

# Earnings Release

## Q3 - 2016

Productivity and Technology Leadership

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# Robust MultiClient Performance

## Highlights Q3 2016

- Revenues of \$224.1 million, compared to \$225.7 million in Q3 2015
- EBITDA of \$112.7 million, compared to \$115.3 million in Q3 2015
- EBIT excluding impairments and other charges/(income) of negative \$5.4 million, compared to a profit of \$9.1 million in Q3 2015
- MultiClient pre-funding revenues of \$84.3 million with a corresponding pre-funding level of 134%, compared to \$83.8 million and 88% respectively in Q3 2015
- MultiClient late sales of \$63.2 million, compared to \$36.6 million in Q3 2015
- Cash flow from operations of \$80.4 million, compared to \$71.3 million in Q3 2015
- Liquidity reserve of \$417.3 million, compared to \$492.3 million in Q3 2015
- Acquired the MultiClient library of Dolphin UK Ltd. on a 50/50 basis with TGS
- Excellent operational performance



“The Q3 numbers reflect our ability to generate revenues from a strong MultiClient and technology position. At the same time we are realizing further significant cash savings, lowering our full year estimates for gross cash costs and capital expenditures.

A higher and more stable oil price compared to early 2016, in combination with cash flow improvements among oil companies, should benefit seismic market fundamentals. We believe our robust Q3 MultiClient performance builds on this change, reflecting the early signs of improving market sentiment we observed in the previous quarter. I am very pleased to see that the strategy we implemented in 2010 by establishing a focused MultiClient organization is paying off, delivering results that enable us to perform through the cycle, including in these challenging times. MultiClient represents 60% of our revenues so far in 2016 and 66% in Q3.

The marine contract market is still very weak. Vessel utilization will be challenging over the coming winter with some idle time in Q4, as some clients are moving work from Q4 into 2017. Due to the weak market we have decided to warm-stack *Ramform Vanguard* over the winter.

Our liquidity position is adequate. There are no material debt maturities until late 2018 and we have flexibility to address these maturities in time. Furthermore, Q1 2017 will see the final installment for our new build program, improving our cash flow thereafter. We continue to focus on what we can control through relentless sales efforts, strict cost discipline, operational excellence and capitalizing on the youngest and most productive fleet in the industry.”

A handwritten signature in black ink, appearing to read 'Jon Erik Reinhardsen'.

Jon Erik Reinhardsen,  
President and Chief Executive Officer

## Outlook

Despite a higher and more stable oil price and early signs of improving market sentiment PGS continues to expect a challenging market going forward.

Based on the current operational projections and with reference to disclosed risk factors, PGS expects full year 2016 gross cash cost to be approximately \$675 million.

MultiClient cash investments are expected to be approximately \$200 million, with a pre-funding level of above 100%.

Approximately 40% of the 2016 active 3D vessel time allocated to MultiClient acquisition.

Capital expenditures are expected to be approximately \$215 million, of which approximately \$165 million is for the new builds.

The order book totaled \$190 million at September 30, 2016 (including \$113 million relating to MultiClient), compared to \$230 million at June 30, 2016 and \$245 million at September 30, 2015.

## Key Financial Figures\*

| (In millions of US dollars, except per share data) | Quarter ended<br>September 30, |         | Nine months ended<br>September 30, |         | Year ended<br>December 31, |
|--|--------------------------------|---------|------------------------------------|---------|----------------------------|
|  | 2016                           | 2015    | 2016                               | 2015    | 2015                       |
| Revenues   | 224.1                          | 225.7   | 610.2                              | 732.6   | 961.9                      |
| EBITDA   | 112.7                          | 115.3   | 260.2                              | 368.0   | 484.4                      |
| EBIT ex. impairment and other charges/ (income)    | (5.4)                          | 9.1     | (71.9)                             | 38.7    | 15.8                       |
| EBIT as reported                                   | (11.5)                         | (62.7)  | (87.8)                             | (97.5)  | (430.4)                    |
| Income (loss) before income tax expense            | (24.2)                         | (80.5)  | (143.9)                            | (148.4) | (505.5)                    |
| Net income (loss) to equity holders                | (29.0)                         | (110.0) | (137.7)                            | (193.3) | (527.9)                    |
| Basic earnings per share (\$ per share)            | (0.12)                         | (0.51)  | (0.58)                             | (0.90)  | (2.43)                     |
| Net cash provided by operating activities          | 80.4                           | 71.3    | 256.2                              | 366.7   | 487.9                      |
| Cash investment in MultiClient library             | 63.0                           | 95.5    | 153.1                              | 233.1   | 303.3                      |
| Capital expenditures (whether paid or not)         | 19.0                           | 17.0    | 179.9                              | 121.8   | 165.7                      |
| Total assets                                       | 2 988.5                        | 3 246.6 | 2 988.5                            | 3246.6  | 2 914.1                    |
| Cash and cash equivalents                          | 77.3                           | 82.3    | 77.3                               | 82.3    | 81.6                       |
| Net interest bearing debt                          | 1 208.6                        | 1 068.4 | 1 208.6                            | 1 068.4 | 994.2                      |

\*See note 14 for definition of Alternative Performance Measures.

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

| (In millions of US dollars)                                    | Note | Quarter ended<br>September 30, |                | Nine months ended<br>September 30, |                | Year ended<br>December 31, |
|--|------|--------------------------------|----------------|------------------------------------|----------------|----------------------------|
|  |      | 2016                           | 2015           | 2016                               | 2015           | 2015                       |
| Revenues   | 1    | 224.1                          | 225.7          | 610.2                              | 732.6          | 961.9                      |
| Cost of sales  | 2    | 99.8                           | 95.7           | 306.7                              | 317.8          | 413.1                      |
| Research and development costs                                 | 2    | 3.7                            | 4.3            | 14.2                               | 15.3           | 20.3                       |
| Selling, general and administrative costs                      | 2    | 7.8                            | 10.5           | 29.0                               | 31.6           | 44.1                       |
| Depreciation and amortization                                  | 3    | 118.1                          | 106.1          | 332.1                              | 329.2          | 468.5                      |
| Impairment and loss on sale of long-term assets                | 3    | 9.2                            | 65.3           | 13.4                               | 122.3          | 397.2                      |
| Other charges/(income)   | 3    | (3.1)                          | 6.5            | 2.5                                | 13.9           | 49.0                       |
| Total operating expenses                                       |      | 235.5                          | 288.4          | 697.9                              | 830.0          | 1 392.3                    |
| Operating profit (loss)/EBIT                                   |      | (11.5)                         | (62.7)         | (87.8)                             | (97.5)         | (430.4)                    |
| Share of results from associated companies                     | 4    | 2.4                            | 0.8            | (23.9)                             | (9.2)          | (16.1)                     |
| Interest expense   | 5    | (13.9)                         | (6.9)          | (31.7)                             | (22.2)         | (29.5)                     |
| Other financial expense, net                                   | 6    | (1.2)                          | (11.7)         | (0.5)                              | (19.5)         | (29.6)                     |
| Income (loss) before income tax expense                        |      | (24.2)                         | (80.5)         | (143.9)                            | (148.4)        | (505.5)                    |
| Income tax expense (benefit)                                   | 7    | 4.8                            | 29.5           | (6.2)                              | 44.9           | 22.4                       |
| <b>Net income (loss) to equity holders of PGS ASA</b>          |      | <b>(29.0)</b>                  | <b>(110.0)</b> | <b>(137.7)</b>                     | <b>(193.3)</b> | <b>(527.9)</b>             |
| <b>Other comprehensive income</b>                              |      |                                |                |                                    |                |                            |
| Items that will not be reclassified to profit and loss         | 12   | (36.7)                         | 1.6            | (46.1)                             | (0.8)          | 1.3                        |
| Items that may be subsequently reclassified to profit and loss | 12   | (0.2)                          | (0.3)          | 1.1                                | 0.4            | (2.4)                      |
| <b>Other comprehensive income for the period, net of tax</b>   |      | <b>(36.9)</b>                  | <b>1.3</b>     | <b>(45.0)</b>                      | <b>(0.4)</b>   | <b>(1.1)</b>               |
| <b>Total comprehensive income to equity holders of PGS ASA</b> |      | <b>(65.9)</b>                  | <b>(108.7)</b> | <b>(182.7)</b>                     | <b>(193.7)</b> | <b>(529.0)</b>             |

## Condensed Consolidated Statements of Financial Position

| (In millions of US dollars)   | Note | September 30,  |                | December 31,   |
|---|------|----------------|----------------|----------------|
|   |      | 2016           | 2015           | 2015           |
| <b>ASSETS</b>   |      |                |                |                |
| Cash and cash equivalents   | 10   | 77.3           | 82.3           | 81.6           |
| Restricted cash   | 10   | 13.8           | 18.4           | 19.0           |
| Accounts receivable   |      | 131.1          | 174.0          | 112.8          |
| Accrued revenues and other receivables                                      |      | 121.8          | 125.2          | 158.1          |
| Other current assets  |      | 74.7           | 115.7          | 98.8           |
| <b>Total current assets</b>   |      | <b>418.7</b>   | <b>515.7</b>   | <b>470.3</b>   |
| Property and equipment  | 8    | 1 420.8        | 1 407.9        | 1 397.5        |
| MultiClient library   | 9    | 682.1          | 807.1          | 695.0          |
| Restricted cash   | 10   | 86.4           | 49.3           | 52.5           |
| Deferred tax assets   |      | 101.9          | 70.0           | 79.4           |
| Other long-term assets  |      | 120.1          | 64.1           | 57.7           |
| Goodwill  |      | -              | 139.9          | -              |
| Other intangible assets   |      | 158.5          | 192.7          | 161.6          |
| <b>Total long-term assets</b>   |      | <b>2 569.8</b> | <b>2 730.9</b> | <b>2 443.8</b> |
| <b>Total assets</b>   |      | <b>2 988.5</b> | <b>3 246.6</b> | <b>2 914.1</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                 |      |                |                |                |
| Short-term debt and current portion of long-term debt                       | 10   | 37.7           | 24.8           | 24.8           |
| Accounts payable  |      | 55.9           | 48.7           | 52.6           |
| Accrued expenses and other current liabilities                              |      | 158.5          | 204.1          | 196.5          |
| Income taxes payable  |      | 19.1           | 32.8           | 24.4           |
| <b>Total current liabilities</b>  |      | <b>271.1</b>   | <b>310.4</b>   | <b>298.4</b>   |
| Long-term debt  | 10   | 1 326.1        | 1 172.0        | 1 099.9        |
| Deferred tax liabilities  |      | 2.6            | 12.9           | 1.6            |
| Other long-term liabilities   |      | 103.0          | 58.3           | 50.5           |
| <b>Total long-term liabilities</b>  |      | <b>1 431.7</b> | <b>1 243.2</b> | <b>1 152.0</b> |
| Common stock; par value NOK 3;<br>issued and outstanding 239,579,996 shares |      | 104.0          | 96.5           | 104.0          |
| Treasury shares, par value  |      | (0.9)          | (1.7)          | (1.1)          |
| Additional paid-in capital  |      | 627.5          | 532.3          | 622.8          |
| <b>Total paid-in capital</b>  |      | <b>730.6</b>   | <b>627.1</b>   | <b>725.7</b>   |
| Accumulated earnings  |      | 662.0          | 1 127.1        | 799.9          |
| Other comprehensive income  |      | (106.9)        | (61.2)         | (61.9)         |
| <b>Total shareholders' equity</b>   |      | <b>1 285.7</b> | <b>1 693.0</b> | <b>1 463.7</b> |
| <b>Total liabilities and shareholders' equity</b>                           |      | <b>2 988.5</b> | <b>3 246.6</b> | <b>2 914.1</b> |

## Condensed Consolidated Statements of Cash Flows

| (In millions of US dollars)  | Quarter ended |                | Nine months ended |                | Year ended     |
|--|---------------|----------------|-------------------|----------------|----------------|
|  | September 30, |                | September 30,     |                | December 31    |
|  | 2016          | 2015           | 2016              | 2015           | 2015           |
| <b>Net income (loss) to equity holders of PGS ASA</b>                            | <b>(29.0)</b> | <b>(110.0)</b> | <b>(137.7)</b>    | <b>(193.3)</b> | <b>(527.9)</b> |
| Depreciation, amortization, impairment and loss on sale of long-term assets      | 127.3         | 171.4          | 345.5             | 451.4          | 865.8          |
| Share of results in associated companies   | (2.4)         | (0.8)          | 23.9              | 9.2            | 16.1           |
| Interest expense   | 13.9          | 6.9            | 31.7              | 22.2           | 29.5           |
| Loss (gain) on sale and retirement of assets                                     | 1.2           | 0.6            | 3.0               | (2.1)          | 0.3            |
| Income taxes paid  | (1.8)         | (4.5)          | (6.1)             | (20.9)         | (25.2)         |
| Other items  | 0.9           | 1.4            | 7.0               | 9.1            | 14.5           |
| (Increase) decrease in accounts receivable, accrued revenues & other receivables | (32.2)        | (12.6)         | 18.0              | 143.7          | 172.1          |
| Increase (decrease) in accounts payable  | (3.3)         | (20.9)         | 10.1              | (29.9)         | (33.9)         |
| Change in other current items related to operating activities                    | 1.9           | 17.2           | (25.5)            | (26.3)         | 0.4            |
| Change in other long-term items related to operating activities                  | 3.9           | 22.6           | (13.7)            | 3.7            | (23.6)         |
| <b>Net cash provided by operating activities</b>                                 | <b>80.4</b>   | <b>71.3</b>    | <b>256.2</b>      | <b>366.7</b>   | <b>487.9</b>   |
| Investment in MultiClient Library  | (63.0)        | (95.5)         | (153.1)           | (233.1)        | (303.3)        |
| Investment in property and equipment   | (10.9)        | (13.8)         | (192.3)           | (116.7)        | (164.0)        |
| Investment in other intangible assets  | (2.2)         | (6.0)          | (7.6)             | (14.5)         | (19.0)         |
| Investment in other current and long-term assets                                 | -             | 0.8            | (93.1)            | (15.2)         | (24.2)         |
| Proceeds from sale and disposal of assets  | 1.5           | 3.0            | 1.5               | 87.1           | 88.6           |
| Increase in long-term restricted cash  | (1.7)         | (0.9)          | (3.4)             | (3.0)          | (5.0)          |
| <b>Net cash used in investing activities</b>                                     | <b>(76.3)</b> | <b>(112.4)</b> | <b>(447.9)</b>    | <b>(295.4)</b> | <b>(426.9)</b> |
| Proceeds, net of deferred loan costs, from issuance of long-term debt            | -             | 37.7           | 112.8             | 37.7           | 35.8           |
| Repayment of long-term debt  | (10.5)        | (6.2)          | (25.3)            | (18.6)         | (24.8)         |
| Net drawdown of Revolving Credit Facility  | 40.0          | 40.0           | 135.0             | (10.0)         | (75.0)         |
| Proceeds from sale of treasury shares/share issue                                | -             | -              | -                 | -              | 104.2          |
| Dividend paid  | -             | -              | -                 | (20.3)         | (20.3)         |
| Interest paid  | (6.1)         | (5.7)          | (35.1)            | (32.5)         | (54.0)         |
| <b>Net cash (used in) provided by financing activities</b>                       | <b>23.4</b>   | <b>65.8</b>    | <b>187.4</b>      | <b>(43.7)</b>  | <b>(34.1)</b>  |
| Net increase (decrease) in cash and cash equivalents                             | 27.6          | 24.7           | (4.3)             | 27.6           | 26.9           |
| Cash and cash equivalents at beginning of period                                 | 49.7          | 57.6           | 81.6              | 54.7           | 54.7           |
| <b>Cash and cash equivalents at end of period</b>                                | <b>77.3</b>   | <b>82.3</b>    | <b>77.3</b>       | <b>82.3</b>    | <b>81.6</b>    |

## Condensed Consolidated Statements of Changes in Shareholders' Equity

### For the nine months ended September 30, 2015

| (In millions US of dollars)             | Attributable to equity holders of PGS ASA |                 |                            |                      |                            | Shareholders equity |
|---|---|-----------------|----------------------------|----------------------|----------------------------|---------------------|
|   | Common stock                              | Treasury shares | Additional paid-in capital | Accumulated earnings | Other comprehensive income |                     |
|   | par value                                 | par value       | capital                    | earnings             | income                     |                     |
| <b>Balance as of January 1, 2015</b>    | <b>96.5</b>                               | <b>(1.9)</b>    | <b>526.9</b>               | <b>1 340.9</b>       | <b>(60.8)</b>              | <b>1 901.6</b>      |
| Total comprehensive income              | -   | -               | -                          | (193.3)              | (0.4)                      | (193.7)             |
| Dividend paid (1)                       | -   | -               | -                          | (20.3)               | -                          | (20.3)              |
| Employee benefit plans                  | -   | 0.2             | 5.4                        | (0.2)                | -                          | 5.4                 |
| <b>Balance as of September 30, 2015</b> | <b>96.5</b>                               | <b>(1.7)</b>    | <b>532.3</b>               | <b>1 127.1</b>       | <b>(61.2)</b>              | <b>1 693.0</b>      |

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

### For the nine months ended September 30, 2016

| (In millions US of dollars)             | Attributable to equity holders of PGS ASA |                 |                            |                      |                            | Shareholders equity |
|---|---|-----------------|----------------------------|----------------------|----------------------------|---------------------|
|   | Common stock                              | Treasury shares | Additional paid-in capital | Accumulated earnings | Other comprehensive income |                     |
|   | par value                                 | par value       | capital                    | earnings             | income                     |                     |
| <b>Balance as of January 1, 2016</b>    | <b>104.0</b>                              | <b>(1.1)</b>    | <b>622.8</b>               | <b>799.9</b>         | <b>(61.9)</b>              | <b>1 463.7</b>      |
| Total comprehensive income              | -   | -               | -                          | (137.7)              | (45.0)                     | (182.7)             |
| Employee benefit plans                  | -   | 0.2             | 4.7                        | (0.2)                | -                          | 4.7                 |
| <b>Balance as of September 30, 2016</b> | <b>104.0</b>                              | <b>(0.9)</b>    | <b>627.5</b>               | <b>662.0</b>         | <b>(106.9)</b>             | <b>1 285.7</b>      |

## Notes to the Condensed Interim Consolidated Financial Statements Third Quarter 2016 Results

### Note 1 – Revenues

Revenues by service type:

| (In millions of US dollars)      | Quarter ended<br>September 30, |              | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|----------------------------------|--------------------------------|--------------|------------------------------------|--------------|----------------------------|
|                                  | 2016                           | 2015         | 2016                               | 2015         | 2015                       |
| Marine revenues by service type: |                                |              |                                    |              |                            |
| - Contract seismic               | 54.2                           | 77.3         | 183.3                              | 230.5        | 274.0                      |
| - MultiClient pre-funding        | 84.3                           | 83.8         | 191.4                              | 282.4        | 380.4                      |
| - MultiClient late sales         | 63.2                           | 36.6         | 174.4                              | 126.8        | 194.3                      |
| - Imaging                        | 16.0                           | 21.7         | 50.4                               | 75.5         | 93.7                       |
| - Other                          | 6.4                            | 6.3          | 10.7                               | 17.4         | 19.6                       |
| <b>Total revenues</b>            | <b>224.1</b>                   | <b>225.7</b> | <b>610.2</b>                       | <b>732.6</b> | <b>961.9</b>               |

Vessel allocation(1):

|                 | Quarter ended<br>September 30, |      | Nine months ended<br>September 30, |      | Year ended<br>December 31, |
|-----------------|--------------------------------|------|------------------------------------|------|----------------------------|
|                 | 2016                           | 2015 | 2016                               | 2015 | 2015                       |
| Contract        | 33 %                           | 35 % | 51 %                               | 34 % | 35 %                       |
| MultiClient     | 45 %                           | 48 % | 30 %                               | 41 % | 39 %                       |
| Steaming        | 10 %                           | 8 %  | 13 %                               | 11 % | 11 %                       |
| Yard            | 2 %                            | 1 %  | 2 %                                | 2 %  | 3 %                        |
| Stacked/standby | 10 %                           | 8 %  | 4 %                                | 12 % | 12 %                       |

Revenues for Petroleum Geo-Services ASA (“PGS” or “the Company”) in Q3 2016 decreased \$1.6 million, or 1%, compared to Q3 2015. The revenue mix shifted towards more MultiClient with an increase in MultiClient late sales of 73%, while MultiClient pre-funding revenues were fairly flat, compared to Q3 2015. The improved MultiClient revenues were offset by a 30% decrease in contract revenues and a 26% decline in external Imaging revenues.

The reduced marine contract revenues, compared to Q3 2015 were mainly due to lower average pricing and somewhat less capacity used for contract work.

Despite less capacity being allocated to MultiClient in Q3 2016, compared to Q3 2015, MultiClient pre-funding revenues increased 1%, primarily driven by projects in Europe and North America.

MultiClient late sales revenues in Q3 2016 increased by \$26.6 million compared to Q3 2015. Late sales in Q3 were distributed across most of the Company’s key library regions with Europe being the best performing area.

The decrease in external imaging revenues reflects the challenging global market.

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

| (In millions of US dollars)   | Quarter ended<br>September 30, |              | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|---|--------------------------------|--------------|------------------------------------|--------------|----------------------------|
|   | 2016                           | 2015         | 2016                               | 2015         | 2015                       |
| Cost of sales before investment in MultiClient library              | 163.7                          | 191.2        | 460.7                              | 550.9        | 716.4                      |
| Research and development costs before capitalized development costs | 5.9                            | 7.6          | 20.9                               | 24.8         | 32.6                       |
| Selling, general and administrative costs                           | 7.8                            | 10.5         | 29.0                               | 31.6         | 44.1                       |
| <b>Cash costs, gross</b>  | <b>177.3</b>                   | <b>209.3</b> | <b>510.5</b>                       | <b>607.3</b> | <b>793.1</b>               |
| Cash investment in MultiClient library                              | (63.9)                         | (95.5)       | (154.0)                            | (233.1)      | (303.3)                    |
| Capitalized development costs                                       | (2.2)                          | (3.3)        | (6.7)                              | (9.5)        | (12.3)                     |
| <b>Total</b>  | <b>111.3</b>                   | <b>110.5</b> | <b>349.9</b>                       | <b>364.7</b> | <b>477.5</b>               |

Reported gross cash cost for the Company (excluding depreciation, amortization, impairments and other charges/(income)) in Q3 2016 were \$32.0 million, or 15%, lower than in Q3 2015. The decrease is driven by the implemented cost reduction initiatives. The net operating expenses excluding depreciation, amortization, impairments and other charges/(income) in Q3 2016 was in line with Q3 2015 as a result of less cost capitalized to the MultiClient library in Q3 2016, compared to Q3 2015.

The Company continuously monitors the development of its gross cash cost, which is the sum of the reported net operating expenses (excluding depreciation, amortization, impairments and other charges/(income)) and the cash operating costs

capitalized as investments in the MultiClient library as well as capitalized development costs. Total cost savings for the full year 2015 amounted to \$318.5 million (compared to full year 2014), with significant initiatives implemented in the second half of 2015. Combining the full year effects for 2016 with foreign exchange savings, reduced fuel price, warm-stacking of the *Ramform Vanguard*, redelivery of the 2D vessel *Sanco Spirit*, generally lower project management costs and other cost initiatives, the Company expects to deliver a further reduction of gross cash cost by approximately \$120 million in 2016, with full year gross cash cost estimated to be approximately \$675 million.

The decrease of R&D costs in Q3 2016, compared to Q3 2015 is driven by overall cost reductions and focus on supporting, validating and deploying existing projects. The Company's R&D costs mainly relate to the current core business activities of marine seismic acquisition and imaging.

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

Depreciation, amortization and impairment consists and other charges(income) consist of the following:

| (In millions of US dollars)                                  | Quarter ended<br>September 30, |              | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|--|--------------------------------|--------------|------------------------------------|--------------|----------------------------|
|  | 2016                           | 2015         | 2016                               | 2015         | 2015                       |
| Gross depreciation   | 55.3                           | 60.2         | 164.0                              | 191.0        | 245.2                      |
| Depreciation capitalized and deferred, net                   | (23.3)                         | (32.8)       | (49.0)                             | (87.6)       | (104.2)                    |
| Amortization of MultiClient library                          | 86.2                           | 78.7         | 202.6                              | 225.8        | 327.6                      |
| Accelerated amortization of MultiClient library, see note 14 | -                              | -            | 14.6                               | -            | -                          |
| Depreciation and amortization                                | <b>118.1</b>                   | <b>106.1</b> | <b>332.1</b>                       | <b>329.2</b> | <b>468.5</b>               |
| Impairment and loss on sale of long-term assets              | 9.2                            | 65.3         | 13.4                               | 122.3        | 397.2                      |
| Other charges/(income)                                       | (3.1)                          | 6.5          | 2.5                                | 13.9         | 49.0                       |
| <b>Total</b>   | <b>124.2</b>                   | <b>177.9</b> | <b>348.0</b>                       | <b>465.4</b> | <b>914.8</b>               |

Impairment and loss on sale of long-term assets consist of the following:

| (In millions of US dollars) | Quarter ended<br>September 30, |             | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|-----------------------------|--------------------------------|-------------|------------------------------------|--------------|----------------------------|
|                             | 2016                           | 2015        | 2016                               | 2015         | 2015                       |
| Property and equipment (a)  | -                              | 64.7        | 4.2                                | 121.7        | 122.2                      |
| MultiClient Library         | 9.2                            | -           | 9.2                                | -            | 102.5                      |
| Goodwill                    | -                              | -           | -                                  | -            | 139.9                      |
| Other Intangible assets     | -                              | 0.6         | -                                  | 0.6          | 32.6                       |
| <b>Total</b>                | <b>9.2</b>                     | <b>65.3</b> | <b>13.4</b>                        | <b>122.3</b> | <b>397.2</b>               |

(a) The Company recognized a loss on the sale of PGS Apollo of \$56.9 million in 2015.

#### Depreciation and amortization

In Q3 2016 gross depreciation decreased, compared to Q3 2015 as a result of a general reduction in capital expenditures related to maintenance as well as impairment charges. Capitalized depreciation decreased due to a combination of less vessel capacity allocated to MultiClient projects and reduced depreciation level.

Amortization of the MultiClient library as a percentage of MultiClient revenues was 58% in Q3 2016, compared to 65% in Q3 2015. PGS estimates the amortization expense in 2016 to be approximately \$300 million. Effective January 1, 2016 the Company amended its accounting policy for MultiClient amortization as described in Note 14.

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

#### Other charges/(income)

Other charges/(income) in Q3 2016 primarily consist of changes in the provision for onerous contracts and \$0.8 million of restructuring cost.

As of September 30, 2016 the Company's provision for onerous contracts amounted to a total of \$9.7 million, a decrease of \$4.1 million compared to June 30, 2016 and a decrease of \$1.4 million compared to December 31, 2015. The provision primarily represents the estimated loss in future periods relating to binding customer contracts where revenues are lower than the full cost of completing the contract.

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

The share of results from associated companies for Q3 2016 amounted to a profit of \$2.4 million and was primarily related to the 45% interest in Azimuth Ltd.

#### Note 5 – Interest Expense

Interest expense consists of the following:

| (In millions of US dollars)                    | Quarter ended<br>September 30, |              | Nine months ended<br>September 30, |               | Year ended<br>December 31, |
|--|--------------------------------|--------------|------------------------------------|---------------|----------------------------|
|  | 2016                           | 2015         | 2016                               | 2015          | 2015                       |
| Interest expense, gross                        | (17.4)                         | (14.5)       | (48.6)                             | (43.2)        | (58.2)                     |
| Capitalized interest, MultiClient library      | 1.8                            | 5.0          | 10.6                               | 14.7          | 19.6                       |
| Capitalized interest, construction in progress | 1.6                            | 2.6          | 6.2                                | 6.3           | 9.1                        |
| <b>Total</b>                                   | <b>(13.9)</b>                  | <b>(6.9)</b> | <b>(31.7)</b>                      | <b>(22.2)</b> | <b>(29.5)</b>              |

Interest expense in Q3 2016 increased compared to Q3 2015 as a result of a higher debt level.

Interest expense capitalized to construction in progress and to the MultiClient library for Q3 2016 were down compared to Q3 2015 due to lower aggregate new building capital expenditures and a lower volume of MultiClient surveys in progress.

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

Other financial expense, net consists of the following:

| (In millions of US dollars)   | Quarter ended<br>September 30, |               | Nine months ended<br>September 30, |               | Year ended<br>December 31, |
|-------------------------------|--------------------------------|---------------|------------------------------------|---------------|----------------------------|
|                               | 2016                           | 2015          | 2016                               | 2015          | 2015                       |
| Interest income               | 0.8                            | 0.6           | 2.6                                | 1.4           | 2.7                        |
| Currency exchange gain (loss) | (0.4)                          | (10.7)        | 1.0                                | (15.1)        | (18.5)                     |
| Other                         | (1.6)                          | (1.6)         | (4.1)                              | (5.8)         | (13.7)                     |
| <b>Total</b>                  | <b>(1.2)</b>                   | <b>(11.7)</b> | <b>(0.5)</b>                       | <b>(19.5)</b> | <b>(29.6)</b>              |

Other financial expense, net, improved in Q3 2016, compared to Q3 2015 due to reduced currency exchange loss.

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

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

Income tax expense (benefit) consists of the following:

| (In millions of US dollars)    | Quarter ended<br>September 30, |             | Nine months ended<br>September 30, |             | Year ended<br>December 31, |
|--------------------------------|--------------------------------|-------------|------------------------------------|-------------|----------------------------|
|                                | 2016                           | 2015        | 2016                               | 2015        | 2015                       |
| Current tax expense            | 0.7                            | 5.4         | 5.9                                | 19.7        | 19.6                       |
| Deferred tax expense (benefit) | 4.1                            | 24.1        | (12.1)                             | 25.2        | 2.8                        |
| <b>Total</b>                   | <b>4.8</b>                     | <b>29.5</b> | <b>(6.2)</b>                       | <b>44.9</b> | <b>22.4</b>                |

Current tax expense in Q3 2016 primarily relates to foreign tax. Deferred tax expense for the quarter is driven by losses within tonnage tax regimes and in countries where no deferred tax benefit is recognized.

#### Tax Contingencies

The Company has ongoing tax disputes related to charter of vessels into Brazil. The assessments, which seek to levy 15% withholding tax and 10% CIDE (service) tax, amount to \$33.3 million in total. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

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



### Other contingencies

The Company has an ongoing dispute in Brazil related to 5% ISS tax on the sale of MultiClient data from year 2000 and onwards. As of September 30, 2016, the exposure is \$133.7 million, including possible penalties and interest. PGS has made deposits covering \$67.4 million of the total exposure. The deposits are included in long-term restricted cash. There has been no major development in the quarter. However, during October the Company received notification from the municipality of Rio de Janeiro that the last part of the dispute related to the ISS tax will be heard by the Taxpayers Council in Q4 2016. This part of the ISS case has not yet gone to trial and the Company has consequently not made any deposit related to this part of the case, which represents a total exposure of approximately \$65 million. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

### Note 8 – Property and Equipment

Capital expenditures, whether paid or not, consists of the following:

| (In millions of US dollars)                            | Quarter ended<br>September 30, |             | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|--|--------------------------------|-------------|------------------------------------|--------------|----------------------------|
|  | 2016                           | 2015        | 2016                               | 2015         | 2015                       |
| Seismic equipment                                      | 2.2                            | 9.1         | 5.6                                | 11.0         | 17.6                       |
| Vessel upgrades/Yard                                   | 0.4                            | 0.7         | 14.4                               | 10.9         | 10.9                       |
| Processing equipment                                   | 9.0                            | 1.4         | 11.2                               | 4.4          | 5.3                        |
| Newbuilds  | 6.8                            | 4.9         | 146.9                              | 81.5         | 116.6                      |
| Other  | 0.6                            | 0.9         | 1.8                                | 14.0         | 15.3                       |
| <b>Total capital expenditures, whether paid or not</b> | <b>19.0</b>                    | <b>17.0</b> | <b>179.9</b>                       | <b>121.8</b> | <b>165.7</b>               |
| Change in working capital                              | (8.1)                          | (3.2)       | 12.4                               | (5.1)        | (1.7)                      |
| <b>Investment in property and equipment</b>            | <b>10.9</b>                    | <b>13.8</b> | <b>192.3</b>                       | <b>116.7</b> | <b>164.0</b>               |

*Ramform Hyperion* is under construction at the shipyard Mitsubishi Heavy Industries Shipbuilding Co. Ltd (“MHIS”) in Japan. The agreed delivery date is in Q1 2017.

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

The agreement with the shipyard provides for payment based on five defined milestones per vessel, with 50% payable at delivery. Seismic equipment is procured by PGS separately from the shipbuilding contract. Accumulated capital expenditures related to *Ramform Hyperion* as of September 30, 2016 was \$170.0 million.

In Q4 2015, PGS entered into charter agreements with Sanco Shipping AS for the modern high capacity conventional 3D vessels *Sanco Swift* and *Sanco Sword* with delivery in Q1 2016. *Sanco Swift* was rigged and commenced operation late April. *Sanco Sword* was initially planned to be rigged simultaneously with cold-stacking of *Ramform Vanguard* in second half of 2016. The rigging of *Sanco Sword* has now been postponed while *Ramform Vanguard* is warm-stacked over the winter season.

### Note 9 – MultiClient Library

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

| (In millions of US dollars)     | September 30, |              | December 31, |
|---------------------------------|---------------|--------------|--------------|
|                                 | 2016          | 2015         | 2015         |
| Completed during 2010           |               | 3.3          | -            |
| Completed during 2011           | 2.7           | 14.8         | 10.8         |
| Completed during 2012           | 11.9          | 25.9         | 19.1         |
| Completed during 2013           | 19.5          | 33.5         | 25.9         |
| Completed during 2014           | 68.5          | 103.0        | 91.5         |
| Completed during 2015           | 131.4         | 178.0        | 175.7        |
| Completed during 2016           | 224.6         | -            | -            |
| Completed surveys               | 458.5         | 358.5        | 323.1        |
| Surveys in progress             | 223.6         | 448.6        | 371.9        |
| <b>MultiClient library, net</b> | <b>682.1</b>  | <b>807.1</b> | <b>695.0</b> |

Key figures MultiClient library:

| (In millions of US dollars)                                  | Quarter ended<br>September 30, |      | Nine months ended<br>September 30, |       | Year ended<br>December 31, |
|--|--------------------------------|------|------------------------------------|-------|----------------------------|
|  | 2016                           | 2015 | 2016                               | 2015  | 2015                       |
| MultiClient pre-funding revenue                              | 84.3                           | 83.8 | 191.4                              | 282.4 | 380.4                      |
| MultiClient late sales                                       | 63.2                           | 36.6 | 174.4                              | 126.8 | 194.3                      |
| Cash investment in MultiClient library                       | 63.0                           | 95.5 | 153.1                              | 233.1 | 303.3                      |
| Prefunding as a percentage of MultiClient cash investment    | 134 %                          | 88 % | 125 %                              | 121 % | 125 %                      |
| Capitalized interest in MultiClient library                  | 1.8                            | 5.0  | 10.6                               | 14.7  | 19.6                       |
| Capitalized depreciation (non-cash)                          | 25.7                           | 35.4 | 48.7                               | 90.1  | 107.0                      |
| Amortization of MultiClient library                          | 86.2                           | 78.7 | 202.6                              | 225.8 | 327.6                      |
| Accelerated amortization of MultiClient library, see note 14 | -                              | -    | 14.6                               | -     | -                          |
| Impairment of MultiClient library                            | 9.2                            | -    | 9.2                                | -     | 102.5                      |

In Q3 2016 MultiClient pre-funding revenues corresponded to 134% of capitalized MultiClient cash investment (excluding capitalized interest), compared to 88% in Q3 2015. The Company expects to achieve a pre-funding level above 100% for the full year 2016.

The reduced MultiClient cash investment in Q3 2016, compared to Q3 2015 is mainly due to a lower cost level and somewhat less capacity allocated to MultiClient projects.

In Q3 2016 PGS and TGS-Nopec Geophysical jointly agreed to acquire a majority of the MultiClient library of Dolphin UK Ltd. ("Dolphin"). The Dolphin MultiClient library is a strategic fit for PGS, and especially the surveys on the North West shelf of Australia, offshore West Africa and in the Barents Sea.

#### Note 10 – Liquidity and Financing

Net cash provided by operating activities was \$80.4 million in Q3 2016, compared to \$71.3 million in Q3 2015. The increase is mainly due to improved earnings, partially offset by some increase of working capital as a result of significant sales late in the quarter.

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

The liquidity reserve, including cash and cash equivalents and the undrawn part of the revolving credit facility ("RCF"), was \$417.3 million as of September 30, 2016, compared to \$429.7 million as of June 30, 2016 and \$492.3 million as of September 30, 2015. In addition, the Company has \$91.2 million of undrawn credit on the Export Credit Financing ("ECF") facility to cover the final yard installment on the *Ramform Hyperion* new build scheduled for delivery in Q1 2017.

Long term debt consists of the following:

| (In millions of US dollars)                                  | September 30,  |                | December 31,   |
|--|----------------|----------------|----------------|
|  | 2016           | 2015           | 2015           |
| <i>Secured</i>   |                |                |                |
| Term loan B, Libor (min. 75 bp) + 250 Basis points, due 2021 | 390.0          | 394.0          | 393.0          |
| Export credit financing, due 2025                            | 187.5          | 208.3          | 203.1          |
| Export credit financing, due 2027                            | 198.6          | 76.2           | 76.1           |
| Revolving credit facility, due 2018                          | 160.0          | 90.0           | 25.0           |
| <i>Unsecured</i>   |                |                |                |
| Senior notes, Coupon 7.375%, due 2018                        | 450.0          | 450.0          | 450.0          |
| <b>Total</b>   | <b>1 386.1</b> | <b>1 218.5</b> | <b>1 147.2</b> |
| Less current portion   | (37.7)         | (24.8)         | (24.8)         |
| Less deferred loan costs, net of debt premiums               | (22.3)         | (21.7)         | (22.5)         |
| <b>Total long-term debt</b>                                  | <b>1 326.1</b> | <b>1 172.0</b> | <b>1 099.9</b> |

Fair value of the long term debt was \$1,201.5 million and \$1,066.0 million as of September 30, 2016 and 2015, respectively.

Undrawn facilities consists of the following:

| (In millions of US dollars)         | September 30, |              | December 31, |
|-------------------------------------|---------------|--------------|--------------|
|                                     | 2016          | 2015         | 2015         |
| <i>Secured</i>                      |               |              |              |
| Revolving credit facility, due 2018 | 340.0         | 410.0        | 475.0        |
| Export credit financing             | 91.2          | 220.4        | 220.5        |
| <i>Unsecured</i>                    |               |              |              |
| Bank facility (NOK 50 mill)         | 6.2           | 5.9          | 5.7          |
| Performance bond                    | 8.0           | 15.7         | 10.7         |
| <b>Total</b>                        | <b>445.4</b>  | <b>652.0</b> | <b>711.9</b> |

Summary of net interest bearing debt:

| (In millions of US dollars)                                   | September 30,    |                  | December 31,   |
|---|------------------|------------------|----------------|
|   | 2016             | 2015             | 2015           |
| Cash and cash equivalents                                     | 77.3             | 82.3             | 81.6           |
| Restricted cash (current and long-term)                       | 100.2            | 67.7             | 71.5           |
| Short-term debt and current portion of long-term debt         | (37.7)           | (24.8)           | (24.8)         |
| Long-term debt  | (1 326.1)        | (1 172.0)        | (1 099.9)      |
| Adjustment for deferred loan costs (offset in long-term debt) | (22.3)           | (21.7)           | (22.5)         |
| <b>Total</b>  | <b>(1 208.6)</b> | <b>(1 068.4)</b> | <b>(994.2)</b> |

The relatively high level of restricted cash relates primarily to deposits made in 2010 and 2011 to initiate law suits with the Rio de Janeiro courts to seek confirmation that sale of MultiClient data in Brazil is not subject to ISS tax (see annual report 2015 for more details). The deposits are denominated in Brazilian Real and the carrying value at end Q3 2016 is approximately \$67.4 million. Restricted cash also includes \$23.9 million held in debt service reserve accounts related to the export credit financing of *Ramform Titan*, *Ramform Atlas* and *Ramform Tethys*.

At September 30, 2016, the Company had approximately 49% of its debt at fixed interest rates. The weighted average cash interest cost of gross debt reflects an interest rate of approximately 4.5%, including credit margins paid on the debt. PGS does not have any major debt maturities before the second half of 2018.

The undrawn portion of the RCF constitutes a significant portion of the Company's liquidity reserve. In Q2 2016 the Total Leverage Ratio ("TLR") covenant, with which the Company must comply in order to draw on the RCF, was amended from a maximum of 4.00:1 to a maximum of 5.50:1 from Q2 2016 through Q1 2017, thereafter tightening by 0.50:1 in each of the subsequent two quarters, then returning to the previous maximum TLR of 3.25:1 in Q4 2017. From Q4 2017 the TLR will be tightened by 0.25:1 each quarter down to 2:75 by Q2 2018. At September 30, 2016 the total leverage ratio was 3.96:1.

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

## Note 11 – Earnings per Share

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

|   | Quarter ended<br>September 30, |             | Nine months ended<br>September 30, |             | Year ended<br>December 31, |
|---|--------------------------------|-------------|------------------------------------|-------------|----------------------------|
|   | 2016                           | 2015        | 2016                               | 2015        | 2015                       |
| - Basic                                     | (0.12)                         | (0.51)      | (0.58)                             | (0.90)      | (2.43)                     |
| - Diluted                                   | (0.12)                         | (0.51)      | (0.58)                             | (0.90)      | (2.42)                     |
| Weighted average basic shares outstanding   | 238 880 255                    | 214 609 428 | 238 481 536                        | 214 334 130 | 217 310 643                |
| Weighted average diluted shares outstanding | 239 048 569                    | 215 187 380 | 239 298 678                        | 215 284 233 | 218 441 710                |

## Note 12 – Other Comprehensive Income

Changes to Other comprehensive income consists of the following:

| (In millions of US dollars)   | Quarter ended<br>September 30, |              | Nine months ended<br>September 30, |              | Year ended<br>December 31, |
|---|--------------------------------|--------------|------------------------------------|--------------|----------------------------|
|   | 2016                           | 2015         | 2016                               | 2015         | 2015                       |
| Actuarial gains (losses) on defined benefit pensions plans                  | (44.1)                         | 2.0          | (55.6)                             | (1.0)        | 3.0                        |
| Income tax effect on actuarial gains and losses                             | 7.4                            | (0.4)        | 9.5                                | 0.2          | (1.7)                      |
| <b>Items that will not be reclassified to profit and loss</b>               | <b>(36.7)</b>                  | <b>1.6</b>   | <b>(46.1)</b>                      | <b>(0.8)</b> | <b>1.3</b>                 |
| <i>Cash flow hedges</i>   |                                |              |                                    |              |                            |
| Gains (losses) arising during the period                                    | 1.0                            | -            | 2.5                                | -            | (1.1)                      |
| Reclassification adjustments for losses (gains) included in profit and loss | (0.1)                          | -            | (0.1)                              | -            | -                          |
| <i>Shares available for sale</i>  |                                |              |                                    |              |                            |
| Gains (losses) arising during the period                                    | (1.0)                          | -            | (0.4)                              | -            | -                          |
| Reclassification adjustments for losses (gains) included in profit and loss | (0.3)                          | -            | (0.3)                              | -            | -                          |
| <i>Other comprehensive income (loss) of associated companies</i>            | 0.2                            | -            | (0.6)                              | 1.0          | (0.8)                      |
| <i>Translation adjustments and other</i>                                    | -                              | (0.3)        | -                                  | (0.6)        | (0.5)                      |
| <b>Items that may be subsequently reclassified to profit and loss</b>       | <b>(0.2)</b>                   | <b>(0.3)</b> | <b>1.1</b>                         | <b>0.4</b>   | <b>(2.4)</b>               |

As disclosed in Note 24 to the 2015 Annual Report, the Company maintains a defined benefit pension plan in the UK which has been closed to future benefit accrual. Significant assumptions in determining the accrued pension obligation include the estimated future rate of inflation and the discount rate which is based on the AA-rated corporate bond yields. Following the decision of the UK to exit the European Union (“Brexit”), the corporate bond yields in the UK dropped significantly and the inflation assumption has increased. Consequently, the estimated present value of the pension obligation increased substantially during the current quarter.

## Note 13 – EBITDA Reconciliation

| (In millions of US dollars)                     | Quarter ended<br>September 30, |               | Nine months ended<br>September 30, |               | Year ended<br>December 31, |
|---|--------------------------------|---------------|------------------------------------|---------------|----------------------------|
|   | 2016                           | 2015          | 2016                               | 2015          | 2015                       |
| <b>Operating profit (loss)</b>                  | <b>(11.5)</b>                  | <b>(62.7)</b> | <b>(87.8)</b>                      | <b>(97.5)</b> | <b>(430.4)</b>             |
| Other charges/(income)                          | (3.1)                          | 6.5           | 2.5                                | 13.9          | 49.0                       |
| Impairment and loss on sale of long-term assets | 9.2                            | 65.3          | 13.4                               | 122.3         | 397.2                      |
| Depreciation and amortization                   | 118.1                          | 106.1         | 332.1                              | 329.2         | 468.5                      |
| <b>EBITDA</b>                                   | <b>112.7</b>                   | <b>115.3</b>  | <b>260.2</b>                       | <b>368.0</b>  | <b>484.4</b>               |

## Note 14 – Basis of Presentation

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

Profit and loss for the interim period are not necessarily indicative of the results that may be expected for any subsequent interim period or year. The condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

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

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

Accelerated amortization of finished library may be necessary in the event that sales on a survey are realized disproportionately sooner within that surveys 4 year useful life than originally estimated. This accelerated amortization (“impairment”) is classified as amortization expense in the condensed consolidated statements of profit and loss.

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

#### *EBITDA*

EBITDA, when used by the Company, means EBIT excluding other charges/ (income), impairment and loss on sale of long-term assets and depreciation and amortization. A reconciliation between reported operating profit/(loss) and EBITDA is shown in Note 13. EBITDA may not be comparable to other similarly titled measures from other companies. The Company has included EBITDA as a supplemental disclosure because management believes that the measure provides useful information regarding the Company’s ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

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

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

#### *MultiClient prefunding level*

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

#### *Net Interest Bearing Debt*

Net interest bearing debt is defined as the sum of long-term and short-term interest bearing debt, less cash and cash equivalents and restricted cash. Net interest bearing debt is reconciled in note 10 above. Management believes that Net Interest Bearing Debt (NIBD) is a useful measure because it provides indication of the hypothetical minimum necessary debt financing to which the Company is subject at balance sheet date.

#### *Liquidity reserve*

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

#### *Gross cash costs*

Gross cash costs are defined as the sum of reported net operating expenses (excluding depreciation, amortization, impairments and other charges/(income)) and the cash operating costs capitalized as investments in the MultiClient library as well as capitalized development costs. Gross cash costs are reconciled in Note 2. Management believes that the gross cash costs figure is a useful measure because it provides an indication of the level of cash costs incurred by the Company irrespective of the extent to which the fleet is working on MultiClient projects or the extent to which its R&D expenditures qualify for capitalization.

#### *Net operating expenses excluding depreciation, amortization, impairments and other charges/(income)*

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

#### *Order book*

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

### **Note 15 - Risk Factors**

The Company emphasizes that the information included herein contains certain forward-looking statements that address activities, events or developments that the Company expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, many of which are beyond its control and all of

which are subject to risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to the demand for seismic services, the demand for data from the Company's MultiClient data library, the attractiveness of PGS' technology, changes in governmental regulations affecting markets, technical downtime, licenses and permitting, currency and fuel price fluctuations, and extreme weather conditions.

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

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

Oslo, October 26, 2016

Walter Qvam  
*Chairperson*

Daniel J. Piette  
*Director*

Carol Bell  
*Director*

Anne Grethe Dalane  
*Director*

Holly A. Van Deursen  
*Director*

Berit Osnes  
*Director*

Espen Grimstad  
*Director*

Anette Valbø  
*Director*

Morten Borge  
*Director*

Jon Erik Reinhardsen  
*Chief Executive Officer*

\*\*\*\*

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

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

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

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*factors we refer to our Annual Report for 2015. As a result of these and other risk factors, actual events and our actual results may differ materially from those indicated in or implied by such forward-looking statements. The reservation is also made that inaccuracies or mistakes may occur in the information given above about current status of the Company or its business. Any reliance on the information above is at the risk of the reader, and PGS disclaims any and all liability in this respect.*

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Malaysia  
Phone: +60 3 2175 3800

**Board of Directors:**

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

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

**Executive Officers:**

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

**Other Corporate Management:**

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

**Web-Site:**

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

**Financial Calendar:**

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

The dates are subject to change.