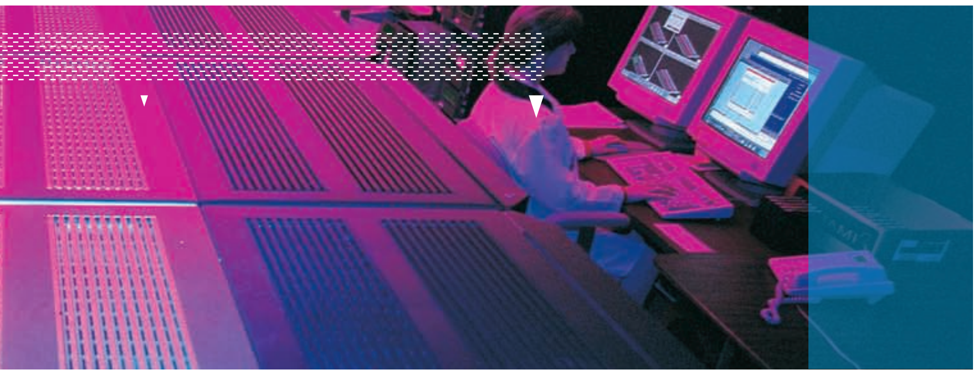
Petroleum Geo-Services ASA

PGS ANNUAL REPORT 2008



A Clearer Image

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LETTER FROM THE CEO

Dear fellow shareholder,

2008 was the strongest year ever in PGS` history. We saw the price of oil at record levels and exploration activity peaked. PGS delivered great margins and ended the year with a strong order book and robust financing in place. We have the world's most productive and cost efficient fleet, competitive returns on MultiClient investments, leading edge data processing capabilities, and several unique technologies, and most importantly, a very experienced and dedicated staff known for quality of execution, flexibility and innovation. We are well positioned to meet a more challenging market.

PGS is committed to manage its business in such a way that it minimizes the risk to the health and safety of its employees. Despite a systematic approach to continuously improve our performance in HSEQ, we experienced a tragic fatality in our 50% held joint venture in Russia, PGS Khazar in 2008. This incident was fully investigated, root cause established and action taken to prevent reoccurrence. We will work hard to reach our goal of having the best HSEQ performance in our industry. Our Lost Time Incident frequency for 2008 was 0.63 per million man hours and our Total Recordable Case Frequency was 1.94 per million man hours.

During 2008, our Marine operations increased in both revenue and operating profit. The launch of *Ramform Sovereign* in March 2008 contributed to a more efficient, automated and standardized fleet. This summer we will take delivery of another Ramform S-class, the *Ramform Sterling*. Quality of assets has been a trademark of PGS. As the size and complexity of surveys continue to increase in today's market, the productivity of the PGS fleet becomes an even more important differentiator allowing the customers quicker access to seismic data and contributing to the profitability of the Company. Likewise our MultiClient business has once again demonstrated its industry leading return on invested capital as well as the highest pre-funding levels in the industry.

Our Onshore operations performed in line with 2007 with decreased activity in the Eastern Hemisphere being offset by higher activity levels in Latin- and North America. An important milestone for securing our position in Latin America was a large multi-year contract (approximately $165 million) signed with PEMEX in Mexico. Increased MultiClient investments in Onshore have proved to be a prudent strategy. Our focus on high channel counts and high density has once again delivered margins comparable to the best of our peers.

2008 represents the year we caught up and in some areas passed our peers in data processing capability. Following the acquisition of Applied Geophysical Services ("AGS") in 2007, we spent last year rolling out the AGS Beam Migration technology to all parts of the PGS organization. This combined with other new technologies has brought PGS to a top tier position in high-end data processing imaging. In a recent PGS customer survey as many as 60% say PGS is above industry standard in data processing quality and almost 90% of clients say the Company is industry standard or above.

PGS has 3,000 staff and another 3,000 temporary employees and contractors engaged around the world. We have 45 offices, including 21 data processing centers, in 31 countries. Our employee base is truly international.

GeoStreamer® - commercial breakthrough

2008 represented the commercial breakthrough for PGS' new and proprietary GeoStreamer® technology. During the year PGS acquired more than 30,000 line kilometers of 2D

GeoStreamer® data with excellent results. When the GeoStreamer® was launched in June 2007 it was heralded as the biggest breakthrough in streamer technology for 60 years. It is the first ever dual sensor streamer, giving better depth penetration, enhanced resolution and improved operational efficiency. The GeoStreamer® technology is unique in its ability to generate a better image beneath salt, basalt and other complex geological structures. As the world's future oil and gas reserves become increasingly more difficult to find, we expect the GeoStreamer® to play a key role in locating these valuable resources. In the fourth quarter of 2008, the GeoStreamer® was installed on the first 3D vessel and successful operations commenced before year-end.

PGS technology is among the best in the market, and in some areas unparalleled. Our marine fleet is the most efficient. We are industry leading in cost, productivity and returns from the MultiClient library, and are well positioned to generate healthy cash flows even in a weak market.

Entering 2009, PGS has an order book of more than one billion dollars, forming a strong foundation for expected revenues. Our customer base is very solid with pre-dominantly super majors, national oil companies and larger independent oil companies as clients.The seismic market has been characterized by relatively short-term contracts and order books. PGS saw its order book duration increase from an average of approximately five months in 2007 to eight months in 2008.

Outlook

Still, the year ahead represents a very different set of prospects and challenges. The low oil price has resulted in fewer bids from our customers. This combined with added streamer capacity coming to the market will put pressure on margins, in particular towards the fourth quarter. We are however, well positioned to meet this market given our competitive services, leading technologies and long-term financing and we believe for the same reasons we will come strengthened out of this period relative to our competitors.

The world will need to find and put into production another six times Saudi-Arabia's oil production capacity over the next 20 years to meet predicted demand, according to the IEA World Energy Outlook 2008 report. The long-term prospects for our industry are great.

We are searching for oil in increasingly more complex areas, water depths, reservoir depths and geologies. The age of easy oil is over. We strongly believe this will continue to grow the demand for advanced Higher Density ("HD") seismic. Our customers require more pixels in the subsurface images we produce. In addition, we have seen and continue to see a strong growth in the less cyclical production seismic, so called HD4D, where the aim is through regularly repeated surveys to improve production from producing fields. Our advanced fleet is uniquely positioned to compete and harvest good margins from both these HD markets in the years to come.

I feel confident that PGS will come out of the current challenging cycle as a stronger player, taking a larger share of the most profitable, high-end part of the market for seismic services. PGS is competitively positioned to get through a downturn, with a robust financial position, state-of-the-art fleet with a leading edge cost position, attractive and commercialized technology, and a significant share of the HD market. Thanks to our strategy of building a strong order book, 2009 will be another good year for PGS.

Yours Sincerely,

Jon Erik Reinhardsen

BOARD OF DIRECTORS´ REPORT

In 2008, we delivered the best full year revenues and EBIT in the history of PGS and the highest Marine contract EBIT-margin ever recorded.

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

We operate our business in two segments as follows:

- *Marine*, which consists of streamer seismic data acquisition, marine MultiClient library, data processing, technology and reservoir consulting, and

- *Onshore*, which consists of all seismic operations on land, in shallow water and transition zones and includes an onshore MultiClient library.

The two main revenue contributors in the Marine and Onshore segment are contract seismic, where data is acquired under exclusive contractual agreements with a customer, and MultiClient where we invest in seismic surveys which are then marketed to multiple customers on a non-exclusive basis. MultiClient revenues are split into pre-funding revenues relating to ongoing surveys and late sales from our MultiClient library.

PGS EM (ElectroMagnetic services) is reported as part of the segment "Other" (includes Corporate, Global Shared Services and PGS EM).

Business headlines 2008

- Strong full-year operating cash flow of $914.6 million, an increase of 27% from the previous record set in 2007 and an EBITDA of $967.8 million, up 21% from 2007.
- Marine seismic contract operating profit margin of 49%, the highest ever recorded for PGS.
- High total pre-funding levels (105% of capitalized MultiClient investments, excluding capitalized interest).
- Strong total MultiClient late sales of $202.5 million.
- Delivery of *Ramform Victory* to the Japanese Ministry of Economy, Trade and Industry (METI), after the agreement was finalized in 2007. On delivery we recorded a gain of $71.6 million and will continue to provide licenses as well as operational services and support under a long-term agreement.
- Appointment of a new Chief Executive Officer. Jon Erik Reinhardsen started in the position on April 1, 2008.
- Listing of the $400 million convertible notes due 2012 on the Oslo Stock Exchange. The notes were used to secure permanent financing of the Arrow acquisition in November 2007 at favorable terms, while increasing financial flexibility.
- Delivery of the new *Ramform Sovereign* in March. The vessel has performed excellent and has set several industry records. R*amform Sovereign* contributes towards improving productivity, efficiency and flexibility of our fleet even further.
- Award of several large contracts, both for both the Marine and the Onshore segment.
- Debt repayments of $133.1 million, net.
- Experienced a weaker market for electromagnetic surveying and recognized an impairment charge of $99.1 million relating to MTEM which was acquired in 2007.
- Delays on Arrow new-build program in Spain. Impairment charge of $59.9 million is primarily related to the vessels *Polar Sea* and *Southern Explorer*.
- Qualified for the Norwegian tonnage tax ("NTT") regime. The 2009 Norwegian state budget included amendments required for our subsidiaries owning vessels to qualify. Annual tax savings are expected to be $30-40 million.
- Commercialization of the proprietary GeoStreamer® technology by acquiring approximately 30,000 line kilometers of 2D data worldwide with excellent productivity and data quality.
- GeoStreamer® installation on the *Atlantic Explorer*, the first 3D vessel to be equipped with GeoStreamer®, and commenced a MultiClient GeoStreamer® survey in DeSoto Canyon in the Gulf of Mexico late 2008.
- Processing of Crystal II Wide Azimuth survey finalized with excellent results. The data was ready for the Central Gulf of Mexico lease sale in March 2009.

Total interest bearing debt, including capital leases, was $1,249.2 million by year-end 2008. Future cash flow will primarily be used to execute already committed projects and to reduce debt. No share repurchases are planned in 2009. We have an authorization to repurchase up to 10% of the outstanding shares. As of December 31, 2008 we owned 2.11% of the issued shares.

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

HSEQ management and reporting is a key element in our evaluation of business performance for all management levels and the Board of Directors.

In 2008 PGS rolled out a new HSEQ initiative called "The Road Ahead", a five year HSEQ strategy aimed at industry leading performance, for systems, plant and equipment and people.

Implementation of an updated companywide environment management framework was initiated during 2008 which, over time, will improve capabilities to measure, monitor and assess the environmental performance of operations worldwide. Our Environment Statement sets out our company commitment to achieve effective environment management through implementation of a process based on the principles of ISO 14001 and continuous improvement.

Updated key companywide Environmental Aspects have been established (for primary business divisions) for monitoring environmental performance and achieving continual improvement, these include:

- Waste management/recycling/segregation.
- Oil spill/accidental release.
- Interaction of field operations & flora/fauna.
- Carbon footprint/reporting.
- Best use of viable 'environment' technology, materials and procedures.

In 2008 we experienced one fatality in our 50% held joint venture in Russia, PGS Khazar. The fatality occurred in Astrakhan during a lay up period when vessels were undergoing maintenance. The vessel in question was positioned in a dry dock and one member of the crew fell from an access staging into the dry dock. This incident was fully investigated, root cause established and action taken to prevent reoccurrence.

We experienced 13 lost time incidents in 2008, compared to 12 in 2007. Overall, lost time incident frequency ("LTIF") was 0.63 per million man hours in 2008, compared to 0.65 in 2007. The total recordable case frequency ("TRCF") improved to 1.94 per million man hours from 2.55 in 2007.

In 2008 we made further significant progress in developing our procedures in the HSEQ area, including better reporting, improved follow-up and focus on risk as a determining factor when directing management efforts.

As part of "The Road Ahead", HSEQ achievements in 2008 include:

- Increased awareness in the organization of HSEQ and Security.
- Implementation of a new HSEQ Policy Statement and Environmental Statement.
- PGS Golden Rules of Safety established.
- Improved incident reporting and investigation.
- Improved HSEQ co-operation between the business units and the Group HSEQ.
- Improved focus on 'Office' HSEQ.
- Development of 'Environmental' Aspect Registers.
- Identification and selection of a HSEQ software package to manage HSEQ data on a global basis.
- Appointment of a HSEQ Manager for Data Processing & Technology ("DP&T").

Sick leave in our Norwegian operations was 2.4% in 2008, exactly the same as in 2007.

Markets and main businesses

Marine

PGS is one of the three major global participants in the marine 3D market, with a market share of approximately 28%, measured by acquired square kilometers of 3D seismic. When measured by the number of streamers at year-end 2008 our market share is 22%, reflecting the efficiency of our fleet. By year-end 2008 our 3D acquisition fleet totaled eleven vessels. Six Ramform vessels in the high-end segment makes our fleet one of the most efficient in the industry. After delivery of *Ramform Victory* (now renamed *Shigen)* to METI in late January 2008, we took delivery of the new *Ramform Sovereign* in the beginning of March 2008. The second vessel in the Ramform S-class series, *Ramform Sterling*, is scheduled for delivery in June 2009 and work on the vessel is currently progressing according to plan at STX Europe's facility in Tomrefjord.

The marine 3D market experienced further growth in 2008 driven by increased demand for seismic from oil and gas companies. The EBIT-margin achieved on contract seismic improved further compared to 2007 and ended at 49%. At December 31, 2008 the order book for Marine was $871 million, compared to $843 million at December 31, 2007.

Contract seismic work continued to dominate our activity in 2008, although investments in new MultiClient increased compared to 2007. Pre-funding of new MultiClient investments continued at high levels.

Data Processing & Technology

Growing and repositioning our data processing business is an important part of our strategy. The acquisition of Applied Geophysical Services Inc. ("AGS") in 2007 significantly enhances our depth imaging capabilities, and we have capitalized on this acquisition throughout 2008. The AGS Beam Migration has been a key vehicle for lifting us to a leading position in high-end data processing imaging. In a recent PGS customer survey, almost 90% of customers said we are at industry standard or above and as much as 60% of clients said we are above industry standard when it comes to data processing.

External data processing is becoming an increasingly important revenue contributor. External data processing revenues increased by $21.9 million (34%) from $64.1 million to $86.0 million in 2008.

GeoStreamer®, the first ever dual sensor streamer and a proprietary PGS technology, represents a step change in streamer technology with enhanced resolution, better penetration and improved operational efficiency. In 2008, we commercialized the GeoStreamer® technology by acquiring approximately 30,000 line kilometers of 2D data worldwide with excellent productivity and data quality.

We installed GeoStreamer® on the *Atlantic Explorer* in fourth quarter 2008, the first 3D vessel to be equipped with GeoStreamer®. The vessel commenced on a MultiClient GeoStreamer® survey in DeSoto Canyon in the Gulf of Mexico and will follow on with GeoStreamer® surveys in the North Sea. Endorsement of this technology is demonstrated by direct awards and we have experienced significant price uplifts on GeoStreamer® projects compared to conventional surveys. It is our intention to equip another 3D vessel with GeoStreamer® during 2009.

As a result of a weaker seismic market outlook, we are adjusting our ambitions and cost structure for the new OptoSeis® reservoir surveillance technology. This technology utilizes fiber optic cables installed on the seabed of existing and producing oil fields, OptoSeis® enables seismic data "on demand" in order to monitor changes over time to optimize reservoir production. We performed two pilot projects during 2008.

Onshore

PGS is a significant worldwide operator in the onshore seismic services market. As a result of increased competition over the last couple of years, the onshore segment remains a lower margin business compared to the Marine segment.

As of December 31, 2008, eleven onshore crews were in operation; five in North America, three in the Latin America region and three in the Eastern Hemisphere. Throughout 2008 PGS Onshore operated up to 12 crews.

Mexico is currently the most active market for PGS, primarily driven by a large 3D contract awarded by PEMEX in second half of 2008. The contract will be carried out from 2008 to 2012 and the area to be surveyed is more than 2,000 square kilometers. The total contract value amounts to approximately $165 million. During 2008, PGS Onshore continued to invest in its MultiClient library located entirely in the US. However, investments in MultiClient decreased substantially in fourth quarter 2008 compared to fourth quarter 2007 as a result of the financial crisis and cut in capital expenditures amongst some clients. During this quarter, the number of crews in the US was adjusted from four to three. At the end of 2008, our order book for Onshore was $194 million, compared to $144 million at December 31, 2007.

Other activities

Revenues from our EM segment have been lower and the overall market development has been slower than expected, as reflected in the impairment charges made in 2008. However, we still believe in the EM technology and will continue to develop our EM solutions. By the end of 2008, we had conducted a successful field trial of the towed EM system and the evolution of cost effective EM solutions for the marine environment are progressing. Furthermore, we will continue to refine the EM processing and inversion methods and support clients' growing acceptance of EM benefits and its place in the oil companies' value chain. We have decided to align resources and reduce costs of the EM segment, but will retain critical operational and engineering expertise within the organization to enable us to mobilize marine EM operations for key selected clients and the general market when it is ready.

Financial results

Total revenues for 2008 were $1,917.5 million compared to $1,519.9 million in 2007, an increase of 26%.

Marine revenues for 2008 totaled $1,638.8 million, an increase of $365.0 million (29%), from 2007. Revenues from contract seismic acquisition increased $373.2 million from $691.8 million in 2007 to $1,065.0 million in 2008, primarily driven by a stronger marine seismic market, more capacity allocated to contract work, increased prices and a larger fleet. Total MultiClient revenues (pre-funding and late sales combined) decreased by $64.5 million (13%), to $439.4 million in 2008, primarily driven by lower pre-funding revenues. MultiClient pre-funding decreased by $56.4 million (18%), from $306.0 million in 2007 to $249.6 million in 2008. MultiClient late sales decreased by $8.1 million (4%), to $189.8 million in 2008. Marine increased its cash investments in MultiClient library by $9.2 million (4%), to $223.7 million in 2008. Pre-funding as a percentage of cash investments in MultiClient data, ended at 112% in 2008 compared to 143% in 2007. The decrease in pre-funding level is driven by relatively more 2D activity and reprocessing, which typically are less pre-funded than MultiClient 3D operations. In 2008 the fleet allocation (active 3D vessel time) between contract and MultiClient data acquisition was approximately 80%/20% compared to 64%/36% in 2007.

Onshore revenues for 2008 totaled $273.1 million, an increase of $26.6 million or 11% from 2007. The increase is primarily due to reactivation of the Latin American market (Mexico, Brazil and Peru) partially offset by lower activity in North Africa. Total MultiClient revenues (pre-funding and late sales combined) decreased $12.6 million (16%), to $68.6 million, primarily driven by lower late sales as a result of cuts in capital expenditures among clients in the second half of 2008, compared to 2007. MultiClient late sales decreased $8.3 million (40%), from $20.9 million in 2007 to $12.6 million in 2008. MultiClient pre-funding decreased by $4.3 million (7%), from $60.3 million in 2007 to $56.0 million in 2008. The decrease in pre-funding is primarily driven by a reduction in MultiClient cash investments of 11% from 2007 to 2008.

Operating costs, which includes cost of sales, expensed research and developments costs and selling, general and administrative costs, totaled $949.7 million in 2008 compared to $719.1 million in 2007, an increase of $230.6 million (32%).

Marine operating costs increased by $180.2 million (35%), mainly as a result of increased activity, more capacity and price inflation. Onshore operating costs increased by $31.7 million (19%), primarily related to higher activity than in 2007. In addition operating costs in our Other segment increased by $18.7 million to $52.0 million, primarily relating to PGS EM.

Reported research and development costs increased by $10.9 million (128%), to $19.4 million, while selling, general and administrative costs increased by $10.6 million (15%), to $83.1 million. The main driver behind the sharp percentage increase in research and development cost is related to our EM applications and our effort to complete development of a towed EM solution. Research and development costs are net of capitalized development projects totaling $11.5 million and $8.9 million for 2008 and 2007, respectively. The GeoStreamer® was put into production in fourth quarter 2008 and of the $11.5 million, $5.0 million relates to developing the GeoStreamer®. The rest primarily relates mainly to development of OptoSeis®, our fiber optic solution for 4D monitoring.

Our costs have generally increased in 2008 as the activity level increased. In addition, we spent more on chartered capacity to perform 2D surveys and to facilitate advanced 3D surveys and otherwise optimize the productivity of our 3D vessels. There was a strong general cost increase for fuel, personnel, yard and maintenance and project-related costs, such as support and source vessels during 2008.

Depreciation and amortization for 2008 was $335.5 million compared to $313.1 million in 2007, an increase of $22.4 million (7%). The increase is mainly caused by higher depreciation as a result of an increase in depreciation costs for vessels acquired in the acquisition of Arrow in November 2007, entry of *Ramform Sovereign* to our fleet in March 2008 and other investments made in 2008, partly offset by lower pre-funding on MultiClient surveys.

MultiClient amortization for 2008 decreased by $42.9 million (18%) compared to 2007. MultiClient amortization as a percentage of total MultiClient revenues was 38% in 2008, compared to 40% in 2007. The decrease is driven by less pre-funding and capacity allocated to new MultiClient projects.

The net book value of our MultiClient library was $294.6 million as of December 31, 2008, compared to $173.9 million as of December 31, 2007. The low book value will result in relatively low ordinary amortization relating to sales from our existing library, while amortization relating to sales from new library investments will be higher.

Other operating income of $71.6 million in 2008 relates to the sale of *Ramform Victory* to METI in January 2008.

In the fourth quarter of 2008, the Company recorded impairments of long-lived assets of $161.1 million. $99.1 million relates to impairments of intangible assets recorded on acquisition of MTEM as a result of weaker EM market development and reduced EM ambitions in 2009. Impairment indicators were identified for certain vessels due to challenging economic conditions. These included stacking of *Polar Sea*, deferral of the conversion of *Southern Explorer* and adjusting the carrying amounts of *Polar Pearl*. In addition, the cost of the new-build 532 is estimated to exceed the income it will earn under its original long-term lease agreement. These resulted in impairments charges of $59.9 million. In addition $2.1 million relates to oil and gas assets.

Operating profit was $542.7 million in 2008. Excluding impairments of long-lived assets the operating profit was $703.9 million, compared to an operating profit of $494.5 million in 2007.

Interest expense was $56.6 million in 2008 compared to $37.5 million in 2007. The increase is primarily due to increased interest bearing debt, partially offset by an increase of capitalized interest to the MultiClient library and construction in progress.

Other financial items, net amounted to a loss of $35.0 million in 2008 compared to a loss of $7.1 million in 2007. The increased loss is primarily attributable to foreign currency loss of $33.1 million as a result of appreciation of the US dollar in second half of 2008. A stronger US dollar generally favors our operations since a significant portion of our costs of operations are incurred in other currencies. We hold foreign currency positions, including derivative financial instruments, to balance our operational currency exposure. These positions are generally not accounted for as hedges, but marked to market at each balance sheet date together with receivables and payables in non US currencies, causing the short-term effect to be negative when the US dollar appreciates. Impairments of shares available-for-sale was a loss of $7.3 million in 2008 and relates to ownership in Borders & Southern and Endeavour whose share price declined significantly in fourth quarter 2008. During 2008 we repurchased $45.5 million of nominal value of our convertible notes resulting in a gain of $12.1 million.

Income tax expense was $32.8 million in 2008 compared to a benefit of $11.1 million in 2007. The income tax expense for 2008 was positively impacted by the planned entry of parts of the vessel operations to the NTT from January 1, 2008 and developments relating to exit from the previous shipping tax regime, effective January 1, 2002, aggregating $107 million. The tax benefit in 2008 is also positively impacted by foreign exchange movements. The 2008 tax charge included current tax expense of $81.8 million, compared to a current tax expense of $43.2 million in 2007. Current tax expense relates primarily to withholding taxes or income taxes in countries were we have no carry forward losses or where there are limitations on use of such losses.

We have substantial deferred tax assets in different jurisdictions, predominantly in Norway and the UK. At year-end 2008, we had deferred tax asset amounting to $221.8 million in the consolidated balance sheets while remaining unrecognized deferred tax assets are $88.6 million.

Income from discontinued operations, net of tax, was $1.5 million in 2008 compared to $1.0 million in 2007, relating to additional proceeds from activities sold in 2003 and 2002.

Net income to equity holders of PGS ASA was $417.4 million compared to $470.0 million for 2007.

Arrow new-builds

From the acquisition of Arrow Seismic, PGS has four 10-12 streamer seismic 3D vessels under construction at the Factorias Vulcano shipyard group in Spain (the Arrow new-builds ("NB")). In 2008 we entered into revised agreements with the shipyard, Pymar (the Spanish shipbuilders association) and WesternGeco on incentives, delivery times and guarantees. The shipyard group is experiencing substantial delays and a tight liquidity situation, and we are monitoring the status of the yard closely.

The first two vessels (NB 532 and 533) are on charters to WesternGeco. Our agreements with the shipyard and WesternGeco, respectively, are generally designed to be "back-to-back". According to the revised agreements, Arrow is entitled to terminate if the relevant vessels are not delivered within 120 days of the agreed delivery dates of November 30, 2008 and March 31, 2009, respectively. If either of the NB's 532 or 533 is delayed more than 120 days, Arrow will have to notify WesternGeco that Arrow has a right to terminate the shipbuilding contract with the yard. WesternGeco may then decide to terminate the charter party and any related agreements with Arrow or they may instruct Arrow not to terminate the shipbuilding contract.

In early March 2009 we received formal notification by Factorias Vulcano that the shipyard intends to deliver hull number 532 to satisfy the shipbuilding contract specified for hull number 533. We are currently assessing the legality of such substitution. Since the shipyard will not deliver NB 532 within the termination date, Arrow has received from WesternGeco a notice of intention to terminate the charter for NB 532 and Arrow has sent a notice of termination of the shipbuilding contract to the shipyard.

For NB 532 and 533, Arrow has made the contractual installments to the yard of approximately EUR 39 million per vessel, of which approximately EUR 32 million (per vessel) are secured by on-demand refund guarantees from banks. If NB 532 or 533 is more than 120 days delayed and both WesternGeco and Arrow should decide to terminate the contract related to the vessel, Arrow would be entitled to receive repayment from the yard of all installments made on the vessel as well as interest. If such terminations were to occur, we would be exposed to an impairment charge of close to $100 million (total for the two vessels) relating to the fair value adjustment recorded at the acquisition of Arrow Seismic and subsequent capitalization of interest and other costs.

The two other new-builds, *PGS Apollo* and *PGS Artemis*, are intended to be a part of our seismic operations when completed. In the case of termination based on delays beyond 120 and 200 days respectively for *PGS Apollo* and *PGS Artemis* of the agreed delivery dates of June 15, 2009 and January 31, 2010 respectively, Arrow would be entitled to receive repayment from the yard of all installments made on those vessels. All installments are secured by on-demand refund guarantees, except for the second to last one which amounts to approximately EUR 7 million for each vessel. Such termination would expose us to substantial impairment charges, including the fair value adjustment recorded at the acquisition of Arrow Seismic.

On July 7, 2008, CGGVeritas issued a claim against Arrow Seismic ASA of $70 million. CGGVeritas claims to have a binding agreement with Arrow for a charter and ultimately the purchase of NB 534 (now renamed to *PGS Apollo*). PGS views the CGGVeritas claim against Arrow as unfounded. The hearing in court of first instance took place in the Asker & Bærum District Court in Norway on March 17-24, 2009. A court ruling is expected in the second quarter of 2009.

Cash flow, balance sheet and financing

Net cash provided by operating activities totaled $914.6 million in 2008 compared to $722.8 million in 2007, primarily driven by strong improvement in profit.

Cash and cash equivalents (excluding restricted cash) totaled $95.2 million at December 31, 2008 compared to $145.3 million at December 31, 2007. Restricted cash at December 31, 2008 totaled $18.4 million, compared to $59.4 million at December 31, 2007, which included $38.0 million of security deposit for the mandatory offer for Arrow.

In June 2007, PGS refinanced and established a $600 million Term Loan B maturing in 2015 and a $350 million revolving credit facility maturing in 2012. At December 31, 2008 there was $572.0 million outstanding under the term loan and $230.0 million outstanding under the revolving credit facility. In addition, we have a remaining balance on the Oslo Seismic Notes of $49.1 million.

We issued $400 million of convertible notes in December 2007. The conversion price is NOK 216.19 per share, which represented a 40% premium over the volume weighted average share price of our ordinary shares at the time of offering. During 2008, we repurchased $45.5 million of nominal value of the convertible notes, representing 11.4% of the total outstanding issue at an average price below 60% of nominal value. As of December 31, 2008, the carrying value of the convertible notes was $300.4 million (net of deferred loan costs).

Arrow had two secured loan facilities totaling approximately $350 million at December 31, 2007 relating to existing vessels and new-builds. In 2008, we reached agreements with the syndicate banks for the two Arrow facilities to terminate one of the facilities and continue a part of the other facility amounting to $125 million. As of December 31, 2008 drawing on the remaining Arrow facility totaled $83.9 million. We may have to reduce the facility amount and related drawings corresponding to a termination of any Arrow vessel new-build.

Total interest bearing debt, including capital leases but excluding deferred loan costs was $1,249.2 million as of December 31, 2008 compared to $1,377.4 million as of December 31, 2007.

Net interest bearing debt (interest bearing debt less cash and cash equivalents, restricted cash and interest bearing investments) was $1,135.6 million at December 31, 2008 compared to $1,172.7 million at December 31, 2007.

PGS' interest bearing debt consisted of the following primary components as follows:

	December 31,	
(In millions of dollars)	2008	2007
Unsecured:		
10% Senior Notes, due 2010	5	5
Secured:		
Term loan, Libor, + margin, due 2015	572	597
Revolving credit facility, due 2012	230	240
8.28% first preferred mortgage notes, due 2011	49	63
Revolving credit facility (Arrow), due 2017	38	-
Term loan (Arrow), Libor, + margin, due 2017	46	-
Convertible notes:		
Convertible notes, due 2012	306	332
Total long-term debt	1,246	1,237
Short-term debt	-	134
Total interest bearing debt	1,246	1,371

Investments

During 2008, we made total cash investments, excluding capitalized interest, of $290.0 million in MultiClient data library compared to $282.8 million in 2007, an increase of $7.2 million (3%).

Capital expenditures, excluding capital expenditures on new-builds on charter, totaled $450.6 million in 2008 compared to $260.4 million in 2007, an increase of $190.2 million. Capital expenditures in Marine increased by $163.2 million to $395.3 million in 2008. The increase is primarily due to the ongoing new-build programs.

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 possible changes in interest rates.

As of December 31, 2008, we had $885.8 million of floating rate interest bearing debt and $4.1 million of capital leases, both based on US dollar one to six month LIBOR rate, plus a margin. We have a fixed interest rate debt with a book value of $359.3 million. To reduce the impact of future rises in interest rates we have a portfolio of interest rate swaps ("IRS") with a nominal amount totaling $400 million. Fair value of the IRS was negative $47.6 million as of December 31, 2008. These IRS's have terms covering a period between two and six years. Our annual interest expense would increase by $4.9 million for every one percentage point increase in the LIBOR rate.

Currency exchange risk
PGS conducts business in various currencies including Brazilian real, Indian rupee, Euro, Singapore dollar, Kazakhstan tenge, Mexican peso, Moroccan dirham, Nigerian naira, Peruvian nuevo sol, Saudi riyal, British pound and the Norwegian kroner. We are subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the US dollar.

Cash flow from operation(s) is primarily denominated in US dollars (USD), British pounds (GBP) and Norwegian kroner (NOK). We predominantly sell our products and services in US dollars, but also other currencies like Euro, British pounds and Norwegian kroner. In addition to US dollars, a significant portion of our operating expenses are incurred in British pounds and Norwegian kroner, with less substantial portions in Singapore dollars and various other currencies. We, therefore, typically have higher expenses than revenue denominated in non US dollar currencies.

A stronger US dollar reduces our operating expenses as reported in US dollars. We estimate that an appreciation of the US dollar against the two most significant non US dollar currencies (NOK and GBP) by 10% would have an annual net positive EBIT impact of $20 to $25 million before currency hedging activities.

We hedge a portion of our foreign currency exposure related to operating income and expenses by entering into forward currency exchange contracts. While we enter into these contracts with the purpose of reducing our exposure to changes in exchange rates, we do not account for the contracts as hedges except if they are specifically designated to firm commitments or certain cash flows. Consequently, these forward currency exchange contracts are recorded at estimated fair value and gains and losses are included in other financial items, net. During 2008, we had in place currency hedges for most of the payment that will be made in non US dollars for vessels under construction. The hull on the new vessels will be paid for in NOK and EUR and currency hedges put in place for these exposures are treated as fair value hedges in our accounts. As of December 31, 2008, we had net open forward contracts to buy/sell British pounds, Norwegian kroner, Euro, Singapore dollars and Brazilian real. The total nominal amounts of these contracts are approximately $514.2 million, compared to $804.8 million in 2007. Of this, contracts with a notional value of $150.8 million are accounted for as fair value hedges, compared to $146.7 million in 2007. There were no designated foreign currency cash flow hedges in 2008, as opposed to a notional value of $75.4 million in 2007. The outstanding contracts at year-end had a negative fair value of $35.3 million, compared to a positive fair value of $30.5 million in 2007. This is due to a significant appreciation of the US dollar during the second half of 2008.

A further 10% appreciation of the US dollar against all the currencies we have derivative contracts in, would decrease the fair value of these contracts by approximately $27.8 million. The profit and loss effect of this change would be $20.7 million (loss).

All debt is denominated in US dollars.

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

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

Liquidity risk
At December 31, 2008, we had an unrestricted cash balance of $95.2 million and an unused $120.0 million of the $350.0 million secured revolving credit facility (maturing June 2012) and $41.1 million secured Arrow facility (maturing 2017). We also have an additional overdraft facility of NOK 50 million. We continuously monitor our banks and have no reason to believe that they will not meet their funding commitments if called upon.

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

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

As a result of the global economic and financial crisis, capital markets are generally less predictable and available than historically experienced. This represents an increased risk for all companies with respect to meeting possible future funding needs.

We are aiming for asset sales of $200 million in 2009 to improve liquidity of the Company and better position us in a weaker market. Other measures taken to improve liquidity are to defer certain capital expenditures, reduction in MultiClient investments, releasing chartered capacity and we have stacked some of our 2D/source vessels.

We have solid structure on our existing debt with no material scheduled maturities until 2012 and financial covenants that are not unduly restrictive. We do not currently anticipate issues with financial covenants in 2009. However, depending on future market developments we may need to take actions to meet financial covenants or refinance debt in subsequent years.

Commodity risk
In the operation of our seismic vessels we use a substantial quantity of fuel. We are therefore exposed to changes in fuel prices. Based on our fuel consumption in 2008, if fuel prices were to increase by 10%, our fuel cost would increase by approximately $1 million per month of operating cost. We do not hedge this exposure, but we are seeking cost adjustments on long-term contracts. The price of oil is a primary driver for demand for PGS' services and future profitability.

Shares, share capital and dividend
We have 180,000,000 shares issued and outstanding, all of which are of the same class and with equal voting and dividend rights. Each share has a par value of NOK 3.

Our ordinary shares are listed on the Oslo Stock Exchange, under the symbol "PGS", denominated in Norwegian kroner (NOK). We delisted from the New York Stock Exchange ("NYSE") effective July 20, 2007 with the deregistration from the US Security Exchange Commission becoming effective October 18, 2007. The PGS share is still trading as an American Depositary Share ("ADS") on the US Pink Sheets, under the symbol "PGSVY." Quotes are denominated in US dollars ($) and each ADS represents one share.

No ordinary dividend will be paid to shareholders for 2008. In general, any future dividend will be proposed to the Annual General Meeting ("AGM") based on our results of operations and financial condition, future business prospects, any applicable legal or contractual restrictions and other factors that the Board of Directors consider relevant.

At the AGM on May 7, 2008 the authorization for a share repurchase program for up to 10% of our share capital, initially given in 2006, was extended for another year. We expect to propose an extension of the authority to the AGM in May 2009.

As of December 31, 2008, we hold a total of 3,806,989 own shares, representing 2.11% of total shares outstanding. We use share repurchase primarily as a means to adjust our financial leverage within our targeted range. We expect to use most of the expected cash flow in 2009 for continued execution on committed projects and to reduce debt.

Organization
The following table presents information about the number of full time staff at the end of the last three years:

	December 31,		
	2008	2007	2006
Marine	1,991	1,593	1,381
Onshore employees	714	731	608
Onshore temporary employees (a)	2,223	644	981
Other (b)	278	255	198
Total	5,206	3,223	3,168

(a) Onshore temporary employees include crew hired on specific time periods (generally the length of a specific project). The large growth in 2008 relates mainly to Mexico and Peru, which accounts for 1,592 out of the total 2,223 temporary employees at December 31, 2008.
(b) Includes Corporate, Global Shared Services and PGS EM.

The nature of our business requires a high degree of technological expertise from our employees. As an employer and as part of our core values, we strive for balance and equality with respect to gender, age and cultural background among our staff. As of December 31, 2008, we had employees with 82 different nationalities, 19% of which are female and 81% are male. Among our Norwegian staff, 33% are female and 67% are male. Our Board of Directors has four male and three female directors.

At our headquarters at Lysaker, 34% of management positions are held by women. 11% of women working for our organization in Norway are employed in less than full time positions.

University educated PGS employees include geophysicists, geologists, engineers, etc. These groups have the same wage structure. The average monthly salary of a PGS employee is $5,357 ($4,217 for women and $5,620 for men).

Our head office is at Lysaker, Norway. We also have offices in other cities in Norway, and 30 other countries (Algeria, Angola, Australia, Brazil, Cambodia, Canada, China, Ecuador, Egypt, France, India, Indonesia, Japan, Kazakhstan, Libya, Malaysia, Mexico, Morocco, Nigeria, Oman, Peru, Russia, Singapore, Sweden, Tunisia, United Arab Emirates, UK, US and Vietnam).

Board of Directors and corporate governance
Our Board of Directors consists of Jens Ulltveit-Moe (Chairperson), Francis Gugen (Vice Chairperson), Wenche Kjølås, Harald Norvik, Holly Van Deursen, Daniel Piette and Annette Malm Justad, elected as permanent Directors for a one year period at the AGM held on May 7, 2008. Malm Justad was elected as a new Director in 2008, while Ulltveit-Moe, Gugen, Norvik, Kjølås, Van Deursen and Piette were re-elected at the AGM in May 2008.

Siri Beate Hatlen requested to resign as a member of the Board due to conflicting commitments and was not re-elected at the AGM in May 2008.

The Board has established two sub-committees, the Audit Committee, consisting of Mr. Gugen (Chairperson), Ms. Kjølås and Mr. Piette, and the Remuneration and Corporate Governance Committee, consisting of Mr. Norvik (Chairperson), Ms. Malm Justad and Ms. Van Deursen, to act as preparatory bodies for the Board of Directors and to 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 had nine meetings in 2008.

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 company and our governance model is built on Norwegian corporate law. We otherwise implement corporate governance guidelines beneficial to our business.

Our corporate governance principles are adopted by our Board of Directors. Our Board conducts a periodic review of these principles. Key aspects of our corporate governance structure are described in more detail in the separate corporate governance section of the 2008 annual report. Our articles of association, in addition to full versions of the rules of procedures for our Board of Directors, the Audit Committee charter, the Remuneration and Corporate Governance Committee charter, the Nomination Committee charter and our Code of Conduct are available on our website www.pgs.com (under Corporate Governance).

Since 2004 we have had in place a compliance hotline through an external service provider to facilitate reporting of any concerns over inappropriate business behavior. We encourage all to use the hotline if there are concerns relating to compliance with laws and regulations, breach of our Code of Conduct, fair treatment, or any other matter. Concerns can also be raised directly with our general counsel or any director.

Outlook

The seismic industry has been impacted by the rapid changes in the financial markets and lower oil price. During 2009, we expect there will be a net decline from 2008 in exploration and production spending among clients, causing margins for new contracts to decrease. At the same time, we are seeing an increase in marine seismic capacity. We do not expect all the vessels announced to be delivered, due to cancellations, caused by financing difficulties, and delays. We further expect that stacking and scrapping of older vessel will mitigate some of the impact of new capacity in the market.

The long-term fundamentals are still well intact, especially for more advanced seismic since the easy oil has been extracted. Looking at the declining reserve replacement ratio for the industry and the forecasted decline in oil supply we expect demand for seismic services to pick up over time.

In a temporarily weaker market we will focus on cost reduction and cash generation. We have been proactive in adapting to a tougher market and we are focusing on reducing overhead and operating costs. We are also reducing our ambitions for new ventures by optimizing R&D spending and re-evaluating the timing of EM and OptoSeis®.

We have a competitive advantage in our cost efficient and uniform fleet. This will become important for us in order to maintain industry leading margins and generate robust cash flow going forward.

In the Marine segment we enter 2009 with a healthy order book covering approximately eight months of work. Still, for the year as a whole, we expect Marine contract revenues to decrease as a result of lower activity and lower prices.

We expect to use somewhat less of our 3D fleet capacity for MultiClient acquisition in 2009 compared to 2008 and we will invest less in MultiClient in 2009 than in 2008 and seek to maintain a high pre-funding.

Capital expenditures are expected to decrease compared to 2008, mainly as a result of our focus on reducing capital expenditures and the decision to defer any further commitments of seismic equipment for *PGS Artemis,* due to delay of the vessel. We are considering equipping the vessel with existing equipment from our 6-streamer fleet.

In 2009 we expect Onshore to perform weaker than in 2008.

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

Pursuant to §3-3a of the Norwegian accounting act, the Board confirms that the 2008 financial statements have been prepared based on the assumption of ongoing concern and that the assumption of going concern is appropriate.

Allocation of the parent company's profit for 2008

The financial statements of Petroleum Geo-Services ASA are prepared in accordance with accounting principles generally accepted in Norway ("N GAAP"). Net income was NOK 358.6 million for 2008 compared to NOK 3,063.6 million in 2007. PGS ASA is a holding company with no operating activities. Total impairment of shares in subsidiaries totaled NOK 598.9 million in 2008, mainly due to impairment of shares in MTEM.

The Board proposes to allocate the 2008 net income of NOK 358,588,000 to other equity. Other equity as of December 31, 2008 was NOK 5,399,086,000 of which NOK 3,242,258,000 was free equity.

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, 2008.

PGS ASA's consolidated financial statements have been prepared 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, 2008. 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, 2008. The Board of Directors' report for the group and the parent company is in accordance with the requirements on the Norwegian Accounting Act and Norwegian accounting standard 16, as of December 31, 2008.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2008 have been prepared in accordance with applicable accounting standards.
- The consolidated and separate annual financial statements give true and fair view of the assets, liabilities, financial position and profit (or loss) as a whole as of December 31, 2008 for the group and the parent company.
- The Board of Directors' report for the group and the parent company include a true and fair review of:
  - The development and performance of the business and the position of the group and the parent company.
  - The principal risks and uncertainties the group and the parent company face.

Lysaker, March 27, 2009

Jens Ulltveit-Moe
Chairperson

Harald Norvik

Francis Gugen
Vice Chairperson

Wenche Kjølås

Holly Van Deursen

Annette Malm Justad

Daniel J. Piette

Jon Erik Reinhardsen
Chief Executive Officer

CORPORATE GOVERNANCE

PGS is committed to maintaining high standards of corporate governance. We believe that effective corporate governance is essential to the well-being of our Company 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 is based on Norwegian corporate law and the Norwegian Code of Practice for Corporate Governance, as applicable at all times. We also adhere to requirements applicable to foreign registrants in the U.S. where our American Depositary Shares ("ADS") are publicly traded to the extent practicable. In addition, we implement corporate governance guidelines beneficial to our business.

Our corporate governance principles are adopted by our Board of Directors ("Board"). Below is a summary of our principles. Our Articles of Association, in addition to full versions of our corporate governance principles, our rules of procedures for our Board, our Audit Committee charter, our Remuneration and Corporate Governance Committee charter and our Nomination Committee charter are available on our website (www.pgs.com).

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

Business
Our business is defined in our Articles of Association as:

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

The goals and strategies for our business areas are presented on page 2, 3 and page 12 of this annual report.

Equity and dividends
In general any future dividend will be subject to determination based on our results of operations and financial condition, our future business prospects, any applicable legal or contractual restrictions and other factors that the Board considers relevant. Our dividend policy is described on www.pgs.com.

Equal treatment of shareholders and transactions with related parties
PGS has one class of shares. In our General Meetings each share has one vote. Our Board is committed to equal treatment of shareholders in all respects. When applicable, transactions by the Company in its own shares should be carried out through the stock exchange, or at prevailing stock exchange prices if carried out in any other way.

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

Transactions between us and related parties shall be conducted at market values. Material transactions will be subject to independent valuation by third parties. According to our Code of Conduct, none of our employees shall have any personal or financial interest which might conflict with ours, or influence, or appear to influence, their judgment or actions in carrying out their responsibilities to PGS. According to our Rules of Procedures, a member of our Board may not participate in the discussion or decision of issues, where the director, or any person closely related to the director, has material personal or financial interest in the matter.

Freely transferable shares
Our shares are freely transferable.

General Meetings
Through the General Meetings, our shareholders exercise ultimate authority and elect the members of our Board and the Chairperson.

Notice of the General Meeting, including all pre-material, is generally given at least four weeks in advance to the shareholders or their depositary bank. For ADS holders, a record date is set approximately 5 weeks prior to the Annual General Meeting ("AGM"). A copy of the calling notice with appendices will be posted at our website, www.pgs.com.

The notice convening an Extraordinary General Meeting shall be given at least two weeks before the meeting if the holding of the meeting is demanded in writing by the independent auditor or shareholders representing at least 5% of the share capital. Shareowners who wish to take part in a General Meeting must give notice to PGS by the date stated in the calling notice, which date must be at least two working days before the General Meeting.

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

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

Nomination Committee
According to our Articles of Association we shall have a Nomination Committee consisting of three members to be elected by our shareholders at the AGM. The General Meeting also elects the chairperson of the Nomination Committee. The majority of the members of the Nomination Committee shall qualify as independent pursuant to the Norwegian principles of 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 duties are to propose nominees for election as members and chairperson to the Board and the Nomination Committee, and to propose the fees to be paid to the members of the Board and the Nomination Committee. The General Meeting approves the fees. The Nomination Committee shall provide a report to our shareholders prior to the AGM.

The current Nomination Committee
The current members of the Nomination Committee consist of Roger O'Neil (chairperson), Hanne Harlem and C. Maury Devine. They were all re-elected in the AGM held May 7, 2008 for a new service period of one year. Shareholders who wish to propose new board members to PGS may do so by submitting a proposal of a candidate to the administration on www.pgs.com, "Nominate a Board Member". None of the members of our Nomination Committee are employed by us or are members of our Board. In 2008, our Nomination Committee had 2 meetings. A report regarding the work of our Nomination Committee will be distributed with the calling notice for our AGM.

Board of Directors – composition and independence
According to our Articles of Association our Board shall have from three to thirteen directors. No member of the Board is elected for a period exceeding two years for each elected period. The Board has adopted internal rules of procedures that establish in more detail its role and responsibilities, including:

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

All directors are independent from our management and major business relations, as defined in the Norwegian principles for corporate governance. Five of our seven current shareholder appointed directors are independent from our largest shareholders, as defined in the Norwegian principles for corporate governance. Our chairperson, Mr. Jens Ulltveit-Moe controls the Umoe Group, whereas Harald Norvik is a member of the board of directors in Umoe. At December 31, 2008 the Umoe Group owned 9.27 percent of the shares in PGS. No member of our Board shall be an executive of PGS. Directors cannot perform paid consultancy work for us. Three of the board members, directly or indirectly, own shares in PGS.

Shareholders and other interested parties may communicate directly with our independent directors by sending a written letter in an envelope addressed to Petroleum Geo-Services "Board of Directors (Independent Members)", General Counsel Espen Sandvik, P.O. Box 89, 1325 Lysaker, Norway.

The current Board of Directors
As of December 31, 2008, the Board consisted of seven shareholder representatives. Neither the Chief Executive Officer ("CEO") nor any other member of the executive management in PGS is a director of the Board. The current members of the Board are presented on www.pgs.com.

The work of the Board of Directors
In accordance with Norwegian corporate law, our Board has overall responsibility for management of our Company, while our CEO is responsible for day-to-day management. Our Board supervises our CEO's day-to-day management and our activities in general. It is also responsible for ensuring that appropriate steering and control systems are in place. Our CEO shall, in agreement with the chairperson of the Board, annually present a meeting calendar covering the next calendar year to the Board for approval. In 2008 our Board had 9 meetings.

Our Board has adopted internal rules of procedures, which establish in more detail its role and responsibilities in relation to the management and supervision of the Company. The rules emphasize, among other things, our Board's responsibility to decide our financial targets and determine our overriding strategy in collaboration with our CEO and our executive committees, and to approve our business plans, budgets and frameworks. In its supervision of our business activities, our Board will seek to ensure that satisfactory routines exist for follow-up of principles and guidelines required by our Board in relation to ethical behaviour, conformity to law, health, safety and environment and social responsibility. The rules also require provision for an annual self-evaluation of our Board to determine whether our Board and its committees are functioning effectively. The tasks and duties of our CEO vis-à-vis our Board are outlined in the rules, along with the tasks and duties of the chairperson of our Board. The CEO participates in all Board meetings, except exclusive sessions. Our Board shall have a vice-chairperson to chair our Board in our chairperson's absence. The full version of the rules of procedures for our Board is available on www.pgs.com.

Our governance structure is organized as described below:

Our Board is responsible for the development and supervision of our business activities. Our Board has established an Audit Committee and a Remuneration and Corporate Governance Committee to assist in organizing and carrying out its responsibilities.

- Our Board appoints our CEO.
- Our CEO is responsible for the day-to-day management of our activities.
- Our CEO has organized our Executive Committees and our Disclosure Committee to further assist in discharging our CEO's responsibilities.
- Our Board, along with our CEO, is committed to operating PGS in an effective and ethical manner in order to create value for our shareholders. Our Code of Conduct requires our management to maintain an awareness of the risks to PGS in carrying out our business strategies and not to put personal interests ahead of, or in conflict with, the interests of PGS.
- Our CEO, under the oversight and guidance of our Board and our Audit Committee, is responsible for ensuring that our financial statements fairly present in all material respects our financial condition and results of operations and that we make timely disclosures needed to assess our financial and business soundness and risks.

Board committees
Our Audit Committee consists of the board members Francis Gugen (chairperson), Wenche Kjølås and Daniel J. Piette. Its function is to assist our Board in its oversight of the integrity of the financial statements of PGS, monitoring the independent auditor's qualifications, independence and performance, as well as the performance of the internal audit function, and ensure that PGS is in compliance with certain legal and regulatory requirements.

Our Remuneration and Corporate Governance Committee consists of the board members Harald Norvik (chairperson), Holly Van Deursen and Annette Malm Justad. Malm Justad replaced Siri Beate Hatlen as of May 7, 2008. The function of the Committee is to assist with the matters relating to the compensation, benefits and perquisites of our CEO and other senior executives and examine and maintain our guidelines regarding good corporate governance.

Risk management and internal control
The Board is responsible for ensuring that appropriate steering and control systems are in place.

The Board ensures that the CEO uses proper and effective management and control systems, including systems for risk management. The Board makes sure that the control functions are working as intended and that the necessary measures are taken to reduce extraordinary risk exposure. Furthermore, the Board makes certain that satisfactory routines exist to ensure follow-up of principles and guidelines adopted by the Board in relation to ethical behavior, conformity to law, health, safety and working environment and social responsibility.

PGS' management conduct day-to-day follow-up of financial management and reporting. The Board's Audit Committee assesses the integrity of our accounts and inquires into, for the Board, items related to the financial review and control and external audit of accounts.

PGS has a proper internal auditing system and the Board ensures that it is capable of producing reliable annual reports and that the external auditor's recommendations are given proper attention.

The Board shall conduct an annual self-evaluation to determine whether it and its committees are functioning effectively, which evaluation will then be discussed and considered by the Board in its consideration of any appropriate action or response. In addition, the Board shall conduct a periodic review of PGS' corporate governance policies and procedures, including the Boards Rules of Procedure. The Remuneration and Corporate Governance Committee shall assist the Board with its annual self-evaluation and any periodic review of corporate governance policies and procedures.

Non-conformances are systematically followed up and corrective measures monitored.

Remuneration of the Board of Directors and the executive management
The remuneration of the members of the Board is not linked to performance, but is based on participation in meetings and is approved by the General Meeting annually. The Board Members shall not take on specific assignments for us in addition to their appointment as a member of the Board. No member of the Board holds any options in PGS.

For details on compensation for each member of the Board, please see www.pgs.com.

The remuneration to our Board will be proposed by the Nomination Committee according to its charter at our AGM.

The compensation structure and guidelines for executive managers are subject to annual review by the Remuneration and Corporate Governance Committee and are approved by the Board. PGS currently has a compensation structure for our executive managers including base salary, cash bonus, share bonus, a retention bonus and stock option programs. For further details on our compensation structure and total compensation to our executive team see www.pgs.com.

Information and communications
Our Board is committed to reporting financial results and other relevant information based on openness and taking into account the requirement for equal treatment of all participants in the securities market. As a listed company, we comply with relevant regulations regarding disclosure. Announcements are released through the Hugin system and posted on www.newsweb.no. In addition, all announcements are available on the company's website www.pgs.com. Our shareholder policy is described on www.pgs.com.

Take-overs
The Board has established guiding principles for how it will act in the event of a take-over bid. The Board will not seek to hinder or obstruct any take-over bids for our activities or shares, or exercise mandates or pass any resolutions that obstruct take-over bids that are put forward. In the event of a take-over bid, the Board will, in accordance with its overall responsibility for corporate governance, act for the benefit of our shareholders and ensure that the shareholders are given sufficient information. If an offer is made, the Board will issue a statement evaluating the offer and making a recommendation as to whether our shareholders should or should not accept the offer. PGS' Articles of Association do not contain any restrictions, limitations or defense mechanisms on acquiring our shares.

Auditor
Our Audit Committee shall support the Board in the administration and exercise of its responsibility for supervisory oversight of the work of the independent auditors, which shall keep our Board informed of all aspects of its work for PGS. This includes submission of an annual plan for the audit of PGS. The auditor attends all Audit Committee meetings and at least once a year meets independently with our Audit Committee, without management being present. Our internal procedures limit the use of services from our auditors.

The independent auditors meets with our full Board of Directors at least once a year in connection with the preparation of the annual accounts and, at least once a year, presents a review of our financial reporting and internal control procedures over financial reporting. The auditor will be asked annually to confirm in writing that the auditor satisfies the requirements for independence. The auditor shall also provide our Audit Committee with a summary of all services, in addition, to audit work that has been undertaken for us. The remuneration paid to the auditor with respect to audit services will be reported to the AGM for approval.

PETROLUEM GEO-SERVICES

CONSOLIDATED STATEMENTS OF OPERATIONS

		Years ended December 31,		
(In thousands of dollars)	Note	2008	2007	2006
Revenues	6	$ 1,917,502	$ 1,519,867	$ 1,308,419
Cost of sales (1)		847,227	637,970	619,271
Research and development costs (1)		19,373	8,531	12,490
Selling, general and administrative costs (1)		83,068	72,549	62,350
Depreciation and amortization	6, 7	335,516	313,093	254,776
Impairments of long-lived assets	7	161,140	-	-
Other operating income	16, 20	(71,561)	(6,768)	-
Total operating expenses		1,374,763	1,025,375	948,887
Operating profit	6	542,739	494,492	359,532
(Loss) income from associated companies	20	(16,166)	(1,563)	10
Interest income		14,490	10,299	8,758
Interest expense	8	(56,648)	(37,468)	(53,617)
Other financial items, net	9	(35,035)	(7,075)	(3,810)
Income before income tax expense		449,380	458,685	310,873
Income tax expense (benefit)	10	32,752	(11,138)	(54,584)
Income from continuing operations		416,628	469,823	365,457
Income from discontinued operations, net of tax	4	1,462	1,000	32,285
Net income		$ 418,090	$ 470,823	$ 397,742
Net income attributable to minority interests		706	814	3,006
Net income to equity holders of PGS ASA		$ 417,384	$ 470,009	$ 394,736

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

Earnings per share, to ordinary equity holders of PGS ASA:	11			
- Basic		$ 2.37	$ 2.65	$ 2.19
- Diluted		$ 2.36	$ 2.65	$ 2.19
Earnings per share from continuing operations, to ordinary equity holders of PGS ASA:	11			
- Basic		$ 2.36	$ 2.65	$ 2.01
- Diluted		$ 2.35	$ 2.64	$ 2.01

Lysaker, March 27, 2009

Jens Ulltveit-Moe
Chairperson

Harald Norvik

Francis Gugen
Vice Chairperson

Wenche Kjølås

Holly Van Deursen

Annette Malm Justad

Daniel J. Piette

Jon Erik Reinhardsen
Chief Executive Officer

PETROLUEM GEO-SERVICES
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	Note	December 31, 2008	December 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents		$ 95,248	$ 145,295
Restricted cash	12	8,360	49,409
Shares available-for-sale	13	5,977	3,099
Accounts receivable	14	228,903	239,392
Accrued revenues and other receivables	15	179,331	150,876
Assets held-for-sale	16	5,250	73,718
Other current assets	17	143,258	129,745
Total current assets		666,327	791,534
Long-term assets:			
Property and equipment	18	1,562,421	1,257,239
Multi-client library	19	294,601	173,868
Restricted cash	12	10,014	10,014
Deferred tax assets	10	221,786	190,951
Investments in assosicated companies	20	14,391	31,152
Shares available-for-sale	13	272	9,726
Other long-lived assets	21	20,142	34,655
Goodwill	22	175,092	175,092
Other intangible assets	23	99,759	200,737
Total long-term assets		2,398,478	2,083,434
Total assets	6	$ 3,064,805	$ 2,874,968
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt and current portion of long-term debt	24, 25	$ 20,459	$ 272,467
Current portion of capital lease obligations	27	1,180	7,056
Accounts payable		98,036	87,947
Prepayments, asset held-for-sale	16	-	120,638
Accrued expenses	28	340,308	320,471
Income taxes payable	10	75,683	57,062
Total current liabilities		535,666	865,641
Long-term liabilities:			
Long-term debt	25	1,212,065	1,080,460
Long-term capital lease obligations	27	2,871	-
Deferred tax liabilities	10	34,398	46,675
Other long-term liabilities	29	140,125	141,458
Total long-term liabilities		1,389,459	1,268,593
Shareholders' equity:			
Paid-in capital:			
Common stock; par value NOK 3; 220,666,667 authorized shares; issued and outstanding 180,000,000 shares at December 31, 2008 and 218,250,000 authorized shares; issued and outstanding 180,000,000 shares at December 31, 2007	31	78,208	78,208
Treasury shares, par value	31	(1,868)	(2,034)
Additional paid-in capital		134,658	124,820
Total paid-in capital		210,998	200,994
Accumulated earnings		963,334	562,816
Cumulative translation adjustment and other reserves		(34,662)	(23,117)
Minority interests		10	41
Total shareholders' equity		1,139,680	740,734
Total liabilities and shareholders' equity		$ 3,064,805	$ 2,874,968

PETROLUEM GEO-SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)	2008	2007 Restated (1)	2006 Restated (1)
	Years ended December 31,		
Cash flows provided by operating activities:			
Net income	$ 417,384	$ 470,009	$ 394,736
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, continuing operations	335,516	313,093	254,776
Depreciation and amortization, discontinued operations	-	-	27,666
Impairments of long-lived assets	161,140	-	-
Gain on sale of shares	-	-	(27,127)
Deferred income taxes	(49,035)	(54,341)	(115,735)
(Gain) loss on sale of assets	(75,581)	454	(3,926)
Net decrease in cash related to dicontinued operations	-	-	2,010
Net decrease (increase) in restricted cash	41,049	(40,143)	3,773
Other items	40,120	10,031	12,190
Decrease (increase) in accounts receivable, net	13,451	(38,127)	(10,105)
(Increase) in unbilled and other receivables	(32,104)	(23,053)	(59,108)
(Increase) in other current assets	(13,688)	(45,814)	(17,514)
Decrease (increase) in other long-lived assets	8,885	(7,669)	7,418
Increase (decrease) in accounts payable	10,089	(8,934)	17,744
Increase in accrued expenses and income taxes payable	76,400	153,794	144,612
(Decrease) in other long-term liabilities	(19,011)	(6,481)	(4,184)
Net cash provided by operating activities	914,615	722,819	627,226
Cash flows (used in) provided by investing activities:			
Investment in MultiClient library	(290,031)	(282,797)	(119,181)
Capital expenditures	(450,619)	(260,441)	(164,183)
Capital expenditures on new-builds on charter	(31,979)	(9,749)	-
Capital expenditures on discontinued operations	-	-	(35,018)
Investments in other intangible assets	(12,460)	(9,500)	(5,750)
Proceeds for sale of assets	6,297	448	4,098
Proceeds for assets held-for-sale, net	24,605	103,648	-
Payment for purchase of subsidiaries, net of cash acquired	(77)	(700,148)	-
Proceed from demerger, net	-	-	406,816
Other items, net	962	(16,932)	242
Net cash (used in) provided by investing activities	(753,302)	(1,175,471)	87,024
Cash flows (used in) provided by financing activities:			
Proceeds from issuance of long-term debt	33,702	995,092	-
Repayment of long-term debt	(149,078)	(282,926)	(619,720)
Principal payments under capital leases	(7,686)	(6,862)	(20,464)
Net (decrease) increase in bank facility and short-term debt	(10,000)	239,873	(2,547)
Purchase of treasury shares	-	(119,486)	-
Proceeds from exercise of employee share options	2,671	10,241	-
Dividend paid to minorities in subsidiaries	(737)	(776)	-
Dividend paid to shareholders of PGS ASA	-	(302,368)	-
Termination fee, UK leases	-	(7,831)	(14,759)
Interest paid	(80,232)	(50,993)	(54,241)
Net cash (used in) provided by financing activities	(211,360)	473,964	(711,731)
Net (decrease) increase in cash and cash equivalents	(50,047)	21,312	2,519
Cash and cash equivalents as of January 1	145,295	123,983	121,464
Cash and cash equivalents as of December 31	$ 95,248	$ 145,295	$ 123,983

(1) The consolidated statement of cash flows for the years ended December 31, 2007 and 2006, have been restated to show gross interest paid as a separate line item under finance activities. See Note 37 for a reconciliation to previously reported cash flows.

PETROLUEM GEO-SERVICES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of dollars, except for share data)	Common stock Number	Common stock Par value	Treasury shares Par value	Additional paid-in capital	Accu-mulated earnings	Cumulative translation adjustm. and other reserves	Total	Minority interests	Total equity
	Attributable to equity holders of PGS ASA								
Balance at January 1, 2007	180,000,000	$ 78,208	$ -	$ 118,249	$ 405,206	$ 2,025	$ 603,688	$ -	$ 603,688
Net income	-	-	-	-	470,009	-	470,009	814	470,823
Treasury shares acquired	-	-	(2,490)	-	(116,997)	-	(119,487)	-	(119,487)
Transferred treasury shares (MTEM)	-	-	180	-	8,735	-	8,915	-	8,915
Accrued deferred transfer of shares (MTEM)	-	-	-	-	8,916	-	8,916	-	8,916
Employee share options	-	-	-	6,571	-	-	6,571	-	6,571
Exercise, employee share options	-	-	276	-	9,965	-	10,241	-	10,241
Dividend	-	-	-	-	(289,943)	-	(289,943)	-	(289,943)
Dividend to minority interests	-	-	-	-	-	-	-	(776)	(776)
Issue of convertible notes	-	-	-	-	66,925	-	66,925	-	66,925
Revaluations of shares available-for-sale	-	-	-	-	-	(2,221)	(2,221)	-	(2,221)
Revaluations of cash flow hedges	-	-	-	-	-	(22,718)	(22,718)	-	(22,718)
Translation adjustments and other	-	-	-	-	-	(203)	(203)	3	(200)
Balance at December 31, 2007	180,000,000	$ 78,208	$ (2,034)	$ 124,820	$ 562,816	$ (23,117)	$ 740,693	$ 41	$ 740,734
Deferred tax on convertible notes and other (1)	-	-	-	-	(19,035)	4,921	(14,114)	-	(14,114)
Net income	-	-	-	-	417,384	-	417,384	706	418,090
Transferred treasury shares (MTEM)	-	-	94	-	(94)	-	-	-	-
Employee share options	-	-	-	9,838	-	-	9,838	-	9,838
Exercise, employee share options	-	-	72	-	2,599	-	2,671	-	2,671
Dividend to minority interests	-	-	-	-	-	-	-	(737)	(737)
Repurchase of convertible notes	-	-	-	-	(336)	-	(336)	-	(336)
Revaluations of shares available-for-sale	-	-	-	-	-	725	725	-	725
Revaluations of cash flow hedges	-	-	-	-	-	(24,588)	(24,588)	-	(24,588)
Deferred tax on cash flow hedges	-	-	-	-	-	8,073	8,073	-	8,073
Translation adjustments and other	-	-	-	-	-	(676)	(676)	-	(676)
Balance at December 31, 2008	180,000,000	$ 78,208	$ (1,868)	$ 134,658	$ 963,334	$ (34,662)	$ 1,139,670	$ 10	$ 1,139,680

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

The components of cumulative translation adjustments and other reserves are as follows:

(In thousands of dollars)	Net foreign currency translation adjustments	Net unrealised gain (loss) investments	Net gain (loss) cash flow hedges: Interest rate	Net gain (loss) cash flow hedges: Exchange rate	Cumulative translation adjustments and other reserves
Balance at January 1, 2007	$ (422)	$ 1,542	$ 1,825	$ (920)	$ 2,025
Year ended December 31, 2007:					
Revaluation of cash flow hedges	-	-	(21,033)	(1,685)	(22,718)
Other	(203)	(2,221)	-	-	(2,424)
Balance at December 31, 2007	$ (625)	$ (679)	$ (19,208)	$ (2,605)	$ (23,117)
Year ended December 31, 2008:					
Revaluation of cash flow hedges	-	-	(27,193)	2,605	(24,588)
Deferred tax on cash flow hedges	-	-	12,994	-	12,994
Other	(676)	725	-	-	49
Balance at December 31, 2008	$ (1,301)	$ 46	$ (33,407)	$ -	$ (34,662)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

General information
Petroleum Geo-Services ASA ("PGS ASA") is a public limited liability company established under the laws of the Kingdom of Norway in 1991. Unless stated otherwise, references herein to the "Company" and "PGS" refer to Petroleum Geo-Services ASA and its majority owned subsidiaries and affiliates, companies in which it has and controls a majority voting interest.

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

The Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). However, the consolidated financial statements for the periods presented would not be different had the Company applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value and assets impaired that are measured on value-in-use. The consolidated financial statements are presented in US Dollars ("$" or "dollars"), which is defined as the presentation currency.

The consolidated financial statements were authorised for issue by the Board of Directors on March 27, 2009.

Significant transactions and events
In January 2008, *Ramform Victory* was delivered to the Japanese Ministry of Economy, Trade and Industry ("METI"). The Company recorded a $71.6 million gain on sale of assets from this transaction in 2008 and will continue to provide licenses as well as operational services and support under a long-term agreement relating to the vessel, which has been renamed *Shigen*. See Note 16 for further information.

In March 2008, the Company took delivery of the new build seismic vessel *Ramform Sovereign*. See Note 18 for further information.

In the fourth quarter of 2008, the Company qualified for the new Norwegian tonnage tax regime as a result of change in legislation. See Note 10 for further information.

In the fourth quarter of 2008, the Company recorded impairments of long-lived assets of $161.1 million. $99.1 million relates to impairments of intangible assets recorded on acquisition of MTEM Limited ("MTEM") as a result of weaker electromagnetic ("EM") market development and reduced EM ambitions in 2009. Impairment indicators were identified for certain vessels due to challenging economic conditions. These included stacking *Polar Sea*, deferral of the conversion of *Southern Explorer* and adjusting the carrying amounts of *Polar Pearl.* In addition, the cost of the new-build 532 is estimated to exceed the income it will earn under its original long-term lease agreement. These resulted in impairments charges of $59.9 million. In addition $2.1 million relates to oil and gas assets. See Notes 18, 21 and 23 for further information.

Income from discontinued operations for the years ended December 31, 2008, 2007 and 2006, include additional proceeds that were contingent on certain events related to discontinued operations sold in 2003 (Atlantis) and 2002 (Production Services). See Note 4 for additional information.

Subsequent event
In early March 2009, the Company received formal notification by Factorias Vulcano that the shipyard intends to deliver hull number 532 to satisfy the shipbuilding contract specified for hull number 533. The Company is currently assessing the legality of such substitution. Since the shipyard will not deliver 532 within the termination date, Arrow has received from WesternGeco a notice of intention to terminate the charter for NB 532 and Arrow has sent a notice of termination of the shipbuilding contract to the shipyard.

Note 2 - Summary of Significant Accounting Policies

Adoption of new and revised policies and standards and interpretations
In 2008, the Company has adopted all of the new and revised standards and interpretations issued by IASB that are relevant to the Company's operations, effective January 1, 2008.

The Company has early adopted the following standards and interpretations for all periods presented, as follows:

- IFRS 8 - *Operating Segments* ("IFRS 8") (required from January 1, 2009). This adoption has not lead to any changes in the definitions of segments.

- IAS 23 - *Borrowing Costs* ("IAS 23") (required from January 1, 2009). This is according to the Company's practise and has not lead to any changes.

Consolidation

Subsidiaries and business combinations

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

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

Investments in associated companies

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

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

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

Investments in joint ventures

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

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

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

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

Held-for-sale and discontinued operations

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

Non-current assets are classified as held-for-sale when their carrying amount will be recovered principally through sale rather than through continuing use. This condition is deemed to exist when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are presented separately on the face of the consolidated balance sheets. Comparative amounts are not restated when an asset is classified as held-for-sale.

Cash and cash equivalents
The carrying amounts of cash and cash equivalents approximate fair value. Cash and cash equivalents include demand deposits and all highly liquid financial instruments purchased with original maturities of three months or less. Cash and cash equivalents that are restricted from the Company's use are presented separately in the consolidated balance sheets and are classified as current or long-term depending on the nature of the restrictions. Such restrictions primarily relate to cash collateral for bid or performance bonds, employee tax withholdings, certain health insurance and restricted deposits under contracts.

Foreign currency translation and transactions
The financial statements of non-US subsidiaries having their respective local currency as their functional currency are translated using the current exchange rate method. Under the current exchange rate method, assets and liabilities are translated at the rate of exchange in effect at the period end; share par value and paid-in capital are translated at historical exchange rates; and revenues and expenses are translated at the average rate of exchange in effect during the period. Translation adjustments are recorded as a separate component of shareholders' equity.

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

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

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

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

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

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

Credit risk
The Company's financial assets that are exposed to concentration of credit risk consist of trade receivables from clients and derivative financial instruments. Trade receivables are primarily multinational integrated oil companies and independent oil and natural gas companies, including companies owned in whole or in part by governments. The Company manages its exposure to credit risk through ongoing credit evaluations of customers and has provided for potential credit losses through an allowance for doubtful accounts. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in accounts receivable from trade customers and is based on a number of factors consisting mainly of aging of accounts, historical experience, customer concentration, customer creditworthiness and current industry and economic trends.

By using derivative financial instruments to hedge exposure to changes in exchange rates and interest rates, the Company is exposed to credit risk. The Company minimizes the credit risk by entering into transactions with high-quality counterparties, limiting the exposure to each counterparty and monitoring the financial condition of its counterparties.

The Company is exposed to 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. In addition the Company is exposed to payment risk of certain off balance sheet items. These are refund guarantees issued by Spanish banks on behalf of the Spanish shipyard Factorias Vulcano and counterpart payment risk to the Arrow charter agreements. Except for the tight liquidity situation at the shipyard the Company believe that other counterparties have the ability to meet their obligations when due.

The Company does not believe that exposure to credit risk is likely to have a material adverse impact on its consolidated financial position or consolidated results of operations.

Goodwill
Goodwill (see *subsidiaries and business combinations* above) is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses (see *impairment of property, equipment and intangibles* below).

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

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

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

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

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

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

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

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

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

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

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

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development costs are expensed as incurred.

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

Patents, licenses and technology

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

Property and equipment

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

	Years
Seismic vessels	25 - 30
Seismic and operations computer equipment	3 - 15
Buildings and related leasehold improvements	1 - 17
Fixture, furniture, fittings and office computers	3 - 5

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

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

Assets under construction are carried at cost, less any impairment loss (see *impairment of property, equipment and intangibles* below). Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy as stated below. Depreciation of these assets commences when the assets are ready for their intended use.

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

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

Borrowing costs

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

Steaming and mobilization costs

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

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

Impairment of property, equipment and intangibles

The Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately and presented separately in the consolidated statements of operations.

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

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

Goodwill (and the cash-generating unit to which goodwill has been allocated) and intangible assets not yet available for use are tested for impairment annually, or whenever there is an indication that the asset may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit (including goodwill allocation), the impairment loss goes first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets of the unit pro-rata on the basis of the carrying amount of each assets in the unit.

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

Derivative financial instruments and hedging
The Company accounts for derivative financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). The Company uses derivative financial instruments to reduce risk exposure related to fluctuations in foreign currency rates and interest rates. Derivative instruments are recognized in the consolidated balance sheets at their fair values while realized and unrealized gains and losses attributable to derivative instruments that do not qualify for hedge accounting are recognized as other financial items, net, as they arise.

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

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

Fair value hedges: The change in fair value of the hedging instrument is recognized in the consolidated statements of operations. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statements of operations. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated statements of operations.

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

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

(a) Sales of MultiClient library data

Late sales - The Company grants a license to a customer, which entitles the customer to have access to a specifically defined portion of the MultiClient data library. The customer's license payment is fixed and determinable and typically is required at the time that the license is granted. 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 and collection is reasonably assured.

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

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

Pre-funding arrangements - The Company obtains funding from a limited number of customers before a seismic project is completed. In return for the pre-funding, the customer typically gains the ability to direct or influence the project specifications, to access data as it is being acquired and to pay discounted prices.

The Company recognizes pre-funding revenue as the services are performed on a proportional performance basis. Progress is measured in a manner generally consistent with the physical progress on the project, and revenue is recognized based on the ratio of the project's progress to date, provided that all other revenue recognition criteria are satisfied.

(b) Proprietary sales/contract sales

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

(c) Other services

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

Income taxes

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

The Company includes deductions/benefits from uncertain tax positions when it is probable that the tax position will be sustained in a tax review.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Provisions

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

Onerous contracts

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

Employee benefits

Pension obligations

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

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognized actuarial gains or losses and past service costs, and as reduced by the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using estimated interest rates of high-quality corporate bonds (or government bonds where there is no deep market in high quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

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

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

Bonus plans

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

Share-based payments

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

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

Interest bearing debt and borrowings

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

Financial assets and liabilities

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

Financial assets and liabilities are classified into categories as follows:

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

Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains and losses on financial assets held-for-trading are recognized in the consolidated statements of operations.

In addition a financial instrument can be designated by the Company upon initial recognition as at fair value through profit or loss if certain criteria are met. As of December 31, 2008 and 2007, respectively, no financial instruments have been designated as at fair value through the consolidated statements of operations.

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

(c) Financial assets and liabilities measured at fair value through shareholders' equity
The category includes financial assets and liabilities that are non-derivatives and are either designated as available-for-sale or not classified in any of the other categories. After initial measurement, financial assets and liabilities in the category are measured at fair value with unrealized gains or losses being recognized directly in net unrealised gain (loss) investments in shareholders' equity. When the asset or liability is disposed of, the cumulative gain or loss previously recorded in shareholders' equity is recognized in the consolidated statements of operations.

The fair values of quoted financial assets and financial liabilities are based on current bid-/ask prices. If the market for a financial instrument is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments designated as available-for-sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered as an indicator that the instrument is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss – is removed from shareholders' equity and recognized in the consolidated statements of operations. Impairment losses recognized in the consolidated statements of operations on equity instruments are not reversed through the consolidated statements of operations. Impairment testing of trade receivables is described above under "Credit risk".

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

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

Earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For diluted earnings per share, diluted potential ordinary shares are determined independently for each period presented. When the number of ordinary shares outstanding changes (e.g. share split) the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively. Basic and diluted earnings per share are presented separately for continuing and discontinued operations.

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

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

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

- IFRIC 13 - *Customer Loyalty Programs* ("IFRIC 13"). IFRIC interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires accounting of customer loyalty award credits. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

- IFRS 2 - Share-based Payments ("IFRS 2") – Vesting Conditions and Cancellations. This amendment to IFRS 2 share-based payments was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company does not expect significant implications on its accounting for share-based payments.

- IFRS 3R - *Business Combinations* ("IFRS 3R") and IAS 27R - *"Consolidated and Separate Financial Statements"* ("IAS 27R"). The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

- IAS 1R - *Presentation of Financial Statements* ("IAS 1R"). The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The adoption of the standard will provide information presented in a new format.

- Amendments to IAS 32 and IAS 1 – *Puttable Financial Instruments*. Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.

- IFRIC 15 - *Agreements for the Construction of Real Estate*. IFRIC interpretation 15 was issued in July 2008 and becomes effective for annual periods beginning on or after January 1, 2009. This interpretation applies to real estate constructors and defines when a real estate construction agreement is within the scope of IAS 11 "Construction Contracts". Revenues arising from real estate construction agreements within the scope of IAS 11 should be recognized over the construction period. If the real estate construction agreement is outside of the scope of IAS 11, revenues should be recognized at time of delivery in accordance with IAS 18 "Revenues". The Company is not a real estate construction company, and will not be affected by the interpretation.

- IFRIC 16 - *Hedges on net investment in a foreign operation*. IFRIC interpretation 16 was issued in July 2008 and is effective for annual periods beginning on or after October 1, 2008. This interpretation provides guidelines to when hedge accounting can be applied and the accounting treatment of hedges on net investments in foreign operations. The Company expects that this interpretation will have no impact on the Company's financial statements as no such hedge relationships currently exist.

Note 3 - Critical Accounting Judgments, Estimates and Assumptions

Critical judgments

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

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

Estimation uncertainty and assumptions

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

Deferred tax assets

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

Purchase price allocation

In the year ended December 31, 2007, the Company made several major acquisitions (see Note 5). The purchase prices of acquired companies are allocated to the acquired assets and liabilities assumed based on their estimated fair values. For larger acquisitions the Company engaged independent third party financial experts to assist in determining the fair values of assets acquired and liabilities assumed. Such valuations required management to make significant judgments in selecting valuation methods, estimates and assumptions. The significant intangible assets recorded were technology patents, customer contracts and technology. Critical estimates in the evaluations of useful lives for such intangible assets include, among others, typical life cycles for the product, stability of the industry in which the asset operates and changes in the market demands and the period of control over the assets. The significant tangible assets include primarily seismic new-builds and conversion vessels. Critical estimates in valuing these assets include, among others, useful lives, vessel capacity, development yard and rebuild costs and new-build delivery risk. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the estimates.

Revenue recognition

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

Economic uncertainty

The economic uncertainty as of December 31, 2008 has a significant impact on management's judgments due to higher uncertainty regarding the timing and amount of future cash flows and determining appropriate discount rates to estimate fair values.

Amortization of MultiClient library

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

Property, equipment and other intangibles

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

Impairment of property, equipment and intangibles

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

Estimating future cash flows requires management to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are subject to uncertainty as they require assumptions about demand for our products and services, future market conditions and technological developments. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Income taxes

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

Pension cost

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

Development cost

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

Provision for contingencies, claims and tax litigations

The Company records accruals for contingencies, claims and other uncertain liabilities including possible tax litigations when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or new or additional information becomes available.

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

Note 4 - Disposals

In 2002, the Company sold its Production Services (formerly Atlantic Power Group) subsidiary to Petrofac Limited. The Company is eligible to receive an additional consideration of $0.5 million upon the occurrence of certain contingent events through 2010.

In 2003, the Company sold its Atlantis oil and gas activities to Sinochem. The Company may receive additional proceeds of $6.0 million upon the occurrence of certain contingent events.

In 2006, the Company's shareholders approved a demerger plan to separate the Company's Geophysical and Production businesses into two independently listed companies. The demerger of the Production business under Petrojarl ASA was accounted for as continuity of our book values. The Company recognized a $27.1 million gain from the sale of Petrojarl ASA shares and demerger costs of $10.0 million. The results of operations and cash flows for the Production segment are included in discontinued operations in addition to the gain on sale of shares and demerger costs.

The results of operations and cash flows for the Production segment are summarized as follows:

(In thousands of dollars)	Year ended December 31, 2006
Revenues	129,258
Operating costs (a)	89,062
Depreciation and amortization	27,666
Total operating expenses	116,728
Operating profit	12,530
Income from associated companies	42
Interest expense and other financial items, net	1,546
Income before income tax expense (benefit)	14,118
Capital expenditures on discontinued operations	35,018

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

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Income before income tax expense (benefit)	---	---	14,118
Petrojarl demerger costs	---	---	(10,055)
Gain on sale of shares in Petrojarl	---	---	27,127
Net gain on sale of Pertra	---	---	302
Final settlement PGS Tigress (UK) Ltd.	---	---	(254)
Additional proceeds	1,462	1,000	3,500
Tax from discontinued operations	---	---	(2,503)
Minority interest	---	---	50
Income from discontinued operations, net of tax	1,462	1,000	32,285

Note 5 - Acquisitions

Business combinations are recorded using the purchase method of accounting. The Company did not enter in to any business combinations in the years ended December 31, 2008 and 2006, while there were four business combinations in the year ended December 31, 2007.

MTEM Limited ("MTEM")
In June 2007, the Company completed the acquisition of MTEM, a provider of electromagnetic EM services used to detect the presence of hydrocarbons. The total acquisition cost was $277.1 million consisting of both cash and PGS shares (727,068 shares/$17.8 million), including transaction costs of $2.8 million. Of the total consideration $17.8 million was deferred and consists of $8.9 million in cash and $8.9 million in shares (363,534 shares) that would be paid over time as deferred consideration to management shareholders in MTEM. The Company transferred 363,534 treasury shares (own shares) in this transaction in 2007 and paid/transferred additional $4.5 million in cash and 181,767 PGS shares in 2008. MTEM was fully consolidated from the effective date of the acquisition. The purchase price allocation is final and has been determined as follows:

(In thousands of dollars)	MTEM carrying amount before transaction	Fair value adjustments	Fair values
Current assets	2,014	---	2,014
Property and equipment	2,464	---	2,464
Intangible assets (technology patents)	1,179	168,630	169,809
Accounts payable and accrued expenses	(2,282)	---	(2,282)
Deferred tax liabilities	---	(35,895)	(35,895)
Net assets	3,375	132,735	136,110
Goodwill	---	140,958	140,958
Total acquisition cost (a)	3,375	273,693	277,068

(a) Includes transaction costs of $2.8 million.

The useful life of the technology patents as of the date of consolidation were estimated to 15 years, see Note 23. Goodwill arising from the acquisition is partly attributable to the workforce of the acquired business and the synergies expected to arise after the acquisition (see Note 22).

In 2007, MTEM contributed $0.5 million in revenues and $16.4 million in pre-tax loss for the period between the date of acquisition and December 31, 2007. The pre-tax loss did not include interest expense related to the financing of the acquisition.

Arrow Seismic ASA ("Arrow")
In November 2007, the Company completed the purchase of approximately 91% of the shares of Arrow and subsequently acquired the remaining outstanding shares in a combined mandatory offer and "squeeze out" for a price of $431.2 million, including transactions costs of $14.3 million. Arrow owned and operated two 3D vessels and had three vessels under conversion to 2D/source vessels, including one vessel with possibilities for upgrade to 6-streamer operation. Further, Arrow had four high capacity seismic new-builds on order for delivery in 2008 and 2009. Arrow was fully consolidated from the effective date of the acquisition. The purchase price allocation was determined provisionally due to ongoing valuation and was finalized in 2008. The final purchase price allocation has been determined as follows:

(In thousands of dollars)	Arrow carrying amount before transaction	Estimated fair value adjustments December 31, 2007	Final fair value adjustments, recorded in 2008	Fair values
Current assets	62,799	---	---	62,799
Property and equipment	247,544	304,056	(7,464)	544,136
Other long-lived assets	4,880	3,400	(3,554)	4,726
Accounts payable	(10,715)	---	---	(10,715)
Accrued expenses and income taxes payable	(6,275)	---	---	(6,275)
Debt, net of deferred loan costs (Note 25)	(143,624)	---	---	(143,624)
Other long-term liabilities	(1,110)	(29,718)	11,018	(19,810)
Net assets/total acquisition cost (a)	153,499	277,738	---	431,237

(a) Includes transaction costs of $14.3 million.

See Note 16 for information of seismic vessels acquired in this transaction.

In 2007, Arrow contributed $5.0 million in revenues and $1.7 million in pre-tax profit for the period between the effective date of the acquisition and December 31, 2007. The pre-tax profit does not include interest expense related to the financing of the acquisition.

Other business combinations
In the second half of 2007, the Company also acquired 100% of the shares in Roxicon and AGS for a total acquisition cost of $67.9 million. The purchase price allocations are final and the fair value of assets and liabilities acquired were as follows:

(In thousands of dollars)	Fair values
Current assets	14,416
MultiClient library	9,635
Property and equipment	3,150
Other long-lived assets	1,160
Intangible assets	22,129
Current liabilities	(4,527)
Deferred tax liabilities	(10,699)
Other long-term liabilities	(1,450)
Net assets	33,814
Goodwill	34,134
Total acquisition costs	67,948

Proforma information
Had the acquisitions during 2007 (as per above) been completed January 1, 2007, then pro forma twelve month PGS group revenues and pre-tax profit would have been approximately $1,564.2 million and $453.1 million, respectively.

Note 6 - Segment and Geographic Information

The Company operates its business in two segments as follows:

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

The PGS EM business is reported as part of the segment "Other" (includes Corporate, Global Shared Services and PGS EM), although its activities are related to the Company's Marine and Onshore business.

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

Both the Marine and Onshore segments serve a worldwide market. Customers for both segments are primarily composed of major multi-national, independent and national or state-owned oil companies. Corporate overhead and significant charges that do not relate specifically to the operations of any one segment are presented as Other. Information related to discontinued operations for any period presented has been separately aggregated (see Note 4). Inter-segment sales are made at prices that approximate market value. Financial items, income tax expense and liabilities are not included in the measure of segment performance.

Year ended December 31, 2008: (In thousands of dollars)	Marine	Onshore	Other	Elimination of inter-segment items	Total
Revenues by operating segments:					
Contract	1,065,048	204,463	4,316	---	1,273,827
MultiClient pre-funding	249,602	55,958	---	---	305,560
MultiClient late sales	189,823	12,653	---	---	202,476
Data Processing	86,027	---	---	(2,555)	83,472
Other	48,257	---	4,426	(516)	52,167
Total revenues	1,638,757	273,074	8,742	(3,071)	1,917,502
Operating costs (a)	(698,803)	(198,913)	(56,500)	4,548	(949,668)
EBITDA	939,954	74,161	(47,758)	1,477	967,834
Other operating income (Note 16)	71,561	---	---	---	71,561
Impairments of long-lived assets (Note 7)	(62,011)	---	(99,129)	---	(161,140)
Depreciation and amortization (Note 7)	(110,432)	(14,913)	(17,366)	156	(142,555)
Amortization of MultiClient library (Note 7)	(144,101)	(47,439)	(1,442)	21	(192,961)
Operating profit (loss)	694,971	11,809	(165,695)	1,654	542,739
Balance sheet items and cash investments as of December 31, 2008:					
Investment in associated companies	14,380	---	11	---	14,391
Total assets	2,597,898	234,358	232,549	---	3,064,805
Cash additions to long-lived assets (b)	663,006	97,146	24,125	812	785,089

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

Year ended December 31, 2007: (In thousands of dollars)	Marine	Onshore	Other	Elimination of inter-segment items	Total
Revenues by operating segments:					
Contract	691,809	165,253	(50)	---	857,012
MultiClient pre-funding	305,977	60,329	---	---	366,306
MultiClient late sales	197,948	20,866	---	---	218,814
Data Processing	64,065	---	---	(1,948)	62,117
Other	14,012	---	1,955	(349)	15,618
Total revenues	1,273,811	246,448	1,905	(2,297)	1,519,867
Operating costs (a)	(518,652)	(167,225)	(34,099)	926	(719,050)
EBITDA	755,159	79,223	(32,194)	(1,371)	800,817
Other operating income (Note 20)	6,768	---	---	---	6,768
Depreciation and amortization (Note 7)	(56,679)	(10,780)	(9,847)	63	(77,243)
Amortization of MultiClient library (Note 7)	(178,757)	(57,114)	---	21	(235,850)
Operating profit (loss)	526,491	11,329	(42,041)	(1,287)	494,492
Balance sheet items and cash investments as of December 31, 2007:					
Investment in associated companies	31,141	---	11	---	31,152
Total assets	2,460,861	161,654	252,453	---	2,874,968
Cash additions to long-lived assets (b)	465,827	93,713	2,924	23	562,487

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

Year ended December 31, 2006: (In thousands of dollars)	Marine	Onshore	Other	Elimination of inter-segment items	Total
Revenues by operating segments:					
Contract	635,586	218,215	---	---	853,801
Multi-client pre-funding	131,254	17,644	---	---	148,898
Multi-client late sales	221,980	27,491	---	---	249,471
Data Processing	46,401	---	---	(1,887)	44,514
Other	9,254	---	2,652	(171)	11,735
Total revenues	1,044,475	263,350	2,652	(2,058)	1,308,419
Operating costs (a)	(469,138)	(200,666)	(27,335)	3,028	(694,111)
EBITDA	575,337	62,684	(24,683)	970	614,308
Depreciation and amortization (Note 7)	(60,349)	(14,173)	(3,333)	---	(77,855)
Amortization of MultiClient library (Note 7)	(157,833)	(19,109)	---	21	(176,921)
Operating profit (loss)	357,155	29,402	(28,016)	991	359,532
Cash investments as of December 31, 2006:					
Cash additions to long-lived assets (b)	237,799	48,837	2,454	24	289,114

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

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

Revenues external customers:	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Americas (excluding Brazil)	365,602	461,930	256,267
Brazil	124,803	87,434	211,251
UK	74,100	80,076	122,377
Norway	363,413	130,119	73,040
Asia/Pacific	510,644	309,129	233,300
Africa	236,735	318,200	264,662
Middle East/Other	242,205	132,979	147,522
Total	1,917,502	1,519,867	1,308,419

Revenues, including inter-area:	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Americas (excluding Brazil)	365,602	462,049	256,520
Brazil	124,803	87,434	211,251
UK	81,978	83,559	124,425
Norway	363,812	132,384	74,799
Asia/Pacific	512,199	310,827	234,038
Africa	236,735	319,758	264,662
Middle East/Other	242,586	133,484	147,522
Elimination inter-area revenues	(10,213)	(9,628)	(4,798)
Total	1,917,502	1,519,867	1,308,419

Cash additions to long-lived assets: (a)	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Americas (excluding Brazil)	185,640	217,264	76,398
Brazil	23,854	20,393	21,656
UK	256,510	92,174	85,730
Norway	94,121	71,306	27,823
Asia/Pacific	199,962	159,970	71,372
Africa	7,240	69	1,882
Middle East/Other	17,762	1,311	4,253
Total	785,089	562,487	289,114

(a) Consists of cash investments in MultiClient library, capital expenditures, capital expenditures on new-builds on charter and intangible assets.

Total assets:	December 31,	
(In thousands of dollars)	2008	2007
Americas (excluding Brazil)	481,706	445,229
Brazil	63,860	51,305
UK	1,305,785	1,398,187
Norway	587,960	568,803
Asia/Pacific	530,461	341,177
Africa	21,122	17,428
Middle East/Other	73,911	52,839
Total	3,064,805	2,874,968

In 2008, the Company’s two most significant customers accounted for 9.6% (Marine) and 6.4% (Marine and Onshore) of the Company’s consolidated revenues, compared to 6.6% (Marine) and 4.9% (Marine) in 2007 and 8.0% (Marine) and 7.2% (Marine and Onshore) in 2006. The percentages exclude sales to customers from discontinued operations (relates to 2006 only).

In certain of the regions were the Company operates, a significant share of its employees are organized in labor unions. Similarly the Company’s operations in certain regions are members of employer unions. Therefore, the Company may be affected by labor conflicts involving such labor and employer unions.

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

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Gross depreciation and amortization	(156,804)	(97,249)	(87,551)
Depreciation capitalized to MultiClient library (Note 19)	14,249	20,006	9,696
Amortization of MultiClient library (Note 19)	(192,961)	(235,850)	(176,921)
Total	(335,516)	(313,093)	(254,776)

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Property and equipment (Note 18)	(59,935)	---	---
Other intangible assets (Note 23)	(99,129)	---	---
Oil and gas assets (other long-lived assets) (Note 21)	(2,076)	---	---
Total	(161,140)	---	---

Note 8 - Interest Expense

Interest expense consists of the following:

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Interest expense, gross	(98,709)	(52,946)	(56,440)
Interest capitalized in MultiClient library (Note 19)	9,802	5,906	1,564
Interest capitalized in construction in progress (Note 18)	32,259	9,572	1,259
Total	(56,648)	(37,468)	(53,617)

The average interest rate used to determine the amount of interest expense eligible for capitalization was 6.2%, 7.5% and 7.6% for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 9 - Other Financial Items, Net

Other financial items consist of the following:

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Foreign currency (loss) gain, net	(33,082)	4,866	4,023
Gain on repurchase of convertible notes (Note 25)	12,147	---	---
Impairment of shares available-for-sale (Note 13)	(7,324)	(1,187)	---
Expensed deferred loan costs, extinguished debt	---	(3,375)	(5,063)
Costs related to bridge loan facility	---	(3,230)	---
Other	(6,776)	(4,149)	(2,770)
Total	(35,035)	(7,075)	(3,810)

The change in fair value of foreign currency derivatives used in fair value hedges of firm commitments (see Note 26) were $2.5 million (loss), $20.7 million (gain) and $2.7 million (gain) in the years ended December 31, 2008, 2007 and 2006, respectively. The corresponding change in fair value of firm commitments were $3.4 million (gain), $19.4 million (loss) and $4.5 million (loss) for the years ended December 31, 2008, 2007 and 2006, respectively. The difference between the change in the value of the derivatives and the change in the fair value of the firm commitment is primarily caused by the fact that the derivatives at the hedge designation date were already carrying a fair value. The change in foreign currency derivates (not designed as hedges) for the years ended December 31, 2008, 2007 and 2006 was $44.5 million (loss), $11.4 million (gain) and $9.9 million (gain), respectively. The changes described above (net effect) are included in foreign currency (loss) gain.

Included in foreign currency (loss) gain in the year ended December 31, 2008 is a $0.8 million (loss) related to interest swaps contracts (gain of $1.5 million in year ended December 31, 2007 and loss of $0.2 million in year ended December 31, 2006). This relates to swaps that were derecognised for hedge accounting purposes and the change in value was therefore taken through the consolidated statement of operations.

Note 10 - Income Taxes

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Current taxes	81,788	43,203	63,655
Deferred taxes	(49,036)	(54,341)	(118,239)
Total income tax expense (benefit)	32,752	(11,138)	(54,584)

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Equity element of convertible notes (Note 25)	13,666	---	---
Interest rate hedging (Note 26)	(12,992)	---	---
Total	674	---	---

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Income before income tax expense	449,380	458,685	302,123
Norwegian statutory rate	28%	28%	28%
Provision for income taxes at statutory rate	125,826	128,432	84,594
Increase (reduction) in income taxes from:			
Effects of tax rates other than statutory tax rate in Norway	(7,508)	2,005	441
Tax exempt income inside tonnage tax regimes	(26,712)	---	---
Foreign taxes not deductible or subject to credit	29,200	11,689	---
Currency effects (a)	(50,533)	30,336	(27,755)
Change in tax contingencies recognized as tax expense (benefit)	6,892	(12,188)	4,324
Effects on tax expense from tonnage tax regime entry/exit issues	(82,203)	---	---
Change in unrecognized deferred tax assets including current year losses where no benefit was provided	64,438	(175,523)	(142,168)
Other permanent items	(26,648)	4,111	25,980
Income tax expense (benefit)	32,752	(11,138)	(54,584)

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

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

	December 31,	
(In thousands of dollars)	2008	2007
Deferred tax assets:		
Current assets and liabilities	(26,627)	(47,964)
Long term assets and liabilities	(125,090)	(184,103)
Tax losses carried forward	(227,052)	(153,545)
Tax credits	(10,003)	(8,955)
Income tax assets, gross	(388,772)	(394,567)
Deferred tax liability:		
Current assets and liabilities	33,213	27,645
Long term assets and liabilities	66,008	110,189
Deferred gains	13,541	63,171
Deferred tax liabilities, gross	112,762	201,005
Deferred tax assets, net	(276,010)	(193,562)
Deferred tax assets not recognized in the consolidated balance sheets	88,622	49,286
Deferred tax assets recognized	(187,388)	(144,276)

Net deferred tax (assets) in the consolidated balance sheets is presented as follows:

	December 31,	
(In thousands of dollars)	2008	2007
Deferred tax assets	(221,786)	(190,951)
Deferred tax liabilities	34,398	46,675
Net deferred tax (assets)	(187,388)	(144,276)

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

Tax losses carried forward both recognized and unrecognized and expiration periods as of December 31, 2008 are summarized as follows:

(In thousands of dollars)		
Brazil	129,369	No expiry
Norway	476,957	No expiry
Asia Pacific	25,233	No expiry
UK	91,828	No expiry
US	15,717	2022
Other	33,332	No expiry
Losses carried forward	772,436	

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

With its multi-national operations, the Company is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. The Company has possible issues (mostly related to uncertain tax positions like permanent establishment issues) in several jurisdictions that could eventually make it liable to pay material amounts in taxes relating to prior years. The Company recognizes liabilities for uncertain tax positions if it is considered more likely than not that additional tax will be due, based upon managements assessments of the most likely outcome.

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Contingent tax expense (benefit)	6,892	(12,188)	4,324

Total accrued contingent tax liabilities as of December 31, 2008 was $28.1million, of which $3.5 million is recorded as income tax payable and $24.6 million as other long-term liabilities. As of December 31, 2007, such amount totaled $23.1 million, of which $4.9 million recorded as income tax payable and $18.2 million as other long-term liabilities. Previously, the Company recognized $10.7 million as contingent tax liability related to the acquisition of Arrow. In the final purchase price allocation management re-evaluated its initial assessments, reducing the liability to zero (see Note 5).

Norway – exit old tonnage tax regime – tax dispute

Until 2002 PGS Shipping AS and PGS Shipping (Isle of Man) Ltd. were taxed under the Norwegian tonnage tax regime. In 2003 it was decided to exit with effect from January 1, 2002. The pending issue with the Norwegian Central Tax Office for Large Enterprises (“CTO”) is related to the assessment of the fair value of the shares in PGS Shipping (IoM) Ltd. upon exit in 2002. The Company primarily based the valuation of shares on third party valuations of vessels owned, while the CTO argues that it would be more appropriate to base the valuation on internal contracts held by PGS Shipping (IoM) Ltd. Any increase of exit values will result in an increase of taxable exit gain. The Company received a draft assessment on behalf of the Tax Appeal Board from the CTO on January 16, 2009 were they maintain their view that the Company’s valuation of the shares is too low. Although the Company continues to believe it is wrong not to base the valuation on third party opinions, it has reconsidered the accounting view of this uncertain tax position in 2008 as there is now a final draft before the Tax Appeal Board. The Company has recognized both the increased taxable exit gain and the increased basis for tax depreciation starting in 2002 in its 2008 tax expense.

Norway - entry to new tonnage tax regime

The 2009 Norwegian State budget enactment was issued in December 2008, and included those amendments required for the Company to enter its subsidiaries PGS Shipping AS and PGS Shipping (Isle of Man) Ltd., which own five Ramform class seismic vessels and four six streamer vessels, to the Norwegian tonnage tax regime with effect from January 1, 2008. The Company has based its accounting at December 31, 2008 on an intention to enter the Norwegian tonnage tax regime. Such choice must be made when filing tax returns for the respective subsidiaries for the 2008 tax year. In the Norwegian tonnage tax regime the vessel related income will be tax exempt from ordinary income taxation.

Note 11 - Earnings Per Share

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Net income from continuing operations	416,628	469,823	365,457
Net income from discontinued operations	1,462	1,000	32,285
Minority interests	(706)	(814)	(3,006)
Net income to equity holders of PGS ASA	417,384	470,009	394,736
Effect of interest on convertible notes, net of tax	21,541	---	---
Net income for the purpose of diluted earnings per share	438,925	470,009	394,736
Earnings per share:			
- Basic	$ 2.37	$ 2.65	$ 2.19
- Diluted	$ 2.36	$ 2.65	$ 2.19
Earnings per share from continuing operations:			
- Basic	$ 2.36	$ 2.65	$ 2.01
- Diluted	$ 2.35	$ 2.64	$ 2.01
Earnings per share from discontinued operations:			
- Basic	$ 0.01	$ 0.00	$ 0.18
- Diluted	$ 0.01	$ 0.01	$ 0.18
Weighted average basic shares outstanding (a)	176,014,248	177,155,443	180,000,000
Dilutive potential shares (b)	10,009,795	199,160	---
Weighted average diluted shares outstanding	186,024,043	177,354,603	180,000,000

(a) Weighted average basic shares outstanding for the years ended December 31, 2008 and 2007, have been reduced by the average numbers of treasury shares owned by the Company during the period (see Note 31).

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

Note 12 - Restricted Cash

Restricted cash consist of:

	December 31,	
(In thousands of dollars)	2008	2007
Current:		
Restricted payroll withholding taxes	2,648	3,168
Restricted for health insurance	2,399	2,434
Restricted under contracts (guarantees)	769	1,318
Bid/performance bonds	461	1,306
Deposits	186	1,317
Prepaid mandatory offer to Arrow shareholders (Notes 5 and 27)	---	37,967
Other	1,897	1,899
Total restricted cash, current	8,360	49,409
Long-term – debt service reserve fund (Notes 25 and 26)	10,014	10,014
Total	18,374	59,423

Note 13 - Shares Available-for-Sale

Shares available-for-sale relates mainly to the Company's investments in Endeavour International Corporation ("Endeavour") and Borders & Southern Petroleum PLC ("Borders & Southern").

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

	December 31,	
(In thousands of dollars)	2008	2007
Balance as of January 1	12,825	5,296
Investment in Borders & Southern	---	10,688
Other investments	23	249
Unrealized gain (loss) recorded to other reserves in shareholders' equity	725	(2,221)
Impairments (Note 7)	(7,324)	(1,187)
Balance as of December 31	6,249	12,825

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

	December 31, 2008		December 31, 2007	
(In thousands of dollars)	Fair value	Ownership	Fair value	Ownership
Current:				
Endeavour	1,156	1.8%	3,099	1.8%
Borders & Southern	4,821	8.6%	---	
Long-term:				
Borders & Southern	---		9,477	8.6%
Other investments	272		249	
Balance as of December 31	6,249		12,825	

Note 14 - Accounts Receivable

Accounts receivable consist of the following:

	December 31,	
(In thousands of dollars)	2008	2007
Accounts receivable – trade	231,079	240,912
Allowance for doubtful accounts	(2,176)	(1,520)
Total	228,903	239,392

The change in allowance for doubtful accounts is as follows:

	December 31,	
(In thousands of dollars)	2008	2007
Balance as of January 1	(1,520)	(1,554)
New and additional allowances	(1,831)	(353)
Write-offs and reversals	1,175	387
Balance as of December 31	(2,176)	(1,520)

Aging analysis of accounts receivable is as follows:

			Past due, but not impaired				
(In thousands of dollars)	Total	Not due	<30d	30-60d	60-90d	90-120d	>120d
December 31, 2008	228,903	133,241	70,701	11,905	4,783	988	7,285
December 31, 2007	239,392	162,653	60,683	8,842	3,482	1,350	2,382

Note 15 - Accrued Revenues and Other Receivables

Accrued revenues and other receivables consist of the following:

	December 31,	
(In thousands of dollars)	2008	2007
Accrued revenues, not billable	169,668	125,010
Unbilled and other receivables	6,086	24,535
VAT receivable	3,577	1,331
Total	179,331	150,876

Note 16 - Assets Held-for-Sale and Prepayments Assets Held-for-Sale

In the fourth quarter of 2008, the Company decided to sell *Polar Pearl,* a vessel under conversion in the Marine segment that was acquired as part of the acquisition of Arrow in 2007 (see Note 18). The vessel is presented as held-for-sale at December 31, 2008, at an estimated market value of $5.3 million.

In 2007, the Company entered into an agreement to sell *Ramform Victory* to METI. The transaction also includes a long-term service and license agreement with METI's operational company ("JOGMEC") with commercial terms agreed for an initial period of four years. The vessel was delivered to METI in January 2008. The vessel and related assets, all of which were in the Marine segment, were presented as held-for-sale at December 31, 2007 with $73.7 million. As of December 31, 2007, the Company had received $120.6 million in prepayments relating to these agreements. The remaining portion of the vessel proceeds and start-up fees was received in the first quarter of 2008. The Company determined that the sale of the vessel was a separate accounting element under the contract and allocated a portion of the up-front payment and start-up fees to the vessel based upon its fair value determined primarily from a third party appraisal. As a result, the Company recognized a $71.6 million gain from the sale of the vessel in 2008, classified as other operating income. The remaining portion of the up-front payment and start-up fees was recorded as deferred revenue and is recognized as income over the initial four year agreement term commencing on the vessel delivery date as services.

Note 17 - Other Current Assets

Other current assets consist of the following:

(In thousands of dollars)	December 31, 2008	2007
Spare parts, consumables and supplies	36,720	24,562
Prepaid operating expenses	35,557	26,856
Deferred steaming and mobilization expense	21,282	15,692
Withholding taxes and taxes receivable	20,307	25,624
Unrealized gain forward exchange contracts (Note 26)	15,187	29,254
Fair value adjustment of firm commitments (a)	4,467	---
Prepaid reinsurances	3,134	2,469
Other	6,604	5,288
Total	143,258	129,745

(a) Fair value change in hedged firm commitments related to currency fluctuations from inception of the hedging relationships (related to the construction of *Ramform Sterling)* (see Note 18).

Note 18 - Property and Equipment (including capital leases)

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

(In thousands of dollars)	Construction of vessels in progress	Conversions	Seismic vessels and equipment	Fixtures, furniture and fittings	Buildings and other	Total
Purchase costs:						
Purchase costs as of January 1, 2007	64,105	---	1,199,440	63,861	11,883	1,339,289
Acquisition of companies (Note 5)	276,591	114,678	165,403	460	82	557,214
Capital expenditures	132,411	1,666	114,087	10,940	1,265	260,369
Capital expenditures on new-builds on charter	9,749	---	---	---	---	9,749
Capitalized interest	9,152	420	---	---	---	9,572
Held-for-sale (*Ramform Victory*) (Note 16)	---	---	(112,916)	---	---	(112,916)
Conversion complete (*Polar Sea*)	---	(53,704)	53,704	---	---	---
Retirements	---	---	(44,866)	(960)	(11)	(45,837)
Other/translation adjustments	---	---	(3,079)	(12,835)	(259)	(16,173)
Purchase costs as of December 31, 2007	492,008	63,060	1,371,773	61,466	12,960	2,001,267
Adjustment to purchase price allocation (Note 5)	(8,473)	(78)	1,822	---	---	(6,729)
Capital expenditures	232,582	23,982	157,533	17,391	19,131	450,619
Capital expenditures on new-builds on charter	31,979	---	---	---	---	31,979
Capitalized interest	29,752	2,507	---	---	---	32,259
Capital leases	---	---	3,793	888	---	4,681
Ramform Sovereign delivered	(226,583)	---	226,583	---	---	---
Held-for-sale (*Polar Pearl)*	---	(8,468)	---	---	---	(8,468)
Transferred seismic equipment	---	(14,830)	14,830	---	---	---
Retirements	---	---	(29,985)	(546)	(81)	(30,612)
Other/translation adjustments	---	---	4,386	(2,450)	1,304	3,240
Purchase costs as of December 31, 2008	551,265	66,173	1,750,735	76,749	33,314	2,478,236
Accumulated depreciation and impairments:						
Depreciation as of January 1, 2007	---	---	659,486	45,384	6,660	711,530
Impairments as of January 1, 2007	---	---	60,730	---	1,200	61,930
Depreciation	---	---	79,604	8,373	965	88,942
Held-for-sale (*Ramform Victory)* (Note 16)	---	---	(57,270)	---	---	(57,270)
Retirements	---	---	(43,999)	(935)	(1)	(44,935)
Other/translation adjustments	---	---	(8,176)	(8,007)	14	(16,169)
Depreciation as of December 31, 2007	---	---	629,645	44,815	7,638	682,098
Impairments as of December 31, 2007	---	---	60,730	---	1,200	61,930
Depreciation	---	---	129,618	10,918	1,552	142,088
Impairments	2,058	36,248	21,629	---	---	59,935
Held-for-sale (*Polar Pearl)*	---	(3,218)	---	---	---	(3,218)
Retirements	---	---	(28,897)	(514)	(1)	(29,412)
Other/translation adjustments	---	---	4,320	(1,679)	(247)	2,394
Depreciation as of December 31, 2008	---	---	734,686	53,540	8,942	797,168
Impairments as of December 31, 2008	2,058	33,030	82,359	---	1,200	118,647
Balance as of December 31, 2007	**492,008**	**63,060**	**681,398**	**16,651**	**4,122**	**1,257,239**
Balance as of December 31, 2008	**549,207**	**33,143**	**933,690**	**23,209**	**23,172**	**1,562,421**

In March 2008, the Company took delivery of *Ramform Sovereign,* the first of two new third generation Ramform vessels. Aggregate cost price at delivery was $226.6 million. In the fourth quarter of 2008, the Company decided to sell *Polar Pearl*, a vessel under conversion that was acquired as part of the acquisition of Arrow in 2007 (see Note 5). The vessel is presented as held-for-sale at December 31, 2008, at an estimated market value of $5.3 million.

In 2008, the Company recorded impairments on vessels of $59.9 million as a result of identifying impairment indicators including stacking the *Polar Sea,* deferral of the conversion of *Southern Explorer,* adjusting the carrying amounts for *Polar Pearl* to estimated market value (see section above) and adjusting the carrying amount for new-build 532 to estimated recoverable amount. The recent drop in oil prices has raised significant uncertainty in demand for marine seismic services over the next year or so. Managements' decision to stack *Polar Sea* and delaying the conversion of the *Southern Explorer* is a result of more uncertain market conditions and lack of immediate firm work.

As of December 31, 2008, the Company has contractual commitments for property and equipment aggregating approximately $165 million.

The additions to costs ($557.2 million) in 2007, as a result of acquiring new companies, relates to following acquisitions; $551.6 million Arrow, $3.0 million AGS, $2.5 million MTEM and $0.1 million Roxicon. In 2008, the Company recorded an adjustment to the Arrow purchase price allocation of $6.7 million (decrease). See Note 5, for further information on these acquisitions.

In 2007, the Company entered into an agreement to sell *Ramform Victory* to METI, with delivery in January 2008. The vessel and related assets were presented as held-for-sale at December 31, 2007. See Note 16 for additional information on this transaction.

The net book value of property and equipment under UK leases were $120.0 million and $118.2 million at December 31, 2008 and 2007, respectively. See Note 27 for further description of these leases and the accounting impact of certain lease terminations.

As seismic vessels and equipment, currently in operation, are not separate cash-generating units, such assets are presented and evaluated on a combined basis. Vessels and equipment subject to capital leases that are part of a group are presented and evaluated on a combined basis.

For details of the estimated useful lives for the Company's property and equipment at December 31, 2008, see Note 2.

New build program - Ramform vessels

In 2006, the Company entered into agreements to build two new third generation Ramform vessels. *Ramform Sovereign* was delivered in March 2008 and expected delivery of *Ramform Sterling* is end of second quarter 2009. Total expected cost price for *Ramform Sterling* from the yard including installation and 14 streamers, but excluding project management and capitalized interest in the construction period, is approximately $180 million. As of December 31, 2008, the Company had capitalized costs relating *to Ramform Sterling*, including seismic equipment of $119.4 million.

New-build program – Arrow vessels

From the acquisition of Arrow in 2007 (see Note 5) the Company has four 10-12 streamer seismic 3D vessels under construction at the Factorias Vulcano shipyard group in Spain (the Arrow new-builds ("NB")). In 2008, the Company entered into revised agreements with the shipyard, Pymar (the Spanish shipbuilders association) and WesternGeco on incentives, delivery times and guarantees. The shipyard group is experiencing substantial delays and a tight liquidity situation, and the Company is monitoring the status of the yard closely.

The first two vessels (NB 532 and 533) are on charters to WesternGeco. The agreements with the shipyard and WesternGeco, respectively, are generally designed to be "back-to-back". According to the revised agreements, Arrow is entitled to terminate if the relevant vessels are not delivered within 120 days of the agreed delivery dates of November 30, 2008 and March 31, 2009, respectively. If either of the NB's 532 or 533 is delayed more than 120 days, Arrow will have to notify WesternGeco that Arrow has a right to terminate the shipbuilding contract with the yard. WesternGeco may then decide to terminate the charter party and any related agreements with Arrow or they may instruct Arrow not to terminate the shipbuilding contract.

For NB 532 and 533, Arrow has made the contractual installments to the yard of approximately EUR 39 million per vessel, of which approximately EUR 32 million (per vessel) are secured by on-demand refund guarantees from banks. If NB 532 or 533 is more than 120 days delayed and both WesternGeco and Arrow should decide to terminate the contract related to the vessel, Arrow would be entitled to receive repayment from the yard of all installments made on the vessel as well as interest. If such terminations were to occur, the Company would be exposed to an impairment charge of close to $100 million (total for the two vessels) relating to the fair value adjustment recorded at the acquisition of Arrow and subsequent capitalization of interest and other costs.

The two other new-builds, *PGS Apollo* and *PGS Artemis*, are intended to be a part of the Company's seismic operations when completed. In the case of termination based on delays beyond 120 and 200 days, respectively, for *PGS Apollo* and *PGS Artemis* of the agreed delivery dates of June 15, 2009 and January 31, 2010, respectively, Arrow would be entitled to receive repayment from the yard of all installments made on those vessels. All installments are secured by on-demand refund guarantees, except for the second to last one which amounts to approximately EUR 7 million for each vessel. Such termination would expose the Company to substantial impairment charges, including the fair value recorded at the acquisition of Arrow.

As of December 31, 2008, capitalized costs relating to these four vessels, including seismic equipment, totaled $429.8 million.

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

Subsequent event

In early March 2009, the Company received formal notification by Factorias Vulcano that the shipyard intends to deliver hull number 532 to satisfy the shipbuilding contract specified for hull number 533. The Company is currently assessing the legality of such substitution. Since the shipyard will not deliver 532 within the termination date, Arrow has received from WesternGeco a notice of intention to terminate the charter for NB 532 and Arrow has sent a notice of termination of the shipbuilding contract to the shipyard.

Note 19 - MultiClient Library

The components of the MultiClient library are summarized as follows:

	December 31,	
(In thousands of dollars)	2008	2007
Balance as of January 1	173,868	92,837
Cash investments	290,031	282,797
Capitalized interest	9,802	5,906
Capitalized depreciation	14,249	20,006
Amortization expense	(192,961)	(235,850)
Roxicon acquisition (Note 5)	---	9,635
Other	(388)	(1,463)
Balance as of December 31	294,601	173,868

Amortization expense for the year ended December 31, 2008 includes $14.1 million of additional non-sales related amortization, net. This amount includes $8.5 million in minimum amortization, $6.1 million of impairments ($4.7 million Marine and $1.4 million Other) and $0.5 million in reversal of previous recorded impairments (Marine) to reflect the fair value of future sales on certain individual surveys. For the year ended December 31, 2007, the additional non-sales related amortization totaled $19.6 million, of which $19.3 million in minimum amortization and $1.1 million of impairments (Marine) and $0.8 million in reversal of previous recorded impairments (Onshore). For the year ended December 31, 2006, the additional non-sales related amortization totaled $37.5 million, of which $37.9 million in minimum amortization and $12.2 million of impairments ($10.2 million in Marine and $2.0 million in Onshore) and $12.6 million in reversal of previous recorded impairments ($10.5 million in Marine and $2.1 million in Onshore).

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

	December 31,	
(In thousands of dollars)	2008	2007
Completed surveys:		
Completed during 2003	---	6,805
Completed during 2004	2,676	2,676
Completed during 2005	1,918	4,417
Completed during 2006	1,047	2,435
Completed during 2007	20,142	34,378
Completed during 2008	117,337	---
Completed surveys	143,120	50,711
Surveys in progress	151,481	123,157
MultiClient library	294,601	173,868

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 components.

	December 31, 2008
(In thousands of dollars)	Minimum future amortizations
During 2009	15,225
During 2010	34,554
During 2011	54,419
During 2012	70,596
During 2013	74,631
During 2014	45,176
Future minimum amortization	294,601

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

Note 20 - Investments in Associated Companies

(Loss) income from associated companies accounted for using the equity method is as follows:

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Corporations and limited partnerships:			
Genesis Petroleum Corporation PLC	(14,372)	(451)	---
PGS Overseas Operation (Cyprus) Ltd.	(1,858)	452	---
Atlantic Explorer (IoM) Ltd.	64	(6)	(1)
Genesis Petroleum Europe Ltd. (a)	---	(1,558)	---
General partnership/other	---	---	11
Total	(16,166)	(1,563)	10

(a) The company was sold in 2007.

Investments in and advances to associated companies accounted for using the equity method was as follows:

(In thousands of dollars)	Net book value December 31, 2007	Loss from equity investments: Share of (loss)	Loss from equity investments: Write-down investment	Other (a)	Net book value December 31, 2008	Ownership as of December 31, 2008
Corporations and limited partnerships:						
Genesis Petroleum Corporation PLC	22,740	(4,538)	(9,834)	---	8,368	29.5%
PGS Overseas Operation (Cyprus) Ltd.	7,748	(1,858)	---	(2)	5,888	50.0%
Atlantic Explorer (IoM) Ltd.	23	64	---	15	102	50.0%
General partnerships/other	641	---	---	(608)	33	---
Total	31,152	(6,332)	(9,834)	(595)	14,391	

(a) Foreign currency translation differences and other transfers.

In 2008, the Company recorded a write-down of the investment in Genesis Petroleum Corporation PLC (“Genesis”) of $9.8 million. This is the result of that the value of the investment has fallen below the carrying value and that the reduction is both material and prolonged. The fair value of the investment in Genesis was 5.7 million British pounds (approximately $8.3 million) at December 31, 2008.

In 2007, the Company purchased 25 million shares for 5 million British pounds (approximately $9.8 million) in the UK AIM listed Genesis, representing 24.36% of the shares. In addition the Company received additional 4.02% of the shares in December 2007 through a non-monetary transaction where the Company transferred the shares in Genesis Petroleum Europe Ltd. (estimated fair value of $10.1 million) and MultiClient data (estimated fair value of $3.3 million) and in return received 22.7 million new shares. The Company recognized a $6.8 million gain on sales of shares as a result of this transaction, classified as other operating income. The fair value of the investment in Genesis was 12.3 million British pounds (approximately $24.5 million) at December 31, 2007. The fair value calculation is based on published price quotations at the AIM list on the London Stock Exchange.

In 2007, the Company acquired 50% of the shares in PGS Overseas Operation (Cyprus) Ltd., which is the holding company of PGS Khazar a ship owning company, in a share issue.

The following table summarizes unaudited financial information of the Company’s share of associated companies on a combined basis.

	Years ended December 31,	
(In thousands of dollars)	2008	2007
Income statement data:		
Revenue	3,850	3,894
Net loss	(6,332)	(1,563)
Write-down of investment	(9,834)	---
Loss from equity investments	(16,166)	(1,563)

	December 31,	
(In thousands of dollars)	2008	2007
Balance sheet data:		
Total assets	22,426	21,652
Total liabilities	(14,498)	(5,269)
Excess value vessels	5,738	7,296
Excess value license portfolio	725	7,473
Net assets	14,391	31,152

Note 21 - Other Long-Lived Assets

Other long-lived assets consist of the following:

	December 31,	
(In thousands of dollars)	2008	2007
Long-term receivables	10,556	10,724
Loan to associated company	4,505	979
Prepaid expenses and deposits	4,055	4,944
Unrealized gain forward exchange contracts (Note 26)	1,026	10,482
Favorable contracts	---	5,450
Oil and natural gas assets, net	---	2,076
Total	20,142	34,655

Note 22 - Goodwill

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

The carrying amount of Goodwill as of December 31, 2008, totaling $175.1 million, relates to the 2007 acquisitions of MTEM, AGS and Roxicon (see Note 5). As of December 31, 2008, the MTEM goodwill is allocated between the Marine and Onshore segments with $105.7 million and $35.3 million, respectively, while the Roxicon and AGS goodwill, aggregating $34.1 million, are allocated entirely to the Marine segment. As of December 31, 2007, the MTEM goodwill had not been allocated to cash generating units since the integration of MTEM had not been completed.

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

	December 31,	
(In thousands of dollars)	2008	2007
Marine	139,852	34,134
Onshore	35,240	---
Not allocated	---	140,958
Total	175,092	175,092

Key assumptions used in the calculations of value in use are growth rates, revenues, EBITDA, operating profit, capital expenditures and discount rates. In addition, the calculation includes estimated cash flows for 25 years. The recoverable amounts are determined based on a value-in-use calculation using pre-tax cash flow projections based upon financial projections approved by executive management and a pre-tax discount rate of 10.0% and 10.4% as of December 31, 2008 and 2007, respectively. The nominal growth rate used to extrapolate cash flows beyond the initial 5 years projection period as of December 31, 2008 and 2007 was 2% and 3%, respectively.

Hydrocarbons continue to be a primary source of global energy in virtually all countries. Seismic services continue to be fundamental in the exploration for hydrocarbons. Countries with known or prospective hydrocarbons continue to have long term exploration and development plans extending well into the future. Management has applied a 25 year projection period to reflect the long term nature of these markets of the Marine and Onshore segments.

Management believes that any reasonably possible change in key assumptions underlying the calculations of the recoverable amount of the Marine and Onshore segment would not trigger any impairment as of December 31, 2008.

Note 23 - Other Intangible Assets

The components of other intangible assets are summarized as follows:

(In thousands of dollars)	Patents and licenses	Development cost	Technology and other	Total
Purchase costs:				
Purchase costs as of January 1, 2007	15,141	5,308	---	20,449
Additions to costs	618	8,882	---	9,500
Acquisition of companies (Note 5)	169,809	---	22,129	191,938
Other/translation adjustments	(36)	---	---	(36)
Purchase costs as of December 31, 2007	185,532	14,190	22,129	221,851
Additions to costs	1,004	11,456	---	12,460
Other/translation adjustments	590	(1)	---	589
Purchase costs as of December 31, 2008	187,126	25,645	22,129	234,900
Accumulated amortization:				
Amortization as of January 1, 2007	13,489	--	---	13,489
Amortization expense	6,458	---	1,245	7,703
Other/translation adjustments	(78)	---	---	(78)
Amortization as of December 31, 2007	19,869	---	1,245	21,114
Amortization expense	10,829	123	3,763	14,715
Impairments	99,129	---	---	99,129
Other/translation adjustments	184	---	(1)	183
Amortization as of December 31, 2008	130,011	123	5,007	135,141
Balance as of December 31, 2007	**165,663**	**14,190**	**20,884**	**200,737**
Balance as of December 31, 2008	**57,115**	**25,522**	**17,122**	**99,759**
Estimated useful life	1 to 20 years	10 years (a)	1 to 12 years	

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

In 2008, the Company recognised $99.1 million in impairment charges of patented and unpatented technology recorded on acquisition of MTEM in 2007 (see Note 5). The impairment is a result of a slower pace in developing the EM service offering, a weaker EM service market in short term and reduced EM ambitions in 2009. There were no impairment indicators in 2007. Key assumptions used by management in the calculation of value-in-use are the projected time frame to complete development on the EM service offering, estimated future market, revenues, EBITDA, operating profit, capital expenditures and a pre-tax discount of 25%.

In late 2008, the GeoStreamer® development project was completed and the first GeoStreamer® survey commenced. Amortization expense of $0.1 million was recorded as a result of project completion.

The intangible assets have finite useful lives over which the assets are amortized. Patents and licenses consists primary of patents that are acquired separately or as a part of acquiring MTEM in 2007. Development cost relates to internally generated project costs (see Note 2). Technology and other relates to the acquisition of AGS in 2007 (see Note 5).

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)	2008	2007
Short-term debt	---	133,713
Current portion of long-term debt (Note 25)	20,459	138,754
Total	20,459	272,467

As of December 31, 2007, Arrow had two secured loan facilities totaling approximately $350 million relating to existing vessels and new-builds. Drawing on these facilities amounted to $133.7 million and were classified as short term debt as the purchase of Arrow triggered an early repayment clause in the loan agreement. During 2008 the Arrow loan facilities has been renegotiated and is accounted for as long-term debt as of December 31, 2008 (see Note 25).

Note 25 - Debt and Guarantees

Long-term debt
Long-term debt consists of the following:

	December 31,	
(In thousands of dollars)	2008	2007
Unsecured:		
10% Senior Notes, due 2010	4,511	4,511
Secured:		
Term loan, Libor + margin, due 2015	572,000	597,000
Revolving credit facility, due 2012	230,000	240,000
8.28% first preferred mortgage notes, due 2011	49,070	63,110
Revolving credit facility (Arrow), due 2017	37,930	---
Term loan, Libor + margin (Arrow), due 2017	45,950	---
Convertible notes:		
Convertible notes, due 2012	305,695	332,019
Total	1,245,156	1,236,640
Less current portion	(20,459)	(138,754)
Less deferred loan costs	(12,632)	(17,426)
Total long-term debt	1,212,065	1,080,460

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

	December 31,	
(In thousands of dollars)	2008	2007
Year of repayment:		
2008 (a)	---	207,337
2009 (a)	83,988	198,231
2010 (b)	317,508	80,463
2011	74,650	74,550
2012	358,866	387,466
2013	38,206	44,005
Thereafter	633,633	616,725
Total	1,506,851	1,608,777
Interest portion (c)	(261,695)	(372,137)
Total long term debt	1,245,156	1,236,640

(a) At December 31, 2007, the Company planned to make optional repayments of the RCF of $118.7 million and $121.3 million in 2008 and 2009, respectively. In 2008, the Company decided to postpone these payments.
(b) At December 31, 2008, the table assumes that the Company will elect to make optional repayments of the RCF of $230.0 million in 2010.
(c) Calculation of expected interest payments are based on interest rates as of December 31, 2008 and 2007, respectively.

In 2008, the Company made long-term debt repayments of $149.1 million, of which $83.5 million related to Arrow new-builds and conversions described below. In 2007, the repayment was $282.9 million, of which $243.6 million was due to refinancing the Company's senior secured credit facility.

In 2008, the Company reached agreements with the participating banks for the two syndicated Arrow credit facilities, which the Company became party to as part of the acquisition of Arrow in November 2007. Arrow had two secured loan facilities totaling $350 million relating to existing vessels and new-builds. Drawing on these facilities amounted to $133.7 million at December 31, 2007. One of the facilities was terminated during the course of 2008 which required repayment of $60.7 million in existing borrowings. In addition the Company repaid $22.8 million on the Arrow facilities in 2008. The remaining facility was renegotiated and is now a secured facility totaling $124.9 million consisting of a reducing revolving credit facility of $40 million and a term loan facility ("Arrow term loan") of $84.9 million, maturing 2017. Drawings on these facilities amounted to $83.9 million at December 31, 2008. The Company may have to reduce the facility amount and related drawings as a consequence of termination of any Arrow vessel new-built. The Arrow term loan is subject to covenants as described below. All borrowings under the facility are secured by first priority in the shares of the borrower and in all collateral vessels specified under the agreement. The Arrow term loan has a floating rate of LIBOR + 125 basis points.

In 2008, the Company made repayments of the term loan B ("Term Loan") (maturing 2015, see below) of $25.0 million. The Company has hedged the interest rate on 70% of the borrowings under the Term Loan (92% in 2007) by entering into interest rate swaps where the Company receives floating interest rate based on 3 months LIBOR and pays fixed interest rate payments based on from 1.5 to 5.75 years fixed rates. See Note 26 for further information.

In the third and fourth quarter of 2008, the Company repurchased $45.5 million of nominal value of convertible notes, issued in 2007, and recognized an aggregate gain of $12.1 million on these transactions in 2008, classified as other financial items (see Note 9).

The $400 million convertible notes were issued in December 2007 and are due 2012. The convertible notes are convertible into ordinary shares of PGS ASA. The total number of shares to be issued if all convertible notes are converted at the conversion price is 10.2 million ordinary shares, representing 5.67% of the Company's current issued ordinary share capital. Due to repurchases in 2008, 9.0 million shares are issuable if all the notes were converted at December 31, 2008. The conversion price was set at NOK 216.19 per share and is fixed in USD based upon the fixed exchange rate, which represented a 40% premium over the volume weighted average price of the Company's ordinary shares at the time of offering. The fixed rate of exchange is set at 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrears. The equity element of the convertible notes was calculated to 17.1% of the nominal value ($68.4 million) and was recorded as a direct contribution to accumulated earnings (shareholders' equity) net of allocated portion of loan costs ($1.5 million).

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

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

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

Bank credit facilities
As a part of the renegotiated Arrow secured credit facility there is a reducing RCF of $40 million which has been fully drawn. Borrowings under the RCF bear interest at a rate equal to LIBOR plus a margin of 1.25%.

Under the senior secured credit facility established in June 2007 the Company has an RCF of $350 million maturing in 2012. The RCF has a $60 million sub-limit for issuance of letter of credits, whilst the bonding facility (for issuance of bid and performance bonds) included in this sub-limit under the previous RCF was in June 2007 replaced by a separate $15 million bonding facility. The Company may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, under the RCF for working capital and for general corporate purposes. Borrowings under the RCF bear interest at a rate equal to LIBOR plus a margin of 1.5%.

At December 31, 2008 and 2007, the Company had borrowed $230 million and $240 million, respectively, in cash advances, and $4.5 million and $2.4 million, respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and $22.3 million and $13.5 million, respectively, of bid and performance bonds were drawn under the separate bonding facility, combined with an uncommitted limit extension, with an applicable margin of 1.4%.

In 2005, the Company established an overdraft facility of NOK 50 million as part of our Norwegian cash pooling arrangement. This facility will continue until cancelled.

Covenants
Under the renegotiated Arrow credit facility, the agreement has maintenance covenants requiring that the Arrow Group must:
- have a positive working capital, and
- that a ratio of book equity to book assets must be greater than 30%.

As of December 31, 2008, the Arrow Group had positive working capital of $25.1 million, and a ratio of book equity to book assets of 41.8%. The Company continuously follow up the capital structure of the Arrow Group and if necessary take action, in order to secure compliance with the covenants.

The June 2007, credit facility contains financial covenants and negative covenants that restrict the Company in various ways. The facility provides that:
- for the RCF part the total leverage ratio (see Note 26) may not exceed 3.50 to 1.0 (3.25:1.0 in 2009 and 2010, thereafter 3.0:1.0) (maintenance covenant). The Term Loan has an incurrence test saying the Company can not increase total leverage above 3.5 to 1.0 (3.25:1.0 from 2009) (incurrence test) in the test period.

In addition, the credit agreement restricts our ability, among other things, to sell assets without the sales proceeds being reinvested in the business or used to repay debt; incur additional indebtedness or issue preferred stock; prepay interest and principal on our other indebtedness; pay dividends and distributions or repurchase our capital stock; create liens on assets; make investments, loans, guarantees or advances; make acquisitions; engage in mergers or consolidations; enter into sale and leaseback transactions; engage in transactions with affiliates; amend material agreements governing our indebtedness; change our business; enter into agreements that restrict dividends from subsidiaries; and enter into speculative financial derivative agreements.

The Company is in compliance with the covenants in its loan and lease agreements as of December 31, 2008.

Pledged assets
Certain seismic vessels and seismic equipment with a net book value of $373.6 million and $480.1 million at December 31, 2008 and 2007, respectively, are pledged as security under the Company's short-term and long-term debt. In addition certain shares in material subsidiaries have been pledged as security.

Letters of credit and guarantees
The Company had aggregate outstanding letters of credit and related types of guarantees, not reflected in the accompanying consolidated financial statements, of $56.4 million and $22.0 million (including the $26.8 million and $15.9 million described above) as of December 31, 2008 and 2007, 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, 2008			December 31, 2007		
(In thousands of dollars)	Carrying amounts	Notional amounts	Fair values	Carrying amounts	Notional amounts	Fair values
Loans measured at amortized cost:						
Long-term debt (Note 25)	1,245,156	---	921,625	1,236,640	---	1,219,238
Derivatives measured at fair value through shareholders' equity:						
Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a)	(46,069)	375,000	(46,069)	(18,623)	719,800	(18,623)
Derivatives measured at fair value through consolidated statements of operations:						
Forward exchange contracts, net unrealized (loss) gain (a)	(35,347)	514,276	(35,347)	30,497	804,775	30,497
Interest rate swaps, net unrealized (loss) gain (a)	(1,575)	25,000	(1,575)	---	---	---
Interest rate differential UK lease (Note 27)	(6,718)	---	(6,718)	(6,497)	---	(6,497)

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

	December 31,	
(In thousands of dollars)	2008	2007
Interest rate swaps, net (qualifying hedges)	(46,069)	(18,623)
Forward exchange contracts, net	(35,347)	30,497
Other interest rate swaps, net	(1,575)	---
Total	(82,991)	11,874
Classified as follows:		
Other current asset (short-term unrealized gain) (Note 17)	15,187	29,254
Other long-lived assets (long-term unrealized gain) (Note 21)	1,026	10,482
Accrued expenses (short-term unrealized loss) (Note 28)	(47,003)	(7,017)
Other long-term liabilities (long-term unrealized loss) (Note 29)	(52,201)	(20,845)
Total	(82,991)	11,874

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.

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

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

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

The Company monitors debt on the basis of the leverage ratio. This ratio is calculated as gross debt divided by EBITDA less MultiClient library investments. In addition the Company monitor 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 balance sheets) less cash and cash equivalents.

During 2008, the Company's strategy, which was set in 2006, was to maintain a leverage ratio within what would defend a BB(-) –rating (Standard and Poor's)/Ba2 (Moody's). The gross leverage ratio at December 31, 2008 and 2007 were 2.00 and 2.74, respectively.

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

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

The treasury function reports regularly to the Company management.

Interest rate exposure
The Company is subject to interest rate risk on debt, including capital leases. The risk is managed 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, 2008, the Company has outstanding interest rate swaps in the aggregate notional amount of $400 million relating to the Term Loan established in June 2007 (see Note 25). As of December 31, 2007, the Company had outstanding interest rate swap agreements and future interest rate agreements in the aggregate notional amount of $719.8 million relating to the Term Loan (see Note 25) and the short term facilities in Arrow (see Note 24). 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, 2008		December 31, 2007	
Matures in:	Notional amounts ($ thousands)	Weighted average fixed interest rate	Notional amounts ($ thousands)	Weighted average fixed interest rate
1 year	---		319,800	4.79%
1 – 2 years	100,000	5.17%	---	
2 – 3 years	---		100,000	5.17%
3 – 4 years	200,000	5.05%	---	
4 – 5 years	---		200,000	5.05%
> 5 years	100,000	5.18%	100,000	5.18%
Total	400,000	5.11%	719,800	4.97%

The aggregate negative fair value of these interest rate swap agreements at December 31, 2008 and 2007 was approximately $47.6 million and $18.6 million, respectively.

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

(In thousands of dollars)	Notional amount	Carrying amount	Total expected cash flow (fair value)	Cash flow matures in, <1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
December 31, 2008:									
Interest rate swaps	400,000	(47,644)	(47,644)	(15,949)	(13,117)	(8,545)	(6,101)	(2,474)	(1,458)
December 31, 2007:									
Interest rate swaps	719,800	(18,623)	(18,623)	(5,806)	(6,254)	(3,497)	(1,938)	(856)	(272)

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

(In thousand of dollars)	December 31, 2008	2007
Debt at fixed interest rate	359,276	399,640
Debt at variable interest rate (a)	889,931	977,769
Total interest bearing debt	1,249,207	1,377,409

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

The weighted average interest rate on the variable rate debt, inclusive capital leases, as of December 31, 2008 and 2007 was approximately 3.9% and 6.4%, respectively. As indicated above, through interest rate swaps the Company have effectively fixed the interest rate on $400 million of this floating rate debt as of December 31, 2008, with the remaining $489.9 million of the floating rate debt continuing to bear interest at a variable rate. As of December 31, 2007, the Company had fixed the interest rate on $612.9 million through interest rate swaps, with the remaining $357.5 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 capital leases, will increase by approximately $4.9 million and $3.6 million at December 31, 2008 and 2007, respectively.

Interest rate hedge accounting

As of December 31, 2008 and 2007, respectively, $375 million and $550 million out of the total notional amount of interest rate swaps of $400 million and $719.8 million were accounted for as cash flow hedges. In the years ended December 31, 2008 and 2007, the value of these instruments were recorded as a reduction in other reserves (shareholders' equity) as the effective portion of the designated and qualifying hedging instrument. During 2008, interest rate swaps with a notional amount of $175 million were derecognized for hedge accounting purposes, of these, swaps with a notional amount of $150 million reached maturity during the year. The value related to these swaps that was held in equity at the end of 2007 is being transferred through the consolidated statements of operations over the remaining term of the instruments.

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

(In thousands of dollars)	Years ended December 31, 2008	2007
Amounts transferred from equity to the consolidated statements of operations	2,548	302
Effective portion of fair value booked directly to other reserves	(29,741)	(21,334)
Total change in fair value (loss)	(27,193)	(21,032)

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	Carrying amount	Total expected cash flow (fair value)	Cash flow matures in, <1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
December 31, 2008:									
Interest rate swaps	375,000	(46,069)	(46,069)	(15,107)	(12,384)	(8,545)	(6,101)	(2,474)	(1,458)
December 31, 2007:									
Interest rate swaps	550,000	(18,263)	(18,263)	(5,446)	(6,254)	(3,497)	(1,938)	(856)	(272)

The profit and loss impact of the cash flow hedges are estimated to be in the same year as the effect of the cash flows.

Foreign exchange rate exposure

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

In 2008, the Company continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR and BRL on forward contracts. During 2006, the Company entered into currency hedges (NOK/USD) relating to the contracts to build two new Ramform vessels to be delivered in 2008 and 2009 and during 2007 the Company entered into currency hedges related to the sale of *Ramform Victory* (USD/JPY) with final payment of the vessel taking place in February 2008 (see Note 16). As part of acquiring Arrow, in 2007, the Company has entered into several forward contracts to hedge currency exposure (EUR/USD) relating to the Arrow new build program (see Note 18).

As of December 31, 2008, the Company has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately $514.2 million (notional amount) with a negative fair value of $35.3 million. As of December 31, 2007, the Company had open forward contracts to buy GBP, NOK, SGD, JPY and EUR amounting to approximately $804.8 million with a positive fair value of $30.5 million.

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

			Total expected cash flow		
	Notional	Carrying		Matures in	
(In thousands of dollars)	amount	amount	Fair value	<1 year	1-2 years
December 31, 2008:					
Forward exchange contracts:					
Positive market value	164,834	16,213	16,213	15,187	1,026
Negative market value	349,442	(51,560)	(51,560)	(47,003)	(4,557)
	514,276	(35,347)	(35,347)	(31,816)	(3,531)
December 31, 2007:					
Forward exchange contracts:					
Positive market value	587,943	39,736	39,736	29,254	10,482
Negative market value	216,832	(9,239)	(9,239)	(6,656)	(2,583)
	804,775	30,497	30,497	22,598	7,899

A further 10% appreciation against the USD across all the currencies the Company have derivative contracts in, would have increased the fair value of these contracts by approximately $27.8 million. The effect on the consolidated statements of operations would have been $20.7 million. The analysis of change in fair value and effect on consolidated statement of operations is based on the Company's mix of foreign exchange contracts as of December 31, 2008, and the assumption that hedged currencies appreciate equally against USD. Figures calculated in the analysis of change in fair value and effects on consolidated statements of operations are before tax. All of the Company's debt is denominated in USD.

Foreign exchange rate hedge accounting
The derivatives entered into to hedge the exposure created by the contracts to build the new Ramforms and Arrow vessels have, where applicable, been designated as fair value hedges. Of the total notional amounts of forward exchange contracts as per table above, $150.8 million and $251.5 million are accounted for as fair value hedges as of December 31, 2008 and 2007, respectively, with negative fair value of $1.1 million as of December 31, 2008 and positive fair value of $13.6 million as of December 31, 2007. 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.

The derivatives hedging the sale of *Ramform Victory* (see above) were designated as cash flow hedges in October 2007. All hedges related to this transaction matured before the end of 2008 and there were no further cash flow hedges designated in the year ended December 31, 2008.

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

	Years ended December 31,	
(In thousands of dollars)	2008	2007
Effective portion of fair value booked directly to other reserves	2,605	(1,685)
Total change in fair value gain (loss)	2,605	(1,685)

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

	Notional	Carrying	Total expected cash flow	
(In thousands of dollars)	amount	amount	Fair value	<1 year
December 31, 2008:				
Forward exchange contracts	---	---	---	---
December 31, 2007:				
Forward exchange contracts	75,429	(5,498)	(5,498)	(5,498)

The profit and loss impact of the cash flow hedges are estimated to be in the same year as the cash flow effects.

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

	December 31,	
(In thousands of dollars)	2008	2007
Cash and cash equivalents	95,248	145,295
Restricted cash, current and long-term	18,374	59,423
Shares available-for-sale, current and long-term	6,249	18,825
Accounts receivables	228,903	239,392
Long term receivables, prepaid expenses and loans to associated companies (Note 21)	19,116	16,647
Derivatives:		
- Unrealized gain forward exchange contracts, current (Note 17)	15,187	29,254
- Unrealized gain forward exchange contracts, long-term (Note 21)	1,026	10,482
Total	384,103	519,318

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

As noted above, the Company's treasury function continuously monitors counterparties to mitigate credit risk. As of December 31, 2008, the Company is not aware of any specific credit risk related to counterparties other than those described.

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

Note 27 - Leases, Commitments and Contractual Obligations

The Company as lessor
Following the acquisition of Arrow in 2007, the Company has as of December 31, 2008 one vessel out on long-term charter. The *Geo Atlantic* is on hire to Fugro Geoteam AS from October 2006 for a fixed period of seven years with 2x2 years options for further use. As of December 31, 2007, the Company had in addition *CGG Laurentian* on hire to CGG on a time charter agreement through September 2008 and *Polar Sea* on a short-term time charter to WesternGeco until June 2008.

The aggregate lease revenues from these agreements for the year ended December 31, 2008 totaled $36.7 million. The aggregate lease revenues in 2007 for the period between the effective date of the acquisition and December 31, 2007 (approximately two months) was $5.0 million.

The future minimum lease revenue under the remaining fixed agreement as of December 31, 2008 is as follows:

	(In thousands of dollars)
2009	13,404
2010	13,538
2011	13,674
Thereafter	24,854
Total	65,470

In connection with the acquisition of Arrow, the Company held time charter and sales agreements with WesternGeco for NB 532 and 533. The time charters would commence upon delivery of the vessels from the yard and continue for a period of 3 and 5 years, respectively. At the end of the time charter periods, WesternGeco would be required to purchase the vessels and the Company would be required to sell the vessels for specified amounts. Upon commencement of the time charter period, the estimated present value of the aggregate of net time charter revenues and vessel sales proceeds would be $132 million for NB 532 and $146 million for NB 533. Due to delays by the yard in Spain, there is a risk that the charter agreement and the contracts to build the vessels will be terminated. See Note 18 for further information and subsequent event.

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

	December 31, 2008		December 31, 2007	
(In thousands of dollars)	Operating leases	Capital leases	Operating leases	Capital leases
2008	---	---	75,834	7,068
2009	56,347	1,320	36,080	---
2010	38,526	1,200	30,342	---
2011	24,725	840	18,246	---
2012	12,948	840	7,462	---
2013	11,359	210	---	---
Thereafter	27,034	---	14,277	---
Total	170,939	4,410	182,241	7,068
Imputed interest		(359)		(12)
Net present value of capital lease obligations		4,051		7,056
Current portion of capital lease obligations		(1,180)		(7,056)
Long-term portion of capital lease obligations		2,871		---

The Company entered into capital lease arrangements of $4.7 million and $0.7 million for the years ended December 31, 2008 and 2006, respectively, while there were no such new arrangements for the year ended December 31, 2007.

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

	December 31,	
(In thousands of dollars)	2008	2007
Marine seismic and support vessels	74,352	104,835
Onshore seismic equipment	---	853
Buildings	95,586	75,614
Other	1,001	939
Total	170,939	182,241

Rental expense for operating leases, including leases with terms of less than one year, was $149.5 million, $77.9 million and $50.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Claim against Arrow
On July 7, 2008, CGGVeritas issued a claim against Arrow Seismic ASA of $70 million. CGGVeritas claims to have a binding agreement with Arrow for a charter and ultimately the purchase of NB 534. The Company views the CGGVeritas claim against Arrow as unfounded. The hearing in court of first instance took take place in the Asker & Bærum District Court in Norway on March 17-24, 2009. A court ruling is expected in the second quarter of 2009.

Spanish leases
In connection with the purchase of Arrow (see Notes 5 and 18) the Company became party to Spanish lease structures for the construction of four high capacity seismic vessels for originally delivery in 2008 and 2009 (NB 532, 533, 534 and 535). In 2008, the Company entered into revised agreements on incentives, delivery times and guarantees (see Note 18). The four vessels are being built by the Factorias Vulcano shipyard group in Spain.

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

UK leases
The Company entered into capital leases from 1996 to 1998 relating to *Ramforms Challenger, Valiant, Viking, Victory* and *Vanguard.* The terms for these leases ranged from 15-25 years. In 2007, the Company terminated the lease for *Ramform Victory* and took formal ownership of the vessel. The leases for *Ramform Viking* and *Ramform Vanguard* were terminated in 2006. The Company paid a net amount of 4.0 million British pounds (approximately $7.8 million) and 7.5 million British pounds (approximately $14.8 million) to facilitate the terminations in 2007 and 2006, respectively.

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 terminations of the leases, as described above, resulted in reversal of remaining liability relating to interest rate differential of 1.9 million British pounds (approximately $3.8 million) and 3.8 million British pounds (approximately $7.5 million) in the years ended December 31, 2007 and 2006, respectively. In addition the future additional required rental payments for *Ramform Challenger* were settled with a one-time settlement of 3.2 million British pounds (approximately $5.6 million) in 2006. Consequently, the Company also reversed the remaining liability relating to the interest rate differesial for *Ramform Challenger* of 3.2 million British pounds (approximately $5.5 million).

The remaining liability for interest rate differential on UK leases, which is accounted for at fair value, at December 31, 2008 and 2007, relates to *Ramform Valiant* and estimated fair value was 4.7 million British pounds (approximately $6.7 million) and 3.3 million British pounds (approximately $6.5 million), respectively.

Recent tax and legislative changes in the UK have lead to a reduction in the remaining lease rentals on both the *Ramform Challenger* and *Ramform Valiant.* These reductions will lead to incremental benefits to the Company over the remainder of the lease terms.

Brazil service tax claim
The Company has an ongoing dispute in Brazil related to municipal services tax (“ISS”) for late sales of MultiClient data. The issue is whether the Company is actually liable for ISS tax on such sales and, if it is liable for such taxes, to which municipality such taxes should be paid (municipalities levy ISS tax at different rates). The maximum theoretical exposure including all years at December 31, 2008 amounts to $44.6 million of ISS tax. In addition, interest charges and penalties could run up to a maximum of $54.1 million. ISS is a 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 asset rather than performance of a service, and therefore not be subject to ISS. This has been confirmed by several external advisors and the Company intends to vigorously defend its view. The Company has not made any accrual for this contingency.

Petrojarl
Following the demerger of Petrojarl in 2006, the Company retained a joint secondary liability for certain obligations of Petrojarl. Petrojarl has agreed to indemnify the Company from liabilities related to its operations. Such liabilities include liabilities related to the floating production, storage and offloading units (“FPSOs”), that the Company transferred to Petrojarl in connection with the demerger. With respect to *Petrojarl Foinaven* FPSO, PGS has provided a separate on demand guarantee. The guarantee is made in relation to the FPSO service agreement and is for the benefit of the Foinaven co-ventures, which is capped at $10 million. With respect to *Petrojarl Banff* FPSO, the Company remains with a joint secondary liability with Petrojarl under their

FPSO service agreement with the Banff group. The guarantee is not capped. If these claims are made and Petrojarl does not honor its obligation to indemnify PGS, it could adversely affect the Company's business, results of operation or financial condition.

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

	December 31,	
(In thousands of dollars)	2008	2007
Accrued expenses (Note 28)	6,053	4,458
Other long-term liabilities (Note 29)	2,177	8,488
Total	8,230	12,946

The deferred consideration relating to acquiring MTEM consists of both cash and PGS shares; $8.9 million in cash and $8.9 million in shares (363,534 shares). In 2008, the Company paid $4.5 million in cash and transferred 181,767 PGS shares. As of December 31, 2008, remaining consideration consist of $4.4 million in cash and 181,767 in PGS shares, maturing December 29, 2009.

The deferred consideration relating to acquiring Roxicon consists of NOK 15.8 million (approximately $2.2 million) in cash, maturing August 17, 2010. Discounted deferred consideration was NOK 15.2 million (approximately $2.2 million) and NOK 14.2 million (approximately $2.6 million) as of December 31, 2008 and 2007, respectively.

The deferred consideration relating to acquiring AGS consists of $2.0 million in cash, maturing December 31, 2009.

Onerous contracts
In 2008, the Company recognised an onerous contract relating to rent of offices in the UK. The minimum operational lease, with a break option, remains until December 2012. The discounted minimum liability accrued as of December 31, 2008, was $3.4 million (see Notes 28 and 29).

Note 28 - Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
(In thousands of dollars)	2008	2007
Customer advances and deferred revenue	66,049	44,286
Received, not invoiced, property and equipment	61,044	31,493
Accrued employee benefits	51,581	72,547
Unrealized loss interest swaps/forward exchange contracts (Note 26)	47,003	7,017
Accrued vessel operating expenses	42,317	69,229
Accrued commissions	8,718	3,955
Fair value adjustment of firm commitments (a)	8,510	7,583
Accrued office cost	6,949	835
Accrued sales tax and VAT	6,619	3,487
Accrued interest expenses	6,592	5,614
Accrued project cost	6,210	1,163
Deferred compensation, acquired companies (Note 27)	6,053	4,458
Accrued operating expenses - land crews	5,204	5,343
Accrued onerous contracts (Note 27)	1,226	---
Accrued legal, audit and consulting fee	1,147	4,922
Accrued purchase price for mandatory offer to Arrow shareholders (Note 5)	---	37,967
Other	15,086	20,572
Total	340,308	320,471

(a) Fair value change in hedged firm commitments related to currency fluctuations from inception of the hedging relationships relating to the construction of *Ramform Sterling* and the Arrow new-builds as of December 31, 2008 and *Ramform Sovereign* and *Ramform Sterling* as of December 31, 2007) (see Note 18).

Note 29 - Other Long-Term Liabilities

Other long-term liabilities consist of the following:

(In thousands of dollars)	December 31, 2008	2007
Unrealized loss interest swaps/forward exchange contracts (Note 26)	52,201	20,845
Pension liability (Note 30)	30,119	41,819
Tax contingencies	24,671	28,883
Unfavorable contracts	12,190	18,441
Accrued liabilities UK leases (Note 27)	6,339	6,003
Retention bonus, long-term	4,529	4,157
Deferred compensation, acquired companies (Note 27)	2,177	8,488
Accrued onerous contracts (Note 27)	2,156	---
Fair value adjustment of firm commitments (a)	316	7,254
Other	5,427	5,568
Total	140,125	141,458

(a) Fair value change in hedged firm commitments related to currency fluctuations from inception of the hedging relationships relating to the construction of the Arrow new-builds as of December 31, 2008 and *Ramform Sovereign* and *Ramform Sterling* as of December 31, 2007 (see Note 18).

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, 2008, 505 employees were participating in these plans.

Actuarial valuations and assumptions

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

Reconciliation of the plans' aggregate projected benefit obligations and fair values of assets are summarized as follows:

Change in projected benefit obligations (PBO):

(In thousands of dollars)	December 31, 2008	2007
Projected benefit obligations (PBO) at January 1	135,437	128,628
Service cost	8,996	8,945
Interest cost	6,847	6,385
Employee contributions	1,210	1,259
Payroll tax	9	231
Actuarial loss, net	(4,412)	(16,615)
Benefits paid	(730)	(1,634)
Exchange rate effects	(38,475)	8,238
Projected benefit obligations (PBO) at December 31	108,882	135,437

Change in pension plan assets:

(In thousands of dollars)	December 31, 2008	2007
Fair value of plan assets at January 1	98,409	80,535
Expected return on plan assets	6,845	6,420
Employer contributions	11,012	11,751
Employee contributions	1,210	1,259
Actuarial loss, net	(16,731)	(4,075)
Benefits paid	(730)	(1,634)
Exchange rate effects	(30,145)	4,153
Fair value of plan assets at December 31	69,870	98,409

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

(In thousands of dollars)	December 31, 2008	2007
Funded status (a)	39,012	37,028
Unrecognized actuarial (gain) loss	(8,893)	4,791
Net pension liability	30,119	41,819

(a) Includes payroll tax on net pension liability.

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

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $85.5 million and $108.2 million as of December 31, 2008 and 2007, respectively. All plans have accumulated benefit obligation in excess of plan assets.

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Service cost	8,996	8,945	7,162
Interest cost	6,847	6,385	4,565
Expected return on plan assets	(6,845)	(6,420)	(4,383)
Amortization of actuarial loss	(12)	50	3
Administration costs	120	114	101
Payroll tax	726	679	501
Net periodic pension cost	9,832	9,753	7,949

Assumptions used to determine net periodic pension costs:

	2008		2007		2006	
	Norway	UK	Norway	UK	Norway	UK
Discount rate	4.50%	5.80%	4.40%	5.10%	3.90%	4.80%
Return on plan assets	5.50%	7.40%	5.40%	7.40%	4.90%	7.90%
Compensation rate	4.00%	4.00%	4.00%	4.00%	3.20%	3.20%
Annual adjustments to pensions	4.00%	(a)	4.00%	(a)	3.20%	3.00%

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

	December 31, 2008		December 31, 2007	
	Norway	UK	Norway	UK
Discount rate	3.80%	6.00%	4.50%	5.80%
Compensation increase	4.00%	4.00%	4.00%	4.00%
Annual adjustment to pensions	1.50%	(a)	4.00%	(a)
Mortality table	K2005	SAPS Light BY Medium cohort	K2005	PM/FA92 MC

(a) 3.00% for services up to April 2006, 2.5% for services thereafter as of December 31, 2007 and 2.25% for services thereafter as of December 31, 2008.

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

Sensitivity

The experience adjustment from actuarial gain and losses (the effects of differences between the previous actuarial assumptions and what has actually occurred) were 3% (positive), 1.2% (positive) and 0.4% (negative) of the benefit obligation (PBO) as of December 31, 2008, 2007 and 2006, respectively. The effects on the plan asset where negative with 35.3%, negative with 1% and positive with 3% of the plan asset as of December 31, 2008, 2007 and 2006, respectively.

The following table shows the sensitivity of pension cost (excluding amortization of actuarial gains and losses) and benefit obligation (including payroll tax) related to change in discount rate, compensation level and USD:

(in thousand of dollars)	1% increase in discount rate	1% decrease in discount rate	1% increase in compensation level	1% decrease in compensation level	10% appreciation of USD (a)
Increase (decrease) in pension cost	(2,010)	2,461	1,693	(1,898)	(668)
Increase (decrease) in benefit obligation (PBO)	(24,458)	32,627	11,891	(13,334)	(11,162)

(a) Based on the Company's mix of Norwegian plans (NOK denominated) and UK plans (GBP denominated) as of December 31, 2008.

Plan asset allocation

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

	December 31, 2008		December 31, 2007	
(In thousands of dollars)	Norway	UK	Norway	UK
Fair value of plan assets	23,031	46,839	23,937	74,472
Debt securities	70%	37%	57%	31%
Equity/diversified growth funds	6%	60%	25%	67%
Real estate	23%	---	16%	---
Other	1%	3%	3%	2%
Total	100%	100%	100%	100%

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

Estimated future cash flow information
The Company expects to contribute approximately $8.5 million to its defined benefit pension plans in 2009. Total pension benefit payments expected to be paid to participants from the plans are as follows:

	(In thousands of dollars)
2009	604
2010	704
2011	794
2012	1,004
2013	1,123
2014 - 2018	9,018

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.

As described above under "Defined Benefit Plans," as of January 1, 2005 the Company closed the Norwegian defined benefit plans 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 and as of January 1, 2008, the Company closed the Norwegian defined benefit plan for further entrants for seismic crew, and new defined contribution plans were established for new crew members.

The Company's contributions to the Norwegian defined contribution plans for the year ended December 31, 2008, 2007 and 2006 were $1.1 million, $0.6 million and $0.3 million, respectively.

Under the Company's U.S. defined contribution 401(k) plan, essentially all US employees are eligible to participate upon completion of certain period-of-service requirements. The plan allows eligible employees to contribute up to 100% of compensation, subject to IRS and plan limitations, on a pre-tax basis, with a 2008 statutory cap of $15,500 ($20,500 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 $1.8 million, $1.5 million and $1.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Contributions to the plan by employees for these periods were $4.5 million, $4.1 million and $3.6 million, respectively.

Aggregate employer and employee contributions under the Company's other plans for the years ended December 31, 2008, 2007 and 2006, totaled $2.7 million and $0.9 million (2008), $1.3 million and $0.6 million (2007) and $1.0 million and $0.5 million (2006).

Note 31 - Shareholder Information

As of December 31, 2008, Petroleum Geo-Services ASA has a share capital of NOK 540 million divided on a total of 180,000,000 shares, of par value NOK 3, each fully paid in. Authorized number of shares was 220,666,667. This includes authorization to convert convertible notes into equity and to issue new shares in relation to amongst others employee share option programs. All shares have equal voting rights and are entitled 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.

As of December 31, 2007, the Board of Directors had obtained shareholder authorization for a share repurchase program up to 10% of the Company's share capital, which authorization was valid until June 2008. At the Annual General Meeting ("AGM") on May 8, 2008, approval was given to acquire own shares with a nominal value totaling NOK 54,000,000. The amount paid per share shall be a minimum of NOK 3 and a maximum of NOK 300. The shares may be used for the fulfilment of the Company's employee share option programs, as part of consideration for any mergers, demergers or acquisitions involving the Company, by way of cancellation of shares in part or full, or to raise funds for specific investments. This authorization is valid until May 2009.

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

	Treasury shares	% of total shares outstanding
Acquired in 2007	4,979,500	
Used to fulfil employee share option program in 2007 (Note 33)	(504,210)	
Used to fulfil deferred considerations, acquired companies (Note 27)	(363,534)	
Balance at December 31, 2007	4,111,756	2.28%
Used to fulfil employee share option program in 2008 (Note 33)	(123,000)	
Used to fulfil deferred considerations, acquired companies (Note 27)	(181,767)	
Balance at December 31, 2008	3,806,989	2.11%

At the AGM on June 15, 2007, the Company's shareholders approved a special dividend of NOK 10 per share (NOK 1.8 billion/$289.9 million in total). The dividend was paid July 15, 2007 and due to exchange rate fluctuation the amount corresponded to $302.4 million at the date of payment. No dividend was distributed in the year ended December 31, 2008.

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

	December 31, 2008	
	Total shares	Ownership percent
Folketrygdfondet	14,247,210	7.92
Ulltveit-Moe Rederi AS	11,100,822	6.17
Citibank, N.A., holder of American Depositary Shares ("ADS") (nominee) (a)	8,059,296	4.48
State Street Bank & Trust Co. (nominee)	7,848,446	4.36
Agra AS	5,592,100	3.11
Clearstream Banking (nominee)	4,650,821	2.58
Petroleum Geo-Services ASA (treasury shares)	3,806,990	2.11
UBS AG, London Branch (nominee)	3,608,527	2.00
Investors Bank & Trust (nominee)	3,550,907	1.97
Morgan Stanley & Co, Norwegian Branch	2,550,101	1.42
DWP Bank AG (nominee)	2,427,599	1.35
Skandinaviska Enskilda Banken (nominee)	2,353,629	1.31
Bank of New York (nominee)	2,276,297	1.26
DNBNor Norge (IV)	2,274,226	1.26
State Street Bank & Trust (nominee)	2,026,378	1.13
UBS Luxemburg S.A. (nominee)	1,932,528	1.07
Vital Forsikring ASA	1,907,249	1.06
Statoils Pensjonskasse	1,873,098	1.04
Citibank N.A. (nominee)	1,870,263	1.04
Bank of New York	1,796,568	1.00
Other shareholders	94,246,945	52.36
Total	180,000,000	100.0

(a) On the basis of existing depository agreements regarding owners of the ADSs and nominee accounts, the table above does not disclose the beneficial owners of shares.

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

	December 31, 2008	
	Total shares	Ownership percent
Board of Directors:		
Jens Ulltveit-Moe, Chairperson (a)	16,692,922	9.27
Francis Gugen, Vice Chairperson	---	---
Harald Norvik	---	---
Holly Van Deursen	---	---
Wenche Kjølås (b)	2,000	(c)
Daniel J. Piette	2,000	(c)
Annette Malm Justad	---	---
Chief Executive Officer and Other Executive Officers:		
Jon Erik Reinhardsen, President and Chief Executive Officer	23,000	(c)
Gottfred Langseth, Executive Vice President and Chief Financial Officer	26,031	(c)
Rune Eng, President Marine	17,874	(c)
Sverre Strandenes, President Data Processing & Technology	6,994	(c)
Eric Wersich, President Onshore	8,355	(c)

(a) Controlled through Ulltveit-Moe Rederi AS and Agra AS.
(b) Controlled through Jawendel AS.
(c) Less than 1% of the Company's share as of December 31, 2008.

Note 32 - Related Party Transactions

As of December 31, 2008, the Chairperson of the Board, Jens Ulltveit-Moe, through Ulltveit-Moe Rederi AS and Agra AS, controlled a total of 16,692,922 shares in PGS (9,550,822 shares as of December 31, 2007).

Some of the Company's Directors are also on the Board of certain clients and vendors. As of December 31, 2008 and 2007, the Company did not have any significant outstanding balances with any of these companies.

See also Notes 31 and 35.

Note 33 - Employee Share Option Programs

In 2006, the Company established an employee option program. Options covering 2,127,000 shares were granted to certain key employees. Additional 223,000 options and 25,000 options were granted from this plan in the years ended December 31, 2007 and 2008, respectively.

In June 2008, the Company established a second employee option program. Options covering 3,060,000 shares were granted to certain key employees.

The Company's share option programs are considered as equity-settled plans and the options were measured at fair value at date of grant. One third of the options vest each of the three years subsequent to the date of grant. First possible exercise is one year after grant date. The latest possible exercise date is five years subsequent to the grant date. The options may only be exercised four times a year, during a defined period after the publication of the Company's quarterly earnings release.

Maximum gain on the options in the 2008 employee option program is subject to a cap of 1.5 times the employee's salary for each calendar year. There is no cap on the 2006 employee option program.

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 employee option program 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.

The fair value determined at the grant date is expensed over the vesting period, using a straight-line recognition method, based on the Company's estimate of the shares that will eventually vest. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The options include a service condition as the individuals participating in the plan must be employed by the Company for a certain period of time in order to earn the right to exercise the share options. The options granted under the 2006 employee option program do not include performance or market conditions. The cap of 1.5 times the employee's salary for each calendar year for options granted under the 2008 employee option program is assessed as a market condition.

For the years ended December 31, 2008, 2007 and 2006, the Company recognized compensation cost with a corresponding increase in shareholders' equity of $9.8 million, $6.6 million and $4.2 million, respectively. Total net unrecognized compensation cost as of December 31, 2008 was $11.9 million (related to non-vested share-based options), which is expected to be recognized over a period of 2.5 years (main portion within 1 year).

The tables below detail the Company's outstanding options for the years presented.

Year ended December 31, 2008:

Grant date:	Options outstanding December 31, 2007	Options granted in 2008	Options exercised in 2008	Options forfeited in 2008	Options outstanding December 31, 2008	Weighted-average remaining contractual term	Options exercisable December 31, 2008
July 2006	1,484,790	---	(123,000)	(36,009)	1,325,781	2.5 years	736,713
May 2007	200,000	---	---	(10,000)	190,000	3.4 years	63,334
July 2007	23,000	---	---	(12,000)	11,000	3.5 years	3,666
January 2008	---	25,000	---	---	25,000	4.1 years	—
June 2008	---	3,060,000	---	(68,500)	2,991,500	4.4 years	—
Total	1,707,790	3,085,000	(123,000)	(126,509)	4,543,281	3.8 years	803,713

Year ended December 31, 2007:

Grant date:	Options outstanding December 31, 2006	Options granted in 2007	Options exercised in 2007	Options forfeited in 2007	Options outstanding December 31, 2007	Weighted-average remaining contractual term	Options exercisable December 31, 2007
July 2006	2,085,000	---	(504,210)	(96,000)	1,484,790	3.5 years	166,749
May 2007	---	200,000	---	---	200,000	4.4 years	---
July 2007	---	23,000	---	---	23,000	4.5 years	---
Total	2,085,000	223,000	(504,210)	(96,000)	1,707,790	3.6 years	166,749

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

	Year ended December 31, 2008			Year ended December 31, 2007		
Granted	Options exercised	Exercise date	Share price at exercise date	Options exercised	Exercise date	Share price at exercise date
July 2006	17,001	March 3, 2008	NOK 122.50	111,487	August 4, 2007	NOK 125.02
July 2006	105,999	May 19, 2008	NOK 161.50	392,723	November 3, 2007	NOK 155.71
Total	123,000			504,210		

No share options have expired during the years ended December 31, 2008 and 2007.

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

Grant date:	Options outstanding December 31, 2008	Average exercise price	Risk free rate	Dividend yield	Volatility factor	Weighted average life	Estimated fair value at grant date (average NOK/USD per share option)
July 2006 (a)	1,325,781	NOK 111.50	3.92-4.00%	---	45%	3.5 years	NOK 44.10/$7.12
May 2007 (a)	190,000	NOK 140.41	5.02%	---	43%	3.5 years	NOK 55.20/$8.87
July 2007 (a)	11,000	NOK 152.11	5.22%	---	44%	3.5 years	NOK 58.89/$10.20
January 2008	25,000	NOK 116.14	4.56%	---	46%	3.5 years	NOK 44.52/$8.20
June 2008	2,991,500	NOK 133.05	5.75%	---	46%	2.5 years	NOK 35.55/$6.77
Total	4,543,281						

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

Expected volatility is based on historical volatility of the Company's shares after emerging from Chapter 11 in November 2003. There are no traded options of the Company's shares and there are no post vesting restrictions included in the option plan.

Note 34 - Supplemental Cash Flow Information

Cash paid during the years presented includes payments for:

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
UK lease, additional required rental payments (Note 27)	526	1,017	7,600
Income taxes	49,741	68,868	29,293

The UK lease additional required rental payments for the year ended December 31, 2006, includes a settlement of $5.6 million relating to *Ramform Challenger* (see Note 27).

Note 35 - 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 (relates to 2006 only) consist of:

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Salaries and bonuses	303,912	254,570	199,995
Social security	21,759	26,371	17,272
Pension	15,443	12,471	10,026
Other benefits	33,368	24,413	20,134
Total	374,482	317,825	247,427

The number of full time employees at the end of the last three years was as follows:

	December 31,		
	2008	2007	2006
Marine	1,991	1,593	1,381
Onshore employees	714	731	608
Onshore temporary employees (a)	2,223	644	981
Other (b)	278	255	198
Total	5,206	3,223	3,168

(a) Onshore temporary employees include crew hired on specific time periods (generally the length of a specific project). The large growth in 2008 relates mainly to Mexico and Peru, which accounts for 1,592 out of the total 2,223 temporary employees at December 31, 2008.
(b) Includes Corporate, Global Shared Services and PGS EM.

The Company had an average of 4,214, 3,196 and 3,893 employees during the years ended December 31, 2008, 2007 and 2006, respectively.

Chief Executive Officer (CEO) and Other Executive Officers

In 2008, the Company paid compensation to its President and CEO and other executive officers as follows:

Name:	Position:	Total compensation paid in 2008 (a) Fixed salary	Bonus (b)	Other benefits (c)	Total paid salary and compensation	Benefits paid to pension plan (d)	Accrued 2008 compensation at December 31, 2008 (e)
					(in dollars)		
Jon Erik Reinhardsen	President and Chief Executive Officer (f) (g)	1,657,479	---	29,520	1,686,999	4,305	242,954
Svein Rennemo	President and Chief Executive Officer) (f)	459,215	684,354	24,529	1,168,098	22,985	---
Gottfred Langseth	Executive Vice President and Chief Financial Officer	561,151	780,082	77,495	1,418,728	15,493	239,909
Rune Eng	President, Marine	569,046	761,751	87,910	1,418,707	16,345	239,458
Eric Wersich	President, Onshore	365,000	474,563	14,695	854,258	---	252,303
Sverre Strandenes	President, Data Processing & Technology	551,248	657,197	96,915	1,305,360	20,512	210,747

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2008 of NOK/USD 5.52.
(b) Includes payments for the 2007 performance bonus incentive plan (including share purchase bonus) and the 2006 retention bonus plan.
(c) Includes items such as car allowance, payment to defined contribution plan, telephone, ADSL and other minor benefits.
(d) Contribution to defined benefit plan (Norway).
(e) Includes accruals for the 2008 performance bonus incentive plan (including share purchase bonus), the 2007 and 2008 retention bonus plans and CEO deferred compensation.
(f) Jon Erik Reinhardsen succeeded Svein Rennemo as President and Chief Executive Officer effective April 1, 2008, as of which date Svein Rennemo retired.
(g) Fixed salary includes NOK 5,000,000 (approximately $905,226) as a one-time compensation upon commencement of the position as CEO and a gross up of NOK 1,336,836 (approximately $242,028) for relocating expenses.

Share options held by the CEO and executive officers at December 31, 2008 were as follows:

Name:	Number of share options at December 31, 2007	Number of options granted 2008	Numbers of options exercised 2008	Average exercise price on exercised options (NOK) (a)	Number of share options at December 31, 2008	Average exercise price on outstanding options (NOK)	Weighted average remaining contractual term
Jon Erik Reinhardsen	---	150,000	---	---	150,000	133.05	4.4 years
Svein Rennemo	80,001	---	80,001	111.50	---	---	---
Gottfred Langseth	90,000	90,000	---	---	180,000	122.28	3.5 years
Rune Eng	60,000	90,000	---	---	150,000	124.43	3.6 years
Eric Wersich	39,999	70,000	---	---	109,999	125.21	3.7 years
Sverre Strandenes	50,001	90,000	---	---	140,001	125.35	3.7 years

(a) Average shares price at the date of exercise of the options was NOK 157.01.

In 2007, the Company paid compensation to its President and CEO and other executive officers as follows:

Name:	Position:	Total compensation paid in 2007 (a) Fixed salary	Bonus (b)	Other benefits (c)	Total paid salary and compensation	Benefits paid to pension plan (d)	Accrued 2007 bonus at December 31, 2007 (e)
					(in dollars)		
Svein Rennemo	President and Chief Executive Officer	766,205	496,740	41,613	1.304,558	24,991	508,203
Gottfred Langseth	Executive Vice President and Chief Financial Officer	461,676	320,461	68,534	850,671	15,401	670,021
Rune Eng	President, Marine	515,121	382,532	80,677	978,330	18,938	656,858
Eric Wersich	President, Onshore	315,000	225,000	12,349	552,349	---	401,183
Sverre Strandenes	President, Data Processing & Technology	441,874	280,212	87,692	809,778	25,226	560,136

(a) Amounts in NOK have been translated to US Dollar using average exchange rate for 2007 of NOK/USD 5.89.
(b) Includes payments for the 2006 performance bonus incentive plan (including share purchase bonus).
(c) Includes items such as car allowance, payment to defined contribution plan, telephone, ADSL and other minor benefits.
(d) Contribution to defined benefit plan (Norway).
(e) Includes accruals for the 2007 performance bonus incentive plan (including share purchase bonus) and retention bonus.

Share options held by the CEO and other executive officers as of December 31, 2007 were as follows:

Name:	Number of share options at December 31, 2006	Number of options granted 2007	Numbers of options exercised 2007	Average exercise price on exercised options (NOK) (a) (b)	Number of share options at December 31, 2007	Average exercise price on outstanding options (NOK) (b)	Weighted average remaining contractual term
Svein Rennemo	120,000	---	39,999	111.50	80,001	111.50	3.5 years
Gottfred Langseth	90,000	---	---	---	90,000	111.50	3.5 years
Rune Eng	90,000	---	30,000	111.50	60,000	111.50	3.5 years
Eric Wersich	60,000	---	20,001	111.50	39,999	111.50	3.5 years
Sverre Strandenes	75,000	---	24,999	111.50	50,001	111.50	3.5 years

(a) Average shares price at the date of exercise of the options was NOK 155.71.
(b) In 2007, the exercise price was reduced by the special dividend of NOK 10.

See Note 31 for shares held by the Company's CEO and other executive officers and Note 33 for further information on the share option programs.

Effective April 1, 2008, Jon Erik Reinhardsen was appointed President and CEO of the Company, succeeding Svein Rennemo who retired. Annual salary is NOK 4,000,000 and as compensation for loss of shares, options and other share based benefits in his previous position, the Company paid NOK 5,000,000 upon commencement of the position. The Company will pay the CEO additional NOK 5,000,000 with a 6% interest three years after commencement in the position. Should the CEO choose to leave the Company prior to the three years, the Company shall not have any obligation to pay this compensation. Should the Company choose to terminate the employment contract the payment shall fall due immediately. The same applies if the Company initiates a termination and the parties agree that the employment contract shall be terminated. Jon Erik Reinhardsen has a mutual 6-months period of notice. The CEO is, both during and after the employment, obliged to refrain from taking employment with companies that are direct or indirect competition with PGS. This prohibition applies for a period of two years from the termination date unless the Company sets a shorter period of time.

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

Annual performance bonus incentive plan

The Board of Directors has established an annual performance bonus incentive plan for the Company's CEO and other executive officers. From date of employment our CEO is entitled to a maximum cash bonus of up to 50% of annual base salary and a maximum share purchase bonus of 50% of annual base salary for 2008. Our other executive officers, listed above, who were employed by the Company during 2008 and remain employed as of December 2008 are entitled to a maximum cash bonus of up to 50% of annual base salary and a maximum share purchase bonus of up to 25% of annual base salary. Within these limits, bonuses were finally determined on the basis of achievement and overachievement of financial and non-financial performance targets. Any amounts received as a share purchase bonus, on a net basis (after withholding tax), are required to be used to buy PGS ordinary shares at market prices and held for a minimum of three years.

The Board of Directors determined that the bonus under the performance bonus incentive plan for these executives for the years ended December 31, 2008 and 2007 would be in aggregate $238,017 and $1,720,965, respectively. The 2008 bonus amounts will be settled in cash only.

The former CEO, who retired on April 1, 2008, was entitled to a maximum cash bonus of up to 60% of annual base salary and a maximum share purchase bonus of 30% of annual base salary. According to his employment contract he was entitled to sell all restricted shares upon retirement. For this reason the Board of Directors decided to settle the full 2007 bonus in cash instead of a bonus of both cash and share purchase.

Retention bonus plans

In addition to the above annual performance incentive bonus plan the Board of Directors has established a retention bonus plan for the Company's executive officers, excluding the CEO, effective January 1, 2007. The yearly retention bonus is a fixed amount equivalent to 75% of base salary at the time of payment. The first yearly retention bonus was paid in October 2008 and thereafter yearly to October 2010. The members of the bonus plan have to be employed by the Company at the payment date (and not under notice of resignation). The aggregate retention bonus earned in 2008 and accrued at December 31, 2008 totaled $768,711, while aggregate retention bonus earned in 2007 and accrued at December 31, 2007 totaled $1,075,435.

Board of Directors
For the years ended December 31, 2008 and 2007, compensation paid to all persons who served as Directors during any period were as follows. None of our Directors has any contract with us providing benefits upon termination of service.

The table below provides information about our Directors and compensation during any period in 2008:

Name:	Position:	Director since	Term expire	Compensation (In dollars)
Jens Ulltveit-Moe	Chairperson	2002	2009	42,994
Francis Gugen	Vice Chairperson	2003	2009	97,189
Harald Norvik	Director	2003	2009	66,376
Holly Van Deursen	Director	2006	2009	90,285
Siri Beate Hatlen	Director	2006	(a)	27,373
Wenche Kjølås	Director	2006	2009	71,180
Daniel J. Piette	Director	2007	2009	89,990
Annette Malm Justad	Director	2008	2009	16,248
			Total	501,635

(a) Resigned as Director in May 2008.

The table below provides information about our Directors and compensation during any period in 2007:

Name:	Position:	Director since	Term expire	Compensation (In dollars)
Jens Ulltveit-Moe	Chairperson	2002	2008	102,645
Francis Gugen	Vice Chairperson	2003	2008	105,873
Harald Norvik	Director	2003	2008	68,575
Holly Van Deursen	Director	2006	2008	92,448
Siri Beate Hatlen	Director	2006	2008	61,507
Wenche Kjølås	Director	2006	2008	77,985
Anthony Tripodo	Director	2003	(a)	32,312
Daniel J. Piette	Director	2007	2008	20,743
			Total	562,088

(a) Resigned as a Director in February 2007.

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 2009 Annual General Meeting.

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

The current remuneration package for our CEO and other executive officers includes fixed elements and variable elements. The fixed elements consist of a base salary and other benefits. Other benefits include car allowance, free newspaper subscription, free mobile phone and similar benefits. The fixed elements also include a pension plan. The variable elements consist of a performance bonus incentive plan and participation in our share option program. In addition, our executive officers, excluding our CEO, are on basis of bonus schemes adapted in 2007 and 2008 entitled to a retention bonus payable in respectively 2009 and 2010 provided they are still employed and have not delivered or received a notice of termination at the time of payment.

The Board of Directors will continue to use all or some of these elements when determining compensation packages for our CEO and other executive officers in the coming fiscal year. However, no new retention bonus program will be offered in 2009.

The level of the annual performance bonus incentive plan is determined based partly on achievements of agreed financial key performance indicators ("KPIs") for the group and each management group, and partly on achievements of agreed operational, financial and organisational KPIs included in a personal performance contract. The level of the annual performance bonus incentive plan may also be increased or decreased by maximum 20% depending on how the Company's share price perform related to the Company's peers.

The Group KPIs are financial targets set by the Board of Directors at the start of a fiscal year. The Group KPIs are thereafter broken down to business unit KPIs. The personal performance contract for our CEO and other executive officers will contain such KPI goals as well as KPI goals linked to other measures of success such as HSE, operational effectiveness and organisational development.

Our CEO and other executive officers have identified maximum bonus levels, which may be exceeded only if performance is extraordinary and very substantially above defined goals. The annual performance bonus for our CEO is approved by our Board of Directors in a meeting, based on recommendations from the Remuneration and Corporate Governance Committee, and the annual performance bonus /savings of the other executive officers are reviewed and approved by the Remuneration and Corporate Governance Committee on the CEO's recommendation. The Board of Directors will continue to use this system for determining the level of annual performance bonus/savings in the coming fiscal year.

The Company operates a share option plan, the purpose of which is to establish long-term incentive schemes for key personnel. The long-term commitment by the management and key employees is considered vital for further growth. The Annual General Meetings in 2006-2008 authorized the implementation of share option programs covering up to an aggregate maximum of 5,400,000 shares or 3% of the Company's number of outstanding shares.

The Board of Directors this year proposes a new option program to the Annual General Meeting in May 2009. This option program follows similar principles as the existing program. As before, the cap on the total possible profit under the option program will be a maximum annual gain under the option program of 1.5 times the annual base salary for each individual. The option program to be presented to the Annual General Meeting in May 2009 covers an aggregate maximum of 3,150,000 shares or 1.75% of the Company's number of outstanding shares.

This statement deals primarily with the remuneration of our CEO and other executive officers. However, the above described remuneration policy is to a large extent applicable to a broad group of key employees within the Company. Enhanced performance by the management groups is not achieved by our CEO and other executive officers alone but rather is dependant on a large number of managers and key employees throughout the Company. Therefore, a large and increasing number of managers and key employees are included in performance based remuneration schemes, which contain all or some of the above mentioned elements. More than 400 employees within the Company are currently eligible for a performance based remuneration. In addition all other employees may receive up to a maximum of one month salary in annual bonus. The level of this bonus is determined by the Board based on the financial results of the Company.

Remuneration of our CEO and other executive officers will be evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors to ensure that salary and other benefits are kept, at all times within the above guidelines and principles.

Our CEO will receive a set retention bonus of NOK 5,000,000 on April 1, 2011 provided that he has not left PGS willingly prior to this date. The reason for this was that the CEO had to walk away from substantial earned equity in the company where he was formerly employed. The Board of Directors considered this necessary to secure the employment of the CEO.

Since the Annual General Meeting in May 2008 the Board of Directors have followed the guidelines then approved by the Annual General Meeting with respect to remuneration of the CEO and the other executive officers. To the extent there are deviations these are explained above.

Remuneration of auditor

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

	Years ended December 31,		
(In thousands of dollars)	2008	2007	2006
Audit fees (a)	2,547	2,514	5,456
Other attestation services (b)	11	40	824
Fees for tax services (c)	278	155	188
All other fees (d)	40	11	597
Total (e)	2,876	2,720	7,065

(a) Audit fees for 2006 include fees incurred relating to the audit of internal control over financial reporting under Sarbanes-Oxley Act.
(b) Other attestation services for 2006 include fee related to attestation services in connection with the Petrojarl demerger.
(c) Fees for tax services consist of fees for tax filing services and other tax assistance.
(d) All other fees for 2006 include fees for assistance in connection with preparing for management's attestation under Sarbanes-Oxley Act.
(e) Total remuneration to auditor includes discontinued operation for the period up to demerger closing date (relates to 2006 only).

Note 36 - Subsidiaries and Affiliated Companies

The ownership percentage in subsidiaries and affiliated companies as of December 31, 2008, 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%
PGS Mexicana S.A. de C.V.	Mexico	100%
Dalmorneftegeofizika PGS AS	Norway	49%
Baro Mekaniske Verksted AS	Norway	10%
Calibre Seismic Company	United States	50%
PGS Capital, Inc.	United States	100%
Diamond Geophysical Services Corporation	United States	100%
PGS Exploration (Nigeria) Ltd.	Nigeria	100%
PGS Data Processing Middle East SAE	Egypt	100%
PGS Data Processing, Inc.	United States	100%
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100%
PGS Australia Pty. Ltd.	Australia	100%
Atlantis (UK) Ltd.	United Kingdom	100%
PGS Egypt for Petroleum Services	Egypt	100%
Hara Skip AS	Norway	100%
Petroleum Geo-Services Exploration (M) Sdn. Bhd.	Malaysia	100%
PGS Exploration (US), Inc.	United States	100%
PGS Ocean Bottom Seismic, Inc.	United States	100%
PGS Exploration (UK) Ltd.	United Kingdom	100%
PGS Pension Trustee Ltd.	United Kingdom	100%
PGS Reservoir Ltd.	United Kingdom	100%
Atlantic Explorer Ltd.	Isle of Man	50%
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 Onshore, Inc.	United States	100%
PGS Onshore (Canada), Inc.	Canada	100%
PGS Americas, Inc.	United States	100%
Seismic Energy Holdings, Inc.	United States	100%
PGS Exploration (Norway) AS	Norway	100%
PGS Multi-Client Seismic Ltd.	Jersey	100%
PGS Marine Services (Isle of Man) Ltd.	Isle of Man	100%
Deep Gulf LP	United States	50.1%
PGS Nopec (UK) Ltd.	United Kingdom	100%
PGS Nominees Ltd.	United Kingdom	100%
SOH, Inc.	United States	100%
PT PGS Nusantara	Indonesia	100%
PGS Geophysical (Angola) Ltd.	United Kingdom	100%
Seismic Exploration (Canada) Ltd.	United Kingdom	100%
PGS Ikdam Ltd.	United Kingdom	100%
PGS Investigacào Petrolifera Limitada	Brazil	100%
PGS Administración y Servicios S.A. de C.V.	Mexico	100%
PGS Servicios C.A.	Venezuela	100%
PGS Venezuela de C.A.	Venezuela	100%
PGS Overseas AS	Norway	100%
PGS Suporte Logistico e Servicos Ltda.	Brazil	100%
PGS Finance, Inc.	United States	100%
PGS Japan K.K.	Japan	100%
PGS (Kazakhstan) LLP	Kazakhstan	100%
PGS CIS LLC	Russia	100%
PGS Seismic (UK) Ltd.	United Kingdom	100%
PGS Data Processing & Technology Sdn. Bhd.	Malaysia	100%
PGS Onshore (Algeria) EURL	Algeria	100%
PGS (Malta) Limited	Malta	100%
PGS (Malta) Holdings Limited	Malta	100%
PGS Overseas Operation (Cyprus) Ltd.	Cyprus	50%
PGS Overseas Trading (Cyprus) Ltd.	Cyprus	100%
PGS Khazar	Russia	50%
PGS Onshore Peru S.A.C	Peru	100%
PGS Onshore Services S.A.C.	Peru	100%
MTEM Limited	United Kingdom	100%
PGS Exploration Morocco SARL	Morocco	99%
PGS Geophysical (Netherlands) B.V.	Netherlands	100%
PGS Technology (Sweden) AB	Sweden	100%
Natuna Ventures Pte. Ltd.	Singapore	100%

Company	Jurisdiction	Shareholding and voting rights
Applied Geophysical Services, Inc.	United States	100%
PGS Onshore do Brazil Ltda.	Brazil	100%
PGS Onshore Servicos Ltda.	Brazil	100%
Genesis Petroleum Corporation Plc	United Kingdom	29.5%
Arrow Seismic ASA	Norway	100%
Arrow Seismic Ltd.	United Kingdom	100%
Arrow Seismic Invest I Ltd.	United Kingdom	100%
Arrow Seismic Invest II Ltd.	United Kingdom	100%
Arrow Seismic Invest III Ltd.	United Kingdom	100%
Arrow Seismic Invest IV Ltd.	United Kingdom	100%
Arrow Seismic Invest V Ltd.	United Kingdom	100%
Arrow Seismic Invest VI Ltd.	United Kingdom	100%
Arrow Seismic Invest VII Ltd.	United Kingdom	100%
Petroleum Geological Services LLC	Oman	100%
PGS Falcon AS	Norway	100%

Note 37 - Restatement of Previous Presented Consolidated Statements of Cash Flows

The following table summarizes the reconciliation of previously presented consolidated statements of cash flows that have been restated to show gross interest paid as a separate line item under financing activities.

	Year ended December 31, 2007			Year ended December 31, 2006		
(In thousands of dollars)	Reported	Adjusted	Restated	Reported	Adjusted	Restated
Cash flows provided by operating activities:						
Net income	470,009	---	470,009	394,736	---	394,736
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization, continuing operations	313,093	---	313,093	254,776	---	254,776
Depreciation and amortization, discontinued operations	---	---	---	27,666	---	27,666
Gain on sale of shares	---	---	---	(27,127)	---	(27,127)
Deferred income taxes	(54,341)	---	(54,341)	(115,735)	---	(115,735)
(Gain) loss on sale of assets	454	---	454	(3,926)	---	(3,926)
Net decrease in cash related to discontinued operations	---	---	---	2,010	---	2,010
Net decrease (increase) in restricted cash	(40,143)	---	(40,143)	3,773	---	3,773
Other items	10,031	---	10,031	12,190	---	12,190
Decrease (increase) in accounts receivable, net	(38,127)	---	(38,127)	(10,105)	---	(10,105)
(Increase) in unbilled and other receivables	(23,053)	---	(23,053)	(59,108)	---	(59,108)
(Increase) in other current assets	(45,814)	---	(45,814)	(17,514)	---	(17,514)
Decrease (increase) in other long-lived assets	(7,669)	---	(7,669)	7,418	---	7,418
Increase (decrease) in accounts payable	(8,934)	---	(8,934)	17,744	---	17,744
Increase in accrued expenses and income taxes payable	118,279	35,515	153,794	93,194	51,418	144,612
(Decrease) in other long-term liabilities	(6,481)	---	(6,481)	(4,184)	---	(4,184)
Net cash provided by operating activities	687,304	35,515	722,819	575,808	51,418	627,226
Cash flows (used in) provided by investing activities:						
Investments in MultiClient library	(288,703)	5,906	(282,797)	(120,745)	1,564	(119,181)
Capital expenditures	(270,013)	9,572	(260,441)	(165,442)	1,259	(164,183)
Capital expenditures on new-builds on charter	(9,749)	---	(9,749)	---	---	---
Capital expenditures on discontinued operations	---	---	---	(35,018)	---	(35,018)
Investments in other intangible assets	(9,500)	---	(9,500)	(5,750)	---	(5,750)
Proceeds for sale of assets	448	---	448	4,098	---	4,098
Proceeds for assets held-for-sale, net	103,648	---	103,648	---	---	---
Payment for purchase of subsidiaries, net of cash acquired	(700,148)	---	(700,148)	---	---	---
Proceeds from demerger, net	---	---	---	406,816	---	406,816
Other items, net	(16,932)	---	(16,932)	242	---	242
Net cash (used in) provided by investing activities	(1,190,949)	15,478	(1,175,471)	84,201	2,823	87,024
Cash flows (used in) provided by financing activities:						
Proceeds from issuance of long-term debt	995,092	---	995,092	---	---	---
Repayment of long-term debt	(282,926)	---	(282,926)	(619,720)	---	(619,720)
Principal payments under capital leases	(6,862)	---	(6,862)	(20,464)	---	(20,464)
Net increase (decrease) in bank facility and short-term debt	239,873	---	239,873	(2,547)	---	(2,547)
Purchase of treasury shares	(119,486)	---	(119,486)	---	---	---
Proceeds from exercise of employee share options	10,241	---	10,241	---	---	---
Dividend paid to minorities in subsidiaries	(776)	---	(776)	---	---	---
Dividend paid to shareholders of PGS ASA	(302,368)	---	(302,368)	---	---	---
Termination fee, UK leases	(7,831)	---	(7,831)	(14,759)	---	(14,759)
Interest paid	---	(50,993)	(50,993)	---	(54,241)	(54,241)
Net cash (used in) provided by financing activities	524,957	(50,993)	473,964	(657,490)	(54,241)	(711,731)
Net (decrease) increase in cash and cash equivalents	21,312	---	21,312	2,519	---	2,519
Cash and cash equivalent as of January 1	123,983	---	123,983	121,464	---	121,464
Cash and cash equivalent as of December 31	145,295	---	145,295	123,983	---	123,983

PETROLUEM GEO-SERVICES ASA
(Parent company unconsolidated financial statements)

STATEMENT OF OPERATIONS

		Years ended December 31,		
(In thousands of NOK)	Note	2008	2007	2006
Revenues		138,397	148,540	122,693
Cost of sales		2,404	1,634	4,444
Depreciation and amortization	5	12,118	11,312	10,933
Selling, general and administrative costs		176,792	174,009	259,475
Total operating expenses		191,314	186,955	274,852
Operating loss		(52,917)	(38,415)	(152,159)
Interest expense, net	2	(407,661)	(148,880)	(261,015)
(Impairments)-reversals of shares in and loan to subsidiaries, net and gain (loss) on sale of subsidaries, net	1, 6	(598,875)	194,091	1,542,047
Other financial items, net	3	675,878	3,601,308	(69,665)
Income before income taxes		(383,575)	3,608,104	1,059,208
Income tax (benefit) expense	4	(742,163)	544,541	(839,668)
Net income		358,588	3,063,563	1,898,876

Lysaker, March 27, 2009

Jens Ulltveit-Moe
Chairperson

Harald Norvik

Francis Gugen
Vice Chairperson

Wenche Kjølås

Holly Van Deursen

Annette Malm Justad

Daniel J. Piette

Jon Erik Reinhardsen
Chief Executive Officer

PETROLUEM GEO-SERVICES ASA
(Parent company unconsolidated financial statements)

BALANCE SHEET

(In thousands of NOK)	Notes	December 31, 2008	2007
ASSETS			
Long-term assets:			
Deferred tax assets	4	1,364,413	295,127
Property and equipment	5	8,688	17,808
Shares in subsidiaries	1, 6	14,140,302	10,377,285
Intercompany receivables	1	11,156,228	1,848,663
Other financial long-term assets	7	30,462	62,778
Total long-term assets		26,700,093	12,601,661
Current assets:			
Short-term intercompany receivables		37,507	61,305
Other current assets	8	98,317	117,408
Restricted cash	9	2,226	210,395
Cash and cash equivalents		188,207	163,295
Total current assets		326,257	552,403
Total assets		27,026,350	13,154,064
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity:			
Paid-in capital:			
Common stock; par value NOK 3; 220,666,667 authorized shares, issued and outstanding 180,000,000 shares at December 31, 2008 and 218,250,000 authorized shares; issued and outstanding 180,000,000 shares at December 31, 2007		540,000	540,000
Treasury shares, par value		(11,421)	(12,335)
Additional paid-in capital		17,228	9,684
Total paid-in capital		545,807	537,349
Other equity		5,399,086	4,909,995
Total shareholders' equity	10	5,944,893	5,447,344
Long-term liabilities:			
Long-term debt	11, 12	7,718,508	5,596,662
Intercompany debt		12,493,732	880,124
Other long-term liabilities	13	414,899	180,769
Total long-term liabilities		20,627,139	6,657,555
Current liabilities:			
Short-term debt and current portion of long-term debt	11	-	675,112
Short-term intercompany debt		10,916	12,597
Accounts payable		7,011	38,592
Accrued expenses	16	436,391	322,864
Total current liabilities		454,318	1,049,165
Total liabilities and shareholders' equity		27,026,350	13,154,064
Warranties	18		

PETROLUEM GEO-SERVICES ASA

(Parent company unconsolidated financial statements)

STATEMENT OF CASH FLOWS

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Cash flows from operating activities:			
Net income	358,588	3,063,563	1,898,876
Adjustments to reconcile net income to net cash used in operating activities:			
Changes in deferred tax assets	(1,069,286)	544,541	(839,668)
Depreciation and amortization charged to expense	12,118	11,312	10,933
Impairments (-reversals) of shares in and loan to subsidiaries, net and loss (gain) on sale of subsidiaries, net	598,875	(73,931)	(1,522,799)
Premium debt redemption and cost of refinancing expensed	(1,938)	-	-
Items classified as investment/financing activities	(2,400,000)	(2,400,698)	(40,375)
Unrealized foreign exchange loss (gain)	2,199,430	(473,388)	96,984
Changes in current assets and current liabilities	35,500	39,550	43,770
Net decrease (increase) in restricted cash	208,169	(208,790)	-
Other items	316,284	36,687	29,133
Net cash provided by (used in) operating activities	257,740	538,847	(323,146)
Cash flows (used in) provided by investing activities:			
Investments in property and equipment	(2,812)	(991)	(1,903)
Proceeds from sale of subsidiares, net	-	-	812,407
Investment in subsidiaries and changes intercompany receivables	(2,322,072)	(6,073,013)	2,942,295
Net cash (used in) provided by investing activities	(2,324,884)	(6,074,004)	3,752,799
Cash flows provided by (used in) financing activities:			
Proceeds from issuance of long-term debt	-	6,369,843	-
Repayment of long-term debt	(288,357)	(1,494,780)	(3,756,119)
Net (decrease) increase in bank facility and short-term debt	(82,177)	771,669	-
Purchase of treasury shares	14,876	(574,023)	-
Receipts of dividend from group companies	2,400,000	2,400,698	40,375
Dividend paid to shareholders of PGS ASA	-	(1,762,535)	-
Other	-	(84,140)	-
Net cash provided by (used in) financing activities	2,044,342	5,626,732	(3,715,744)
Net (decrease) increase in cash and cash equivalents	(22,802)	91,574	(286,092)
Effect of exchange rate changes on cash and cash equivalents	47,714	(39,561)	(39,682)
Cash and cash equivalents as of January 1	163,295	111,281	437,055
Cash and cash equivalents as of December 31	188,207	163,295	111,281

PETROLUEM GEO-SERVICES ASA

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").

Effective January 1, 2007, PGS ASA changed some of its accountings principles to align N GAAP with IFRS where possible. PGS ASA has implemented Norwegian Accounting Standard ("NRS") 6A that allows the use of IAS 19 "*Employee Benefits*". Prior periods presented have been adjusted to be in accordance with this new principle and PGS ASA has applied the exceptions that are permitted under IFRS 1 to recognize all cumulative actuarial gains or losses at the transition date. The financial statements are presented in Norwegian Kroner ("NOK"). 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.

Shares in subsidiaries (see Note 6) are presented at cost less any impairment. When the value of estimated future cash flows is lower than the carrying value in the subsidiaries, PGS ASA recognizes impairment charges on investments in subsidiaries and intercompany receivables. If and when estimated recoverable amounts increase, impairment charges are reversed. There is no fixed plan for repayment of long-term intercompany receivables.

Note 2 - Interest Expense, Net

Interest expense, net, consists of:

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Interest income, external	12,845	20,069	27,015
Interest income, intercompany	797,366	1,353,478	1,033,360
Interest expense, external	(463,943)	(268,780)	(328,774)
Interest expense, intercompany	(753,929)	(1,253,647)	(992,616)
Total	(407,661)	(148,880)	(261,015)

Note 3 - Other Financial Items, Net

Other financial items, net, consist of:

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Group contribution received	2,400,000	2,400,698	---
Gain on repurchase of convertible bonds	77,097	---	---
Dividends received	---	637,681	40,375
Foreign currency (loss) gain	(1,793,971)	589,616	(80,060)
Net loss on sale of subsidiaries	---	---	(19,248)
Other	(7,248)	(26,687)	(10,732)
Total	675,878	3,601,308	(69,665)

Note 4 - Income Taxes

Reconciliation of income tax (benefit) expense to taxes computed at nominal tax rate on income before income taxes:

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Income before income taxes	(383,575)	3,608,104	1,059,208
Norwegian statutory tax rate	28%	28%	28%
Provision for income taxes at the statutory rate	(107,401)	1,010,269	296,578
Increase (reduction) in income taxes from:			
Non-taxable loss on sale of shares in subsidiary, net	---	---	11,013
Impairment (reversal) of shares in subsidiaries	167,685	(63,582)	(474,654)
Non-taxable dividends	---	(178,551)	---
Overestimation of taxes calculated previous years (a)	(443,760)	---	---
Other permanent items	(363,967)	39,785	33,709
Change in deferred tax assets not recognized in balance sheet	5,280	(263,381)	(706,314)
Income tax (benefit) expense	(742,163)	544,541	(839,668)

(a) Overestimation of taxes calculated previous years relates mainly to reduction in taxable group contribution received in 2007.

In accordance with the Norwegian Preliminary Accounting Standard on taxes, tax reducing and tax increasing temporary differences are offset, provided the differences can be reversed in the same period. Deferred income taxes are calculated based on the net temporary differences that exist at year-end.

The tax effects of PGS ASA's temporary differences are summarized as follows:

	December 31,	
(In thousands of NOK)	2008	2007
Temporary differences relates to:		
Property and equipment	(144)	2,099
Pension liabilities	(5,774)	(5,349)
Intercompany receivables	(429,653)	(429,653)
Unrealized (losses/accruals) gain	(128,859)	6,242
Shares in foreign subsidiaries	(97,776)	(92,497)
Compensation cost employee share options	(5,876)	(3,011)
Convertible notes valuation (a)	96,698	---
Interest rate swaps (a)	(90,908)	---
Tax losses carried forward	(799,897)	(198,368)
Deferred tax assets	(1,462,189)	(720,536)
Deferred tax assets not recognized in the balance sheet	97,776	425,409
Deferred tax assets	(1,364,413)	(295,127)

(a) Change in deferred tax for interest swaps and convertible notes are recorded directly to shareholder's equity (see Note 10).

PGS ASA recognizes deferred tax assets when they are "more likely than not" of ultimately being realized. As of December 31, 2008, PGS ASA has recognized deferred tax assets of NOK 1.4 billion (NOK 295.1 million as of December 31, 2007) 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. During the preparation of the 2008 income tax provision, PGS ASA re-considered its basis for not recognizing certain deferred tax assets as of December 31, 2007. As a result of this re-consideration, shareholder's equity and deferred tax assets were increased by approximately NOK 332.9 million as of January 1, 2008 for deferred tax assets that were "more likely than not" of being realized at year-end 2007.

The main reason for the increase in deferred tax assets in 2008 is change in taxes calculated in 2007 due to change in group contribution charged as taxable income, and effects of re-consideration of recognized deferred tax assets at year end 2007 (as described above). For 2007, PGS ASA received NOK 2.4 billion in group contribution from subsidiaries of which all was expected to be charged as taxable income. In the second quarter of 2008, the Company decided to seek to enter into the new Norwegian tax tonnage regime. As a result, the group contribution for 2007 was changed in order to prepare for the new tax tonnage regime. Of the NOK 2.4 billion PGS ASA received in group contribution for 2007, only NOK 772.4 million ended up to be charged as taxable income. PGS ASA received NOK 2.4 billion in group contribution from subsidiaries at year-end 2008 of which NOK 1.1 billion is expected to be charged as taxable income, and NOK 1.3 billion as non-taxable income.

Note 5 - Property and Equipment

Property and equipment consists of fixtures, furniture and fittings and are summarized as follows:

	December 31,	
(In thousands of NOK)	2008	2007
Purchase costs:		
Purchase costs as of January 1	87,573	86,581
Additions	2,812	992
Purchase costs as of December 31	90,385	87,573
Accumulated depreciation:		
Accumulated depreciation as of January 1	69,765	58,638
Depreciation	11,932	11,127
Accumulated depreciation as of December 31	81,697	69,765
Balance as of December 31	8,688	17,808

Property and equipment is depreciated over 3 to 5 years.

Depreciation and amortization expense, as presented in the statement of operations, include NOK 185,218 in amortization of licenses for each the years ended December 31, 2008 and 2007 (see Note 7).

Note 6 - Shares in Subsidiaries

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

	Registered office	Number of shares	Total share capital		Share-holding (a)	Par value		Book value as of December 31, 2008 (In thousands of NOK)
PGS Geophysical AS	Oslo	1,396,805	NOK	1,396,860,500	100%	NOK	100	1,792,170
PGS Exploration (Nigeria) Ltd.	Nigeria	2,000,000	USD	2,000,000	100%	USD	1	165
Petroleum Geo-Services, Inc.	Houston	1,000	USD	1,000	100%	USD	1	698,838
Petroleum Geo-Services (UK) Ltd.	London	222,731,726	GBP	222,731,726	100%	GBP	1	1,044,315
Seahouse Insurance Ltd.	Bermuda	120,000	USD	120,000	100%	USD	1	8,165
Multiklient Invest AS	Oslo	100,000	NOK	10,000,000	100%	NOK	100	318,305
PGS Shipping AS	Oslo	4,733,975	NOK	9,467,950	100%	NOK	2	5,140,992
Petroleum Geo-Services Asia Pacific Pte. Ltd.	Singapore	100,000	SGD	100,000	100%	SGD	1	672,391
PGS Investigacào Petrolifera Ltda.	Brazil	---	BRL	5,000	99%	BRL	---	---
Hara Skip AS	Oslo	1,066,016	NOK	106,601,600	100%	NOK	100	804,866
Oslo Seismic Services Ltd.	Isle of Man	1	USD	1	100%	USD	1	33,570
PGS Australia Pty. Ltd.	Perth	---	---	---	100%	---	---	49,633
PGS Mexicana SA de CV	Mexico	1,467,917	MXN	146,791,700	99.8%	MXN	100	55,090
PGS Venezuela de C.A.	Venezuela	5,015,000	VEB	5,015,000,000	100%	VEB	1,000	---
PGS Overseas AS	Oslo	100	NOK	100,000	100%	NOK	1,000	100
PGS Suporte Logistico e Servicos Ltda.	Brazil	12,088,000	BRL	12,088,000	1%	BRL	1	369
PGS Japan K.K.	Japan	10,000,000	JPY	10,000,000	100%	JPY	1	563
PGS Exploration (Norway) AS	Oslo	501,000	NOK	501,000	100%	NOK	1	11,175
PT PGS Nusantara	Indonesia	275	IDR	275,000,000	99.6%	IDR	1,000,000	186
Arrow Seismic ASA	Bergen	23,500,000	NOK	282,000,000	100%	NOK	12	2,686,010
MTEM Limited	Scotland	270,000	GBP	270,000	100%	GBP	1	798,910
PGS Falcon AS	Oslo	43,195	NOK	4,319,500	100%	NOK	100	24,489
Total								14,140,302

(a) Voting rights are equivalent to shareholding for all companies.

In 2003, PGS ASA sold its Atlantis oil and gas activities to Sinochem. PGS ASA may receive additional proceeds of $6.0 million (approximately NOK 42.0 million) upon the occurrence of certain contingent events.

In June 2007, PGS ASA acquired 100% of the shares in MTEM Limited ("MTEM"), a provider of electromagnetic ("EM") services used to detect the presence of hydrocarbons. In November 2007, PGS ASA acquired the majority of the shares in Arrow Seismic ASA ("Arrow") and in December PGS ASA issued a mandatory offer to acquire the remaining outstanding shares. Arrow owns and operates seismic vessels. See Note 5 to the consolidated financial statements for further information on these acquisitions.

In October 2008, the fully owned subsidiary PGS Geophysical AS demerged the vessel *Falcon Explorer* into a separate company, PGS Falcon AS. As of December 31, 2008, PGS Falcon AS is a fully owned subsidiary of PGS ASA.

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

Note 7 - Other Financial Long-Term Assets

Other financial long-term assets consist of:

	December 31,	
(In thousands of NOK)	2008	2007
Long-term receivables	25,285	19,576
Unrealized gain hedge contracts (Note 12)	5,072	42,912
Licenses, net (a)	105	290
Total	30,462	62,778

(a) Amortization of licenses was NOK 185,218 for each of the years ended December 31, 2008 and 2007.

Note 8 - Other Current Assets

Other current assets consist of:

	December 31,	
(In thousands of NOK)	2008	2007
Unrealized gain hedge contracts (Note 12)	95,358	115,027
Prepaid expenses	2,401	2,381
Other	558	---
Total	98,317	117,408

Note 9 - Restricted Cash

Restricted cash consist of:

(In thousands of NOK)	December 31, 2008	2007
Restricted payroll withholding taxes	2,226	2,454
Prepaid mandatory offer on Arrow ASA (Note 6 and 16)	---	205,529
Other	---	2,412
Total	2,226	210,395

Note 10 - Shareholders' Equity

Changes in shareholders' equity for the years ended December 31, 2008 and 2007 are as follows:

	Paid-in capital			Other equity		
(In thousands of NOK)	Common stock	Own shares, par value	Additional paid-in capital	Net unrealized gain (loss) reserve	Other equity	Shareholders' equity
Balance as of January 1, 2007	540,000	---	3,641	5,621	3,920,770	4,470,032
Employee share options	---	---	6,043	---	---	6,043
Interest rate swaps/forward exchanges contracts	---	---	---	(5,621)	(117,830)	(123,451)
Acquired/transferred treasury shares, net	---	(13,848)	---	---	(631,490)	(645,338)
Exercise, employee share options	---	1,513	---	---	69,802	71,315
Dividends	---	---	---	---	(1,762,535)	(1,762,535)
Issue of convertible notes	---	---	---	---	367,715	367,715
Net income	---	---	---	---	3,063,563	3,063,563
Balance as of December 31, 2007	540,000	(12,335)	9,684	---	4,909,995	5,447,344
Deferred tax on convertible notes and other (a)	---	---	---	---	(96,698)	(96,698)
Change in valuation allowance on deferred tax assets (b)	---	---	---	---	332,913	332,913
Transferred treasury shares (MTEM)	---	545	---	---	(545)	---
Employee share options	---	---	7,544	---	---	7,544
Exercise, employee share options	---	369	---	---	14,507	14,876
Interest rate swaps/forward exchange contracts (net of tax)	---	---	---	---	(117,736)	(117,736)
Repurchase of convertible notes	---	---	---	---	(1,938)	(1,938)
Net income	---	---	---	---	358,588	358,588
Balance as of December 31, 2008	540,000	(11,421)	17,228	---	5,399,086	5,944,893

(a) Effective January 1, 2008, PGS ASA calculated deferred tax on the temporary differences related to the convertible notes and qualifying cash flow hedge instruments charged directly to shareholders' equity.

(b) Effective January 1, 2008, PGS ASA re-considered its basis for not recognizing certain deferred tax assets as of December 31, 2007. As a result of this re-consideration, shareholder's equity and deferred tax assets were increased by approximately NOK 332.9 million as of January 1, 2008 for deferred tax assets that were "more likely than not" of being realized at year-end 2007 (see Note 4).

As of December 31, 2008, Petroleum Geo-Services ASA has a share capital of NOK 540 million divided on a total of 180,000,000 shares, of par value NOK 3, each fully paid in. Authorized number of shares was 220,666,667.

All shares have equal voting rights and are entitled to dividends. Any distribution of PGS ASA's equity is dependent on the approval of the shareholders, and the ability to make distributions is limited by certain debt covenants and Norwegian Corporate Law (see Note 25 to the consolidated financial statements). A listing of PGS ASA's largest shareholders is provided in Note 31 to the consolidated financial statements.

As of December 31, 2007, the Board of Directors had obtained shareholder authorization for a share repurchase program up to 10% of PGS ASA's share capital, which authorization was valid until June 2008. At the Annual General Meeting ("AGM") on May 8, 2008, approval was given to acquire own shares with a nominal value totaling NOK 54,000,000. The amount paid per share shall be a minimum of NOK 3 and a maximum of NOK 300. The shares may be used for the fulfilment of the Company's employee share option programs, as part of consideration for any mergers, demergers or acquisitions involving the Company, by way of cancellation of shares in part or full, or to raise funds for specific investments. This authorization is valid until May 2009.

PGS ASA's holding of treasury shares reconciles as follows:

	Treasury shares	% of total shares outstanding
Acquired in 2007	4,979,500	
Used to fulfil employee share option program in 2007 (a)	(504,210)	
Used to fulfil deferred considerations, acquired companies (b)	(363,534)	
Balance at December 31, 2007	4,111,756	2.28%
Used to fulfil employee share option program in 2008 (a)	(123,000)	
Used to fulfil deferred considerations, acquired companies (b)	(181,767)	
Balance at December 31, 2008	3,806,989	2.11%

(a) See Note 33 to the consolidated financial statements.
(b) See Note 27 to the consolidated financial statements.

The average number of treasury shares in the years ended December 31, 2008 and 2007 were 3,985,752 and 2,844,557, respectively.

At the AGM on June 15, 2007, the shareholders of PGS ASA approved a special dividend of NOK 10 per share (total of NOK 1.8 billion). The dividend was paid on July 15, 2007. No dividend was distributed in the year ended December 31, 2008.

Note 11 - Debt and Guarantees

Long-term debt
Long-term debt consists of the following:

	December 31,	
(In thousands of NOK)	2008	2007
Unsecured:		
10% Senior Notes, due 2010	31,566	24,421
Secured:		
Term loan, Libor + margin, due 2015	4,002,398	3,231,740
Revolving credit facility, due 2012	1,609,356	1,299,192
Convertible notes:		
Convertible notes, due 2012	2,139,004	1,797,315
Total debt	7,782,324	6,352,668
Less current portion	---	(675,112)
Less capitalized loan cost	(63,816)	(80,894)
Total long-term debt	7,718,508	5,596,662

Aggregate maturities of long-term debt are as follows:

(In thousands of NOK)	December 31, 2008
Year of repayment:	
2009	---
2010	1,682,906
2011	41,983
2012	2,180,987
2013	41,983
Thereafter	3,834,465
Total	7,782,324

In 2008, PGS ASA made long-term debt repayments of NOK 288.4 million ($51.4 million) related to repurchase of convertible notes and repayments of the Term Loan. In 2007, the repayment was NOK 1.4 billion ($246.6 million), which was mainly due to the refinancing of PGS ASA' senior secured credit facility.

In 2008, PGS ASA made repayments of the Term Loan (maturing 2015, see below) of NOK 127.6 million ($25.0 million). PGS ASA has hedged the interest rate on 70% of the borrowings under the Term Loan (92% in 2007) by entering into interest rate swaps where PGS ASA receives floating interest rate based on 3 months LIBOR and pays fixed interest rate payments based on from 1.5 to 5.75 years fixed rates. See Note 12 for further information.

In the third and fourth quarter of 2008, PGS ASA repurchased $45.5 million of nominal value of convertible notes, issued in 2007, and recognized an aggregate gain of NOK 77.1 million ($12.1 million) on these transactions in 2008, classified as other financial items (see Note 3).

The $400.0 million convertible notes were issued in December 2007 and are due 2012. The convertible notes are convertible into ordinary shares of PGS ASA. The total number of shares to be issued if all convertible notes are converted at the initial conversion price is 10.2 million ordinary shares, representing 5.67% of PGS ASA' current issued ordinary share capital. Due to repurchases in 2008, 9.0 million shares are issuable if all the notes were converted at December 31, 2008. The conversion price was set at NOK 216.19 per share and is fixed in USD bared upin the fixed exchange rate, which represented a 40% premium over the volume weighted average price of PGS ASA's ordinary shares at the time of offering. The fixed rate of exchange is set at 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrear. The equity element of the convertible notes was calculated to 17.1% of the nominal value (NOK 375.7 million/$68.4 million) and was recorded as a direct contribution to accumulated earnings (shareholders' equity) net of allocated portion of loan costs (NOK 8.2 million/$1.5 million).

PGS ASA' senior secured credit facility of NOK 5.6 billion ($950.0 million) consists of an eight-year NOK 3.5 billion ($600.0 million) term loan B ("Term Loan") (maturing 2015) and a five-year NOK 2.1 billion ($350.0 million) revolving credit facility ("RCF") (maturing 2012). The Term Loan, which has no financial maintenance covenants, has a floating interest rate of LIBOR + 175 basis points. The credit agreement generally requires PGS ASA to apply 50% of excess cash flow to repay outstanding borrowings for periods when our total leverage ratio exceeds 2.5:1 or our senior leverage ratio exceeds 2:1 (see Note 26 to the consolidated financial statements). Excess cash flow for any period is defined as net cash flow provided by operating activities during that period less capital expenditures made in that period or committed to be made in the next period, less debt service payments and less accrued income taxes to be paid in the next period. PGS ASA can make optional payments to reduce the outstanding principal balance at no penalty. The Term Loan is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of certain material subsidiaries and is guaranteed by the same material subsidiaries. In addition, PGS ASA may also be able to borrow an additional NOK 2.2 billion ($400.0 million) either as a term loan or as an RCF, which would be secured by the same collateral that secures the Term Loan and borrowings under the existing RCF.

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

Bank credit facilities
Under the senior secured credit facility established in June 2007, PGS ASA has an RCF of NOK 2.1 billion ($350.0 million) maturing in 2012. The RCF has a NOK 354.0 million ($60.0 million) sub-limit for issuance of letter of credits, whilst the bonding facility (for issuance of bid and performance bonds) included in this sub-limit under the previous RCF was in June 2007 replaced by a separate NOK 81.0 million ($15.0 million) bonding facility. PGS ASA may borrow USD, or any other currency freely available in the London banking market to which the lenders have given prior consent, under the RCF for working capital and for general corporate purposes. Borrowings under the RCF bear interest at a rate equal to LIBOR plus a margin of 1.5%.

At December 31, 2008 and 2007, PGS ASA had borrowed NOK 1.6 billion ($230.0 million) and NOK 1.3 billion ($240.0 million), respectively, in cash advances, and NOK 31.5 million ($4.5 million) and NOK 13.0 million ($2.4 million), respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and NOK 156.0 million ($22.3 million) and NOK 73.0 million ($13.5 million), respectively, of bid and performance bonds were drawn under the separate bonding facility, combined with an uncommitted limit extension, with an applicable margin of 1.4%.

In 2005, PGS ASA established an overdraft facility of NOK 50.0 million as part of our Norwegian cash pooling arrangement. This facility will continue until cancelled.

Long-term intercompany debt
There is no fixed plan for repayment of long-term intercompany debt.

Covenants
In addition to customary representations and warranties, PGS ASA's loan and lease agreements include various covenants. See Note 25 to the consolidated financial statements for additional information.

Letters of credit and guarantees
PGS ASA had aggregate outstanding letters of credit and related types of guarantees, not reflected in the accompanying financial statements, of NOK 268.9 million ($38.4 million) and NOK 100.7 million ($18.6 million) (including the NOK 187.5 million ($26.8 million) and NOK 86.0 million ($15.9 million) described above) as of December 31, 2008 and 2007, respectively.

Note 12 - Financial Instruments

Fair values of financial instruments
The carrying amounts of cash and cash equivalents, restricted cash, other current assets, accounts payable and accrued expenses approximate their respective fair values because of the short maturities of those instruments. The carrying amounts and the estimated fair values of debt instruments are summarized as follows:

	December 31, 2008			December 31, 2007		
(In thousands of NOK)	Carrying amounts	Notional amounts	Fair values	Carrying amounts	Notional amounts	Fair values
Loans measured at amortized cost:						
Long-term debt (Note 11)	7,782,324	---	5,491,855	6,352,668	---	6,240,892
Derivatives measured at fair value through shareholders' equity:						
Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a)	(322,353)	2,623,950	(322,353)	(98,863)	2,977,315	(98,863)
Derivatives measured at fair value through statement of operations:						
Forward exchange contracts, net unrealized (loss) gain (a)	(251,498)	3,004,421	(251,498)	105,976	3141,448	105,976
Interest rate swaps, net unrealized (loss) gain (a)	(11,024)	174,930	(11,024)	---	---	---

(a) The carrying amounts of forward exchange contracts and interest rate swaps are classified in the balance sheet as follows:

	December 31,	
(In thousands of NOK)	2008	2007
Interest rate swaps, net (qualifying hedges)	(322,353)	(98,863)
Forward exchange contracts, net	(251,498)	105,976
Interest rate swaps, net	(11,024)	---
Total	(584,875)	7,113
Classified as follows:		
Other financial long-term asset (long-term unrealized gain) (Note 7)	5,072	42,912
Other current asset (short-term unrealized gain) (Note 8)	95,358	115,027
Other long-term liabilities (long-term unrealized loss) (Note 13)	(363,083)	(112,843)
Accrued expenses (short-term unrealized loss) (Note 16)	(322,222)	(37,983)
Total	(584,875)	7,113

The fair values of the long-term debt instruments, forward exchange contracts and interest rate swaps are estimated using quotes obtained from dealers in such financial instruments or latest quoted prices at Reuters or Bloomberg.

The fair value of the liability component of convertible notes is determined by either obtaining quotes from dealers in the instrument or discounting the contractual stream of future cash flows (interest and principal) to the present value at the current rate of interest applicable to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the equity component.

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

As of December 31, 2008, PGS ASA has outstanding interest rate swaps in the aggregate notional amount of NOK 2.8 billion ($400.0 million) relating to the Term Loan established in June 2007 (see Note 11). As of December 31, 2007, PGS ASA had outstanding interest rate swap agreements in the aggregate notional amount of NOK 3.0 billion ($550.0 million) relating to the Term Loan (see Note 11). Under the interest rate swap agreements PGS ASA receives floating interest rate payments and pays fixed interest rate payments. The weighted average fixed interest rates under the contracts are as follows:

	December 31, 2008		December 31, 2007	
Matures in:	Notional amounts ($ thousands)	Weighted average fixed interest rate	Notional amounts ($ thousands)	Weighted average fixed interest rate
1 year	---		150,000	4.84%
1 – 2 years	100,000	5.17%	---	
2 – 3 years	---		100,000	5.17%
3 – 4 years	200,000	5.05%	---	
4 – 5 years	---		200,000	5.05%
> 5 years	100,000	5.18%	100,000	5.18%
Total	400,000	5.11%	550,000	4.97%

The aggregate negative fair value of these interest rate swap agreements at December 31, 2008 and 2007 was NOK 333.4 million ($47.6 million) and NOK 98.9 million ($18.3 million), respectively.

Interest rate hedge accounting
As of December 31, 2008, NOK 2.6 billion ($375.0 million) out of the total notional amount of interest rate swaps of NOK 2.8 billion ($400.0 million) were accounted for as cash flow hedges. As of December 31, 2007, the total notional amount of interest swaps of NOK 3.0 billion ($550.0 million) were accounted for as cash flow hedges. In the years ended December 31, 2008 and 2007, the value of these instruments were recorded as a reduction in other equity as the effective portion of the designated and qualifying hedging instrument (see Note 10).

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

In 2008, PGS ASA continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR and BRL on forward contracts. During 2006, PGS ASA entered into currency hedges (NOK/USD) relating to the contracts to build two new Ramform vessels to be delivered in 2008 and 2009 and during 2007 PGS ASA entered into currency hedges related to the sale of *Ramform Victory* (USD/JPY) with final payment of the vessel taking place in February 2008 (see Note 16 to the consolidated financial statements).

As of December 31, 2008, PGS ASA has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately NOK 3.0 billion ($429.4 million) (notional amount) with a negative fair value of NOK 251.5 million ($35.9 million). As of December 31, 2007, PGS ASA had open forward contracts to buy GBP, NOK, SGD, JPY and EUR amounting to approximately NOK 3.2 billion ($580.3 million) with a positive fair value of NOK 106.0 million ($19.6 million).

Foreign exchange rate hedge accounting
The derivatives entered into to hedge the exposure created by the contracts to build the new Ramforms have, where applicable, been designated as fair value hedges. As of December 31, 2008 and 2007, respectively, NOK 494.0 million ($70.6 million) and NOK 793.9 million ($146.7 million) out of the total notional amount of foreign exchange contracts of NOK 3.0 billion ($429.4 million) and NOK 3.2 billion ($580.3 million) are accounted for as fair value hedges, with negative fair value of NOK 10.7 million ($1.5 million) as of December 31, 2008 and positive fair value of NOK 73.9 million ($13.6 million) as of December 31, 2007. 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.

The derivatives hedging the sale of *Ramform Victory* (see above) were designated as cash flow hedges in October 2007. All hedges related to this transaction matured before the end of 2008 an there were no further cash flow hedges designated in the year ended December 31, 2008 (see Note 10).

Note 13 - Other Long-Term Liabilities

Other long-term liabilities consist of:

	December 31,	
(In thousands of NOK)	2008	2007
Unrealized loss hedge contracts (Note 12)	363,083	112,843
Pension liability (Note 14)	20,620	19,184
Accrued bonus (exceeding 12 months)	2,112	26,277
Other long-term liabilities	29,084	22,465
Total	414,899	180,769

Note 14 - Pension Obligations

Defined benefit plan
PGS ASA sponsors a defined benefit pension plan for its Norwegian employees, comprising 12 persons. This plan is funded through contributions to an insurance company, after which the insurance company undertake the responsibility to pay out the pensions. It is PGS ASA’s general practice to fund amounts to this defined benefit plan, which is sufficient to meet the applicable statutory requirements. As of January 1, 2005, the defined benefit plan was closed for further entrants and a new defined contribution plan was established for new employees (see separate section below).

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

Net periodic pension costs for PGS ASA's defined benefit pension plan are summarized as follows:

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Service costs	2,430	2,751	3,046
Interest cost	859	740	976
Expected return on plan assets	(424)	(373)	(625)
Amortization of actuarial gain	(231)	(153)	---
Administrative costs	77	82	86
Payroll tax	415	430	491
Net periodic pension costs	3,126	3,477	3,974

The pension liability has been calculated based on the underlying economic realities. The aggregate funded status on the plan and amounts recognized in PGS ASA's balance sheet is as follows:

	December 31,	
(In thousands of NOK)	2008	2007
Funded status	6,538	12,077
Unrecognized actuarial loss	11,534	4,736
Accrued payroll tax	2,548	2,371
Net pension liability	20,620	19,184

Net amount recognized as accrued pension liability is presented as other long-term liabilities (see Note 13).

Assumptions used to determine benefit obligations:

	December 31,	
	2008	2007
Discount rate	3.8%	4.5%
Return on plan assets	5.8%	5.5%
Compensation increase	4.0%	4.0%
Annual adjustment to pensions	1.5%	4.0%

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, 2008 and 2007 was NOK 1.0 million and NOK 0.5 million, respectively.

Note 15 - Commitments

PGS ASA's operating lease commitments relates to corporate administration and expires on various dates through 2010. Future minimum payments related to non-cancelable operating leases existing at December 31, 2008 are as follows:

(In thousands of NOK)	December 31, 2008
2009	3,358
2010	3,358
Total	6,716

Rental expense for operating leases, including leases with terms of less than one year, was NOK 11.0 million, NOK 12.4 million and NOK 7.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 16 - Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
(In thousands of NOK)	2008	2007
Accrued unrealized loss hedging (Note 12)	322,222	37,983
Accrued salary (including bonus)	41,216	45,069
Accrued interest expense	22,402	6,728
Accrued mandatory offer Arrow Seismic ASA (Notes 6 and 9)	---	205,529
Other	50,551	27,555
Total	436,391	322,864

Note 17 - Salaries and Other Personnel Costs, Number of Employees, and Remuneration to the Board of Directors, Executive Officers and Auditors

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

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Salaries and bonus	57,130	52,165	45,890
Social security	6,866	9,959	5,765
Pension	4,136	3,982	4,192
Other benefits	4,299	3,694	3,402
Total	72,431	69,800	59,249

As of December 31, 2008, PGS ASA had 29 full time employees. Average labor years for the years ended December 31, 2008 and 2007 were 26 and 23, respectively.

Compensation to Board of Directors, CEO and Other Executive Officers
For a full listing of our Board of Directors, CEO and Other Executive Officers and their compensation, see Note 35 to the consolidated financial statements.

Share option programs
In the third quarter of 2006 and the second quarter of 2008, PGS ASA established employee share option programs and granted options to certain key employees, see Note 33 to the consolidated financial statements. For the years ended December 31, 2008, 2007 and 2006, PGS ASA recorded compensation costs of NOK 7.5 million, NOK 6.0 million and NOK 3.6 million, respectively, recognized in additional paid-in capital. Total net unrecognized compensation cost as of December 31, 2008 was NOK 10.0 million (related to non-vested share-based options), which is expected to be recognized over a period of 2.5 years (main portion within 1 year).

In 2008 and 2007, respectively, 123,000 and 504,210 options were exercised. PGS ASA used own treasury shares to facilitate these transactions and recognized NOK 14.9 million and NOK 71.3 million in shareholders' equity in 2008 and 2007, respectively (see Note 10).

Remuneration of auditor
Fees for audit and other services provided by PGS ASA's auditor are as follows (exclusive VAT and inclusive out of pocket expenses):

	Years ended December 31,		
(In thousands of NOK)	2008	2007	2006
Audit fees (a)	3,189	3,568	21,698
Other attestation services (b)	---	478	5,325
Fees for tax services (c)	188	16	---
All other fees (d)	31	---	3,854
Total	3,408	4,062	30,877

(a) Audit fees for 2006 include fees incurred for the group related to the audit of internal control over financial reporting under the Sarbanes-Oxley Act.
(b) Other attestation services for 2006 include fees related to attestation services in connection with the Petrojarl demerger.
(c) Include fees for tax filing services and other tax assistance.
(d) All other fees for 2006 include fees for assistance in connection with preparation for management's attestation under Sarbanes-Oxley Act.

Note 18 - Warranties

Petroleum Geo-Services ASA provides letters of credit and related types of guarantees on behalf of subsidiaries, which normally are claimed in contractual relationships were subsidiaries are contracting parties. These guarantees are considered to be ordinary in contractual relationships, as well as in PGS ASA's ordinary operations. See also Note 25 to the consolidated financial statements.

AUDITOR'S REPORT

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

AUDITOR'S REPORT FOR 2008

Respective Responsibilities of Directors and Auditors
We have audited the annual financial statements of Petroleum Geo-Services ASA as of 31 December 2008, showing a profit of NOK 358 588 000 for the parent company and a profit of USD 418 090 000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the parent company's financial statements. The rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion,

- the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the parent company as of 31 December 2008, and the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the group accounts are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of 31 December 2008, the results of its operations, its cash flows and the changes in equity for the year then ended, in accordance with the rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

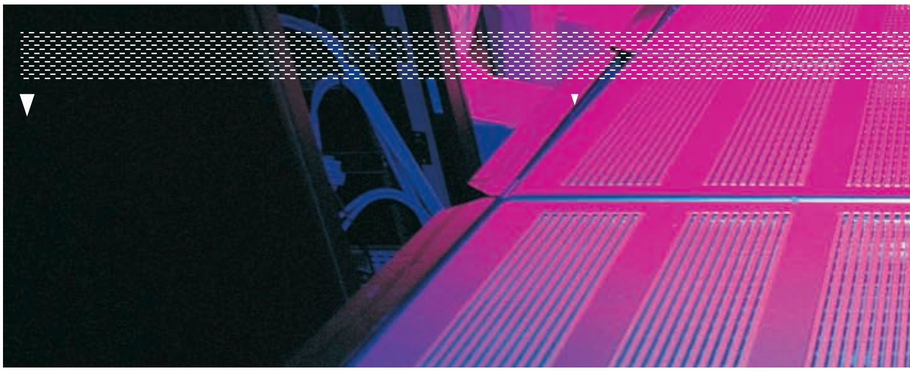
Oslo, 27 March 2009
KPMG AS

Arne Frogner
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only

PGS

A Clearer Image



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