



# ANNUAL REPORT

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## 2012



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

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## FINANCIAL CALENDAR 2013

- April 29, 2013 **Q1 2013 Earnings Release**
- May 14, 2013 **Annual General Meeting**
- July 25, 2013 **Q2 2013 Earnings Release**
- October 25, 2013 **Q3 2013 Earnings Release**
- December 18, 2013 **Capital Markets Day, Oslo**

## KEY FINANCIAL FIGURES

In USD million except per share data	2012	2011
Revenues	1,518.3	1,253.3
EBITDA (as defined in financial statements)	776.2	534.8
EBIT ex. impairment charges <sup>1</sup>	293.0	141.3
Net income	185.5	33.7
EPS	0.86	0.16
Cash flow from operations	752.9	480.4
Capital expenditures	368.1	279.9
Cash investment in MultiClient library	297.4	203.9
Total assets	3,274.0	3,137.2
MultiClient library	382.3	334.1
Cash and cash equivalents	390.3	424.7
Shareholders equity	1,921.8	1,771.7
Net interest bearing debt	435.6	394.2

<sup>1</sup> See notes to the financial statements for details of impairments by period presented

## NON FINANCIAL NUMBERS

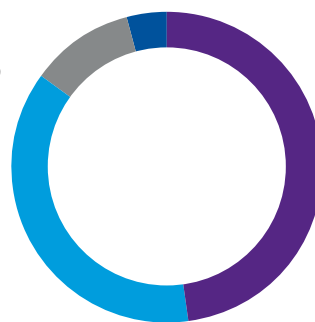
	2012	2011
Head count	2,195	2,145
Lost Time Incident Frequency ("LTIF")	0.17	0.93
Total Recordable Case Frequency ("TRCF")	0.66	1.44

## REVENUES SPLIT 2012



- Contract revenues 41%
- MultiClient pre-funding 30%
- MultiClient late sales 18%
- Data Processing 8%
- Other 3%

## VESSEL UTILIZATION 2012

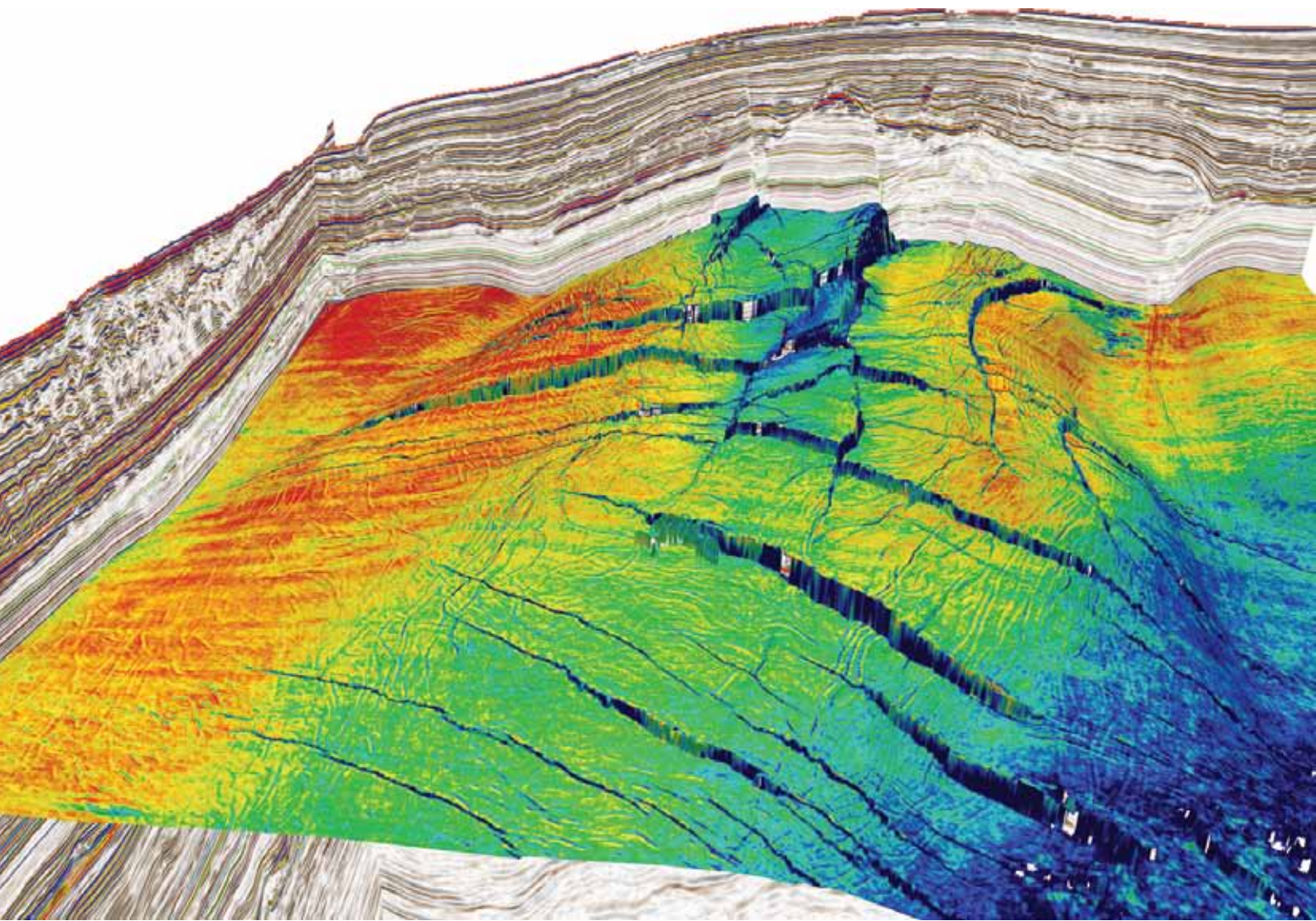


- Contract 48%
- MultiClient 37%
- Steaming 11%
- Yard 4%

# HIGHLIGHTS

- Revenues of USD 1,518 million
- EBITDA of USD 776 million
- EBIT of USD 294 million
- Solid cash flow from operations of USD 753 million
- Robust balance sheet position with net interest bearing debt of USD 436 million
- Liquidity reserve of USD 740 million
- MultiClient revenues of USD 728 million
- Record pre-funding revenues of USD 461 million
- Pre-funding level of 155 percent of capitalized MultiClient cash investments
- Earnings per share of USD 0.86
- Proposed ordinary dividend of NOK 1.65 per share – up 50 percent from 2011
- Delivered on the Profit Improvement Program
- Established USD 250 million Japanese Export Credit Financing for the first two Ramform Titan-class vessels
- Successful offering of additional USD 150 million to the Senior Notes maturing in 2018
- Exercised options for two additional Ramform Titan-class vessels
- Launched Towed EM technology
- Successful installation of an OptoSeis permanent reservoir monitoring system at the Jubarte field in Brazil
- Launched Separated Wavefield Imaging - SWIM





*This 3D GeoStreamer image of a layer some 2 seconds (TWT) below the mudline (seabed) shows the excellent structural resolution achieved. A complex network of faults and fractures is crisply imaged in extraordinary detail.*

# WORLDWIDE OFFICES

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## ANGOLA

Luanda Office

## AUSTRALIA

Perth Office

## BRAZIL

Rio Office

## CHINA

Beijing Office

## EGYPT

Cairo - Maadi Office  
Cairo - Nasr City Office

## INDIA

Mumbai Office  
New Delhi Office

## INDONESIA

Jakarta Office

## JAPAN

Makuhari Office  
Nagasaki  
Tokyo - Toranomom Office  
Tokyo - Uchisaiwai Office

## KAZAKHSTAN

Almaty Office

## MALAYSIA

Cyberjaya Office  
Kuala Lumpur Office

## MEXICO

Villahermosa Office

## NETHERLAND

Leiden Office

## NIGERIA

Lagos Office

## NORWAY

Bergen Office  
Lysaker Office (Headquarter)  
Stavanger Office

## RUSSIA

Gelendjik Office  
Moscow Office

## SINGAPORE

Singapore Office

## SWEDEN

Stockholm Office

## TURKMENISTAN

Ashgabat Office

## UK

Edinburgh Office  
Maidenhead Office  
Weybridge Office

## UNITED ARAB EMIRATE

Abu Dhabi Office

## USA

Austin Office  
Houston - AGS Office  
Houston - Memorial Office  
Houston - Park Row 10 Office  
Houston - Westway Park Office

## VIETNAM

Hanoi Office

# MAIN OFFICES

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# DEAR FELLOW SHAREHOLDER

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**Contributions from the GeoStreamer, our Profit Improvement Program and improved market conditions raised margins in 2012. For the first time in our Company's history, MultiClient revenues exceeded Marine Contract revenues — driven by PGS' large MultiClient campaign offshore Angola and strong late sales from our MultiClient library. Delivery of two new Ramform Titan-class vessels in 2013 will strengthen PGS further in the marine seismic market that we believe will continue to improve.**

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The market for marine contract work strengthened during 2012. Margins for the Marine Contract area benefitted from our operational gearing, and profitability in 2012 came in well above 2011. Despite the recovery of the marine contract market the MultiClient division earned a higher margin, justifying the allocation of more than 40 percent of our vessel capacity to MultiClient activities.

Continuous investment in our MultiClient library and strong interest in PGS' existing MultiClient data pushed MultiClient revenues to a new record level.

During 2012, we grew our Data Processing business organically. With more seismic acquired, and a higher interest for advanced seismic, our Data Processing business area performed excellently and reported record external revenues.

We operate in a cyclical industry and have a strategic ambition to perform over the cycle. For a vessel-owning company like PGS, with focused MultiClient and Marine Contract business areas, we believe we can optimize our overall profitability by proper resource allocation between the two businesses. Through utilizing our productivity and technology advantages in both areas we get the best of both worlds.

We initiated a Profit Improvement Program targeting a USD 50 million EBIT run-rate improvement by year-end 2012. Measures include general cost reduction, several procurement initiatives, operation-specific cost reductions, and work-flow process improvements such as management of yard stays and logistics at all levels. I am pleased to report that we succeeded in all program phases and we have identified further savings to be realized in 2013 and 2014.

MultiClient and Marine Contract revenue growth — along with expanded Data Processing and Technology activities — resulted in an EBITDA for the Group approximately USD 240 million higher than in 2011. Hard work and an improving market helped turn a challenging start to 2012 into a great year for our Company.

## **Differentiation by Innovation**

Technology plays an increasingly important role in differentiating seismic suppliers, and advancing PGS' status as a leading innovator is a strategic objective. While GeoStreamer is the best example of PGS' current differentiation through innovation, 2012 saw the launch of other new technologies and the commercialization of development projects.

To deliver even better data from our GeoStreamer technology platform, we introduced Separated Wavefield Imaging ("SWIM") at the EAGE conference in Copenhagen in 2012. SWIM uses the multiple energy made available by GeoStreamer technology in the imaging process, which has the potential to both improve seismic data quality and make seismic acquisition more efficient.

Another 2012 milestone in technology innovation and development was the launch of the Company's proprietary Towed EM (Electro Magnetic) solution. The initial surveys were done in the North Sea and have increased client interest significantly. Three months or more of Towed EM acquisition is planned for 2013. PGS Towed EM system is currently the only towed system which gives considerable efficiency gains when compared to other EM acquisition technologies. Our ultimate goal is to acquire seismic and EM data simultaneously.





In 2012 PGS also installed an OptoSeis system at the deep water Jubarte Field offshore Brazil. OptoSeis is the Company's fiber-optic solution for permanent reservoir monitoring ("PRM"). The baseline acquisition commenced in December 2012 and will be followed by repeat surveys in 2013 and 2014. The Jubarte project has given PGS a strong position in the PRM niche, which has potential for substantial growth over the next few years.

#### **Maintaining Financial Strength**

Marine seismic is a cyclical business. PGS, with its high operational gearing, targets low financial leverage. A strong balance sheet maintains the Company's ability to invest in new technology, MultiClient data library, and capacity expansion over the cycle.

Our strategy is, and will continue to be, to deliver healthy returns to shareholders over the business cycle. The Board of Directors will propose to the May 2013 Annual General Meeting a dividend payment for the 2012 accounting year of NOK 1.65 per share. Our dividend policy is testament to our commitment to deliver returns throughout the cycle.

#### **Caring for Employees and the Environment**

Caring for employees' safety and wellbeing and protecting the global environment are key strategic objectives. The Company's goal is to rank best-in-class. We work proactively to reduce employees' exposure to hazards and achieved a reduction in Lost Time Incidents from 11 in 2011 to 2 in 2012, despite an increase in man hours. PGS is certified in accordance with the OSHAS 18001 standard that defines requirements for management and record keeping systems for occupational health and safety. In 2012, PGS also received ISO 14001 certification, with Det Norske Veritas ("DNV") as the certifying body. ISO 14001 is an internationally recognized standard that defines the requirements of an environmental management system.

#### **Outlook**

Demand growth in 2013 is mostly driven by seismic work in potentially new hydrocarbon basins. One of the newer and more interesting provinces is offshore Uruguay, where PGS is conducting a large MultiClient project with solid pre-funding. Other new areas of interest are offshore the Falk-

land Islands as well as offshore Greece, Namibia and South Africa. There is currently moderate activity in some traditional anchor markets such as Nigeria, Brazil and the Gulf of Mexico. Other markets with low activity are Libya and Egypt.

The North Atlantic region will once again be busy through the summer this year.

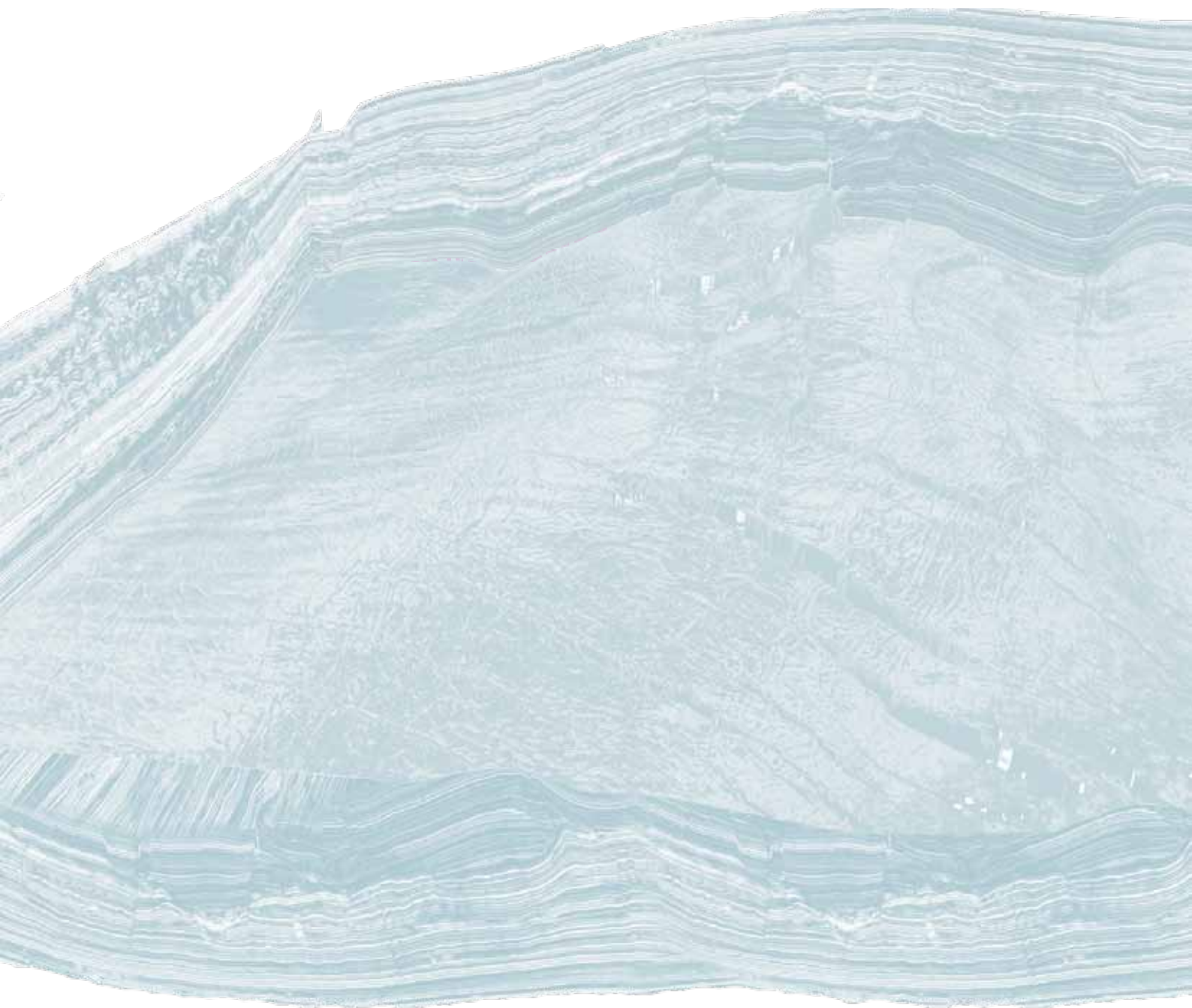
We entered 2013 with a strong order book and we anticipate pricing and margins this year to be well above 2012 levels.

The long-term prospects for our industry are good. Energy companies continue their search for new hydrocarbon resources in regions with deeper waters, harsher environments, extreme reservoir depths, and complex geologies. PGS' excellent reputation and solid market share in the high-end segment makes the Company an attractive contractor and partner for the oil companies.

Our market position will improve further as the two advanced Ramform Titan-class vessels enter our fleet in 2013. We have exercised the option for another two Ramform Titan-class vessels for delivery in 2015. PGS is well positioned to take advantage of an improving seismic market. Our services are competitive, we offer leading-edge technologies, and our financial position is robust.



**Jon Erik Reinhardsen**  
President and CEO



# PERFORMANCE THROUGH THE CYCLE

**Petroleum Geo-Services is a focused marine geophysical company. Noted for fleet efficiency and technological innovation, PGS ranks among the world's three largest seismic companies.**

PGS provides a broad range of marine geophysical and reservoir services, including acquisition, processing, interpretation, and field evaluation. The Company also possesses a large MultiClient library, with modern 3D coverage in all significant offshore hydrocarbon provinces of the world. PGS operates on a worldwide basis with headquarters at Lysaker (Oslo), Norway. The Company is organized into four business areas: Marine Contract, MultiClient, Operations, and Data Processing & Technology.

The business model of **Marine Contract** is to acquire seismic data under exclusive contracts with individual customers, such as oil and natural gas companies and governments. Seismic data is vital to them; key uses are to identify hydrocarbons, determine the size and structure of reservoirs, and optimize reservoir production. Marine Contract's value proposition is to provide clients with superior data quality and efficiency. The goal is achieved through safe and environmentally sound operations, leading-edge technology, flexible and innovative solutions that fulfill survey requirements, reliable on-time and on-budget execution, and a global reach.

Within the **MultiClient** business area, PGS invests in MultiClient seismic surveys, which are marketed to multiple customers on a non-exclusive basis. MultiClient has two revenue sources: *pre-funding and late sales*. MultiClient's pre-funding customers commit to making payments for the survey before and during data acquisition and processing. Late-sales customers purchase a license to use data sets residing in PGS' MultiClient library of acquired and processed survey data. The industry-leading team of subsurface and production geoscientists at Reservoir Services provide interpretation and reservoir characterization expertise to PGS projects and external customers.

The **Operations** business area supports Marine Contract and MultiClient with reliable and efficient production capacity as well as resource planning, fleet renewal, and expansion strategies.

**Data Processing & Technology** is managed as a separate business area due to its specializations. The business area has two 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 PGS' research and development center. Core projects are GeoStreamer® dual-sensor streamer technology, towing technology and fleet efficiency, high-end imaging and automation, and electromagnetic ("EM") acquisition research.

### Strategic Ambition

PGS' strategic ambitions are to care for its stakeholders, deliver productivity leadership, develop superior data quality, innovate, and perform over the cycle.

*Caring* for employee safety, clients and society-at-large is good for business. *Productivity leadership* is delivered through the Company's fleet of Ramform vessels. PGS intends to be recognized as the first port of call for clients seeking tight turnaround times for large projects in a licensing environment that specifies ever-shorter lead times until the first exploratory well is drilled. PGS' GeoStreamer technology drives the ambition to *develop superior data quality* that enables oil companies to more accurately characterize subsurface features. *Innovation* is strategically important to differentiate PGS' technology. PGS was the first company to launch a dual sensor streamer, the acclaimed GeoStreamer; the first to deploy vessels capable of towing more than 20



streamers; and the creator of unique reservoir-centric solutions and technologies.

PGS has the ambition *to perform over the cycle*. The marine seismic contract market is cyclical. PGS trims this exposure by allocating more capacity to solid MultiClient projects with high levels of pre-funding when the contract market is weak. The Company maintains an unwavering focus on being best-in-class among the seismic companies.

### PGS History

In 1991, the Norwegian venture capital firm Norsk Vekst acquired all the shares of A/S Geoteam in order to develop it into a worldwide seismic company. Norsk Vekst renamed the company Petroleum Geo-Services ("PGS"). Subsequently, PGS established a new subsidiary, Geoteam A/S, to which all PGS operating activities were transferred. Core businesses included pre-drilling site surveys, pipeline inspection, exclusive and non-exclusive 2D seismic surveys and the processing and interpretation of survey data. PGS remained a holding company until late 1991, when PGS merged with Nopec A/S. By year-end 1991, PGS had established itself as an important 2D and 3D seismic operator in the North Sea and the Gulf of Mexico.

PGS was reincorporated as a public limited liability company, Petroleum Geo-Services ASA, and listed on the Oslo Stock Exchange in 1992. PGS was listed on NASDAQ in 1993, and in 1997 trade in the Company's American Depository Shares ("ADS") was transferred to the New York Stock Exchange. Today, PGS is listed on the Oslo Stock Exchange while ADS trade is quoted over the counter in the US.

From 1995 to 1999, PGS designed, built, and deployed six proprietary Ramform survey vessels and grew to become one of the worldwide leaders in the development and industrialization of 3D marine seismic acquisition.

In 1998, PGS acquired Golar-Nor, which owned the vessels *Petrojarl I* and *Petrojarl Foinhaven*. The acquisition gave PGS a foothold in the Floating Production Storage and Offloading ("FPSO") market. PGS subsequently added *Ramform Banff* and *Petrojarl Varg* to its fleet of FPSO vessels. As the year 2000 approached, PGS' financial situation deteriorated. Aggressive growth in an unfavorable market strained the Company's liquidity. Sale of shares in the PGS subsidiary Spinnaker Explo-

ration, a Gulf of Mexico oil company, and sale of PGS' data management business and related software to Landmark Graphics Corporation, a Halliburton subsidiary, provided some relief.

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 and established the exploration and production company Pertra. PGS' liquidity situation remained challenging, and in 2001 the Company sought to sell another non-core asset, the exploration and production company Atlantis. Early in 2003, Sinochem bought the company, but at a significantly lower price than PGS had originally sought. The low purchase price received for Atlantis and an inability to meet debt installment payments resulting from, among other factors, significant budget overruns on the FPSO newbuilding *Ramform Banff*, left PGS with no alternative but 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, Pertra was sold to Talisman, and PGS became a dedicated oil services company. Divestments continued. In 2006, PGS demerged its Petrojarl floating production unit. In late 2009, PGS' Onshore seismic business was sold to Houston-based Geokinetics.

### PGS Today

PGS is now a focused marine geophysical company; its foremost competitive advantages are the employees, the proprietary Ramform seismic fleet and the GeoStreamer technology platform. The Ramform vessels deliver proven operational capabilities and superior efficiency and deploy state-of-the-art technologies. PGS holds the industry record for towing and handling the greatest number of streamers. Fleet efficiency will continue to improve in 2013 when the Company takes delivery of two new Ramform Titan-class vessels. Complementing and enhancing PGS' GeoStreamer technology are further competitive advantages: the Company's advanced data processing, structural imaging, and subsurface visualization capabilities.

PGS headquarters are located at Lysaker (Oslo), Norway. The PGS Group has offices in 22 countries around the world and operates major regional centers in London, Houston, and Singapore. During the year ended December 31, 2012, PGS had on average 2,195 full-time employees worldwide.





# MARINE CONTRACT

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Marine Contract work is where PGS acquires seismic data under exclusive contracts with its customers. In 2012, 57 percent of PGS streamer capacity was used for Marine Contracts seismic work.

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# SEISMIC DATA UNDER EXCLUSIVE CLIENT CONTRACTS

**An improved market for high-end marine seismic, excellent operational performance, and state-of-the-art GeoStreamer technology contributed to higher margins for contract seismic in 2012. PGS' launch of Towed EM and deepwater installation of the OptoSeis fiber-optic system for reservoir monitoring at Brazil's Jubarte field represent promising new service deliveries.**

PGS' Marine Contract business area acquires seismic data under exclusive contracts with its customers. In 2012, PGS used 57 percent of active 3D vessel capacity for acquisition of contract seismic.

Creation of growth opportunities for PGS through commercialization of new technology and business ideas is also a part of the Marine Contract business area. Towed Electro Magnetic ("EM") survey technology is a key new venture for PGS. Market launch of Towed EM surveys was made in 2012.

A second new venture is OptoSeis™ — a fiber-optic system for permanent reservoir monitoring ("PRM") of producing fields. During 2012, PGS installed an OptoSeis system for Petrobras on parts of the Jubarte field offshore Brazil. The world's first PRM system installed at water depths exceeding 1,000 meters is a significant achievement that gives PGS a strong position in the PRM market.

A third venture that has strong synergies with OptoSeis is the development of a land-based fiber-optic seismic monitoring system, in close collaboration with Shell. The objective for this system is to deliver ultra-high-density 3D surveys across a large area onshore in a time-saving, cost-effective way.

## Value Proposition

PGS' vision is to be the industry's best marine geophysical supplier. The Company is committed to provide reliable, on-time and on-budget

delivery of seismic data that meets customers' needs via leading-edge acquisition and imaging technology, and safe, environmentally sound acquisition.

PGS has earned considerable respect in the international marine contract market as a result of the Company's unique acquisition fleet: Specially designed Ramform seismic vessels that tow the largest streamer spreads in the industry.

The ability to tow large, dense streamer spreads, as well as rapid streamer deployment and retrieval, are critical factors for seismic acquisition efficiency and on-time delivery of seismic data. Measured in terms of cost per streamer per day, no other fleet in the industry delivers better productivity than the PGS fleet. Superior productivity enables Marine Contract to deliver among the highest profit margins in the industry. The efficiency of PGS' fleet will be further improved over the next couple of years as the Company deploys its Ramform Titan-class vessels, which are even larger and feature more capabilities than the existing Ramform ships.

## Market Activity and Position

Demand for marine contract seismic improved during 2012; increased activity has largely absorbed the overcapacity from which the industry has been suffering for several years. The improved supply/demand balance was achieved despite low survey activity in traditionally active basins such as the Gulf of Mexico, Eastern Mediterranean, offshore Brazil, and offshore Nigeria. More activity in frontier and new regions, along

with expectations of increased activity in the aforementioned traditional basins, establish a solid foundation for better market conditions in 2013.

Of the combined contract and MultiClient 3D market, PGS holds a market share of approximately 20 percent, measured by number of streamers. After delivery of the two Ramform Titan-class vessels scheduled for 2013, PGS' market share is expected to grow to approximately 23 percent. PGS does not seek to become the largest marine seismic supplier, or to focus on market share, but has an absolute focus on being the best in the high-end market segment.

The high-end survey market implies a broad range of challenges in exploration, reservoir description and reservoir monitoring ("4D"), including large scale exploration surveys, GeoStreamer surveys and high density surveys. There are several ways to acquire high density seismic data. The most common technique is to use streamer separation less than the 100 meters typically used for exploration seismic. Acquisition techniques such as Wide-Azimuth, Multi-Azimuth and 4D surveying are important parts of PGS' high-end product range.

PGS' high capacity and cost-effective Ramform fleet and GeoStreamer technology are optimally suited to perform high-end surveys.

#### Towed EM Launch

While seismic data yields an image of the sub-surface geological structure, electromagnetic ("EM") data provides information about the fluid content of reservoirs. PGS has been developing a Towed EM streamer system for several years and in 2012 the Company launched its Towed EM technology in the market by successfully acquiring surveys over seven known prospects in the North Sea. Water depth of the surveyed areas ranges from 100-350 meters and target depths from 1,300-2,200 meters. PGS' current Towed EM offering is well suited for both exploration and appraisal work. In 2013 PGS plans a minimum of three months of EM acquisition.

Benefits of towed EM acquisition are many, and clients have shown great interest in the technology PGS has developed. First and foremost, efficiency is significantly improved, compared

with existing EM acquisition technologies. PGS' Towed EM system yields good quality due to dense sampling and high signal-to-noise ratio. Towed EM features real-time quality control and on-board data processing facilities. PGS is offering EM acquisition on the same platform as seismic acquisition. Over time, PGS will increasingly deliver combined seismic and EM acquisition. For the surveys acquired in 2012, PGS used the seismic vessel *Nordic Explorer*. By deploying seismic vessels from today's fleet, PGS maintains flexibility in its EM platform and avoids exposure to the utilization risk of purpose-built assets.

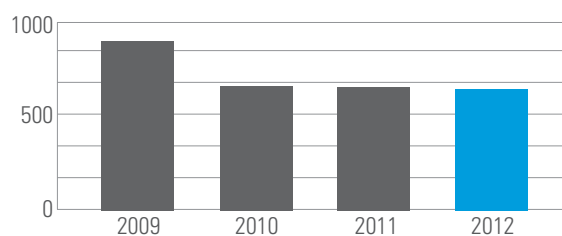
#### PRM Market Confidence

In 2010, Petrobras awarded PGS a contract to design and install a fiber-optic, permanent reservoir monitoring seismic system at the Jubarte Field offshore Brazil. System components were manufactured in 2011 and 2012, with seabed installation completed in the second half of 2012. The Jubarte PRM system comprises approximately 35 kilometers of sensor cables and some 700 four-component sensors — installed at water depths of around 1,300 meters. The first acquisition was carried out in late 2012.

Delivery of the Jubarte project gives PGS a strong position in the growing PRM market. Globally, more than 1,200 kilometers of PRM cables have been installed. The market outlook for PRM is good; by year-end 2012, the market had contract leads for installing more than 1,000 kilometers of sensor cables over the next three years.

#### MARINE CONTRACT REVENUES

*In millions of US dollars*



**BUSINESS CASE**

## CEDUNA — RECORD BREAKING CONTRACT SURVEY

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The exploration strategy of BP is to identify new petroleum provinces with great discovery potential. The Ceduna basin in the Great Australian Bight fits this strategy as it is a completely unexplored area — and BP was the first company to move in. The seismic survey BP needed covered approximately 12,000 square kilometers in a region located some 300 kilometers offshore. The remote location posed a major challenge: the weather window for seismic operations in the Ceduna area is limited to approximately 180 days per year. When BP evaluated proposals by various seismic companies, PGS and *Ramform Sterling*, according to BP, were the perfect fit for the job.

The streamer spread used for the Ceduna survey comprised 12 streamers, each 8,100 meters long at 120-meter separation. The streamer spread deployed by the *Ramform Sterling* on this survey can be considered the largest moving man-made object on the planet. The entire Ceduna survey was acquired in 186 days and averaged 65 square kilometers per day. During the survey, *Ramform Sterling* set monthly, weekly, and daily production records. The monthly production record was 3,056 square kilometers. The weekly production record was 919 square kilometers, which is close to the survey volume that a normal high-end vessel acquires in one month. The daily production record was 143.6 square kilometers.

The *Ramform Sterling* and its sister vessel, the *Ramform Sovereign*, comprise the Ramform S-class, which are in a separate league when it comes to productivity and efficiency in the seismic industry.







*The streamer spread deployed by the Ramform Sterling on the contract job for BP in the Ceduna basin in the Great Australian Bight can be considered the largest moving man-made object on the planet.*





# MULTICLIENT

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Seismic data PGS acquires and processes to be included in the Company's data library is referred to as Multiclient. PGS invests in Multiclient seismic surveys and the processed data sets are marketed and sold to multiple customers on a non-exclusive basis.

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*The black grids shows locations of PGS' 2D MultiClient library and the white areas represent PGS' 3D Multi-Client data world wide.*

# SUPPORTING EXPLORATION SUCCESS

**MultiClient manages and licenses seismic data that PGS acquires on a non-exclusive basis. The Company invests in the projects, and licenses the data sets to multiple customers.**

The MultiClient business area has two main revenue streams: *pre-funding and late sales*. Customers who pre-fund surveys are committed to license the data before processing is completed. Late sales represent revenues from customers who buy the data after processing is completed.

## Value Proposition

MultiClient helps PGS' clients achieve exploration success through earlier access to data, as well as providing more cost effective data. PGS and its MultiClient customers have a shared investment rationale: To acquire data in areas that are prospective with respect to finding and producing oil and gas. MultiClient's Reservoir Services organization provides world-class expertise in geology, geophysics and reservoir characterization. This expertise is used to localize the best areas for new MultiClient surveys.

The PGS MultiClient business area leverages the full capability of PGS' high-end fleet, streamer technology, and data processing solutions. MultiClient offers tailor made business models to each client, enabling them to pursue their exploration objectives effectively.

The return on MultiClient investments has demonstrated less volatility over the seismic business cycle than the Marine Contract business, due to several factors. Firstly, solid pre-funding is required, preferably more than 100 percent of capitalized cash investments on average, which de-risks the initial investment. Secondly, late sales occur in subsequent years that are, to some extent, detached from the vessel pricing scenarios developed in the contract market. Further, PGS acts to ensure optimal performance through the cycle by proactively allocating vessels and

processing capacity between the Marine Contract and MultiClient business areas. In a soft contract market, more capacity is dedicated to MultiClient and vice versa. PGS considers that, over time, approximately 40 percent of capacity will be allocated to MultiClient in order to increase earnings stability and profitability over the cycle.

## The MultiClient Advantage

A common scenario for a MultiClient 3D ("MC3D") project is to combine several smaller seismic surveys into one large survey, where the efficiency of the larger MC3D program is considerable better than each of its original constituencies. Project turn-around and cost is considerably better than by conducting each of the projects on an individual basis. Participating clients may also gain a better understanding of the regional geology through availability of more data.

In frontier areas, with more open acreage, MultiClient 2D and 3D surveys provide a cost-effective way for oil companies to gain critical insight into new regions before making significant investment decisions, such as selecting blocks and determining pricing ahead of bidding in a licensing round.

A trend in recent years has been to conduct very large MultiClient 3D surveys in areas where the exploration license period from acreage award to first well have been short. In 2012 PGS acquired one such program - the world's largest single seismic 3D project - in the Kwanza Basin offshore Angola.

The catalyst for interest among the oil companies for such a super-sized survey over licensed acreage was to significantly shorten the time from license award to first well in blocks that have a



significant drilling commitments in a short time-frame. PGS had permits in place from Sonangol to acquire GeoStreamer 3D seismic data over five blocks covering more than 26,000 square kilometers and Operators were able to avoid a potentially long procurement process by committing to the MultiClient survey.

### MultiClient Library

PGS owns a substantial international library of marine MultiClient seismic data acquired in all of the world's major oil and gas basins. The MultiClient data library currently comprises more than 430,000 square kilometers of PGS-acquired 3D data and 310,000 line kilometers of recent 2D seismic. As an additional product, PGS has integrated third-party data to build MegaSurveys with a total coverage of more than 570,000 square kilometers. MegaSurveys integrate multiple surveys into a single contiguous data set, which enables explorationists to assess local hydrocarbon prospects in a basin-wide geological framework.

GeoStreamer is the preferred streamer for MultiClient acquisition. Pre-funding participants benefit from GeoStreamer's enhanced imaging quality and survey efficiency — and newly acquired data is applied by PGS to upgrade the MultiClient data library.

### Major MultiClient Activities in 2013

Although the North Sea is a mature region, it remains rich in opportunity, as demonstrated by recent major discoveries. PGS is strongly committed to this region and will continue its GeoStreamer MultiClient campaign in 2013. The North Sea GeoStreamer MultiClient campaign began in 2009; by year-end 2012, more than 35,000 square kilometers of MultiClient GeoStreamer 3D had been acquired and more than 50 oil companies have licensed the data. Another key factor driving interest among oil companies in North Sea GeoStreamer MultiClient data is its ongoing usefulness throughout the exploration, field development, and production phases of a license.

Another new area for PGS' MultiClient activities in 2013 is Uruguay. This well-prefunded survey will cover an area of 15,500 square kilometers and is scheduled to be completed early 2014, with potential for extensions well into 2014 (see

more details in the Uruguay business case on page 25).

In Africa, PGS will continue its Angola MultiClient 3D campaign with a survey over Block 16 in 2013.

MultiClient 2D projects in largely frontier areas are also scheduled in 2013. Highlights are the completion and processing of 12,000 line kilometers offshore Greece and a large MultiClient 2D survey acquired in deep waters offshore Namibia.

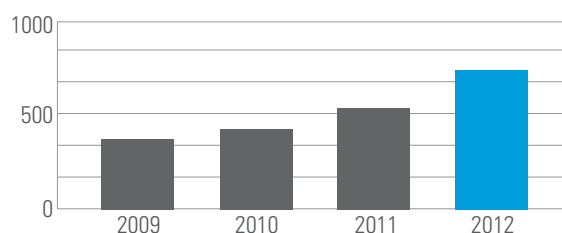
MegaSurveys and MegaProjects are well recognized PGS MultiClient products and key business enablers. MegaSurveys are merged 3D data sets while MegaProjects are merged 2D and 3D data sets. These products are constructed by seamlessly combining many MultiClient surveys — both PGS data sets and those of third parties — into large, contiguous, regional volumes.

MegaSurveys and MegaProjects enable oil companies to explore, with unparalleled insight, the geology and hydrocarbon potential of entire basins. Oil companies have embraced these products in their quest to place their acreage in a larger regional context. The findings are applied to near-field exploration as well as the evaluation of open blocks or farm-in and farm-out opportunities.

PGS also uses MegaSurveys and MegaProjects as pathfinders for developing new MultiClient projects. These large, integrated survey products also bring value to governments by updating and expanding their national databases. PGS has extensive MegaSurvey coverage of the North Sea, Barents Sea, Gulf of Mexico, and Northwest Australia as well as offshore Brazil and West Africa.

## MULTICLIENT REVENUES

*In millions of US dollars*





*Excellent human resources are integral to PGS' MultiClient success and vital to PGS' Data Processing capabilities.*



**MULTICLIENT HELPS PGS' CLIENTS ACHIEVE EXPLORATION SUCCESS THROUGH EARLIER ACCESS TO DATA, AS WELL AS PROVIDING MORE COST EFFECTIVE DATA**

**Reservoir Expertise**

PGS Reservoir Services provides skills that are both integral to PGS' MultiClient projects and vital to PGS' Data Processing businesses. Reservoir Services employees are experts in sub-surface interpretation and reservoir characterization.

Reservoir teams produce interpretation products and services, including exploration play studies and inversion volumes that complement PGS' MultiClient services and enhance the value of PGS data sets. Through these projects, PGS has gained extensive knowledge about petroleum basins around the globe and an ability to accurately assess the variety of sub-surface risks a client faces.

To meet the oil industry's growing demand for enhanced oil recovery and improved reservoir understanding, PGS is investing in state-of-the-art reservoir characterization skills and technologies. The Company's reservoir-focused services help clients to better image reservoirs, quantify reservoirs and fluid properties and, ultimately, improve drilling success.





## BUSINESS CASE

# MAPPING THE SUB-SALT STRUCTURES OFFSHORE URUGUAY

In December 2012, *Ramform Vanguard* began acquisition of more than 15,500 square kilometers of GeoStreamer MultiClient data on blocks 6, 11, 12, and 15 offshore Uruguay. This project is the largest survey ever undertaken in the region. The new 3D seismic data set will be acquired using PGS' advanced GeoStreamer seismic technology. Fast track processing will provide the survey's pre-funding operators with early access to high-quality images. An additional benefit is gaining extra time in which to evaluate the exploration potential of surveyed acreage prior to advancing to the next exploration phase for the awarded blocks.

In Uruguay, PGS will work closely with ANCAP (Administración Nacional de Combustibles, Alcoholes y Portland), the state-owned partnering entity in Uruguay, and the survey's pre-funding operators. Project objectives range from maximizing seismic quality and ensuring fast turn-around times, to sharply improving the collective understanding of Uruguay's offshore geology and prospectivity.

The new Uruguay MultiClient 3D data will tie into existing 2D data in the neighboring Pelotas basin, currently available as part of the PGS Brazil MegaProject. Together these data sets will provide the best possible understanding of the hydrocarbon potential of the region.





# OPERATIONS

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Operations supports both Marine Contract and MultiClient with reliable and efficient production as well as resource planning and fleet renewal strategies.

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# BUILDING COMPETITIVE ADVANTAGES

**PGS' Operations business area supports Marine Contract and MultiClient with reliable and efficient production capacity as well as resource planning and fleet renewal strategies.**

Excellent Health, Safety, Environment, and Quality ("HSEQ") performance is important for safe and efficient operations of seismic vessels. PGS has shown an improving HSEQ performance over the last years and the statistics for 2012 places the Company among the best in the industry, with a 12-month rolling Total Recordable Case Frequency ("TRCF") of 0.66 per million man hours and a Lost Time Incident Frequency ("LTIF") of 0.17 per million man hours.

The Company's HSEQ management systems set the framework for high quality products and services — and implement continuous risk assessment of all operations, job tasks, processes, and systems. These systems and routines were reviewed by DNV in 2011 in conjunction with the OHSAS18001 certification and award process. In 2012, DNV reviewed the Company's environmental management standards and awarded ISO 14001 certification. PGS maintains a strong environmental focus and enforces awareness of Corporate Responsibility at all levels.

## Value Proposition

Leadership in HSEQ is a core value for PGS. The Company aims to be best-in-class, with zero injury to people and limited harm to the environment. HSEQ leadership requires continuous improvement through identifying, assessing, mitigating, and managing risk affecting PGS employees, contractors, and the environment. Seismic performance is improved through operational enhancements, investments, resource planning, and fleet renewal. Efficient operation of sophisticated systems enhances customer satisfaction as well as PGS' profitability.

## The Ramform Advantage

PGS is recognized throughout the industry for its unique Ramform vessels. The seismic vessels have a delta-shaped hull that is distinguished by an extremely wide aft beam, twice the width of a conventional vessel. The broad aft workspace allows for efficient deployment and retrieval of streamers and seismic sources. The acknowledged efficiency and productivity benefits of PGS Ramform vessels, the proprietary PGS seismic technologies, along with the quality of PGS' personnel, make the PGS fleet industry leading.

In 2012, PGS' Marine streamer fleet consisted of:

- Seven Ramform vessels, the largest capable of towing up to 22 streamers
- One vessel in the medium-capacity segment, capable of towing 10 streamers
- Two classic streamer vessels, the largest capable of towing up to eight streamers
- Two 2D/source vessels.

## Continuous Focus on Reducing Technical Downtime — Best-in-Class Performance

Technical downtime as a percentage of total fleet time has dropped sharply, from roughly 14 percent in 1992 to about 2.5 percent in 2012. Similarly, performance increased from approximately 80 percent in 1997 to 93 percent in 2012. The performance figure is a measure of how well PGS utilizes the time available to acquire seismic.

## Ramform Titan-class Vessels

Late 2010, PGS launched a fleet renewal and expansion program. Two Ramform Titan-class vessels were ordered from Mitsubishi Heavy Industries in Japan in April 2011. The vessels will continue with the proven design advantages of

PGS' current Ramform fleet and implement capability enhancements across several key performance parameters. Delivery of the first *Ramform Titan* is scheduled for the second quarter of 2013; the second vessel is to be delivered in the fourth-quarter of 2013. In 2012, the Company exercised its option to build two additional Ramform Titan-class vessels for delivery in 2015.

Safety, efficiency, performance, and crew comfort are the main rationale for PGS' continued investments in the Ramform design and construction of Ramform Titan-class vessels. Larger surveys and greater focus on data quality require more seismic streamers in the water. Wider back-deck working space and automated tow-handling gear make the operation of a large streamer spread significantly safer and more efficient.

On the efficiency side PGS is aiming towards reducing deployment and retrieval time further, in addition to performing most of repairs and maintenance of the vessel and seismic equipment at sea. Barnacle cleaning is done during operations, and with two stern workboats it is safer to do this efficiently. The Ramform Titan-class vessels have an endurance of approximately 150 days, and the vessel will be equipped with 22 streamer reels. On the comfort side there will be 60 single cabins and 10 double cabins, and sufficient facilities for the crew to rest and recover during their time off when onboard the vessel.

The Ramform Titan vessels will further strengthen PGS' position in the fast growing high-end survey market segment, where a premium seismic data product is required in order for customers to gain a solid understanding of the geology and resource potential of deep targets with complex structures as well as shallower target with high resolution requirements. These surveys require large spreads with long offsets and dense streamer separation. The new Ramform Titan-class vessels will have the highest capacity and efficiency of any seismic vessels in the world.

#### **GeoStreamer Rollout**

GeoStreamer is a proprietary, dual sensor streamer technology unique to PGS. Demand for GeoStreamer acquisition has surpassed all expectations.



The GeoStreamer technology was launched in 2007 and quickly gained widespread 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. In late 2009, *Ramform Challenger* was equipped with GeoStreamer to become the Company's first high-capacity Ramform vessel to deploy the advanced streamer technology. Survey and vessel performance has been excellent since the conversion to GeoStreamer.

Considerable demand for GeoStreamer surveys justified an accelerated GeoStreamer rollout in 2010. The *Ramform Valiant* was upgraded to a GeoStreamer vessel in the second quarter and *Ramform Explorer* followed early in the third quarter. GeoStreamer rollout continued in 2011, with the *Ramform Viking* in the first quarter and *PGS Apollo* in the second quarter. The *Ramform Vanguard* was upgraded to a GeoStreamer vessel in 2012 and by year-end, approximately 70 percent of the 3D fleet was equipped with GeoStreamer.

GeoStreamer rollout is proceeding for the largest vessels in the PGS fleet. Next in line are the two Ramform Titan-class vessels scheduled for 2013 delivery. *Ramform Sterling* will be equipped with the new streamer technology in 2014. The additional Ramform Titan vessels will be Geo-



#### LEADERSHIP IN HSEQ IS A CORE VALUE FOR PGS — AND ENABLES THE BUSINESS TO ACHIEVE CUSTOMER SUCCESS

Streamer-equipped in 2015. *Ramform Sovereign* is scheduled as the last 3D vessel to be GeoStreamer-equipped by 2016 at the latest.

In addition to delivering superior seismic data quality, GeoStreamer significantly widens the weather window in which data acquisition can be performed. This is possible because GeoStreamer can be towed deeper than conventional streamers, since the receiver ghosts, which degrade data, have been eliminated. North Sea efficiency has improved by some 20 to 25 percent using GeoStreamer. In Arctic regions, greater operational efficiency is also apparent. Improved operational efficiency is a clear PGS advantage and a significant contributor to increased margins, with customers benefitting from shorter cycle times.

#### Improving Support Capacity

In late 2012, charter agreements with P/F Thor were signed for four new seismic support vessels to assist PGS seismic operations worldwide. The new vessels will provide support for PGS' fleet of seismic vessels during operation, covering offshore bunkering, crew change assistance, supply of provisions and spare parts, as well as support during in-sea maintenance of seismic equipment. (See business case on page 31 for more details.)



## BUSINESS CASE

# CONTROLLING COSTS WITH NEW SUPPORT CAPACITY

In 2012, PGS signed agreements with P/F Thor for four new seismic support vessels to assist PGS operations worldwide. Key tasks are operational support, offshore bunkering, crew change assistance, replenishment of provisions and spare parts, and maintenance of seismic equipment while at sea.

The vessels are designed specifically for seismic support services. Their deployment will improve the safety and efficiency of PGS' seismic fleet. Support capabilities include Ice Class 1A, passenger capacity for transporting a full seismic crew, extra work boat, towing, and fuel and fluid transfers.

The vessels' efficient propulsion system minimizes fuel consumption. Fuel cost savings of up to 60 percent are projected, compared to the support vessels PGS currently deploys. Energy

efficiency, reduced emissions, and more robust support capabilities will further enhance PGS' cost efficiency in marine seismic operations.

These vessels will replace older, less efficient capacity and provide key support functions for PGS' Ramform Titan-class vessels. The seismic support vessels will be built at Besiktas ship yard in Turkey.

### *Seismic support vessel specifications*

Length overall (LOA): 64.4 meters

Beam: 14.50 meters

Class: Den +1A, ICE-1A, SAPS, CLEAN DESIGN, NAUGHT-AW, RECYCLABLE

Engines: 4 X approx. 1,000 HP diesel engines

Total accommodations: 60 persons.



*The four new purpose built support vessels will be safer and more efficient, than the support capacity used today. Delivery of the vessels will take place from late 2014 and onwards. Image: Skipsteknisk.*



# DATA PROCESSING AND TECHNOLOGY

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Data processing and technology has two 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 and engineering constitutes PGS' research and development center.

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# INNOVATION AND SUPERIOR DATA QUALITY

**PGS' strategic objectives — delivering superior data quality and differentiating PGS through technological innovation — are further advanced by the business area Data Processing and Technology.**

The Data Processing and Technology business area comprises two departments: *Data Processing* and *Geoscience and Engineering*.

## Value Proposition

*Data Processing* focuses on delivering geophysical solutions that offer significantly improved imaging and characterization of customers' and PGS' MultiClient data sets.

*Geoscience and Engineering* develops technologies and services that enhance PGS' leadership position in operational efficiency and differentiates the Company's strong service capabilities for the identification and characterization of complex reservoirs. The Separated Wavefield Imaging ("SWIM") technology, launched in 2012, is the latest in an impressive series of innovations developed by the Geoscience and Engineering department.

## Data Processing Department

Growth at PGS' Data Processing department is mainly attributable to proprietary GeoStreamer processing and best-in-class imaging tools. Data Processing is noted for several state-of-the-art imaging products that clients consider competitive advantages. These technologies include SWIM, which processes surface multiples as well as primary wavefields; hyperBeam, an integration of PGS beam migration imaging technology and the innovative holoSeis visualization product; hyperTomo, an ultra-fast velocity model building tool; Surface-Related Multiple Elimination ("SRME"), a time processing tool; and Optivel, a proprietary algorithm that rapidly provides the optimum velocity and anisotropic parameter fields for use on very dense processing grids. High-end imaging technology has boosted PGS Data Processing revenues and generated higher-quality images over shorter cycle times.

Robust visualization capabilities have enhanced customers' target interpretation, characterization, and decision-making processes.

Dual-sensor GeoStreamer technology has proved its ability to reveal intricate geological conditions, ranging from complex salt structures to shallow carbonates and many other tough seismic imaging challenges. The results are undisputable: each GeoStreamer survey acquired and processed by PGS has delivered improved frequency bandwidth and data quality. In short, GeoStreamer data consistently outperforms conventional streamer data.

## Geoscience & Engineering Department

Geoscience and Engineering constitutes PGS' research and development ("R&D") department. Projects focus on a diverse range of development and support functions for marine seismic acquisition techniques and data processing technologies, including PGS' towed Electro Magnetic ("EM") technology and several innovative technologies not yet commercialized. PGS has major R&D offices in the United States, the UK, and Norway, with additional groups in the Netherlands, Sweden, Australia, and Singapore. PGS spends more than USD 60 million annually on research and development.

### *GeoStreamer GS*

GeoStreamer GS is a complete de-ghosting application developed for GeoStreamer data. GeoStreamer technology eliminates the receiver ghost and the GeoSource (acronym GS) application eliminates the source ghost. GeoStreamer GS further improves GeoStreamer's bandwidth and delivers unrivaled image resolution.

### *Processing Technologies*

PGS has invested considerable resources to develop and deliver efficient data processing solu-

tions and technological differentiators to its clients. The newest addition to PGS processing technologies, based on the GeoStreamer technology platform, is SWIM. The technology was officially introduced at the EAGE conference in 2012. It is an exciting R&D development that exploits wavefield separation processing and the subsurface illumination of primaries and surface multiples to produce complementary seismic images of the subsurface. In contrast, conventional streamer acquisition and processing attempts to remove multiple energy before using the remaining primary energy to produce the final seismic image (see more details in business case on page 36).

GeoStreamer is used as an integrated acquisition and processing solution for PGS delivering unparalleled features that differentiate the Company's product capabilities from industry alternatives. The Company has developed proprietary technology and built up considerable know-how concerning the generation of up-going pressure wavefield data (P-UP) and full processing through to final product delivery. Workflows have been implemented to match the new generation of GeoStreamer and GeoStreamer GS data with non-GeoStreamer legacy data in the context of 4D processing. Full backward compatibility has been demonstrated.

#### *Marine Acquisition Technology*

Significant R&D efforts continue to improve all elements of the Company's acquisition systems and capabilities. Ongoing development of PGS' proprietary GeoStreamer technology is a key objective.

#### *Modeling and Visualization*

Successful seismic surveys require careful planning to achieve the best-possible image quality and optimal cost effectiveness. PGS provides industry-leading survey planning, a process enhanced by the Company's proprietary survey-planning software package, Nucleus+. The software applies sophisticated seismic modeling to simulate the results of a seismic survey under

various source and receiver configurations. Nucleus+ is the most comprehensive planning package on the market and is widely used throughout the oil and gas industry.

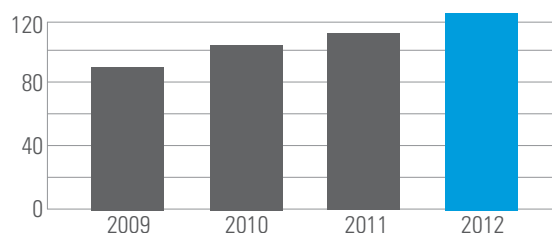
At PGS, the unique holoSeis visualization technology is an integral part of the complete seismic workflow — from quality control of seismic data during acquisition, to the building of complex velocity models for pre-stack depth migration and visualization of the end product for customers. PGS holoSeis is in daily use at Company facilities worldwide, including on board survey vessels. The PGS holoSeis package is a preferred tool for visualization and interpretation of exceptionally large volumes of 3D seismic data.

#### **Intellectual Property**

PGS' patents, trademarks, service marks, copyrights and licenses protect its proprietary technology. The Company's intellectual property rights include the Ramform™ seismic vessels, GeoStreamer®, OptoSeis® and HD3D® seismic solution software, PGS hyperBeam® and GeoSource®. The Company's intellectual property rights collectively represent a material business asset. As of December 31, 2012, PGS held 351 patents granted under the laws of the U.S., the UK, and Norway — an increase of 46 new patents in these jurisdictions in 2012. Additional patent-protected innovations help sharpen and preserve the competitive advantages achieved by PGS through technological differentiators.

#### **DATA PROCESSING REVENUES**

*In millions of US dollars*



## BUSINESS CASE

# SEPARATED WAVEFIELD IMAGING - SWIM

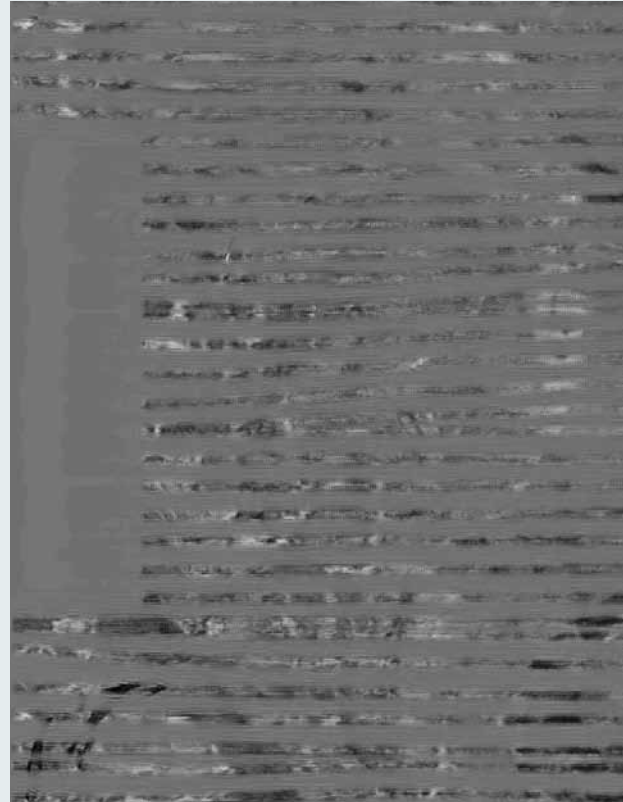
Traditional seismic imaging assumes that all phenomena associated with reflections from the sea surface have been removed from the recorded data, including surface-related multiples and receiver ghost effects. It is challenging to remove multiple energy from seismic data without harming the underlying signals.

However, surface multiples can be used in the seismic migration if wavefield separation is applied to the data first. PGS' dual sensor GeoStreamer allows separation of the data into up- and down-going wavefields during processing, the down-going wavefield represents the multiples. SWIM then includes the down-going wavefield in the imaging. Since a multiple is seismic energy bouncing up and down in the water layer every receiver in the streamers will virtually become a secondary source. I.e. using the multiples help to get coverage in between the primary reflections. Thus even with wide streamer spacing it is possible get good coverage from shallow to deep. PGS has just started to explore this technology, which has the potential to radically change seismic acquisition and processing in the future.

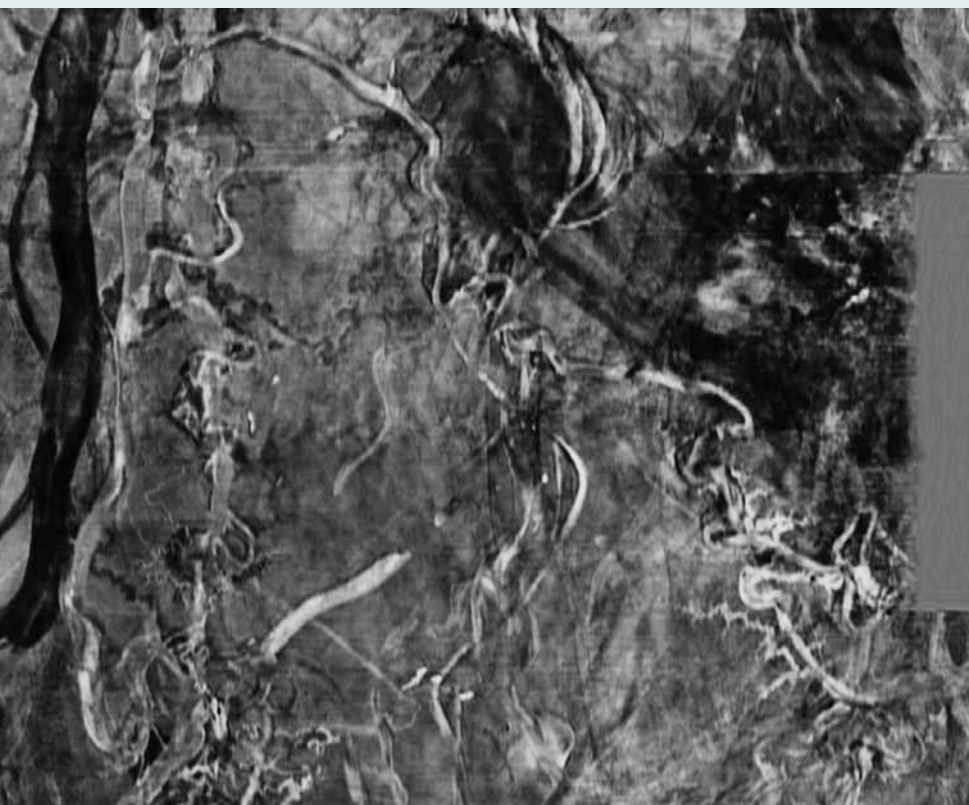
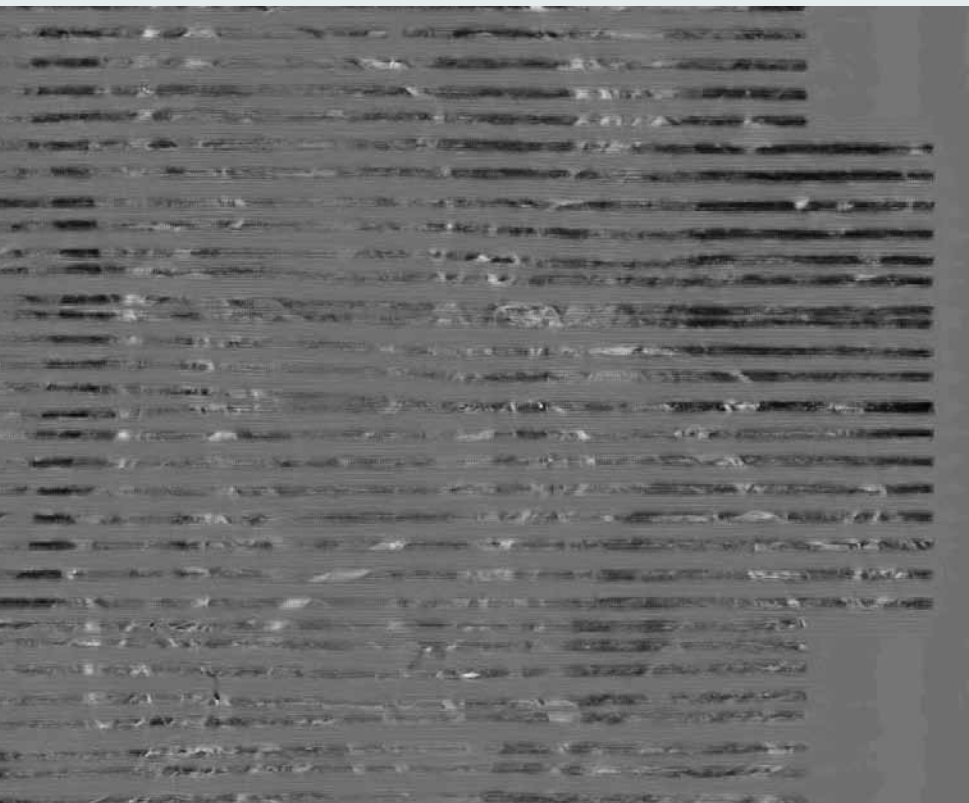
Shallow geo-hazard analysis suddenly becomes possible, even in areas of very shallow water. Deep imaging around and below salt bodies and other complex geology is improved, particularly for multi-vessel survey scenarios (wide-azimuth, full-azimuth etc.). Incorporation of surface multiples into the imaging process demonstrably improves subsurface illumination, and efficiency of the acquisition due to the increased subsurface coverage, hence the variety of benefits and applications created by the SWIM technology.



**PGS HAS JUST STARTED TO EXPLORE THIS TECHNOLOGY, WHICH HAS THE POTENTIAL TO RADICALLY CHANGE SEISMIC ACQUISITION AND PROCESSING IN THE FUTURE**







*Comparison of two time slices at 120 ms TWT. Water depth is 70 meters. PGS SWIM applied to primary reflections (top) contains a pronounced cross-line acquisition footprint that precludes shallow geohazard interpretation. In contrast, PGS SWIM applied to surface multiples (bottom) yields a remarkably continuous and high resolution image because of the superior illumination from surface multiples.*

# CORPORATE RESPONSIBILITY: PGS' DEFINITION

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**In 2012, PGS published its Responsibility Review for 2011, the Company's first comprehensive presentation of how it addresses the many aspects of Corporate Responsibility ("CR").**

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Distributed in tandem with PGS' 2011 annual report, Responsibility Review 2011 provides transparent insight into the Company's culture of Corporate Responsibility. Subtitled "Under the Surface," the Review details the Company's various CR processes and key performance parameters. The Responsibility Review document is available at [www.pgs.com](http://www.pgs.com).

PGS' commitment to Corporate Responsibility and the CR performance throughout the Company gives PGS many reasons to be proud. At sea and in PGS offices, ongoing improvement is the order of the day.

The PGS Corporate Responsibility Framework guides the Company's individual and corporate conduct. The CR Framework ensures that the Company:

- Provides the safest possible workplaces for PGS' personnel and those of third-party contractors in order to SAFELY acquire extensive volumes of HIGH QUALITY seismic data that are more COST-EFFECTIVE than deliveries made by competitors

- Prevents harm to the environment or local communities by assessing and reducing environmental and social risks associated with PGS' operations
- Conducts business activities efficiently and appropriately by applying the Company's core values every day and addressing all legal and regulatory requirements relevant to its business activities
- Communicates with stakeholders in a timely and transparent manner.

In 2012, PGS advanced further toward closing gaps the Company has identified regarding its operations and international standards, recommendations, and principles as set forth in the OECD Guidelines for Multinational Enterprises and the UN Global Compact. This work will continue throughout 2013.

**» PGS' COMMITMENT TO CORPORATE RESPONSIBILITY AND THE CR PERFORMANCE THROUGHOUT THE COMPANY GIVES PGS MANY REASONS TO BE PROUD**





# HEALTH, SAFETY, ENVIRONMENT AND QUALITY

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

PGS has a strong Company-wide HSEQ culture. To further improve HSEQ performance and reinforce HSEQ management systems, PGS set three main goals for 2012 that were fully achieved:

- Reduce the number of recordable injuries, with main focus on reducing lost time injuries
- Follow up on the OHSAS18001 certification obtained in December 2011; the standard establishes requirements for management and record-keeping systems for occupational health and safety
- Obtain ISO14001 certification of the Company’s environmental management system.

## HSEQ Performance

The targeted improvement in the Company’s injury statistics was reached in 2012. The PGS organization (core fleet vessels and PGS offices) had the following health and safety incident levels in 2012:

- Zero fatalities, compared with zero in 2011
- Two Lost Time Incidents, compared with eleven in 2011
- Three Restricted Work Day Cases, compared with three in 2011
- Three Medical Treatment Cases, compared with three in 2011
- One High Potential Incident, compared with five in 2011.

Total Company activity (core fleet vessels and PGS offices) in 2012 comprised 12,045,876 man-hours. Total activity in 2011 amounted to 11,773,684 man-hours.

The overall Lost Time Incident Frequency (“LTIF”) decreased to 0.17 per million man-hours in

2012, compared with 0.93 per million man-hours in 2011. The Total Recordable Case Frequency (“TRCF”) decreased to 0.66 per million man-hours from 1.44 per million man-hours in 2011. The number of total recordable incidents declined from 17 in 2011 to eight in 2012.

The Company has recorded improving HSEQ performance in recent years; HSEQ statistics for 2012 rank PGS among the best in the industry. This significant improvement is attributable to systematic work that builds HSEQ competence, enhances risk management, and drives ongoing HSEQ awareness among employees.

## Marine Operations

In 2012, PGS Marine Operations (core fleet) experienced the following health and safety incident rates:

- Zero fatalities, compared with zero in 2011
- One Lost Time Incident, compared with ten in 2011
- Three Restricted Work Day Cases, compared with three in 2011
- Three Medical Treatment Cases, compared with three in 2011
- One High Potential Incident, compared with five in 2011.

PGS Marine Operations (core fleet) comprised 7,820,536 man-hours, compared with 7,753,704 in 2011.

Marine Operations’ overall Lost Time Incident Frequency (“LTIF”) decreased to 0.13 from 1.29 per million man-hours in 2011. The Total Recordable Case Frequency (“TRCF”) decreased to 0.90 compared with 2.06 per million man-hours in

## PGS HAS A STRONG COMPANY-WIDE HSEQ CULTURE

2011. The number of total recordable incidents declined from 16 in 2011 to seven in 2012.

### Office Activities

In 2012, PGS offices experienced the following health and safety incident rates:

- Zero fatalities, compared with zero in 2011
- One Lost Time Incident, compared with one in 2011
- Zero Restricted Work Day Cases, compared with zero in 2011
- Zero Medical Treatment Cases, compared with zero in 2011
- Zero High Potential Incidents, compared with zero in 2011.

PGS office operations in 2012 totaled 4,225,340 man-hours, compared with 4,019,980 in 2011.

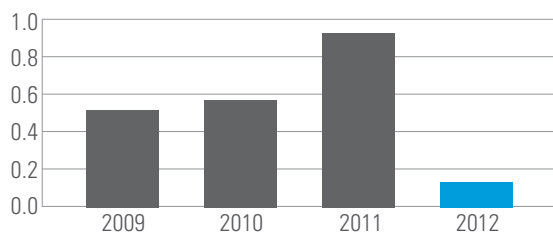
At PGS offices, the overall Lost Time Incident Frequency ("LTIF") was 0.24 per million man-hours in 2012, compared with 0.25 per million man-hours in 2011. The Total Recordable Case Frequency ("TRCF") was 0.24 per million man-hours in 2012, compared with 0.25 per million man-hours in 2011.

### ISO14001 Certification

Following the Company's OHSAS18001 certification in 2011, with DNV as the certifying organization, focus for 2012 has been on obtaining ISO14001 certification. ISO14001 certification was achieved in December 2012. ISO 14001 is an internationally acknowledged standard that defines requirements for an organization's environmental management and record-keeping systems. The broad scope of the certification process covered a fleet comprising 14 vessels and four main offices, located in Lysaker, Houston, Weybridge, and Singapore.

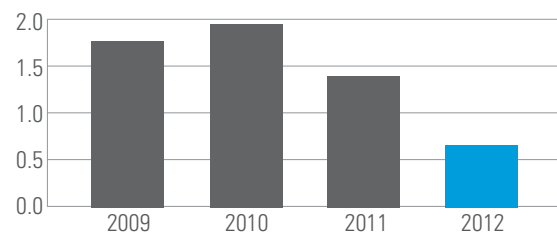
### LOST TIME INCIDENTS FREQUENCY ("LTIF")

Per million man-hours



### TOTAL RECORDABLE CASE FREQUENCY ("TRCF")

Per million man-hours



# THE PGS SHARE

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**PGS' share price rose 46 percent in 2012 — outperforming comparable indices and other larger seismic peers. The PGS share has its primary listing on the Oslo Stock Exchange in Norway. In the United States, shares are quoted over the counter and trade as American Depositary Shares (“ADS”).**

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## Share Facts

PGS has 217,799,997 shares outstanding (including American Depositary Shares, ADS), all of which are of the same class, with equal voting and dividend rights. Each share has a par value of NOK 3.

PGS' ordinary shares are listed on the Oslo Stock Exchange (ticker: PGS) and denominated in Norwegian kroner (“NOK”). The Company's American Depositary Shares are quoted over the counter in the US (ticker: PGSVY) and denominated in US dollars (“USD”); each ADS represents one share.

## Share Price Development

Investors who owned PGS shares over the course of 2012 enjoyed strong returns. With 46 percent share-price growth in 2012, PGS outperformed larger seismic companies such as TGS Nopec, CGG, Fugro, and the oil services company Schlumberger, with its seismic subsidiary WesternGeco. PGS significantly outperformed key indices, such as OSEBX, the Oslo Stock Exchange Benchmark Index; S&P 500; and the Philadelphia Oil Service Sector Index. Investor interest in the PGS share is strong. On average, approximately 2.2 million PGS shares traded daily in 2012; in terms of turnover value, PGS was the seventh-most traded stock on the Oslo Stock Exchange. Excluding companies in which the Norwegian government is the majority owner, PGS ranked number three, behind Seadrill and Subsea 7. The liquidity of PGS' ADS, quoted over the counter in the US, is significantly lower; the average daily ADS trading volume was approximately 16,000 shares in 2012.

## Shareholders

PGS had 5,751 shareholders on record as of December 31, 2012, according to the Norwegian Central Securities Depository (“VPS”).

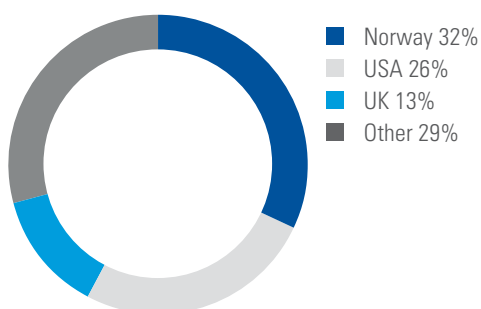
By year-end 2012, non-Norwegian investors owned approximately 68 percent of outstanding shares. In 2012, non-Norwegian ownership increased by approximately three percentage points, mainly driven by UK-based investors increasing their proportionate holdings from approximately 10 percent to nearly 13 percent. US-based investors decreased their ownership, from approximately 30 percent to about 26 percent. Other non-Norwegian shareholders, mainly domiciled in Europe, increased their ownership from approximately 25 percent to some 29 percent of PGS' outstanding shares.

PGS has a diversified shareholder base in which the most commonly practiced investment strategies are present. Investors focusing on growth and Growth At a Reasonable Price (“GARP”) account for approximately 45 percent of shareholders. Value investors make up approximately 30 percent, while the more risk-seeking hedge funds constitute about 10 percent. Index and quantitative-focused investors amount to five percent and the remaining 10 percent are shareholders with “Other” mandates, such as mixed style, venture capital funds, and private equity investors.

As of December 31, 2012, Folketrygdfondet (The Norwegian State Pension Fund) was the largest PGS shareholder, owning 23.5 million shares or 10.8 percent of outstanding shares.

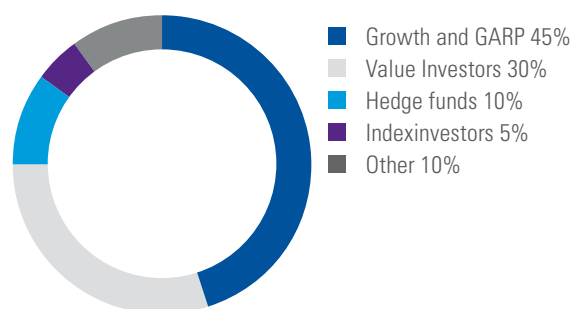


## CITIZENSHIP OF SHAREHOLDERS



Source: Norwegian Central Securities Depository ("VPS") as of December 31, 2012.

## COMPOSITION OF INVESTOR STRATEGIES

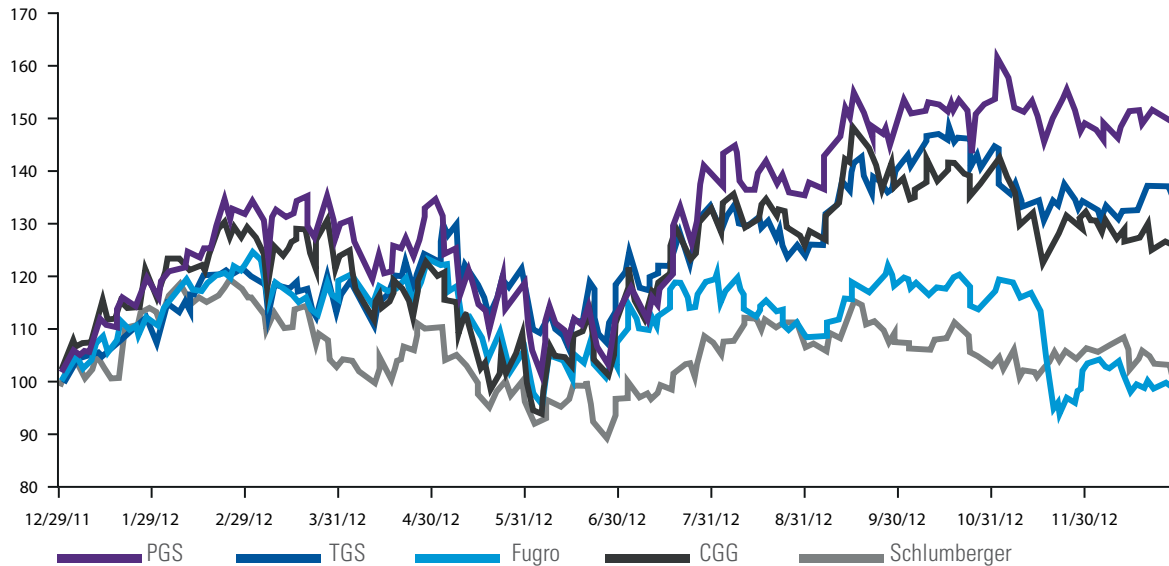


Source: ThomsonReuters as of December 31, 2012.

## 20 LARGEST SHAREHOLDERS AS OF DECEMBER 31, 2012

Rank	Shareholder	Shares Held	Ownership In %
1	Folketrygdfondet / The Norwegian State Pension Fund	23 480 576	10.78
2	State Street Bank	10 300 260	4.73
3	Euroclear Bank	7 767 301	3.57
4	Clearstream Banking	6 670 209	3.06
5	State Street Bank	6 262 330	2.88
6	JPMorgan Chase Bank	5 453 156	2.50
7	JPMorgan Chase Bank	4 415 497	2.03
8	State Street Bank	4 351 198	2.00
9	Caceis Bank	4 231 205	1.94
10	Citibank	4 082 189	1.87
11	Bank Of New York Mellon	3 697 252	1.70
12	State Street Bank	3 651 991	1.68
13	Tapiola	3 000 000	1.38
14	State Street Bank	2 914 003	1.34
15	Bank Of New York Mellon	2 716 489	1.25
16	Statoil Pensjon	2 527 001	1.16
17	Morgan Stanley	2 372 525	1.09
18	Varma Mutual Pension Company	2 314 879	1.06
19	JPMorgan Chase Bank	2 231 108	1.02
20	Verdipapirfondet DNB	2 174 449	1.00
Total, 20 Largest Shareholders		104 613 618	48.04

## PGS VS. PEERS



### Information Policy

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

On January 1, 2008, the amended 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 such as the Company's international operations; PGS' listing on the OTC market 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.

Early in 2010, PGS was also exempted from the requirement in the Norwegian Accounting Act (Section 3-4, third paragraph) that companies produce a Norwegian version of their annual reports.

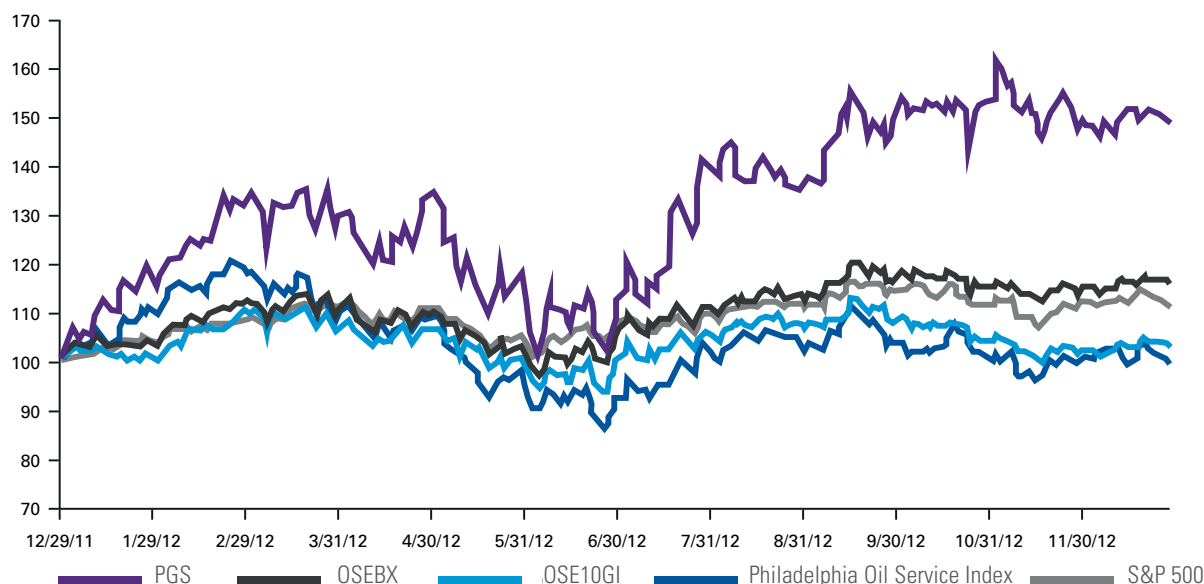
### Treasury Shares

PGS is authorized to purchase up to 10 percent of its own share capital. The authorization was made by the Company's 2012 Annual General Meeting and remains valid for one year following its date of registration with the Norwegian Register of Business Enterprises. As of December 31, 2012, the Company held 1,015,607 own shares, equal to 0.47 percent of total shares outstanding.

### Analyst Coverage

As of December 31, 2012, there were 28 sell-side analysts covering PGS on a regular basis, with market updates and estimates of PGS' financial results. Of these, 13 are based in the UK, two in France, one in the US and the rest are based in Norway. An updated list of analyst coverage is published on the Company's website: [www.pgs.com](http://www.pgs.com).

## PGS VS. MARKETS



### Dividend

PGS implemented its new dividend policy in 2011, with a dividend of NOK 1.10 per share paid in 2012 based on financial performance in 2011. For 2012, the Board of Directors proposes a dividend of NOK 1.65 per share, an increase of 50 percent. PGS' dividend policy is a testament to the Company's commitment to deliver returns throughout the cycle.

### 2013 Annual General Meeting

PGS' 2013 Annual General Meeting is scheduled for May 14, 2013 at 15:00 CET at the Company's headquarters at Strandveien 4, Lysaker (Oslo), Norway.

Each PGS share is entitled to one vote. Please note that Norwegian regulations stipulate that shares must be registered in the name of a specific owner in order for that person (or duly authorized agent) to be allowed to vote.

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

DnB NOR Bank ASA  
Registrar Services  
Dronning Eufemias gate 30  
NO-0191 Oslo, Norway  
Phone: +47 23 26 80 21  
Fax: +47 22 48 11 71  
Email: kua@dnb.no

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

### Contact Information for ADS Shareholders

The depository bank for PGS' American Depository Shares (ADS) is Deutsche Bank, as follows:

Deutsche Bank Shareholder Services  
American Stock Transfer & Trust Company  
6201 15th Avenue Brooklyn, NY 11219  
Email: DB@amstock.com  
Toll-free number: +1 800 937-5449  
Direct Dial: + 1 718 921-8124.



◀◀ **WITH 46 PERCENT SHARE-PRICE GROWTH IN 2012, PGS OUTPERFORMED LARGER SEISMIC COMPANIES SUCH AS TGS NOPEC, CGG, FUGRO, AND THE OIL SERVICES COMPANY SCHLUMBERGER**

#### **Corporate Debt Rating**

PGS is rated 'BB' by Standard and Poor's and 'Ba2' by Moody's Investor Service. In 2011 the Company issued USD 300 million of Senior Notes with seven years maturity, and in 2012 an add-on of USD 150 million aggregate principal amount was placed at 107.5 percent of par. Both Standard and Poor's and Moody's Investor Service awarded the facility the same rating they had applied at the corporate level. PGS' secured debt, which includes the Term Loan B and the Revolving Credit Facility, is only rated by Moody's Investor Service; Moody's awarded these obligations the same rating as applied at the corporate level.

#### **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](http://www.pgs.com)



# CORPORATE GOVERNANCE

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

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. To the extent practicable, PGS adheres to requirements applicable to registrants of foreign securities in the United States, where our American Depositary Shares ("ADS") are publicly traded. We have also implemented corporate governance guidelines particularly suited to our Company and the industry in which we operate.

The Norwegian Public Limited Companies Act section 5-6 (4) requires that the Ordinary General Meeting approves the statement of Corporate Governance. This report will therefore be presented to the General Meeting on May 14, 2013.

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 of Directors' Rules of Procedure, and the charters for the Company's Audit Committee, Remuneration and Corporate Governance Committee, and Nomination Committee. These documents can be downloaded from our website: [www.pgs.com](http://www.pgs.com).

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

## **1. Code of Conduct, Core Values and Corporate Responsibility**

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

At the heart of our Core Values is also a serious approach to Corporate Responsibility. We have built our framework for Corporate Responsibility around four key areas - People, Environment, Conduct and Stakeholders. For a further description we refer to our Responsibility Review document which is available at [www.pgs.com](http://www.pgs.com).

## **2. Business**

PGS is a focused geophysical company providing a broad range of seismic and reservoir services, including acquisition, processing, interpretation, and field evaluation. The Company also possesses the world's most extensive MultiClient data library. PGS operates on a worldwide basis with headquarters at Lysaker, Norway.

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

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

Our business operations and the goals and strategies for our business areas are presented in greater detail on pages 14-37 of this annual report.

### 3. Equity and Dividends

Shareholders equity as of December 31, 2012 was USD 1,922.8 million, corresponding to 59 percent of total assets. The Board of Directors believes that the Company's net interest bearing debt should be at moderate levels and not exceed 2 times annual EBITDA due to the cyclical nature of the seismic industry. The current net interest bearing debt of USD 435.6 million is well inside this and the Company's funding and equity position is found satisfactory by the Board of Directors. The Board of Directors continually monitors the adequacy of the Company's equity in light of its objectives, strategy, and risk profile.

The Board of Directors has adopted a dividend policy whereby it is the intention to distribute between 25 percent to 50 percent of net income as dividends.

The Board of Directors is authorized to buy back up to 10 percent of the Company's share capital. The current such authorization expires no later than June 30, 2013.

It has been an ongoing practice of PGS shareholders to grant limited authorizations to the Board of Directors permitting 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 practical to hold separate votes on each proposed purpose. Authorizations are time-limited; they expire at the next Annual General Meeting ("AGM").

### 4. Equal Treatment of Shareholders and Transactions with Close Associates

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

When applicable, transactions involving the Company's own shares should be carried out through a stock exchange, or at prevailing stock-exchange

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

### 5. Freely Transferable Shares

The Company's shares are freely transferable.

### 6. General Meetings

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

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

Notices convening Extraordinary General Meetings ("EGM") must be distributed at least two weeks ahead of the meeting. The Board of Directors is to call shareholders to an EGM upon a written demand by the Company's independent auditor or shareholders representing at least five percent of the share capital, or for other purposes. Shareholders who wish to attend a General Meeting must notify the Company's registrar or PGS by the 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 to be considered at the General Meeting may be published on our website. The same applies to documents that, due to statutory requirements must be attached to, or included in the notice calling the General Meeting. If the documents are published in such a manner, the statutory requirements for distribution shall not apply. Nevertheless, shareholders are entitled to request that documents to be considered by the General Meeting be sent to them via regular mail.

To vote at General Meetings, in person or by proxy, a shareholder must be registered with the Norwegian Central Securities Depository ("VPS"). Holders of ADS may vote according to the underlying shares by: (a) having the underlying shares transferred to an account with the Norwegian Central Securities Depository in the name of the holder, or (b) authorizing Deutsche Bank to vote the ADS on their behalf in accordance with specific guidelines.

An owner with shares registered through a custodian has voting rights equivalent to the number of shares covered by the custodial arrangement, provided that the owner of the shares, within two working days 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.

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

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

## 7. Nomination Committee

According to our Articles of Association, the Company has a Nomination Committee com-

prised of three members to be elected by our shareholders at the AGM. Nominations should take into account the interests of shareholders in general. The members and the chairperson of the Nomination Committee are elected at the General Meeting. The majority of Nomination Committee members shall qualify as independent parties, pursuant to the Norwegian Code of Practice for Corporate Governance. The term of service shall be two years unless the General Meeting determines that the period shall be shorter.

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

Once a year the Nomination Committee meet with each individual director and discuss how the Board and its committees function and whether there are a need for changes to the Board.

### Current Nomination Committee

The current Nomination Committee comprises Roger O'Neil (chairperson), C. Maury Devine, and Hanne Harlem. All three were reelected at the AGM held May 3, 2012 for a service period ending with the 2013 AGM.

Shareholders who wish to propose new Board members may do so by submitting a candidate's name to PGS' investor relations staff via the Company's website: [www.pgs.com](http://www.pgs.com) by following the link, "Nominate a Board Member." The deadline for submissions each year is the end of February. Alternatively, candidates can be proposed by letter to PGS or via email to: [ir@pgs.com](mailto:ir@pgs.com). PGS does not employ any Nomination Committee members and none is a member of the Board of Directors.

In 2012, the Nomination Committee held two meetings. The Nomination Committee's report on its work and recommendations will be distributed with the notice of the 2013 Annual General Meeting.

## 8. Board of Directors — Composition and Independence

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

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

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

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

All directors are independent of the Company's management. All directors are also per December 31, 2012 independent of our major business relations and major shareholders. No member of our Board of Directors may be an executive of PGS. Directors are not permitted to perform paid consultancy work for PGS. Five 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), Secretary of the Board of Directors and General Counsel Rune Olav Pedersen, PO Box 89, NO-1325 Lysaker, Norway. On [www.pgs.com](http://www.pgs.com) we also invite any shareholders to set up a meeting or call with Mr. Pedersen where any issue on corporate governance or corporate responsibility may be discussed.

### Current Board of Directors

As of December 31, 2012, the Board of Directors comprised seven shareholder representatives. Current board members are presented on the Company's website: [www.pgs.com](http://www.pgs.com) and in this annual report. Board meeting attendance in 2009-

2012 exceeded 75 percent for each board member elected at the last AGM.

## 9. The work of the Board of Directors

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

The Board of Directors supervises the CEO's day-to-day management and company activities in general. The Board of Directors is also responsible for ensuring that appropriate management, guidelines, and control systems are in place and are followed. The CEO, as agreed with the chairperson of the Board of Directors, annually submits a schedule for the meetings of the Board of Directors in the upcoming calendar year. The schedule is subject to Board approval. In 2012, the Board of Directors held 9 meetings including conference calls.

Key elements of the Rules of Procedure covering the Board of Directors' responsibilities to determine the Company's financial targets, set strategies along with the CEO and executive committees, and approve business plans, budgets, and budgetary and risk frameworks. In its supervision of the Company's business activities, the Board of Directors will seek to ensure that satisfactory procedures 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 responsibility.

The rules also require an annual self-evaluation to determine whether the Board of Directors and its committees are functioning effectively. The annual self evaluation is prepared and facilitated by the Remuneration and Corporate Governance Committee. An anonymous survey is carried out and the results are discussed by the Board of Directors. The results of the survey is made available for the Nomination Committee.

Each scheduled Board of Directors meeting includes a separate session where issues may be discussed without the presence of management.

The tasks and duties of the CEO vis-à-vis the

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

Our governance structure is organized as described below.

Our Board of Directors 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.

Board responsibilities include:

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

The responsibilities of the CEO include:

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

### Board of Directors Committees

Our Audit Committee comprises board members Harald Norvik (chairperson), Carol Bell, and Daniel J. Piette. All committee members are considered independent of the Company. The

committee's functions are to assist the Board of Directors in its supervision of the integrity of PGS' financial statements; to monitor the independent auditor's qualifications, independence and performance; to monitor the performance of the internal audit function; and to promote and review compliance with laws and regulatory requirements.

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 the CEO and other senior executives. Review and modification of the Company's guidelines for good corporate governance are also committee responsibilities.

### 10. Board of Directors Committees

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

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

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

The Company's anti-corruption program includes a policy, a management statement, procedures

on several ethical issues, periodic training, high risk area assessment and monitoring, compulsory contract wording etc. This program is evaluated on a regular basis by the Audit Committee.

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

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

#### **Internal Audit Department**

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

The scope of work for the Internal Audit department includes determining whether the Company's risk management, control, and governance processes, as designed and represented by management, are adequate and functioning. The department has established a process for ensuring that sufficient internal control related activities are integrated into PGS' significant business operations worldwide and that focus is directed towards areas of perceived high risk.

Any non-conformance is systematically followed up and corrective measures are implemented and monitored.

#### **11. 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 PGS.

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 level, structure and guidelines for executive managers are subject to annual review and approval by the Remuneration and Corporate Governance Committee and approval by the Board of Directors to the extent it covers the CEO. The Remuneration and Corporate Governance Committee uses an external advisor for this work. A specific peer group of comparable companies and an executive remuneration philosophy has been adopted. This is done in order to ensure and facilitate a structured approach to the annual review of executive compensation. The Remuneration and Corporate Governance Committee reviews the total compensation level, the mix between fixed and performance related compensation and the mix between short, medium and long term compensation.

PGS currently has a compensation structure for executive managers that includes base salary, benefits such as newspaper and mobile phone etc, cash bonus, a pension plan and stock based long term incentive programs. Features in these programs include an absolute ceiling on performance-related remuneration and a cap on maximum gain on option programs.

For further details on the compensation structure and total compensation to executive team members, see Note 34 to the financial statement of PGS.

#### **12. Information and Communications**

The Board of Directors is committed to reporting financial results and other relevant information based on openness and the requirement for equal treatment of all shareholders and securi-



ties market participants. The Company complies with relevant disclosure rules and regulations. Announcements are released through the Thomson Reuters reporting channel and posted on the Oslo Stock Exchange's news service: [www.newsweb.no](http://www.newsweb.no). In addition, all announcements are available on the Company's website: [www.pgs.com](http://www.pgs.com). The Company's policy of accessibility for shareholders is also presented on the Company's website.

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

The Board of Directors and the Nomination Committee also annually send a letter to the largest shareholders inviting them to a dialog on corporate governance and corporate responsibility matters. The letter is also posted on [www.pgs.com](http://www.pgs.com) and any shareholder may initiate communication with the Company on these matters. During 2012 several meetings and phone conferences were conducted with shareholders following this initiative.

### 13. Takeover Bids

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

### 14. Auditor

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

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

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

### 15. Compliance with Laws, Rules, Regulations and Recommendations

As part of PGS' Business Practice outlined on [www.pgs.com](http://www.pgs.com), PGS is *inter alia* committed to comply with relevant laws, rules and regulations. In addition, PGS complies with the current recommendations given by the Norwegian Code of Practice for Corporate Governance ("NUES Recommendations"), subject only to the deviations identified and justified in this report. The NUES Recommendations are available at [www.nues.no](http://www.nues.no).

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

# BOARD OF DIRECTORS

## FRANCIS GUGEN

Chairperson  
(Elected 2003)



Francis Gugen was elected PGS Board Chairman in May 2009. Currently an energy-industry consultant and investor, he worked at Amerada Hess Corporation for 18 years, from 1982 to 2000. Mr. Gugen served as Chief Executive of Amerada Hess UK from 1995 to 2000 and Amerada Hess' Chief Executive of North West Europe from 1998 to 2000. His board positions at listed companies include Board Chairman of IGas Energy Plc and Board Member of SBM Offshore NV; Mr. Gugen is an IGas Energy investor. Francis Gugen is also Chairman of the Board and investor in a number of privately held companies. A UK chartered accountant, he has also worked at Arthur Andersen. As of April 12, 2013, Mr. Gugen owns 30,000 PGS shares.

## HARALD NORVIK

Vice Chairperson  
(Elected 2003)  
Audit Committee Chairperson



Harald Norvik is an independent advisor and consultant. He is Board Chairman of Aschehoug Publishing House and Board Member of ConocoPhillips, Inc., Deep Ocean Holding, and Umoe. Mr. Norvik was President and Chief Executive Officer of Statoil from 1988 to 1999. From 1981 to 1988, he was Finance Director and a Member of the Executive Board of the Aker Group. Harald Norvik 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. He received his Master of Science in Business from the Norwegian School of Economics and Business Administration. As of April 12, 2013, Mr. Norvik owns 8,000 PGS shares.

## HOLLY VAN DEURSEN

Board Member  
(Elected 2006)  
Remuneration and Corporate  
Governance Committee Chair-  
person



Holly Van Deursen currently holds non-executive director positions with Petroleum Geo-Services, Bemis Company, Inc., Actuant Corporation, Capstone Turbine Corporation, and Anson Industries, Inc. She served on BP plc's Top-Forty Executive Team as Group Vice President, Petrochemicals from 2003 to 2005 and Group Vice President, Strategy from 2001 to 2003. Prior to these executive appointments, Ms. Van Deursen held a variety of senior positions with BP and Amoco in Chicago, London, and Hong Kong and she has served on the boards of directors of the American Chemistry Council and Amoco's joint ventures in Korea, Taiwan, and Japan. Ms. Van Deursen holds a B.Sc. in Chemical Engineering from the University of Kansas and an MBA from the University of Michigan. As of April 12, 2013, Ms. Van Deursen owns 2,000 PGS shares.

**DANIEL J. PIETTE**

Board Member  
(Elected 2007)  
Audit Committee Member



Dan Piette is Executive Chairman of TerraSpark Geosciences, a software company that offers technology for interpretation of seismic data. Previously, Mr. Piette was President, CEO, and a Board Member of Object Reservoir. Mr. Piette was President and CEO of OpenSpirit Corporation from 2003 to 2011. After receiving his B.Sc. with honors in Mining Engineering from the University of Wisconsin-Madison in 1980, he held several executive management positions in the oil and gas industry, including business unit manager for the land acquisition systems group at Input/Output, President and CEO of Bell Geospace, and Vice President and General Manager of the Asia Pacific region for Landmark Graphics. As of April 12, 2013, Mr. Piette owns 7,000 PGS shares.

**ANNETTE MALM JUSTAD**

Board Member  
(Elected 2008)  
Remuneration and Corporate  
Governance Committee Member



Annette Malm Justad is an independent consultant and board member. She has served as CEO of Eitzen Maritime Services ASA, Vice President and Head of Purchasing for Yara International ASA, Vice President and Fleet Manager of Norgas Carriers AS, and has held various technical and commercial positions at Norsk Hydro ASA. Ms. Malm Justad holds a Master's degree in Technology Management from MIT/NTH, as well as an M.Sc. in Chemical Engineering from the Norwegian University of Science and Technology. Board memberships include Board Chairman of American Shipping Company and Store Norske Spitsbergen, and Board Member of Awilco. As of April 12, 2013, Annette Malm Justad does not own any PGS shares.

**INGAR SKAUG**

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



Ingar Skaug was Group CEO of the maritime industrial group Wilh. Wilhelmsen ASA from 2003 to 2010, 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 is a Board Member of the ferry, cruise ferry, and integrated logistics company DFDS AS, the offshore safety monitoring innovator Miro, and the travel bureau Berg-Hansen. He is also Board Chairman of Bery Maritime AS and Ragni Invest AS, and Deputy Board Chairman and a member of the auditing committee of J. Lauritzen AS. Ingar Skaug is Chairman of the Center for Creative Leadership. He received his MBA degree from the University of Nürnberg, Germany. As of April 12, 2013, Mr. Skaug does not own any PGS shares.

**CAROL BELL**

Board Member

**(Elected 2009)****Audit Committee Member**

Dr. Bell has over 30 years of experience in the energy industry, with particular expertise in investment and financing in the oil and gas sector. She is a non-executive director of Salamander Energy plc (London Stock Exchange) and board member of Det norske oljeselskap ASA (Oslo Stock Exchange). She is also a non-executive director of Griffiths Energy International Inc and GeoVS Ltd, and a member of the Investment Advisory Committee of Gemini Oil and Gas, a private investment fund. Dr. Bell is a member of the Authority that governs the Welsh-language television channel S4C and is chair of the Investment Committee of Girton College, Cambridge University. She has held senior positions in investment banking, including Managing Director of the Global Oil & Gas Group at Chase Manhat-

tan Bank, Head of European Equity Research at JPMorgan 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 in 2006 published a book on this subject. Dr. Bell is Honorary Treasurer of the British School in 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 12, 2013, Dr. Bell owns 5,000 PGS shares.



# EXECUTIVE MANAGEMENT

## JON ERIK REINHARDSEN

President and CEO  
(Born 1956)



Jon Erik Reinhardsen joined PGS in April 2008 as President and Chief Executive Officer. Prior to heading PGS, he was Alcoa's President, Global Primary Products Growth. At Alcoa, he was responsible for developing and implementing major primary metal and refining growth opportunities for the company worldwide. Mr. Reinhardsen joined Alcoa from Norway-based Aker Solutions ASA, an international engineering and construction contractor for the oil, gas, chemicals, petrochemicals, mining, and metal processing industries. As Group Executive Vice President for Aker Solutions' Houston, Texas-based business, he was responsible for all non-European contracting operations and product businesses worldwide.

Earlier in his career, Mr. Reinhardsen led Aker Maritime ASA's Products business in Norway and was engaged in merger and acquisition activities, new business development, marketing and sales, and investor relations. He also led Aker ASA's seismic venture Aker Geo that was later sold to CGG. In June 2009, Mr. Reinhardsen was elected to the board of directors of Cameron and he has been a member of the board of directors of Hoegh Autoliners Holdings AS and Hoegh LNG Holdings Ltd since 2005. He is also a member of the board of directors of Awilhelmsen AS. Mr. Reinhardsen earned a master's degree in Applied Mathematics and Geophysics from the University of Bergen, Norway. He completed the International Executive Program of the Institute for Management Development (IMD) in Lausanne, Switzerland in 1991.

## GOTTFRED LANGSETH

Executive Vice  
President and CFO  
(Born 1966)



Gottfred 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. Langseth worked at Arthur Andersen Norway from 1991 to 1997; he was certified as a Norwegian state-authorized public accountant in 1993. Mr. Langseth holds a Master of Business Administration degree from the Norwegian School of Economics and Business Administration.

**SVERRE STRANDENES**

Executive Vice President,  
MultiClient  
(Born 1956)



Sverre Strandenes was appointed Executive Vice President MultiClient on May 1, 2010. He had been PGS' Group President, Data Processing & Technology since November 2006. Strandenes has held several senior PGS management positions, including 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. Sverre Strandenes was awarded an M.S. in Geophysics by the University of Bergen in 1981.

**GUILLAUME CAMBOIS**

Executive Vice President, Data  
Processing & Technology  
(Born 1964)



Guillaume Cambois joined PGS in 2007 as the senior advisor spearheading deployment of PGS' GeoStreamer technology. He took over as Marine Contract President, Asia-Pacific in March 2009 and in May 2010 advanced to Executive Vice President Data Processing & Technology. During a 20-year career at the geophysical services company CGG prior to joining PGS, Guillaume Cambois held various executive management posts, such as Executive Vice President Data Processing and Chief Technology Officer. An active member of the Society of Exploration Geophysicists, he was the Society's Vice President in 2007/2008. Mr. Cambois received his Ph.D. in Geophysics from the University of Texas at Austin.

**PER ARILD REKSNES**

Executive Vice President,  
Marine Contract  
(Born 1957)



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

**MAGNE REIERSGARD**

Executive Vice President,  
Operations  
(Born 1961)



Magne Reiersgard joined PGS at its inception in 1990/91 and has held a number of key executive positions in the PGS Group. He has been Executive Vice President, Operations since April 2010. Magne Reiersgard's prior management roles at PGS include President, Marine Geophysical NSA Region, based in Houston; President, Marine Geophysical Asia Pacific Region, headquartered in Singapore; and Vice President, Marine Acquisition. Prior to joining PGS, he held various management positions in the survey division of Geoteam AS. Currently on the Board of Directors of IAGC (International Association of Geophysical Contractors), he is also a board member of the not-for-profit Society of Exploration Geophysics (SEG) Foundation. Mr. Reiersgard holds an electronics degree from Agder University College, Grimstad, Norway, and a business degree from BI Norwegian School of Management.

# BOARD OF DIRECTORS' REPORT

**Petroleum Geo-Services delivered strong earnings growth in 2012; operating profit more than doubled and cash flow from operations was almost 60 percent higher than the previous year. The marine seismic market is strengthening and increased demand from oil companies, combined with limited new capacity entering the market, our Profit Improvement Program and our unique GeoStreamer offering contributed to the improvement. PGS' competitive position will be further enhanced as the Company takes delivery of the Ramform Titan-class vessels and continues to develop products based on our GeoStreamer technology platform.**

Petroleum Geo-Services ("PGS" or "the Company") is a focused Marine geophysical company providing a broad range of seismic and reservoir services, including acquisition, processing, interpretation, and field evaluation. Our Multi-Client 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 at Lysaker (Oslo), Norway.

PGS is organized into four business areas: Marine Contract, MultiClient, Operations, and Data Processing & Technology ("DP&T").

- **Marine Contract** initiates and manages projects and customer relationships pertaining to seismic data acquired under exclusive contracts; the diversified customer base comprises a broad range of the world's independent and national oil and gas exploration and production companies.
- **MultiClient** initiates and manages projects and customer relationships pertaining to seismic data licensed on a non-exclusive basis from our library of field surveys. Our library covers substantial areas in the major offshore hydrocarbon basins that we and our clients believe have the highest potential for development, such as the North Sea, offshore West Africa, Brazil, the Gulf of Mexico and in the Mediterranean Sea.
- **Operations** supports both our Marine Contract and MultiClient units with reliable and efficient data acquisition by managing the operation of our seismic vessels and related

equipment, including fleet expansion and maintenance.

- **DP&T** processes seismic data acquired for our MultiClient library and for clients under contract. It also manages our research and development activities.

## 2012 Business Highlights

Operating profit in 2012 more than doubled from the previous year, reflecting an improving market, solid performance in all business areas, and successful implementation of our Profit Improvement Program.

For the first time in the Company's history, we achieved higher MultiClient revenues than Marine Contract revenues. Record MultiClient revenues were driven by the world's largest MultiClient survey in the Kwanza/Benguela basins offshore Angola and the fourth year of GeoStreamer campaigns in the North Sea. Improving fundamentals in the marine seismic market combined with our GeoStreamer technology raised margins for our Marine Contract activities. With more seismic acquired, and more advanced seismic, our Data Processing business area delivered record external revenues.

Late 2011, we initiated a profit improvement program targeting a \$50 million EBIT run-rate improvement by year-end 2012. Measures included general cost reduction, several procurement initiatives, operation-specific cost reductions, and work-flow process improvements, including management of yard stays and logistics at all levels. We have succeeded in all program phases and have identified further savings to be realized in 2013 and 2014.



In 2012, we achieved substantial technology milestones for our Towed Electro Magnetic (“Towed EM”), permanent reservoir monitoring, and imaging products. We completed the first series of surveys with our Towed EM solution and successfully installed an OptoSeis system for permanent reservoir monitoring (“PRM”) at the Jubarte Field offshore Brazil. In addition we launched our Separated Wavefield Imaging (“SWIM”) technology, which delivers enhanced imaging using the GeoStreamer technology platform (see the “Technology” paragraph for more details).

We exercised options to build two additional Ramform Titan-class vessels with deliveries planned for the first and second half of 2015. The Titan-class new build program now comprises four vessels, the first of which is scheduled for delivery in the spring of 2013.

The new build program entails significant capital expenditures. We enter this period with a strong balance sheet, a low level of net interest bearing debt and a substantial liquidity reserve. We have established Japanese export credit financing for the two first Ramform Titan-class vessels on attractive terms, and we are in the process of seeking a similar facility for the next two vessels.

In December 2012, our funding position was further strengthened by offering a \$150 million add-on to the Senior Notes maturing in 2018. The timing was opportune, spurred by a strong corporate bond market in the second half of 2012, and the funds give us even greater financial flexibility at an attractive price.

In 2012, PGS received ISO14001 certification, with Det Norske Veritas (“DNV”) as the certifying body. ISO14001 is an internationally recognized standard that defines the requirements of an environmental management system.

We implemented our new dividend policy in 2011, with a dividend of NOK 1.10 per share paid in 2012 based on financial performance in 2011. For 2012, the Board of Directors proposes a dividend of NOK 1.65 per share, an increase of 50 percent. Our dividend policy is a testament to our commitment to deliver returns throughout the cycle.

### Strategy Review

PGS’ strategic ambitions are anchored in five core pledges:

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

We have a strategic ambition *to care* for our employees’ health and safety alongside caring for the environment and society at large. Leadership in HSEQ is a core value for PGS — and enables the business to achieve customer success. We aim to be best-in-class, with zero injury to people and limited harm to the environment. HSEQ leadership requires continuous improvement through identifying, assessing, mitigating, and managing risk affecting PGS employees, contractors, and the environment.

*Productivity leadership* is served first and foremost by our fleet of Ramform vessels. Given the trend towards larger surveys and shorter cycle times between the award of a license and the required drilling of the first well, efficiency and reliability are important performance criteria that differentiate us from our competitors. With four new Ramform Titan-class vessels scheduled for delivery over the next three years, we are in the process of a step change in our productivity capabilities. GeoStreamer increasingly contributes to improved productivity; GeoStreamer deployment on all our vessels will be achieved in 2016.

When adding capacity, PGS will seek to take a long term view and invest through the cycle, backed by a solid balance sheet. Enhanced productivity must be an essential outcome of any decision to add capacity. Maintaining critical mass is important; however, market share growth alone is not a Company objective.

Oil companies are ultimately seeking *superior data quality*. The ability to deliver a clearer, more informative seismic image requires successful product *innovation*. We introduced the GeoStreamer in 2007 and we were the first to offer a dual-sensor streamer, despite industry efforts to develop a dual-sensor streamer for many years. We claim with pride that GeoStreamer has been the greatest game-changer in the seismic industry since the launch of 3D seismic

in the early 1970s, and the best example of PGS' technology differentiation. To further advance the GeoStreamer technology platform, we have developed a number of spin-off products and technologies, such as GeoSource ("GeoStreamer GS") and SWIM.

Regarding operational *innovation*, PGS was the first company to deploy vessels capable of towing more than 20 streamers. We deliver unique reservoir-focused solutions based on the high-performance GeoStreamer technology platform.

The seismic market is characterized by short order books that leave seismic companies exposed to earnings fluctuations. PGS aims to *perform over the cycle* and mitigate its exposure to the industry cyclicality by maintaining a strong balance sheet and a proactive approach to capacity and capital allocation between MultiClient and contract work in order to maximize profitability and our ability to generate healthy cash flows from operations.

#### **Markets and Main Businesses**

PGS is one of the three largest participants in the global marine 3D seismic market, with a market share of approximately 20 percent.

Capital expenditures for exploration and production by oil companies continued to increase in 2012, driving demand for seismic services. The combination of increased demand and slower growth in new capacity entering the market reduced excess capacity in the industry. The average oil price in 2012 exceeded \$110 per barrel for the second consecutive year. Stable, high oil prices promote continued exploration and production spending. Additional main drivers were a considerable need to explore and develop new areas, secure an acceptable replacement of reserves, and obtain enhanced oil recovery from producing fields.

The macro environment was volatile in 2012. Despite this turbulence, most seismic buyers maintained a long-term planning horizon and the market has not seen any significant change in customer behavior.

Demand, measured by square kilometers of acquired seismic, grew well over 20 percent in 2012, compared to an annual average of approxi-

mately 10 percent in the previous six years. The higher 2012 growth rate is attributable to more large exploration surveys than the industry has experienced in recent years. Increased exploration in new areas promotes seismic demand.

The US Gulf of Mexico and Brazil have traditionally been anchor markets for seismic activity. The Macondo incident in April 2010 halted offshore US activity, which has not yet returned to stable pre-Macondo levels. Activity in Brazil remained moderate during 2012 in anticipation of a new licensing regime. Africa, and especially West Africa, along with the Caribbean, Central America, and another strong North Atlantic seismic season more than offset the lower activity levels in the Gulf of Mexico and Brazil.

Late in 2012, we were experiencing a market with improved supply/demand balance and considerable customer motivation to secure capacity earlier. High market activity and sustained strength combined with our unique GeoStreamer technology and Ramform vessels enabled us to book work well into second half of 2013. By year-end, we had better order book visibility than the industry average. A majority of these bookings were directly awarded contracts, at margins higher than what we achieved on average in 2012. As of December 31, 2012, PGS' order book amounted to \$829 million, including \$228 million of committed pre-funding for scheduled MultiClient projects, compared to \$678 million as of year-end 2011.

Contract seismic work continued to dominate our business activities in 2012, with approximately 57 percent of active 3D vessel time spent on contract work. We used 43 percent of active 3D vessel time for acquisition of new MultiClient surveys at continued high levels of pre-funding. Pre-funding amounted to 155 percent of capitalized MultiClient cash investments in 2012; highly impacted by the world's largest MultiClient project offshore Angola.

Data processing for external customers is becoming an increasingly important revenue stream. In 2012, external processing revenues were \$124.4 million, up from \$110.0 million in 2011. The order book for external data processing has remained at high levels, and by year-end 2012 it amounted to \$93.6 million.

## Technology

High-end imaging technology contributes to data processing revenue growth and has resulted in higher-quality data, shorter cycle times, and better-informed decision-making by customers. Our goal is to provide services that are recognized as state-of-the-art and to consistently maintain best-in-class MultiClient data processing capabilities.

PGS has invested considerable resources to develop and deliver efficient data processing solutions and technological differentiators to clients. SWIM is the newest addition to PGS processing technologies. SWIM uses the multiple energy, made available by GeoStreamer technology, in the imaging process, which has the potential to both improve data quality and make seismic acquisition more efficient.

GeoStreamer, the first-ever dual-sensor streamer and a proprietary PGS technology, represents a game changer in streamer technology and the best proof of PGS' technology differentiation. GeoStreamer delivers enhanced resolution, better depth imaging, and improved operational efficiency.

GeoStreamer is used as an integrated acquisition and processing solution that enables us to deliver unparalleled features that differentiate our product capabilities from industry alternatives.

In 2012, we installed GeoStreamer on *Ramform Vanguard*. Approximately 70 percent of the 3D fleet had been equipped with GeoStreamer by year-end 2012.

While seismic data yields an image of the subsurface geological structure, electromagnetic ("EM") data can provide information about the fluid content of reservoirs. We have been developing a Towed EM streamer system. In 2012, we launched our Towed EM technology in the market by successfully acquiring surveys over a number of known prospects in the North Sea.

The benefits of towed EM acquisition are many, and clients have shown great interest in the technology. First and foremost, efficiency is significantly improved, compared to existing EM acquisition technologies.

In December 2012, PGS successfully completed

the installation of a fiber-optic, permanent reservoir monitoring ("PRM") seismic system for Petrobras at the Jubarte Field offshore Brazil. The Jubarte PRM system comprises approximately 35 kilometers of sensor cables and is the first PRM system installed at more than 1,000 meters water depth. First acquisition was completed early February 2013. Delivery of the Jubarte project gives PGS a strong position in the growing PRM market.

## Four Ramform Titan-class Vessels Ordered

In April 2011, PGS ordered two new Ramform Titan-class vessels from Mitsubishi Heavy Industries Ltd. The scheduled delivery dates for the two vessels are the second and the fourth quarter of 2013, respectively. The options for construction of another two vessels were exercised in the fourth quarter of 2012. The two additional vessels are scheduled for delivery in the first and second half of 2015.

The estimated cost for each of the two first vessels is approximately \$260.0 million, including commissioning and a comprehensive seismic equipment package, but excluding capitalized interest and post-delivery costs.

By ordering new industry-leading capacity, we continue to strengthen our efficiency leadership and position PGS to take full advantage of a recovery in the marine seismic market.

## Financial Results

Total revenues in 2012 were \$1,518.2 million, compared to \$1,253.3 million in 2011, an increase of 21 percent, mainly due to significantly higher MultiClient revenues.

Revenues from Marine Contract seismic acquisition decreased slightly from 2011 as a result of less 3D vessel capacity being used for Marine Contract acquisition. The contract EBIT margin for the full-year 2012 was 16 percent, compared to 4 percent in 2011. The margin improvement is driven by a generally stronger marine seismic market, higher prices, and improved profitability of the Company's increasingly GeoStreamer-focused services.

Total MultiClient revenues (pre-funding and late sales combined) increased by \$226.4 million, or 45 percent, to \$728.2 million in 2012, driven by

increased pre-funding revenues. The increase in pre-funding revenues was primarily related to the world's largest MultiClient project in the Kwanza basin offshore Angola and strong customer interest in the fourth season of the Company's North Sea GeoStreamer MultiClient campaigns. Late sales in 2012 were \$266.8 million, which is only \$11.5 million lower than the record late sales achieved in 2011.

Cash investment in the MultiClient library increased by \$93.5 million, or 46 percent, to \$297.4 million in 2012. Pre-funding as a percentage of capitalized cash investment was 155 percent in 2012, compared to 110 percent in 2011. The increase in pre-funding level was primarily driven by the same factors mentioned above as to higher pre-funding revenues. In 2012, the fleet allocation factor (active 3D vessel time for Marine Contract vs. MultiClient data acquisition) was approximately 57:43, compared to 72:28 in 2011.

Operating costs, which include cost of sales, expensed research and development costs, and selling, general and administrative costs, totaled \$742.1 million in 2012, compared to \$718.5 million in 2011, an increase of \$23.6 million. The increase primarily reflects greater activity in high-cost regions, higher fuel prices, an increase of OptoSeis deliveries, and reduced capitalization of vessel operating costs relating to major periodic maintenance, partly offset by an increase in the amount capitalized as MultiClient cash investments, and the effects of the Profit Improvement Program.

Reported research and development costs increased by \$14.0 million to \$38.3 million in 2012. The increase is primarily driven by a shift of resources to projects classified as R&D, by additional marine seismic acquisition field trials, and by an increase in processing technology investments, partly offset by a reduction in Towed EM field trials and prototype development. Capitalized development costs totaled \$19.0 million in 2012, compared to \$18.4 million in 2011.

Net depreciation and amortization for 2012 amounted to \$484.3 million, compared to \$397.9 million in 2011, up \$86.4 million or 22 percent.

Gross depreciation increased by \$11.7 million, driven by vessel upgrades and continued Geo-

Streamer investments. Depreciation capitalized to the MultiClient library increased by \$32.9 million in 2012 as a result of more fleet capacity allocated to 3D MultiClient surveys, causing reported net depreciation cost to decline by \$21.2 million in 2012, compared to 2011.

MultiClient amortization for 2012 increased by \$107.6 million, or 45 percent compared to 2011. MultiClient amortization as a percentage of total MultiClient revenues was 47 percent in 2012, which is in line with 2011. The net book value of our MultiClient library was \$382.3 million as of December 31, 2012, compared to \$334.1 million as of December 31, 2011.

Operating profit in 2012 was \$293.8 million. The corresponding 2011 operating profit was \$141.3 million.

Net interest expense was \$37.8 million in 2012, compared to \$42.2 million in 2011. The decline is attributable to an increase in capitalized interest for construction in progress, partially offset by a decrease in capitalized interest for the MultiClient library.

Other financial income was \$7.1 million in 2012, compared to \$24.7 million in 2011. The decrease in 2012 was due to lower gains from sales of shares and less interest income.

Other financial expenses amounted to \$23.1 million in 2012, compared to \$33.7 million in 2011. The decrease is primarily related to lower fair value adjustments on financial instruments, partially offset by higher losses from repurchase and redemption of the remaining outstanding amount of the 2.7 percent Convertible Notes due in 2012.

PGS recorded a currency loss in 2012 of \$7.3 million, compared to a loss of \$10.3 million in 2011. The Company holds foreign currency positions to balance its operational currency exposure.

Loss from associated companies amounted to \$4.2 million in 2012 and relates to investments in Azimuth Ltd., Fortis Petroleum Corporation AS, and PGS Khazar. The comparable 2011 figure was a loss of \$12.4 million, which was mainly attributable to Azimuth Ltd. and Geokinetics Inc.

Income tax expense was \$42.9 million in 2012,



compared to \$30.0 million in 2011. The 2012 tax expense includes a current tax expense of \$43.9 million, compared to a current tax expense of \$1.2 million in 2011. 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. Deferred tax for 2012 was a benefit of \$1.0 million, compared to an expense of \$28.5 million in 2011.

With multinational operations, PGS is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. We have identified issues in several jurisdictions that could eventually make us liable to pay tax claims relating to prior years in excess of the liability we have recognized in our financial statements. Reference is made to Note 27 of the 2012 financial statements for a description of significant tax contingencies.

Net income to equity holders of PGS ASA was \$185.5 million in 2012, compared to \$33.7 million in 2011.

#### **Cash Flow, Financial Position and Financing**

Net cash provided by operating activities totaled \$752.9 million in 2012, compared to \$480.4 million in 2011. The increase is largely attributable to improvements in operating profit and a positive working capital development.

Cash and cash equivalents totaled \$390.3 million as of December 31, 2012, compared to \$424.7 million at year-end 2011.

In December 2012, we issued an additional \$150 million aggregate principal amount to the 7.375 percent Senior Notes due in 2018, at a price of 107.5 percent of par, with a yield of 5.68 percent. The market for corporate bonds was strong in the second half of 2012 and the successful offering of the additional \$150 million of Senior Notes was an opportunistic move to secure attractive financing with long maturity.

In October 2012, we established export credit financing for the two first Ramform Titan-class vessels that are scheduled for delivery in 2013. Through a wholly owned subsidiary, the Company has signed two loan agreements for an aggregate of \$250 million to finance the yard cost

of these new builds. The loans will be drawn at delivery of the vessels. We are in the process of seeking a similar facility for the two additional Ramform Titan-class vessels.

Our interest-bearing debt comprises the following primary components:

	DECEMBER 31	
(IN USD MILLION)	2012	2011
<b>Secured:</b>		
Term loan B, due 2015	470.5	470.5
USD 450 million Senior Notes, due 2018	450.0	300.0
<b>Convertible notes:</b>		
Convertible notes, due 2012	-	183.8
<b>Total</b>	<b>920.5</b>	<b>954.5</b>

Net interest-bearing debt (interest-bearing debt less cash and cash equivalents, restricted cash, and interest-bearing investments) was \$435.6 million as of December 31, 2012, compared to \$394.2 million as of December 31, 2011.

#### **Investments**

In 2012, total MultiClient cash investments, excluding capitalized interest, amounted to \$297.4 million, compared to \$203.9 million in 2011, an increase of \$93.5 million. The increase is primarily due to more capacity allocated to MultiClient in 2012 than in 2011.

Capital expenditures totaled \$368.1 million in 2012, compared to \$279.9 million in 2011, an increase of \$88.2 million or 32 percent. The increase is largely attributable to higher capital expenditures related to vessel new builds. In 2012 we had capital expenditures of \$202.0 million relating to the 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, 2012, our debt structure included \$470.5 million in floating interest rate

debt, with interest based on one- and three-month LIBOR rates, plus a margin. Fixed-interest-rate debt amounted to \$450.0 million. To reduce the adverse effects of any interest rate increases, the Company has a portfolio of interest rate swaps ("IRS") with a total nominal value of \$300.0 million. The fair value of the IRS portfolio was minus \$18.0 million as of December 31, 2012. The swaps are for periods of 1½ to 2¼ years. Taking into account the effect of interest rate swaps, for every (hypothetical) one percentage point increase in LIBOR, the annual net interest expense of our net debt, including finance leases, would decrease by approximately \$2.6 million, given our cash holdings as of December 31, 2012.

#### **Currency Exchange Risk**

We conduct business primarily in US dollars ("\$" or "USD"), but also in several other currencies, including British pounds ("GBP"), Norwegian kroner ("NOK"), Brazilian real ("BRL"), euro ("EUR"), and Singapore dollars ("SGD"). PGS is subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing, and investment transactions in currencies other than the US dollar.

The Company predominantly sells its products and services in US dollars, and to a limited 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 US dollars, 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 change of the US dollar against our two most significant non-USD currencies, NOK and GBP, would have an annual impact on operating profit of \$20-25 million, and \$9-12 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 exchange rate fluctuations, 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 the line Currency exchange gain (loss) in the consolidated statement of operations.

As of December 31, 2012, we had net open forward contracts to buy/sell British pounds, Norwegian kroner, Japanese yen and Brazilian real. The total nominal amount of these contracts was approximately \$153.6 million, compared to \$139.5 million at year-end 2011. Of the total notional amounts of forward exchange contracts, \$19.2 million was accounted for as fair value hedges as of December 31, 2012 and \$23.7 million was accounted for as fair value hedges as of December 31, 2011. There were no designated foreign currency cash flow hedges in 2012 or in 2011. Outstanding contracts at year-end 2012 had a net positive fair value of \$2.3 million, compared to a net negative fair value of \$4.6 million at year-end 2011.

A 10 percent depreciation of the US dollar against all the currencies in which we hold derivative contracts, would increase the fair value of these contracts by approximately \$4.4 million. The effect on the consolidated statements of operations would have been \$2.1 million.

All interest-bearing debts are denominated in US dollars.

#### **Credit Risk**

Our accounts receivable are primarily from multinational, integrated oil companies and larger-sized 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. The Board deems the Company's exposure to credit risk as relatively limited due to the nature of our customer base, the long-term relationships we have with most of our customers, and the low level of losses on our accounts receivable incurred over the years.

We monitor the counterparty credit risk of our banking partners, including derivatives counterparties and the institutions in which our cash is held on deposit.

### **Liquidity Risk**

As of December 31, 2012, we had an unrestricted cash balance of \$390.3 million and a total liquidity reserve, including available unutilized drawing facilities, of \$740.3 million, compared to \$424.7 million and \$774.7 million respectively at year-end 2011. We have a structured approach to monitoring our credit risk as to financial counterparties, 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, it is the Board's opinion that PGS has adequate funding and liquidity to support its operations and investment programs.

The credit agreement for the \$600 million (remaining balance \$470.5 million) Term Loan B and the \$350 million revolving credit facility feature certain terms that place restrictions on the Company. The revolving credit facility contains a covenant whereby the total leverage ratio (as defined) cannot exceed 2.75:1. As of December 31, 2012, the total leverage ratio was 1.22:1. The credit agreement generally requires us to apply 50 percent of excess cash flow (as defined in the agreement) to repay outstanding borrowings when the senior leverage ratio exceeds 2.00:1 or if the total leverage ratio exceeds 2.50:1 for the financial year.

We have a robust debt structure as to existing debt, with average duration of more than four years. We have no material maturities before 2015, when our Term Loan B and the revolving credit facility mature. Financial covenants relating to the facilities we have in place 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 requires substantial fuel purchases. Thus, we are exposed to fuel price fluctuations. Based on our fuel consumption in 2012, a 10 percent increase in fuel prices would raise our total fuel costs and operating expenses by approximately \$1.0 million per month. We changed our approach to fuel price risk in 2011, seeking to pass fuel price risk

to customers in a majority of contracts.

### **Operational and Other Risks**

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

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

### **Shares, Share Capital, and Dividend**

PGS has 217,799,997 shares issued and outstanding, all of which are of the same class and carry equal voting and dividend rights. Each share has a par value of NOK 3.

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

The Board of Directors will propose to the 2013 Annual General Meeting ("AGM") that a dividend for the year ended December 31, 2012 of NOK 1.65 per share to be paid. We have a dividend policy that aims to distribute 25-50 percent of net income as dividends over the business cycle. Proposals for dividend distributions in future years will be subject to assessments of business performance, operating environment, and growth opportunities to determine the appropriate dividend disbursement in any specific year.

At the Annual General Meeting held May 3, 2012,

the authorization for share repurchases of up to 10 percent of the Company's share capital, initially granted in 2006, was extended for another year. The Board plans to propose to the May 2013 AGM that a similar one-year extension is authorized.

It has been an ongoing practice of PGS shareholders to grant limited authorizations to the Board of Directors permitting it to increase the Company's share capital for certain defined purposes. Separate General Meeting votes are held for (a) authorizations related to employee restricted stock plan and (b) authorizations for other purposes. When a proposed authorization encompasses share capital increases and for various purposes, the Company does not find it practical to hold separate votes for each proposed purpose. Authorizations are time-limited; they expire at the following AGM.

As of December 31, 2012, the Company held 1,015,607 treasury shares, primarily to be able to satisfy the exercise of options granted under our employee option programs.

### **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.

PGS had defined two main goals for 2012, which were successfully achieved:

- Reduce the number of recordable injuries, with particular focus on reducing lost time injuries, and
- Obtain ISO 14001 certification and follow up on the OHSAS 18001 certification achieved in 2011.

Our HSEQ performance has improved over the past several years and our HSEQ statistics for 2012 establish us among the best in our industry. This significant improvement is attributed to systematic HSEQ work targeting competence building, improved risk management, and continuous focus on raising HSEQ awareness among employees.

In 2012, our total activity (core fleet vessels and offices) comprised 12,045,876 man-hours com-

pared to 11,773,684 man-hours in 2011.

We (core fleet vessels and offices) experienced the following health and safety incident levels:

- Zero fatalities, compared to zero in 2011
- Two Lost Time Incidents, compared to eleven in 2011
- Three Restricted Work Day Cases, compared to three in 2011
- Three Medical Treatment Cases, compared to three in 2011
- One High Potential Incident, compared to five in 2011.

The overall Lost Time Incident Frequency ("LTIF") decreased to 0.17 per million man-hours in 2012, compared to 0.93 per million man-hours in 2011. The Total Recordable Case Frequency ("TRCF") decreased to 0.66 per million man-hours from 1.44 in 2011. The number of total recordable incidents declined from 17 in 2011 to eight in 2012.

Following the achievement of OHSAS 18001 certification in 2011, we worked to obtain ISO 14001 certification in 2012. ISO 14001 certification was awarded in December 2012. ISO 14001 is an internationally acknowledged standard that defines requirements for environmental management systems. The broad scope of the certification process covered a fleet comprising 14 vessels and four main offices located in Lysaker (Oslo), Houston, Weybridge, and Singapore.

### **Organization**

We had an average of 2,195, 2,145 and 2,090 regular active employees in the years ended December 31, 2012, 2011, and 2010 respectively.

As of December 31, 2012, our employees represented 71 nationalities; 31 percent of our office based employees are women (five percent of offshore employees are women). Among our staff working in Norway, 36 percent are women. Our Board of Directors has four male and three female directors.

At our headquarters in Lysaker (Oslo), 23 percent of management positions are held by women. Eleven percent of women working for our organization in Norway work part-time.

We consciously strive to improve the nationality and gender diversity of our staff. Long-standing



practices include ensuring that offshore crews are culturally diverse and balanced, and that cultural sensitivity training is offered at all levels of the organization.

University educated employees include geophysicists, geologists, engineers, and other professionals. The average monthly salary of active regular employees in December 2012 was \$8,148 (\$6,095 for female employees and \$8,804 for male employees) based on January 31, 2013 exchange rates.

Our headquarters are located at Lysaker (Oslo), Norway. We also have offices in other cities in Norway, and in 22 other countries: Angola, Australia, Brazil, China, Egypt, France, India, Indonesia, Japan, Kazakhstan, Malaysia, Mexico, the Netherlands, Nigeria, Russia, Singapore, Sweden, Turkmenistan, United Kingdom, United Arab Emirates, United States of America, and Vietnam.

#### **Board of Directors and Corporate Governance**

Our Board of Directors has the following members: Francis Gugen (Chairperson), Harald Norvik (Vice Chairperson), Holly Van Deursen, Annette Malm Justad, Daniel J. Piette, Carol Bell, and Ingar Skaug.

The Board has established two sub-committees: an Audit Committee, comprising Harald Norvik (Chairperson), Carol Bell, 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), Hanne Harlem, and C. Maury Devine.

The Board of Directors held nine meetings, including conference calls, in 2012.

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. Statements 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](http://www.pgs.com) (follow the links: About us > Commitments > 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 - Improving Market Fundamentals**

During 2012 we experienced an improved supply/demand balance in the marine seismic market, after suffering from overcapacity over the last years. Customers are becoming more proactive as to securing capacity and tender activity has increased. Improved market fundamentals along with the benefits of our unique GeoStreamer product offer have enabled PGS to book capacity for the first half of 2013 at higher margins than those realized in 2012.

PGS' current order book secures solid utilization through the winter season and visibility well into the second half of 2013.

The long-term prospects for our industry are good. Energy companies continue their search for new hydrocarbon resources in regions with deeper waters, harsher environments, extreme reservoir depths, and complex geologies. Our

capabilities and solid position in the high-end of the market make us an attractive contractor for oil companies worldwide.

Our capabilities and capacity will increase further as the four new and advanced Ramform Titan-class vessels enter our fleet. The vessels feature the design strengths demonstrated by today's Ramform fleet along with capability enhancements across a series of key technologies. PGS is well positioned to take advantage of an improving seismic market. Our services are competitive, we offer leading-edge technologies, and our financing is robust.

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. Accordingly, actual results may differ materially from those contained in forward looking statements.

Pursuant to section 3-3a of the Norwegian Accounting Act, the Board confirms that the 2012

financial statements have been prepared based on the assumption of a going concern and that it believes that this assumption is appropriate.

#### **Allocation of the Parent Company's Gain for 2012**

The financial statements of the parent company, Petroleum Geo-Services ASA ("PGS ASA"), are prepared and presented in accordance with generally accepted accounting principles in Norway ("N GAAP"). PGS ASA reported a net income of NOK 915.0 million for 2012, compared to a net income of NOK 638.1 million in 2011. PGS ASA is a holding company with no material operating activities. The positive net income for 2012 is primarily caused by dividends from subsidiaries.

Of the total 2012 net income of NOK 915,022,000 the Board proposes to allocate NOK 555,652,000 to other equity and NOK 359,370,000 as dividend to shareholders. Total shareholders' equity in PGS ASA as of December 31, 2012 was NOK 10,886,432,000, corresponding to 54 percent of total assets. Other equity as of December 31, 2012 was NOK 7,887,300,000 of which NOK 7,130,900,000 was unrestricted equity.

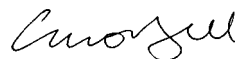
London, March 19, 2013  
Board of Directors  
Petroleum Geo-Services ASA



Francis Gugen  
Chairperson



Harald Norvik  
Vice Chairperson



Carol Bell



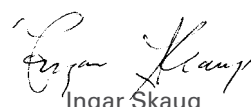
Holly Van Deursen



Annette Malm  
Justad



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, 2012.**

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, 2012. 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, 2012. 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, 2012.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2012 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, 2012, for the group and the parent company.
- The Board of Directors' report for the group and the parent company include a true and fair review of:
  - The development and performance of the business and the position of the group and the parent company.
  - The principal risks and uncertainties the group and the parent company face.

London, March 19, 2013  
Board of Directors  
Petroleum Geo-Services ASA



Francis Gugen  
Chairperson



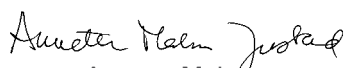
Harald Norvik  
Vice Chairperson



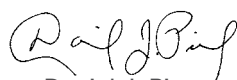
Carol Bell



Holly Van Deursen



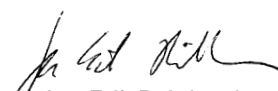
Annette Malm  
Justad



Daniel J. Piette



Ingar Skaug



Jon Erik Reinhardsen  
Chief Executive Officer

**PETROLEUM GEO-SERVICES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands of dollars)	Note	Year ended December 31,		
		2012	2011	2010
Revenues	6	1,518,284	1,253,300	1,135,134
Cost of sales		642,423	643,434	581,900
Research and development costs		38,323	24,281	21,791
Selling, general and administrative costs		61,372	50,822	56,014
Depreciation and amortization	6, 7	484,276	397,881	344,908
Impairment of long-term assets	6, 7	(811)	2,583	79,136
Other operating (income) expense	20	(1,084)	(4,400)	-
Total operating expenses		1,224,499	1,114,601	1,083,749
<b>Operating profit</b>	<b>6</b>	<b>293,785</b>	<b>138,699</b>	<b>51,385</b>
Share of profit (loss) in joint ventures and associated companies	20	(4,214)	(12,389)	(10,183)
Interest expense	8	(37,787)	(42,170)	(46,996)
Other financial income	9	7,125	24,451	13,860
Other financial expense	9	(23,137)	(33,731)	(17,580)
Currency exchange gain (loss)		(7,300)	(10,347)	916
<b>Income (loss) before income tax expense</b>		<b>228,472</b>	<b>64,513</b>	<b>(8,598)</b>
Income tax expense	10	42,933	30,044	13,903
<b>Income (loss) from continuing operations</b>		<b>185,539</b>	<b>34,469</b>	<b>(22,501)</b>
Income from discontinued operations, net of tax	4	-	589	8,548
<b>Net income (loss)</b>		<b>185,539</b>	<b>35,058</b>	<b>(13,953)</b>
Net income (loss) attributable to non-controlling interests		(2)	1,367	67
<b>Net income (loss) to equity holders of PGS ASA</b>		<b>185,541</b>	<b>33,691</b>	<b>(14,020)</b>
<b>Earnings per share, to ordinary equity holders of PGS ASA:</b>	11			
- Basic		\$0.86	\$0.16	(\$0.07)
- Diluted		\$0.85	\$0.15	(\$0.07)
<b>Earnings per share from continuing operations, to ordinary equity holders of PGS ASA:</b>	11			
- Basic		\$0.86	\$0.15	(\$0.11)
- Diluted		\$0.85	\$0.15	(\$0.11)

London, March 19, 2013  
 Board of Directors  
 Petroleum Geo-Services ASA



Francis Gugen  
 Chairperson




Harald Norvik  
 Vice Chairperson



Carol Bell



Holly Van Deursen



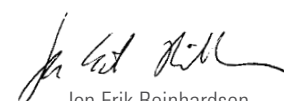
Annette Malm  
 Justad



Daniel J. Piette



Ingar Skaug



Jon Erik Reinhardsen  
 Chief Executive Officer



**PETROLEUM GEO-SERVICES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands of dollars)	Note	Year ended December 31,		
		2012	2011	2010
<b>Net income (loss)</b>		<b>185,539</b>	<b>35,058</b>	<b>(13,953)</b>
Other comprehensive income				
Revaluation of cash flow hedges	26, 36	7,527	2,582	2,701
Deferred tax on cash flow hedges	10	(2,108)	(723)	(732)
Revaluation of shares available-for-sale	13, 36	70	(12,822)	11,946
Other comprehensive income (loss) from joint ventures and associated companies		(1,336)	242	-
Translation adjustments and other		111	1,356	(1,412)
<b>Other comprehensive income (loss), net of tax</b>		<b>4,264</b>	<b>(9,365)</b>	<b>12,503</b>
Total comprehensive income		189,803	25,693	(1,450)
Total comprehensive income attributable to non-controlling interest		(2)	1,367	67
<b>Total comprehensive income (loss) to equity holders of PGS ASA</b>		<b>189,805</b>	<b>24,326</b>	<b>(1,517)</b>

**PETROLEUM GEO-SERVICES**  
**STATEMENTS OF FINANCIAL POSITION**

		Year ended December 31,	
(In thousands of dollars)	Note	2012	2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		390,309	424,734
Restricted cash	12	6,516	4,605
Accounts receivable	14	176,330	220,765
Accrued revenues and other receivables	15	153,622	110,367
Available-for-sale investments	13	2,995	6,205
Assets held-for-sale	16	7,450	-
Other current assets	17	99,552	104,876
<b>Total current assets</b>		<b>836,774</b>	<b>871,552</b>
<b>Long-term assets</b>			
Property and equipment	18	1,437,718	1,292,583
MultiClient library	19	382,305	334,135
Restricted cash	12	85,799	89,051
Deferred tax assets	10	168,263	177,923
Investments in joint ventures and associated companies	20	38,521	48,521
Available-for-sale investments	13	1,481	24,864
Other long-term assets	21	40,490	23,987
Goodwill	22	139,852	139,852
Other intangible assets	23	142,780	134,711
<b>Total long-term assets</b>		<b>2,437,209</b>	<b>2,265,627</b>
<b>Total assets</b>		<b>3,273,983</b>	<b>3,137,179</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	24, 25	904	183,011
Current portion of finance lease obligations	27	75	96
Accounts payable		60,972	61,733
Accrued expenses	28	275,641	266,003
Income taxes payable	10	31,300	21,298
<b>Total current liabilities</b>		<b>368,892</b>	<b>532,141</b>
<b>Long-term liabilities</b>			
Long-term debt	25	915,808	753,414
Long-term finance lease obligations	27	30	60
Deferred tax liabilities	10	8,477	17,134
Other long-term liabilities	29	59,017	62,740
<b>Total long-term liabilities</b>		<b>983,332</b>	<b>833,348</b>
<b>Shareholders' equity</b>			
Paid-in capital			
Common stock; par value NOK 3; issued and outstanding 217,799,997 shares	31	96,490	96,490
Treasury shares, par value	31	(504)	(607)
Additional paid-in capital		513,305	508,217
<b>Total paid-in capital</b>		<b>609,291</b>	<b>604,100</b>
Accumulated earnings		1,328,472	1,187,705
Other comprehensive income		(16,043)	(20,307)
Non-controlling interests		39	192
<b>Total shareholders' equity</b>		<b>1,921,759</b>	<b>1,771,690</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,273,983</b>	<b>3,137,179</b>

**PETROLEUM GEO-SERVICES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
<b>Cash flows provided by operating activities:</b>			
Net income (loss)	185,541	33,691	(14,020)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	484,276	397,881	344,908
Impairments and impairment reversals of long-term assets	(811)	2,583	79,136
Loss on sale and retirement of assets	11,195	1,641	9,185
Share of loss in joint ventures and associated companies	4,214	12,389	10,183
Interest expense	37,787	42,170	46,996
(Increase) decrease in deferred income taxes	(1,104)	28,368	(11,254)
Net decrease in restricted cash	6,191	10,844	1,347
Income taxes paid	(28,515)	(20,244)	(36,098)
Gain on sale of shares	(398)	(10,985)	(6,483)
Gain on sale of subsidiary (Onshore), net of transaction costs	-	-	(10,082)
Other items	7,300	5,724	3,861
(Increase) decrease in accounts receivable, net	44,347	4,536	(54,034)
(Increase) decrease in unbilled and other receivables	(47,322)	34,820	(3,062)
(Increase) decrease in other current assets	4,324	(6,445)	(11,665)
(Increase) decrease in other long-term assets	5,665	(8,773)	1,311
Increase (decrease) in accounts payable	(7,954)	(24,405)	10,009
Increase (decrease) in accrued expenses and income taxes payable	46,918	2,132	(13,497)
Increase (decrease) in other long-term liabilities	1,249	(25,546)	8,777
<b>Net cash provided by operating activities</b>	<b>752,903</b>	<b>480,381</b>	<b>355,518</b>
<b>Cash flows (used in) provided by investing activities:</b>			
Investment in MultiClient library	(297,444)	(203,922)	(166,711)
Investment in MultiClient library, discontinued operations	-	-	(1,208)
Capital expenditures	(358,465)	(299,060)	(223,510)
Proceeds/refunds from new build cancellations	-	-	157,376
Investments in other intangible assets	(27,980)	(19,960)	(12,614)
Investments in other intangible assets, discontinued operations	-	-	(219)
Investment/sale of joint ventures and associated companies, net	(94)	(263)	(9,935)
Net investment in long-term receivable	24,399	(28,441)	-
Proceeds from sale of joint ventures and associated companies	4,308	555	1,382
Proceeds from assets held-for-sale	-	-	2,400
Investment in available-for-sale shares	-	-	(15,355)
Proceeds from available-for-sale shares	2,665	12,535	15,650
Proceeds from sale of subsidiaries (Onshore)	-	-	176,754
Long-term deposit	(5,432)	(33,331)	(66,395)
Other items, net	-	-	1,000
<b>Net cash used in investing activities</b>	<b>(658,043)</b>	<b>(571,887)</b>	<b>(141,385)</b>

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
<b>Cash flows (used in) provided by financing activities:</b>			
Proceeds from issuance of common stock, net	-	-	268,582
Purchase of treasury shares	(11,302)	(17,404)	(9,224)
Proceeds from issuance of long-term debt	156,295	288,025	-
Repayment of long-term debt	(190,470)	(155,992)	(127,436)
Principal payments under capital leases	(159)	(23)	(354)
Proceeds from exercise of employee share options	7,094	4,203	2,417
Dividend paid to non-controlling interests in subsidiaries	(151)	(1,217)	(860)
Dividend paid	(41,510)	-	-
Interest paid	(49,082)	(33,931)	(40,639)
Net cash (used in) provided by financing activities	(129,285)	83,661	92,486
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(34,425)</b>	<b>(7,845)</b>	<b>306,618</b>
Cash and cash equivalents as of January 1	424,734	432,579	125,961
<b>Cash and cash equivalents as of December 31</b>	<b>390,309</b>	<b>424,734</b>	<b>432,579</b>
Cash flow from (used in) discontinued operation (Onshore) <sup>(a)</sup> :			
Net cash used in investing activities	-	-	(1,427)
<b>Net cash used in discontinued operations</b>	<b>-</b>	<b>-</b>	<b>(1,427)</b>

(a) included in the consolidated statements of cash flows above.



**PETROLEUM GEO-SERVICES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Attributable to equity holders of PGS ASA

(In thousands of dollars, except for share data)	Common stock Number	Treasury Par value shares Par value	Addi- tional paid-in capital	Accumu- lated earnings	Other Compre- hensive Income	non- controlling Total interests	Share- holders' equity		
Balance at January 1, 2011	217,799,997	96,490	(240)	503,111	1,166,848	(10,942)	1,755,267	12	1,755,279
Total comprehensive income	-	-	-	-	33,691	(9,365)	24,326	1,367	25,693
Dividend to non-controlling interests	-	-	-	-	-	-	-	(1,217)	(1,217)
Capital increase, non-controlling interests	-	-	-	-	-	-	-	30	30
Acquired treasury shares	-	-	(673)	-	(16,731)	-	(17,404)	-	(17,404)
Exercise of employee share options	-	-	306	-	3,897	-	4,203	-	4,203
Employee share options	-	-	-	5,106	-	-	5,106	-	5,106
<b>Balance at December 31, 2011</b>	<b>217,799,997</b>	<b>96,490</b>	<b>(607)</b>	<b>508,217</b>	<b>1,187,705</b>	<b>(20,307)</b>	<b>1,771,498</b>	<b>192</b>	<b>1,771,690</b>
Total comprehensive income	-	-	-	-	185,541	4,264	189,805	(2)	189,803
Dividends to non-controlling interests	-	-	-	-	-	-	-	(151)	(151)
Dividend paid	-	-	-	-	(41,510)	-	(41,510)	-	(41,510)
Acquired treasury shares	-	-	(425)	-	(10,931)	-	(11,356)	-	(11,356)
Transferred shares, share bonus	-	-	13	-	374	-	387	-	387
Transferred shares, conversion of convertible notes	-	-	15	-	1,085	-	1,100	-	1,100
Exercise employee share options	-	-	500	-	6,208	-	6,708	-	6,708
Employee share options	-	-	-	5,088	-	-	5,088	-	5,088
<b>Balance at December 31, 2012</b>	<b>217,799,997</b>	<b>96,490</b>	<b>(504)</b>	<b>513,305</b>	<b>1,328,472</b>	<b>(16,043)</b>	<b>1,921,720</b>	<b>39</b>	<b>1,921,759</b>

The changes in components of other comprehensive income are as follows:

(In thousands of dollars)	Net foreign currency translation adjustments	Net unrealized gain (loss) investments	Net gain (loss) cash flow hedges	Total
Balance at January 1, 2011	(2,688)	11,990	(20,244)	(10,942)
Revaluation of cash flow hedges	-	-	2,582	2,582
Deferred tax on cash flow hedges	-	-	(723)	(723)
Revaluation of shares available-for-sale	-	(12,822)	-	(12,822)
Other comprehensive income (loss) from joint ventures and associated companies	-	242	-	242
Translation adjustments and other	1,356	-	-	1,356
<b>Balance at December 31, 2011</b>	<b>(1,332)</b>	<b>(590)</b>	<b>(18,385)</b>	<b>(20,307)</b>
Revaluation of cash flow hedges	-	-	7,527	7,527
Deferred tax on cash flow hedges	-	-	(2,108)	(2,108)
Revaluation of shares available-for-sale	-	70	-	70
Other comprehensive income (loss) from joint ventures and associated companies	-	(1,336)	-	(1,336)
Translation adjustments and other	111	-	-	111
<b>Balance at December 31, 2012</b>	<b>(1,221)</b>	<b>(1,856)</b>	<b>(12,966)</b>	<b>(16,043)</b>

## 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 seismic and reservoir services, including 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.

#### Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU 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 are prepared using the historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value and assets impaired that are measured at 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 authorized for issue by the Board of Directors on March 19, 2013.

#### Significant transactions and events, including subsequent events

##### *Convertible notes*

In first quarter 2012, the Company repurchased and redeemed the remaining outstanding amount of the convertible notes totaling \$190.6 million at an average price of 100.51% of par. See Note 25.

##### *New Ramform Titan-class vessels*

In April 2011, PGS ordered two new Ramform Titan-class vessels from Mitsubishi Heavy Industries Ltd. An option for another two vessels was included in the ship building contract. The options were exercised in Q4 2012. In October 2012, PGS established export credit financing for the two first Ramform Titan-class vessels scheduled for delivery in 2013. See Note 18 and 25.

##### *Add on to Senior Notes*

In December 2012, the Company issued \$150 million Senior Notes as an add on to the \$300 million Senior notes (issued in November 2011) which are due in December 2018. See Note 25.

##### *Support vessels*

In Q3 2012, the Company signed charter agreements with P/F Thor for four new seismic support vessels to assist its seismic operations worldwide. PGS has subsequently agreed to provide financing during the vessel construction phase and a backstop financing of the finished vessels. See Note 27.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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. 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 time at which the Company gains control. The acquisition of

subsidiaries is accounted for using the acquisition method of accounting. Acquisition cost is assigned to the assets and liabilities of the subsidiaries, including previously unrecognized intangible assets and contingent liabilities, based upon 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. Inter-company transactions and balances are eliminated in consolidation. The non-controlling interests of partially owned subsidiaries are presented separately in the consolidated statements of operations and consolidated statements of financial position.

#### *Investments in joint ventures*

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

The Company reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in joint ventures 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 joint venture (i.e. profit or loss and equity adjustments), less impairment in the value of individual investments. Losses of a joint venture in excess of the Company's investment in that joint venture (which includes long-term interests that, in substance, form part of the Company's net investment in the joint venture) are not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. Profits and losses resulting from sales of assets between the Company and the joint venture are deferred to the extent of the interest in the joint venture, and recognized when the assets are sold to an independent party or otherwise expensed.

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

#### *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 net 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).

The Company periodically reviews its investments in associated companies to determine whether there is an indication of an impairment. If such indication exists, the recoverable amount of the investment is estimated in order to determine the extent of the impairment (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 net income up to the effective date of disposal. A separate major line of business of which the Company intends or classifies as held-for-sale, is presented as discontinued operations. The result from discontinued operations is reported net of tax and presented separately in the consolidated statements of operations. Assets and liabilities are presented separately 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.

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. Changes in value up to the point of sale are recorded as other comprehensive income. Comparative amounts are not restated when an asset is classified as held-for-sale.

### **Cash and cash equivalents and restricted cash**

The carrying amount of cash and cash equivalents approximates 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 the Brazilian tax claim deposit (Note 27), employee tax withholdings, cash collateral for bid or performance bonds, certain health insurance and restricted deposits under contracts.

### **Foreign currency translation and transactions**

The financial statements of subsidiaries and associates whose functional currency is not US dollar are translated using the current exchange rate 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 in the consolidated statements of comprehensive income.

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

### **Operational and finance leases**

The determination of whether an arrangement is, or contains, a lease is based on an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset, 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. Assets under finance leases 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.

The aggregate cost of minimum operating lease payments is 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 during 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.

### **Goodwill**

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

### **Intangible assets**

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

#### *MultiClient library*

The MultiClient library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. Costs directly incurred in acquiring, 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 the MultiClient library in a manner consistent with its capital investment and operating decision analysis, which generally results in each component of the MultiClient library being recorded and evaluated separately. The cost of projects within the same political regime, with similar geological traits and that are marketed collectively are recorded and evaluated as a group by year of completion.

The Company amortizes its MultiClient library primarily based on the ratio between the cost of surveys and the total forecasted sales for such surveys. On an annual basis the surveys are categorized into amortization categories based on this ratio. Effective



January 1, 2012, the Company refined its method for calculating amortization expense on the MultiClient library by introducing more amortization bands or categories in order to more precisely calculate sales amortization expense. In previous years four categories were applied with amortization rates of 90%, 75%, 60% or 45% of sales. From January 1, 2012, these categories range from 30-95% of sales amounts with 5% intervals, with a minimum of 45% for pre-funding. Each category includes surveys where the remaining unamortized cost as a percentage of remaining forecasted sales is less than or equal to the amortization rate applicable to each category.

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 <sup>(a)</sup>	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 projects, except derivative products, have a 5-year profile starting in the year after project completion. Derivative processed products have a 3-year profile starting in the year after data delivery. Derivative products are mainly reprocessing which creates data that can be licensed as a separate project.

The Company classifies, as amortization expense in its consolidated statements of operations, 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 each individual project is evaluated 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, all of the following have been demonstrated: 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 on which the intangible asset first satisfies the recognition criteria above. All other development costs are expensed as incurred.

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

#### *Patents, licenses and technology*

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

#### *Exploration expenses*

The Company obtains ownership of oil and gas properties in exchange for providing acquisition services and licenses. These assets are capitalized and are initially measured at the fair value of the received asset. The Company uses the "successful efforts" method of accounting for exploration expenses. Expenditures to acquire mineral interests in oil and gas properties are capitalized within intangible assets until the well is complete and the results have been evaluated. If, following evaluation, the exploratory well has not found proved reserves the previously capitalized costs are evaluated for de-recognition or tested for impairment. Other exploration costs are expensed as incurred. Unproven oil and gas properties are assessed for impairment when fact and circumstances suggest that the carrying amount of the asset may exceed the recoverable amount.

### **Property and equipment**

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

	Years
Seismic vessels	25 - 30
Seismic and operations equipment, incl. computer	3 - 15
Buildings and related leasehold improvements	1 - 17
Fixture, furniture, fittings and office computers	3 - 5
Major overhauls	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 replaced parts or capitalized overhaul costs are derecognized. All other repairs and maintenance are charged to the consolidated statements of operations during the period in which they are incurred.

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

Assets under construction are carried at cost, less accumulated impairment. Cost includes borrowing costs 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 benefit is expected from its use or disposal. Gains and losses arising on de-recognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of operations in the year derecognized.

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

### **Borrowing costs**

Borrowing costs which are directly related to the cost of an asset and which is incurred during the period of acquisition, construction or production of the asset is capitalized until the asset is ready for its intended use. Income earned from the temporary investment of specific borrowings pending their expenditure on such assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are expensed as incurred.

### Steaming costs

Steaming costs relate to relocating or “steaming” a vessel and its crew from one location to another. Steaming costs are capitalized or deferred to the extent the probable future economic inflows from the projects to which the vessel will steam are sufficient to recover the cost of the steam. The recoverable steaming cost associated with MultiClient surveys is capitalized as a part of the MultiClient library (see above). The recoverable steaming costs associated with exclusive contract surveys is deferred and charged to expense based upon the percentage of completion of the seismic survey projects.

### Impairment of property, equipment and intangibles

Tangible and intangible assets are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. An asset’s recoverable amount is the higher of its 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 rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount and the impairment is recognized immediately 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. Upon internal reorganization goodwill is allocated to the new cash-generating units based on their relative fair values.

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

Goodwill (and the cash-generating unit to which goodwill is allocated) and intangible assets not yet available for use are 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 goes first to reduce the carrying amount of goodwill and then to reduce the carrying amount of the other assets in the unit pro-rata, based on their relative carrying amounts.

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

### Derivative financial instruments and hedging

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. The Company makes an assessment, both at inception of the hedge as well as on ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in the fair value or cash flow of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80%-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 in the consolidated statements of comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of operations. Amounts recorded in the consolidated statements of comprehensive income 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 installment 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 is comprised of the sum of current tax expense (or benefit) plus the change in deferred tax liabilities and asset during the period, except for current and deferred income tax relating to items recognized in the consolidated statements of comprehensive income, in which case the tax is also recognized in the consolidated statements of comprehensive income.

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

Deferred tax assets and liabilities are calculated using the liability method for all temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and for tax purposes, including tax losses carried forward. 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 recognizes deductions/benefits from uncertain tax positions when it is probable that the tax position will ultimately be sustained.

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

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

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

### **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 only if the reimbursement is virtually certain. The expense arising from a provision is presented in the consolidated statements of operations net of reimbursement. If the effect of the time value of money is material to the provision, the estimated net future cash outflows are discounted using a pre-tax rate that reflects current market assessments and, where appropriate, the risks specific to the liability. If discounting is applied, 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. Existing obligations arising from 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

which 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 that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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 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 considers the effects of non-transferability, exercise restrictions and behavioral considerations. Social security tax on options is based on the intrinsic share option as of the end of the reporting period and is recorded as a liability over the option period.

2012 Restricted Stock Unit Plan is measured at the grant date using the current market value reduced by expected dividends paid before the vesting date, which is then further discounted.

The dilutive effect of outstanding options is reflected as additional share dilution in the 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 financial 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 is comprised of financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as measured at fair value through the consolidated statements of 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 classified as held-for-trading unless designated as effective hedging instruments.

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

*(b) Financial assets and liabilities measured at amortized cost*

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

*(c) Financial assets and liabilities measured at fair value through the consolidated statements of comprehensive income*

This category is comprised of financial assets and liabilities that are non-derivatives and are either designated as available-for-sale or not classified in any of the other categories. After initial measurement, they are measured at fair value with unrealized gains or losses recognized in the consolidated statements of comprehensive income. When the asset or liability is disposed of, the cumulative gain or loss previously recorded in the consolidated statements of comprehensive income is reversed and 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 transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments designated as available-for-sale, a significant or prolonged decline in the fair value of the instrument below its cost is an indication that the instrument is impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any previously recognized impairment – is reversed through the consolidated statements of comprehensive income and recognized in the consolidated statements of operations. Impairments recognized in the consolidated statements of operations on equity instruments are not reversed. Impairment testing of trade receivables is described in Note 26 "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)**

Repurchase of the Company's common shares (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 outstanding during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For diluted earnings per share, dilutive potential ordinary shares are determined independently for each period presented. When the number of ordinary shares outstanding changes (e.g. share split) the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively. 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 if it is held primarily for trading purposes, falls due within 12 months or consists of cash or cash equivalents at the end of the reporting period. Other items are long-term. Dividends are recognized as a liability in the period in which approved by the shareholders.

### **Consolidated statements of cash flows**

The consolidated statements of cash flows is prepared in accordance with the indirect method, whereby cash flows from operating activities are incorporated as a part of the consolidated statement of cash flow, and cash flows are classified as operating, investing or financing activities.

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

If not specified, the Company does not expect the issued standards to have a significant effect on the consolidated financial statements of the Company.

#### *IFRS 7 Financial Instruments: disclosures (amendment)*

The IASB has introduced new disclosure requirements in IFRS 7. These disclosures, which are similar to the new US GAAP requirements, would provide users with information that is useful in (a) evaluating the potential effect of netting arrangements on an entity's financial position and (b) analyzing and comparing financial statements prepared in accordance with IFRS and US GAAP. The amended IFRS 7 is approved by the EU effective from January 1, 2013.

#### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard is approved by the EU effective from 1 January 2014. The Company will implement IFRS 10 from January 1, 2014.

#### *IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard is approved by the EU effective from 1 January 2014. The Company will implement IFRS 11 from January 1, 2014.

#### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard is approved by the EU effective from 1 January 2014. The Company will implement IFRS 12 from January 1, 2014.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard is approved by the EU effective from January 1, 2013.

#### *IAS 19 Employee Benefits (amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism so that all actuarial gains and losses are recognized in other comprehensive income, and the concept of expected returns on plan assets so the expected return must equal the discount rate on the projected benefit obligation to simple clarifications and re-wording. This standard is approved by the EU effective from 1 January 2013. If the Company had early adopted the standard, the net pension liability would increase with \$11.9 million, \$37.3 million and \$8.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. The change in the pension liability resulting from recognizing actuarial gains/losses in



other comprehensive income, would decrease shareholders' equity net of tax by approximately \$8.6 million, \$26.9 million and \$6.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, and increase net income by approximately \$1.7 million in 2012 and decrease net income in 2011 by approximately \$0.1 million. The rate used to determine expected return on plan assets will change to correspond with the discount rate assumptions. The effects of this change will increase the pension liability for the presented years when the Company adopts the standard in 2013. The estimated effect in expected return on plan assets is currently not known.

*IAS 27 Consolidated and Separate Financial Statements (revised)*

As a consequence of the issuance of IFRS 10, 11 and 12, the IASB issued amended and re-titled IAS 27 Separate Financial Statements. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IAS 27 as revised is approved by the EU effective from January 1, 2014.

*IAS 28 Investments in Associates and Joint Ventures (revised)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. IAS 28 as revised is approved by the EU effective from January 1, 2014.

## 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.

### 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 it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to estimate the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profit. The estimates of projected future taxable profit are based on a number of factors and assumptions, many of which are subjective and outside of the Company's control. Accordingly, these estimates may differ significantly from year to year, and the amount ultimately realized may differ from that which has been recognized in the consolidated statements of financial position.

*Revenue recognition*

For multiple-deliverable arrangements and arrangements with non-cash consideration, significant management judgment may be required to allocate and determine the value of 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 amortization rates applied to the MultiClient library surveys, management considers expected future sales, 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 is designed to reduce the risk and likelihood of an increase in future years' amortization rates as result of unfavorable variances in library revenues ultimately achieved compared to total estimated library revenues. Effective January 1, 2012, the Company refined its method for calculating amortization expense on the MultiClient library by introducing more amortization bands or categories in order to more precisely calculate sales amortization expense. See note 2.

#### *Property, equipment and other intangibles*

Depreciation and amortization is based on management estimates of the future economic benefits and expected useful lives of property, equipment and other intangible assets. 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. Future cash flows expected to be generated from the use and eventual disposal of the asset are estimated to determine the amount of impairment, if any. Estimating future cash flows requires management to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are subject to uncertainty as they require assumptions about demand for our products and services, future market conditions and technological developments. Significant and unanticipated changes in these assumptions could 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 consolidated provision for income taxes. There are many transactions arising from the ordinary course of business which the ultimate tax determination is uncertain. The Company recognizes liabilities for uncertain tax positions based on estimates of whether future 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 current 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 assumptions about discount rates, expected returns on assets, future salary increases, mortality rates and future pension increases.

#### *Development cost*

Development costs are capitalized in accordance with the accounting policy described in the significant accounting policies note. Determining the probable future economic benefit, which is the maximum value of the capitalized amount, is based upon management's 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 litigation, 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 matters are subject to a significant degree of uncertainty and management uses judgment in estimating the outcome.

## NOTE 4 - DISPOSALS

The Company sold its Onshore business to Geokinetics on February 12, 2010 in exchange for \$184 million in cash and 2.15 million shares in Geokinetics. The results from the Onshore business are presented as discontinued operations for all periods and are summarized as follows:

	<u>Year ended December 31,</u>
(In thousands of dollars)	2010
Revenues	21,756
Operating costs <sup>(a)</sup>	23,259
Total operating expenses	23,259
Operating loss	(1,503)
Financial items, net	286
<b>Loss before income tax expense (benefit)</b>	<b>(1,217)</b>

(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:

	<u>Year ended December 31,</u>	
(In thousands of dollars)	2011	2010
Loss before income tax expense (benefit)	-	(1,217)
Gain on sale of Onshore	282	16,224
Transaction costs from sale of Onshore	-	(6,142)
Additional proceeds from sale of Atlantis	-	1,000
Tax expense on discontinued operations	307	(1,317)
<b>Income from discontinued operations, net of tax</b>	<b>589</b>	<b>8,548</b>

## NOTE 5 - ACQUISITIONS

Business combinations are recorded using the acquisition method of accounting. The Company did not enter into any business combinations in the years ended December 31, 2012, 2011 or 2010.

## NOTE 6 - SEGMENT AND GEOGRAPHIC INFORMATION

Effective from May 1, 2010 the Company reorganized to a simplified and more operational model based on service lines and comprise of two segments, Marine Contract and MultiClient.

Executive management regularly evaluates the operating segments operational and financial performance. The financial information disclosed is consistent with that used by executive management in controlling the Company's business, for making strategic decisions and for allocating resources. The Company's operating segments are managed separately and represent strategic business product lines. The segments serve a similar worldwide market. Customers for both segments are primarily composed of the same major multi-national, independent and national or state-owned oil companies.

Marine Contract and MultiClient segments satisfy the aggregation criteria under IFRS and accordingly, are presented as a combined Marine reporting segment. Corporate overhead and significant charges that do not relate specifically to the operations of any one segment are presented as Other. The tables below are restated accordingly. Inter-segment sales are at prices that approximate market values. Financial items, income tax expense and liabilities are not included in the measure of segment performance.

	Year ended December 31, 2012			
(In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operations
<b>Revenues by service lines</b>				
Marine Contract	623,520	-	-	623,520
MultiClient pre-funding	461,331	-	-	461,331
MultiClient late sales	266,849	-	-	266,849
Data processing	124,421	-	-	124,421
Other	41,912	251	-	42,163
<b>Total revenues</b>	<b>1,518,033</b>	<b>251</b>	<b>-</b>	<b>1,518,284</b>
Operating costs <sup>(a)</sup>	(726,404)	(17,007)	1,293	(742,118)
EBITDA	791,629	(16,756)	1,293	776,166
Other operating income	1,084	-	-	1,084
Impairments of long-term assets (Note 7)	811	-	-	811
Depreciation and amortization (Note 7)	(134,286)	(5,348)	-	(139,634)
Amortization of MultiClient library (Note 7)	(344,642)	-	-	(344,642)
<b>Operating profit (loss)</b>	<b>314,596</b>	<b>(22,104)</b>	<b>1,293</b>	<b>293,785</b>
<b>Statements of financial position items and cash investments for the year</b>				
Investments in joint ventures and associated companies	52,185	(13,664)	-	38,521
Total assets	2,705,714	568,269	-	3,273,983
Cash used for investments in long-term assets <sup>(b)</sup>	686,921	6,620	-	693,541

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

(b) Consist of cash investments in MultiClient library, capital expenditures and investments in other intangible assets

	Year ended December 31, 2011			
(In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operations
<b>Revenues by service lines</b>				
Marine Contract	627,015	-	-	627,015
MultiClient pre-funding	223,528	-	-	223,528
MultiClient late sales	278,279	-	-	278,279
Data processing	110,031	-	-	110,031
Other	14,166	281	-	14,447
<b>Total revenues</b>	<b>1,253,019</b>	<b>281</b>	<b>-</b>	<b>1,253,300</b>
Operating costs <sup>(a)</sup>	(707,218)	(11,320)	1	(718,537)
EBITDA	545,801	(11,039)	1	534,763
Other operating income	4,400	-	-	4,400
Impairments of long-term assets (Note 7)	(2,583)	-	-	(2,583)
Depreciation and amortization (Note 7)	(155,311)	(5,565)	-	(160,876)
Amortization of MultiClient library (Note 7)	(237,005)	-	-	(237,005)
<b>Operating profit (loss)</b>	<b>155,302</b>	<b>(16,604)</b>	<b>1</b>	<b>138,699</b>

**Statements of financial position items and cash investments for the year**

Investments in joint ventures and associated companies	45,139	3,382	-	48,521
Total assets	2,507,833	629,346	-	3,137,179
Cash used for investments in long-term assets <sup>(b)</sup>	499,985	3,828	-	503,813

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

(b) Consist of cash investments in MultiClient library, capital expenditures and investments in other intangible assets

**Year ended December 31, 2010**

(In thousands of dollars)	Marine	Other	Elimination of inter-segment items	Total continuing operations	Discontinued operations Onshore
Revenues by service lines					
Marine Contract	629,101	-	-	629,101	19,796
MultiClient pre-funding	198,278	-	-	198,278	-
MultiClient late sales	192,262	-	-	192,262	1,960
Data processing	103,471	-	-	103,471	-
Other	9,239	2,783	-	12,022	-
<b>Total revenues</b>	<b>1,132,351</b>	<b>2,783</b>	<b>-</b>	<b>1,135,134</b>	<b>21,756</b>
Operating costs <sup>(a)</sup>	(636,163)	(22,821)	(721)	(659,705)	(23,259)
EBITDA	496,188	(20,038)	(721)	475,429	(1,503)
Impairments of long-term assets (Note 7)	(79,136)	-	-	(79,136)	-
Depreciation and amortization (Note 7)	(140,875)	(6,573)	-	(147,448)	-
Amortization of MultiClient library (Note 7)	(197,481)	-	21	(197,460)	-
<b>Operating profit (loss)</b>	<b>78,696</b>	<b>(26,611)</b>	<b>(700)</b>	<b>51,385</b>	<b>(1,503)</b>

**Statements of financial position items and cash investments for the year**

Investments in joint ventures and associated companies	12,629	11,894	-	24,523	-
Total assets	2,385,672	649,306	-	3,034,978	-
Cash used for investments in long-term assets <sup>(b)</sup>	398,198	4,637	-	402,835	1,427

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

(b) Consist of cash investments in MultiClient library, capital expenditures and investments in other intangible assets

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



## Revenues external customers

	Year ended December 31,		
	2012	2011	2010
(In thousands of dollars)			
Americas (excluding Brazil)	176,763	185,126	177,732
Brazil	181,287	173,321	177,196
UK	163,625	102,150	73,088
Norway	174,493	169,851	151,813
Asia/Pacific	283,981	252,160	245,798
Africa (excluding Angola)	170,012	152,965	120,548
Angola	301,423	82,650	94,616
Middle East/Other	66,700	135,077	94,343
<b>Total</b>	<b>1,518,284</b>	<b>1,253,300</b>	<b>1,135,134</b>

## Revenues, including inter-area

	Year ended December 31,		
	2012	2011	2010
(In thousands of dollars)			
Americas (excluding Brazil)	177,369	186,993	182,924
Brazil	181,287	173,321	177,196
UK	188,805	115,600	80,998
Norway	180,526	173,910	152,500
Asia/Pacific	284,156	252,160	245,798
Africa (excluding Angola)	179,150	157,206	124,414
Angola	301,423	82,650	94,616
Middle East/Other	66,700	135,476	94,560
Elimination inter-area revenues	(41,132)	(24,016)	(17,872)
<b>Total</b>	<b>1,518,284</b>	<b>1,253,300</b>	<b>1,135,134</b>

Total non-current assets <sup>(a)</sup>

	Year ended December 31,	
	2012	2011
(In thousands of dollars)		
Americas (excluding Brazil)	125,419	175,573
Brazil	42,068	36,268
UK	373,230	676,933
Norway	908,066	335,311
Asia/Pacific (excluding Singapore)	102,995	99,566
Singapore	474,427	564,875
Africa	64,461	37,988
Middle East/Other	50,511	23,288
<b>Total</b>	<b>2,141,177</b>	<b>1,949,802</b>

(a) Consists of Property and equipment, MultiClient library, Investments in joint ventures and associated companies, Goodwill and Other intangible assets.

In 2012, aggregate revenues from the two largest customers accounted for 13.8% and 10.3% of the Company's consolidated revenues, compared to 11.0% and 7.0% in 2011 and 12.7% and 7.5% in 2010, respectively (excluding discontinued operations).

## NOTE 7 - DEPRECIATION AND AMORTIZATION AND IMPAIRMENT OF LONG-TERM ASSETS

Depreciation and amortization consists of the following:

	Year ended December 31,		
(In thousands of dollars)	2012	2011	2010
Gross depreciation and amortization	(222,515)	(210,842)	(189,955)
Depreciation capitalized	82,881	49,966	42,507
Amortization of MultiClient library (Note 19)	(344,642)	(237,005)	(197,460)
<b>Net depreciation and amortization expense</b>	<b>(484,276)</b>	<b>(397,881)</b>	<b>(344,908)</b>

Impairment and reversals of impairment of long-term assets consist of the following:

	Year ended December 31,		
(In thousands of dollars)	2012	2011	2010
Impairment of property and equipment (Note 18)	(932)	(4,582)	(94,312)
Reversal of impairment of property and equipment (Note 18)	1,743	1,999	15,176
<b>Net impairment</b>	<b>811</b>	<b>(2,583)</b>	<b>(79,136)</b>

## NOTE 8 - INTEREST EXPENSE

Interest expense consists of the following:

	Year ended December 31,		
(In thousands of dollars)	2012	2011	2010
Interest expense, gross	(51,372)	(50,459)	(55,425)
Interest capitalized to the MultiClient library (Note 19)	5,610	6,409	5,894
Interest capitalized to construction in progress (Note 18)	7,975	1,880	2,535
<b>Total</b>	<b>(37,787)</b>	<b>(42,170)</b>	<b>(46,996)</b>

The average interest rate used to determine the amount of interest expense eligible for capitalization was 5.9%, 6.1% and 5.9% for the years ended December 31, 2012, 2011 and 2010, respectively.

## NOTE 9 - OTHER FINANCIAL INCOME AND EXPENSE

Other financial income consists of the following:

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
Gain from sale of shares (Note 13 and 20)	1,587	10,985	6,483
Interest income	3,635	7,617	5,728
Gain on investments in shares available-for-sale (Note 13)	-	162	711
Fair value adjustments to financial instruments	316	-	-
Other	1,587	5,687	938
<b>Total</b>	<b>7,125</b>	<b>24,451</b>	<b>13,860</b>

Other financial expense consists of the following:

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
Fair value adjustments to financial instruments	(7,040)	(11,595)	-
Impairment of shares available-for-sale (Note 13)	(582)	(9,567)	(1,742)
Loss on repurchase of convertible notes (Note 25)	(7,506)	(5,678)	-
Amendment fees on USD 950 million Credit Facilities (Note 25)	-	-	(7,029)
Fee in connection with redemption of 8.28% Notes (Note 25)	-	-	(1,229)
Other	(8,009)	(6,891)	(7,580)
<b>Total</b>	<b>(23,137)</b>	<b>(33,731)</b>	<b>(17,580)</b>

## NOTE 10 - INCOME TAXES

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

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
Current taxes	43,914	1,238	18,868
Deferred taxes	(981)	28,806	(4,965)
<b>Total income tax expense</b>	<b>42,933</b>	<b>30,044</b>	<b>13,903</b>

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

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
Current taxes	-	-	6,677
Deferred taxes	-	(307)	(5,360)
<b>Total income tax expense (benefit)</b>	<b>-</b>	<b>(307)</b>	<b>1,317</b>

The deferred tax asset recognized in the consolidated statements of comprehensive income is as follows:

(In thousands of dollars)	Year ended December 31,	
	2012	2011
Interest rate hedging (Note 26)	(5,042)	(7,150)

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

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
Income (loss) before income tax expense from continuing operations	228,472	64,513	(8,598)
Norwegian statutory rate	28%	28%	28%
Provision for income taxes at statutory rate	63,972	18,064	(2,407)
<b>Increase (reduction) in income taxes from:</b>			
Effect of tax rates other than statutory tax rate in Norway	(3,468)	(1,177)	(2,865)
Tax exempt income within tonnage tax regimes	(29,096)	1,101	(5,631)
Effects on tax expense from settlement of prior tonnage tax regime dispute	-	-	986
Non-deductible impairment of Arrow vessels	-	-	23,107
Change in assessment of recoverability of prepaid income taxes in Brazil	-	(7,889)	(12,332)
Foreign taxes not deductible or subject to credit	5,466	4,293	5,857
Currency effects	(15,888)	971	2,622
Change in tax contingencies recognized as tax expense (benefit)	(1,853)	(5,352)	1,926
Change in unrecognized deferred tax assets	22,288	7,085	2,805
Prior period adjustments	3,917	7,444	(2,678)
Other permanent items	(2,406)	5,504	2,513
<b>Income tax expense</b>	<b>42,933</b>	<b>30,044</b>	<b>13,903</b>

Notes to selected items in the preceding table:

*Tax exempt income within tonnage tax regimes*

The Company's vessel operations are mainly within the Norwegian Tonnage Tax regime where operating profit is tax exempt.

*Impairment Arrow vessels*

The net impairments relating to the Arrow vessels (see Note 18), which are under the UK tonnage tax regime, are non-deductible and as such do not provide a tax benefit.

*Prepaid income tax in Brazil*

In 2009, the Company recognized a valuation allowance of \$21.0 million relating to the uncertainty as to future utilization of prepaid Brazil income taxes. In 2011 and 2010, the Company reversed \$7.9 million and \$12.3 million, respectively, of the valuation allowance, because it was considered more likely than not that the amount will be utilized.

*Currency effects*

Currency effects primarily relate to translating tax positions in local currency to US dollar reporting currency.

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

	<u>Year ended December 31,</u>	
(In thousands of dollars)	2012	2011
<b>Deferred tax assets</b>		
MultiClient library	(31,772)	(27,898)
Derivatives	(4,309)	-
Employee benefits	(20,146)	(20,205)
Tax loss carry-forwards	(222,297)	(223,983)
Tax credits	(19,546)	(18,069)
Other	(29,158)	(33,752)
<b>Income tax assets, gross</b>	<b>(327,229)</b>	<b>(323,907)</b>
<b>Deferred tax liabilities</b>		
Property and equipment	32,002	29,885
Intangible assets	24,555	21,425
Derivatives	-	4,146
Current accruals/liabilities	10,455	7,898
Deferred taxable gain/revenue	4,418	30,887
Other	2,082	2,344
<b>Deferred tax liabilities, gross</b>	<b>73,512</b>	<b>96,585</b>
Deferred tax assets, net	(253,716)	(227,322)
Deferred tax assets not recognized in the consolidated statements of financial position	93,930	66,533
<b>Net recognized deferred tax assets</b>	<b>(159,786)</b>	<b>(160,789)</b>

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

	<u>December 31,</u>	
(In thousands of dollars)	2012	2011
Deferred tax assets	(168,263)	(177,923)
Deferred tax liabilities	8,477	17,134
<b>Income tax assets, gross</b>	<b>(159,786)</b>	<b>(160,789)</b>

The Company has substantial recognized deferred tax assets in various 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 will be realized in the future. The Company also has substantial deferred tax assets, predominantly in Brazil and the UK, which have not been recognized because of uncertainty as to the likelihood of future utilization.

Tax losses carried forward both recognized and unrecognized and expiration periods as of December 31, 2012 are as follows:

(In thousands of dollars)		
Brazil	67,303	No expiry
Norway	407,081	No expiry
Singapore	178,772	No expiry
UK	120,467	No expiry
Other	95,046	2015 - No expiry
<b>Losses carried forward</b>	<b>868,668</b>	



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 for unremitted earnings.

With its multi-national operations, the Company is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. The Company has possible issues (mostly related to uncertain tax positions such as permanent establishment issues) in several jurisdictions that could eventually make it liable for material amounts of 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. Total accrued contingent tax liabilities as of December 31, 2012 was \$6.1 million, of which \$0.8 million is recorded as income taxes payable and \$5.3 million as other long-term liabilities. As of December 31, 2011, such amount totaled \$8.0 million, of which \$0.8 million recorded as income taxes payable and \$7.2 million as other long-term liabilities.

#### Brazil tax audits 2006-2008

In May 2012, the Company received two tax assessments for 2008 from the federal tax authorities in Brazil claiming approximately \$73 million including interests and penalties. One assessment asserts that seismic vessels do not meet the definition of a vessel and therefore the charters into Brazil are subject to a 15% withholding tax instead of 0%. The second assessment levies a 10% tax ("CIDE") on the same charters. PGS believes the claims are unmerited and have a low probability of prevailing and has been advised that it is likely that it will be successful in achieving a positive decision at the administrative or judicial level. In July 2012, the first administrative appeal level ruled in favor of PGS with respect to the withholding tax claim, yet upheld the CIDE assessment.

## NOTE 11 - EARNINGS PER SHARE

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

	Year ended December 31,		
	2012	2011	2010
(In thousands of dollars)			
Net income (loss) from continuing operations	185,539	34,469	(22,501)
Net income from discontinued operations	-	589	8,548
Non-controlling interests	2	(1,367)	(67)
<b>Net income (loss) to equity holders of PGS ASA</b>	<b>185,541</b>	<b>33,691</b>	<b>(14,020)</b>
<b>Net income (loss) for the purpose of diluted earnings per share</b>	<b>185,541</b>	<b>33,691</b>	<b>(14,020)</b>
<b>Earnings per share</b>			
-Basic	\$0.86	\$0.16	(\$0.07)
-Diluted	\$0.85	\$0.15	(\$0.07)
<b>Earnings per share from continuing operations</b>			
-Basic	\$0.86	\$0.15	(\$0.11)
-Diluted	\$0.85	\$0.15	(\$0.11)
<b>Earnings per share from discontinued operations</b>			
-Basic	-	\$0.01	\$0.04
-Diluted	-	\$0.00	\$0.04
Weighted average basic shares outstanding <sup>(a)</sup>	216,634,550	217,238,666	200,052,867
Dilutive potential shares <sup>(b)</sup>	833,388	879,061	-
<b>Weighted average diluted shares outstanding</b>	<b>217,467,938</b>	<b>218,117,727</b>	<b>200,052,867</b>

(a) Weighted average basic shares outstanding for each year is reduced by the average numbers of treasury shares owned by the Company during the year (see Note 31)

(b) For the years ended December 31, 2012, 2011 and 2010, respectively, share options equivalent to 5,649,689, 6,538,530 and 7,679,975 common shares, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. In addition 8.0 million and 8.8 million shares related to the convertible notes (see Note 25) were excluded from the calculation for the years ended December 31, 2011 and 2010, respectively, as they were anti-dilutive.

## NOTE 12 - RESTRICTED CASH

Restricted cash consists of the following:

(In thousands of dollars)	Year ended December 31,	
	2012	2011
Current		
Restricted payroll withholding taxes	4,986	3,777
Deposits	983	192
Other	547	636
Total restricted cash, current	6,516	4,605
Long-term		
Deposits ISS disputes (Note 27)	85,799	89,051
<b>Total current and long-term</b>	<b>92,315</b>	<b>93,656</b>

## NOTE 13 - AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are comprised of shares available-for-sale and debt instruments available-for-sale.

The changes in shares available-for-sale are comprised of the following:

(In thousands of dollars)	Year ended December 31,	
	2012	2011
Balance as of January 1,	7,779	33,282
Investment, non-cash <sup>(a)</sup>	582	16,455
Gain on investments	-	162
Unrealized loss recognized in the consolidated statements of comprehensive income	398	(11,404)
Reclassified loss to consolidated statements of operations	(995)	(1,418)
Sale of shares	(2,706)	(19,731)
Impairments	(582)	(9,567)
<b>Balance as of December 31,</b>	<b>4,476</b>	<b>7,779</b>

(a) Shares received in exchange for providing acquisition services and licenses and investments reclassified from investment in associate.

The estimated fair value of shares available-for-sale is as follows:

(In thousands of dollars)	December 31, 2012		December 31, 2011	
	Fair value	Ownership	Fair value	Ownership
<b>Current</b>				
San Leon Energy Plc.	2,995	1.8%	2,727	1.8%
Providence Resources Plc.	-	NA	2,206	1.4%
Ithaca Energy Inc	-	NA	1,272	0.2%
<b>Total current</b>	<b>2,995</b>		<b>6,205</b>	
<b>Long-term</b>				
IPB Petroleum Limited	1,479	8.8%	1,479	9.4%
Other	2	-	95	-
<b>Total long-term</b>	<b>1,481</b>		<b>1,574</b>	
<b>Total</b>	<b>4,476</b>		<b>7,779</b>	

The shares available-for-sale are primarily listed shares (AIM list at London Stock Exchange) and the fair value is based on quoted prices at end of the relevant years.

Changes in debt instruments available-for-sale investments is comprised of the following:

(In thousands of dollars)	Year ended December 31,	
	2012	2011
Balance as of January 1,	23,290	-
Investment, non-cash	-	30,812
Fair value adjustment	-	(7,522)
Sale of debt instruments	(24,399)	-
Gain on sale	1,109	-
<b>Balance as of December 31,</b>	<b>-</b>	<b>23,290</b>

In February 2011, SeaBird Exploration PLC issued a convertible loan of \$42.9 million to the Company. In December, 2011, the instrument was partially repaid and partially restructured as a Senior Secured Bond (Coupon rate 6%) with a nominal value of \$31.7 million. A loss of \$7.5 million was recognized in the consolidated statements of operations in 2011 as the fair value of the new bond was lower than its nominal value. The instrument was sold in 2012 for \$24.4 million resulting in a gain of \$1.1 million.

## NOTE 14 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

(In thousands of dollars)	December 31,	
	2012	2011
Accounts receivable - trade	181,018	222,441
Allowance for doubtful accounts	(4,688)	(1,676)
<b>Total</b>	<b>176,330</b>	<b>220,765</b>

The change in allowance for doubtful accounts is as follows:

(In thousands of dollars)	2012	2011
Balance as of January 1,	(1,676)	(1,377)
New and additional allowances	(4,405)	(812)
Write-offs and reversals	1,393	513
<b>Balance as of December 31,</b>	<b>(4,688)</b>	<b>(1,676)</b>

The aging analysis of accounts receivable is as follows:

(In thousands of dollars)	Total	Not due	Past due, but not impaired (1)				
			<30d	30-60d	60-90d	90-120d	>120d
December 31, 2012	176,330	124,745	39,415	4,607	287	159	7,117
December 31, 2011	220,765	178,479	20,934	9,775	2,822	2,869	5,886

(1) See note 26, exposure to credit risks

## NOTE 15 - ACCRUED REVENUES AND OTHER RECEIVABLES

Accrued revenues and other receivables consist of the following:

(In thousands of dollars)	December 31,	
	2012	2011
Accrued revenues	132,268	91,673
Other receivables	15,884	17,774
VAT receivables	5,470	920
<b>Total</b>	<b>153,622</b>	<b>110,367</b>

## NOTE 16 - ASSETS HELD-FOR SALE

Assets held-for-sale consist of the following:

(In thousands of dollars)	December 31,	
	2012	2011
Shares in associate	4,050	-
Beaufort Explorer	2,400	-
Exploration assets	1,000	-
<b>Total</b>	<b>7,450</b>	<b>-</b>

In December 2012, the Company agreed to sell the shares in Fortis Petroleum Corporation AS and exploration assets to Azinor Limited with settlement in shares in Azinor Limited. As of December 31, 2012 the transaction was pending on governmental approval.

In June 2012, the Company reached an agreement to sell the vessel *Beaufort Explorer*. The transaction was completed in January 2013.

## NOTE 17 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31,	
	2012	2011
<i>(In thousands of dollars)</i>		
Spare parts, consumables and supplies	44,702	41,476
Deferred steaming costs	17,231	13,586
Prepaid operating expenses	16,422	16,768
Withholding taxes and taxes receivable	7,651	15,599
Prepaid reinsurance	6,375	2,695
Fair value hedge on firm purchase commitments	2,541	1,564
Deferred project costs	2,257	10,133
Other	2,373	3,055
<b>Total</b>	<b>99,552</b>	<b>104,876</b>

## NOTE 18 - PROPERTY AND EQUIPMENT (INCLUDING EQUIPMENT UNDER FINANCE LEASES)

The changes in property and equipment, including property and equipment under finance leases, are as follows:

	Construction of vessels in progress	Vessel conver- sions	Seismic vessels and equipment	Fixtures, furniture and fittings	Buildings and other	Total
<i>(In thousands of dollars)</i>						
<b>Cost</b>						
Cost as of January 1, 2011	661	60,528	2,065,597	65,985	24,922	2,217,693
Capital expenditures/recoveries	52,847	(1,700)	221,633	5,102	2,049	279,931
Capitalized interest	1,880	-	-	-	-	1,880
Asset sales	-	-	(1,522)	(46)	-	(1,568)
Asset retirements	-	-	(50,066)	(1,020)	(40)	(51,126)
Other/translation adjustments	1,887	-	(1,652)	(505)	243	(27)
<b>Cost as of December 31, 2011</b>	<b>57,275</b>	<b>58,828</b>	<b>2,233,990</b>	<b>69,516</b>	<b>27,174</b>	<b>2,446,783</b>
Capital expenditures/recoveries	201,680	-	156,080	8,580	1,534	367,874
Capitalized interest	7,975	-	-	-	-	7,975
Asset sales	-	-	(136)	(496)	-	(633)
Asset retirements	-	-	(48,632)	(6,338)	(235)	(55,205)
Reclassified to assets held-for-sale	-	-	(51,685)	-	-	(51,685)
Reclassified to intangible assets	-	-	(3,432)	(12,939)	-	(16,370)
Other/translation adjustments	-	-	2	(22)	22	2
<b>Cost as of December 31, 2012</b>	<b>266,930</b>	<b>58,828</b>	<b>2,286,187</b>	<b>58,300</b>	<b>28,495</b>	<b>2,698,741</b>



(In thousands of dollars)

**Accumulated depreciation and impairments**

Accumulated depreciation						
as of January 1, 2011	-	-	746,521	50,273	8,969	805,763
Impairments as of January 1, 2011	-	33,030	164,103	391	1,200	198,724
Depreciation	-	-	193,269	6,467	2,503	202,239
Impairments	4,582	-	(1,999)	-	-	2,583
Asset sales	-	-	(955)	(26)	-	(981)
Asset retirements	-	-	(48,280)	(1,028)	(40)	(49,348)
Reclassified assets to other receivables (4,582)	-	-	-	-	-	(4,582)
Other/translation adjustments	-	-	(250)	43	9	(198)
Depreciation as of December 31, 2011	-	-	890,305	55,729	11,441	957,475
Impairments as of December 31, 2011	-	33,030	162,104	391	1,200	196,725
Depreciation	-	-	204,997	6,187	2,794	213,978
Impairments	-	-	(811)	-	-	(811)
Asset sales	-	-	(71)	(462)	-	(533)
Asset retirements	-	-	(37,547)	(6,270)	(228)	(44,045)
Reclassified to assets held-for-sale	-	-	(49,285)	-	-	(49,285)
Reclassified to intangible assets	-	-	(10)	(12,466)	-	(12,475)
Other/translation adjustments	-	-	(8)	2	-	(6)
Depreciation as of December 31, 2012	-	-	1,008,381	42,721	14,007	1,065,109
Impairments as of December 31, 2012	-	33,030	161,293	391	1,200	195,914
<b>Balance as of December 31, 2011</b>	<b>57,275</b>	<b>25,798</b>	<b>1,181,581</b>	<b>13,396</b>	<b>14,533</b>	<b>1,292,583</b>
<b>Balance as of December 31, 2012</b>	<b>266,930</b>	<b>25,798</b>	<b>1,116,513</b>	<b>15,188</b>	<b>13,288</b>	<b>1,437,718</b>

**Impairments**

In 2012, the Company reached an agreement for the sale of *Beaufort Explorer* for \$2.5 million and reversed \$1.7 of previously recorded impairment. The sale was completed in January 2013. In addition, the Company recognized impairment on other seismic equipment of \$0.9 million, resulting in a net impairment reversal for the year of \$0.8 million.

In 2011, the Company recorded impairments on vessels and equipment of \$2.6 million which consists of adjusted estimates of impairment on the cancelled Arrow new builds in Spain of \$4.6 million and reversal of impairment on previously impaired equipment to be used on the vessels in construction of \$2 million.

In 2010, the Company recorded impairments on vessels and equipment of \$94.3 million as a result of identifying impairment indicators, including adjusting the carrying amount to estimated recoverable amount upon cancellation of the shipbuilding contract for one of the Arrow vessels. In addition, the Company recognized a reversal of previously recognized impairments of \$15.2 million related to NB 532 and 533.

The net book value of property and equipment under UK leases were \$40.2 million and \$91.1 million at December 31, 2012 and 2011, 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, 2012, see Note 2.

**New build program - Ramform vessels**

In April 2011, PGS ordered two new Ramform Titan-class vessels from Mitsubishi Heavy Industries Ltd. The respective scheduled delivery dates for the two vessels are Q2 and Q4 2013. Two additional vessels were ordered in Q4 2012 and are scheduled for delivery in the first and second half of 2015. The estimated cost for each of the two first vessels is approximately \$260 million, including commissioning and a comprehensive seismic equipment package, but excluding capitalized interest and post-delivery cost. Per December 31, 2012, the Company has paid \$257.1 million in total installments and equipment purchases. The cost of

each of the additional two vessels for delivery in 2015 is approximately \$260 million, but subject to additional costs related to new technology on the maritime and seismic side, certain incentives in the shipbuilding contract, and inflationary price increase on equipment and project costs.

#### Arrow - vessels

Upon the acquisition of Arrow in 2007, the Arrow Group was constructing four 10-12 streamer seismic 3D vessels at the Factorias Vulcano shipyard group in Spain (the Arrow NB's). Subsequently, three of the new-build contracts were cancelled due to delays (NB 532, NB 533 and 535). The Company took delivery of NB 534, named *PGS Apollo* in 2010. For the cancelled Arrow vessels, NB 532 and NB 533, approximately EUR 7 million per vessel with the addition of interest, is still outstanding from Factorias Vulcano. Factorias Vulcano has entered into Spanish bankruptcy proceedings and the outcome of these proceedings is still not decided. Arrow is currently taking steps to recover the values. The net book value of the receivable from the Spanish yard is approximately \$9 million as of December 31, 2012 and 2011.

## NOTE 19 - MULTICLIENT LIBRARY

The changes in the MultiClient library are as follows:

	<u>December 31,</u>	
	2012	2011
(In thousands of dollars)		
Balance as of January 1,	334,135	310,843
Capitalized cash costs	297,444	203,922
Capitalized interest	5,610	6,409
Capitalized depreciation	81,513	49,966
Amortization expense	(344,642)	(237,005)
Other	8,245	-
<b>Balance as of December 31,</b>	<b>382,305</b>	<b>334,135</b>

Amortization expense for the year ended December 31, 2012 includes \$35.0 million of non-sales related amortization. This amount is comprised of \$23.9 million in minimum amortization and \$11.1 million of impairments to reflect the discounted cash flow of future sales on certain individual surveys. For the year ended December 31, 2011 the non-sales related amortization totaled \$19.5 million, comprised of \$17.0 million in minimum amortization and \$2.5 million of impairments. For the year ended December 31, 2010, the non-sales related amortization totaled \$26.6 million, comprised of \$13.5 million of minimum amortization and \$13.8 million of impairments and \$0.7 million of reversal of previous recorded impairments.

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

	<u>December 31,</u>	
	2012	2011
(In thousands of dollars)		
<b>Completed surveys</b>		
Completed during 2007 and prior years	-	664
Completed during 2008	16,958	24,986
Completed during 2009	54,932	92,925
Completed during 2010	28,489	36,590
Completed during 2011	48,270	63,333
Completed during 2012	63,172	-
Completed surveys	211,821	218,498
Surveys in progress	170,484	115,637
<b>MultiClient library</b>	<b>382,305</b>	<b>334,135</b>

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

	<u>December 31, 2012</u>
(In thousands of dollars)	<b>Future minimum amortization</b>
During 2013	48,197
During 2014	66,703
During 2015	52,213
During 2016	71,542
During 2017	68,812
During 2018	74,838
<b>Future minimum amortization</b>	<b>382,305</b>

Because the minimum amortization requirements 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 year even when the aggregate amount of ordinary amortization charges recognized exceeds the aggregate minimum amortization charges above.

Effective January 1, 2012, the Company refined its method for calculating amortization expense on the MultiClient library by introducing more amortization bands or categories in order to more precisely calculate sales amortization expense. See note 2.

## NOTE 20 - INVESTMENTS IN JOINT VENTURES AND ASSOCIATED COMPANIES

The changes in investments in joint ventures and associated companies are as follows:

	<u>Year ended December 31,</u>	
(In thousands of dollars)	2012	2011
Balance as of January 1,	48,521	24,523
Share of loss	(4,215)	(12,389)
Share of other comprehensive income (OCI)	(1,336)	242
Impairments	(4,376)	-
Investments reclassified to held-for-sale and receivables	(7,651)	-
Investment, cash	94	81
Investment, non-cash <sup>(a)</sup>	6,077	36,015
Other	1,407	49
<b>Balance as of December 31,</b>	<b>38,521</b>	<b>48,521</b>

(a) Non-cash investments comprise of shares in Azinam (\$2.6 million) and shares in Fortis (\$3.5 million) for the year ended December 31, 2012 and shares in Azimuth (\$33.7 million), exchange of receivables (\$1.0 million) and accrued interest (\$1.3 million) for the year ended December 31, 2011.

Specification by investment:

	Net book value as of December 31, 2011	Invest- ment	Other	Share of income (loss)	Share of OCI	Net book value December 31, 2012	Ownership as of December 31, 2012
(In thousands of dollars)							
<b>Corporations and limited partnerships</b>							
Azimuth Ltd.	28,416	-	1,084	(2,241)	(545)	26,714	45%
Azinam Ltd.	-	2,634	-	(467)	(132)	2,035	35%
Geokinetics Inc.	6,984	-	(6,984)	-	-	-	-
PGS Overseas Operations (Cyprus) Ltd.	10,768	-	-	(515)	(659)	9,594	50%
Fortis Petroleum Corporation AS	1,505	3,537	(4,050)	(992)	-	-	-
Other	848	-	(670)	-	-	178	-
<b>Total</b>	<b>48,521</b>	<b>6,171</b>	<b>(10,620)</b>	<b>(4,215)</b>	<b>(1,336)</b>	<b>38,521</b>	

Specification by investment:

	Net book value as of December 31, 2010	Invest- ment	Other	Share of income (loss)	Share of OCI	Net book value December 31, 2011	Ownership as of December 31, 2011
(In thousands of dollars)							
<b>Corporations and limited partnerships</b>							
Azimuth Ltd.	-	33,808	-	(5,392)	-	28,416	45%
Geokinetics Inc. <sup>(a)</sup>	11,883	1,255	-	(6,154)	-	6,984	11%
PGS Overseas Operations (Cyprus) Ltd.	10,276	-	-	250	242	10,768	50%
Fortis Petroleum Corporation AS	2,185	-	-	(680)	-	1,505	20%
Other	179	1,033	49	(413)	-	848	-
<b>Total</b>	<b>24,523</b>	<b>36,096</b>	<b>49</b>	<b>(12,389)</b>	<b>242</b>	<b>48,521</b>	

(a) Includes investment in preferred shares of \$7 million which are not recognized as part of the equity method recognition.

In third quarter 2011, the Company participated in the establishment of the Exploration & Production (E&P) focused investment company Azimuth Ltd. primarily by contributing existing equity holdings in smaller E&P companies. This transaction resulted in a net gain on sale of shares of \$2.9 million and other operating income of \$4.4 million. The Company owns 45.1% of Azimuth Ltd. and has entered into a cooperation agreement whereby the Company provides certain services to Azimuth Ltd. and whereby Azimuth Ltd. has the right to buy, for cash and at fair value, up to 50% of any future equity settlement that PGS may receive as payment for its library or services. The Company has no obligation to provide further funding of Azimuth Ltd. and has no guarantees outstanding.

In fourth quarter 2012, the Company received shares in Azinam Ltd. as part of the settlement for exploration assets in Namibia. In addition to shares the Company received a convertible loan of \$12.9 million and \$4 million in cash. The transaction resulted in a gain of \$1.7 million. Azinam Ltd. is a subsidiary of Azimuth. The Company has no obligation to provide further funding of Azinam Ltd. and has no guarantees outstanding.

In fourth quarter 2012, the Company agreed to sell its investment in Fortis Petroleum Corporation AS to Azinor Ltd. and the shareholding in Fortis Petroleum Corporation AS is therefore classified as held-for-sale at December 31, 2012.

The following table summarizes unaudited financial information of the Company's share of joint ventures and associated companies on a combined basis.

	Year ended December 31,		
	2012	2011	2010
<i>(In thousands of dollars)</i>			
<b>Statements of operations data</b>			
Revenue	5,834	36,206	70,975
Share of income (loss)	(4,214)	(12,389)	(10,183)

	December 31,	
	2012	2011
<i>(In thousands of dollars)</i>		
<b>Statements of financial position data</b>		
Total assets	51,491	127,803
Total liabilities	(12,970)	(86,266)
<b>Net assets</b>	<b>38,521</b>	<b>41,537</b>

## NOTE 21 - OTHER LONG-TERM ASSETS

Other long-term assets consist of the following:

	December 31,	
	2012	2011
<i>(In thousands of dollars)</i>		
Claims towards yard (NB's 532 and 533) (Note 18)	9,753	9,518
Loans to associated companies	16,231	3,243
Deferred loan cost new builds <sup>(b)</sup>	8,173	-
Prepaid expenses and deposits	1,729	1,481
Prepaid foreign income tax and withholding tax	(291)	6,671
Warrants Geokinetics Inc. (Note 20) <sup>(a)</sup>	-	507
Other long-term receivables	4,895	2,567
<b>Total</b>	<b>40,490</b>	<b>23,987</b>

(a) PGS owns \$10 million in 40,000 preferred shares and 1,165,000 warrants in Geokinetics Inc. as of December 31, 2012 and 2011 (see Note 20). Based on the Black-Scholes option price model, the warrants have been valued to \$0.5 million as of December 31, 2011. Geokinetics Inc. entered into a restructuring support agreement in January 2013 and the preferred stock and existing common stock were cancelled. The Company's investments in Geokinetics Inc. were therefore fully impaired as of December 31, 2012.

(b) Deferred loan costs is comprised of loan fees, guarantee fees and professional fees associated with the financing arranged for the vessels Ramform Titan and Ramform Atlas which are currently in construction. The financing will be drawn upon delivery of the vessels in 2013 at which time the deferred loan costs will be reclassified and presented as a reduction of long-term debt.

## NOTE 22 - GOODWILL

The operating segments Marine Contract and MultiClient are cash generating units that the Company monitors for the purpose of evaluating goodwill for impairment.



Goodwill is allocated to individual cash-generating units for impairment testing as follows:

	December 31,	
	2012	2011
(In thousands of dollars)		
Marine Contract	97,897	97,897
MultiClient	41,955	41,955
<b>Total</b>	<b>139,852</b>	<b>139,852</b>

Key assumptions used in the calculation of value-in-use are growth rates, revenues, EBITDA, operating profit, capital expenditures and discount rates. The recoverable amounts are estimated based upon after tax cash flow projections approved by executive management and an after tax discount rate of 9.4% as of December 31, 2012 and 8.8% as of December 31, 2011. The nominal growth rate used to extrapolate cash flows beyond the initial 5 years projection period as of December 31, 2012 and 2011 was 2.5%.

Management believes that any reasonably possible change in key assumptions underlying the calculations of the recoverable amount of each cash generating unit would not trigger an impairment as of December 31, 2012.

## NOTE 23 - OTHER INTANGIBLE ASSETS

The changes in other intangible assets are summarized as follows:

(In thousands of dollars)	Patents and licenses	Devel- opment cost	Technology and other	Exploration expenditures	Total
<b>Cost</b>					
Cost as of January 1, 2011	181,747	45,683	22,129	-	249,559
Additions to costs	952	19,008	-	20,764	40,724
Other/translations adjustment	(1,051)	-	-	-	(1,051)
Cost as of December 31, 2011	181,648	64,691	22,129	20,764	289,232
Additions to costs	8,894	18,960	669	1,736	30,259
Asset sales	-	-	-	(16,537)	(16,537)
Asset retirements	(10,533)	-	-	-	(10,533)
Reclassified from property and equipment	16,370	-	-	-	16,370
Classified as asset-held-for sale	-	-	-	(1,000)	(1,000)
<b>Cost as of December 31, 2012</b>	<b>196,379</b>	<b>83,651</b>	<b>22,798</b>	<b>4,963</b>	<b>307,791</b>
<b>Accumulated amortization</b>					
Amortization as of January 1, 2011 <sup>(a)</sup>	131,347	3,085	12,533	-	146,965
Amortization expense	3,304	1,538	3,763	-	8,605
Other/translations adjustment	(1,049)	-	-	-	(1,049)
Amortization as of December 31, 2011	133,602	4,623	16,296	-	154,521
Amortization expense	3,646	1,710	3,193	-	8,548
Retirements	(10,534)	-	-	-	(10,534)
Reclassified from property and equipment	12,475	-	-	-	12,475
<b>Amortization as of December 31, 2012</b>	<b>139,189</b>	<b>6,333</b>	<b>19,489</b>	<b>-</b>	<b>165,010</b>
<b>Balance as of December 31, 2011</b>	<b>48,046</b>	<b>60,068</b>	<b>5,833</b>	<b>20,764</b>	<b>134,711</b>
<b>Balance as of December 31, 2012</b>	<b>57,190</b>	<b>77,318</b>	<b>3,309</b>	<b>4,963</b>	<b>142,780</b>
Estimated useful life	1 to 20 years	10 years <sup>(b)</sup>	1 to 12 years	<sup>(c)</sup>	

(a) The accumulated unreversed impairment charge on intangibles other than goodwill was \$99.1 million as of December 31, 2012 and 2011.

(b) Estimated useful life from completion of development project.

(c) Capitalized exploration expenditures are not amortized until the exploration is complete and the results have been evaluated at which time the asset is evaluated for de-recognition or tested for impairment.

## 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)	2012	2011
Current portion of long-term debt (Note 25)	-	183,000
Short-term debt	904	11
<b>Total</b>	<b>904</b>	<b>183,011</b>

### Short-term bank facility

In December 2012, PT PGS Nusantara established a short-term bank facility in connection with a local customer project. A loan of \$0.9 million was drawn for one month and was repaid January 9, 2013.

## NOTE 25 - DEBT AND GUARANTEES

### Long-term debt

Long-term debt consists of the following:

	December 31,	
(In thousands of dollars)	2012	2011
<b>Secured:</b>		
Term loan B, Libor + 175 Basic points, due 2015	470,533	470,533
Senior Notes, Coupon 7.375%, due 2018	450,000	300,000
<b>Convertible notes:</b>		
Convertible Notes	-	183,785
<b>Total</b>	<b>920,533</b>	<b>954,318</b>
Less current portion	-	(183,000)
Less deferred loan costs, net of debt premiums	(4,725)	(17,904)
<b>Total long-term debt</b>	<b>915,808</b>	<b>753,414</b>

Undrawn facilities consists of the following:

	December 31,	
(In thousands of dollars)	2012	2011
<b>Secured:</b>		
Revolving credit facility \$350 mill, Libor + 2,25%, due 2015 <sup>(a)</sup>	350,000	350,000
Export credit financing \$250 mill	250,000	-
<b>Unsecured:</b>		
Bank facility (NOK 50 mill)	8,950	8,305
Performance bond	17,321	40,499
<b>Total</b>	<b>626,271</b>	<b>398,804</b>

(a) Under the Senior secured credit facility, the Company may also borrow an additional \$400 million either as a term loan or as an RCF. Such potential additional borrowing is not committed but would be secured by the same collateral that secures the Term Loan and borrowings under the existing RCF.

The aggregate maturities of long-term debt, expected interest payments (excluding interest rate swaps) and finance lease obligations are as follows:

	December 31,	
	2012	2011
<i>(In thousands of dollars)</i>		
<b>Year of payment:</b>		
2012	-	225,896
First quarter 2013 (b)	2,333	3,312
Second quarter 2013	19,313	14,011
Third quarter 2013	3,184	2,901
Fourth quarter 2013	20,033	13,759
2014	47,141	31,431
2015	525,440	499,327
2016	33,188	22,125
2017	33,188	22,125
2018 and thereafter	483,188	322,125
<b>Total</b>	<b>1,167,008</b>	<b>1,157,013</b>
Interest portion (a)	(246,475)	(202,695)
<b>Total long-term debt (including current portion)</b>	<b>920,533</b>	<b>954,318</b>

(a) Calculation of expected interest payments are based on forward interest rates as of December 31, 2012 and 2011, respectively.

(b) In addition, all of the trade payables per December 31, 2012 of \$61.0 million mature the first quarter of 2013.

#### **Senior Secured Credit Facility (Term loan B and Revolving Credit Facility "RCF")**

The Term Loan is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of material subsidiaries and is guaranteed by the same material subsidiaries. The Term Loan has no financial maintenance covenants. Any drawings on the "RCF" would be subject to the same security.

The Senior secured credit facility contains financial covenants and negative covenants that restrict the Company in various ways. The facility provides that:

- 1) For the RCF part the total leverage ratio (see Note 26 for definitions of leverage ratios) may not exceed 2.75:1.0 (maintenance covenant). The Term Loan has an incurrence test saying the Company cannot incur more indebtedness, with certain exceptions, if the total leverage is above 3.00:1.0 (rolling last 4 quarters).
- 2) The credit agreement generally requires the Company to apply 50% of excess cash flow to repay outstanding borrowings for financial years when the total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1. Excess cash flow for any period is defined as net cash flow provided by operating activities less capital expenditures and scheduled debt services during that period, minus capital income taxes to be paid in the next period and capital expenditure committed in the period but to be paid in future periods. The Company can make optional prepayments to reduce the outstanding principal balance at no penalty.

In addition, the credit agreement and the indenture to the \$450 million Senior Notes (described below) restricts or could restrict our ability, among other things, to sell assets without the sales proceeds being reinvested in the business or used to repay debt; incur additional indebtedness or issue preferred shares; prepay interest and principal on our other indebtedness; 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 RCF has a \$45 million sub-limit for issuance of letters of credit. The separate bonding facility of \$30 million (for issuance of bid and performance bonds) which was originally included in the sub-limit of the RCF, was discontinued during 2012. Drawings under the bonding facility as of December 31, 2011 were \$0.1 million. Under the RCF, the Company may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, for working capital and for general corporate purposes. At December 31, 2012 and 2011, the Company had zero outstanding in cash advances, and zero outstanding standby letters of credit under the RCF with an applicable margin of 1.5% per annum.

### Senior Notes

In December 2012, the Company issued \$150 million add on to the \$300 million Senior Notes (issued in November 2011) at a premium of 107.5% of the principal amount. Both the Senior Notes issued in 2011 and 2012 will be treated as a single class of debt securities under the same indenture. The Senior Notes are senior obligations of the company and rank equally in right of payment with all other existing and future senior debt. The Senior Notes have an incurrence test saying the Company cannot incur more indebtedness, with certain exceptions, if the Consolidated Interest Coverage Ratio is less than 2.0:1.0. At any time prior to December 15, 2015, the Company may redeem the Notes at its option, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued and unpaid interest to, the date of redemption. Applicable Premium means the greater of (i) 1.0% of the principal amount of the Senior Notes; and (ii) the excess of (a) the present value at such Redemption Date of the Redemption Price of the Senior Notes at December 15, 2015 (such Redemption Price being set forth in the table appearing below plus all required interest payments due on the Senior Notes during the period from such Redemption Date through December 15, 2015 (excluding accrued but unpaid interest), computed using a discount rate equal to the Treasury Rate as of such Redemption Date plus 50 basis points, over (b) the principal amount of the Notes, if greater. The Senior Notes are also redeemable at the Company's option on or after December 15, 2015, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the 12-month period beginning December 15 of the years indicated below:

Year	Percentage
2015	103.688%
2016	101.844%
2017 and thereafter	100.000%

### Convertible notes

In 2011, the Company made optional repurchases of the Convertible Notes for a nominal amount of \$153.9 million at an average price of 98.83%. In 2012, the Company redeemed, at its option, the remaining Convertible Notes for a nominal amount \$190.6 million at an average price of 100.51%.

### Export credit financing

On October 10, 2012, the Company entered into an export credit financing arrangement which includes two loan agreements of \$125 million each with Japan Bank for International Cooperation ("JBIC") and Sumitomo Mitsui Banking Corporation ("SMBC"). The loans will be made available to a wholly owned subsidiary of the Company, PGS Titans AS, and disbursement of the loans will occur upon delivery of each of the two new Ramforms, *Ramform Titan* and *Ramform Atlas*. The vessels are expected to be delivered from Mitsubishi Heavy Industries in Q2 2013 and Q4 2013, respectively. The loans are senior facilities secured by first priority mortgages over the vessels and fittings on board (but excluding "in sea" equipment such as streamers), pledge of the borrower's right under a debt service reserve account and assignment of insurance rights in the vessels. The loans will be repaid over 12 years in semi-annual equal installments and will have two tranches whereby JBIC and SMBC each receive 50%. The JBIC tranche bears a fixed interest and is repaid from the 7th to 12th year after draw down, while the SMBC tranche bears a floating interest based on 6 months Libor plus a margin and is repaid from 1st to 6th year after draw down. SMBC has received credit insurance from Nippon Export and Investment Insurance ("NEXI") and the insurance premium is paid by PGS Titans AS. The Company expects that the blended interest rate on this financing will be approximately 2.3% at draw down on the loans, but it will vary over time on the SMBC tranche of the loans since it bears a floating interest rate reset every 6th month.

### Letters of credit and guarantees

The Company has \$8 million and \$10 million uncommitted bid and performance bond facilities intended for regional use. Drawings under these facilities totaled \$0.7 million and \$1.4 million as of December 31, 2012 and 2011, respectively.

The Company had aggregate outstanding letters of credit and related types of guarantees, not reflected in the accompanying consolidated statements of financial position, of \$16.7 million and \$11.9 million as of December 31, 2012 and 2011, 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, 2012			December 31, 2011		
	Carrying amounts	Notional amounts	Fair values	Carrying amounts	Notional amounts	Fair values
<i>(In thousands of dollars)</i>						
<b>Loans measured at amortized cost:</b>						
Long-term debt, current portion of long-term debt and deferred loan cost (Note 25)	920,533	-	938,620	954,318	-	939,011
<b>Derivatives measured at fair value through consolidated statements of comprehensive income:</b>						
Interest rate swap/future interest rate agreements, net unrealized (loss) gain <sup>(a)</sup>	(18,008)	300,000	(18,008)	(25,535)	500,000	(25,535)
<b>Derivatives measured at fair value through consolidated statements of operations:</b>						
Forward exchange contracts, net unrealized (loss) gain <sup>(a)</sup>	2,297	153,646	2,297	(4,552)	139,472	(4,552)
Interest rate differential UK lease (Note 27)	-	-	-	(2,693)	-	(2,693)

**(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,	
	2012	2011
<i>(In thousands of dollars)</i>		
Forward exchange contracts, net (qualifying hedges)	1,263	(1,338)
Interest rate swaps, net (qualifying hedges)	(18,008)	(25,535)
Forward exchange contracts, net	1,034	(3,214)
<b>Total</b>	<b>(15,711)</b>	<b>(30,087)</b>
<b>Classified as follows:</b>		
Other current asset (short-term unrealized gain) (Note 17)	2,541	170
Other long-term assets (long-term unrealized gain) (Note 21)	77	-
Accrued expenses (short-term unrealized loss) (Note 28)	(321)	(10,226)
Other long-term liabilities (long-term unrealized loss) (Note 29)	(18,008)	(20,031)
<b>Total</b>	<b>(15,711)</b>	<b>(30,087)</b>



### Fair value hierarchy

As at December 31, 2012 and 2011, the Company held the following financial instruments carried at fair value on the Statements of financial position:

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:

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

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

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

#### Assets measured at fair value

	December 31 2012	Level 1	Level 2	Level 3
<i>(In thousands of dollars)</i>				
<b>Financial assets at fair value through profit or loss</b>				
Forward exchange contracts (hedge)	1,268	-	1,268	-
Forward exchange contracts (non-hedge)	1,350	-	1,350	-
Debt instruments	-	-	-	-
<b>Available-for-sale financial assets</b>				
Equity shares	4,476	2,995	-	1,481
Debt securities	-	-	-	-

#### Liabilities measured at fair value

	December 31 2012	Level 1	Level 2	Level 3
<i>(In thousands of dollars)</i>				
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swaps (hedge)	(18,008)	-	(18,008)	-
Forward exchange contracts (hedge)	(4)	-	(4)	-
Forward exchange contracts (non-hedge)	(317)	-	(317)	-

#### Assets measured at fair value

	December 31 2011	Level 1	Level 2	Level 3
<i>(In thousands of dollars)</i>				
<b>Financial assets at fair value through profit or loss</b>				
Forward exchange contracts (non-hedge)	170	-	170	-
Debt instruments	507	-	507	-
<b>Available-for-sale financial assets</b>				
Equity shares	7,779	6,205	-	1,574
Debt securities	23,290	-	23,290	-

### Liabilities measured at fair value

(In thousands of dollars)	December 31 2011	Level 1	Level 2	Level 3
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swaps (hedge)	(25,535)	-	-	(25,535)
Forward exchange contracts (hedge)	(1,338)	-	-	(1,338)
Forward exchange contracts (non-hedge)	(3,384)	-	-	(3,384)

The fair values of the long-term debt instruments, forward exchange contracts and interest rate swaps are estimated using quotes obtained from dealers in such financial instruments or latest quoted prices or indexes at Reuters or Bloomberg. Where market prices are not observed or quotes from dealers not obtained, 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 such as dividends and to maintain an optimal capital structure to reduce the cost of capital.

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

The Company monitors debt on the basis of the leverage ratio and other covenants in credit agreements. This ratio is calculated as gross indebtedness divided by EBITDA less non pre-funded MultiClient library investments. At December 31, 2012, the gross indebtedness was \$952.9 million and EBITDA less non pre-funded MultiClient library was \$780.1 million. 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. The Company generally seeks to keep net debt below 1 or 2 times EBITDA dependent on where we are in the business cycle. It implies below 1 times EBITDA in a strong market and below 2 times EBITDA in a weak part of the cycle. The Company is of the opinion that the policy would generally satisfy the requirements for a BB-rating (Standard and Poor's)/Ba2-rating (Moody's). The gross leverage ratio at December 31, 2012 and 2011 was 1.22 and 1.80, respectively, while the net leverage ratio was 0.72 and 1.02, 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 derivatives 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 and any breach of limits set in the policy shall be reported to the Board of Directors.

### Interest rate exposure

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

As of December 31, 2012, the Company has outstanding interest rate swaps in the aggregate notional amount of \$300 million, (\$500 million as of December 31, 2011, of which \$200 million were forward starting swaps) 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, 2012		December 31, 2011	
	Notional amounts (in thousands)	Weighted average fixed interest rate	Notional amounts (in thousands)	Weighted average fixed interest rate
Matures in:				
1 year	-	-	200,000	5.13%
1-2 years	200,000	3.93%	-	-
2-3 years	100,000	2.64%	200,000	3.93%
3-4 years	-	-	100,000	2.64%
4-5 years	-	-	-	-
<b>Total</b>	<b>300,000</b>	<b>3.50%</b>	<b>500,000</b>	<b>4.15%</b>

The aggregate negative fair value of these interest rate swap agreements at December 31, 2012 and 2011 was approximately \$18.0 million and \$25.5 million, respectively.

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

	December 31,	
	2012	2011
(In thousands of dollars)		
Debt at fixed interest rate	450,000	483,785
Debt at variable interest rate <sup>(a)</sup>	471,437	470,533
<b>Total interest bearing debt</b>	<b>921,437</b>	<b>954,318</b>

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

The weighted average interest rate on the variable rate debt, inclusive finance leases, as of December 31, 2012 and 2011 was approximately 2.0% and 2.3%, respectively. As indicated above, through interest rate swaps the Company has effectively fixed the interest rate on \$300 million of this floating rate debt as of December 31, 2012, with the remaining \$170.5 million of the floating rate debt continuing to bear interest at a variable rate. As of December 31, 2011, the Company had fixed the interest rate on \$300 million through interest rate swaps, with the remaining \$170.5 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 finance leases and cash holdings, will decrease by approximately \$2.6 million and by approximately \$1.0 million at December 31, 2012 and 2011, respectively.

### Interest rate hedge accounting

As of December 31, 2012, 100% out of the total notional amount of interest rate swaps of \$300 million were accounted for as cash flow hedges (100% out of the total notional amount of interest rate swaps of \$500 million as of December 31, 2011). In the years ended December 31, 2012 and 2011, the fair value of these instruments were recorded in the Consolidated statements of comprehensive income as the effective portion of the designated and qualifying hedging instrument.

Changes in the fair value of interest swaps contracts designated as cash flow hedges are as follows (recognized in the Consolidated statements of comprehensive income):

## Years ended December 31,

(In thousands of dollars)	2012	2011
Amounts transferred from the consolidated statements of comprehensive income to the consolidated statements of operations	12,567	14,734
Effective portion of fair value recognized in the consolidated statements of comprehensive income	(5,040)	(12,152)
<b>Total change in fair value</b>	<b>7,527</b>	<b>2,582</b>

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:

(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
<b>December 31, 2012</b>								
Interest rate swaps	300,000	(18,008)	(18,070)	(9,910)	(7,629)	(531)	-	-
<b>December 31, 2011</b>								
Interest rate swaps	500,000	(25,535)	(27,113)	(11,149)	(8,001)	(7,478)	(485)	-

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.

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the Company's loans and borrowings, after the impact of hedge accounting. The change in fair value of the derivatives used for cash flow hedges will be effected by a change in the interest rate and is shown as the effect on equity. All other variables are held constant and the effect is calculated based on the Company's financial instrument at December 31.

(In thousands of dollars)	Increase/(decrease) in basis points	Effect on profit before tax	Effect on equity
2012	100	(1,705)	5,298
2011	100	(1,705)	8,339

### 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 maintains 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 2012, the Company continued a foreign currency hedging program by entering into NOK, GBP, and BRL on forward contracts.

As of December 31, 2012, the Company had open forward contracts to buy and sell GBP, NOK, BRL and JPY amounting to approximately \$153.6 million (notional amount) with a positive fair value of \$2.3 million. As of December 31, 2011, the Company had open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately \$139.5 million (notional amount) with a negative fair value of \$4.6 million.

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

(In thousands of dollars)	Notional amount	Carrying amount	Gross	Total expected cash flow	
				Matures in <1 year	1-2 years
<b>December 31, 2012</b>					
Forward exchange contracts:					
Positive market value	70,790	2,618	2,618	2,541	77
Negative market value	82,856	(321)	(321)	(321)	
	<b>153,646</b>	<b>2,297</b>	<b>2,297</b>	<b>2,220</b>	<b>77</b>
<b>December 31, 2011</b>					
Forward exchange contracts:					
Positive market value	5,984	170	170	170	-
Negative market value	133,488	(4,722)	(4,722)	(4,551)	(171)
	<b>139,472</b>	<b>(4,552)</b>	<b>(4,552)</b>	<b>(4,381)</b>	<b>(171)</b>

A further 10% depreciation of the USD against all the currencies the Company have derivative contracts in, would have increased the fair value of these contracts by approximately \$4.4 million as of the December 31, 2012. The effect on the Consolidated statements of operations would have been \$2.1 million for the year ended December 31, 2012. 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, 2012, 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 and other financial instruments are denominated in USD.

#### Foreign exchange rate hedge accounting

In 2011, the Company entered into derivatives to hedge the NOK exposure arising from a contract to supply equipment for the Ramform new build program. In 2012, the Company entered into derivatives to hedge further NOK exposure relating to equipment for vessels. The derivatives entered into to hedge the exposure have, where applicable, been designated as fair value hedges. Of the total notional amounts of forward exchange contracts as per table above, \$19.2 million were accounted for as fair value hedges as of December 31, 2012 and \$23.7 million were accounted for as fair value hedges as of December 31, 2011. The positive fair value of these contracts was \$1.3 million as of December 31, 2012, and the negative fair value of these contracts was \$1.3 million as of December 31, 2011. 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.

There were no foreign exchange derivatives designated as cash flow hedges outstanding at December 31, 2012 or December 31, 2011.

The change in fair value of foreign currency derivatives used in fair value hedges of firm commitments were \$2.4 million (gain), \$1.5 million (loss) and \$0.3 million (gain) in the years ended December 31, 2012, 2011 and 2010, respectively. The corresponding change in fair value of firm commitments were \$2.1 million (loss), \$2.1 million (gain) and \$0.6 million (loss) for the years ended December 31, 2012, 2011 and 2010, 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 only the spot element of the derivative is designated to hedge the object and that in previous years derivatives at the hedge designation date were already carrying a fair value. The change in foreign currency derivatives (not designated as hedges) for the years ended December 31, 2012, 2011 and 2010 was \$4.9 million (gain), \$3.2 million (gain) and \$0.8 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, liquidity cash investment 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 (see note 14). 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 approximate maximum credit exposure were \$813 million and \$850 million for the years ended December 31, 2012 and 2011, respectively. The maximum credit exposure relate to cash and cash equivalents, accounts receivable (see note 14) and accrued revenues and other receivables (see note 15).

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 Company is exposed to credit risk on certain off-balance sheet items. 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, 2012, 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 minimize 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 above for derivatives with negative value).

## NOTE 27 - LEASES, COMMITMENTS AND PROVISIONS

### Leases

The Company has operating lease commitments expiring at various dates through 2023.

Future minimum payments related to non-cancellable operating and finance leases were as follows:

	December 31, 2012		December 31, 2011	
	Operating leases	Finance leases	Operating leases	Finance leases
(In thousands of dollars)				
2012	-	-	69,790	107
2013	60,236	79	45,453	62
2014	61,777	14	29,740	-
2015	45,623	14	18,025	-
2016	32,456	5	6,523	-
2017	29,166	-	5,256	-
thereafter	157,724	-	-	-
<b>Total</b>	<b>386,982</b>	<b>112</b>	<b>174,787</b>	<b>169</b>
Imputed interest		(7)		(13)
Net present value of finance lease obligations		105		156
Current portion of finance lease obligations		75		96
Long-term portion of finance lease obligations		30		60

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

(In thousands of dollars)	December 31,	
	2012	2011
Marine seismic and support vessels	270,247	88,040
Buildings	96,488	70,992
Data processing operations equipment	18,273	2,915
Other	1,974	12,840
<b>Total</b>	<b>386,982</b>	<b>174,787</b>

Rental expense for operating leases, including leases with terms of less than one year, was \$106.5 million, \$103.3 million and \$73.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

### Seismic support vessels

PGS signed charter agreements with PF Thor for four new seismic support vessels to assist its seismic operations worldwide. The vessels, to be built at the Besiktas shipyard in Turkey, will be operated by PF Thor who will charter the vessels to PGS on 10 year time charter contracts, with options for additional extension. PGS has subsequently agreed to provide financing during the vessel construction phase and a backstop financing of the finished vessels. If triggered by PF Thor, PGS will buy the vessels at a price 10% below construction cost, in aggregate \$86 million, and charter the vessels to PF Thor on bareboat terms for up to 10 years. In such case PGS will have the opportunity, and will seek, to sell the vessels with the bareboat lease structure on to financial investors.

### Claim towards Polish yard

In 2008, PGS subsidiary Arrow Seismic Invest IV LTD ("Arrow IV") terminated a contract with Polish yard Stocznia Marynarki Wojennej S.A. (the "yard") for the conversion of the vessel *Southern Explorer*. The yard subsequently detained the vessel as security for alleged claims against Arrow IV. In 2009, Arrow IV initiated a lawsuit against the yard, claiming damages and repossession of the vessel. The yard is in bankruptcy proceedings and the estate is party to the dispute which is in litigation before Danish courts. The court hearing was completed February 1, 2013 and the Company is awaiting the result of the hearing. PGS does not consider it probable that the outcome will have any adverse effect on the Company's business, results of operation or financial condition.

### UK leases

The Company has UK financial lease arrangements pursuant to which 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 liability for the interest rate differential on UK leases, was zero and \$2.7 million, at December 31, 2012 and 2011, respectively.

The UK lease agreement for *Ramform Valiant* was terminated in 2012 pursuant to which the Company paid \$2 million and obtained formal ownership of the vessel. As of December 31, 2012 the Company has one remaining UK lease agreement which is for the vessel *Ramform Challenger*.

### Brazil service tax claim

The Company has an ongoing dispute in Brazil related to municipal services tax ("ISS") related to the licensing of MultiClient data. The municipality contends that licensing of MultiClient data equates 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 subject to ISS. This has been confirmed by several external advisors and the Company intends to vigorously defend its view. The calculated maximum exposure for ISS tax, including interest charges and penalties, was \$159 million as of December 31, 2012.

The Company has made deposits of \$94 million allowing it to file lawsuits covering some of the years, seeking to confirm that licensing of MultiClient data is not subject to ISS. The lawsuits relate to periods before 2002, where the Company has been assessed and lost at administrative appeal levels, as well as periods after 2005, which have not yet been assessed. The Company

will continue depositing amounts relating to future licensing transactions. Because the Company considers it more likely than not that this contingency will be resolved in its favor, no provision is recognized for any portion of the exposure. Amounts deposited are held in an interest-bearing bank account with Banco do Brazil and will be released to the Company if and when a positive final ruling is awarded, which may take several years. The deposit is presented as long-term restricted cash in the statements of financial position.

### 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 the 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 the Petrojarl Banff FPSO, the Company remains with a joint secondary liability with Petrojarl under their FPSO service agreement with the customer. 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.

### Provisions for onerous contracts and dilapidation

The Company has recognized provisions for onerous contracts related to lease agreements in the UK for offices which the Company no longer occupies. In addition, the Company has recognized provisions for dilapidation on various office leases. The aggregate provision for these onerous contracts and dilapidations was \$3.8 million and \$4.3 million as of December 31, 2012 and 2011, respectively.

## NOTE 28 - ACCRUED EXPENSES

Accrued expenses consist of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
(In thousands of dollars)		
Accrued employee benefits	83,862	57,874
Accrued revenue share	44,567	40,673
Accrued vessel operating expenses	40,684	38,508
Customer advances and deferred revenue	31,696	56,274
Received, not invoiced, property and equipment	17,760	14,420
Accrued project costs	13,258	3,142
Accrued sales tax and VAT	9,449	13,204
Accrued commissions	9,019	8,653
Accrued office costs	7,566	7,311
Accrued legal, audit and consulting fees	3,624	2,597
Accrued interest expense	2,770	4,440
Unrealized loss on interest swaps/forward exchange contracts (Note 26)	1,363	10,226
Current portion of provision for onerous contracts and dilapidations (Note 27)	1,420	1,532
Accrued liabilities UK leases (Note 27)	-	714
Other	8,603	6,435
<b>Total</b>	<b>275,641</b>	<b>266,003</b>

## NOTE 29 - OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	December 31,	
(In thousands of dollars)	2012	2011
Pension liability (Note 30)	30,206	29,676
Unrealized loss on interest swaps/forward exchange contracts (Note 26)	18,008	20,031
Tax contingencies (Note 10)	5,342	7,182
Provision for onerous contracts (Note 27)	2,437	259
Long-term portion of accrued liabilities UK leases (Note 27)	-	1,979
Other	3,024	3,613
<b>Total</b>	<b>59,017</b>	<b>62,740</b>

## 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, 2012, 513 employees were participating in the defined benefit plans.

### Actuarial valuations and assumptions

The actuarial valuations are performed by independent actuaries in Norway and UK. In calculating pension liabilities, PGS has historically applied a discount rate based upon government bonds because the Norwegian corporate bond market was not considered to be sufficiently deep. As a result of an increase in that market, the Norwegian corporate bonds are now considered to have a sufficiently deep market with reliable pricing and, accordingly, the Company has used a discount rate based upon Norwegian corporate bonds in calculating the pension liabilities for 2012.

A summary of changes in 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)	2012	2011
Projected benefit obligations (PBO) at January 1,	185,320	155,794
Service cost	7,845	2,808
Interest cost	7,958	7,797
Employee contributions	1,446	1,373
Social security tax	(2,642)	192
Actuarial loss (gain), net	(15,161)	26,011
Benefits paid	(1,521)	(1,082)
Exchange rate effects	10,334	(7,573)
<b>Projected benefit obligations (PBO) at December 31, (a)</b>	<b>193,580</b>	<b>185,320</b>

(a) \$2.1 million and \$3.5 million arise from unfunded plans per December 31, 2012 and 2011, respectively.

Change in fair value of pension plan assets:

	December 31,	
	2012	2011
(In thousands of dollars)		
Fair value of plan assets at January 1,	118,348	109,789
Expected return on plan assets	7,591	8,075
Employer contributions	11,264	10,105
Employee contributions	1,446	1,373
Actuarial gain (loss), net	7,046	(6,386)
Benefits paid	(1,519)	(1,080)
Exchange rate effects	7,341	(3,529)
<b>Fair value of plan assets at December 31,</b>	<b>151,518</b>	<b>118,348</b>

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

	December 31,	
	2012	2011
(In thousands of dollars)		
Funded status (a)	42,061	66,972
Unrecognized actuarial gain (loss)	(11,855)	(37,296)
<b>Net pension liability</b>	<b>30,206</b>	<b>29,676</b>

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

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

	Year ended December 31,		
	2012	2011	2010
(In thousands of dollars)			
Service cost	7,845	6,755	6,458
Interest cost	7,958	7,797	7,093
Expected return on plan assets	(7,710)	(8,193)	(6,378)
Adjustments to prior service cost	-	(3,947)	2,263
Amortization of actuarial loss (gain)	1,682	(120)	(230)
Administration costs	118	118	53
Social security tax	690	595	525
<b>Net periodic pension cost</b>	<b>10,583</b>	<b>3,005</b>	<b>9,784</b>

Assumptions used to determine periodic pension cost:

	2012		2011		2010	
	Norway	UK	Norway	UK	Norway	UK
Discount rate	2.60%	4.90%	4.00%	5.50%	4.50%	5.80%
Return on plan assets	4.10%	7.58%	5.40%	7.02%	5.70%	7.68%
Compensation rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Annual adjustment to pensions	0.10%	<sup>(a)</sup>	1.30%	<sup>(a)</sup>	1.40%	<sup>(a)</sup>



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

	2012		2011	
	Norway	UK	Norway	UK
Discount rate (b)	3.80%	4.55%	2.60%	4.90%
Compensation increase	3.00%	3.00%	4.00%	4.00%
Annual adjustment to pensions	0.20%	(a)	0.10%	(a)
Mortality table	K2005	85% of SAPS1 YOB CMI	K2005	SAPS Ligh BY Medium cohort

(a) 3.30% for services up to July 2010 and 2.30% for services thereafter.

(b) For the Norwegian plans, corporate bond rates are used as discount rate for 2012, and governmental bond rates for 2011.

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

	December 31,				
	2012	2011	2010	2009	2008
Projected benefit obligation	193,580	185,320	155,794	134,510	108,882
Fair value of plan assets	151,518	118,348	109,789	96,531	69,870
<b>Net funded status (incl. payroll tax)</b>	<b>42,061</b>	<b>66,972</b>	<b>46,005</b>	<b>37,979</b>	<b>39,012</b>

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:

	2012	2011	2010	2009	2008
Projected benefit obligation (PBO)	-9.82%	-5.90%	-0.55%	2.00%	3.00%
Fair value of plan assets	5.95%	-5.82%	3.33%	1.90%	-35.50%

#### 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:

	1% increase in discount rate	1% decrease in discount rate	1% increase in annual compensation increase	1% decrease in annual compensation increase	10% app- reciation of USD <sup>(a)</sup>
(In thousands of dollars)					
Increase (decrease) in pension cost	(3,363)	3,916	1,541	(1,982)	(930)
Increase (decrease) in benefit obligations (PBO)	(38,898)	48,531	20,336	(18,319)	(17,458)

(a) Based on the Company's mix of Norwegian plans (NOK denominated) and UK plans (GBP denominated) as of December 31, 2012.

### Plan asset allocation

The Company's pension plan asset allocations, by asset category, are presented by major plan group as follows:

(In thousands of dollars)	December 31, 2012		December 31, 2011	
	Norway	UK	Norway	UK
Fair value plan assets	41,536	109,983	32,207	86,141
Debt securities	70%	28%	73%	31%
Equity/diversified growth funds	10%	54%	6%	66%
Real estate	17%	---	18%	---
High Yield Debt	---	16%	---	---
Other	3%	2%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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.

The Company expects to contribute approximately \$11.5 million to its defined benefit pension plans in 2013.

### 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, 2012, 2011 and 2010 were \$2.0 million, \$1.7 million and \$1.4 million, respectively.

Under the Company's U.S. defined contribution 401(k) plan, substantially 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 2012 statutory cap of \$17,000 (\$22,500 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 \$1.2 million, \$1.5 million and \$1.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Contributions to the plan by employees for these periods were \$3.2 million, \$4.0 million and \$4.2 million, respectively.

Aggregate employer and employee contributions under the Company's other plans for the years ended December 31, were \$1.8 million and \$0.8 million (2012), \$1.6 million and \$0.7 million (2011), \$1.7 million and \$0.8 million (2010).

## NOTE 31 - SHAREHOLDER INFORMATION

As of December 31, 2012 and 2011, Petroleum Geo-Services ASA had a share capital of NOK 653,399,991 on 217,799,997 shares of par value NOK 3 each, all fully paid.

At the Annual General Meeting ("AGM") held on May 3, 2012, authority was given for the Board of Directors to acquire treasury shares at a maximum par value of the shares of NOK 65,339,999. The shares may be used to meet obligations arising from employee incentive schemes; as part of consideration payable or acquisitions made by the Company; as part of consideration for any merger demerger or acquisition; by way of cancellation of the shares in part or full; to raise funds for specific investments; for the purpose of repaying loans (including convertible loans); or to strengthen the Company's capital base. The Board of Directors is free to choose the method of disposal considered expedient for such purposes. Further, the Board of Directors is authorized to increase the Company's share capital by a total amount of NOK 65,339,999 through one or more subscriptions. The authorization shall be utilized in connection with potential acquisitions of companies or businesses within the oil and energy sector, including the oil service sector, settlement of obligations (including convertible loans), funding of material investments or to raise funds to strengthen the Company's capital base. The Board of Directors was further authorized 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 also authorized to issue convertible bonds at a total amount of NOK 3,500,000,000. These authorizations are valid until June 30, 2013.

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

The Board of Directors will propose to the AGM in 2013 a dividend for the year ended December 31, 2012 of NOK 1.65 per share (NOK 359 million in total). The proposed dividend is recognized as a liability in the financial statements in the period it is approved by the AGM.

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

	Treasury shares	% of total shares outstanding
Balance at January 1, 2011	543,981	
Acquired in 2011	1,243,000	
Used to fulfill employee share option program in 2011 (Note 33)	(553,213)	
Used to fulfill 2010 share bonus program	(9,847)	
<b>Balance at December 31, 2011</b>	<b>1,223,921</b>	<b>0.56%</b>
Used to fulfill 2011 share bonus program	(24,700)	
Acquired in 2012	830,000	
Used to fulfill employee share option program in 2012 (Note 33)	(985,535)	
Conversion of convertible notes (Note 25)	(28,079)	
<b>Balance at December 31, 2012</b>	<b>1,015,607</b>	<b>0.47%</b>

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

	December 31, 2012	
	Total shares	Ownership percent
Folketrygdefondet	23,480,576	10.78
State Street Bank and Trust Co. (nominee)	10,300,260	4.73
Euroclear Bank (nominee)	7,767,301	3.57
Clearstream Banking S.A. (nominee)	6,670,209	3.06
State Street Bank and Trust Co. (nominee)	6,262,330	2.88
JPMorgan Chase Bank (nominee)	5,453,156	2.50
JPMorgan Chase Bank (nominee)	4,415,497	2.03
State Street Bank and Trust Co. (nominee)	4,351,198	2.00
Caceis Bank France (nominee)	4,231,205	1.94
Citibank, N.A. (nominee)	4,082,189	1.87
The Bank of New York Mellon (nominee)	3,697,252	1.70
State Street Bank and Trust Co. (nominee)	3,651,991	1.68
Tapiola Mutual Pension Insurance	3,000,000	1.38
State Street Bank and Trust Co. (nominee)	2,914,003	1.34
The Bank of New York Mellon (nominee)	2,716,489	1.25
Statoil Pension	2,527,001	1.16
Morgan Stanley & Co. LLC	2,372,525	1.09
Varma Mutual Pension Insurance	2,314,879	1.06
JPMorgan Clearing Corp. (nominee)	2,231,108	1.02
Verdipapirfondet DnB Norge	2,174,449	1.00
Other shareholders	113,186,379	51.97
<b>Total</b>	<b>217,799,997</b>	<b>100.0</b>

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

	December 31, 2012	
	Total shares	Ownership percent
<b>Board of Directors</b>		
Francis Gugen, Chairperson	30,000	(a)
Harald Norvik, Vice Chairperson	8,000	(a)
Holly Van Deursen	2,000	(a)
Daniel J. Piette	7,000	(a)
Annette Malm Justad	---	---
Carol Bell	5,000	(a)
Ingar Skaug	---	---
<b>Chief Executive Officer and Other Executive Officers</b>		
Jon Erik Reinhardtsen, President and Chief Executive Officer	75,275	(a)
Gottfred Langseth, Executive Vice President and Chief Financial Officer	30,711	(a)
Guillaume Cambois, Executive Vice President Data Processing & Technology	4,160	(a)
Magne Reiersgard, Executive Vice President Operations	11,177	(a)
Per Arild Reksnes, Executive Vice President Marine Contract	9,913	(a)
Sverre Strandenes, Executive Vice President MultiClient	11,962	(a)

(a) Less than 1% of the Company's share as of December 31, 2012.

## NOTE 32 - RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(In thousands of dollars)	Year ended December 31,		
	2012	2011	2010
<b>Sale of goods and services</b>			
Associates – MultiClient data	1,856	2,338	1,184
Associates – Administrative services	251	230	2,783
Associates – Data processing services	562	2,306	996
Associates – Reservoir services	1,151	944	0
Associates – Technology Services	36	0	0
ConocoPhillips – Seismic services <sup>(a)</sup>	12,980	17,898	4,188
Det Norske Oljeselskap – Seismic services <sup>(b)</sup>	253	0	0
<b>Purchase of services</b>			
Wilh. Wilhelmsen – Maritime management services <sup>(c)</sup>	n/a	n/a	6,415
<b>Other</b>			
Associates – Interest income	163	166	172

(a) The Director Mr. Harald Norvik is a board member of ConocoPhillips

(b) The Director Ms. Carol Bell is a board member of Det Norske Oljeselskap

(c) The Director Mr. Ingar Skaug (appointed in 2009) was the Group CEO of Wilh. Wilhelmsen ASA until October 1, 2010.

The table below detail the outstanding balances with related parties for the years presented:

(In thousands of dollars)	December 31,	
	2012	2011
Loan to associate <sup>(a)</sup>	3,368	3,243
Convertible loan to associate <sup>(b)</sup>	12,863	0
Receivable from associate	0	2,746

(a) The loan to PGS Khazar based on a \$4.1 million frame loan agreement which can be drawn as needed. The loan bears interest of 5% annually.

(b) The loan to Azinam Ltd. is not interest bearing and is due on December 31, 2013 (see note 20).

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

Directors of the Company are also on the Board of certain customers and suppliers. As of December 31, 2012 and 2011, the Company did not have any significant outstanding balances with any of these companies. See also Note 34.



### NOTE 33 - EMPLOYEE SHARE OPTION AND RESTRICTED STOCK UNIT PROGRAMS

Options and shares granted under the Company's employee option programs are as follows:

Grant Year	Options on shares/shares granted	Additional options Granted year	Additional options granted	Program/Plan
2006	2,127,000	2007/2008	223,000/25,000	Employee option program
2008	3,060,000	2009	40,000	Employee option program
2009	3,012,500	2010	190,000	Employee option program
2010	1,476,500	2011	28,000	Employee option program
2011	1,469,000	-	-	Employee option program
2012 <sup>(a)</sup>	542,300	-	-	Restricted Stock Plan

(a) Restricted Stock Units

The Company's option programs are considered as equity-settled plans and the options are measured at fair value at date of grant. For the 2006, 2008 and 2009 plans one third of the options vest each of the three years subsequent to the date of grant. The first exercise date is one year after grant date. For the 2010 and 2011 plans, the options vest 3 and 4 years, respectively, after the date of grant for each half of the award. The options may only be exercised four times each year, during a defined period after the publication of the Company's quarterly earnings release. The latest possible exercise date for each plan is five years subsequent to the grant date.

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, 2009, 2010 and 2011 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.

Under the 2008-2011 option programs, the number of options subject to exercise by an employee in a calendar year may not exceed the amount which would result in a gain in excess of 1.5 times the employee's salary for the calendar year.

Vesting of options granted in the 2011 program is subject to achievements of strategic goals related to business growth and profitability, HSEQ, new build program and internal control. The Board of Directors shall at year end 2013 and year end 2014 assess the Company's achievement of these goals and decide the percentage of options to be vested and that may be exercised subject to the limitations in the preceding paragraph. Options that are not declared vested within four years after the grant date will not become vested or exercisable.

Fair value of the share options is measured at grant date using the Black-Scholes pricing model. The fair value is expensed over the vesting period, using the accelerated method, based on the estimate of the shares that will eventually vest, after considering management's best estimate for the effects of non-transferability, exercise restrictions and behavioral 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 options. The options include no performance conditions, with exception of the 2011 program.

The 2012 Restricted Stock Unit program ("RSU") requires the participant's continued employment with the Company (or a subsidiary) and is settled three years after grant. Upon settlement, the participant will receive at no charge a number of shares in the Company which equals the number of RSUs awarded. Fair value of RSU's is measured at grant date using the current market value reduced by expected dividends paid before the vesting date, which is then further discounted.

For the years ended December 31, 2012, 2011 and 2010, the Company recognized compensation cost with a corresponding increase in shareholders' equity of \$5.1 million, \$5.1 million and \$5.3 million, respectively. Total net unrecognized compensation cost as of December 31, 2012 was \$10.2 million (related to non-vested share-based options), which is expected to be recognized over a period of 2.5 years.

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

Year ended December 31, 2012

Grant date	Options outstanding December 31, 2011	Options exercised in 2012	Options forfeited in 2012	Options expired in 2012	Options outstanding December 31, 2012	Weighted-average remaining contractual term	Options exercisable December 31, 2012
2006	-	-	-	-	-	-	-
2007	165,000	-	-	(165,000)	-	-	-
2008	2,434,666	-	(26,000)	-	2,408,666	0.4 years	2,408,666
2009	1,617,425	(925,535)	(11,779)	-	680,111	1.4 years	680,111
2010	1,538,500	(60,000)	(40,000)	-	1,438,500	2.4 years	66,667
2011	1,482,000	-	(54,500)	-	1,427,500	3.4 years	-
<b>Total</b>	<b>7,237,591</b>	<b>(985,535)</b>	<b>(132,279)</b>	<b>(165,000)</b>	<b>5,954,777</b>	<b>1.7 years</b>	<b>3,155,444</b>

Grant date	RSU share awards outstanding December 31, 2011	Shares granted in 2012	Shares forfeited in 2012	RSU share awards outstanding December 31, 2012	Weighted-average remaining contractual term
2012	-	542,300	(14,000)	528,300	2.4 years
<b>Total</b>	<b>-</b>	<b>542,300</b>	<b>(14,000)</b>	<b>528,300</b>	<b>2.4 years</b>

Year ended December 31, 2011

Grant date	Options outstanding December 31, 2010	Options granted in 2011	Options exercised in 2011	Options forfeited in 2011	Options expired in 2011	Options outstanding December 31, 2011	Weighted-average remaining contractual term	Options exercisable December 31, 2011
2006	1,114,782	-	-	-	(1,114,782)	-	-	-
2007	177,000	-	-	(12,000)	-	165,000	0.4 years	165,000
2008	2,528,166	-	-	(93,500)	-	2,434,666	1.4 years	2,434,666
2009	2,243,527	-	(553,213)	(72,889)	-	1,617,425	2.4 years	813,121
2010	1,616,500	-	-	(78,000)	-	1,538,500	3.4 years	63,334
2011 <sup>(a)</sup>	-	1,497,000	-	(15,000)	-	1,482,000	4.4 years	-
<b>Total</b>	<b>7,679,975</b>	<b>1,497,000</b>	<b>(553,213)</b>	<b>(271,389)</b>	<b>(1,114,782)</b>	<b>7,237,591</b>	<b>2.7 years</b>	<b>3,476,121</b>

(a) Performance conditions

The following share options, granted under the share option plans, were exercised for all years presented:

Grant date	Year ended December 31, 2012			Year ended December 31, 2011		
	Options exercised	Exercise date	Share price at exercise date	Options exercised	Exercise date	Share price at exercise date
2009	205,679	February 24, 2012	NOK 85.5154	162,259	February 23, 2011	NOK 86.70
2009	8,666	May 14, 2012	NOK 74.5693	19,999	May 10, 2011	NOK 79.80
2009	497,373	August 1, 2012	NOK 89.1462	363,038	August 2, 2011	NOK 83.40
2010	60,000	August 1, 2012	NOK 89.1462			
2009	213,817	October 31, 2012	NOK 98.8904	7,917	November 3, 2011	NOK 59.45
<b>Total</b>	<b>985,535</b>			<b>553,213</b>		

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

Grant date	Options and shares outstanding December 31, 2012	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)
2006 <sup>(a)</sup>	-	NOK 111.50	3.92-4.00%	-	45%	3.5 years	NOK 44.10/\$7.12
2007 <sup>(a)</sup>	-	NOK 141.05	5.02-5.22%	-	43%	3.5 years	NOK 55.20/\$8.87
2008	2,408,666	NOK 132.91	4.56-5.75%	-	46%	2.5 years	NOK 35.55/\$6.77
2009	680,111	NOK 40.30	0	-	55%	2.4 years	NOK 13.25/\$2.08
2010	1,438,500	NOK 78.31	2.30-2.45%	-	60%	3.5 years	NOK 28.24/\$4.57
2011	1,427,500	NOK 77.19	2.61-2.76%	-	60%	3.5 years	NOK 30.35/\$5.63
2012 <sup>(b)</sup>	528,300	NOK 0	N/A	-	N/A	N/A	NOK 59.80/\$9.73
<b>Total</b>	<b>6,483,077</b>						

(a) Exercise price is adjusted for special dividend of NOK 10 per share distributed in July 2007

(b) Restricted Stock Units ("RSU")

Expected volatility for all grants is based on historical volatility of the Company's shares after emerging from Chapter 11 in November 2003. As a result of unusually high volatility during the international financial distress 2008 to 2009, the Company has estimated volatility for the 2009, 2010 and 2011 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:

	Year ended December 31,		
	2012	2011	2010
(In thousands of dollars)			
Salaries and bonuses	279,377	257,994	247,940
Social security	24,345	20,864	21,834
Pension	18,274	7,805	14,544
Other benefits	36,756	31,323	25,523
<b>Total</b>	<b>358,752</b>	<b>317,986</b>	<b>309,841</b>

The Company had an average of 2,227, 2,149 and 2,090 employees during the years ended December 31, 2012, 2011 and 2010, respectively (excluding Onshore employees).

### Chief Executive Officer (CEO) and Other Executive Officers

In 2012, the Company paid compensation to its President and CEO and other executive officers as follows:

Name and Position	Total compensation paid in 2012 <sup>(a)</sup>					
	Fixed salary	Bonus <sup>(b)</sup>	Other benefits <sup>(c)</sup>	Total paid salary and compensation (in dollars)	Benefits paid to pension plan <sup>(d)</sup>	Accrued target bonus at December 31, 2012
Jon Erik Reinhardsen President and Chief Executive Officer	889,431	573,373	543,691	2,006,495	60,470	1,053,742
Gottfred Langseth Executive Vice President and Chief Financial Officer	560,640	187,111	339,978	1,087,729	65,636	456,730
Guillaume Cambois Executive Vice President, Data Processing & Technology	535,143	196,412	34,408	765,962	42,201	417,582
Magne Reiersgard Executive Vice President, Operations	490,164	159,865	186,956	836,985	74,160	390,638
Per Arild Reksnes Executive Vice President, Marine Contract	557,942	170,777	179,944	908,664	103,563	417,582
Sverre Strandenes Executive Vice President, MultiClient	557,942	227,154	289,938	1,075,035	104,373	417,582

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2012 of NOK/USD 5.813.

(b) Includes payments for the 2011 performance bonus plan (paid in April 2012).

(c) Includes items such as car allowance, telephone, internet and other minor benefits. In addition taxable gain on exercised share options.

(d) Contribution to defined benefit plans and defined contribution plans (Norway).

Share options and RSUs held by the CEO and executive officers at December 31, 2012 were as follows:

Name	Options and RSUs at December 31, 2011	Options granted 2012	Options forfeited 2012	Options exercised 2012	Average exercise price on exercised options (NOK)	Options expired 2012	Options and RSUs at December 31, 2012	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardsen	450,000	30,000	---	50 000 <sup>(a)</sup>	39.19	---	430,000	81.88	1.49 Years
Gottfred Langseth	270,000	18,000	---	30 000 <sup>(b)</sup>	39.19	---	258,000	81.88	1.49 Years
Guillaume Cambois	155,000	18,000	---	---	---	---	173,000	78.73	2.02 Years
Magne Reiersgard	190,000	18,000	---	30 000 <sup>(c)</sup>	39.19	---	188,000	82.98	1.90 Years
Per Arild Reksnes	190,000	18,000	---	20 000 <sup>(d)</sup>	40.29	---	188,000	82.98	1.90 Years
Sverre Strandenes	240,000	19,000	---	30 000 <sup>(e)</sup>	39.19	---	229,000	87.12	1.69 Years

(a) \$509,284 was reported as taxable income as a consequence of the exercise of share options.

(b) \$305,570 was reported as taxable income as a consequence of the exercise of share options.

(c) \$165,582 was reported as taxable income as a consequence of the exercise of share options.

(d) \$154,139 was reported as taxable income as a consequence of the exercise of share options.

(e) \$255,531 was reported as taxable income as a consequence of the exercise of share options.

In 2011, the Company paid compensation to its President and CEO and other executive officers as follows:

Name and Position	Total compensation paid in 2011 <sup>(a)</sup>			Total paid salary and compensation (in dollars)	Benefits paid to pension plan <sup>(d)</sup>	Accrued target bonus at December 31, 2011
	Fixed salary	Bonus <sup>(b)</sup>	Other benefits <sup>(c)</sup>			
Jon Erik Reinhardsen President and Chief Executive Officer	899,553	2,041,528	38,535	2,979,616	59,802	448,138
Gottfred Langseth Executive Vice President and Chief Financial Officer	591,409	319,091	41,417	951,917	67,210	194,503
Guillaume Cambois Executive Vice President, Data Processing & Technology	541,172	218,992	191,194	951,358	43,222	177,540
Magne Reiersgard Executive Vice President, Operations	563,742	272,500	217,556	1,053,798	79,060	172,125
Per Arild Reksnes Executive Vice President, Marine Contract	559,960	251,841	29,182	840,983	106,704	177,540
Sverre Strandenes Executive Vice President, MultiClient	565,247	291,259	283,781	1,140,287	108,736	177,540

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2011 of NOK/USD 5.562.

(b) Includes payments for the 2010 performance bonus plan (paid in April 2011) and the CEO deferred compensation (see below).

(c) Includes items such as car allowance, telephone, internet and other minor benefits. In addition taxable gain on exercised share options.

(d) Contribution to defined benefit plans and defined contribution plans (Norway).

Options held by the CEO and executive officers at December 31, 2011 were as follows:

Name	Options at December 31, 2010	Options granted 2011	Options forfeited 2011	Options exercised 2011	Average exercise price on exercised options (NOK)	Options expired 2011	Options at December 31, 2011	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardtsen	375,000	75,000	---	---	---	---	450,000	83.70	2.60
Gottfred Langseth	315,000	45,000	---	---	---	90,000	270,000	83.70	2.60
Guillaume Cambois	130,000	45,000	---	20 000 <sup>(a)</sup>	40.29	---	155,000	88.97	3.00
Magne Reiersgard	204,999	45,000	---	20 000 <sup>(b)</sup>	40.29	39,999	190,000	87.33	2.80
Per Arild Reksnes	184,999	45,000	---	---	---	39,999	190,000	87.33	2.80
Sverre Strandenes	275,001	45,000	---	30 000 <sup>(c)</sup>	40.29	50,001	240,000	89.12	2.60

(a) \$152,369 was reported as taxable income as a consequence of the exercise of share options.

(b) \$161,050 was reported as taxable income as a consequence of the exercise of share options.

(c) \$245,008 was reported as taxable income as a consequence of the exercise of share options.

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.

#### CEO key employment terms

Jon Erik Reinhardtsen, President and CEO of the Company, had an annual fixed salary of NOK 4,845,000 in 2012. The CEO 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 scheme

The Board of Directors has established an annual performance bonus scheme for the Company's CEO and other executive officers. In 2012 the CEO participated in a performance bonus scheme where he was entitled to a cash bonus and a share bonus provided the Company and the CEO met certain financial and non-financial performance targets. The target bonus for the CEO which assumes that the company goals and the CEO's individual goals are met is a cash bonus of 57% and a share purchase bonus of 28% of the CEO's annual base salary. These target bonuses can be increased or decreased in cases of performance above or below the targets set for the CEO and the Company. Any amount the CEO 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 price and retained for a minimum of three years. Other executive officers, listed above, who were employed by the Company during 2012 and remain employed as of March 1, 2013 are participants in a bonus scheme where they are entitled to a cash bonus targeted at 38% and a share purchase bonus of 19% of the respective executive's annual base salary. The target bonus can be increased or decreased in cases of performance above or below the targets set for the executive and the Company. The CEO's performance bonus is capped at 150% of base salary, the executive officers' at 100% of base salary.



### Board of Directors

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

The table below provides information about our Directors and compensation paid during 2012:

Name	Position	Director since	Term expire	Compensation (In dollars)
Francis Gugen	Chairperson	2003	2012	115,028
Harald Norvik	Vice Chairperson	2003	2012	91,500
Holly Van Deursen	Director	2006	2012	96,526
Daniel J. Piette	Director	2007	2012	98,000
Annette Malm Justad	Director	2008	2012	77,554
Carol Bell	Director	2009	2012	90,250
Ingar Skaug	Director	2009	2012	78,554
<b>Total</b>				<b>647,412</b>

The table below provides information about our Directors and compensation paid during 2011:

Name	Position	Director since	Term expire	Compensation (In dollars)
Francis Gugen	Chairperson	2003	2011	97,558
Harald Norvik	Vice Chairperson	2003	2011	91,901
Holly Van Deursen	Director	2006	2011	102,823
Daniel J. Piette	Director	2007	2011	105,547
Annette Malm Justad	Director	2008	2011	79,469
Carol Bell	Director	2009	2011	95,485
Ingar Skaug	Director	2009	2011	78,731
<b>Total</b>				<b>651,514</b>

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 2013 Annual General Meeting ("AGM").

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 leaders. This will require the use of several different instruments and measures also meant to provide incentives for enhanced performance and to ensure common goals and interest between the shareholders and management.

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

The CEO and three executive officers have an early retirement plan allowing for termination of employment without cause when the CEO or the executive officers reach the age of 62. Provided that the CEO or executive officers have been employed as a CEO or an executive officer for 10 years (or in some cases longer) the CEO or the executive officers are entitled to a yearly payment of up to 60% of the last base salary beginning in the year of retirement until the CEO or the executive officers reach the age of 67.

The variable elements today consist of a performance bonus scheme, participation in each years' share option program and participation in restricted stock unit programs.

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

The Group KPIs are financial targets set by the Board of Directors at the start of each fiscal year. The Group KPIs are then broken down to business unit KPIs. Each year's personal performance contract for our CEO and other executive officers therefore contains such Group or business unit KPI goals as well as KPI goals linked to other personal measures of success such as HSE, operational effectiveness and organizational development.

The CEO and other executive officers have target bonus levels and maximum bonus levels. The CEO and other executive officers will for 2012 be obliged to use one third of their annual bonus (net after withholding tax) to purchase shares in the Company and to retain them for 3 years. 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. The annual performance bonus scheme for the other executive officers are reviewed and approved by the Remuneration and Corporate Governance Committee on the CEO's recommendation, and the executive officer's achievements under the scheme are also reviewed by the Remuneration and Corporate Governance Committee. The Board of Directors will continue to use this scheme for determining the level of annual performance bonus in the coming financial year.

The AGM's in 2006, 2008, 2009, 2010 and 2011 authorized the implementation of certain share option programs. Based on the recommendation from the Board of Directors the 2012 AGM discontinued the implementation of new share option programs and replaced this approach with a performance based restricted stock unit program in order to ensure continued long term incentives which are linked to the development of the Company's share price. The Board of Directors will propose to the 2013 AGM a Performance based Restricted Stock Unit program similar to the 2012 program. Under the 2013 Performance based Restricted Stock Unit program the Board of Directors will, based on the previous year's performance against specific targets, propose a pool of Restricted Stock Units which will be granted to eligible employees in 2013. Settlement of these Restricted Stock Units and subsequent transfer to the eligible employee of shares in the Company will take place three years later subject principally to further employment by the Company. The full Performance based Restricted Stock Plan including all terms and conditions will be presented to the AGM in May 2013 for approval.

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 500 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 of Directors based on the financial results of the Company.

Remuneration of the CEO and other executive officers are evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors. The Remuneration and Corporate Governance Committee and the Board of Directors have adopted a remuneration philosophy which includes the above elements. The remuneration policy also includes a peer group of companies used for benchmarking purposes. An external consultant is used in the review of executive compensation to ensure that salary and other benefits are kept, at all times within the above adopted guidelines and principles and in order to ensure alignment with shareholders' in this area.

Since the AGM in May 2012 the Board of Directors have followed the guidelines then approved by the AGM 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):

(In thousands of dollars)	Year Ended December 31,		
	2012	2011	2010
Audit fees	2,669	2,859	2,922
Other attestation services	64	222	358
Fees for tax services <sup>(a)</sup>	59	-	145
All other fees	-	16	-
<b>Total</b>	<b>2,792</b>	<b>3,097</b>	<b>3,425</b>

(a) Fees for tax services consist of fees for tax filing services and other tax assistance.

### NOTE 35 - SUBSIDIARIES AND AFFILIATED COMPANIES

The ownership percentage in subsidiaries and affiliated companies as of December 31, 2012, 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%
Calibre Seismic Company	United States	50%
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%
PGS Egypt for Petroleum Services	Egypt	100%
Petroleum Geo-Services Exploration (M) Sdn. Bhd.	Malaysia	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%
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 Marine Services (Isle of Man) Ltd.	Isle of Man	100%
Deep Gulf LP	United States	50.1%
PGS Geophysical Services Ltd.	United Kingdom	100%
Strike Oil Ltd	United Kingdom	100%
SOH, Inc.	United States	100%
PT PGS Nusantara	Indonesia	94%
PGS Geophysical (Angola) Ltd.	United Kingdom	100%

Seismic Exploration (Canada) Ltd.	United Kingdom	100%
PGS Investigaco 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 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 EM Limited	United Kingdom	100%
PGS Geophysical (Netherlands) B.V.	Netherlands	100%
PGS Technology (Sweden) AB	Sweden	100%
Natuna Ventures Pte. Ltd.	Singapore	100%
PGS Onshore do Brazil Ltda.	Brazil	100%
PGS Onshore Servicos Ltda.	Brazil	100%
Arrow Seismic ASA	Norway	100%
PGS Seismic Services 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%
Charge Oil Ltd	United Kingdom	100%
Petroleum Geological Services LLC	Oman	100%
PGS Falcon AS	Norway	100%
PGS Asia Pacific Labuan Ltd.	Labuan	100%
Technical Geophysical Solutions Company S.A. de C.V	Mexico	100%
PGS Data Processing S.A. de C.V	Mexico	100%
PGS Titans AS	Norway	100%
Smart Technical Solutions Company S.A. de C.V	Mexico	100%
PGS Arabia Ltd.	Saudi Arabia	49%

## NOTE 36 - COMPONENTS OF OTHER COMPREHENSIVE INCOME

A reconciliation of reclassification adjustments from other comprehensive income to the Consolidated statements of operations:

	December 31,	
(In thousands of dollars)	2012	2011
<b>Cash flow hedges:</b>		
Gains (losses) arising during the period	(5,035)	(12,152)
Less: Reclassification adjustments for losses included in the Consolidated statement of operations	12,562	14,734
<b>Cash flow hedges, net</b>	<b>7,527</b>	<b>2,582</b>
<b>Revaluation of shares available-for-sale:</b>		
Gains (losses) arising during the period	995	(11,404)
Less: Reclassification adjustments for losses (gains) included in the Consolidated statement of operations	(925)	(1,418)
<b>Revaluation of shares available-for-sale, net</b>	<b>70</b>	<b>(12,822)</b>

**PETROLEUM GEO-SERVICES ASA**

(Parent company financial statements)


**STATEMENTS OF OPERATIONS**

(In thousands of NOK)	Note	Year ended December 31,		
		2012	2011	2010
Revenue	2	141,783	117,280	125,401
Cost of sales	2	2,540	2,443	2,691
Depreciation and amortization	6	278	533	2,134
Salaries and other operating expenses	2	143,526	135,199	146,288
Total operating expenses		146,343	138,175	151,113
<b>Operating loss</b>		<b>(4,561)</b>	<b>(20,895)</b>	<b>(25,712)</b>
Interest expense, net	2, 3	(249,243)	(232,151)	(307,753)
Impairment, net of reversal of impairment on shares in subsidiaries/ intercompany receivables	7	216,610	6,809	(722,393)
Impairment of investment in associated company	20	-	(106,091)	-
Dividends/group contribution received from subsidiaries	2	932,028	1,535,705	400,000
Gain on sale of subsidiaries	7	-	6,842	176,454
Other financial items, net	2, 4	54,735	(252,881)	(120,786)
<b>Income (loss) before income taxes</b>		<b>949,569</b>	<b>937,338</b>	<b>(600,190)</b>
Provision (benefit) for income taxes	5	34,547	299,277	(84,620)
<b>Net income (loss)</b>		<b>915,022</b>	<b>638,061</b>	<b>(515,570)</b>

London, March 19, 2013  
 Board of Directors  
 Petroleum Geo-Services ASA



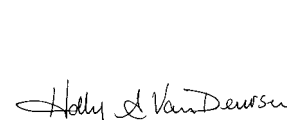
Francis Gugen  
Chairperson



Harald Norvik  
Vice Chairperson



Carol Bell



Holly Van Deursen

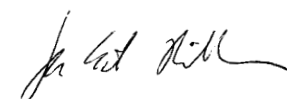



Annette Malm  
Justad

Daniel J. Piette



Ingar Skaug



Jon Erik Reinhardsen  
Chief Executive Officer

**PETROLEUM GEO-SERVICES ASA**

(Parent company financial statements)

**STATEMENTS OF FINANCIAL POSITION**

Year ended December 31,

(In thousands of NOK)

	Note	2012	2011
<b>ASSETS</b>			
<b>Long-term assets</b>			
Deferred tax assets	5	753,354	802,778
Property and equipment, net	6	1,223	1,501
Shares in subsidiaries	7	13,322,907	12,019,368
Intercompany receivables		4,129,688	5,508,299
Investment in associated company	20	-	27,877
Other long-term financial assets	8	600	143,427
<b>Total long-term assets</b>		<b>18,207,772</b>	<b>18,503,250</b>
<b>Current assets</b>			
Short-term intercompany receivables		42,093	42,438
Other current assets	9	35,943	38,045
Restricted cash	10	5,670	3,018
Cash and cash equivalents		2,036,165	2,363,863
<b>Total current assets</b>		<b>2,119,871</b>	<b>2,447,364</b>
<b>Total assets</b>		<b>20,327,643</b>	<b>20,950,614</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Shareholders' equity</b>			
Paid in capital:			
Common stock; par value NOK 3; issued and outstanding 217,799,997 shares	11	653,400	653,400
Own shares, par value	11	(3,047)	(3,672)
Additional paid-in capital	11	2,348,779	2,319,790
<b>Total paid in capital</b>		<b>2,999,132</b>	<b>2,969,518</b>
Other equity	11	7,887,300	7,311,756
<b>Total shareholders' equity</b>		<b>10,886,432</b>	<b>10,281,274</b>
<b>Long-term liabilities</b>			
Long-term debt	12, 13	5,111,133	4,540,316
Intercompany debt		3,723,505	4,473,981
Other long-term liabilities	14	128,223	145,405
<b>Total long-term liabilities</b>		<b>8,962,861</b>	<b>9,159,702</b>
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	12	-	1,102,739
Short-term intercompany debt		46,863	8,968
Accounts payable		6,167	14,542
Accrued dividend	11	359,370	239,580
Accrued expenses and other short-term liabilities	17	65,951	143,809
<b>Total current liabilities</b>		<b>478,350</b>	<b>1,509,638</b>
<b>Total liabilities and shareholders' equity</b>		<b>20,327,643</b>	<b>20,950,614</b>



**PETROLEUM GEO-SERVICES ASA**

(Parent company financial statements)

**STATEMENTS OF CASH FLOW**

	Year ended December 31,		
(In thousands of NOK)	2012	2011	2010
<b>Cash flows provided by operating activities</b>			
Net income (loss)	915,022	638,061	(515,570)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Changes in deferred tax assets	49,424	302,286	(90,373)
Depreciation and amortization charged to expense	278	533	2,134
Impairment, net of reversal of impairment on shares in subsidiaries/intercompany receivables	(216,610)	(6,809)	722,393
Impairment of investment in associated companies	30,882	106,091	-
Gain on sale of subsidiaries, net	-	(6,842)	(176,454)
Dividend/group contribution	(932,028)	(1,535,705)	(400,000)
Unrealized foreign exchange (gain) loss	(231,574)	(22,184)	168,543
Changes in current assets and current liabilities	247,044	213,251	4,202
Net (increase) decrease in restricted cash	(2,652)	(324)	(688)
Other items	162,729	238,845	98,209
<b>Net cash provided by (used in) operating activities</b>	<b>22,515</b>	<b>(72,796)</b>	<b>(187,604)</b>
<b>Cash flows provided by (used in) investing activities</b>			
Proceeds from sale of subsidiaries, net	-	-	179,196
Investments in subsidiaries and changes intercompany receivables, net	421,066	(904,458)	750,708
Repayment of long term receivables, net	142,211	(156,752)	-
Investment in associate	-	-	(23,832)
<b>Net cash provided by (used in) investing activities</b>	<b>563,277</b>	<b>(1,061,210)</b>	<b>906,072</b>
<b>Cash flows provided by (used in) financing activities</b>			
Share issue	-	-	1,619,503
Proceeds from issuance of long-term debt	884,920	1,729,230	-
Repayment of long-term debt	-	(837,183)	(672,254)
Net increase (decrease) in bank facility and short-term debt	(1,105,924)	-	-
Investment in/sale of own shares, net	(26,873)	(72,623)	(45,084)
Receipts of dividend/group contribution from group companies	-	535,705	400,000
Dividend paid to shareholders of PGS ASA	(238,518)	-	-
Other	(262,687)	(280,156)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(749,082)</b>	<b>1,074,973</b>	<b>1,302,165</b>
Net increase (decrease) in cash and cash equivalents	(163,290)	(59,033)	2,020,633
Effect of exchange rate changes on cash and cash equivalents	(164,408)	64,029	(65,564)
Cash and cash equivalents at beginning of year	2,363,863	2,358,867	403,798
<b>Cash and cash equivalents at end of year</b>	<b>2,036,165</b>	<b>2,363,863</b>	<b>2,358,867</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

Investments in associated companies are presented at cost less impairment. Impairment is recognized based upon the carrying value of the investment less the estimated recoverable amount (based upon observable market price).

Proposed dividend to shareholders for the year is recognized as a liability at year end because it is considered more likely than not that the dividend will be approved by the General Assembly the following year.

### NOTE 2 - INTERCOMPANY TRANSACTIONS

PGS ASA has significant intercompany transactions with its subsidiaries. Transactions with subsidiaries are mainly related to business support functions and financing activities. Intercompany transactions in the Statements of Operations consist of:

	Year ended December 31,		
	2012	2011	2010
(In thousands of NOK)			
Revenue	140,349	116,633	125,401
Cost of sales	2,004	1,953	1,845
Salaries and other operating expenses	115,794	37,534	63,183
Interest expense (income), net (Note 3)	(26,691)	(35,560)	(4,693)
Other financial items, net (Note 4)	(643)	35,206	(1,103)
Dividends/group contribution received from subsidiaries	(932,028)	(1,535,705)	(400,000)
<b>Intercompany transactions, net</b>	<b>981,913</b>	<b>1,613,205</b>	<b>466,169</b>

### NOTE 3 - INTEREST EXPENSE, NET

Interest expense, net, consists of:

	Year ended December 31,		
	2012	2011	2010
(In thousands of NOK)			
Interest income, external	14,379	19,510	7,340
Interest income, intercompany	510,744	442,504	147,118
Interest expense, external	(290,313)	(287,221)	(319,787)
Interest expense, intercompany	(484,053)	(406,944)	(142,424)
<b>Total</b>	<b>(249,243)</b>	<b>(232,151)</b>	<b>(307,753)</b>

## NOTE 4 - OTHER FINANCIAL ITEMS, NET

Other financial items, net, consist of:

(In thousands of NOK)	Year ended December 31,		
	2012	2011	2010
Amendment fees USD 950 million Credit Facilities (Note 12)	-	-	(42,895)
Gain (loss) on repurchase of convertible bonds	(43,678)	(31,176)	-
Write-down of long term receivables (Note 8)	-	(44,694)	-
Foreign currency (loss) gain	151,709	(154,774)	(63,740)
Other	(53,295)	(22,237)	(14,151)
<b>Total</b>	<b>54,735</b>	<b>(252,881)</b>	<b>(120,786)</b>

## NOTE 5 - INCOME TAXES

Reconciliation of income tax (benefit) expense to taxes computed at nominal tax rate on income before income taxes:

(In thousands of NOK)	Year ended December 31,		
	2012	2011	2010
Income (loss) before income taxes	949,569	937,338	(600,190)
Norwegian statutory tax rate	28%	28%	28%
Provision (benefit) for income taxes at the statutory rate	265,879	262,455	(168,053)
<b>Increase (reduction) in income taxes from:</b>			
Non-taxable gain on sale of shares in subsidiary, net	-	(1,858)	(29,368)
Impairment (reversal) of shares in subsidiaries and associated companies	(4,110)	147,658	170,033
Non-taxable dividends/ group contribution	(188,859)	(356,218)	(28,506)
Impairment of intercompany receivables	(59,370)	249,433	-
Other permanent items	21,006	(8,225)	(33,285)
Change in deferred tax assets not recognized in balance sheet	-	6,032	4,559
<b>Income tax (benefit) expense</b>	<b>34,547</b>	<b>299,277</b>	<b>(84,620)</b>

(In thousands of NOK)	Year ended December 31,	
	2012	2011
<b>Temporary differences relates to:</b>		
Property and equipment	295	524
Pension liabilities	6,996	6,624
Intercompany receivables	108,731	134,920
Unrealized (losses/accruals) gain	5,916	18,800
Shares in foreign subsidiaries	94,465	96,640
Compensation cost employee share options	738	9,801
Convertible notes valuation	-	(55,307)
Interest rate swaps <sup>(a)</sup>	28,169	43,046
Other	15,301	-
Tax losses carried forward	587,208	644,370
Deferred tax assets	847,820	899,418
Deferred tax assets not recognized in the balance sheet	(94,466)	(96,640)
<b>Deferred tax assets</b>	<b>753,354</b>	<b>802,778</b>

(a) Change in deferred tax for interest swaps is recognized directly to shareholders' equity (see Note 11).

PGS ASA recognizes deferred tax assets when they are "more likely than not" of being realized. As of December 31, 2012, PGS ASA has recognized deferred tax assets of NOK 753.4 million (NOK 802.8 million as of December 31, 2011) 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 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of fixtures, furniture and fittings and is summarized as follows:

	Year ended December 31,	
	2012	2011
<i>(In thousands of NOK)</i>		
<b>Purchase cost:</b>		
Purchase cost as of January 1	90,974	90,974
Additions	-	-
Purchase cost as of December 31	90,974	90,974
<b>Accumulated depreciation:</b>		
Accumulated depreciation as of January 1	89,473	88,940
Depreciation for the year	278	533
Accumulated depreciation as of December 31	89,751	89,473
<b>Balance as of December 31</b>	<b>1,223</b>	<b>1,501</b>

Property and equipment is depreciated between 3 to 5 years.

## NOTE 7 - SHARES IN SUBSIDIARIES AND INTERCOMPANY RECEIVABLES

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

	Regis- tered office	Number of shares	Total share capital	Share- holding <sup>(a)</sup>	Par value	Book value as of 12/31/2012 (In thousands of NOK)
PGS Geophysical AS	Oslo	1,396,805	NOK 139,680,500	100%	NOK 100	2,818,791
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	0
Petroleum Geo-Services (UK) Ltd.	London	222,731,726	GBP 222,731,726	100%	GBP 1	1,302,603
Seahouse Insurance Ltd.	Bermuda	120,000	USD 120,000	100%	USD 1	27,575
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	1,140,991
PGS Asia Pacific Pte. Ltd.	Singapore	100,000	SGD 100,000	100%	SGD 1	3,148,658
PGS Investigacao Petrolifera Ltda.	Brazil	13,083,653	BRL 13,083,653	99%	BRL 1	0
Oslo Seismic Services Ltd. (IoM)	Isle of Man	1	USD 1	100%	USD 1	33,570
PGS Australia Pty. Ltd.	Perth	9,600,241	AUD 9,600,241	100%	AUD 1	0
PGS de Venezuela CA	Venezuela	5,015,000	VEB 5,015,000,000	100%	VEB 1,000	0
PGS Overseas AS	Oslo	100	NOK 100,000	100%	NOK 1,000	100
PGS Suporte Logistico e Servicos Ltda. <sup>(b)</sup>	Brazil	12,088,000	BRL 12,088,000	1.0%	BRL 1	369
PGS Japan KK	Japan	10,000,000	JPY 10,000,000	100%	JPY 1	563
PT PGS Nusantara (Indonesia)	Indonesia	4675	IDR 4,675,000,000	93.4%	IDR 1,000,000	0
Arrow Seismic ASA	Bergen	23,500,000	NOK 282,000,000	100%	NOK 12	1,602,815
PGS EM Ltd.	Scotland	270,000	GBP 270,000	100%	GBP 1	312,316
PGS Falcon AS	Oslo	43,195	NOK 734,315,000	100%	NOK 17,000	1,254,486
PGS Titan AS	Oslo	13,800	NOK 690,000,000	100%	NOK 50,000	690,000
Technical Geophysical Solutions Company, S.A. de C.V.	Mexico	500	MXN 50,000	99.8%	MXN 100	23
<b>Total</b>						<b>13,322,907</b>

(a) Voting rights are equivalent to shareholding for all companies.

(b) The remaining 99% shareholding is held by PGS Overseas AS.

In 2009, PGS ASA entered into an agreement to sell its Onshore business ("Onshore") to Geokinetics Inc. ("Geokinetics"), see Note 4 in the consolidated statements. In 2010, PGS ASA converted long-term debt to equity in some of the sold entities to fulfill the agreement. PGS ASA recognized a gain of NOK 176.5 million in 2010, mainly due to reversal of previous recognized impairments of receivables towards the sold companies. In 2011, PGS ASA recognized additional gain of NOK 6.8 million on the sale of Onshore due to derecognition of previous accruals related to the sale.

In 2012, PGS ASA recognized a NOK 73.3 million impairment charge on shares in subsidiaries, related to reduced equity in Petroleum Geo-Services Inc. and PGS Australia Pty. Ltd. In 2012, PGS ASA recognized a NOK 88.0 million impairment reversal in Petroleum Geo-Services (UK) Ltd, resulting in a net impairment reversal of NOK 14.7 million. In 2011, PGS ASA recognized a NOK 421.3 million net impairment charge on shares in subsidiaries, mainly related to reduced equity in Petroleum Geo-Services Inc. and other US subsidiaries. In 2010, PGS ASA recognized a NOK 607 million impairment charge on the shares in Arrow Seismic ASA (NOK 700 million in 2009). The main reason for this impairment charge was the cancellation of the new build contracts and impairment charges in the subsidiaries of Arrow Seismic ASA (see Note 18 to the consolidated financial statements).

As of December 31, 2012, PGS ASA has accumulated impairment charges related to shares in subsidiaries and intercompany receivables totaling NOK 4.8 billion and NOK 1.2 billion, respectively.

In 2012, PGS ASA reversed previous recognized impairment charges on intercompany receivables of NOK 201.9 million. In 2011, PGS ASA reversed previous recognized impairment charges on intercompany receivables of NOK 428 million, and in 2010 PGS ASA recognized an impairment charge on intercompany receivables of NOK 115 million.

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

## NOTE 8 - OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets consist of:

(In thousands of NOK)	Year ended December 31,	
	2012	2011
Long-term receivables	-	140,377
Investment in Geokinetics Inc. (Note 20)	-	3,050
Other	600	-
<b>Total</b>	<b>600</b>	<b>143,427</b>

In February 2011, the Company acquired convertible bonds issued by Seabird Exploration Plc. with a total value of NOK 240.0 million (US\$42.9 million). As part of the financial restructuring of Seabird Exploration Plc., the convertible bonds were redeemed and settled in December 2011. PGS ASA received partial settlement in cash of NOK 83.2 million (US\$14.5 million), while the remainder was settled through a grant of new secured bonds issued by Seabird Exploration Plc. The Seabird Exploration Plc. bonds were sold in 2012 for NOK 139.5 million (US\$24.4 million).

## NOTE 9 - OTHER CURRENT ASSETS

Other current assets consist of:

(In thousands of NOK)	Year ended December 31,	
	2012	2011
Short term receivables	20,304	32,004
Prepaid expenses	630	2,101
Unrealized gain hedge contracts (Note 13)	14,195	1,021
Other	813	2,919
<b>Total</b>	<b>35,943</b>	<b>38,045</b>

## NOTE 10 - RESTRICTED CASH

Restricted cash as of December 31, 2012 and 2011 consists of payroll withholding taxes.

## NOTE 11 - SHAREHOLDERS' EQUITY

Changes in shareholders' equity for the years ended December 31, 2012 and 2011 are as follows:

(In thousands of NOK)	Paid-in capital					Shareholders' equity
	Common stock	Own shares, par value	Additional paid-in capital	Other equity	Shareholders' equity	
Balance as of January 1, 2011	653,400	(1,632)	2,181,020	6,976,581	9,809,369	
Acquired treasury shares	-	(3,729)	-	(92,111)	(95,840)	
Exercise employee share options	-	1,689	-	21,528	23,217	
Employee share options	-	-	4,356	-	4,356	
Employee share options recharged to subsidiaries	-	-	134,414	-	134,414	
Interest rate swaps/forward exchange contracts (net of tax)	-	-	-	7,277	7,277	
Dividend to shareholders	-	-	-	(239,580)	(239,580)	
Net income	-	-	-	638,061	638,061	
<b>Balance as of December 31, 2011</b>	<b>653,400</b>	<b>(3,672)</b>	<b>2,319,790</b>	<b>7,311,756</b>	<b>10,281,274</b>	
Acquired treasury shares	-	(2,490)	-	(64,243)	(66,733)	
Transferred shares, conversion of convertible notes	-	84	-	5,986	6,070	
Transferred shares, share bonus	-	74	-	2,074	2,148	
Exercise employee share options	-	2,957	-	36,746	39,702	
Employee share options	-	-	4,819	-	4,819	
Employee share options recharged to subsidiaries	-	-	24,170	-	24,170	
Interest rate swaps/forward exchange contracts (net of tax)	-	-	-	38,268	38,268	
Dividend to shareholders	-	-	-	(359,370)	(359,370)	
Difference between accrued and paid dividend for 2011	-	-	-	1,062	1,062	
Net income	-	-	-	915,022	915,022	
<b>Balance as of December 31, 2012</b>	<b>653,400</b>	<b>(3,047)</b>	<b>2,348,779</b>	<b>7,887,300</b>	<b>10,886,432</b>	



As of December 31, 2012 and 2011 share capital is NOK 653,399,991 consisting of 217,799,997 shares of par value NOK 3, each fully paid (see Note 31 to the consolidated financial statements).

All shares have equal voting rights and are entitled to dividends. Distribution of PGS ASA's equity is dependent upon the approval of the shareholders, and the ability to make distributions is limited by certain debt covenants and Norwegian Corporate Law (see Note 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
Balance at January 1, 2011	543,981	0.25%
Acquired treasury shares	1,243,000	
Used to fulfill employee share bonus program in 2011	(9,847)	
Used to fulfill employee share option program in 2011 <sup>(a)</sup>	(553,213)	
<b>Balance at December 31, 2011</b>	<b>1,223,921</b>	<b>0.56%</b>
Acquired treasury shares	830,000	
Conversion of convertible notes	(28,079)	
Used to fulfill employee share bonus program in 2012	(24,700)	
Used to fulfill employee share option program in 2012 <sup>(a)</sup>	(985,535)	
<b>Balance at December 31, 2012</b>	<b>1,015,607</b>	<b>0.47%</b>

(a) See Note 33 to the consolidated financial statements.

The average number of treasury shares in the years ended December 31, 2012 and 2011 were 1,165,447 and 561,331, respectively.

For the year ended December 31, 2012, PGS ASA will distribute a dividend of NOK 359.4 million. For the year ended December 31, 2011, PGS ASA distributed a dividend of NOK 238.5 million.

## NOTE 12 - DEBT AND GUARANTEES

### Long-term debt

Long-term debt consists of the following:

	Year ended December 31,	
(In thousands of NOK)	2012	2011
<b>Secured:</b>		
Term loan B, Libor + 175 Basic points, due 2015	2,628,633	2,832,893
Senior Notes, Coupon 7.375%, due 2018	2,513,925	1,806,180
<b>Convertible notes:</b>		
Convertible notes	-	1,106,497
<b>Total</b>	<b>5,142,558</b>	<b>5,745,570</b>
Less current portion	-	(1,102,739)
Less deferred loan costs, net of debt premiums	(31,425)	(102,515)
<b>Total long-term debt</b>	<b>5,111,133</b>	<b>4,540,316</b>

Undrawn facilities consist of the following:

(In thousands of NOK)	Year ended December 31,	
	2012	2011
<b>Secured:</b>		
Revolving credit facility US\$350 mill, Libor + 2,25%, due 2015 <sup>(a)</sup>	1,955,275	2,107,210
<b>Unsecured:</b>		
Bank facility (NOK 50 mill)	50,000	50,000
Performance bond	96,764	243,828
<b>Total</b>	<b>2,102,039</b>	<b>2,401,038</b>

(a) Under the Senior secured credit facility, the Company may also borrow an additional US\$400 million either as a term loan or as a revolving credit facility. Such potential additional borrowing is not committed but would be secured by the same collateral that secures the Term Loan and borrowings under the existing Revolving Credit Facility.

Aggregate maturities of long-term debt are as follows:

(In thousands of NOK)	
Year of repayment:	
2013	0
2014	0
2015	2,628,633
2016	0
2017	0
Thereafter	2,513,925
<b>Total</b>	<b>5,142,558</b>

#### Senior Secured Credit Facility (Term loan B and Revolving Credit Facility "RCF")

The Term Loan is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of material subsidiaries and is guaranteed by the same material subsidiaries. The Term Loan has no financial maintenance covenants. Any drawings on the "RCF" would be subject to the same security.

The Senior secured credit facility contains financial covenants and negative covenants that restrict PGS ASA in various ways. The facility provides that:

- 1) For the RCF the total leverage ratio (see Group Note 26 for definitions of leverage ratios) may not exceed 2.75:1.0 thereafter (maintenance covenant). The Term Loan has an incurrence test where PGS ASA cannot incur more indebtedness, with certain exceptions, if the total leverage is above 3.00:1.0 (rolling last 4 quarters).
- 2) The credit agreement generally requires PGS ASA to apply 50% of excess cash flow to repay outstanding borrowings for financial years when the total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1. Excess cash flow for any period is defined as net cash flow provided by operating activities less capital expenditures and scheduled debt services during that period, minus capital income taxes to be paid in the next period and capital expenditure committed in the period but to be paid in future periods. PGS ASA can make optional prepayments to reduce the outstanding principal balance at no penalty.

In addition, the credit agreement and the indenture to the NOK 2.5 billion (US\$450 million) Senior Notes restricts or could restrict our ability, among other things, to sell assets without the sales proceeds being reinvested in the business or used to repay debt; incur additional indebtedness or issue preferred shares; prepay interest and principal on our other indebtedness; 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 RCF has a NOK 251.4 million (\$45 million) sub-limit for issuance of letters of credit. The separate bonding facility of NOK 167.6 million (US\$30 million) (for issuance of bid and performance bonds) which was originally included in the sub-limit of the RCF, was discontinued during 2012. Drawings under the bonding facility as of December 31, 2011 were NOK 0.6 million (US\$0.1 million). Under the RCF, the Company may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, for working capital and for general corporate purposes. At December 31, 2012 and 2011, the Company had zero outstanding in cash advances, and zero outstanding standby letters of credit under the RCF with an applicable margin of 1.5% per annum.

### Senior Notes

In December 2012, PGS ASA issued NOK 834 billion (US\$150 million) add on to the NOK 1.8 billion (US\$300 million) Senior Notes (issued in November 2011) at a premium of 107.5% of the principal amount. Both the Senior Notes issued in 2011 and 2012 will be treated as a single class of debt securities under the same indenture. The Senior Notes are senior obligations of the company and rank equally in right of payment with all other existing and future senior debt. The Senior Notes have an incurrence test saying PGS ASA cannot incur more indebtedness, with certain exceptions, if the Consolidated Interest Coverage Ratio is less than 2.0:1.0.

At any time prior to December 15, 2015, PGS ASA may redeem the Senior Notes at its option, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued and unpaid interest to, the date of redemption. Applicable Premium means the greater of (i) 1.0% of the principal amount of the Senior Notes; and (ii) the excess of (a) the present value at such Redemption Date of the Redemption Price of the Senior Notes at December 15, 2015 (such Redemption Price being set forth in the table appearing below plus all required interest payments due on the Senior Notes during the period from such Redemption Date through December 15, 2015 (excluding accrued but unpaid interest), computed using a discount rate equal to the Treasury Rate as of such Redemption Date plus 50 basis points, over (b) the principal amount of the Senior Notes, if greater. The Senior Notes are also redeemable at PGS ASA's option on or after December 15, 2015, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the 12-month period beginning December 15 of the years indicated below:

Year	Percentage
2015	103.688%
2016	101.844%
2017 and thereafter	100.000%

### Convertible Notes

In 2012, PGS ASA redeemed, at its option, the Convertible Notes for a nominal amount of NOK 1,1 billion (US\$190.6 million) at an average price of 100.51%. In 2011, PGS ASA made optional repurchases of the Convertible Notes for a nominal amount of NOK 847.0 million (US\$153.9 million) at an average price of 98.83%. There were no convertible bonds outstanding as of December 31, 2012.

### Letters of credit and guarantees

PGS ASA had aggregate outstanding letters of credit and related types of guarantees (including counter guarantees), not reflected in the accompanying financial statements, of NOK 20.1 million (US\$3.6 million) and NOK 22.3 million (US\$3.7 million) as of December 31, 2012 and 2011, respectively.

## NOTE 13 - FINANCIAL INSTRUMENTS

### Fair values of financial instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accrued revenues, 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, 2012			December 31, 2011		
	Carrying Amounts	Notional amounts	Fair values	Carrying Amounts	Notional amounts	Fair values
<i>(In thousands of NOK)</i>						
<b>Loans measured at amortized cost:</b>						
Long-term debt (Note 12)	5,142,558	-	5,243,601	5,745,570	-	5,653,409
<b>Derivatives measured at fair value through shareholders' equity:</b>						
Interest rate swaps/future interest rate agreements, net unrealized (loss) gain <sup>(a)</sup>	(100,602)	1,675,950	(100,602)	(153,736)	3,010,300	(153,736)
<b>Derivatives measured at fair value through statement of operations:</b>						
Forward exchange contracts, net unrealized (loss) gain <sup>(a)</sup>	12,832	858,343	12,832	(27,406)	839,705	(27,406)

(a) The carrying amounts of forward exchange contracts and interest rate swaps are classified in the balance sheet as follows:

	Year ended December 31,	
	2012	2011
<i>(In thousands of NOK)</i>		
Interest rate swaps, net (qualifying hedges)	(100,602)	(153,736)
Forward exchange contracts, net	12,832	(27,406)
Interest rate swaps, net	-	-
<b>Total</b>	<b>(87,770)</b>	<b>(181,142)</b>
<b>Classified as follows:</b>		
Other financial long-term assets (long-term unrealized gain) (Note 8)	430	-
Other current assets (short-term unrealized gain) (Note 9)	14,195	1,021
Other long-term liabilities (long-term unrealized loss) (Note 14)	(100,602)	(120,599)
Accrued expenses (short-term unrealized loss) (Note 17)	(1,793)	(61,564)
<b>Total</b>	<b>(87,770)</b>	<b>(181,142)</b>

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 finance 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, 2012, PGS ASA has outstanding interest rate swaps in the aggregate notional amount of NOK 1.7 billion (US\$300 million), relating to the Term Loan established in June 2007 (see Note 12). As of December 31, 2011, the amount was US\$500 million, of which US\$200 million were forward starting swaps. Under the interest rate swap agreements the 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, 2012		December 31, 2011	
	Notional amounts (US\$ thousands)	Weighted average fixed interest rate	Notional amounts (US\$ thousands)	Weighted average fixed interest rate
<b>Matures in:</b>				
1 year	-	-	200,000	5.13%
1 – 2 years	200,000	3.93%	-	-
2 – 3 years	100,000	2.64%	200,000	3.93%
3 – 4 years	-	-	100,000	2.64%
4 – 5 years	-	-	-	-
> 5 years	-	-	-	-
<b>Total</b>	<b>300,000</b>	<b>3.50%</b>	<b>500,000</b>	<b>4.15%</b>

The aggregate negative fair value of these interest rate swap agreements at December 31, 2012 and 2011 was NOK 100.6 million (US\$18.0 million) and NOK 153.7 million (US\$25.5 million), respectively.

#### Interest rate hedge accounting

As of December 31, 2012 and 2011, all of the interest rate swaps, notional amount of NOK 1.7 billion (US\$300.0 million) and NOK 3.0 billion (US\$500.0 million) were accounted for as cash flow hedges, respectively. In the years ended December 31, 2012 and 2011, 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 11).

#### Foreign exchange rate exposure

PGS ASA is exposed to currency fluctuation due to a predominantly USD-based revenue stream, while the expenses are incurred in various currencies. The larger expense currencies other than the USD are GBP, NOK and EUR. PGS ASA maintains 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 2012, PGS ASA continued a foreign currency hedging program by entering into NOK, GBP, and BRL on forward contracts.

As of December 31, 2012, PGS ASA has open forward contracts to buy and sell GBP, NOK, BRL and JPY with a notional amount of NOK 858.0 million (US\$153.6 million) and a positive fair value of NOK 12.8 million (US\$2.3 million). As of December 31, 2011, PGS ASA had open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR with a notional amount of NOK 839.9 million (US\$139.5 million) and a negative fair value of NOK 27.4 million (US\$4.6 million).

#### Foreign exchange rate hedge accounting

As of December 31, 2012 and 2011 none of the total notional amount of foreign exchange contracts in PGS ASA was accounted for as fair value hedges.

## NOTE 14 - OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of:

	Year ended December 31,	
	2012	2011
(In thousands of NOK)		
Unrealized loss hedge contracts (Note 13)	100,602	120,599
Pension liability (Note 15)	24,860	23,657
Other long-term liabilities	2,761	1,149
<b>Total</b>	<b>128,223</b>	<b>145,405</b>

## NOTE 15 - PENSION OBLIGATIONS

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

### Defined benefit plan

PGS ASA sponsors a defined benefit pension plan for certain Norwegian employees, in total 6 participants. This plan is funded through contributions to an insurance company and the insurance company undertakes the responsibility to pay the pension benefits. It is PGS ASA's general practice to fund amounts to this defined benefit plan in amounts sufficient to meet 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 section below).

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

	<u>Year ended December 31,</u>		
(In thousands of NOK)	2012	2011	2010
Service cost	2,821	2,514	2,857
Interest cost	543	608	833
Expected return on plan assets	(453)	(659)	(763)
Amortization of actuarial gain	(967)	(1,441)	(1,254)
Administrative costs	77	73	41
Payroll tax	421	370	419
<b>Net periodic pension cost</b>	<b>2,442</b>	<b>1,465</b>	<b>2,133</b>

The aggregate funded status of the plan and amounts recognized in Other long-term liabilities (see Note 14) is as follows:

	<u>Year ended December 31,</u>	
(In thousands of NOK)	2012	2011
Funded status	7,920	10,493
Unrecognized actuarial gain	15,753	11,684
Accrued payroll tax	1,187	1,480
<b>Net pension liability</b>	<b>24,860</b>	<b>23,657</b>

Assumptions used to determine benefit obligations:

	<u>Year ended December 31,</u>	
(In thousands of NOK)	2012	2011
Discount rate	3.8%	2.6%
Return on plan assets	4.0%	4.1%
Compensation increase	3.0%	4.0%
Annual adjustment to pensions	0.2%	0.1%

### 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, 2012 and 2011 was NOK 1.4 million and NOK 1.3 million, respectively.



## NOTE 16 - COMMITMENTS

PGS ASA's operating lease commitments relate to corporate administration, mainly office rent, and expire on various dates through 2024. Future minimum payments related to non-cancelable operating leases existing at December 31, 2012 are as follows:

(In thousands of NOK)	December 31, 2012 <sup>(a)</sup>
2013	5,702
2014	3,108
2015	2,835
2016	2,835
2017	2,835
Thereafter	17,734
<b>Total</b>	<b>35,049</b>

(a) Includes estimated office lease for the periods displayed.

Rental expense for operating leases, including leases with terms of less than one year, was NOK 9.8 million, NOK 8.3 million and NOK 11.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

## NOTE 17 - ACCRUED EXPENSES AND OTHER SHORT TERM LIABILITIES

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

(In thousands of NOK)	Year ended December 31,	
	2012	2011
Accrued unrealized loss on hedging (Note 13)	1,793	61,564
Foreign taxes	11,145	29,614
Accrued interest expense	8,240	18,932
Accrued salary (including bonus)	27,397	15,668
Other	17,375	18,031
<b>Total</b>	<b>65,951</b>	<b>143,809</b>

## NOTE 18 - 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, general and administrative costs consist of:

(In thousands of NOK)	Year ended December 31,		
	2012	2011	2010
Salaries and bonus	70,211	53,982	58,880
Social security	10,894	7,969	9,632
Pension	5,290	2,770	4,349
Other benefits	3,456	4,668	379
<b>Total</b>	<b>89,851</b>	<b>69,389</b>	<b>73,240</b>

As of December 31, 2012, PGS ASA had 33 full time employees. Average labor years for the years ended December 31, 2012 and 2011 were 33 and 31, respectively.

### Compensation to Board of Directors, CEO and Other Executive Officers

For a full listing of Board of Directors, CEO and Other Executive Officers and their compensation, see Note 34 to the consolidated financial statements.

PGS ASA has not provided loans or guarantees to the Board of Directors, CEO or Other Executive Officers as of December 31, 2012.

### Share option programs

In the third quarter of 2006, second quarter of 2008, second quarter of 2009, second quarter of 2010 and second quarter of 2011, PGS ASA established employee share option programs and granted options to certain key employees, see Note 33 to the consolidated financial statements. In 2012, PGS ASA established a Restricted Stock Unit program (RSU) which requires the participant's continued employment with PGS ASA and is settled three years after grant. Upon settlement, the participant will receive a number of shares in PGS ASA which equals the number of RSUs awarded.

For the years ended December 31, 2012, 2011 and 2010, PGS ASA recorded compensation costs of NOK 4.8 million, NOK 4.4 million and NOK 6.2 million, respectively, recognized in additional paid-in capital. Total net unrecognized compensation cost as of December 31, 2012 was NOK 9.2 million related to non-vested share-based options, which is expected to be recognized over a period of 2.5 years.

In 2012 and 2011, 985,535 and 553,213 options, respectively, were exercised under the PGS Group share option programs. PGS ASA used own treasury shares to facilitate these transactions and recognized NOK 41.9 million and NOK 23.2 million in shareholders' equity in 2012 and 2011, respectively. Share option costs related to non-PGS ASA employees are recharged to subsidiaries.

### 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):

(In thousands of NOK)	Year ended December 31,		
	2012	2011	2010
Audit fees	4,715	3,288	3,435
Other attestation services	0	1,955	817
Fees for tax services <sup>(a)</sup>	30	26	35
All other fees	133	243	142
<b>Total</b>	<b>4,877</b>	<b>5,512</b>	<b>4,429</b>

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

## NOTE 19 - WARRANTIES

Petroleum Geo-Services ASA provides letters of credit and related types of guarantees on behalf of subsidiaries in the normal course of operations, which are required in contractual relationships to which the subsidiaries are party. See also Note 25 to the consolidated financial statements.

## NOTE 20 - INVESTMENT IN ASSOCIATED COMPANY

The Geokinetics investment was acquired as part of the 2010 Onshore transaction (see Note 4 to the consolidated financial statements). Upon initial acquisition, it was accounted for as an investment in associate based upon the Company's total ownership and board representation. In Q4 2010, the Company invested an additional NOK 58.5 million (US\$10 million) comprised of 40,000 preferred shares and 1,165,000 warrants. During 2012, the Company relinquished its board representation, its ownership was diluted and, accordingly, the investment was no longer considered an associate and was reclassified to Other long-term financial assets (Note 8).

In January 2013, Geokinetics Inc. announced its intention to file for debt restructuring under Chapter 11 of the US Bankruptcy Code. As a result of the financial difficulties experienced by Geokinetics Inc., total impairments of NOK 30.9 million and NOK 106.1 million were recognized in 2012 and 2011, respectively. The net book value of the investment as of December 31, 2012 was nil.



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Petroleum Geo-Services ASA, which comprise the financial statements of the parent company Petroleum Geo-Services ASA and the consolidated financial statements of Petroleum Geo-Services ASA and its subsidiaries. The parent company's financial statements comprise the statement of financial position as at 31 December 2012, the statement of operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position as at 31 December 2012, and the statement of operations, the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Chief Executive Officer's Responsibility for the Financial Statements*

The Board of Directors are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Offices in

Oslo	Haugesund	Sandnessjøen
Alla	Knarvik	Stavanger
Arendal	Kristiansand	Stord
Bergen	Larvik	Straume
Bodo	Mo i Rana	Tromsø
Everum	Molde	Trondheim
Finnsnes	Narvik	Tenbyberg
Grimstad	Ræres	Ålesund
Hamar	Sandefjord	

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Statsautoriserte revisorer - medlemmer av Den norske Revisorforening



*Independent auditor's report 2012*  
*Petroleum Geo-Services ASA*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the separate financial statements*

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 Petroleum Geo-Services ASA as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Petroleum Geo-Services ASA and its subsidiaries as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**


*Opinion on the Board of Directors' report and Report on corporate governance*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and Report on corporate governance concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 19 March 2013  
 KPMG AS

  
 Arne Frogner  
 State authorized public accountant







