flows are divided into operating activities, investing activities and financing activities.

Standards issued but not yet effective (which the Company has not early adopted)
A number of new standards, amendment to standards and interpretation are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these consolidated financial statements. Listed below is the amendment to standards and interpretations that are expected to have an effect of the financial statement of the Company:

IFRS 3 (revised) Business Combinations
Compared to the existing IFRS 3, the revised IFRS 3 incorporates certain amendments and clarifications related to the use of the purchase method. This includes issues such as goodwill in business combinations achieved in stages, minority interests and contingent considerations. Transactions costs other than share and debt issuance costs will be expensed as incurred. IFRS 3 (R) is effective for annual periods beginning on or after July 1, 2009. The Company expects to implement IFRS 3 (R) as of January 1, 2010.

IAS 27 (revised) Consolidated and Separate Financial Statements
The revised IAS 27 provides more guidance on accounting for changes in ownership interest in a subsidiary and the disposal of a subsidiary, compared to the current IAS 27. According to the revised standard the entity measures the interest retained in a former subsidiary at fair value upon loss of control of the subsidiary, and the corresponding gain or loss is recognised through

consolidated statements of operations. The revised standard also includes a change in the requirements relating to the allocation of losses in a loss-making subsidiary. IAS 27 (R) requires total comprehensive income to be allocated between the controlling and the non-controlling party, even if this results in the non-controlling interest having a deficit balance. IAS 27 (R) is effective for annual periods beginning on or after July 1, 2009. The Company plans to implement IAS 27 (R) as of January 1, 2010.

Amendments to IAS 39 Financial instruments – Recognition and measurement - Eligible Hedged Items
The amended IAS 39 clarifies the principles for determining whether a hedged risk or portion of cash flows is eligible for designation for certain risks or components of the cash flow. The approved changes gives primarily additional guidance for hedging a one-sided risk (hedging with options) and hedging of inflation risk, but also clarifies that designated risks and cash flows must be identifiable and can be reliable measured. The amendment is effective for annual periods beginning on or after July 1, 2009. The Company plans to implement the amendments as of January 1, 2010.

Note 3 - Critical Accounting Judgments, Estimates and Assumptions

Critical judgments
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.

In the process of applying the Company's accounting policies, which are described above, judgments made by the management that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Estimation uncertainty and assumptions
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.

Deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. The estimates of projected future taxable profits are based on a variety of factors and assumptions, many of which are subjective and are outside of the Company's control. Accordingly these estimates could differ significantly from year to year, and the Company might end up realizing more or less of the deferred tax assets than the Company has recognized in the consolidated statements of financial position.

Revenue recognition
For multiple-deliverable arrangements significant management judgment may be required in order to allocate the consideration received to separate units of accounting, depending on the available evidence to support fair value which may include experience with similar transactions, evaluations of expected profit margins, external appraisals and other evidence as situations warrant.

Amortization of MultiClient library
In determining the annual amortization rates applied to the MultiClient library, management considers expected future sales and market developments and past experience. These expectations include consideration of geographic location, prospects, political risk, exploration license periods and general economic conditions. Management updates, at least annually, the total expected revenue for each survey or group of surveys of the MultiClient library. Because of the inherent difficulty in estimating future sales and market developments, it is possible that the amortization rates could deviate significantly from year to year. To the extent that such revenue estimates, or the assumptions used to make those estimates, prove to be higher than actual revenue, the Company's future operations will reflect lower profitability due to increased amortization rates applied to the MultiClient library in later years, and the MultiClient library may also become subject to minimum amortization and/or impairment. The minimum amortization policy described in significant accounting policies is an additional element of the Company's MultiClient library accounting policy in order to reduce the inherent risk in the general amortization policy that is based on the above described sales forecasting.

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

Impairment of property, equipment and intangibles

Property, equipment and intangibles (including goodwill) are regularly reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In order to assess if there is any impairment, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal.

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 require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for uncertain tax positions based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Pension cost

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

Development cost

Development costs are capitalized in accordance with the accounting policy described under significant accounting policies above. Determining the probable future economic benefit, which is the maximum value of the capitalized amount, requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Provision for contingencies, claims and tax litigations

The Company records accruals for contingencies, claims and other uncertain liabilities including possible tax litigations 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.

The outcomes of these issues are subject to a significant degree of uncertainty and management must make estimates and use judgment in determining the expected outcome.

Note 4 - Disposals

In 2002, the Company sold its Production Services (formerly Atlantic Power Group) subsidiary to Petrofac Limited. The Company recognized the remaining additional consideration of $0.5 million in 2009.

In 2003, the Company sold its Atlantis oil and gas activities to Sinochem. The Company has in 2009 recognized $1.0 million as additional proceeds and may receive additional $5.0 million upon the occurrence of certain contingent events.

In December 2009, the Company entered into an agreement to sell Onshore to Geokinetics. The transaction was closed at February 12, 2010. Geokinetics paid approximately $184 million in cash and the Company received 2.15 million shares, representing approximately 12% of the current outstanding common shares of Geokinetics. The historical statements of operations has been restated and the results from Onshore are included in discontinued operation for all periods presented and as of December 31, 2009 the asset and liabilities related to Onshore are classified as held-for-sale.

The results of operations for Onshore are summarized as follows:

	Year ended December 31,		
(In thousands of dollars)	2009	2008	2007
Revenues	194,624	273,074	246,448
Operating costs (a)	175,997	198,200	167,702
Depreciation and amortization	22,702	62,352	67,894
Total operating expenses	198,699	260,552	235,596
Operating profit	(4,075)	12,522	10,852
Financial items, net	2,352	(1,516)	861
Income before income tax expense (benefit)	(1,723)	11,006	11,713

(a) Operating costs include cost of sales, research and development costs, and selling, general and administrative costs.

A reconciliation of income (loss) before income tax expense (benefit) for the Onshore segment, as presented above, and income (loss) from discontinued operations, net of tax, as presented in the consolidated statements of operations, is as follows:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Income before income tax expense (benefit)	(1,723)	11,006	11,713
Transaction costs Onshore	(2,368)	---	---
Additional proceeds (Atlantis and Production Services)	1,956	1,462	1,000
Tax from discontinued operations	(6,113)	(6,654)	(1,374)
Income from discontinued operations, net of tax	(8,248)	5,814	11,339

The financial position for Onshore as of December 31, 2009 classified as held-for-sale is summarized as follows (see also Note 16):

	December 31,
(In thousands of dollars)	2009
Total current assets	74,024
MultiClient library	60,565
Goodwill (Note 22)	35,240
Other long-term assets	54,463
Total long-term assets	150,268
Total assets	224,292
Total current liabilities	26,008
Total liabilities	26,008

Note 5 - Acquisitions

Business combinations are recorded using the purchase method of accounting. The Company did not enter in to any business combinations in the years ended December 31, 2009 and 2008, while there were four business combinations in the year ended December 31, 2007.

In June 2007, the Company completed the acquisition of MTEM, a provider of electromagnetic EM services used to detect the presence of hydrocarbons. The total acquisition cost was $277.1 million. Of the total consideration $17.8 million was deferred and consists of $8.9 million in cash and $8.9 million in shares (363,534 shares), which has been paid/ transferred by December 31, 2009. MTEM was fully consolidated from the date of the acquisition.

In November 2007, the Company completed the purchase of approximately 91% of the shares of Arrow and subsequently acquired the remaining outstanding shares in a combined mandatory offer and “squeeze out” for a price of $431.2 million. Arrow owned and operated two 3D vessels and had three vessels under conversion to 2D/source vessels. Further, Arrow had four high capacity seismic new-builds on order for delivery in 2008 and 2009 (see Note 18 for further information about the new-builds). Arrow was fully consolidated from the date of the acquisition.

In the second half of 2007, the Company acquired 100% of the shares in Roxicon and AGS for a total acquisition cost of $67.9 million.

Note 6 - Segment and Geographic Information

In 2009 the Company has operated its business in two segments:

- *Marine*, which consists of streamer seismic data acquisition, marine MultiClient library, data processing, technology and reservoir consulting.
- *Onshore*, which consists of all seismic operations on land, in shallow water and transition zones, including onshore MultiClient library.

In December 2009, the Company entered into an agreement to sell Onshore, see Note 4. The PGS EM business is reported as part of the segment “Other” (includes Corporate, Global Shared Services and PGS EM).

The executive management regularly evaluates the operating segments operational and financial performance. The financial information disclosed is consistent with that used by the 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. The Marine segment is operated from Lysaker, Norway and the Onshore segment was operated from Houston, Texas.

Both the Marine and Onshore segments serve a worldwide market. Customers for both segments are primarily composed of major multi-national, independent and national or state-owned oil companies. Corporate overhead and significant charges that do not relate specifically to the operations of any one segment are presented as Other. Inter-segment sales are made at prices that approximate market value. Financial items, income tax expense and liabilities are not included in the measure of segment performance.

Year ended December 31, 2009: (In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operation	Discontinued operations Onshore
Revenues by operating segments:					
Contract	893,050	---	---	893,050	190,404
MultiClient pre-funding	169,043	---	---	169,043	1,595
MultiClient late sales	181,635	500	---	182,135	2,625
Data Processing	90,158	---	---	90,158	---
Other	15,816	---	---	15,816	---
Total revenues	1,349,702	500	---	1,350,202	194,624
Operating costs (a)	(647,347)	(30,161)	(548)	(678,056)	(175,997)
EBITDA	702,355	(29,661)	(548)	672,146	18,627
Impairments of long-lived assets (Note 7)	(153,224)	(391)	---	(153,615)	--
Depreciation and amortization (Note 7)	(122,394)	(9,464)	---	(131,858)	(19,076)
Amortization of MultiClient library (Note 7)	(151,572)	(1,860)	21	(153,411)	(3,626)
Operating profit (loss)	275,165	(41,376)	(527)	233,262	(4,075)
Statements of financial position items and cash investments as of December 31, 2009:					
Investment in associated companies	7,032	11	---	7,043	---
Total assets	2,425,933	279,183	---	2,705,116	224,292
Cash additions to long-lived assets (b)	422,396	3,411	---	425,807	18,867

(a) Operating costs include cost of sales, expensed research and development costs, and selling, general and administrative costs.
(b) Consists of cash investments in MultiClient library, capital expenditures, capital expenditures on new-builds on charter and investments in other intangible assets.

Year ended December 31, 2008: (In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operation	Discontinued operations Onshore
Revenues by operating segments:					
Contract	1,065,048	4,316	---	1,069,364	204,463
MultiClient pre-funding	249,602	---	---	249,602	55,958
MultiClient late sales	189,823	---	---	189,823	12,653
Data Processing	86,027	---	---	86,027	---
Other	48,257	4,426	(98)	52,585	---
Total revenues	1,638,757	8,742	(98)	1,647,401	273,074
Operating costs (a)	(698,803)	(57,213)	1,575	(754,441)	(198,200)
EBITDA	939,954	(48,471)	1,477	892,960	74,874
Other operating income	71,561	---	---	71,561	---
Impairments of long-lived assets (Note 7)	(62,011)	(99,129)	---	(161,140)	---
Depreciation and amortization (Note 7)	(110,432)	(17,366)	156	(127,642)	(14,913)
Amortization of MultiClient library (Note 7)	(144,101)	(1,442)	21	(145,522)	(47,439)
Operating profit (loss)	694,971	(166,408)	1,654	530,217	12,522
Statements of financial position items and cash investments as of December 31, 2008:					
Investment in associated companies	14,380	11	---	14,391	---
Total assets	2,597,898	232,549	---	2,830,447	234,358
Cash additions to long-lived assets (b)	663,006	24,125	812	687,943	97,146

(a) Operating costs include cost of sales, expensed research and development costs, and selling, general and administrative costs.
(b) Consists of cash investments in MultiClient library, capital expenditures, capital expenditures on new-builds on charter and investments in other intangible assets.

Year ended December 31, 2007: (In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operation	Discontinued operations Onshore
Revenues by operating segments:					
Contract	691,809	(50)	---	691,759	165,253
MultiClient pre-funding	305,977	---	---	305,977	60,329
MultiClient late sales	197,948	---	---	197,948	20,866
Data Processing	64,065	---	---	64,065	---
Other	14,012	1,955	(189)	15,778	---
Total revenues	1,273,811	1,905	(189)	1,275,527	246,448
Operating costs (a)	(518,652)	(34,736)	(68)	(553,456)	(167,702)
EBITDA	755,159	(32,831)	(257)	722,071	78,746
Other operating income	6,768	---	---	6,768	---
Depreciation and amortization (Note 7)	(56,679)	(9,847)	63	(66,463)	(10,780)
Amortization of MultiClient library (Note 7)	(178,757)	---	21	(178,736)	(57,114)
Operating profit (loss)	526,491	(42,678)	(173)	483,640	10,852
Cash investments as of December 31, 2007:					
Cash additions to long-lived assets (b)	465,827	2,924	23	468,774	93,713

(a) Operating costs include cost of sales, expensed research and development costs, and selling, general and administrative costs.
(b) Consists of cash investments in MultiClient library, capital expenditures, capital expenditures on new-builds on charter and investments in other intangible assets.

Since the Company provides services worldwide to the oil and natural gas industry, a substantial portion of the property and equipment is mobile, and the respective locations at the end of the period (as listed in the tables below, together with MultiClient library) are not necessarily indicative of the earnings of the related property and equipment during the period. Assets of property and equipment are based upon location of physical ownership. Goodwill is presented in the same geographic area as the underlying acquired assets. The geographic classification of statements of operations amounts listed below is based upon location of performance or, in the case of MultiClient seismic data sales, the area where the survey was physically conducted.

Revenues external customers: (a)	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Americas (excluding Brazil)	144,129	141,798	277,161
Brazil	238,076	112,394	87,434
UK	156,286	74,100	80,076
Norway	194,990	363,413	130,119
Asia/Pacific	288,408	510,644	308,897
Africa	200,904	202,847	258,888
Middle East/Other	127,409	242,205	132,952
Total	1,350,202	1,647,401	1,275,527

Revenues, including inter-area: (a)	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Americas (excluding Brazil)	144,129	141,798	277,280
Brazil	238,076	112,394	87,434
UK	164,167	81,978	83,559
Norway	195,398	363,812	132,384
Asia/Pacific	290,848	512,199	310,595
Africa	200,904	202,847	260,446
Middle East/Other	127,593	242,586	133,457
Elimination inter-area revenues	(10,913)	(10,213)	(9,628)
Total	1,350,202	1,647,401	1,275,527

Cash additions to long-lived assets: (b)	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Americas (excluding Brazil)	76,203	185,640	217,264
Brazil	30,204	23,854	20,393
UK	93,999	256,510	92,174
Norway	200,910	94,121	71,306
Asia/Pacific	39,505	199,962	159,970
Africa	2,736	7,240	69
Middle East/Other	1,117	17,762	1,311
Total	444,674	785,089	562,487

(a) Onshore, presented as discontinued operation, is excluded from the tables (see Note 4).
(b) Consists of cash investments in MultiClient library, capital expenditures, capital expenditures on new-builds on charter and intangible assets. The table includes discontinued operation for all years presented, see consolidated statements of cash flows where discontinued are presented separate.

Total assets: (a)	December 31,	
(In thousands of dollars)	2009	2008
Americas (excluding Brazil)	526,204	481,706
Brazil	68,324	63,860
UK	961,002	1,305,785
Norway	757,773	587,960
Asia/Pacific	557,939	530,461
Africa	19,478	21,122
Middle East/Other	38,688	73,911
Total	2,929,408	3,064,805

(a) Onshore, classified as asset held-for-sale, is included in Americas in the table above.

In 2009, the Company's two most significant customers accounted for 16.1% and 6.7% of the Company's consolidated revenues, compared to 11.2% and 6.3% in 2008 and 7.9% and 5.8% in 2007 (excluding discontinued operation).

Note 7 - Depreciation and Amortization and Impairments of Long-Lived Assets

Depreciation and amortization consist of the following for the years presented:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Gross depreciation and amortization	(156,639)	(139,878)	(84,523)
Depreciation capitalized to MultiClient library (Note 19)	24,781	12,236	18,060
Amortization of MultiClient library (Note 19)	(153,411)	(145,522)	(178,736)
Total	(285,269)	(273,164)	(245,199)

Impairments of long-lived assets consist of the following for the years presented:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Property and equipment (Notes 16 and 18)	(153,615)	(59,935)	---
Other intangible assets (Note 23)	---	(99,129)	---
Oil and gas assets (other long-lived assets) (Note 21)	---	(2,076)	---
Total	(153,615)	(161,140)	---

Note 8 - Interest Expense

Interest expense consists of the following:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Interest expense, gross	(70,472)	(98,428)	(52,090)
Interest capitalized in MultiClient library (Note 19)	6,000	7,710	4,048
Interest capitalized in construction in progress (Note 18)	19,240	32,259	9,572
Total	(45,232)	(58,459)	(38,470)

The average interest rate used to determine the amount of interest expense eligible for capitalization was 5.9%, 6.2% and 7.5% for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 9 - Other financial income and expenses

Other financial income consists of the following:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Interest income	7,238	14,368	10,244
Gain from sale of shares (Note 13 and 20)	8,671	---	---
Gain on repurchase of convertible notes (Note 25)	3,778	12,147	---
Gain on investments in shares available-for-sale (Note 13)	3,749	---	---
Other	1,053	704	458
Total	24,489	27,219	10,702

Other financial expenses consist of the following:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Instruction fee convertible notes (includes professional fees) (Note 25)	(6,895)	---	---
Impairment of shares available-for-sale (Note 13)	---	(7,324)	(1,187)
Expensed deferred loan costs, extinguished debt	---	---	(3,375)
Costs related to bridge loan facility	---	---	(3,230)
Other	(4,222)	(7,270)	(4,441)
Total	(11,117)	(14,594)	(12,233)

Note 10 - Income Taxes

The net income tax expense (benefit) from continuing operations consists of the following:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Current taxes	50,066	77,383	35,829
Deferred taxes	1,876	(51,285)	(48,341)
Total income tax expense (benefit)	51,942	26,098	(12,512)

The net income tax expense (benefit) from discontinuing operations consists of the following:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Current taxes	(108)	4,405	7,374
Deferred taxes	6,221	2,249	(6,000)
Total income tax expense (benefit)	6,113	6,654	1,374

The deferred tax liability (asset), recognized directly in shareholders' equity, is as follows:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Equity element of convertible notes (Note 25) (1)	---	19,035	---
Interest rate hedging (Note 26) (1)	(8,605)	(12,992)	---

(1) Effective January 1, 2008, the Company calculated deferred tax on the temporary differences related to the convertible notes and qualifying cash flow hedge instruments charged directly to Shareholders' Equity.

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

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Income before income tax expense from continuing operations	228,109	438,374	446,972
Norwegian statutory rate	28%	28%	28%
Provision for income taxes at statutory rate	63,871	122,745	125,152
Increase (reduction) in income taxes from:			
Effects of tax rates other than statutory tax rate in Norway	(5,323)	(7,938)	1,303
Tax exempt income inside tonnage tax regimes	(53,244)	(26,712)	---
Effects on tax expense from tonnage tax regime entry/exit issues	(31,617)	(82,203)	---
Impairment Arrow vessel which are non-deductible	45,186	---	---
Valuation allowance relating to prepaid income tax in Brazil	21,000	---	---
Foreign taxes not deductible or subject to credit	7,775	25,886	7,724
Currency effects (a)	2,261	(50,533)	30,336
Change in tax contingencies recognized as tax expense (benefit)	(7,311)	6,892	(15,001)
Change in unrecognized deferred tax assets including current year losses where no benefit was provided	18,955	65,844	(166,508)
Other permanent items	(9,611)	(27,883)	4,482
Income tax expense (benefit)	51,942	26,098	(12,512)

(a) Relates to changes in tax positions in local currency for US Dollar functional currency companies.

Comments on selected line items in the preceding table:

Norway – exit old tonnage tax regime – tax dispute

Until 2002, PGS Shipping AS and PGS Shipping (Isle of Man) Ltd. were taxed under the Norwegian tonnage tax regime. In 2003 it was decided to exit with effect from January 1, 2002. The pending issue with the Norwegian Central Tax Office for Large Enterprises ("CTO") is related to the assessment of the fair value of the shares in PGS Shipping (IoM) Ltd. upon exit in 2002. The Company primarily based the valuation of shares on third party valuations of vessels owned, while the CTO argues that it would be more appropriate to base the valuation on internal contracts held by PGS Shipping (IoM) Ltd. Any increase of exit values will result in an increase of taxable exit gain. The Company received a final assessment dated October 29, 2009, from the Tax Appeal Board of the CTO were they maintain their view that the Company's valuation of the shares is too low. However, the final assessment included a lower taxable gain than the draft assessment dated January 13, 2009, and therefore has positively impacted income tax expense in 2009 by $31.8 million. There is currently an uncertainty whether the companies will be granted a change of tax depreciation/deductions in tax returns for previous years based on the final assessment. The Company has based the accounting on the final assessment and the assumption that historical tax depreciations/deductions can be changed, but is considering taking the case to court since its primary position is that it had a loss at the time of exit.

Norway - entry to new tonnage tax regime

The Company chose to enter the Norwegian tonnage tax regime with effect from January 1, 2008 when filing tax returns for the respective subsidiaries for the 2008 income year. In the Norwegian tonnage tax regime the vessel related income will be tax exempt from ordinary income taxation.

Impairment Arrow vessels

The impairments relating to the Arrow vessels, which are under the UK tonnage tax regime, are non-deductible and have not benefited the reported income tax expense in 2009.

Prepaid income tax in Brazil

The current income tax expense is negatively impacted by the introduction of a valuation allowance relating to prepaid income tax expense in Brazil, amounting to $21 million, since the Company now believes that the future utilization of these prepaid taxes are less likely.

Tax effects of the Company's temporary differences are summarized as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Deferred tax assets:		
Current assets and liabilities	(43,158)	(26,627)
Long term assets and liabilities	(162,589)	(125,090)
Tax losses carried forward	(218,935)	(227,052)
Tax credits	(18,432)	(10,003)
Income tax assets, gross	(443,114)	(388,772)
Deferred tax liability:		
Current assets and liabilities	55,997	33,213
Long term assets and liabilities	82,350	66,008
Deferred gains	12,897	13,541
Deferred tax liabilities, gross	151,244	112,762
Deferred tax assets, net	(291,870)	(276,010)
Deferred tax assets not recognized in the consolidated statements of financial position	115,209	88,622
Deferred tax assets recognized	(176,661)	(187,388)

Net deferred tax (assets) in the consolidated statements of financial position is presented as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Deferred tax assets	(207,890)	(221,786)
Deferred tax liabilities	31,229	34,398
Net deferred tax (assets)	(176,661)	(187,388)

The Company has substantial recognized deferred tax assets in different jurisdictions, predominantly in Norway. Available evidence, including recent profits and estimates of projected future taxable income, has supported a more likely than not conclusion that the related deferred tax assets would be realized in the future. The Company has substantial unrecognized deferred tax assets, predominantly in Brazil and the UK, were the future utilization is less likely than not.

Tax losses carried forward both recognized and unrecognized and expiration periods as of December 31, 2009 are summarized as follows:

(In thousands of dollars)		
Brazil	137,872	No expiry
Norway	401,427	No expiry
Asia Pacific	67,792	No expiry
UK	106,796	No expiry
US	13,131	2023
Other	47,117	2012 - No expiry
Losses carried forward	774,135	

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

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 possible issues (mostly related to uncertain tax positions like permanent establishment issues) in several jurisdictions that could eventually make it liable to pay material amounts in taxes relating to prior years. The Company recognizes liabilities for uncertain tax positions if it is considered more likely than not that additional tax will be due, based upon management's assessment of the most likely outcome.

Income tax expense (benefit) includes changes to tax contingencies as follows:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Contingent tax expense (benefit)	(7,311)	6,892	(15,001)

Total accrued contingent tax liabilities as of December 31, 2009 was $18.8 million, of which $7.3 million is recorded as income tax payable and $11.5 million as other long-term liabilities. As of December 31, 2008, such amount totaled $28.1 million, of which $3.5 million recorded as income tax payable and $24.6 million as other long-term liabilities.

Note 11 - Earnings Per Share

Earnings per share, to ordinary equity holders of PGS ASA, were calculated as follows:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Net income from continuing operations	176,167	412,276	459,484
Net income (loss) from discontinued operations	(8,248)	5,814	11,339
Minority interests	(2,094)	(706)	(814)
Net income to equity holders of PGS ASA	165,825	417,384	470,009
Effect of interest on convertible notes, net of tax	---	21,541	---
Net income for the purpose of diluted earnings per share	165,825	438,925	470,009
Earnings per share:			
- Basic	$ 0.88	$ 2.37	$ 2.65
- Diluted	$ 0.88	$ 2.36	$ 2.65
Earnings per share from continuing operations:			
- Basic	$ 0.92	$ 2.34	$ 2.59
- Diluted	$ 0.92	$ 2.33	$ 2.59
Earnings per share from discontinued operations:			
- Basic	$ (0.04)	$ 0.03	$ 0.06
- Diluted	$ (0.04)	$ 0.03	$ 0.06
Weighted average basic shares outstanding (a)	189,061,076	176,014,248	177,155,443
Dilutive potential shares (b)	499	10,009,795	199,160
Weighted average diluted shares outstanding	189,061,575	186,024,043	177,354,603

(a) Weighted average basic shares outstanding for all the years have been reduced by the average numbers of treasury shares owned by the Company during the period (see Note 31).

(b) For the years ended December 31, 2009, 2008 and 2007, respectively, share options equivalent to 7,480,708; 4,543,281 and 233,000 shares, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. In addition 8.8 million and 10.2 million shares related to the convertible notes (see Note 25) were excluded from the calculation for the year ended December 31, 2009 and 2007, respectively, due to the anti-dilutive effect.

Note 12 - Restricted Cash

Restricted cash consist of:

	December 31,	
(In thousands of dollars)	2009	2008
Current:		
Restricted payroll withholding taxes	3,089	2,648
Restricted for health insurance	2,031	2,399
Bid/performance bonds	501	461
Restricted under contracts (guarantees)	377	769
Deposits	80	186
Other	1,899	1,897
Total restricted cash, current	7,977	8,360
Long-term – debt service reserve fund (Notes 25 and 26)	10,014	10,014
Total	17,991	18,374

Note 13 - Shares Available-for-Sale

Shares available-for-sale as of December 31, 2009 relates mainly to the Company's investments in Endeavour International Corporation ("Endeavour"), Cove Energy Plc ("Cove") and San Leon Energy Plc ("San Leon").

The components of shares available-for-sale are summarized as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Balance as of January 1	6,249	12,825
Investment in Cove and San Leon	8,128	---
Other investments	---	23
Gain on investments	3,749	
Unrealized gain (loss) recorded to other reserves in shareholders' equity, net of reversals due to sale	(2)	725
Sale of shares (a)	(6,081)	---
Impairments (Note 9)	---	(7,324)
Balance as of December 31	12,043	6,249

(a) Mainly sale of the investments in Borders & Southern investment, see below and Note 9.

In 2009, the Company sold the investment in Borders & Southern Petroleum PLC ("Borders & Southern"). The Company received $13.0 million in proceeds and recognized a gain of $8.2 million.

Fair value of shares available-for-sale is as follows:

	December 31, 2009		December 31, 2008	
(In thousands of dollars)	Fair value	Ownership	Fair value	Ownership
Current:				
Endeavour	1,814	1.3%	1,156	1.8%
Borders & Southern	---	---	4,821	8.6%
Other	225	---	---	---
Long-term:				
Cove	5,616	6.0%	---	---
San Leon	4,388	3.4%	---	---
Other	---	---	272	---
Total	12,043		6,249	

Note 14 - Accounts Receivable

Accounts receivable consist of the following:

	December 31,	
(In thousands of dollars)	2009	2008
Accounts receivable – trade	199,067	231,079
Allowance for doubtful accounts	(1,969)	(2,176)
Total	197,098	228,903

The change in allowance for doubtful accounts is as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Balance as of January 1	(2,176)	(1,520)
New and additional allowances	(1,999)	(1,831)
Write-offs and reversals	2,206	1,175
Total	(1,969)	(2,176)

Aging analysis of accounts receivable is as follows:

(In thousands of dollars)			Past due, but not impaired				
	Total	Not due	<30d	30-60d	60-90d	90-120d	>120d
December 31, 2009	197,098	118,719	38,509	6,933	13,086	8,926	10,925
December 31, 2008	228,903	133,241	70,701	11,905	4,783	988	7,285

Note 15 - Accrued Revenues and Other Receivables

Accrued revenues and other receivables consist of the following:

	December 31,	
(In thousands of dollars)	2009	2008
Accrued, not invoiced revenues	105,991	169,668
Refund guarantee (Note 18 "Arrow vessels")	105,793	---
Other receivables	5,062	6,086
VAT receivable	---	3,577
Total	216,846	179,331

Note 16 - Assets and liabilities classified as Held-for-Sale

In December 2009 the Company entered into an agreement to sell Onshore, see Note 1 and 4. The transaction was closed in February 2010. The assets and liabilities for Onshore are classified as held-for-sale as of December 31, 2009 (see Note 4).

In the fourth quarter of 2008, the Company decided to sell *Polar Pearl,* a vessel under conversion in the Marine segment that was acquired as part of the acquisition of Arrow in 2007 (see Note 18). The vessel is classified as held-for-sale at both December 31, 2009 and 2008, at an estimated market value of $3.0 million and $5.3 million, respectively. In 2009, the Company recognized an impairment of $2.2 million in consolidated statements of operations (see Note 7).

Note 17 - Other Current Assets

Other current assets consist of the following:

	December 31,	
(In thousands of dollars)	2009	2008
Spare parts, consumables and supplies	30,974	36,720
Prepaid operating expenses	22,717	35,557
Unrealized gain forward exchange contracts (Note 26)	17,110	15,187
Withholding taxes and taxes receivable	12,605	20,307
Deferred steaming and mobilization expense	5,910	21,282
Fair value adjustment of firm commitments	---	4,467
Prepaid reinsurances	---	3,134
Other	832	6,604
Total	90,148	143,258

Note 18 - Property and Equipment (including capital leases)

The components of property and equipment, including property and equipment under capital leases, are summarized as follows:

(In thousands of dollars)	Construction of vessels in progress	Conversions	Seismic vessels and equipment	Fixtures, furniture and fittings	Buildings and other	Total
Purchase costs:						
Purchase costs as of January 1, 2008	492,008	63,060	1,371,773	61,466	12,960	2,001,267
Adjustment to purchase price allocation (Note 5)	(8,473)	(78)	1,822	---	---	(6,729)
Capital expenditures	232,582	23,982	157,533	17,391	19,131	450,619
Capital expenditures on new-builds on charter	31,979	---	---	---	---	31,979
Capitalized interest	29,752	2,507	---	---	---	32,259
Capital leases	---	---	3,793	888	---	4,681
Ramform Sovereign delivered	(226,583)	---	226,583	---	---	---
Classified as held-for-sale (*Polar Pearl)*	---	(8,468)	---	---	---	(8,468)
Transferred seismic equipment	---	(14,830)	14,830	---	---	---
Retirements	---	---	(29,985)	(546)	(81)	(30,612)
Other/translation adjustments	---	---	4,386	(2,450)	1,304	3,240
Purchase costs as of December 31, 2008	551,265	66,173	1,750,735	76,749	33,314	2,478,236
Capital expenditures (a)	128,299	---	102,938	10,521	7	241,765
Capital expenditures on new-builds on charter	3,839	---	---	---	---	3,839
Capitalized interest	19,240	---	---	---	---	19,240
Ramform Sterling delivered	(213,310)	---	213,310	---	---	---
Sale of asset	---		(135,317)	---	---	(135,317)
Retirements (a)	---	---	(78,257)	(8,233)	(2,095)	(88,585)
Classified as held–for-sale (Onshore)	---		(174,911)	(20,537)	(199)	(195,647)
Reclassified assets to other receivables (NB532 and 533)	(194,762)	---	---	---	---	(194,762)
Other/translation adjustments	---	(5,496)	5,496	5,416	(4,099)	1,317
Purchase costs as of December 31, 2009	294,571	60,677	1,683,994	63,916	26,928	2,130,086

Accumulated depreciation and impairments:						
Depreciation as of January 1, 2008	---	---	629,645	44,815	7,638	682,098
Impairments as of January 1, 2008	---	---	60,730	---	1,200	61,930
Depreciation (a)	---	---	129,618	10,918	1,552	142,088
Impairments	2,058	36,248	21,629	---	---	59,935
Classified as held-for-sale (*Polar Pearl)*	---	(3,218)	---	---	---	(3,218)
Retirements	---	---	(28,897)	(514)	(1)	(29,412)
Other/translation adjustments	---	---	4,320	(1,679)	(247)	2,394
Depreciation as of December 31, 2008	---	---	734,686	53,540	8,942	797,168
Impairments as of December 31, 2008	2,058	33,030	82,359	---	1,200	118,647
Depreciation (a)	---	---	151,708	12,664	2,419	166,791
Impairments (a)	95,562	---	67,026	391	---	162,979
Sale of asset	---	---	(77,317)	---	---	(77,317)
Retirements (a)	---	---	(67,718)	(6,940)	(1,885)	(76,543)
Classified as held-for-sale (Onshore)	---	---	(134,136)	(12,871)	(35)	(147,042)
Reclassified assets to other receivables (NB 532 and 533)	(97,620)	---	---	---	---	(97,620)
Other/translation adjustments	---	---	---	(403)	(36)	(439)
Depreciation as of December 31, 2009	---	---	607,223	45,990	9,405	662,618
Impairments as of December 31, 2009	---	33,030	149,385	391	1,200	184,006
Balance as of December 31, 2008	**549,207**	**33,143**	**933,690**	**23,209**	**23,172**	**1,562,421**
Balance as of December 31, 2009	**294,571**	**27,647**	**927,386**	**17,535**	**16,323**	**1,283,462**

(a) Include Onshore presented as discontinued operation in the consolidated statements of operations and consolidated statement of cash flow.

In June 2009, the Company took delivery of *Ramform Sterling,* the second of two new third generation Ramform vessels. *Geo Atlantic* was sold in July 2009 for $58 million in cash.

In 2009, the Company recorded impairments on vessels of $151.2 million as a result of identifying impairment indicators including adjusting the carrying amounts for *Geo Atlantic* to estimated market value (see section above) and adjusting the carrying amount for new-build 532 and 533 to estimated recoverable amount. See also Note 16 for the impairment recognized on *Polar Pearl.*

The net book value of property and equipment under UK leases were $141.0 million and $120.0 million at December 31, 2009 and 2008, respectively. See Note 27 for further description of these leases and the accounting impact of certain lease terminations.

For details of the estimated useful lives for the Company's property and equipment at December 31, 2009, see Note 2.

New-build program - Ramform vessels

In 2006, the Company entered into agreements to build two new third generation Ramform vessels. *Ramform Sovereign* was delivered in March 2008 and *Ramform Sterling* in June 2009.

New-build program – Arrow vessels (include subsequent events)

Upon the acquisition of Arrow in 2007 (see Note 5), the company was constructing four 10-12 streamer seismic 3D vessels at the Factorias Vulcano shipyard group in Spain (the Arrow new-builds (“NB”)). The first two vessels (NB 532 and 533) were chartered to WesternGeco (“WG”), whereas the other two new-builds (NB 534 and 535), now named *PGS Apollo* and *PGS Artemis*, were intended to be a part of PGS seismic operations when completed.

Arrow cancelled the contracts for NB 532 and NB 533 in March and August 2009 respectively due to delays. WG was released from its obligations under the charter in connection with these cancellations. The yard disputed Arrow’s right of termination, and initiated arbitration proceedings against Arrow in Norway. In the first arbitration case concerning NB 532, the yard was ordered to pay Arrow the full amount claimed of, EUR 39.7 million, with the addition of interest and full legal costs. The part of the award covered by bank refund guarantees, EUR 32 million plus interest of EUR 5 million was received in first quarter 2010. The remaining amount is subject to debt collection procedures against the yard. The hearing in the second arbitration concerning NB 533 is scheduled for June 2010. The amount claimed and the part of this covered by bank guarantees is in line with the amount in the first arbitration case.

The work on *PGS Apollo* has had progress and the vessel is scheduled to be delivered on March 26, 2010.

The work on *PGS Artemis* has shown limited progress to date. The vessel is under the contract supposed to be completed at Factorias Vulcano’s subsidiary in Gijon, Factorias Juliana, which is currently in a bankruptcy process. PGS has decided to defer any further purchase commitments on seismic equipment for *PGS Artemis* and intends to equip the vessel with existing equipment from its 6-streamer fleet if it is delivered. PGS will be entitled to terminate the contract if the vessel is not delivered by January 31, 2010 plus 200 days.

Arrow has paid all scheduled pre-delivery yard installments on both *PGS Apollo* and *PGS Artemis*, approximately EUR 40 million on each. Arrow has received bank guarantees for the full amount relating to *PGS Artemis*. If in the future the shipbuilding contract for *PGS Artemis* is terminated (either by Arrow due to delay or by the yard as a result of the financial situation) Arrow will be entitled to call on these guarantees and should realize a significant cash recovery. Termination of *PGS Artemis* would most likely result in a material impairment charge.

As of December 31, 2009, capitalized costs relating to *PGS Apollo* and *PGS Artemis*, including seismic equipment, totalled $294.6 million and has contractual commitments related to these vessels aggregating approximately $115.0 million (installments to the yard).

The Company has entered into Spanish lease structures for the four new-builds acquired as part of the Arrow transaction. See Note 27 for further description of these leases.

Note 19 - MultiClient Library

The components of the MultiClient library are summarized as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Balance as of January 1	294,601	173,868
Cash investments	186,682	290,031
Capitalized interest (a)	6,200	9,802
Capitalized depreciation (a)	24,781	14,249
Amortization expense (a)	(157,037)	(192,961)
Onshore classified as held-for-sale (Note 4)	(60,565)	---
Other	(1,424)	(388)
Balance as of December 31	293,238	294,601

(a) Include Onshore presented as discontinued operation in the consolidated statements of operations.

Amortization expense (continuing operation) for the year ended December 31, 2009 includes $24.7 million of additional non-sales related amortization, net. This amount includes $10.1 million in minimum amortization, $15.0 million of impairments and $0.4 million in reversal of previous recorded impairments to reflect the fair value of future sales on certain individual surveys. For the year ended December 31, 2008, the additional non-sales related amortization totaled $12.6 million, of which $7.0 million in minimum amortization and $6.1 million of impairments and $0.5 million in reversal of previous recorded impairments. For the year ended December 31, 2007, the additional non-sales related amortization totaled $17.2 million, of which $16.1 million in minimum amortization and $1.1 million of impairments.

The net carrying value of the MultiClient library, by the year in which the surveys were completed, is summarized as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Completed surveys:		
Completed during 2004	---	2,676
Completed during 2005	1,044	1,918
Completed during 2006	1,796	1,047
Completed during 2007	8,785	20,142
Completed during 2008	46,925	117,337
Completed during 2009	160,978	---
Completed surveys	219,528	143,120
Surveys in progress	73,710	151,481
MultiClient library	293,238	294,601

As of December 31, 2008, MultiClient library includes Onshore surveys for $61.2 million. As of December 31, 2009 such surveys are presented as held-for-sale (see Note 4).

For information purposes, the following shows the hypothetical application of the Company's minimum amortization requirements to the components of the existing MultiClient library (excluding Onshore). These minimum amortization requirements are calculated as if there will be no future sales of these surveys.

	December 31, 2009
(In thousands of dollars)	Minimum future amortization
During 2010	24,069
During 2011	38,055
During 2012	67,836
During 2013	74,379
During 2014	65,227
During 2015	23,672
Future minimum amortization	293,238

Because the minimum amortization requirements generally apply to the MultiClient library on a survey-by-survey basis rather than in the aggregate, the Company may incur significant minimum amortization charges in a given year even if the aggregate amount of ordinary amortization charges recognized exceeds the aggregate minimum amortization charges above.

Note 20 - Investments in Joint Ventures and Associated Companies

Income (loss) from Joint Ventures and Associated Companies accounted for using the equity method is as follows:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Corporations and limited partnerships:			
Genesis Petroleum Corporation PLC	858	(14,372)	(451)
PGS Overseas Operation (Cyprus) Ltd.	1,039	(1,858)	452
Atlantic Explorer (IoM) Ltd.	4	64	(6)
Genesis Petroleum Europe Ltd. (a)	---	---	(1,558)
Total	1,901	(16,166)	(1,563)

(a) The company was sold in 2007.

Investments in and advances to Joint Ventures and Associated Companies accounted for using the equity method is as follows:

(In thousands of dollars)	Net book value December 31, 2008	Share of income/ (loss)	Sale of shares	Other (a)	Net book value December 31, 2009	Ownership as of December 31, 2009
Corporations and limited partnerships:						
Genesis Petroleum Corporation PLC	8,368	(409)	(7,959)	---	---	---
PGS Overseas Operation (Cyprus) Ltd.	5,888	1,039	---	2	6,929	50.0%
Atlantic Explorer (IoM) Ltd.	102	4	---	(25)	81	50.0%
General partnerships/other	33	---	---	---	33	---
Total	14,391	634	(7,959)	(23)	7,043	

(a) Foreign currency translation differences and other transfers.

In 2009, the Company sold the investment in Genesis Petroleum Corporation PLC (“Genesis”). The Company received $7.0 million in proceeds and recognized a gain of $1.2 million, net of deferred revenue.

The following table summarizes unaudited financial information of the Company’s share of Joint ventures and Associated Companies on a combined basis.

	Years ended December 31,	
(In thousands of dollars)	2009	2008
Statements of operations data:		
Revenue	7,731	3,850
Share of income (loss)	634	(6,332)
Sale of shares	1,267	---
Write-down of investment	---	(9,834)
Gain (loss) from equity investments	1,901	(16,166)

	December 31,	
(In thousands of dollars)	2009	2008
Statements of financial position data:		
Total assets	8,815	28,889
Total liabilities	(1,772)	(14,498)
Net assets	7,043	14,391

Note 21 - Other Long-Lived Assets

Other long-lived assets consist of the following:

(In thousands of dollars)	December 31, 2009	2008
Long-term receivables	6,858	10,556
Loan to associated company	2,960	4,505
Prepaid expenses and deposits	2,235	4,055
Unrealized gain forward exchange contracts (Note 26)	---	1,026
Total	12,053	20,142

Note 22 - Goodwill

The Company tests goodwill annually for impairment or whenever there is an indication that goodwill might be impaired.

The carrying amount of goodwill as of December 31, 2009, totalling $139.8 million, relates to the 2007 acquisitions of MTEM, AGS and Roxicon (see Note 5). As of December 31, 2008 the carrying amount was $175.1 million. As of December 31, 2009 the goodwill allocated to Onshore is classified as asset held-for-sale.

A summary of goodwill allocated to individual cash-generating units for impairment testing is as follows:

(In thousands of dollars)	December 31, 2009	2008
Marine	139,852	139,852
Onshore (a)	---	35,240
Total	139,852	175,092

(a) See Note 4 regarding the sale of Onshore and asset held-for-sale at year ended December 31, 2009.

Key assumptions used in the calculations of value in use are growth rates, revenues, EBITDA, operating profit, capital expenditures and discount rates. The recoverable amounts are determined based on a value-in-use calculation using pre-tax cash flow projections based upon financial projections approved by executive management and a pre-tax discount rate of 10.4% and 10.0% as of December 31, 2009 and 2008, respectively. The nominal growth rate used to extrapolate cash flows beyond the initial 5 years projection period as of December 31, 2009 and 2008 was 2.5% and 2%, respectively.

Hydrocarbons continue to be a primary source of global energy in virtually all countries. Seismic services continue to be fundamental in the exploration for hydrocarbons. Countries with known or prospective hydrocarbons continue to have long term exploration and development plans extending well into the future.

Management believes that any reasonably possible change in key assumptions underlying the calculations of the recoverable amount of the Marine segment would not trigger any impairment as of December 31, 2009.

Note 23 - Other Intangible Assets

The components of other intangible assets are summarized as follows:

(In thousands of dollars)	Patents and licenses	Development cost	Technology and other	Total
Purchase costs:				
Purchase costs as of January 1, 2008	185,532	14,190	22,129	221,851
Additions to costs	1,004	11,456	---	12,460
Other/translation adjustments	590	(1)	---	589
Purchase costs as of December 31, 2008	187,126	25,645	22,129	234,900
Additions to costs (a)	335	12,018	---	12,353
Other/translation adjustments	(1,057)	---	---	(1,057)
Assets held for sale (Onshore)	(229)	(4,539)	---	(4,768)
Purchase costs as of December 31, 2009	186,175	33,124	22,129	241,428

Accumulated amortization:				
Amortization as of January 1, 2008	19,869	---	1,245	21,114
Amortization expense	10,829	123	3,763	14,715
Impairments	99,130	---	---	99,130
Other/translation adjustments	183	---	(1)	182
Amortization as of December 31, 2008	130,011	123	5,007	135,141
Amortization expense (a)	3,681	1,481	3,763	8,924
Other/translation adjustments	(1,019)	---	---	(1,019)
Assets held for sale (Onshore)	(109)	---	---	(109)
Amortization as of December 31, 2009	132,564	1,604	8,770	142,938
Balance as of December 31, 2008	**57,115**	**25,522**	**17,122**	**99,759**
Balance as of December 31, 2009	**53,611**	**31,520**	**13,359**	**98,490**
Estimated useful life	1 to 20 years	10 years (b)	1 to 12 years	

(a) Include Onshore presented as discontinued operation in the consolidated statements of operations.
(b) Estimated useful life from completion of development project.

There were no impairment indicators in 2009 and 2007. In 2008, the Company recognised $99.1 million in impairment charges of patented an unpatented technology acquired as a part of the MTEM acquisition in 2007 (see Note 5).

The intangible assets have finite useful lives over which the assets are amortized.

Note 24 - Short-Term Debt and Current Portion of Long-Term Debt

Short-term debt and current portion of long-term debt consist of the following:

	December 31,	
(In thousands of dollars)	2009	2008
Current portion of long-term debt (Note 25)	26,109	20,459
Total	26,109	20,459

Note 25 - Debt and Guarantees

Long-term debt

Long-term debt consists of the following:

	December 31,	
(In thousands of dollars)	2009	2008
Unsecured:		
10% Senior Notes, due 2010	3,812	4,511
Other	21	---
Secured:		
Term loan, Libor + margin, due 2015	572,000	572,000
Revolving credit facility, due 2012	---	230,000
8.28% first preferred mortgage notes, due 2011	33,910	49,070
Revolving credit facility (Arrow), due 2017	---	37,930
Term loan, Libor + margin (Arrow), due 2017	---	45,950
Convertible notes:		
Convertible notes, due 2012	307,900	305,695
Total	917,643	1,245,156
Less current portion	(26,109)	(20,459)
Less deferred loan costs	(8,954)	(12,632)
Total long-term debt	882,580	1,212,065

Aggregate maturities of long-term debt and expected interest payments are as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Year of repayment:		
2009 (a)	---	83,988
2010	52,157	317,508
2011	53,010	74,650
2012	347,071	358,866
2013	35,389	38,206
2014	40,852	---
Thereafter	559,975	633,633
Total	1,088,454	1,506,851
Interest portion (b)	(170,811)	(261,695)
Total long term debt	917,643	1,245,156

(a) At December 31, 2008, it was assumed that the Company would elect to make optional repayments of the RCF of $230.0 million in 2010.
(b) Calculation of expected interest payments are based on interest rates as of December 31, 2009 and 2008, respectively.

In 2009 the Company made net debt repayments of $334.5 million, of which $230 million was optional repayments of the Revolving Credit Facility ("RCF") and $83.9 million related to the loans inherited from the Arrow acquisition. The Arrow facility was terminated in 2009. In 2008, the repayment was $149.1 million, of which $83.5 million related to Arrow new-builds and conversions debt facilities.

In 2009, the Company made no repayments of the term loan B ("Term Loan") (maturing 2015, see below), while in 2008 it made a repayment of $25.0 million. The Company has hedged the interest rate on 70% of the borrowings under the Term Loan (same in 2008) by entering into interest rate swaps where the Company receives floating interest rate based on 3 months LIBOR and pays fixed interest rate payments based on from 0.5 to 4.75 years fixed rates. See Note 26 for further information.

In 2009, the Company repurchased $10 million ($45.5 million in 2008) of nominal value of convertible notes, issued in 2007 and recognized a gain of $3.8 million ($12.1 million in 2008), which is classified as other financial items (see Note 9). The Company achieved bondholder consent to certain amendments of the convertible bond to increase flexibility and to harmonize terms and conditions with other debt instruments. Total fees and costs for PGS were $6.9 million, which was expensed in 2009 (see Note 9).

The $400 million convertible notes were issued in December 2007 and are due 2012. The convertible notes are convertible into ordinary shares of PGS ASA. The total number of shares to be issued if all convertible notes are converted at the conversion price is 10.2 million ordinary shares, representing 5.15% of the Company's current issued ordinary share capital. Due to repurchases in 2008 and 2009, 8.8 million shares are issuable if all the notes were converted at December 31, 2009. The conversion price is NOK 216.19 per share and is fixed in USD based upon the fixed exchange rate, which represented a 40% premium over the volume weighted average price of the Company's ordinary shares at the time of offering. The fixed rate of exchange is 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrears. The equity element of the convertible notes was calculated to 17.1% of the nominal value ($68.4 million) and was recorded as a direct contribution to accumulated earnings (shareholders' equity) net of allocated portion of loan costs ($1.5 million).

The Company's senior secured credit facility of $950 million consists of an eight-year $600 million ($572 million outstanding) Term Loan B (maturing 2015) and a five-year $350 million revolving credit facility ("RCF") (maturing 2012). The Term Loan B, which has no financial maintenance covenants, has a floating interest rate of LIBOR + 175 basis points. The credit agreement generally requires the Company to apply 50% of excess cash flow to repay outstanding borrowings for periods when the total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1 (see Note 26). Excess cash flow for any period is defined as net cash flow provided by operating activities during that period less capital expenditures made in that period or committed to be made in the next period, less debt service payments and less accrued income taxes to be paid in the next period. The Company can make optional payments to reduce the outstanding principal balance at no penalty. The Term Loan B is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of certain material subsidiaries and is guaranteed by the same material subsidiaries. In addition, the Company may also be able to borrow an additional $400 million either as a term loan or as an RCF, which would be secured by the same collateral that secures the Term Loan B and borrowings under the existing RCF.

The 10% senior notes due 2010 ("10% Notes") bear interest at 10% per annum payable semi-annually and mature in November 2010 with no required principal payments until maturity. The 10% Notes was callable by the Company beginning in November 2007 and are callable thereafter at par plus a premium of 5% declining linearly until maturity. The 10% Notes are unsecured obligations of PGS ASA.

The 8.28% first preferred mortgage notes due 2011 ("8.28% Notes") bear interest at 8.28% per annum, and interest and scheduled principal amounts are payable semi-annually. The 8.28% Notes are subject to redemption at par on a pro rata basis through operation of a mandatory sinking fund on a semi-annual basis according to a schedule and are subject to optional redemption by the Company beginning in June 2006 at a redemption price equal to 100% of the principal amount plus a make whole premium that is based on US treasury rates plus 0.375%. The 8.28% Notes are secured by, among other things, a mortgage on the *Ramform Explorer* and the *Ramform Challenger* seismic vessels. In addition, there is established under the indenture for the 8.28% Notes a debt service reserve fund, which was initially funded in an amount ($10.0 million) equal to the maximum interest and sinking fund payment due on the 8.28% Notes on any payment date for such notes through December 1, 2010. Such additional amount has been invested in a funding agreement that serves as a source of funds that, together with charter hire payments made by a Company subsidiary under charters for the *Ramform Explorer* and the *Ramform Challe*nger vessels, are used to make debt service payments on the 8.28% Notes. This debt service reserve fund investment is presented as restricted cash (long-term) in the consolidated balance sheets.

Bank credit facilities
Under the senior secured credit facility established in June 2007 the Company has an RCF of $350 million maturing in 2012. The RCF has a $60 million sub-limit for issuance of letter of credits, whilst the bonding facility (for issuance of bid and performance bonds) included in this sub-limit under the previous RCF was in June 2007 replaced by a separate $15 million bonding 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, under the RCF for working capital and for general corporate purposes. Borrowings under the RCF bear interest at a rate equal to LIBOR plus a margin of 1.5%.

At December 31, 2009 and 2008, the Company had borrowed zero and $230 million, respectively, in cash advances, and $4.1 million and $4.5 million, respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and $11.9 million and $22.3 million, respectively, of bid and performance bonds were drawn under the separate committed bonding facility, combined with an uncommitted $15 million facility, with an applicable margin of 1.4 and 2.0%, respectively.

The Company has also an overdraft facility of NOK 50 million as part of our Norwegian cash pooling arrangement. This facility will continue until cancelled.

Covenants
The June 2007, credit facility contains financial covenants and negative covenants that restrict the Company in various ways. The facility provides that:

- for the RCF part the total leverage ratio (see Note 26) may not exceed 3.25:1.0 in 2009 and 2010, thereafter 3.0:1.0 (maintenance covenant). The Term Loan has an incurrence test saying the Company cannot increase total leverage above 3.25:1.0 (incurrence test) in the test period.

In addition, the credit agreement restricts 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 stock; prepay interest and principal on our other indebtedness; pay dividends and distributions or repurchase 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 Company is in compliance with the covenants in its loan and lease agreements as of December 31, 2009.

Pledged assets
Certain seismic vessels and seismic equipment with a net book value of $60.7 million and $373.6 million at December 31, 2009 and 2008, respectively, are pledged as security under the Company's short-term and long-term debt. In addition certain shares in material subsidiaries have been pledged as security.

Letters of credit and guarantees
The Company had aggregate outstanding letters of credit and related types of guarantees, not reflected in the accompanying consolidated financial statements, of $49.3 million and $56.4 million (including the $16.0 million and $26.8 million described above) as of December 31, 2009 and 2008, respectively.

Note 26 - 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.

The carrying amounts and the estimated fair values of debt and derivatives instruments are summarized as follows:

	December 31, 2009			December 31, 2008		
(In thousands of dollars)	Carrying amounts	Notional amounts	Fair values	Carrying amounts	Notional amounts	Fair values
Loans measured at amortized cost:						
Long-term debt (Note 25)	917,643	---	846,417	1,245,156	---	921,625
Derivatives measured at fair value through shareholders' equity:						
Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a)	(30,733)	375,000	(30,733)	(46,069)	375,000	(46,069)
Derivatives measured at fair value through consolidated statements of operations:						
Forward exchange contracts, net unrealized (loss) gain (a)	14,408	318,957	14,408	(35,347)	514,276	(35,347)
Interest rate swaps, net unrealized (loss) gain (a)	(1,073)	25,000	(1,073)	(1,575)	25,000	(1,575)
Interest rate differential UK lease (Note 27)	(6,730)	---	(6,730)	(6,718)	---	(6,718)

(a) The carrying amounts of forward exchange contracts and interest rate swaps are classified in the consolidated statements of financial position as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Interest rate swaps, net (qualifying hedges)	(30,733)	(46,069)
Forward exchange contracts, net	14,408	(35,347)
Other interest rate swaps, net	(1,073)	(1,575)
Total	(17,398)	(82,991)
Classified as follows:		
Other current asset (short-term unrealized gain) (Note 17)	17,110	15,187
Other long-lived assets (long-term unrealized gain) (Note 21)	---	1,026
Accrued expenses (short-term unrealized loss) (Note 28)	(6,237)	(47,003)
Other long-term liabilities (long-term unrealized loss) (Note 29)	(28,271)	(52,201)
Total	(17,398)	(82,991)

The Company is required to disclose the hierarchy of how fair value is determined for financial instruments recorded at fair value in the consolidated financial statements. The hierarchy gives highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 includes 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. The Company's derivative financial instruments including foreign currency forward contracts and interest rate swap agreements are valued using Level 2 inputs.

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 form dealers not obtain an indirect method is used by use of implied credit spread from debt instrument with similar risk characteristics. The fair value of the liability component of convertible notes is determined by obtaining quotes from dealers.

Financial risk management policies

As a worldwide provider of seismic data the Company is exposed to market risks such as exchange rate risk and interest rate risk, credit risk and liquidity risk. The Company has established procedures and policies for determining appropriate risk levels for the main risks and monitoring these risk exposures.

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 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 to it 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. This ratio is calculated as gross debt divided by EBITDA less MultiClient library investments. In addition the Company monitors a leverage ratio based on net debt. Net debt is calculated as total indebtedness (including "current and long-term debt" as shown in the consolidated statements of financial position) less cash and cash equivalents.

During 2009, the Company's policy was to maintain a leverage ratio within what would generally satisfy the requirements for a BB(-) –rating (Standard and Poor's)/Ba2 (Moody's). The gross leverage ratio at December 31, 2009 and 2008 were 1.94 and 2.00, respectively.

The Company's treasury function monitors and manages the financial risks related to the operations of the Company. The treasury function may seek to manage the effect of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivates is governed by the Company policies approved by the Board of Directors, which provide written principles on foreign exchange rate risk, interest rate risk, credit risk and the use of financial derivative and non-derivative instruments.

The treasury function continuously monitors counterparties to mitigate funding, excess cash investment, cash in operation and derivative risks. Guidelines are set out in the Company policies to provide limits in respect of exposure to individual counterparties and monitoring procedures are in place to identify risk factors as they arise.

The treasury function reports regularly to the Company management.

Interest rate exposure
The Company is subject to interest rate risk on debt, including capital 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.

As of December 31, 2009, the Company has outstanding interest rate swaps in the aggregate notional amount of $400 million (same as of December 31, 2008) relating to the Term Loan established in June 2007 (see Note 25). Under the interest rate swap agreements the Company receives floating interest rate payments and pays fixed interest rate payments. The weighted average fixed interest rates under the contracts are as follows:

	December 31, 2009		December 31, 2008	
Matures in:	Notional amounts ($ thousands)	Weighted average fixed interest rate	Notional amounts ($ thousands)	Weighted average fixed interest rate
1 year	100,000	5.17%	---	---
1 – 2 years	---	---	100,000	5.17%
2 – 3 years	200,000	5.05%	---	---
3 – 4 years	---	---	200,000	5.05%
4 – 5 years	100,000	5.18%	---	---
> 5 years	---	---	100,000	5.18%
Total	400,000	5.11%	400,000	5.11%

The aggregate negative fair value of these interest rate swap agreements at December 31, 2009 and 2008 was approximately $31.8 million and $47.6 million, respectively.

The following table indicates the maturity analysis of the derivates liability (interest rate swaps) as at reporting date (fair value):

(In thousands of dollars)	Notional amount	Discounted carrying amount	Total expected cash flow (gross)	Cash flow matures in, <1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
December 31, 2009:									
Interest rate swaps	400,000	(31,806)	(32,425)	(17,328)	(9,138)	(4,490)	(1,078)	(391)	-
December 31, 2008:									
Interest rate swaps	400,000	(47,644)	(48,393)	(16,167)	(13,300)	(8,690)	(6,217)	(2,527)	(1,492)

The following table shows the gross amounts of debt with fixed and variable interest (including capital lease obligations):

	December 31,	
(In thousands of dollars)	2009	2008
Debt at fixed interest rate	345,622	359,276
Debt at variable interest rate (a)	572,369	889,931
Total interest bearing debt	917,991	1,249,207

(a) Interest based on US dollar LIBOR plus a margin.

The weighted average interest rate on the variable rate debt, inclusive capital leases, as of December 31, 2009 and 2008 was approximately 2.0% and 3.9%, respectively. As indicated above, through interest rate swaps the Company have effectively fixed the interest rate on $400 million of this floating rate debt as of December 31, 2009, with the remaining $172.4 million of the floating rate debt continuing to bear interest at a variable rate. As of December 31, 2008, the Company had fixed the interest rate on $400 million through interest rate swaps, with the remaining $489.9 million continuing to bear interest at a variable rate. 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 capital leases, will increase by approximately $1.7 million and $4.9 million at December 31, 2009 and 2008, respectively.

Interest rate hedge accounting

As of both December 31, 2009 and 2008, $375 million out of the total notional amount of interest rate swaps of $400 million were accounted for as cash flow hedges. In the years ended December 31, 2009 and 2008, the fair value of these instruments were recorded as a reduction in other reserves (shareholders' equity) as the effective portion of the designated and qualifying hedging instrument. During 2008, interest rate swaps with a notional amount of $175 million were derecognized for hedge accounting purposes, of these, swaps with a notional amount of $150 million reached maturity during the year. The value related to these swaps that was held in equity at the end of 2007 is being transferred through the consolidated statements of operations over the remaining term of the instruments.

Changes in the fair value of interest swaps contracts designated as cash flow hedges are as follows (recognized towards other reserves in shareholders' equity):

	Years ended December 31,	
(In thousands of dollars)	2009	2008
Amounts transferred from equity to the consolidated statements of operations	245	2,548
Effective portion of fair value booked directly to other reserves	15,337	(29,741)
Total change in fair value (loss)	15,582	(27,193)

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 hedges.

The following table indicates the periods in which the cash flow associated with derivatives, which are cash flow hedges, are expected to occur:

			Total expected cash	Cash flow matures in,					
(In thousands of dollars)	Notional amount	Discounted carrying amount	flow (gross)	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
December 31, 2009:									
Interest rate swaps	375,000	(30,733)	(31,350)	(16,253)	(9,138)	(4,490)	(1,078)	(391)	-
December 31, 2008:									
Interest rate swaps	375,000	(46,069)	(46,796)	(15,313)	(12,556)	(8,690)	(6,218)	(2,527)	(1,492)

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.

Foreign exchange rate exposure

The Company is exposed to currency fluctuation due to a predominantly USD based revenue stream, while the Company's expenses are incurred in various currencies. The larger expense currencies other than the USD are GBP, NOK and EUR. The Company maintain a foreign-currency risk management strategy that uses foreign currency exchange contracts to protect against fluctuations in cash flow caused by volatility in currency exchange rates.

In 2009, the Company continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR, BRL, MXN and RUB on forward contracts. As part of acquiring Arrow, in 2007, the Company has entered into several forward contracts to hedge currency exposure (EUR/USD) relating to the Arrow -builds program (see Note 18).

As of December 31, 2009, the Company has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately $319.0 million (notional amount) with a positive fair value of $14.4 million. As of December 31, 2008, the Company had open forward contracts to buy GBP, NOK, SGD, BRL and EUR amounting to approximately $514.2 million with a negative fair value of $35.3 million.

The following table indicates the maturity analysis of the derivates foreign currency forward contracts as at reporting date:

			Total expected cash flow		
	Notional	Carrying		Matures in	
(In thousands of dollars)	amount	amount	Gross	<1 year	1-2 years
December 31, 2009:					
Forward exchange contracts:					
Positive market value	253,482	17,110	17,134	17,134	---
Negative market value	65,475	(2,702)	(2,704)	(2,704)	---
	318,957	14,408	14,430	14,430	---
December 31, 2008:					
Forward exchange contracts:					
Positive market value	164,834	16,213	16,295	15,254	1,041
Negative market value	349,442	(51,560)	(51,876)	(47,253)	(4,623)
	514,276	(35,347)	(35,581)	(31,999)	(3,582)

A further 10% appreciation against the USD across all the currencies the Company have derivative contracts in, would have increased the fair value of these contracts by approximately $14.0 million. The effect on the consolidated statements of operations would have been $13.2 million. The analysis of change in fair value and effect on consolidated statements of operations is based on the Company's mix of foreign exchange contracts as of December 31, 2009, and the assumption that hedged currencies appreciate equally against USD. Figures calculated in the analysis of change in fair value and effects on consolidated statements of operations are before tax. All of the Company's debt is denominated in USD.

Foreign exchange rate hedge accounting

The derivatives entered into to hedge the exposure created by the contracts to build the new Ramforms and Arrow vessels have, where applicable, been designated as fair value hedges. Of the total notional amounts of forward exchange contracts as per table above, $8.7 million and $150.8 million are accounted for as fair value hedges as of December 31, 2009 and 2008, respectively, with negative fair value of $0.2 million as of December 31, 2009 and negative fair value of $1.1 million as of December 31, 2008. Only the spot element of the forward exchange contracts has been designated as effective hedging instruments and has been included in the assessment of hedge effectiveness.

Changes in the fair value of forward exchange contracts designated as cash flow hedges are as follows (recognized to other reserves in shareholders' equity):

	Years ended December 31,	
(In thousands of dollars)	2009	2008
Effective portion of fair value booked directly to other reserves	---	2,605
Total change in fair value gain (loss)	---	2,605

There was no foreign exchange derivatives designated as cash flow hedges outstanding at December 31, 2009 or December 31, 2008.

The change in fair value of foreign currency derivatives used in fair value hedges of firm commitments (see Note 26) were $0.9 million (gain), $2.5 million (loss) and $20.7 million (gain) in the years ended December 31, 2009, 2008 and 2007, respectively. The corresponding change in fair value of firm commitments were $0.1 million (loss), $3.4 million (loss) and $19.4 million (loss) for the years ended December 31, 2009, 2008 and 2007, respectively. 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 the derivatives at the hedge designation date were already carrying a fair value. The change in foreign currency derivates (not designed as hedges) for the years ended December 31, 2009, 2008 and 2007 was $24.0 million (gain), $44.5 million (loss) and $11.4 million (gain), respectively. The changes described above (net effect) are included in foreign currency (loss) gain.

Exposure to credit risk

The Company's financial assets that are exposed to concentration of credit risk consist of trade receivables from clients and derivative financial instruments. Trade receivables are primarily 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 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.

The Company is exposed to certain credit risk related to off-balance items such as long-term agreements entered into with customers and suppliers. The Company manages its exposure to such risks through continuously monitoring of counterparties. The Company also monitors the counter party risk of its banking partners, including counterparties on derivatives and where cash is held on deposits.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Cash and cash equivalents	125,961	95,248
Restricted cash, current and long-term	17,991	18,374
Shares available-for-sale, current and long-term	12,043	6,249
Accounts receivables (Note 14)	197,098	228,903
Accrued revenues, refund guarantees and other receivables (Note 15)	216,846	179,331
Long term receivables and loans to associated companies (Note 21)	9,818	15,061
Derivatives:		
- Unrealized gain forward exchange contracts, current (Note 17)	17,110	15,187
- Unrealized gain forward exchange contracts, long-term (Note 21)	---	1,026
Total	609,472	579,686

The Company is exposed to credit risk on certain off-balance sheet items, including on-demand refund guarantees on paid amounts of the remaining Arrow new-build program (see Note 18). In addition the Company has outstanding guarantees, (see Note 25).

As described above, the Company's treasury function continuously monitors counterparties to mitigate credit risk. As of December 31, 2009, the Company is not aware of any specific credit risk related to counterparties other than those described.

Exposure to liquidity risk
The Company is exposed to liquidity risk related to the payment of debt and derivatives with negative value. The Company tries to minimise liquidity risk through ensuring access to a diversified set of funding sources, and management of maturity profile on debt and derivatives (see Note 25 and tables above for maturity profile on debt and derivatives with negative value).

Note 27 - Leases, Commitments and Provisions

Leases
The Company has operating lease commitments expiring at various dates through 2018. The Company also has capital lease commitments for marine seismic equipment, expiring at various dates through 2013. Future minimum payments related to non-cancellable operating and capital leases were as follows:

(In thousands of dollars)	December 31, 2009 Operating leases	December 31, 2009 Capital leases	December 31, 2008 Operating leases	December 31, 2008 Capital leases
2009	---	---	56,347	1,320
2010	51,847	360	38,526	1,200
2011	35,985	---	24,725	840
2012	17,333	---	12,948	840
2013	13,874	---	11,359	210
2014	9,659	---	---	---
Thereafter	15,054	---	27,034	---
Total (a)	143,752	360	170,939	4,410
Imputed interest		(12)		(359)
Net present value of capital lease obligations		348		4,051
Current portion of capital lease obligations		(348)		(1,180)
Long-term portion of capital lease obligations		---		2,871

(a) Onshore is excluded in the year-ended December 31, 2009 numbers, see Note 4.

The Company entered into capital lease arrangements of $4.7 million for the years ended December 31, 2008, while there were no such new arrangements for the year ended December 31, 2009 and 2007.

The future minimum payments under the Company's operating leases relate to the Company's operations as follows:

(In thousands of dollars)	December 31, 2009	December 31, 2008
Marine seismic and support vessels	54,651	74,352
Data processing operations equipment	4,994	---
Buildings	82,337	95,586
Other	1,770	1,001
Total	143,752	170,939

Rental expense for operating leases, including leases with terms of less than one year, was $89.5 million, $146.8 million and $72.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Claim against Arrow
On July 7, 2008, CGGVeritas issued a claim against Arrow Seismic ASA up to $70 million. CGGVeritas claimed to have a binding agreement with Arrow for a charter and ultimately the purchase of NB 534. The Asker & Bærum District Court in Norway found in April 2009 that the claim was unfounded, and ordered CGGVeritas to cover Arrow's legal costs. CGGVeritas did not appeal the ruling, which is now final.

In November 2008, PGS subsidiary Arrow Seismic Invest IV LTD ("Arrow") terminated a contract with Polish yard Stocznia Marynarki Wojennej S.A. (the "yard") for conversion works on the vessel *Southern Explorer*. The yard has subsequently detained the vessel as security for alleged claims against Arrow, whereas Arrow has in December 2009 initiated a law suit against the yard in which Arrow claims damages and repossession of the vessel.

Spanish leases
In connection with the purchase of Arrow (see Notes 5 and 18) the Company became party to Spanish lease structures for the construction of four high capacity seismic vessels (NB 532, 533, 534 and 535). The contracts for NB 532 and 533 were cancelled in 2009 due to delays (see Note 18), and the other two have not yet been delivered. The vessels are being built by the Factorias Vulcano shipyard group in Spain.

The specific terms and structure of each Spanish lease agreement vary, however the structures have common features as follows. Under the leases, each vessel is owned by a Spanish leasing company, which also acquires the vessel from the shipyard. However, during the construction period, the Company will hold and exercise all rights and obligations normally belonging to the buyer under the ship building contracts, save the right to take legal delivery of the vessels upon completion and the obligation to pay for the vessels. After delivery of the vessels from the shipyard, the Company will bareboat charter the vessels. The bareboat charter hire will be paid in full upon delivery. Upon expiry of the bareboat charter periods, which slightly exceeds two years, ownership of the vessels is transferred to the Company. The bareboat charters that the Company pays constitute full payments for the vessels. Because these agreements transfer to the Company substantially all the risks and benefits incidental to ownership of the vessels, upon commencement of the lease, the bareboat charters will be accounted for as capital leases.

UK leases

The Company entered into capital leases from 1996 to 1998 relating to *Ramforms Challenger, Valiant, Viking, Victory* and *Vanguard.* The terms for these leases ranged from 15-25 years. In 2007, the Company terminated the lease for *Ramform Victory* and took formal ownership of the vessel. The leases for *Ramform Viking* and *Ramform Vanguard* were terminated in 2006.

The Company has indemnified the lessors for the tax consequences resulting from changes in tax laws or interpretations thereof or adverse rulings by the tax authorities and for variations in actual interest rates from those assumed in the leases. The interest rate differentials are accounted for at fair value with corresponding changes in fair values reported through the consolidated statements of operations. The fair value is calculated using the forward market rates for Sterling LIBOR and a corresponding discount rate.

The remaining liability for interest rate differential on UK leases, which is accounted for at fair value, at December 31, 2009 and 2008, relates to *Ramform Valiant* and was 4.1 million British pounds (approximately $6.7 million) and 4.7 million British pounds (approximately $6.7 million), respectively.

Brazil service tax claim

The Company has an ongoing dispute in Brazil related to municipal services tax (“ISS”) for late sales of MultiClient data. The municipality has contended that licensing of MultiClient data is equal to providing a service to PGS’ clients. ISS is a local service tax and the Company’s primary view is that licensing of MultiClient data held by the Company should be treated as rental of an intangible asset, which is clearly not a service under the relevant provisions, and therefore not be subject to ISS. This has been confirmed by several external advisors and the Company intends to vigorously defend its view. There are also arguments supporting that this municipal service tax should not in any event apply to PGS’ offshore related activities. The maximum theoretical exposure including all years at December 31, 2009 amounts to $66 million of ISS tax. In addition, interest charges and penalties could run up to a maximum of $86 million. Legal proceedings for a part of the total exposure were initiated by PGS at local Court level in Brazil in January 2010, which required a bank guarantee to the Court of USD 27 million. The Company has not made any accrual for this contingency.

Petrojarl

Following the demerger of Petrojarl in 2006, the Company retained a joint secondary liability for certain obligations of Petrojarl. Petrojarl has agreed to indemnify the Company from liabilities related to its operations. Such liabilities include liabilities related to the floating production, storage and offloading units (“FPSOs”), that the Company transferred to Petrojarl in connection with the demerger. With respect to *Petrojarl Foinaven* FPSO, PGS has provided a separate on demand guarantee. The guarantee is made in relation to the FPSO service agreement and is for the benefit of the Foinaven co-ventures and is capped at $10 million. With respect to *Petrojarl Banff* FPSO, the Company remains with a joint secondary liability with Petrojarl under their FPSO service agreement with the Banff group. The guarantee is not capped. If these claims are 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.

Deferred consideration, acquired companies

Following the 2007 acquisitions of MTEM, AGS and Roxicon (see Note 5) the Company has liabilities relating to deferred considerations, presented as follows:

	December 31,	
(In thousands of dollars)	2009	2008
Accrued expenses (Note 28)	2,741	6,053
Other long-term liabilities (Note 29)	---	2,177
Total	2,741	8,230

The deferred consideration relating to acquiring MTEM consisted of both cash and PGS shares; $8.9 million in cash and $8.9 million in shares (363,534 shares). In 2008, the Company paid $4.5 million in cash and transferred 181,767 PGS shares. The remaining consideration was paid/ transferred in December 2009.

The deferred consideration relating to acquiring Roxicon consists of NOK 15.8 million (approximately $2.7 million at year ended December 31, 2009) in cash, maturing August 17, 2010.

The deferred consideration relating to acquiring AGS was $2.0 million and was paid in 2009.

Onerous contracts

The Company has a provision for onerous contracts in connection with office lease agreements in the UK. As of December 31, 2009 this relates to minimum operational lease provision of $4.1 million for offices that is no longer in use and provisions for dilapidation of $1.1 million. In total this was of $3.4 million as of December 31, 2008.

Note 28 - Accrued Expenses

Accrued expenses consist of the following:

(In thousands of dollars)	December 31, 2009	2008
Customer advances and deferred revenue	78,539	66,049
Accrued employee benefits	75,349	51,581
Accrued vessel operating expenses	40,372	42,317
Accrued sales tax and VAT	18,952	6,619
Received, not invoiced, property and equipment	17,073	61,044
Accrued commissions	11,730	8,718
Accrued office cost	8,180	6,949
Unrealized loss interest swaps/forward exchange contracts (Note 26)	6,237	47,003
Accrued project cost	6,216	6,210
Accrued interest expenses	3,651	6,592
Accrued onerous contracts (Note 27)	3,597	1,226
Deferred compensation, acquired companies (Note 27)	2,741	6,053
Accrued legal, audit and consulting fee	1,720	1,147
Fair value adjustment of firm commitments (a)	1,245	8,510
Other	10,477	20,290
Total	286,079	340,308

(a) Fair value change in hedged firm commitments related to currency fluctuations from inception of the hedging relationships relating to the construction of the Arrow new-builds as of December 31, 2009 and *Ramform Sterling* and the Arrow new-builds as of December 31, 2008 (see Note 18).

Note 29 - Other Long-Term Liabilities

Other long-term liabilities consist of the following:

(In thousands of dollars)	December 31, 2009	2008
Pension liability (Note 30)	35,075	30,119
Unrealized loss interest swaps/forward exchange contracts (Note 26)	28,271	52,201
Tax contingencies	11,448	24,671
Accrued liabilities UK leases (Note 27)	5,965	6,339
Accrued onerous contracts (Note 27)	1,592	2,156
Fair value adjustment of firm commitments (a)	115	316
Deferred compensation, acquired companies (Note 27)	---	2,177
Other	3,486	22,146
Total	85,952	140,125

(a) Fair value change in hedged firm commitments related to currency fluctuations from inception of the hedging relationships relating to the construction of the Arrow new-builds as of December 31, 2009 and 2008.

Note 30 - Pension Obligations

Defined benefits plans

The Company has historically had defined benefit pension plans for substantially all of its Norwegian and UK employees, with eligibility determined by certain period-of-service requirements. In Norway these plans are generally funded through contributions to insurance companies. In the UK, the plans are funded through a separate pension trust. It is the Company's general practice to fund amounts to these defined benefit plans at rates that are sufficient to meet the applicable statutory requirements. As of January 1, 2005, the Norwegian defined benefit plans were closed for further entrants (except for seismic crew) and new defined contribution plans were established for new employees. As of March 31, 2006, the UK defined benefit plan was closed for new entrants. As of January 1, 2008, the Norwegian defined benefit plan for seismic crew were closed for further entrants, and new defined contribution plans were established for new seismic crew members. At December 31, 2009, 479 employees were participating in these plans.

Actuarial valuations and assumptions

The actuarial valuations were carried out by independent actuaries in Norway and UK.

Reconciliation of the plans' aggregate projected benefit obligations and fair values of assets are summarized as follows:
Change in projected benefit obligations (PBO):

	December 31,	
(In thousands of dollars)	2009	2008
Projected benefit obligations (PBO) at January 1	108,882	135,437
Service cost	6,843	8,996
Interest cost	5,824	6,847
Employee contributions	984	1,210
Social security tax	(719)	9
Actuarial loss, net	(3,232)	(4,412)
Benefits paid	(721)	(730)
Exchange rate effects	16,649	(38,475)
Projected benefit obligations (PBO) at December 31	134,510	108,882

Change in pension plan assets:

	December 31,	
(In thousands of dollars)	2009	2008
Fair value of plan assets at January 1	69,870	98,409
Expected return on plan assets	5,451	6,845
Employer contributions	8,381	11,012
Employee contributions	984	1,210
Actuarial gain, net	1,910	(16,731)
Benefits paid	(721)	(730)
Exchange rate effects	10,656	(30,145)
Fair value of plan assets at December 31	96,531	69,870

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

	December 31,	
(In thousands of dollars)	2009	2008
Funded status (a)	37,979	39,012
Unrecognized actuarial gain (loss)	(2,904)	(8,893)
Net pension liability	35,075	30,119

(a) Includes social security tax on net pension liability.

Net amount recognized as accrued pension liability is presented as other long-term liabilities (see Note 29).

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $112.2 million and $85.5 million as of December 31, 2009 and 2008, respectively. All plans have accumulated benefit obligation in excess of plan assets.

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

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Service cost	6,843	8,996	8,945
Interest cost	5,824	6,847	6,385
Expected return on plan assets	(5,451)	(6,845)	(6,420)
Adjustments to prior service cost	310	---	---
Amortization of actuarial loss	(33)	(12)	50
Administration costs	48	120	114
Social security tax	551	726	679
Net periodic pension cost	8,092	9,832	9,753

Assumptions used to determine net periodic	2009		2008		2007	
pension costs:	Norway	UK	Norway	UK	Norway	UK
Discount rate	3.80%	6.00%	4.50%	5.80%	4.40%	5.10%
Return on plan assets	5.80%	7.42%	5.50%	7.40%	5.40%	7.40 %
Compensation rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Annual adjustments to pensions	1.50%	(a)	4.00%	(a)	4.00%	(a)

Assumptions used to determine benefit obligations at end of years presented:

	December 31, 2009		December 31, 2008	
	Norway	UK	Norway	UK
Discount rate	4.50%	5.80%	3.80%	6.00%
Compensation increase	4.00%	4.00%	4.00%	4.00%
Annual adjustment to pensions	1.40%	(b)	1.50%	(b)
Mortality table	K2005	SAPS Light BY Medium cohort	K2005	SAPS Light BY Medium cohort

(a) 3.00% for services up to April 2006 and 2.50% for services thereafter as of December 31, 2007 and 2.25% for services thereafter as of December 31, 2008 and 2009.
(b) 3.00% and 3.30% for services up to April 2006 as of December 31, 2008 and 2009 respectively, and 2.25% for services thereafter.

The discount rate assumptions used for calculating pensions reflect the rates at which the obligations could be effectively settled. Observable long-term rates on governmental bonds are used as a starting point and matched with the Company's expected cash flows under the Norwegian plans. Observable long-term rates on corporate bonds are used for the UK plans. The expected long-term rate of return on plan assets is based on historical experience and by evaluating input from the trustee managing the plan's assets.

Historical information

The net pension liability for the years displayed were as follows:

	December 31,			
(In thousands of dollars)	2009	2008	2007	2006
Projected benefit obligation	134,510	108,882	135,437	128,628
Fair value of plan assets	96,531	69,870	98,409	80,535
Net funded status (incl. payroll tax)	37,979	39,012	37,028	48,093

The following table show the experience adjustment from actuarial gain and losses (the effects of differences between the previous actuarial assumptions and what has actually occurred) of the Projected benefit obligation and plan assets for the years displayed:

	2009	2008	2007	2006
Projected benefit obligation (PBO)	2.0%	3.0%	1.2%	(0.4)%
Fair value of plan assets	1.9%	(35.5)%	(1.0)%	3.0%

Sensitivity

The following table show the sensitivity of pension cost (excluding amortization of actuarial gains and losses) and benefit obligation (including payroll tax) related to change in discount rate, compensation level and USD:

(In thousands of dollars)	1% increase in discount rate	1% decrease in discount rate	1% increase in yearly compensation increase	1% decrease in yearly compensation increase	10% appreciation of USD (a)
Increase (decrease) in pension cost	(2,118)	2,396	2,040	(2,159)	(688)
Increase (decrease) in benefit obligation (PBO)	(27,812)	37,458	15,410	(15,611)	(13,336)

(a) Based on the Company's mix of Norwegian plans (NOK denominated) and UK plans (GBP denominated) as of December 31, 2009.

Plan asset allocation

The Company's pension plan asset allocations, by asset category, are presented by major plan group as follows:

	December 31, 2009		December 31, 2008	
(In thousands of dollars)	Norway	UK	Norway	UK
Fair value of plan assets	29,097	67,434	23,031	46,839
Debt securities	70%	46%	70%	37%
Equity/diversified growth funds	10%	52%	6%	60%
Real estate	20%	---	23%	---
Other	---	2%	1%	3%
Total	100%	100%	100%	100%

Management of plan assets must comply with applicable laws and regulations in Norway and the UK where the Company provides defined benefits plans. 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.

Estimated future cash flow information

The Company expects to contribute approximately $6.6 million to its defined benefit pension plans in 2010. Total pension benefit payments expected to be paid to participants from the plans are as follows:

	(In thousands of dollars)
2010	408
2011	467
2012	657
2013	746
2014	810
2015 - 2019	8,232

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.

The Company's contributions to the Norwegian defined contribution plans for the year ended December 31, 2009, 2008 and 2007 were $1.4 million, $1.1 million and $0.6 million, respectively.

Under the Company's U.S. defined contribution 401(k) plan, essentially all US employees are eligible to participate upon completion of certain period-of-service requirements. The plan allows eligible employees to contribute up to 100% of compensation, subject to IRS and plan limitations, on a pre-tax basis, with a 2009 statutory cap of $16,500 ($22,000 for employees over 50 years). Employee pre-tax contributions are matched by the Company as follows: the first 3% are matched at 100% and the next 2% are matched at 50%. All contributions vest when made. The employer matching contribution related to the plan was $1.8 million, $1.8 million and $1.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. Contributions to the plan by employees for these periods were $4.6 million, $4.5 million and $4.1 million, respectively.

Aggregate employer and employee contributions under the Company's other plans for the years ended December 31, 2009, 2008 and 2007, were $2.3 million and $1.0 million (2009), $2.7 million and $0.9 million (2008) and $1.3 million and $0.6 million (2007).

Note 31 - Shareholder Information

As of December 31, 2008, Petroleum Geo-Services ASA had a share capital of NOK 540 million divided on 180,000,000 shares of par value NOK 3 each. On May 28 2009, the share capital was increased through a private placement with net proceeds of USD 98.5 million. As a result, the share capital as of December 31, 2009, was NOK 593,999,997 million, divided on 197,999,999 shares of par value NOK 3 each, all fully paid.

The said placement was made on basis of an authorization of the Board given at the AGM on May 14, 2009. The authorization allowed for the increase of the Company's share capital with up to NOK 54,000,000 for the purpose of facilitating acquisitions within the oil and energy sector, down payment of loans (including convertible loans) or strengthening the company's capital base. As this authorization was exhausted on May 28, 2009, a similar authorization was given at an extraordinary General meeting held October 14, 2009. The new authorization entitles the Board to increase the Company's share capital with NOK 59,399,997. The authorization is valid until June 30, 2010.

At the AGM on May 14, 2009, authority was also given for the Board of Directors to acquire treasury shares at a maximum face value of the shares of NOK 54,000,000. Such shares can be disposed off to satisfy existing or future employee incentive schemes, or use as consideration in connection with mergers, demergers or acquisitions, to raise funds for specific investments, for the purpose of paying down loans (including convertible bonds), or in order to strengthen the Company's capital base. The Board of Directors was further authorised to increase the share capital with a maximum of NOK 15,000,000 to meet obligations under the share option programs for employees. The Board was finally authorized to issue convertible bonds at a total amount of NOK 3,500,000,000. These authorizations are valid until May 14, 2010.

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 Company's holding of treasury shares reconciles as follows:

	Treasury shares	% of total shares outstanding
Acquired in 2007	4,979,500	
Used to fulfil employee share option program in 2007 (Note 33)	(504,210)	
Used to fulfil deferred considerations, acquired companies (Note 27)	(363,534)	
Balance at December 31, 2007	4,111,756	2.28%
Used to fulfil employee share option program in 2008 (Note 33)	(123,000)	
Used to fulfil deferred considerations, acquired companies (Note 27)	(181,767)	
Balance at December 31, 2008	3,806,989	2.11%
Sale of treasury shares May 29, 2009	(3,625,223)	
Used to fulfil deferred considerations, acquired companies (Note 27)	(181,766)	
Balance at December 31, 2009	---	---

At the AGM on June 15, 2007, the Company's shareholders approved a special dividend of NOK 10 per share (NOK 1.8 billion/$289.9 million in total). The dividend was paid July 15, 2007 and due to exchange rate fluctuation the amount corresponded to $302.4 million at the date of payment. No dividend was distributed in the years ended December 31, 2009 and 2008.

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

	December 31, 2009	
	Total shares	Ownership percent
Folketrygdfondet	16,706,260	8.44
State Street Bank & Trust (nominee)	8,837,963	4.46
Ulltveit-Moe Rederi AS	6,607,089	3.34
Citibank, N.A., holder of American Depositary Shares ("ADS") (nominee) (a)	5,358,387	2.71
Clearstream Banking (nominee)	4,191,053	2.12
DNB Nor Bank ASA	4,168,509	2.11
State Street Bank & Trust Co. (nominee)	4,089,675	2.07
JP Morgan Chase Bank (nominee)	3,468,400	1.75
Handelsbanken	3,275,000	1.65
JP Morgan Chase Bank (nominee)	3,252,511	1.64
Umoe AS	3,068,733	1.55
State Street Bank & Trust (nominee)	3,028,311	1.53
The Northern Trust (nominee)	3,000,000	1.52
JP Morgan Chase Bank (nominee)	2,811,680	1.42
UBS AG, London Branch (nominee)	2,588,352	1.31
Pensjonskassen Statoil	2,350,300	1.19
UBS (Luxembourg) S.A. (nominee)	2,328,020	1.18
Odin Offshore	2,300,000	1.16
Ferd AS Invest	2,244,000	1.13
Citibank N.A. (nominee)	2,223,244	1.12
Other shareholders	112,102,512	56.6
Total	197,999,999	100.0

(a) On the basis of existing depository agreements regarding owners of the ADSs and nominee accounts, the table above does not disclose the beneficial owners of shares.

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

	December 31, 2009	
	Total	Ownership percent
Board of Directors:		
Francis Gugen, Chairperson	30,000	(b)
Harald Norvik, Vice Chairperson	8,000	(b)
Holly Van Deursen	---	---
Wenche Kjølås (a)	2,000	(b)
Daniel J. Piette	2,000	(b)
Annette Malm Justad	---	---
Carol Bell	---	---
Ingar Skaug	---	---
Chief Executive Officer and Other Executive Officers:		
Jon Erik Reinhardsen, President and Chief Executive Officer	43,000	(b)
Gottfred Langseth, Executive Vice President and Chief Financial Officer	26,031	(b)
Rune Eng, President Marine	27,874	(b)
Sverre Strandenes, President Data Processing & Technology	6,994	(b)
Eric Wersich, President Onshore	8,355	(b)

(a) Controlled through Jawendel AS.
(b) Less than 1% of the Company's share as of December 31, 2009.

Note 32 - Related Party Transactions

The Company owns 50% in PGS Khazar through PGS Overseas Operation (Cyprus) ltd. The Company has outstanding loans to PGS Khazar of $3.0 million as of December 31, 2009 (see note 21). The loan is based on a $4.1 million frame loan agreement which can be drawn on as needed. The loan carries 6.5% interest.

The Director Mr Ingar Skaug (appointed in 2009) is the Group CEO, of Wilh. Wilhelmsen ASA. Wilh. Wilhelmsen provides maritime management services to the Company. The Company paid $4.9 million for these services in 2009.

The Director Mr Harald Norvik is also a board member of ConocoPhillips that is a customer of the Company. ConocoPhillips paid $13.1 million, $10.1 million and $49.6 million for seismic services for the year ended December 31, 2009, 2008 and 2007 respectively.

Other Directors of the Company are also on the Board of certain customers and suppliers. As of December 31, 2009 and 2008, the Company did not have any significant outstanding balances with any of these companies.
See also Note 34.

Note 33 - Employee Share Option Programs

In 2006, the Company established an employee option program. Options covering 2,127,000 shares were granted to certain key employees. Additional 223,000 options and 25,000 options were granted from this plan in the years ended December 31, 2007 and 2008, respectively.

In 2008, the Company established a second employee option program. Options covering 3,060,000 shares were granted to certain key employees. Additional 40,000 options were granted from this plan in the year ended December 31, 2009.

In June 2009, the Company established a third employee share option program. Options covering 3,012,500 shares were granted to certain key employees.

The Company's option programs are considered as equity-settled plans and the options were measured at fair value at date of grant. One third of the options vest each of the three years subsequent to the date of grant. First possible exercise is one year after grant date. The latest possible exercise date is five years subsequent to the grant date. The options may only be exercised four times a year, during a defined period after the publication of the Company's quarterly earnings release.

For options granted under the 2006 employee option program, the exercise price corresponds to the weighted average trading price for the Company's ordinary shares on the Oslo Stock Exchange the week before the options were granted. For options granted under the 2008 and 2009 employee option programs the exercise price corresponds to the weighted average trading price for the Company's ordinary shares on the Oslo Stock Exchange at the date of grant.

Maximum gain on the options in the 2008 and 2009 employee option programs are subject to a cap of 1.5 times the employee's salary for each calendar year. The fair value of the cap is achieved through a reduction of the fair value of the options granted. There is no cap on the 2006 employee share option program.

The fair value determined at the grant date is expensed over the vesting period, using the accelerated method, based on the Company's estimate of the shares that will eventually vest. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The options include a service condition as the individuals participating in the plan must be employed by the Company for a certain period of time in order to earn the right to exercise the share options. The options include no performance conditions.

For the years ended December 31, 2009, 2008 and 2007, the Company recognized compensation cost with a corresponding increase in shareholders' equity of $11.8 million, $9.8 million and $6.6 million, respectively. Total net unrecognized compensation cost as of December 31, 2009 was $ 9.0 million (related to non-vested share-based options), which is expected to be recognized over a period of 2.5 years (main portion within 1 year).

The tables below detail the Company's outstanding options for the years presented.

Year ended December 31, 2009:

Grant date:	Options outstanding December 31, 2008	Options granted in 2009	Options exercised in 2009	Options forfeited in 2009	Options outstanding December 31, 2009	Weighted-average remaining contractual term	Options exercisable December 31, 2009
July 2006	1,325,781	---	---	(48,993)	1,276,788	1.5 years	1,276,788
May 2007	190,000	---	---	---	190,000	2.4 years	126,668
July 2007	11,000	---	---	---	11,000	2.5 years	7,333
January 2008	25,000	---	---	---	25,000	3.1 years	8,334
June 2008	2,991,500	---	---	(51,000)	2,940,500	3.4 years	980,120
June 2009	---	3,052,500	---	---	3,052,500	4.4 years	---
Total	4,543,281	3,052,500	---	(99,993)	7,495,788	3.8 years	2,399,243

Year ended December 31, 2008:

Grant date:	Options outstanding December 31, 2007	Options granted in 2008	Options exercised in 2008	Options forfeited in 2008	Options outstanding December 31, 2008	Weighted-average remaining contractual term	Options exercisable December 31, 2008
July 2006	1,484,790	---	(123,000)	(36,009)	1,325,781	2.5 years	736,713
May 2007	200,000	---	---	(10,000)	190,000	3.4 years	63,334
July 2007	23,000	---	---	(12,000)	11,000	3.5 years	3,666
January 2008	---	25,000	---	---	25,000	4.1 years	---
June 2008	---	3,060,000	---	(68,500)	2,991,500	4.4 years	---
Total	1,707,790	3,085,000	(123,000)	(126,509)	4,543,281	3.8 years	803,713

The following share options, granted under the share option plans, were exercised for all years presented:

	Year ended December 31, 2009			Year ended December 31, 2008		
Granted	Options exercised	Exercise date	Share price at exercise date	Options exercised	Exercise date	Share price at exercise date
July 2006	---	---	---	17,001	March 3, 2008	NOK 122.50
July 2006	---	---	---	105,999	May 19, 2008	NOK 161.50
Total	---			123,000		

No share options have expired during the years ended December 31, 2009 and 2008.

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

Grant date:	Options outstanding December 31, 2009	Average exercise price	Risk free rate	Dividend yield	Volatility factor	Weighted average life	Estimated fair value at grant date (average NOK/USD per share option)
July 2006 (a)	1,276,788	NOK 111.50	3.92-4.00%	---	45%	3.5 years	NOK 44.10/$7.12
May 2007 (a)	190,000	NOK 140.41	5.02%	---	43%	3.5 years	NOK 55.20/$8.87
July 2007 (a)	11,000	NOK 152.11	5.22%	---	44%	3.5 years	NOK 58.89/$10.20
January 2008	25,000	NOK 116.14	4.56%	---	46%	3.5 years	NOK 44.52/$8.20
June 2008	2,940,500	NOK 133.05	5.75%	---	46%	2.5 years	NOK 35.55/$6.77
June 2009	3,052,500	NOK 40.30	2.28%	---	55%	2.4 years	NOK 13.25/$2.08
Total	7,495,788						

(a) Exercise price is adjusted for special dividend of NOK 10 per share distributed in July 2007.

Expected volatility for the 2006, 2007 and 2008 grants is based on historical volatility of the Company's shares after emerging from Chapter 11 in November 2003. As a result of unusual high volatility during the international financial distress 2008 to 2009, the Company has estimated volatility for the 2009 grants in order to reflect the expected volatility going forward.

There are no traded options of the Company's shares and there are no post vesting restrictions included in the option plan.

Note 34 - 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, excluding such costs relating to discontinued operations (see Note 4) consist of:

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Salaries and bonuses	247,092	243,308	198,530
Social security	17,935	17,551	22,764
Pension	12,805	14,830	12,471
Other benefits	25,103	25,493	16,761
Total	302,935	301,182	250,526

The number of full time employees at the end of the last three years was as follows:

	December 31,		
	2009	2008	2007
Marine	1,841	1,991	1,593
Onshore permanent employees (a)	564	714	731
Onshore temporary employees (a) (b)	3,146	2,223	644
Other (c)	275	278	255
Total	5,826	5,206	3,223

(a) The Company entered into an agreement to sell Onshore in December 2009.
(b) Onshore temporary employees include crew hired on specific time periods (generally the length of a specific project).
(c) Includes Corporate, Global Shared Services and PGS EM.

The Company had an average of 5,516; 4,214 and 3,196 employees during the years ended December 31, 2009, 2008 and 2007, respectively.

Chief Executive Officer (CEO) and Other Executive Officers
In 2009, the Company paid compensation to its President and CEO and other executive officers as follows:

		Total compensation paid in 2009 (a)				Benefits	Accrued 2009
Name:	Position:	Fixed salary	Bonus (b)	Other benefits (c)	Total paid salary and compensation	paid to pension plan (d)	compensation at December 31, 2009 (e)
					(in dollars)		
Jon Erik Reinhardsen	President and Chief Executive Officer	648,673	---	62,230	710,903	7,806	848,066
Gottfred Langseth	Executive Vice President and Chief Financial Officer	483,306	342,555	67,163	893,024	18,314	433,384
Rune Eng	President, Marine	481,791	337,830	75,854	895,475	22,264	428,243
Eric Wersich	President, Onshore	378,125	300,000	18,498	696,623	---	327,176
Sverre Strandenes	President, Data Processing & Technology	442,762	294,125	83,448	820,335	28,396	373,502

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2009 of NOK/USD 6.35.
(b) Includes payments for the 2007 retention bonus plan.
(c) Includes items such as car allowance, payment to defined contribution plan, telephone, internet and other minor benefits.
(d) Contribution to defined benefit plans and defined contribution plans (Norway).
(e) Includes accruals for the 2009 and 2008 performance bonus plans (including share purchase bonus), the 2008 retention bonus plan and CEO deferred compensation.

Share options held by the CEO and executive officers at December 31, 2009 were as follows:

Name:	Number of share options at December 31, 2008	Number of options granted 2009	Numbers of options exercised 2009	Average exercise price on exercised options (NOK)	Number of share options at December 31, 2009	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardsen	150,000	150,000	---	---	300,000	86,67	3.9 years
Gottfred Langseth	180,000	90,000	---	---	270,000	94.95	3.1 years
Rune Eng	150,000	90,000	---	---	240,000	92.88	3.3 years
Eric Wersich	109,999	90,000	---	---	199,999	87.00	3.5 years
Sverre Strandenes	140,001	90,000	---	---	230,001	92.07	3.4 years

In 2008, the Company paid compensation to its President and CEO and other executive officers as follows:

		Total compensation paid in 2008 (a)				Benefits	Accrued 2008
Name:	Position:	Fixed salary	Bonus (b)	Other benefits (c)	Total paid salary and compensation	paid to pension plan (d)	Compensation at December 31, 2008 (e)
					(in dollars)		
Jon Erik Reinhardsen	President and Chief Executive Officer (f) (g)	1,657,479	---	29,520	1,686,999	4,305	242,954
Svein Rennemo	President and Chief Executive Officer) (f)	459,215	684,354	24,529	1,168,098	22,985	---
Gottfred Langseth	Executive Vice President and Chief Financial Officer	561,151	780,082	77,495	1,418,728	15,493	239,909
Rune Eng	President, Marine	569,046	761,751	87,910	1,418,707	16,345	239,458
Eric Wersich	President, Onshore	365,000	474,563	14,695	854,258	---	252,303
Sverre Strandenes	President, Data Processing & Technology	551,248	657,197	96,915	1,305,360	20,512	210,747

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2008 of NOK/USD 5.52.
(b) Includes payments for the 2007 performance bonus plan (including share purchase bonus) and the 2006 retention bonus plan.
(c) Includes items such as car allowance, payment to defined contribution plan, telephone, internet and other minor benefits.
(d) Contribution to defined benefit plan (Norway).
(e) Includes accruals for the 2008 performance bonus plan (including share purchase bonus), the 2007 and 2008 retention bonus plans and CEO deferred compensation.
(f) Jon Erik Reinhardsen succeeded Svein Rennemo as President and Chief Executive Officer effective April 1, 2008, as of which date Svein Rennemo retired.
(g) Fixed salary includes NOK 5,000,000 (approximately $905,226) as a one-time compensation upon commencement of the position as CEO and a gross up of NOK 1,336,836 (approximately $242,028) for relocating expenses.

Share options held by the CEO and executive officers at December 31, 2008 were as follows:

Name:	Number of share options at December 31, 2007	Number of options granted 2008	Numbers of options exercised 2008	Average exercise price on exercised options (NOK) (a)	Number of share options at December 31, 2008	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardsen	---	150,000	---	---	150,000	133.05	4.4 years
Svein Rennemo	80,001	---	80,001	111.50	---	---	---
Gottfred Langseth	90,000	90,000	---	---	180,000	122.28	3.5 years
Rune Eng	60,000	90,000	---	---	150,000	124.43	3.6 years
Eric Wersich	39,999	70,000	---	---	109,999	125.21	3.7 years
Sverre Strandenes	50,001	90,000	---	---	140,001	125.35	3.7 years

(a) Average shares price at the date of exercise of the options was NOK 157.01.

See Note 31 for shares held by the Company's CEO and other executive officers and Note 33 for further information on the share option programs.

Effective April 1, 2008, Jon Erik Reinhardsen was appointed President and CEO of the Company, succeeding Svein Rennemo who retired. Annual salary is NOK 4,000,000 and as compensation for loss of shares, options and other share based benefits in his previous position, the Company paid NOK 5,000,000 upon commencement of the position. The Company will pay the CEO additional NOK 5,000,000 with a 6% interest three years after commencement in the position. Should the CEO choose to leave the Company prior to the three years, the Company shall not have any obligation to pay this compensation. Should the Company choose to terminate the employment contract the payment shall fall due immediately. The same applies if the Company initiates a termination and the parties agree that the employment contract shall be terminated. Jon Erik Reinhardsen 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 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.

Annual performance bonus plan

The Board of Directors has established an annual performance bonus plan for the Company's CEO and other executive officers. From date of employment our CEO is entitled to a maximum cash bonus of up to 50% of annual base salary and a maximum share purchase bonus of 50% of annual base salary for 2009. Other executive officers, listed above, who were employed by the Company during 2009 and remain employed as at March 1 2010 are entitled to a maximum cash bonus of up to 50% of annual base salary and a maximum share purchase bonus of up to 25% of annual base salary. Within these limits, bonuses are finally determined on the basis of achievement and overachievement of financial and non-financial performance targets. Any amounts received as a share purchase bonus, on a net basis (after withholding tax), are required to be used to buy PGS ordinary shares at market prices and held for a minimum of three years. The Board of Directors determined that the bonus under the performance bonus plan for these executives for the years ended December 31, 2009 and 2008 would be in aggregate $1,649,644 and $238,017, respectively.

As the bonus for the year ended December 31, 2008 was heavily influenced by external factors outside the Company's control, the Board of Directors offered in February 2009 an increase of the 2008 bonus to all employees participating in the Company's bonus program on the condition that they accepted deferral of payment until March 2010. The bonus under the performance bonus incentive plan for the year ended December 31, 2009 include an adjustment of the 2008 bonus totalling $615,850 as these executives accepted a deferral of payment until March 2010. The deferred 2008 bonus amounts will be settled in cash only.

Retention bonus plans

In addition to the above annual performance bonus plan the Board of Directors established a retention bonus plan for the Company's executive officers, excluding the CEO, effective January 1, 2007. The yearly retention bonus is a fixed amount equivalent to 75% of base salary at the time of payment. The first yearly retention bonus was paid in October 2008 and thereafter yearly to October 2010. The members of the bonus plan have to be employed by the Company at the payment date (and not under notice of resignation). The aggregate retention bonus earned in 2009 and accrued at December 31, 2009 totalled $433,312, while aggregate retention bonus earned in 2008 and accrued at December 31, 2008 totalled $768,711.

Board of Directors

For the years ended December 31, 2009 and 2008, compensation paid to all persons who served as Directors during any period were as follows. 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 paid during 2009:

Name:	Position:	Director since	Term expire	Compensation (In dollars)
Jens Ulltveit-Moe	Chairperson	2002	(a)	26,111
Francis Gugen	Chairperson	2003	2010	97,331
Harald Norvik	Vice Chairperson	2003	2010	70,004
Holly Van Deursen	Director	2006	2010	90,976
Wenche Kjølås	Director	2006	2010	73,069
Daniel J. Piette	Director	2007	2010	95,060
Annette Malm Justad	Director	2008	2010	67,794
Carol Bell	Director	2009	2010	---
Ingar Skaug	Director	2009	2010	---
			Total	520,345

(a) Resigned as Chairperson May 2009.

The table below provides information about our Directors and compensation paid during 2008:

Name:	Position:	Director since	Term expire	Compensation (In dollars)
Jens Ulltveit-Moe	Chairperson	2002	2009	42,994
Francis Gugen	Vice Chairperson	2003	2009	97,189
Harald Norvik	Director	2003	2009	66,376
Holly Van Deursen	Director	2006	2009	90,285
Siri Beate Hatlen	Director	2006	(a)	27,373
Wenche Kjølås	Director	2006	2009	71,180
Daniel J. Piette	Director	2007	2009	89,990
Annette Malm Justad	Director	2008	2009	16,248
			Total	501,635

(a) Resigned as Director in May 2008.

See Note 31 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 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 May 2010 Annual General Meeting.

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 labour 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 managers. 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, free newspaper subscription, free mobile phone, internet and similar benefits. The fixed elements also include a pension plan. The variable elements consist of a performance bonus plan and participation in our share option program. In addition, the executive officers, excluding the CEO, are on the basis of a bonus scheme adopted in 2008 entitled to a retention bonus payable in 2010 provided they are still employed and have not delivered or received a notice of termination at the time of payment.

The Board of Directors will continue to use all or some of these elements when determining compensation packages for the CEO and other executive officers in the coming fiscal year. However, no new retention bonus program will be offered in 2010.

The level of the annual performance bonus plan is determined based partly on achievements of agreed financial key performance indicators ("KPIs") for the group and each management group, and partly on achievements of agreed operational, financial and organisational KPIs included in a personal performance contract. The level of the annual performance bonus plan could previously be increased or decreased by maximum 20% depending on how the Company's share price performs related to the Company's peers, but this adjustment factor has been removed with effect from the bonus scheme for 2010.

The Group KPIs are financial targets set by the Board of Directors at the start of a fiscal year. The Group KPIs are thereafter broken down to business unit KPIs. The personal performance contract for our CEO and other executive officers will contain such KPI goals as well as KPI goals linked to other measures of success such as HSE, operational effectiveness and organisational development.

The CEO and other executive officers have identified maximum bonus levels, which may be exceeded only if performance is extraordinary and very substantially above defined goals. The annual performance bonus for the CEO is approved by the Board of Directors in a meeting, based on recommendations from the Remuneration and Corporate Governance Committee, and the annual performance bonus of the other executive officers are reviewed and approved by the Remuneration and Corporate Governance Committee on the CEO's recommendation. The Board of Directors will continue to use this system for determining the level of annual performance bonus in the coming fiscal year.

The Annual General Meetings in 2006, 2008 and 2009 authorized the implementation of certain share option programs. Options for a total of 6,944,120 shares are outstanding as at March 2010 as a result of these programs, corresponding to 3.5 % of the total number of shares in the Company. With the addition of the new option program proposed for the 2010 Annual General Meeting, the total number of options is estimated to be 8,444,120, corresponding to 4.26% of the total number of shares. The number may be increased marginally through the award of a limited number of remaining options under the 2009 program. The purpose is to establish long-term incentive schemes for key personnel. The long-term commitment by the management and key employees is considered vital for further growth.

The Board of Directors this year proposes a new option program to the Annual General Meeting in April 2010. This option program follows similar principles as the existing programs. The cap on the total possible profit under the option program will be a maximum annual gain under the option program of 1.5 times the annual base salary for each individual, see further details in the plan. The option program to be presented to the Annual General Meeting in April 2010 covers an aggregate maximum of 1,500,000 shares or 0.76% of the Company's number of outstanding shares.

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 and increasing number of managers and key employees are included in performance based remuneration schemes, which contain all or some of the above mentioned elements. More than 400 employees within the Company are currently eligible for performance based remuneration. In addition all other employees may receive up to a maximum of one month salary in annual bonus. The level of this bonus is determined by the Board based on the financial results of the Company.

Remuneration of the CEO and other executive officers will be evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors to ensure that salary and other benefits are kept, at all times within the above guidelines and principles.

The CEO will receive a set retention bonus of NOK 5,000,000 on April 1, 2011 provided that he has not left PGS willingly prior to this date. The reason for this was that the CEO had to walk away from substantial earned equity in the company where he was formerly employed. The Board of Directors considered this necessary to secure the employment of the CEO.

Since the Annual General Meeting in May 2009 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 are as follows (exclusive VAT and including out of pocket expenses):

	Years ended December 31,		
(In thousands of dollars)	2009	2008	2007
Audit fees (a)	2,957	2,547	2,514
Other attestation services (a)	1,443	11	40
Fees for tax services (b)	72	278	155
All other fees	79	40	11
Total (c)	4,551	2,876	2,720

(a) Included within the totals are fees of $1.7 million in 2009 (include attestation services in connection with sale of Onshore), $0.5 million in 2008 and $0.6 million in 2007 which are included within the result from discontinued operation.
(b) Fees for tax services consist of fees for tax filing services and other tax assistance.
(c) Total remuneration to auditor includes discontinued operation for the period up to demerger closing date (relates to 2009 only).

Note 35 - Subsidiaries and Affiliated Companies

The ownership percentage in subsidiaries and affiliated companies as of December 31, 2009, was as follows:

Company	Jurisdiction	Shareholding and voting rights
PGS Shipping AS	Norway	100%
Oslo Seismic Services Ltd.	Isle of Man	100%
PGS Geophysical AS	Norway	100%
Multiklient Invest AS	Norway	100%
Petroleum Geo-Services, Inc.	United States	100%
Petroleum Geo-Services (UK) Ltd.	United Kingdom	100%
Seahouse Insurance Ltd.	Bermuda	100%
Dalmorneftegeofizika PGS AS	Norway	49%
Baro Mekaniske Verksted AS	Norway	10%
Calibre Seismic Company	United States	50%
PGS Capital, Inc.	United States	100%
Diamond Geophysical Services Corporation	United States	100%
PGS Exploration (Nigeria) Ltd.	Nigeria	100%
PGS Data Processing Middle East SAE	Egypt	100%
PGS Data Processing, Inc.	United States	100%
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100%
PGS Australia Pty. Ltd.	Australia	100%
Atlantis (UK) Ltd.	United Kingdom	100%
PGS Egypt for Petroleum Services	Egypt	100%
Hara Skip AS	Norway	100%
Petroleum Geo-Services Exploration (M) Sdn. Bhd.	Malaysia	100%
PGS Exploration (US), Inc.	United States	100%
PGS Ocean Bottom Seismic, Inc.	United States	100%
PGS Exploration (UK) Ltd.	United Kingdom	100%
PGS Pension Trustee Ltd.	United Kingdom	100%
PGS Reservoir Ltd.	United Kingdom	100%
Atlantic Explorer Ltd.	Isle of Man	50%

Company	Jurisdiction	Shareholding and voting rights
Oslo Seismic Services Inc.	United States	100%
Oslo Explorer Plc	Isle of Man	100%
Oslo Challenger Plc	Isle of Man	100%
PGS Shipping (Isle of Man) Ltd.	Isle of Man	100%
PGS Americas, Inc.	United States	100%
Seismic Energy Holdings, Inc.	United States	100%
PGS Exploration (Norway) AS	Norway	100%
PGS Multi-Client Seismic Ltd.	Jersey	100%
PGS Marine Services (Isle of Man) Ltd.	Isle of Man	100%
Deep Gulf LP	United States	50.1%
PGS Nopec (UK) Ltd.	United Kingdom	100%
PGS Nominees Ltd.	United Kingdom	100%
SOH, Inc.	United States	100%
PT PGS Nusantara	Indonesia	100%
PGS Geophysical (Angola) Ltd.	United Kingdom	100%
Seismic Exploration (Canada) Ltd.	United Kingdom	100%
PGS Ikdam Ltd.	United Kingdom	100%
PGS Investigacào Petrolifera Limitada	Brazil	100%
PGS Servicios C.A.	Venezuela	100%
PGS Venezuela de C.A.	Venezuela	100%
PGS Overseas AS	Norway	100%
PGS Suporte Logistico e Servicos Ltda.	Brazil	100%
PGS Finance, Inc.	United States	100%
PGS Japan K.K.	Japan	100%
PGS (Kazakhstan) LLP	Kazakhstan	100%
PGS CIS LLC	Russia	100%
PGS Seismic (UK) Ltd.	United Kingdom	100%
PGS Data Processing & Technology Sdn. Bhd.	Malaysia	100%
PGS Onshore (Algeria) EURL	Algeria	100%
PGS Overseas Operation (Cyprus) Ltd.	Cyprus	50%
PGS Overseas Trading (Cyprus) Ltd.	Cyprus	100%
PGS Khazar	Russia	50%
MTEM Limited	United Kingdom	100%
PGS Geophysical (Netherlands) B.V.	Netherlands	100%
PGS Technology (Sweden) AB	Sweden	100%
Natuna Ventures Pte. Ltd.	Singapore	100%
Applied Geophysical Services, Inc.	United States	100%
PGS Onshore do Brazil Ltda.	Brazil	100%
PGS Onshore Servicos Ltda.	Brazil	100%
Arrow Seismic ASA	Norway	100%
Arrow Seismic Ltd.	United Kingdom	100%
Arrow Seismic Invest I Ltd.	United Kingdom	100%
Arrow Seismic Invest II Ltd.	United Kingdom	100%
Arrow Seismic Invest III Ltd.	United Kingdom	100%
Arrow Seismic Invest IV Ltd.	United Kingdom	100%
Arrow Seismic Invest V Ltd.	United Kingdom	100%
Arrow Seismic Invest VI Ltd.	United Kingdom	100%
Arrow Seismic Invest VII Ltd.	United Kingdom	100%
Petroleum Geological Services LLC	Oman	100%
PGS Falcon AS	Norway	100%
PGS Venture AS	Norway	100%
PGS Asia Pacific Labuan Ltd.	Labuan	100%

Companies held for sale	Jurisdiction	Shareholding and voting rights
PGS Mexicana S.A. de C.V.	Mexico	100%
PGS Onshore, Inc.	United States	100%
PGS Onshore (Canada), Inc.	Canada	100%
PGS Administración y Servicios S.A. de C.V.	Mexico	100%
PGS (Malta) Limited	Malta	100%
PGS (Malta) Holdings Limited	Malta	100%
PGS Onshore Peru S.A.C	Peru	100%
PGS Onshore Services S.A.C.	Peru	100%
PGS Exploration Morocco SARL	Morocco	100%

PETROLEUM GEO-SERVICES ASA
(Parent company unconsolidated financial statements)

STATEMENTS OF OPERATIONS

		Years ended December 31,		
(In thousands of NOK)	Note	2009	2008	2007
Revenue		125 913	138 397	148 540
Cost of sales		2 539	2 404	1 634
Depreciation and amortization	5	5 214	12 118	11 312
Selling, general and administrative costs		164 817	176 792	174 009
Total operating expenses		172 570	191 314	186 955
Operating loss		(46 657)	(52 917)	(38 415)
Interest expense, net	2	(417 405)	(407 661)	(148 880)
Impairment, reversal of impairment and loss on shares in subsidiaries/ intercompany receivable	1, 6	(75 582)	(598 875)	194 091
Other financial items, net	3	2 758 977	675 878	3 601 308
Income before income taxes		2 219 333	(383 575)	3 608 104
Provision (benefit) for income taxes	4	314 375	(742 163)	544 541
Net income		1 904 958	358 588	3 063 563

Lysaker, March 25, 2010
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen
Chairperson

Harald Norvik
Vice Chairperson

Carol Bell

Holly Van Deursen

Annette Malm Justad

Wenche Kjølås

Daniel J. Piette

Ingar Skaug

Jon Erik Reinhardsen
Chief Executive Officer

PETROLEUM GEO-SERVICES ASA
(Parent company unconsolidated financial statements)

BALANCE SHEET

		December 31,	
(In thousands of NOK)	Note	2009	2008
ASSETS			
Long-term assets:			
Deferred tax assets	4	1 014 691	1 364 413
Property and equipment, net	5	4 168	8 688
Shares in subsidiaries	1, 6	12 410 484	14 140 302
Intercompany receivables	1	4 827 946	11 156 228
Other financial long-term assets	7	4	30 462
Total long-term assets		18 257 293	26 700 093
Current assets:			
Short-term intercompany receivables		27 528	37 507
Other current assets	8	121 391	98 317
Restricted cash	9	2 006	2 226
Cash and cash equivalents		403 798	188 207
Total current assets		554 723	326 257
Total assets		18 812 016	27 026 350
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity:			
Paid in capital:			
Common stock; par value NOK 3;			
issued and outstanding 197,999,999 shares at December 31, 2009;			
issued and outstanding 180,000,000 shares at December 31, 2008;		594 000	540 000
Own shares, par value		-	(11 421)
Additional paid-in capital		614 684	17 228
Total paid in capital		1 208 684	545 807
Other equity		7 524 568	5 399 086
Total shareholders' equity	10	8 733 252	5 944 893
Long-term liabilities			
Long-term debt	11, 12	4 990 254	7 718 508
Intercompany debt		4 672 372	12 493 732
Other long-term liabilities	13	189 100	414 899
Total long-term liabilities		9 851 726	20 627 139
Current liabilities:			
Short-term debt and current portion of long-term debt	11	55 783	-
Short-term intercompany debt		9 401	10 916
Accounts payable		27 306	7 011
Accrued expenses	16	134 548	436 391
Total current liabilities		227 038	454 318
Total liabilities and shareholders' equity		18 812 016	27 026 350
Warranties	18		

PETROLEUM GEO-SERVICES ASA
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STATEMENT OF CASH FLOW

(In thousands of NOK)	2009	2008	2007
Cash flows provided by operating activities:			
Net income	1 904 958	358 588	3 063 563
Adjustments to reconcile net income to net cash used in operating activities:			
Changes in deferred tax assets	349 722	(1 069 286)	544 541
Depreciation and amortization charged to expense	5 214	12 118	11 312
Impairment, (reversal) of impairment of shares in and loan to subsidiaries, net and loss (gain) on sale of subsidiaries, net	75 583	598 875	(73 931)
Dividend/ group contribution classified as financing activities	(1 462 325)	(2 400 000)	(2 400 698)
Unrealized foreign exchange (gain) loss	(1 476 162)	2 199 430	(473 388)
Changes in current assets and current liabilities	(246 831)	35 500	39 550
Net decrease (increase) in restricted cash	220	208 169	(208 790)
Other items	64 719	314 346	36 687
Net cash provided by (used in) operating activities	(784 902)	257 739	538 847
Cash flows provided by (used in) investing activities:			
Investments in property and equipment	(589)	(2 812)	(991)
Investment in subsidiaries and changes intercompany receivables, net	269 641	(2 322 072)	(6 073 013)
Net cash provided by (used in) investing activities	269 052	(2 324 884)	(6 074 004)
Cash flows provided by (used in) financing activities:			
Share issue (17,999,999 shares)	635 696	-	-
Proceeds from issuance of long-term debt	-	-	6 369 843
Repayment of long-term debt	(1 579 551)	(288 357)	(1 494 780)
Net increase (decrease) in bank facility and short-term debt	143 763	(82 177)	771 669
Investment in/ sale of own shares, net	128 087	14 876	(574 023)
Receipts of dividend/ group contribution from group companies	1 462 325	2 400 000	2 400 698
Dividend paid to shareholders of PGS ASA	-	-	(1 762 535)
Other	-	-	(84 139)
Net cash provided by (used in) financing activities	790 320	2 044 342	5 626 732
Net increase (decrease) in cash and cash equivalents	274 470	(22 803)	91 575
Effect of exchange rate changes on cash and cash equivalents	(58 879)	47 714	(39 560)
Cash and cash equivalents at beginning of year	188 207	163 295	111 281
Cash and cash equivalents at end of year	403 798	188 207	163 295

PETROLEUM GEO-SERVICES ASA
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NOTES TO THE FINANCIAL STATEMENT

Note 1 - Summary of Significant Accounting Policies

Petroleum Geo-Services Group ("the Company") has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, while the financial statements for Petroleum Geo-Services ASA ("PGS ASA") are prepared in accordance with 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 statement of operations. The financial statements are presented in Norwegian Kroner ("NOK").

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

See Note 4 to the consolidated financial statement regarding the sale of Onshore. In 2010, PGS ASA will convert long term debt to equity in some of the sold entities to fulfill the agreement. It is expected that the transaction would have approximately zero effect on PGS ASA's net income in 2010.

Note 2 - Interest Expense, Net

Interest expense, net, consists of:

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Interest income, external	2,391	12,845	20,069
Interest income, intercompany	342,403	797,366	1,353,478
Interest expense, external	(386,692)	(463,943)	(268,780)
Interest expense, intercompany	(375,507)	(753,929)	(1,253,647)
Total	(417,405)	(407,661)	(148,880)

Note 3 - Other Financial Items, Net

Other financial items, net, consist of:

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Group contribution received	1,400,000	2,400,000	2,400,698
Foreign currency (loss) gain	1,318,274	(1,793,971)	589,616
Dividends received	62,325	---	637,681
Gain on repurchase of convertible bonds (see Note 11)	25,471	77,097	---
Instruction fee convertible note (see Note 11)	(39,459)	---	---
Other	(7,634)	(7,248)	(26,687)
Total	2,758,977	675,878	3,601,308

Note 4 - Income Taxes

Reconciliation of income tax (benefit) expense to taxes computed at nominal tax rate on income before income taxes:

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Income before income taxes	2,219,333	(383,575)	3,608,104
Norwegian statutory tax rate	28%	28%	28%
Provision for income taxes at the statutory rate	621,413	(107,401)	1,010,269
Increase (reduction) in income taxes from:			
Non-taxable gain on sale of shares in subsidiary, net	(1,830)	---	---
Impairment (reversal) of shares in subsidiaries	(77,318)	167,685	(63,582)
Non-taxable dividends/ group contribution	(92,255)	---	(178,551)
Overestimation of taxes calculated previous years (a)	---	(443,760)	---
Other permanent items	59,652	(363,967)	39,785
Changes in the tax losses carried forward (b)	(183,559)	---	---
Change in deferred tax assets not recognized in balance sheet	(11,728)	5,280	(263,381)
Income tax (benefit) expense	314,375	(742,163)	544,541

(a) Overestimation of taxes calculated previous years relate mainly to reduction in taxable group contribution received in 2007.
(b) See Note 10 Income taxes in the consolidated financial statement regarding the tax dispute related to the exit of old tonnage tax regime.

In accordance with the Norwegian Preliminary Accounting Standard on taxes, tax reducing and tax increasing temporary differences are offset, provided the differences can be reversed in the same period. Deferred income taxes are calculated based on the net temporary differences that exist at year-end.

The tax effects of PGS ASA's temporary differences are summarized as follows:

	December 31,	
(In thousands of NOK)	2009	2008
Temporary differences relates to:		
Property and equipment	(755)	(144)
Pension liabilities	(6,254)	(5,774)
Intercompany receivables	(528,134)	(429,653)
Unrealized (losses/accruals) gain	(1,777)	(128,859)
Shares in foreign subsidiaries	(86,049)	(97,776)
Compensation cost employee share options	(6,654)	(5,876)
Convertible notes valuation (a)	68,645	96,698
Interest rate swaps (b)	(49,595)	(90,908)
Tax losses carried forward	(490,167)	(799,897)
Deferred tax assets	(1,100,740)	(1,462,189)
Deferred tax assets not recognized in the balance sheet	86,049	97,776
Deferred tax assets	(1,014,691)	(1,364,413)

(a) As of January 1, 2008 the deferred tax for convertible note was recognized directly to shareholder's equity (see Note 10).
(b) Change in deferred tax for interest swaps are recognized directly to shareholder's equity (see Note 10).

PGS ASA recognizes deferred tax assets when they are "more likely than not" of ultimately being realized.
As of December 31, 2009, PGS ASA has recognized deferred tax assets of NOK 1.0 billion (NOK 1.4 billion as of December 31, 2008) as available evidence, including consolidated budgets, recent profits and estimates of projected near term future taxable income, supported a more likely than not conclusion that the deferred tax assets would be realized.

Note 5 - Property and Equipment

Property and equipment consists of fixtures, furniture and fittings and are summarized as follows:

	December 31,	
(In thousands of NOK)	2009	2008
Purchase costs:		
Purchase costs as of January 1	90,385	87,573
Additions	589	2,812
Purchase costs as of December 31	90,974	90,385
Accumulated depreciation:		
Accumulated depreciation as of January 1	81,697	69,765
Depreciation	5,109	11,932
Accumulated depreciation as of December 31	86,806	81,697
Balance as of December 31	4,168	8,688

Property and equipment is depreciated over 3 to 5 years.

Depreciation and amortization expense, as presented in the statement of operations, include NOK 104,591 and NOK 185,218 in amortization of licenses for each the years ended December 31, 2009 and 2008, respectively (see Note 7).

Note 6 - Shares in Subsidiaries

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

	Registered office	Number of shares	Total share capital		Share-holding (a)	Par value		Book value as of December 31, 2009 (In thousands of NOK)
PGS Geophysical AS	Oslo	1,396,805	NOK	1,396,860,500	100%	NOK	100	2,502,650
PGS Exploration (Nigeria) Ltd.	Nigeria	2,000,000	USD	2,000,000	100%	USD	1	320
Petroleum Geo-Services, Inc.	Houston	1,000	USD	1,000	100%	USD	1	698,838
Petroleum Geo-Services (UK) Ltd.	London	222,731,726	GBP	222,731,726	100%	GBP	1	1,132,439
Seahouse Insurance Ltd.	Bermuda	120,000	USD	120,000	100%	USD	1	8,165
Multiklient Invest AS	Oslo	100,000	NOK	10,000,000	100%	NOK	100	989,727
PGS Shipping AS	Oslo	4,733,975	NOK	9,467,950	100%	NOK	2	1,140,992
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100,000	SGD	100,000	100%	SGD	1	2,569,207
PGS Investigacào Petrolifera Ltda.	Brazil	---	BRL	5,000	99%	BRL	---	---
Hara Skip AS	Oslo	1,066,016	NOK	106,601,600	100%	NOK	100	804,866
Oslo Seismic Services Ltd.	Isle of Man	1	USD	1	100%	USD	1	33,570
PGS Australia Pty. Ltd.	Perth	---	---	---	100%	---	---	49,633
PGS Mexicana SA de CV	Mexico	1,467,917	MXN	146,791,700	99.8%	MXN	100	95,120
PGS Venezuela de C.A.	Venezuela	5,015,000	VEB	5,015,000,000	100%	VEB	1,000	---
PGS Overseas AS	Oslo	100	NOK	100,000	100%	NOK	1,000	100
PGS Suporte Logistico e Servicos Ltda.	Brazil	12,088,000	BRL	12,088,000	1%	BRL	1	369
PGS Japan K.K.	Japan	10,000,000	JPY	10,000,000	100%	JPY	1	563
PGS Exploration (Norway) AS	Oslo	501,000	NOK	501,000	100%	NOK	1	11,175
PT PGS Nusantara	Indonesia	275	IDR	275,000,000	99.6%	IDR	1,000,000	186
Arrow Seismic ASA	Bergen	23,500,000	NOK	282,000,000	100%	NOK	12	2,035,657
MTEM Ltd	Scotland	270,000	GBP	270,000	100%	GBP	1	312,316
PGS Falcon AS	Oslo	43,195	NOK	4,319,500	100%	NOK	100	24,491
PGS Ventures AS	Oslo	100	NOK	100,000	100%	NOK	1	100
Total								12,410,484

(a) Voting rights are equivalent to shareholding for all companies.

In 2003, PGS ASA sold its Atlantis oil and gas activities to Sinochem. PGS ASA received $1.0 milllion (NOK 6.5 million) in additional proceeds in 2009 and may receive additional proceeds of $5.0 million (approximately NOK 28.8 million) upon the occurrence of certain contingent events.

In 2009, PGS ASA recognized a NOK 1.2 billion in impairment charges on the shares in Arrow ASA and MTEM Ltd. The main reasons for the impairment charges is the cancellation of the new buildings contracts and impairment charges in the subsidiaries of Arrow ASA (see Note 18 to the consolidated financial statement) and the restructuring of the EM business in MTEM Ltd in 2008 and 2009. In addition PGS ASA has recognized a NOK 1.4 billion in reversal of previous recognized impairment charges, mainly related to Multiklient Invest AS and PGS Geophysical AS due to no impairment indicators at year-ended December 31, 2009. In addition PGS ASA has recognized a net impairment charge of intercompany receivables of NOK 0.3 billion, mainly related to receivables towards MTEM Ltd. In 2008, PGS ASA recognized a NOK 0.6 billion impairment charge on shares in MTEM Ltd.

As of December 31, 2009, PGS ASA has accumulated impairment charges related to shares totaling NOK 3.8 billion.

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

Note 7 - Other Financial Long-Term Assets

Other financial long-term assets consist of:

	December 31,	
(In thousands of NOK)	2009	2008
Long-term receivables	4	25,285
Unrealized gain hedge contracts (Note 12)	---	5,072
Licenses, net	---	105
Total	4	30,462

Note 8 - Other Current Assets

Other current assets consist of:

	December 31,	
(In thousands of NOK)	2009	2008
Unrealized gain hedge contracts (Note 12)	98,615	95,358
Short term receivables	20,072	---
Prepaid expenses	2,022	2,401
Other	682	558
Total	121,391	98,317

Note 9 - Restricted Cash

Restricted cash as of December 31, 2009 and 2008 consists of payroll withholding taxes.

Note 10 - Shareholders' Equity

Changes in shareholders' equity for the years ended December 31, 2009 and 2008 are as follows:

	Paid-in capital			Other equity		
(In thousands of NOK)	Common stock	Own shares, par value	Additional paid-in capital	Net unrealized gain (loss) reserve	Other equity	Shareholders' equity
Balance as of January 1, 2008	540,000	(12,335)	9,684	---	4,909,995	5,447,344
Deferred tax on convertible notes and other (a)	---	---	---	---	(96,698)	(96,698)
Change in valuation allowance on deferred tax assets (b)	---	---	---	---	332,913	332,913
Transferred treasury shares (MTEM)	---	545	---	---	(545)	---
Employee share options	---	---	7,544	---	---	7,544
Exercise, employee share options	---	369	---	---	14,507	14,876
Interest rate swaps/forward exchange contracts (net of tax)	---	---	---	---	(117,736)	(117,736)
Repurchase of convertible notes	---	---	---	---	(1,938)	(1,938)
Net income	---	---	---	---	358,588	358,588
Balance as of December 31, 2008	540,000	(11,421)	17,228	---	5,399,086	5,944,893
Share issue; May 28, 2009	54,000	---	587,661	---	---	641,661
Transferred treasury shares (MTEM)	---	545	---	---	(545)	---
Sale of treasury shares	---	10,876	---	---	117,211	128,087
Employee share options	---	---	9,795	---	---	9,795
Interest rate swaps/forward exchange contracts (net of tax)	---	---	---	---	103,967	103,967
Repurchase of convertible notes	---	---	---	---	(109)	(109)
Net income	---	---	---	---	1,904,958	1,904,958
Balance as of December 31, 2009	594,000	---	614,684	---	7,524,568	8,733,252

(a) Effective January 1, 2008, PGS ASA calculated deferred tax on the temporary differences related to the convertible notes and qualifying cash flow hedge instruments charged directly to shareholders' equity.

(b) Effective January 1, 2008 PGS ASA re-considered its basis for not recognizing certain deferred tax assets as of December 31, 2007. As a result of this re-consideration, shareholder's equity and deferred tax assets were increased by approximately NOK 332.9 million as of January 1, 2008 for deferred tax assets that were "more likely than not" of being realized at year-end 2007 (see Note 4).

PGS ASA completed a private placement of NOK 656,999,964 (approx $119 million) in May 2009 by issuing 17,999,999 new shares at the price of NOK 36.5 per share and at the same time sold 3,625,223 treasury shares at the same price.
The shares issue has increased the equity by NOK 641.7 million, net of transaction costs of NOK 15.3 million (net of tax). The proceeds from the sale of treasury shares were NOK 128.1 million, net of transaction cost.

As of December 31, 2009, Petroleum Geo-Services ASA has a share capital of NOK 593,999,997 divided on a total of 197,999,999 shares, of par value NOK 3, each fully paid in. See Note 31 to the consolidated financial statement for further information about the share capital and authorizations.

As of December 31, 2008, Petroleum Geo-Services ASA has a share capital of NOK 540 million divided on a total of 180,000,000 shares, of par value NOK 3, each fully paid in.

All shares have equal voting rights and are entitled to dividends. Any distribution of PGS ASA'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 (see Note 25 to the consolidated financial statements). A listing of PGS ASA's largest shareholders is provided in Note 31 to the consolidated financial statements.

PGS ASA's holding of treasury shares reconciles as follows:

	Treasury shares	% of total shares outstanding
Acquired in 2007	4,979,500	
Used to fulfil employee share option program in 2007 (a)	(504,210)	
Used to fulfil deferred considerations, acquired companies (b)	(363,534)	
Balance at December 31, 2007	4,111,756	2.28%
Used to fulfil employee share option program in 2008 (a)	(123,000)	
Used to fulfil deferred considerations, acquired companies (b)	(181,767)	
Balance at December 31, 2008	3,806,989	2.11%
Sale of treasury shares May 29, 2009	(3,625,223)	
Used to fulfil deferred considerations, acquired companies (b)	(181,766)	
Balance at December 31, 2009	---	---

(a) See Note 33 to the consolidated financial statements.
(b) See Note 27 to the consolidated financial statements.

The average number of treasury shares in the years ended December 31, 2009 and 2008 were 1,640,293 and 3,985,752, respectively.

At the AGM on June 15, 2007, the shareholders of PGS ASA approved a special dividend of NOK 10 per share (total of NOK 1.8 billion). The dividend was paid on July 15, 2007. No dividend was distributed in the years ended December 31, 2009 and 2008.

Note 11 - Debt and Guarantees

Long-term debt

Long-term debt consists of the following:

	December 31,	
(In thousands of NOK)	2009	2008
Unsecured:		
10% Senior Notes, due 2010	21,970	31,566
Secured:		
Term loan, Libor + margin, due 2015	3,296,722	4,002,398
Revolving credit facility, due 2012	-	1,609,356
Convertible notes:		
Convertible notes, due 2012	1,774,582	2,139,004
Total debt	5,093,274	7,782,324
Less current portion	(55,783)	---
Less capitalized loan cost	(47,237)	(63,816)
Total long-term debt	4,990,254	7,718,508

Aggregate maturities of long-term debt are as follows:

(In thousands of NOK)	December 31, 2009
Year of repayment:	
2010	55,768
2011	33,797
2012	1,808,379
2013	33,797
2014	33,797
Thereafter	3,127,736
Total	5,093,274

In 2009, PGS ASA made long-term debt repayments of NOK 1.5 billion ($250 million), which was optional repayments of the revolving credit facility ("RCF"). In 2008, PGS ASA made long-term debt repayments of NOK 288.4 million ($51.4 million) related to repurchase of convertible notes and repayments of the Term Loan. In 2007, the repayment was NOK 1.4 billion ($246.6 million), which was mainly due to the refinancing of PGS ASA' senior secured credit facility.

In 2009, PGS ASA made no repayments of the term loan B ("Term Loan") (maturing 2015, see below), while in 2008 it made a repayment of NOK 127.6 million ($25.0 million). The Company has hedged the interest rate on 70% of the borrowings under the Term Loan (same in 2008) by entering into interest rate swaps where the Company receives floating interest rate based on 3 months LIBOR and pays fixed interest rate payments based on from 0.5 to 4.75 years fixed rates. See Note 12 for further information.

In 2009, PGS ASA repurchased $10 million ($45.5 million in 2008) of nominal value of convertible notes, issued in 2007 and recognized a gain of NOK 25.5 million ($3.8 million). In 2008, PGS ASA repurchased $45.5 million and recognized a gain of

NOK 77.1 million ($12.1 million). The gain is classified as other financial items (see Note 3). The Company achieved bondholder consent to certain amendments of the convertible bond to increase flexibility and to harmonize terms and conditions with other debt instruments. Total fees and costs for PGS were NOK 39.5 million ($6.9 million), which was expensed in 2009, see Note 3.

The $400.0 million convertible notes were issued in December 2007 and are due 2012. The convertible notes are convertible into ordinary shares of PGS ASA. The total number of shares to be issued if all convertible notes are converted at the initial conversion price is 10.2 million ordinary shares, representing 5.15% of PGS ASA' current issued ordinary share capital. Due to repurchases in 2008 and 2009, 8.8 million shares are issuable if all the notes were converted at December 31, 2009. The conversion price is NOK 216.19 per share and is fixed in USD based upon the fixed exchange rate, which represented a 40% premium over the volume weighted average price of PGS ASA's ordinary shares at the time of offering. The fixed rate of exchange is 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrear. The equity element of the convertible notes was calculated to 17.1% of the nominal value (NOK 375.7 million/$68.4 million) and was recorded as a direct contribution to accumulated earnings (shareholders' equity) net of allocated portion of loan costs (NOK 8.2 million/$1.5 million).

PGS ASA' senior secured credit facility of NOK 5.5 billion ($950.0 million) consists of an eight-year NOK 3.5 billion ($600.0 million) term loan B ("Term Loan") (maturing 2015) and a five-year NOK 2.0 billion ($350.0 million) revolving credit facility ("RCF") (maturing 2012). The Term Loan B, which has no financial maintenance covenants, has a floating interest rate of LIBOR + 175 basis points. The credit agreement generally requires PGS ASA to apply 50% of excess cash flow to repay outstanding borrowings for periods when our total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1 (see Note 26 to the consolidated financial statement). Excess cash flow for any period is defined as net cash flow provided by operating activities during that period less capital expenditures made in that period or committed to be made in the next period, less debt service payments and less accrued income taxes to be paid in the next period. PGS ASA can make optional payments to reduce the outstanding principal balance at no penalty. The Term Loan B is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of certain material subsidiaries and is guaranteed by the same material subsidiaries. In addition, PGS ASA may also be able to borrow an additional NOK 2.3 billion ($400.0 million) either as a term loan or as an RCF, which would be secured by the same collateral that secures the Term Loan and borrowings under the existing RCF.

The 10% senior notes due 2010 ("10% Notes") bear interest at 10% per annum payable semi-annually and mature in November 2010 with no required principal payments until maturity. The 10% Notes was callable by PGS ASA beginning in November 2007 and are callable thereafter at par plus a premium of 5% declining linearly until maturity. The 10% Notes are unsecured obligations of PGS ASA.

Bank credit facilities
Under the senior secured credit facility established in June 2007, PGS ASA has an RCF of NOK 2.0 billion ($350.0 million) maturing in 2012. The RCF has a NOK 345.8 million ($60.0 million) sub-limit for issuance of letter of credits, whilst the bonding facility (for issuance of bid and performance bonds) included in this sub-limit under the previous RCF was in June 2007 replaced by a separate NOK 86.5 million ($15.0 million) bonding facility. PGS ASA may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, under the RCF for working capital and for general corporate purposes. Borrowings under the RCF bear interest at a rate equal to LIBOR plus a margin of 1.5%.

At December 31, 2009 and 2008, PGS ASA had borrowed zero and NOK 1.6 billion ($230.0 million), respectively, in cash advances, and NOK 23.6 million ($4.1million) and NOK 31.5 million ($4.5 million), respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and NOK 68.6 million ($11.9 million) and NOK 156.0 million ($22.3 million), respectively, of bid and performance bonds were drawn under the separate bonding facility, combined with an uncommitted limit extension, with an applicable margin of 1.4%.

PGS ASA has also an overdraft facility of NOK 50.0 million as part of our Norwegian cash pooling arrangement. This facility will continue until cancelled.

Long-term intercompany debt
There is no fixed plan for repayment of long-term intercompany debt.

Covenants
In addition to customary representations and warranties, PGS ASA's loan and lease agreements include various covenants. See Note 25 to the consolidated financial statements for additional information.

Letters of credit and guarantees
PGS ASA had aggregate outstanding letters of credit and related types of guarantees, not reflected in the accompanying financial statements, of NOK 128.5 million ($22.3million) and NOK 268.9 million ($38.4 million) (including the NOK 92.2 million ($16 million) and NOK 187.5million ($26.8 million) described above) as of December 31, 2009 and 2008, respectively.

Note 12 - Financial Instruments

Fair values of financial instruments

The carrying amounts of cash and cash equivalents, restricted cash, other current assets, accounts payable and accrued expenses approximate their respective fair values because of the short maturities of those instruments. The carrying amounts and the estimated fair values of debt instruments are summarized as follows:

	December 31, 2009			December 31, 2008		
(In thousands of NOK)	Carrying Amounts	Notional amounts	Fair values	Carrying amounts	Notional amounts	Fair values
Loans measured at amortized cost:						
Long-term debt (Note 11)	5,093,274	---	4,671,052	7,782,324	---	5,491,855
Derivatives measured at fair value through shareholders' equity:						
Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a)	(177,129)	2,161,313	(177,129)	(322,353)	2,623,950	(322,353)
Derivatives measured at fair value through statement of operations:						
Forward exchange contracts, net unrealized (loss) gain (a)	83,041	1,838,309	83,041	(251,498)	3,004,421	(251,498)
Interest rate swaps, net unrealized (loss) gain (a)	(6,184)	144,088	(6,184)	(11,024)	174,930	(11,024)

(a) The carrying amounts of forward exchange contracts and interest rate swaps are classified in the balance sheet as follows:

	December 31,	
(In thousands of NOK)	2009	2008
Interest rate swaps, net (qualifying hedges)	(177,129)	(322,353)
Forward exchange contracts, net	83,041	(251,498)
Interest rate swaps, net	(6,184)	(11,024)
Total	(100,272)	(584,875)
Classified as follows:		
Other financial long-term assets (long-term unrealized gain) (Note 7)	---	5,072
Other current asset (short-term unrealized gain) (Note 8)	98,615	95,358
Other long-term liabilities (long-term unrealized loss) (Note 13)	(162,938)	(363,083)
Accrued expenses (short-term unrealized loss) (Note 16)	(35,949)	(322,222)
Total	(100,272)	(584,875)

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 at Reuters or Bloomberg.

The fair value of the liability component of convertible notes is determined by either obtaining quotes from dealers in the instrument or discounting the contractual stream of future cash flows (interest and principal) to the present value at the current rate of interest applicable to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the equity component.

Interest rate exposure

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

As of December 31, 2009, PGS ASA has outstanding interest rate swaps in the aggregate notional amount of NOK 2.3 billion ($400 millions) relating to the Term Loan established in June 2008 (see Note 11) (same as of December 31, 2008). Under the interest rate swap agreements PGS ASA receives floating interest rate payments and pays fixed interest rate payments. The weighted average fixed interest rates under the contracts are as follows:

	December 31, 2009		December 31, 2008	
Matures in:	Notional amounts ($ thousands)	Weighted average fixed interest rate	Notional amounts ($ thousands)	Weighted average fixed interest rate
1 year	100,000	5.17%	---	---
1 – 2 years	---	---	100,000	5.17%
2 – 3 years	200,000	5.05%	---	---
3 – 4 years	---	---	200,000	5.05%
4 – 5 years	100,000	5.18%	---	---
> 5 years	---	---	100,000	5.18%
Total	400,000	5.11%	400,000	5.11%

The aggregate negative fair value of these interest rate swap agreements at December 31, 2009 and 2008 was NOK 183.3 million ($31.8 million) and NOK 333.4 million ($47.6 million), respectively.

Interest rate hedge accounting
As of December 31, 2009, $375.0 million (NOK 2.2 billion) out of the total notional amount of interest rate swaps of $400.0 million were accounted for as cash flow hedges (same as of December 31, 2008). In the years ended December 31, 2009 and 2008, the value of these instruments were recorded as a reduction in other equity as the effective portion of the designated and qualifying hedging instrument (see Note 10).

Foreign exchange rate exposure
PGS ASA group is exposed to currency fluctuation due to a predominantly USD-based revenue stream, while the PGS group expenses are incurred in various currencies. The larger expense currencies other than the USD are GBP, NOK and EUR. PGS ASA maintain a foreign-currency risk management strategy that uses foreign currency exchange contracts to protect against fluctuations in cash flow caused by volatility in currency exchange rates.

In 2009, PGS ASA continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR and BRL on forward contracts. As of December 31, 2009, PGS ASA has open forward contracts to buy and sell GBP, NOK, SGD, BRL, EUR, MXN and RUB amounting to approximately NOK 1.8 billion ($319 million) (notional amount) with a positive fair value of NOK 83 million ($14.4 million). As of December 31, 2008, PGS ASA had open forward contracts to buy GBP, NOK, SGD, BRL and EUR amounting to approximately NOK 3.0 billion ($429.4 million) (notional amount) with a negative fair value of NOK 251.5 million ($35.9 million).

Foreign exchange rate hedge accounting
The derivatives entered into to hedge the exposure created by the contracts to build the new Ramforms have, where applicable, been designated as fair value hedges. As of December 31, 2009 none of the total notional amount of foreign exchange contracts was accounted for as fair value hedges. This was NOK 494.0 million ($70.6 million) as of December 31, 2008, with a negative fair value of NOK 10.7 million ($1.5 million) as of December 31, 2008. Only the spot element of the forward exchange contracts has been designated as effective hedging instruments and has been included in the assessment of hedge effectiveness.

Note 13 - Other Long-Term Liabilities

Other long-term liabilities consist of:

	December 31,	
(In thousands of NOK)	2009	2008
Unrealized loss hedge contracts (Note 12)	162,938	363,083
Pension liability (Note 14)	22,461	20,620
Accrued bonus (exceeding 12 months)	---	2,112
Other long-term liabilities	3,701	29,084
Total	189,100	414,899

Note 14 - Pension Obligations

Defined benefit plan
PGS ASA sponsors a defined benefit pension plan for its Norwegian employees, comprising 12 persons. This plan is funded through contributions to an insurance company, after which the insurance company undertake the responsibility to pay out the pensions. It is PGS ASA's general practice to fund amounts to this defined benefit plan, which is sufficient to meet the applicable statutory requirements. As of January 1, 2005, the defined benefit plan was closed for further entrants and a new defined contribution plan was established for new employees (see separate section below).

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.

Net periodic pension costs for PGS ASA's defined benefit pension plan are summarized as follows:

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Service costs	3,052	2,430	2,751
Interest cost	658	859	740
Expected return on plan assets	(668)	(424)	(373)
Amortization of actuarial gain	(1,010)	(231)	(153)
Adjustment prior service cost	710	---	---
Administrative costs	39	77	82
Payroll tax	434	415	430
Net periodic pension costs	3,215	3,126	3,477

The pension liability has been calculated based on the underlying economic realities. The aggregate funded status on the plan and amounts recognized in PGS ASA's balance sheet is as follows:

(In thousands of NOK)	December 31, 2009	2008
Funded status	5,978	6,538
Unrecognized actuarial loss	15,640	11,534
Accrued payroll tax	843	2,548
Net pension liability	22,461	20,620

Net amount recognized as accrued pension liability is presented as other long-term liabilities (see Note 13).

Assumptions used to determine benefit obligations:

	December 31, 2009	2008
Discount rate	4.5%	3.8%
Return on plan assets	5.7%	5.8%
Compensation increase	4.0%	4.0%
Annual adjustment to pensions	1.4%	1.5%

Defined contribution plan

As described above under "Defined Benefit Plan", as of January 1, 2005, PGS ASA closed the defined benefit plan for further entrants and a new defined contribution plan was established for new employees. PGS ASA's contributions to this plan for the years ended December 31, 2009 and 2008 was NOK 0.8 million and NOK 1.0 million, respectively.

Note 15 - Commitments

PGS ASA's operating lease commitments relates to corporate administration and expires on various dates through 2014. Future minimum payments related to non-cancelable operating leases existing at December 31, 2009 are as follows:

(In thousands of NOK)	December 31, 2009
2010	4,218
2011	4,218
2012	4,218
2013	4,218
2014	1,098
Total	17,970

Rental expense for operating leases, including leases with terms of less than one year, was NOK 11.2 million, NOK 11.0 million and NOK 12.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 16 - Accrued Expenses

Accrued expenses consist of the following:

(In thousands of NOK)	December 31, 2009	2008
Accrued unrealized loss hedging (Note 12)	35,949	322,222
Accrued salary (including bonus)	19,277	41,216
Accrued interest expense	5,381	22,402
Foreign taxes	45,496	43,708
Other	28,445	6,843
Total	134,548	436,391

Note 17 - 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:

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Salaries and bonus	53,148	57,130	52,165
Social security	7,484	6,866	9,959
Pension	3,994	4,136	3,982
Other benefits	4,030	4,299	3,694
Total	68,656	72,431	69,800

As of December 31, 2009, PGS ASA had 27 full time employees. Average labor years for the years ended December 31, 2009 and 2008 were 28 and 26, respectively.

Compensation to Board of Directors, CEO and Other Executive Officers
For a full listing of our Board of Directors, CEO and Other Executive Officers and their compensation, see Note 34 to the consolidated financial statements.

Share option programs
In the third quarter of 2006, the second quarter of 2008 and the second quarter of 2009 PGS ASA established employee share option programs and granted options to certain key employees, see Note 33 to the consolidated financial statements. For the years ended December 31, 2009, 2008 and 2007, PGS ASA recorded compensation costs of NOK 9.8 million, NOK 7.5 million and NOK 6.0 million, respectively, recognized in additional paid-in capital. Total net unrecognized compensation cost as of December 31, 2009 was NOK 5.9 million (related to non-vested share-based options), which is expected to be recognized over a period of 2.5 years (main portion within 1 year).

In 2008, 123,000 options were exercised. PGS ASA used own treasury shares to facilitate these transactions and recognized NOK 14.9 million in shareholders' equity in 2008. No options were exercised during 2009.

Remuneration of auditor
Fees for audit and other services provided by PGS ASA's auditor are as follows (exclusive VAT and inclusive out of pocket expenses):

	Years ended December 31,		
(In thousands of NOK)	2009	2008	2007
Audit fees	3,548	3,189	3,568
Other attestation services (a)	8,331	---	478
Fees for tax services (b)	---	188	16
All other fees	398	31	---
Total	12,277	3,408	4,062

(a) Other attestation services for 2009 include fees related to attestation services in connection with the sale of Onshore completed in 2010.
(b) Include fees for tax filing services and other tax assistance.

Note 18 - Warranties

Petroleum Geo-Services ASA provides letters of credit and related types of guarantees on behalf of subsidiaries, which normally are claimed in contractual relationships were subsidiaries are contracting parties. These guarantees are considered to be ordinary in contractual relationships, as well as in PGS ASA's ordinary operations. See also Note 25 to the consolidated financial statements.

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

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

AUDITOR'S REPORT FOR 2009

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of the Petroleum Geo-Services ASA as of 31 December 2009, showing a profit of NOK 1 904 958 000 for the parent company and a total comprehensive income of USD 179 137 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income, cash flows and the accompanying notes. The group accounts comprise the statement of financial position, the statement of operations, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the parent company's financial statement. The rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by The Norwegian Institute of public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the parent Company as of 31 December 2009, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the group accounts are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2009, the total comprehensive income, its cash flows and the changes in equity for the year then ended, in accordance with the rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Oslo, 25 March 2010
KPMG AS
Arne Frogner
State Authorized Public Accountant
Note: This translation from Norwegian has been prepared for information purposes only

A Clearer Image

2101000 · Bolt Communication AS · boltcommunication.no

Petroleum Geo-Services ASA

Postal address

PO Box 89
NO-1325 Lysaker
Norway

Telephone

+47 67 52 64 00

Visiting address

Strandveien 4
Lysaker
Norway

www.pgs.com