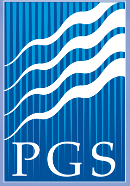

Petroleum Geo-Services ASA

# ANNUAL REPORT 2010

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## Financial Calendar 2011

**Q1 2011 Earnings Release**
May 4, 2011

**Annual General Meeting**
May 11, 2011

**Q2 2011 Earnings Release**
July 28, 2011

**Q3 2011 Earnings Release**
October 28, 2011

## Key Financial Figures (continuing operations)

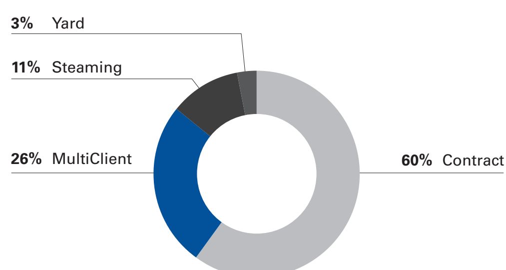
| | 2010 | 2009 |
|---|---|---|
| *In millions of US dollars, except per share data* | | |
| Revenues | 1,135.1 | 1,350.2 |
| EBITDA (as defined) | 463.3 | 672.1 |
| Operating profit excl. special items | 136.9 | 386.9 |
| Net income | (7.6) | 165.8 |
| EPS basic | (0.04) | 0.88 |
| EPS diluted | (0.04) | 0.88 |
| | | |
| Cash flow from operations | 343.4 | 676.1 |
| Capital expenditures | 211.4 | 231.2 |
| MultiClient cash investments | 166.7 | 183.1 |
| | | |
| Total assets | 3,001.5 | 2,929.4 |
| MultiClient library | 310.8 | 293.2 |
| Cash and cash equivalients | 432.6 | 126.0 |
| Shareholders equity | 1,721.8 | 1,449.0 |
| Net interest bearing debt | 286.4 | 774.0 |

## Non Financial Figures

| | 2010 | 2009 |
|---|---|---|
| | | |
| Average head count | 2,090 | 2,192 |
| Lost Time Incident Frequency (LTIF) | 0.60 | 0.53 |
| Total Recordable Case Frequency (TRCF) | 1.96 | 1.75 |

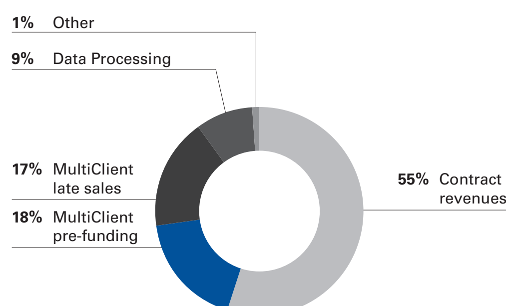
## Vessel Utilization 2010

*In percent of total streamer months*




## Revenues 2010

*Split of total revenues in percent*



# 2010 HIGHLIGHTS

**REVENUES** of $1,135.1 million

**EBITDA** of $463.3 million

**OPERATING PROFIT**, excluding impairment charges, of $136.9 million

**CASH FLOW** from operations of $343.4 million

**STRONGEST BALANCE SHEET** in the history of PGS

**MULTICLIENT SALES** of $390.5 million

**PRE-FUNDING LEVEL** of 119 percent of capitalized MultiClient cash investments

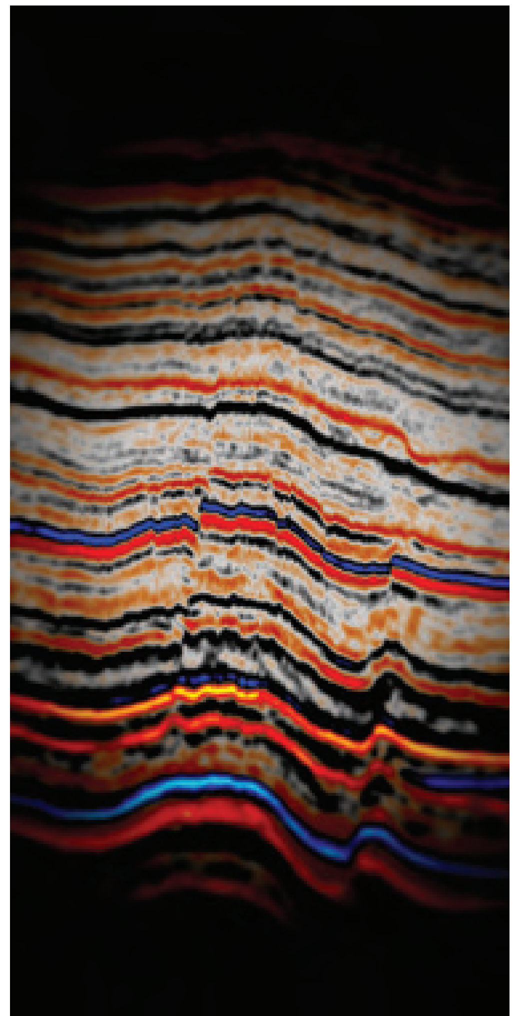
**COMPLETED SALE OF ONSHORE** to Geokinetics in the first quarter

**ACCELERATED GEOSTREAMER® ROLLOUT** on the back of strong GeoStreamer demand

**RECEIVED EUR 119 MILLION** from the termination of the three shipbuilding contracts in Spain

**TOOK DELIVERY OF *PGS APOLLO***, a purpose built 10-streamer vessel for the mid range segment

***RAMFORM EXPLORER* UPGRADED** to become one of the most productive vessels in the industry



A seismic image after it has been processed.

The delta-shaped hull with an extremely wide aft beam is characteristic of the Ramform design, here *Ramform Valiant* is carrying out seismic acquisition.

**SIGNED AN AGREEMENT WITH PETROBRAS** to install the OptoSeis fiber optic system on the Jubarte field

**LAUNCHED A FLEET EXPANSION AND RENEWAL PROGRAM** of two new Ramform W-class vessels

**COMPLETED A PRIVATE PLACEMENT** to preserve financial strength and strategic flexibility in addition to supporting the fleet expansion and renewal program

# WORLD WIDE OFFICES

**NORTH AMERICA**
- ■ USA, Austin
- ■ ■ USA, Houston

**CENTRAL AMERICA**
- ■ Mexico, Villahermosa

**SOUTH AMERICA**
- ■ ■ Brazil, Rio de Janeiro

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

**AFRICA**
- ■ ■ Angola, Luanda
- ■ ■ Egypt, Cairo
- ■ Libya, Tripoli
- ■ ■ Nigeria, Lagos
- ■ Sao Tome

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

**AUSTRALIA**
- ■ ■ Australia, Perth

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PGS headquarters is located in Lysaker (Oslo), Norway

PGS' Houston office

PGS' Weybridge office

PGS' Singapore office

# LETTER FROM THE CEO

## Dear Fellow Shareholder

***2010 was a challenging year for our industry. Still, we ended the year with the strongest balance sheet in PGS' history. This was enabled by our highly efficient operations, our technology advantages and strong capital discipline. The ordering of two new Ramform vessels will enhance our competitive advantage further and position us for future growth.***

In 2010 PGS emerged as a focused marine geophysical company, following the sale of the Onshore business segment to Geokinetics. In May we reorganized the Company by creating global product lines. The new organization has fewer organizational levels, strengthens our performance culture and enables faster decision processes.

Our fleet utilization was strong throughout the year, despite tough competition for contracts. In 2010 we delivered a marine contract EBIT margin of 17 percent, demonstrating our ability to deliver good earnings even at the trough of the cycle.

**«IN 2010 WE DELIVERED A MARINE CONTRACT EBIT MARGIN OF 17 PERCENT, DEMONSTRATING OUR ABILITY TO DELIVER GOOD EARNINGS EVEN AT THE TROUGH OF THE CYCLE.»**

The seismic market was significantly affected by the Macondo incident late April, putting a halt to exploration activity offshore US. As seismic capacity began to move out of the Gulf of Mexico we experienced price pressure in other regions. However, the effect was relatively limited, as West Africa and Europe absorbed most of the capacity. A potential recovery in activity in the Gulf of Mexico could contribute to an improved seismic supply/ demand balance.

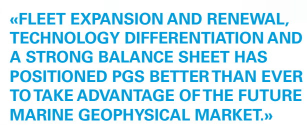
Our MultiClient business once again produced among the best returns on invested capital in the industry in 2010, with very high pre-funding levels.

Operations has also been given more focus in the new organization. This unit supports both Marine Contract and MultiClient with reliable and efficient operations as well as resource planning and fleet renewal strategies.

The demand for marine seismic is growing, particularly at the high-end of the market. To prepare for this, we announced a new-build program in 2010. The new Ramform W-class will take out the full potential from our flagship GeoStreamer technology. These vessels will further strengthen PGS's leading position in the fastest growing and most advanced segments of the seismic market. PGS is already the definite market leader in this part of the business, where large spreads, long streamers and towing efficiency are the key success factors. In 2010, we also strengthened our position in this high-end market by continuing our GeoStreamer upgrade program as well as upgrading *Ramform Explorer* to become one of the best and most efficient vessels in the industry, even after its 15 years of service.

Through our successes in the high density (HD3D® and HD4D) segments we were also able to grow our share of the data processing market in 2010. Our market position was further enhanced by new processing technologies. As the size and complexity of surveys continue to grow, the productivity of the PGS acquisition and data processing gives us an even more decisive competitive edge. Our customers can gain faster access to better quality seismic data, improving their competitive position.

Technology is a key differentiator in the current market. GeoStreamer is the best proof of PGS' technology differentiation. At its launch in June 2007 it was heralded as the most significant breakthrough in streamer technology in 60 years. It is the first-ever dual-sensor streamer, yielding greater depth penetration, enhanced resolution, and improved operational efficiency. GeoStreamer technology is unique in its ability to generate sharper, more precise imaging for complex targets, at great depth or beneath salt, basalt, and other complex geological structures.



**«FLEET EXPANSION AND RENEWAL, TECHNOLOGY DIFFERENTIATION AND A STRONG BALANCE SHEET HAS POSITIONED PGS BETTER THAN EVER TO TAKE ADVANTAGE OF THE FUTURE MARINE GEOPHYSICAL MARKET.»**

Jon Erik Reinhardsen
*President and Chief Executive Officer*

«WE ACHIEVED A FIBER OPTIC BREAKTHROUGH IN 2010 BY SIGNING AN AGREEMENT TO INSTALL A PERMANENT SEISMIC MONITORING SYSTEM AT THE DEEPWATER JUBARTE FIELD, OFFSHORE BRAZIL.»

Momentum for GeoStreamer continued in 2010. We accelerated the rollout and by year-end approximately 35 percent of our 3D vessels were equipped with GeoStreamer. From mid-year 2011 GeoStreamer will constitute more than 50 percent of our streamer capacity and by the end of 2013 we aim to have GeoStreamer on all our vessels.

Further, in our broad technology development portfolio, we have three very exciting applications in the pipeline: our fiber optic solution OptoSeis, towed Electro Magnetic acquisition and the recently launched GeoSource. We achieved a fiber optic breakthrough in 2010 by signing an agreement to install a permanent seismic monitoring system at the deepwater Jubarte field, offshore Brazil.

The GeoSource will further enhance our unique GeoStreamer dual sensor broadband seismic solution.

In preparation for the new-build program, PGS strengthened its financial position by raising approximately $270 million through a private share placement in 2010. We aim to maintain a robust financial position and strategic flexibility. By the end of the year, PGS reported the strongest balance sheet in the history of the Company. This solid financial position ensures that PGS can handle periods of softness in the seismic market and be able to finance the new-build program.

Our growth will enable returns to shareholders over the business cycle. We have decided to introduce a dividend policy aimed at distributing 25-50 percent of future net income to shareholders. We plan to implement the policy next year by proposing a dividend for 2011, to be paid following the 2012 annual general meeting.

Health, safety, environment, and quality – HSEQ remain our first priority. PGS has the ambition to operate in a manner that causes no harm to people or the environment. Our Lost Time Incident Frequency (LTIF) for 2010 was 0.60 per million man-hours compared to 0.53 per million man-hours in 2009, and our Total Recordable Case Frequency (TRCF) was 1.96 per million man-hours in 2010 compared to 1.75 per million man-hours in 2009. The number of high potential incidents was reduced from nine in 2009 to five 2010. Worldwide, PGS has approximately 2,090 employees. Our company has 39 offices, including 25 data processing centers, in 26 countries. Our employee base is international. We are actively working to reduce the exposure to our people and the environment.

Entering 2011, our vessels and data processing capacity are on average booked more than six months ahead, providing a strong foundation for projected earnings. Our customer base is solid and our clients are predominantly super majors, national oil companies, and larger independent oil companies.

**Outlook**

The seismic market is currently characterized by positive demand growth, offset by growth in supply of new vessels leading to overcapacity. An improved supply/demand balance is needed in order to achieve higher prices. Until a balance is restored, PGS is well positioned to handle a flat market. Our services are competitive, we offer leading technologies, and our financing is robust. PGS is well positioned to emerge from this downturn stronger relative to competitors. We consider the potential recovery of seismic activity in the Gulf of Mexico as the most significant short term factor that could contribute to a tighter market. Events in Egypt, Libya and Japan early in 2011 have impacted our operations in these countries. All personnel have been relocated or evacuated in a safe manner in accordance with our procedures. Even though the short term effect of these events is negative, we believe the long term effect will be increased focus on security of supply with regards to oil and gas reserves.

The prospects for our industry are good. Energy companies continue their search for new hydrocarbon resources in regions with deeper waters, harsher environments, extreme reservoir depths and complex geologies. These factors are likely to intensify the use of seismic as a risk mitigating tool and in particular the use of high density seismic where PGS has a leading position. Seismic is also in increased demand as a tool to monitor producing reservoirs. Such production seismic activities are typically budgeted from oil and gas companies' production budgets and are typically less exposed to cyclical variations. Our advanced fleet is uniquely positioned to compete and earn solid margins in the high density markets in the years to come.

We demonstrated our commitment to growth in 2010. Earnings capacity measured by number of streamers increased and we intend to enhance our earnings power further with the two new-builds scheduled for delivery in 2013. Fleet expansion and renewal, technology differentiation and a strong balance sheet has positioned PGS better than ever to take advantage of the future marine geophysical market.

**Jon Erik Reinhardsen**
President and CEO

**«FROM MID-YEAR 2011 GEOSTREAMER WILL CONSTITUTE MORE THAN 50 PERCENT OF OUR STREAMER CAPACITY AND BY THE END OF 2013 WE AIM TO HAVE GEOSTREAMER ON ALL OUR VESSELS.»**

# PERFORMANCE THROUGH THE CYCLE

***Petroleum Geo-Services is a focused marine geophysical company. Noted for technological innovation, PGS ranks among the world's three largest marine seismic survey, data processing, reservoir analysis, and MultiClient library suppliers. After divesting the Onshore business, PGS' operations were reorganized into four business units in 2010: Marine Contract, MultiClient, Operations, and Data Processing & Technology.***

PGS provides a broad range of geophysical and reservoir services worldwide. Key market niches are seismic acquisition, survey data processing, reservoir interpretation, and field evaluation.

After sale of the onshore business PGS is able to concentrate greater resources on further developing its Marine segment. PGS' business model is to acquire and market seismic data worldwide to oil and natural gas companies and governments. The data is vital to customers; key uses are to identify hydrocarbons, determine the size and structure of reservoirs, and optimize reservoir production. A highly efficient seismic fleet and advanced acquisition technologies are major competitive advantages of PGS.

**«A HIGHLY EFFICIENT SEISMIC FLEET AND ADVANCED ACQUISITION TECHNOLOGIES ARE MAJOR COMPETITIVE ADVANTAGES OF PGS.»**

Management and operational structures of core marine businesses were also optimized. The result is more focused and efficient operations. Within Marine Contract PGS will continue to build strategic sales and project campaigns featuring even closer cooperation with clients. PGS MultiClient will drive strategic growth independent of the Marine Contract business. Operations supports Marine Contract and MultiClient with efficient vessels, a task that includes PGS fleet additions and renewals. The Company's sophisticated, global data processing, research, and development activities are managed by Data Processing and Technology (DP&T).

Marine contract work is where PGS acquires and processes seismic data under exclusive contracts with individual customers. MultiClient work is acquisition and processing done for PGS' library of field surveys data. PGS invests in MultiClient seismic surveys, and the processed data sets and imaging are marketed to multiple customers on a non-exclusive basis. MultiClient has two revenue sources:

- Customers who are pre-funding surveys, and
- Late sales from its MultiClient library of acquired and processed data.

Reservoir Services consulting is part of the MultiClient business. Reservoir Services constitutes a dedicated team of subsurface and production geoscientists providing interpretation and reservoir characterization expertise to PGS and external customers.

DP&T has two departments:

- Data Processing provides a full range of processing, advanced imaging, and reservoir-related processing services to a global exploration and production customer base — and to PGS' MultiClient library and regional MegaSurveys.
- Geoscience & Engineering constitutes PGS' R&D center. Core projects are GeoStreamer, fiber optic technology, survey fleet efficiency, high-end imaging and automation, and electromagnetic (EM) acquisition research.

**PGS History**

In 1991, the Norwegian venture capital firm Norsk Vekst acquired all shares in A/S Geoteam in order to develop it into a worldwide seismic company. Norsk Vekst renamed the company Petroleum Geo-Services (PGS) as of 1 July 1991. Subsequently, PGS established a new subsidiary, Geoteam A/S, to which all PGS operating activities were transferred, and PGS remained a holding company. Late 1991 PGS merged with Nopec A/S. By year-end 1991, PGS had established itself as an important 2D and 3D seismic operator in the North Sea and Gulf of Mexico.

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

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

In 1998, PGS acquired Golar-Nor, which owned the vessels Petrojarl I and Petrojarl Foinhaven. The acquisition gave PGS a foothold in the Floating Production Storage and Offloading (FPSO) market. PGS subsequently added Ramform Banff and Petrojarl Varg to its fleet of FPSO vessels. As the year 2000 approached, PGS' financial situation deteriorated. Aggressive growth in an unfavorable market strained the Company's liquidity. Sale of shares in the subsidiary Spinnaker Exploration, a Gulf of Mexico oil company, and sale of PGS' data management business and related software to Landmark Graphics Corporation, a Halliburton subsidiary, provided some relief.

To secure maximum utilization of its FPSO fleet, PGS bought a 70-percent license interest in the Varg field in the North Sea from Norsk Hydro and Statoil and established the exploration and production company Pertra. PGS' liquidity situation remained challenging, and the Company sought to sell another non-core asset, the exploration and production company Atlantis. In 2001, PGS was negotiating the Atlantis sale with China National Chemicals Import and Export Corporation (Sinochem). The protracted effort to sell Atlantis remained unsuccessful, and the merger negotiations ceased. Finally, in early 2003, PGS and Sinochem reached an agreement, but at a significantly lower price than PGS' original asking price. The low Atlantis sales price at a time when the seismic market was weak, and an inability to meet debt installment payments left PGS with no alternative other than to voluntarily file for reorganization under Chapter 11 of the US Bankruptcy Code in July 2003. PGS emerged from Chapter 11 four months later.

In March 2005, Pertra was sold to Talisman and PGS became a dedicated oil services company. Divestments continued. In 2006, PGS demerged its Petrojarl floating production unit, and in late 2009, PGS' Onshore seismic business was sold to Houston-based Geokinetics.

PGS is now a focused marine geophysical company; its foremost competitive advantage is the Ramform seismic fleet. The Ramform vessel delivers proven operational capabilities, superior efficiency, and deploys state-of-the art technologies. PGS holds the industry record for towing and handling the greatest number of streamers. Fleet efficiency will improve further in 2013 when the Company takes delivery of the first Ramform W-class vessel in the first half and the second Ramform W-class in the second half. PGS' proprietary GeoStreamer technology is another key competitive advantage, complemented and enhanced by sophisticated data processing and imaging capabilities.

**«FLEET EFFICIENCY WILL IMPROVE FURTHER IN 2013 WHEN THE COMPANY TAKES DELIVERY OF ITS FIRST RAMFORM W-CLASS SURVEY VESSEL.»**

**PGS Key Figures**

In 2010, PGS again proved its ability to deliver robust performance through the cycle and maintained acceptable revenues and earnings despite a challenging market. Revenues in 2010 totaled $1.14 billion. Earnings before interest, tax, depreciation, and amortization (EBITDA) in 2010 amounted to $463.3 million, and operating profit (EBIT) excluding special items was $136.9 million. The average Marine contract EBIT margin in 2010 was 17 percent.

PGS headquarters are located at Lysaker (Oslo), Norway. The Company has offices in 26 countries around the world and operates major regional centers in London, Houston, and Singapore. At year-end 2010, PGS had approximately 2,090 full-time employees worldwide.

# MARINE CONTRACT

MARINE CONTRACT WORK IS WHERE PGS ACQUIRES SEISMIC DATA UNDER EXCLUSIVE CONTRACTS WITH ITS CUSTOMERS. IN 2010, SOME 70 PERCENT OF PGS STREAMER CAPACITY WAS USED FOR MARINE CONTRACT SEISMIC WORK.

# MARINE CONTRACT

**EFFICIENCY AND PRODUCTIVITY LEADERSHIP**
**COMPLETE MARINE CONTRACT PRODUCT OFFERING**

## Performance through the Cycle

***Despite a challenging seismic market in 2010, PGS completed the year with an EBIT margin of 17 percent on marine contract work. Maintaining order book continuity to optimize vessel utilization was a year long priority with which the Company succeeded. Fulfilling customers' requirements through new technology, HSE improvement, and relentless attention to operational efficiency are ongoing priorities. PGS' highly skilled staff, advanced technology, and efficient fleet provide an optimal platform for meeting the challenges of a cyclic market.***

Marine contract work is where PGS acquires seismic data under exclusive contracts with its customers. In 2010, some 70 percent of PGS streamer capacity was used for marine contract seismic work. PGS commands considerable respect and market share in the international marine contract market as a result of a distinct focus on specially designed seismic vessels that can tow the largest streamer spreads in the industry.

**«MEASURED IN TERMS OF COST PER STREAMER PER DAY, NO OTHER FLEET IN THE INDUSTRY HAS A LOWER AVERAGE COST BASE THAN THE PGS FLEET.»**

The ability to tow large, dense streamer spreads — as well as rapid streamer deployment and retrieval systems — are critical factors governing seismic acquisition efficiency. PGS' Ramform vessels are specially designed to excel at these tasks. Measured in terms of cost per streamer per day, no other fleet in the industry has a lower average cost base than the PGS fleet. Surveying with the lowest average cash cost per streamer per day in the industry enables PGS to deliver industry leading profit-margin figures on contract work.

In 2010, PGS' fleet consisted of:

- Seven Ramform vessels, capable of towing up to 22 streamers
- One 10 streamer vessel in the medium capacity segment
- Two classic streamer vessels, each capable of towing up to eight streamers
- Five 2D/source vessels, of which two were converted to support vessels during the year.

Late in 2010, PGS announced its fleet renewal and expansion program. The Company plans to build two fifth-generation Ramforms for delivery in first and second half of 2013, which will further enhance the PGS fleet. The vessels are designed to exploit GeoStreamer's technical and towing advantages, and a significantly upgraded GeoStreamer package will be installed onboard.

Numerous surveys have demonstrated that GeoStreamer enables clients to obtain new insights into mature exploration and production areas and more accurately predict reservoir parameters. GeoStreamer also considerably reduces the cycle time from acquisition to delivery of the final dataset: GeoStreamer technology allows considerably higher up-time under harsh weather conditions. Higher quality survey data is obtained. Unique data processing techniques further reduce the cycle time. With GeoStreamer, clients do not have to compromise, while PGS can benefit from solid profit margins.

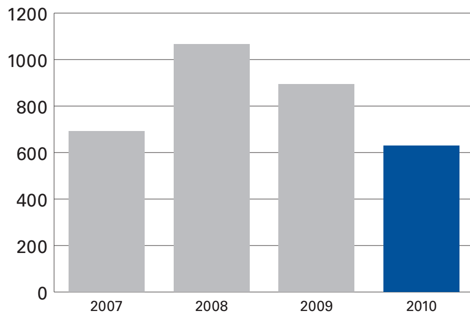
### HD3D

High Density 3D (HD3D) seismic is a premium seismic data product that addresses a broad range of challenges in exploration, reservoir description, and reservoir monitoring (4D). There are several ways to acquire HD3D. The most common HD3D technique is to use a narrower streamer separation than the 100 meters typically used for exploration seismic. Acquisition techniques such as Wide Azimuth, Multi Azimuth and repetitive 4D surveying are also HD3D product offerings.

Measured in vessel months, HD3D activity accounts for approximately 30 percent of the total seismic market. In 2010 approximately 65 percent of PGS' vessel months were dedicated to this segment. Demand for HD3D, and especially 4D surveys, is more stable

## Marine Contact Revenues

*In millions of US dollars*




than the demand for conventional 3D seismic. This factor reduces PGS' exposure to seismic market cycles. The cost-effective, high-end Ramform fleet is optimally suited to perform HD3D surveys.

PGS will invest in new HD3D capabilities that add new technologies and further improve efficiency. New revenue streams will exploit the value potential of properly sampled seismic data.

**Market and Market Position**

Looking at the total contract and MultiClient 3D market, PGS estimates that it holds a market share of approximately 25 percent measured by Common Mid Point (CMP) kilometers. Based on number of streamers, the estimated market share is 22 percent; however, in the latter comparison, the slightly lower relative market share reflects PGS' greater efficiency.

**Supply/Demand in the Seismic Market**

In 2007 and 2008, the seismic market was at a peak, and seismic service companies generated high margins. Profitability attracts capital, and substantial new capacity was ordered close to peak or at the peak of the cycle. Much of this capacity was delivered in 2009 and 2010, resulting in strong downward pressure on prices. Demand for seismic picked up significantly throughout 2010, and the new capacity has been mostly absorbed. Nonetheless, there remains an overhang of capacity in the market. Going forward, PGS expects the supply/demand balance to improve because the increase in supply is expected to be lower than the increase in demand, which grew about 10 percent annually over the last five years.

**2010 Operational Performance**

In 2010, marine contract revenues decreased to $629.1 million, down approximately 30 percent compared to 2009. The reason for the sharp decline in revenues is primarily related to the fact that most of the marine contract work done in 2009 was signed in a stronger market at more attractive rates. Work executed in 2010 reflects the challenging market for seismic services experienced since the onset of the financial crisis in late 2008. Pricing for marine contract work was generally flat in 2010. At year-end 2010, the order book for Marine, including Data Processing, was $584 million, compared with $438 million at year-end 2009.

**GeoStreamer Rollout**

GeoStreamer is a proprietary, dual sensor streamer technology unique to PGS. With the quest for remaining oil and gas fields becoming ever more challenging, deeper reservoirs are being sought, under more complex overburdens and within increasingly subtle stratigraphic traps. GeoStreamer offers customers better penetration, enhanced resolution, reduced risk, and improved imaging and attributes. In addition to better seismic data quality, the GeoStreamer can be towed deeper below the sea surface than a conventional streamer, which significantly improves operational efficiency under rough sea conditions. Experience shows that efficiency in the North Sea can be improved by up to 20-25 percent using GeoStreamer instead of a conventional streamer survey. Improved operational efficiency is a clear PGS advantage and a contributor to increased margins — while customers benefit from shorter cycle times.

Encouraged by feedback and demand from clients, PGS accelerated the GeoStreamer rollout in 2010, and by year-end, there were four 3D vessels equipped with GeoStreamer, of which three were Ramform vessels. Installation of the new streamer technology will continue in 2011 with *Ramform Viking* as the first vessel scheduled for GeoStreamer upgrade.

**Goals and Strategies**

PGS aims to capture value from its strong operating platform by leveraging productivity leadership, increasing vessel streamer

**«PGS HOLDS A MARKET SHARE OF APPROXIMATELY 25 PERCENT.»**

**«GEOSTREAMER OFFERS CUSTOMERS BETTER PENETRATION, ENHANCED RESOLUTION, REDUCED RISK, AND IMPROVED IMAGING AND ATTRIBUTES.»**

counts, and maximizing the Company's capacity utilization. PGS will focus on high-end value-adding products and services such as GeoStreamer, HD3D, Wide Azimuth, Multi Azimuth, and 4D surveying.

**Regional Market Outlook**

Brazil is considered the region with the strongest potential for increased activity on the back of pre-salt discoveries and expectations of more focus on 4D seismic and life of field solutions. The Gulf of Mexico is expected to return to normality following the Macondo incident. The North Sea is a mature region where 4D activity has been strong over the last years. Going forward, it is likely that seismic acquisition in the North Sea will reflect clients' needs for higher data quality. New provinces such as the Barents Sea and Offshore Greenland are expected to contribute to increased demand for 3D exploration seismic. In the Mediterranean, recent major gas discoveries will drive seismic demand in the years to come. West Africa is expected to maintain its position as an attractive market for seismic activity with increasing demand for 4D and other reservoir services as the area rapidly matures. Longer term, Asia Pacific holds huge promises with its vast areas of virtually unexplored territory and massive hydrocarbon demand growth.

# PGS KHAZAR — EXPANDING FLEET AND OPPORTUNITIES IN CIS

Since 1997, PGS has cooperated with GeoHazar regarding seismic acquisition in the Caspian Sea. In 2007, the companies started the 50/50 joint venture PGS Khazar. PGS Khazar is focusing on shallow water and transition zone 2D and 3D operations, offering both streamer and ocean bottom seismic. The joint venture's key market is the Caspian Sea, but the Azov Sea and the Black Sea are also areas of interest. The size of the market in this region is estimated to be $200-300 million a year, of which PGS Khazar currently has a market share of 10 percent.

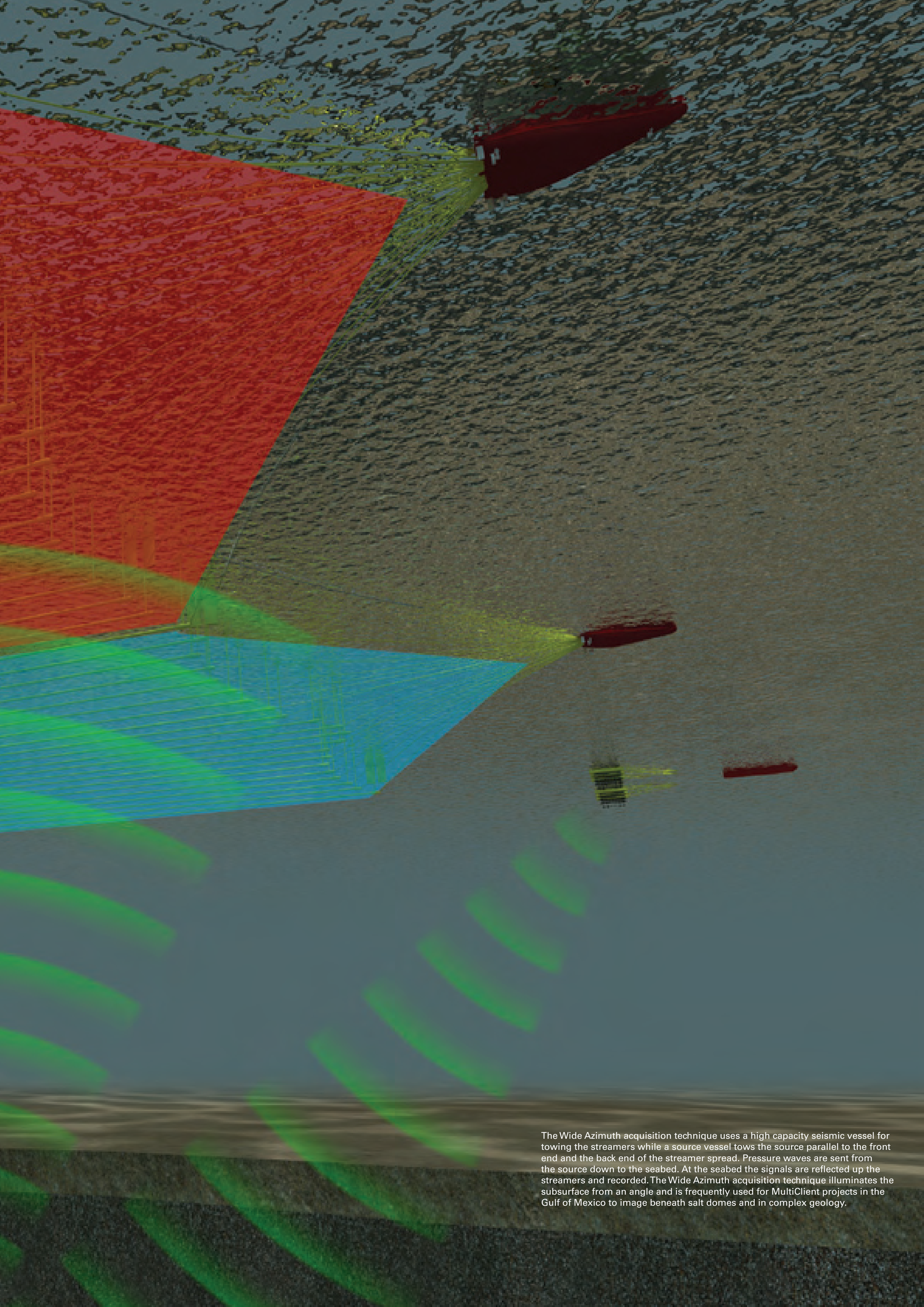
The joint venture has ambitions to grow, and that is reflected in the recent fleet expansion of two Khazar-Class seismic vessels launched in the fourth quarter of 2010. Each vessel can carry 14-16 kilometers of 2C or 4C Ocean Bottom Cable (OBC) or 4-6 kilometers of conventional streamers. There are options to proceed with a third and fourth vessel, and these vessels will join the existing fleet of other shallow water and transition zone vessels including the Morskoy Geotechnik, Geophysik-4, four Kayman vessels, Tern, and Cormorant.

The Caspian Sea is especially attractive in the CIS region due to the fact that many countries share the shelf and regulations open up to foreign contractors. In addition, the geophysical fleet of Russia is rather outdated, making efficient exploration of the Russian shelf without support of foreign technology very challenging. The outlook for the Caspian market remains strong. The Caspian market stayed strong even through the downturn in the general seismic market. There are major projects planned for the region in 2011 and 2012. In addition, PGS Khazar is looking further afield for future work for its 2D and 3D crews. The Black Sea is a very promising region, and major players such as Rosneft, Gazprom, and Naftogaz are in the process of opening up new prospects.

Purpose built vessels for shallow water and transition zone 2D and 3D operations in the Caspian Sea.

# MULTICLIENT

SEISMIC DATA PGS ACQUIRES AND PROCESSES TO BE INCLUDED IN THE COMPANY'S DATA LIBRARY IS REFERRED TO AS MULTICLIENT. PGS INVESTS IN MULTICLIENT SEISMIC SURVEYS AND THE PROCESSED DATA SETS ARE MARKETED TO MULTIPLE CUSTOMERS ON A NON-EXCLUSIVE BASIS.



The Wide Azimuth acquisition technique uses a high capacity seismic vessel for towing the streamers while a source vessel tows the source parallel to the front end and the back end of the streamer spread. Pressure waves are sent from the source down to the seabed. At the seabed the signals are reflected up the streamers and recorded. The Wide Azimuth acquisition technique illuminates the subsurface from an angle and is frequently used for MultiClient projects in the Gulf of Mexico to image beneath salt domes and in complex geology.

# MULTICLIENT

**THE WORLD'S MOST DIVERSE HIGH-TECHNOLOGY MULTICLIENT LIBRARY**
**GLOBAL OUTLOOK, LOCAL PRESENCE**
**FLEXIBLE AND UNIQUE MULTICLIENT BUSINESS MODELS**
**EXPLORATION PATHFINDERS**

## MultiClient — A World of Opportunity

***Simply put, MultiClient manages the seismic data that PGS acquires, markets and sells to multiple customers on a non-exclusive basis.***

**Why MultiClient?**
The main advantage of MultiClient is that it combines several individual surveys performed in the same area into a single, larger seismic survey. This cuts total costs and makes project turnaround considerably more efficient than acquiring each survey separately. Normally, PGS' investment and risk in the MultiClient survey is reduced by oil companies pre-funding projects. Furthermore, a good part of the survey may be acquired over open acreage, which will be made available to the oil industry for exploration, usually through future licensing rounds.

PGS owns and/or has exclusive rights to license MultiClient data to oil companies using a variety of business models that are advantageous to both PGS and its clients. Access to MultiClient data generates a wide range of opportunities. A common business model is for oil companies to pre-license the data and pay a higher royalty should they gain equity in a surveyed offshore block. MultiClient projects can yield returns significantly above those of conventional contract projects and feature a long-term earnings potential; these factors help manage business over the cycle.

**«PGS PROVIDES FLEXIBLE AND INNOVATIVE MULTICLIENT BUSINESS MODELS THAT ACCOMMODATE THE FULL RANGE OF E&P PLAYERS, FROM SMALL START-UPS TO MAJORS, INTERNATIONAL AND NATIONAL OIL COMPANIES.»**

**2010 Financial Performance**
MultiClient revenues amounted to $390.5 million in 2010, an increase of 10 percent compared with 2009. Europe, the Gulf of Mexico, and Brazil were the key areas that provided significant MultiClient revenue contributions in 2010. Asia Pacific and the eastern Mediterranean also contributed substantially to revenues.

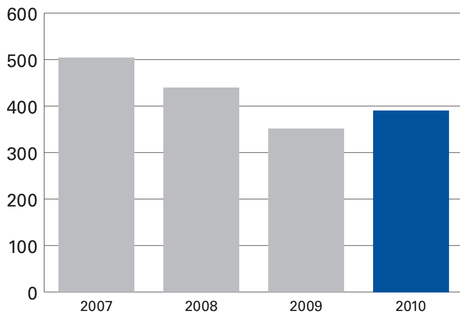
Pre-funding as a percentage of cash investments in MultiClient data, excluding capitalized interest, increased to 119 percent in 2010 from 92 percent in 2009. Capitalized cash investments in the MultiClient library, excluding capitalized interest, decreased from $183.1 million in 2009 to $166.7 million in 2010. In 2010, PGS used 70 percent of active vessel time to acquire contract seismic and 30 percent to acquire MultiClient seismic. The comparative figures for 2009 were approximately 75 percent and 25 percent, respectively. Activity levels will be ramped up in certain areas to take advantage of PGS' GeoStreamer differentiation; for example, the North Sea will be the subject of an expanding GeoStreamer reshoot program.

**Value Proposition**
The PGS value proposition to clients has evolved over the last few years, from being a provider of seismic data only to being a supplier of solutions for both prospectivity (hydrocarbon potential mapping) and exploration and production (E&P) solution. The integration of geology, geophysics, and reservoir expertise found in the PGS organization enhances the Company's ability to deliver a clear prospectivity-driven value proposition to its clients. PGS also provides flexible and innovative MultiClient business models that accommodate the full range of E&P players, from small start-ups to majors, international and national oil companies.

Attaining timely and cost effective top quality seismic data is always high on the agenda for oil companies, exploring in both mature and frontier areas. PGS can provide access to a substantial global MultiClient library plus interpretation derivatives to oil companies for both near-field and frontier opportunity screening. E&P technical advisory partnerships and joint research programs through technical collaboration are also important contributions of the PGS value proposition, which further leverages the Company's local geophysical expertise and presence.

## MultiClient Revenues

*In millions of US dollars*




### MultiClient Library

PGS owns a substantial library of marine MultiClient seismic data in all of the major oil and gas basins of the world. The marine MultiClient data library comprises approximately 421,000 square kilometers of 3D data and 264,000 line kilometers of recent 2D seismic. In addition, PGS has integrated third-party data to build MegaSurveys with a total coverage of 467,000 square kilometers, yielding the largest MultiClient 3D library in the world. MegaSurveys integrate multiple surveys into a single contiguous dataset to offer high-quality data for full basin-wide hydrocarbon prospectivity mapping and regional modeling studies.

Excluding the Crystal III Wide Azimuth project in the Gulf of Mexico, a significant majority of the MultiClient work accomplished in 2010 used GeoStreamer. Using the GeoStreamer for MultiClient allows the Company to offer a differentiated product and showcase GeoStreamer data to more clients while keeping the efficiency gains achieved at acquisition. (For more details on GeoStreamer advantages, see page 31).

### Geographic Diversity

PGS is active in most of the world's petroleum-producing offshore basins. Although the North Sea is a mature region, it remains rich in opportunity. PGS is strongly committed to this region, and GeoStreamer is redefining the seismic database. In 2010, PGS acquired approximately 8,500 square kilometers of MultiClient 3D data in the North Sea, largely via GeoStreamer. For the 2011 season, PGS plans to allocate at least three vessels to the North Sea for additional MultiClient GeoStreamer acquisition.

West Africa is an important market in which PGS is competitively positioned. In 2010, PGS acquired 3,000 square kilometers of MultiClient data in the western Nigeria Transform Margin area, and more survey area will be added in 2011. PGS has unique MegaSurvey coverage along the continental shelf of West Africa. In late 2010, the Company commenced a large 15,000 line-kilometer 2D GeoStreamer survey offshore Angola, targeting the sub-salt regions in the Kwanza, Benguela, and Namibe basins.

One reason for current high interest among oil companies operating in Angolan waters can be found in Brazilian oil province geology. About 100 million years ago, the two continents were in the process of separation, and the geology found in the Kwanza basin in Angola largely corresponds to the geology found in the Campos Basin in Brazil. The pre-salt in Brazil is currently yielding huge oil discoveries, and PGS is uniquely positioned in this market with a large MultiClient library containing 110,000 square kilometers of 3D data. The Brazil library is continuously being rejuvenated by applying the latest depth imaging technology. PGS has also embarked on creating MegaSurveys in the Campos and Santos Basins to gain a more thorough understanding of the analogues between Africa and South America. Approximately 80,000 square kilometers of Brazilian MegaSurvey data will be ready for the market in the first quarter of 2011. This dataset, combined with huge MegaSurvey coverage off West Africa, will provide clients with a unique opportunity for understanding the structural and sedimentary development of these conjugate margins, and will subsequently apply findings to the exploration for oil and gas in both Brazil and West Africa.

**«THE MARINE MULTICLIENT DATA LIBRARY COMPRISES APPROXIMATELY 421,000 SQUARE KILOMETERS OF 3D DATA AND 264,000 LINE KILOMETERS OF RECENT 2D SEISMIC.»**

The Gulf of Mexico has been and most likely will continue to be an important MultiClient market despite the impact that the Macondo incident had on the industry in 2010. Since 2006 and 2007, the Gulf of Mexico has served as a high-end technology proving ground through the Wide Azimuth surveys and the processing technologies developed to support and refine it. One of the key opportunities in the Gulf of Mexico is to re-enter the region with a GeoStreamer Wide Azimuth configuration and so move toward appraisal- and development-grade Wide Azimuth.

AsiaPacific is a large region with significant potential. MultiClient activity in the region has been primarily 2D for some time. Australia is an attractive country for MultiClient, since legislation there is transparent and stable, and there is a high turnover of acreage, which favors the MultiClient business model.

In the fourth quarter of 2010, PGS commenced a large MultiClient 3D GeoStreamer survey offshore Australia to unlock deeper potential of the Browse Basin, covering a proven oil and gas fairway on trend with the Ichthys Field.

The survey is the first significant MultiClient survey on the Northwest shelf of Australia since 1999 and the first survey in a planned GeoStreamer reshoot of the whole area. (See business case on page 25 for more details on this MultiClient project.)

**MegaSurveys and MegaProjects**

MegaSurveys and MegaProjects are well recognized PGS MultiClient products and key enablers for PGS business. These product offerings are made by seamlessly combining many MultiClient surveys — both PGS data sets and those of third parties — into large, contiguous regional surveys. This results in an ability to map and obtain unparalleled insight into the geology and hydrocarbon potential of whole basins.

**«MEGASURVEYS AND MEGAPROJECTS ARE WELL RECOGNIZED PGS MULTICLIENT PRODUCTS AND KEY ENABLERS FOR PGS BUSINESS.»**

MegaProjects integrate 2D with 3D coverage. PGS has developed these products over the last few years, giving the Company a clear market leadership. Oil companies have embraced the MegaSurvey products in their quest to place their acreage in a larger regional context for near-field exploration and for evaluation of open blocks or farm-in and farm-out opportunities. In addition, PGS uses MegaSurveys as a pathfinder for developing new MultiClient projects. These large, integrated survey products also bring value to governments by updating and including their national databases in these projects. PGS has extensive MegaSurvey coverage in the North Sea, West Africa, Brazil, Gulf of Mexico, and Northwest Australia.

**Reservoir Services**

PGS Reservoir provides skills that are not only integral to PGS MultiClient but also to PGS' Data Processing businesses. Reservoir employees are experts in sub-surface interpretation and reservoir characterization. They provide consultancy to national, major, and independent oil companies, governments, and financial institutions.

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

With increasing industry focus on enhancing oil recovery and improving reservoir understanding, PGS is investing in state-of-the-art reservoir characterization skills and technologies. It is PGS' goal to provide clients with more integrated seismic data, processing, characterization, and interpretation solutions. These represent necessary responses to the growing pressure to improve hydrocarbon recovery. PGS' reservoir-focused services will help clients better image reservoirs, quantify reservoir and fluid properties, and ultimately improve drilling success.

**Equity Business Models**

The business model of PGS Equity is to assist startup companies and smaller E&P players by providing access to MultiClient library data and/or services in return for licenses or shares of equity. It also leverages the value of combining PGS' data and services with PGS' geological, geophysical, and reservoir expertise. For each investment case, PGS develops a commercial model and exit strategy, and strives to ensure that any conflict of interest with its client base is avoided.

In 2010, the value of the PGS Equity portfolio was approximately $40 million, up from an investment level of some $27 million in 2009. On top of this portfolio value, PGS generated $40 million worth of services connected to equity business opportunities in 2010.

**Goals and Strategies**

PGS will actively continue to expand and develop its MultiClient library with coverage in all major hydrocarbon provinces. Technology, including GeoStreamer, is a strong differentiator for PGS' MultiClient library, which will be increasingly leveraged in coming years. PGS plays an important role in the industry as exploration pathfinders, providing the data and solutions that oil companies require to reduce risk in their search for oil.

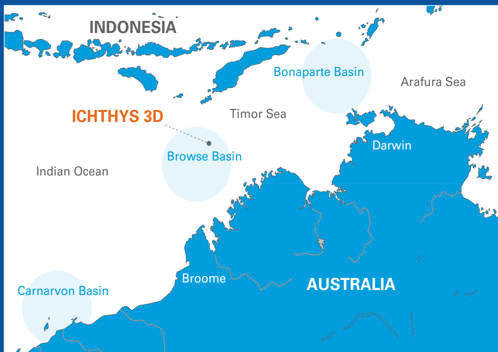
# EXPLORING THE BROWSE BASIN WITH GEOSTREAMER

In the fourth quarter of 2010, PGS commenced its first MultiClient 3D survey on the Northwest Shelf of Australia since 1999, and the third GeoStreamer MultiClient survey outside of the North Sea. The MultiClient project, called Aurora, is set to unlock deeper potential of the Browse Basin, covering a proven oil and gas fairway on trend with the Ichthys Field.

The survey is being acquired by the *Ramform Explorer* using a towing configuration of 10 GeoStreamers with 100 meter separation and a streamer length of 6,000 meters. The survey area covers approximately 7,700 square kilometers over both licensed and open acreage.

In addition to surveying the gas discovery at Ichthys and the Burnside discovery, the survey will track the upper Jurassic – lower Cretaceous gas play fairway to the Southwest. The eastern flank of the survey is believed to have significant potential for oil in both structural and stratigraphic settings in lower Cretaceous intervals.

Despite gas discoveries within the polygon of the survey, only two wells have been drilled within its perimeter, due to an industry shift away from this region in the 1980s when gas exploration was deemed less attractive. The main geologic risk in the area is seen to be trap definition, hence the need to address this with new high-quality 3D seismic.



The *Ramform Explorer* is acquiring data for the Aurora MultiClient project in the Browse Basin.

Good data quality is of paramount importance, especially in the deep and geologically complicated western flank of the survey. In 2008, PGS acquired 2D GeoStreamer lines through this area, as part of the deepwater North West shelf MultiClient 2D program. Positive response to those results was a key component in gaining support for the Aurora MultiClient 3D survey. The survey has attracted significant industry interest and financial support from the main players in this area. It is firmly believed that the ability to unlock the deeper potential of the Browse Basin using GeoStreamer will open up this area for several more surveys.

# OPERATIONS

OPERATIONS SUPPORTS BOTH MARINE CONTRACT AND MULTICLIENT WITH RELIABLE AND EFFICIENT PRODUCTION AS WELL AS RESOURCE PLANNING AND FLEET RENEWAL STRATEGIES.

# OPERATIONS

**STATE-OF-THE-ART FLEET**
**NEW RAMFORM W-CLASS**
**HSEQ PERFORMANCE DELIVERS COST-EFFECTIVE OPERATIONS**

## Consistently Ahead of the Competition

***PGS is committed to advancing seismic operations through continuous investments, including fleet renewal and growth, which improve PGS' efficiency and profitability.***

Excellent Health, Safety, Environment & Quality (HSEQ) performance is important for the cost-effective operation of seismic vessels. PGS has shown strong HSEQ performance in recent years and will strive for continued improvement. Operations personnel worldwide implement the Company's innovative HSEQ management systems, including continuous risk-assessment which improves all operations, processes, and systems. Ongoing training and employee development have been vital to creating a skilled and motivated workforce. In addition, automation of work processes on board new vessels and equipment design upgrades enhance efficiency and reduce the risk of injuries. Lost Time Incident Frequency (LTIF) per million man-hours was 0.60 in 2010 and the Total Recordable Case Frequency (TRCF) was 1.96. PGS maintains a strong environmental focus and exercises sound corporate social responsibility at all levels.

**«PGS IS RECOGNIZED THROUGHOUT THE INDUSTRY FOR ITS RAMFORM VESSELS.»**

**2010 HSEQ Marine Performance**
In 2010 Marine Operations had a Lost Time Incident Frequency (LTIF) of 0.76 per million man-hours. This was identical to the LTIF recorded in 2009. Marine Operations had a Total Recordable Case Frequency (TRCF) of 2.68 per million man-hours compared to a TRCF of 2.40 in 2009.

**The Ramform Advantage**
PGS is recognized throughout the industry for its Ramform vessels. The ships have a delta-shaped hull with a characteristic extremely wide aft beam, twice that of a conventional vessel. This allows for efficient deployment and retrieval of streamers and seismic sources. The Ramform's propulsion power is also the industry leader. The Ramform S-class has enough thrust to tow a 1.4-kilometer-wide spread of streamers that are more than eight kilometers long. The acknowledged efficiency and productivity benefits of PGS Ramform vessels — and the operational effectiveness of PGS' personnel — make the PGS fleet industry leading.

In 2010, PGS' fleet consisted of:
- Seven Ramform vessels, capable of towing up to 22 streamers
- One 10 streamer vessel in the medium-capacity segment
- Two classic streamer vessels, capable of towing up to eight streamers
- Five 2D/source vessels, of which two were converted into support vessels during the year.

PGS took delivery of *PGS Apollo* in April 2010, and the vessel commenced operations by mid-May. A purpose-built seismic vessel in the medium-capacity segment. The PGS fleet, which counts ten 3D vessels and three 2D vessels at year-end 2010, is large enough to enable redeployment with minimal steaming between jobs, an important factor for fleet efficiency.

**Low Technical Downtime — Strong Performance**
Excellent overall HSEQ performance and the industry's most efficient fleet have been key to reducing technical downtime and enhancing performance. Technical downtime as a percentage of total fleet time has dropped sharply, from roughly 14 percent in 1992 to about 3.5 percent in 2010. The record also shows fewer interruptions during production runs: From 1997 to year-end 2010, production activity uptime increased from 80 percent to 93 percent. This statistic measures the relationship between survey production activities and downtime, excluding standby, unfavorable weather, and voyage time.

Such fleet performance is unmatched in the industry. To improve it even further PGS is in

# THE FLEET TO BEAT

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

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

PGS has continued to focus on high-capacity vessels. The *Ramform Sovereign* and *Ramform Sterling*, which entered service in 2008 and 2009, respectively, were even larger and more capable than the first Ramform generations. With seven Ramforms in operation (eight if *Shigen*, the vessel sold to the Japanese Ministry of Economy, Trade and Industry is included), PGS has by far the most cost-effective fleet measured in cost per streamer per day. PGS' position on the industry cost curve will improve even more in 2011 as *Ramform Challenger* will get more propulsion power and be able to tow 12 streamers, rather than 10, on a regular basis.

Now that the age of easy oil is history, customers are surveying deeper targets in more complex areas — and re-shooting mature basins for additional reserves. The inherent capabilities of the Ramform vessels become a further advantage as customers increasingly demand high-capacity vessels, both for time-lapse surveys (4D) and exploration purposes. PGS performed the first 16-streamer survey using the *Ramform Victory* (now *Shigen*) as early as in April 2001. This is still a pioneering achievement, considering competition only rarely performs surveys with more than 10 streamers. For the past few years during the North Sea season, PGS has performed 16-streamer surveys on a regular basis.

*Ramform Sterling* is the newest vessel in the PGS fleet, capable of towing up to 22 streamers.

«IMPROVED OPERATIONAL EFFICIENCY IS A CLEAR PGS ADVANTAGE AND A SIGNIFICANT CONTRIBUTOR TO INCREASED MARGINS.»

the process of rolling out GeoStreamer on the whole fleet and will take delivery of two new vessels in the coming three years.

**Fifth-Generation Ramform**
Late 2010, PGS launched a fleet renewal and expansion program. Two fifth-generation Ramform vessels, the Ramform W-class, have been ordered from the shipyard Mitusbishi Heavy Industries. The vessels build on the demonstrated strengths of the current Ramform fleet, while improving capabilities in a number of key parameters. Delivery of the first vessel is scheduled for the first half of 2013. The vessels will further strengthen PGS' premier status in the fast-growing High Density 3D (HD3D) market segment, where a premium seismic data product is required to understand the geology at deeper target and in more complex structures. For conducting HD3D surveys large spreads are needed, with long offsets and dense streamer separation, and the new Ramform W-class is even better suited for these surveys than the existing Ramform fleet. (See business case study on page 31 for further details.)

**Rollout of GeoStreamer**
GeoStreamer is a proprietary, dual sensor streamer technology unique to PGS. With the quest for remaining oil and gas fields getting more difficult, deeper reservoirs are being sought, under more challenging conditions and within increasingly complex stratigraphic traps. GeoStreamer offers oil companies better penetration, enhanced resolution, reduced risk, and improved imaging and attributes. Demand has surpassed all expectations.

During 2008, the technology was commercialized, followed by wide acceptance among oil companies. PGS rolled out the new streamer technology on 2D vessels in 2008 to prove its benefits to customers. In 2009, PGS extended the rollout to 3D operations, and the *Atlantic Explorer* was the first 3D vessel to have the new streamer technology installed. In late 2009, *Ramform Challenger* was equipped with GeoStreamer to become the Company's first high-capacity Ramform vessel to deploy the advanced streamer technology. Survey and vessel performance has been excellent since the conversion to GeoStreamer.

Considerable demand for GeoStreamer surveys justified an accelerated GeoStreamer rollout in 2010. The *Ramform Valiant* was upgraded to a GeoStreamer vessel in the second quarter, and *Ramform Explorer* went GeoStreamer early in the third quarter. Customer acceptance of GeoStreamer has continued to grow exponentially; and demand has outstripped availability. GeoStreamer rollout will continue in 2011, with installations onboard *Ramform Viking* in the first quarter, followed by *PGS Apollo* in the second quarter. By 2013, the entire PGS fleet is expected to deploy GeoStreamer.

Along with delivering better seismic data quality, GeoStreamer significantly widens the weather window in rough-sea surveys, because GeoStreamer can be towed deeper than conventional streamers. For example, North Sea efficiency has on individual surveys seen improvements of up to 20 to 25 percent using GeoStreamer. Improved operational efficiency is a clear PGS advantage and a significant contributor to increased margins, while customers benefit from shorter cycle times.

**Capacity Adjustments**
Demand for seismic survey work dropped sharply in late 2008 as a result of the worldwide financial crisis and falling oil prices. Focus among oil companies shifted from growth to preserving cash and cutting costs. During 2009, PGS implemented measures to reduce capacity and improve the supply/demand balance by reducing capacity with 40 streamers. The Company continued its fleet optimization in 2010 by converting *Ocean Explorer* and *Falcon Explorer* from 2D/source vessels to support vessels.

# RAMFORM W-CLASS — TAKING FULL ADVANTAGE OF GEOSTREAMER EFFICIENCY

The Ramform W-class builds on the proven Ramform design to deliver advanced performance capabilities. The new Ramform vessels are bigger and can tow larger streamer spreads than the previous members of the Ramform fleet. The 70-meter-wide aft deck is equipped with 26 streamer winches, each capable of handling streamers that are 12,000 meters long. Ample working space promotes rapid deployment and retrieval of the seismic array. Two workboats in stern cradle positioned for launch from the aft deck.

Ramform W-class ships are 104 meters long, carry light ice classification, and have a steaming speed of 16 knots. Accommodations include 80 single-occupancy cabins. Because the ship bunkers 6,000 cubic meters of fuel, it can conduct non-stop operations for up to 150 days — a 30 percent longer run than any other vessel in the industry.

Along with more efficient operations, the Ramform W-class is designed to operate safely in harsh conditions and take full advantage of GeoStreamer's data gathering efficiency.

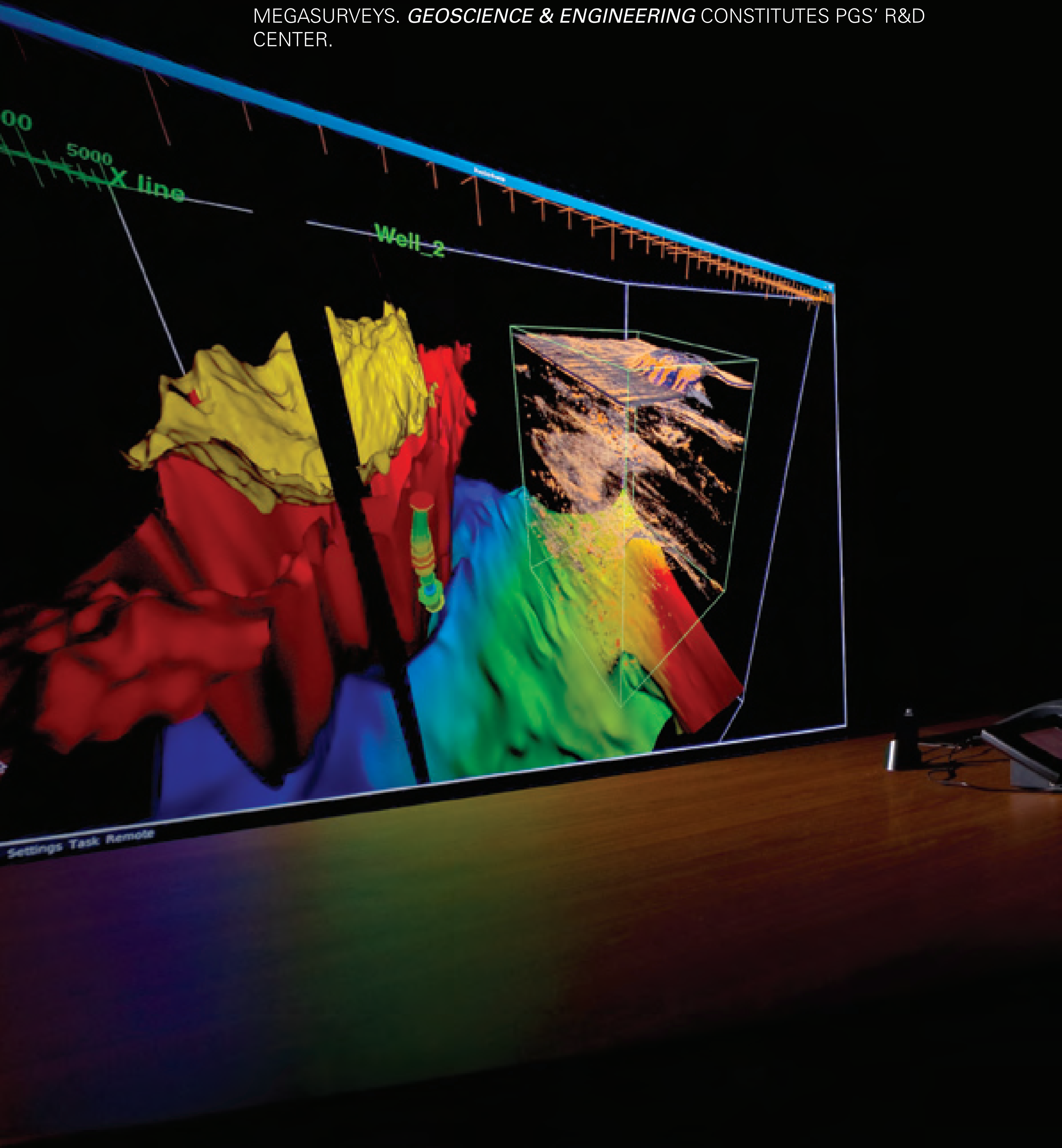
A mere three years ago, the optimal towing depth of streamers was 7-8 meters, to achieve the best signal-to-noise ratio. Waves of more than 2-3 meters high generate noise levels that distort seismic data quality, and operations had to cease. The weather window is extended with the GeoStreamer, which in addition to the hydrophone, measuring pressure, also has a geophone measuring displacement. The geophone eliminates the ghost, or signals reflected at the sea surface and down to the streamer. Therefore it can be towed as deep as 25 meters. Noise from the sea surface attenuates exponentially the deeper down in the sea the streamer is towed, and at 15 meters the noise from the sea surface is non-existent, even when wave height is five meters. Then the limiting factor for maintaining the weather benefit of the GeoStreamer is the vessel itself, considering a safe and efficient operation. The new Ramform W-class is capable of handling rough conditions better than any other vessels, and to exploit the increased weather window offered by the GeoStreamer to its full potential.

A significantly upgraded GeoStreamer seismic package will be deployed on the Ramform W-class vessels, which will enter PGS' fleet in the first half of 2013. GeoStreamer technology is opening up new markets in mature basins, such as the North Sea, where the high fidelity data can reveal new geological plays at deeper targets.

The Ramform W-class will be the most efficient seismic vessels in the world when the first is delivered in first half 2013.

# DATA PROCESSING AND TECHNOLOGY

DP&T HAS TWO DEPARTMENTS: *DATA PROCESSING* PROVIDES A FULL RANGE OF PROCESSING, ADVANCED IMAGING, AND RESERVOIR-RELATED PROCESSING SERVICES TO A GLOBAL EXPLORATION AND PRODUCTION CUSTOMER BASE — AND TO PGS' MULTICLIENT LIBRARY AND REGIONAL MEGASURVEYS. *GEOSCIENCE & ENGINEERING* CONSTITUTES PGS' R&D CENTER.



# DATA PROCESSING AND TECHNOLOGY

**DATA PROCESSING**
**GEOSCIENCE & ENGINEERING**

## Building Strong Momentum

***PGS market share in Data Processing increased to approximately 10 percent from six percent in four years and revenues from external clients more than doubled in the same period. Proprietary GeoStreamer processing, best-in-class imaging tools, and ultrafast velocity model building capabilities with hyperBeam® add to market-share momentum.***

**Data Processing**
Data Processing focuses on delivering geophysical solutions that offer significantly improved imaging and characterization of customers' reservoirs. Recent introduction of a number of state-of-the-art imaging products secured several long-term contracts. A key new technology is AGS beam migration. Strong sales growth for multi-year PGS contracts with national oil companies and international oil majors has resulted in a record order book for external-customer work and significant Data Processing growth.

«DATA PROCESSING FOCUSES ON DELIVERING GEOPHYSICAL SOLUTIONS THAT OFFER SIGNIFICANTLY IMPROVED IMAGING AND CHARACTERIZATION OF CUSTOMERS' RESERVOIRS.»

The proprietary PGS GeoStreamer technology has been implemented on a global scale, and customer acceptance is increasing exponentially. By year-end 2010, PGS had deployed GeoStreamer acquisition systems onboard four 3D vessels, all the 2D vessels, and two more upgrades to GeoStreamer had been scheduled for 2011. Current demand for GeoStreamer survey work significantly exceeds availability. Accordingly, Data Processing has established dedicated GeoStreamer processing teams at all major PGS centers worldwide.

The GeoStreamer technology has proved its capabilities on a variety of tough geological challenges, ranging from complex salt structures to shallow carbonates and many other highly challenging areas for seismic imaging. The results have been exceptional: Every single line acquired and processed has delivered improved frequency bandwidth and data quality. GeoStreamer also improves operational efficiency under rough-sea conditions, and it permits surveys in sea conditions that would shut down conventional runs. In short: GeoStreamer data is always better than conventional streamer data.

Applied Geophysical Services (AGS) beam migration is used in 80 percent of PGS' data processing centers around the world. AGS beam migration is the velocity model building tool for PGS and its customers. AGS was acquired by PGS in 2007. PGS' Villahermosa, Mexico, data processing center was established largely to apply PGS' high-end imaging services with beam migration as the center's technology choice.

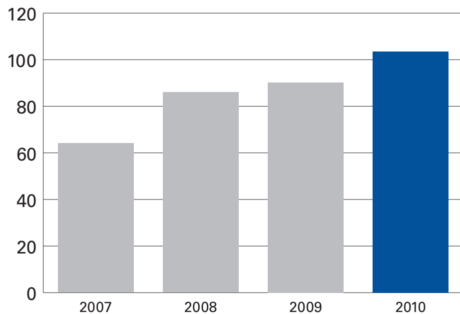
PGS hyperBeam, which features integration of AGS beam migration and holoSeis, was launched in 2009 at the European Association of Geoscientists and Engineers (EAGE) and Society of Exploration Geophysicists (SEG) in the United States. Since then, customers have praised PGS hyperBeam's integrated technology, noting that it improves in-house workflows at all stages, from conception to production. Integration of holoSeis with AGS beam migration allows customers to iterate velocity models quickly, enabling them to make faster, more informed decisions that cut their costs and reduce risk. High-end imaging technology has boosted PGS data processing revenues and generated higher-quality data, shorter cycle times, and better-informed decision-making by customers.

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

Objectives for R&D are to develop

## Data Processing Revenues

*In millions of US dollars*




technologies and services that sustain a leadership position in operational efficiency and that differentiate the Company's service capabilities in identifying and characterizing customers' complex reservoirs.

**GeoSource™**

GeoSource™ was introduced at PGS' Capital Markets Day presentation in 2010. GeoSource is a de-ghosting application developed for GeoStreamer data. GeoSource provides a full de-ghosting solution, wherein GeoStreamer removes the streamer ghost and GeoSource eliminates the source ghost. GeoSource further improves GeoStreamer bandwidth and gives unrivaled image resolution.

**Marine Acquisition Technology**

GeoStreamer, PGS' unique dual-sensor solid streamer, will undergo further development. Significant R&D efforts continue to improve all elements of the Company's acquisition systems and capabilities.

The first GeoStreamer steering system was successfully installed on a 2D vessel in 2009 and on a 3D vessel in 2010. The 2010 installation included the initial deployment of lateral streamer steering for 3D GeoStreamer surveys. When fully deployed, the new system will consist of three main parts: the eBird three-wing depth and lateral force device, the PGS proprietary onboard steering control system, and a new inline acoustic system for positioning seismic streamers. The eBird is a new type of inline depth and lateral force device developed in cooperation with Kongsberg Seatex. The system will provide benefits in several areas, including efficiency, HSE, and data quality.

In 2009, PGS successfully tested its Towed Electromagnetic (EM) system over the Peon Gas Field in the North Sea. Field tests continued in 2010 with the first 3D tests at Peon and Troll and a simultaneous EM and seismic acquisition test (see business case on page 37). The Towed 3D EM system employs a single vessel that tows an EM source and EM streamers. This system is under development and promises to be significantly more efficient than the conventional node-based CSEM systems currently offered to the industry. The offshore tests run in 2009 and 2010 were major milestones in the Towed EM development project. Field testing will continue in 2011 with a new and stronger source that will improve the depth of investigation. Past tests have proved to be an excellent platform from which to develop a complete commercial product for launch in 2012.

**Modeling and Visualization**

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

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

**Processing Technology**

PGS has invested considerable resources to develop and deliver efficient data processing solutions and technological differentiators to its clients. In the realm of time processing, this has included a client-rated "best in class" 3D SRME demultiple solution. 3D SRME is a

**«PGS HAS DEVELOPED ONE OF THE BEST AND MOST COMPREHENSIVE SURVEY-PLANNING SOFTWARE PACKAGES: NUCLEUS.»**

widely used, proprietary PGS suite of multi-dimensional regularization algorithms, and technologically advanced solutions for the automated selection of dense velocity fields including Optivel. Optivel uses a generic algorithm to quickly provide the optimum velocity and anisotropic parameter fields on even the densest processing grids. Focus is also placed on development projects to ensure that each processing project is completed with optimum efficiency, which brings clients excellent value for their money.

PGS offers GeoStreamer as an integrated acquisition and processing solution. PGS has developed proprietary technology and built up considerable know-how concerning the generation of up-going pressure wavefield data (P-UP) and full processing through to the final product delivery. The GeoStreamer wavefield separation process was deployed onboard PGS' 3D vessels in 2010. Workflows have been implemented to match the new generation of GeoStreamer data with non-GeoStreamer legacy data in the context of 4D processing. Full backward compatibility has been demonstrated.

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

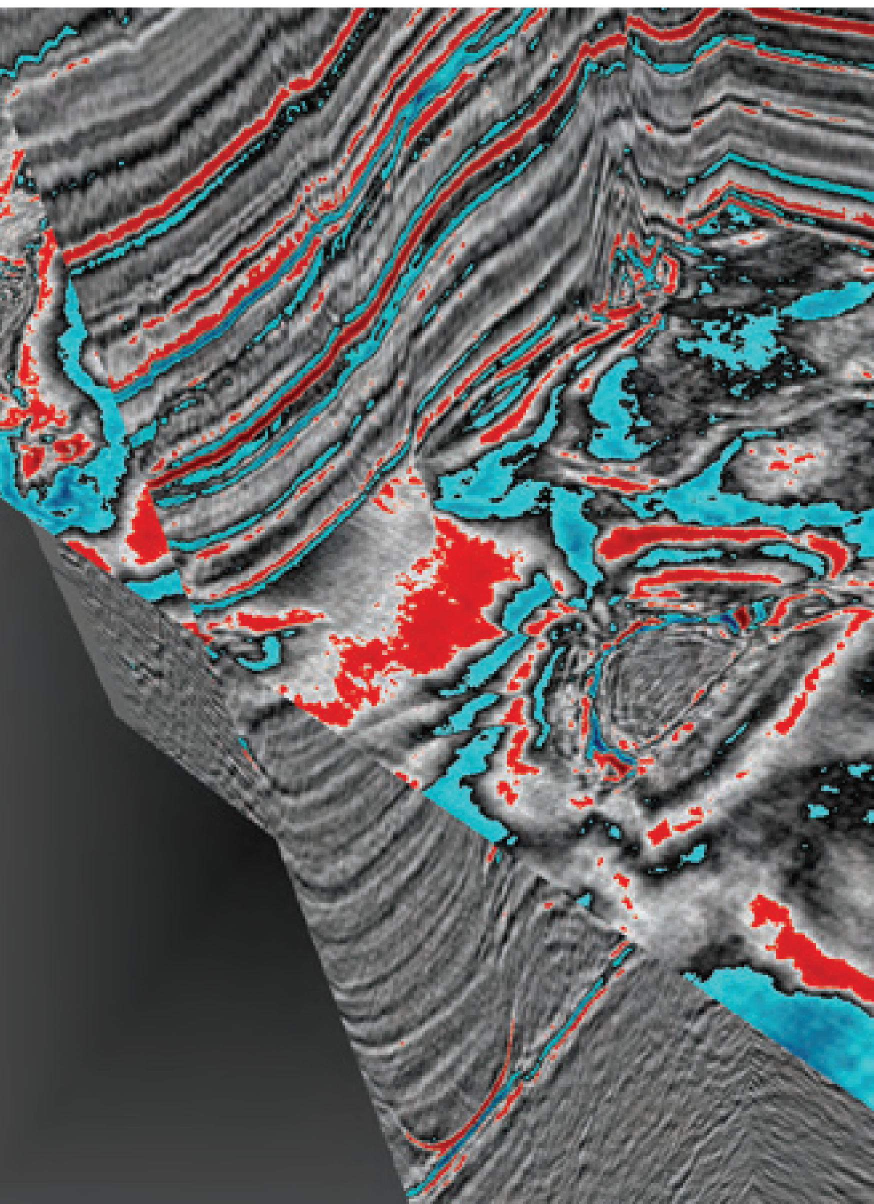
Data acquisition covering additional energy at the low-frequency range is also used as input to full waveform inversion, an automated method to refine seismic velocity models. The application of the technique to GeoStreamer data has been proven, and a 3D example was presented at the SEG convention.

**Innovation**

PGS is investing in a significant portfolio of technology R&D projects. It is of the utmost importance to invest in the right R&D projects and to ensure that project performance adheres to best practices. PGS has comprehensive processes for idea management, R&D portfolio management, and product development, as well as a strategy which forms the basis for technology roadmapping and technology R&D policies.

**Intellectual Property**

PGS' patents, trademarks, service marks, copyrights, and licenses protect its proprietary technology. Intellectual property rights include the Ramform seismic vessels, GeoStreamer®, Multi-Transient Electro Magnetic (MTEM®), OptoSeis® and HD3D® seismic solution software, PGS hyperBeam®, and GeoSource™. The Company's intellectual property rights collectively represent a material business asset. As of 31 December 2010, PGS held 253 patents under the laws of the U.S., the UK, and Norway. Additional innovations that are patent protected sharpens focus on competitive advantages achieved through technological differentiators.



Seismic data from the first 3D GeoStreamer survey acquired in the North Sea, as viewed on the iPad version of PGS' "holoSeis" visualization technology.

## 2010 EM FIELD TEST SETS NEW MILESTONES

While seismic data yields an image of the subsurface geology's structure, electromagnetic (EM) data provides more detailed information about the lithology and fluid content of potential reservoirs. PGS has been developing a towed EM streamer system for several years, and in 2009 successfully field tested a 2D EM line over the known Peon field. Field tests continued in the summer of 2010 over the Peon and Troll fields with the vessel *Ocean Explorer*. Compared to already commercialized EM acquisition methods using seabed-installed nodes, a towed solution will increase efficiency by a factor of 3-5, and make EM data cheaper and more easily accessible to oil companies.

The main purpose of the 2010 field trial was to evaluate the offshore performance of PGS' more recent developments in towed EM, to collect data for further processing and inversion development, and to extend the analysis from 2D to 3D.

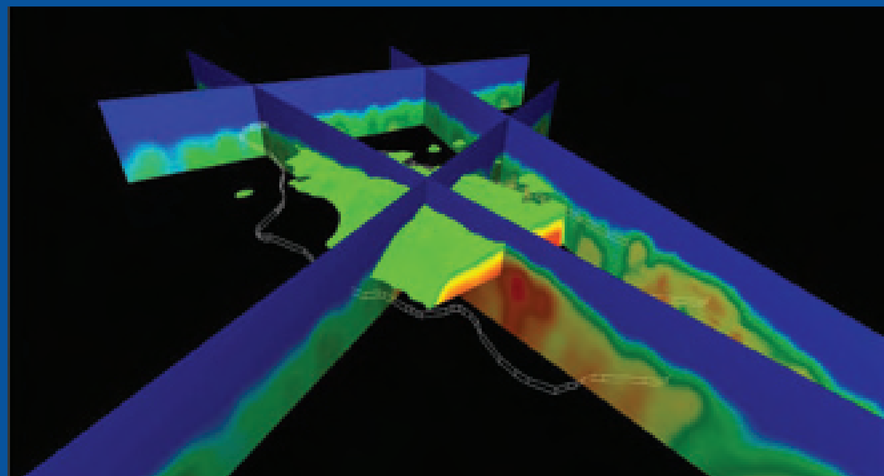
The field trial consisted of two different surveys: one over the Troll field, and one over the Peon discovery, both offshore Norway. The test survey over Troll was self-funded, while the survey over Peon is part of a research collaboration with Statoil, which the oil company partly funded. This survey was a larger scale sequel to the promising results of the 2009 Peon Field tests.

A total of 660 kilometers were recorded during the two surveys. At Troll, the EM streamer was 6.4 kilometers long, of which 3.5 kilometers were active EM sections. Streamer length at the Peon Field was reduced to 4.1 kilometers, which provided shorter offsets more suitable to that field. The EM streamer was towed at a depth of 100 meters, with continuous recording of the electric field potential generated by an 800-meter-long towed bi-pole source at the Troll test and a 400-meter-long towed bi-pole source at Peon. The onboard quality control and processing systems report that the electric field survey yielded high-quality data, despite the high sea states experienced during the trial.

As part of the test program at the Troll field, EM and seismic data were acquired simultaneously, with good results.

Simultaneous acquisition of seismic and EM data reduces EM acquisition costs to depreciation of the EM equipment, since the vessel cost is already charged to the seismic operation. Such a significant reduction in the cost of EM acquisition will make PGS' towed Electromagnetic Survey a very competitively priced alternative to current EM survey techniques.

The 2010 field tests were a major milestone for EM technology and provided important systems evaluations and input for the further development of a towed EM system. Field tests will continue in 2011 with a more powerful source for increased depth of investigation. Commercial launch of PGS' proprietary towed EM solution is planned for 2012.



The white scattered line shows the outline from 3D seismic at the Peon Field. The bright colored field in the middle is resistivity from towed EM.

# CORPORATE SOCIAL RESPONSIBILITY

***PGS has over the last years recognized that operating as a responsible company is, and will be, increasingly critical to the value creation. Many elements of Corporate Social Responsibility (CSR) are an integral part of PGS operating activities and existing policies. However improving and progressing CSR related initiatives can serve to strengthen the Company's performance.***

In 2009, an in-house group was established chaired by CEO Jon Erik Reinhardsen, which initiated a project to evaluate current policies, initiatives and practices with a view to further strengthen PGS' focus on CSR. PGS' challenge is to organize and progress the Company's existing core values and initiatives to further deliver through its efforts on commitments to stakeholders.

PGS has demonstrated strong commitment to CSR through its participation in a number of survey programs, which have been launched on behalf of the institutional investment community, such as the Sustainable Value Creation Initiative survey launched by large institutional investors in Norway.

**«PGS WILL CONTINUE THE JOURNEY TO FURTHER PROGRESS AND SUSTAIN CSR EFFORTS DURING 2011.»**

In 2010, an internal assessment and gap analysis was conducted, comparing current PGS policies, initiatives and practices relative to existing 'standards' or 'guidelines' commonly associated with CSR, such as the OECD Guidelines and UN Global Compact.

A number of recommendations were identified and a road map developed for implementing a CSR improvement process within PGS. The recommendations and road map were presented to and approved by the PGS Board of Directors in September 2010.

Internal resources have now been allocated to lead and coordinate companywide efforts to implement the improvement process. PGS will continue the journey to further progress and sustain CSR efforts during 2011.

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

PGS' Code of Conduct reflects the Company's commitment to shareholders, customers, suppliers, and employees that PGS will conduct its business with the utmost integrity. PGS' Core Values guide how the employees of the Company interact with colleagues, suppliers, customers and others they encounter in day-to-day work. These documents are available on www.pgs.com.

**Business Ethics and Anti-Corruption**
PGS is a firm believer that a vital element in any society's economic growth is the presence of business ethics and the absence of corruption. Following upon this belief PGS has over time developed a culture of not accepting corruption as well as promoting ethical business behavior in all the jurisdictions the Company operate.

In order to facilitate and implement such a culture PGS has adopted business ethics and anti-corruption policies and guidelines covering all aspects of what the Company consider to be improper payments, gifts and entertainment, promotional expenses and contributions to political parties. Through various external and internal courses, seminars and e-learning tools the Company aim to ensure that employees subject to such issues are trained to identify and deal with any issue that may arise.

PGS further seek to influence and promote such behavior in all of its partner relationships. As such all agent agreements, cooperation agreements and joint venture agreements contain explicit clauses on business ethics and anti-corruption.

**Community Interaction**
PGS cooperates and communicates with a diverse group of stakeholders in its business activities. The Company is dependent of close cooperation with local communities. As a member of these communities, PGS strive to contribute to their development by collaborating with local stakeholders. PGS supports activities related to local safety, education, welfare, and culture.

**Environmental Management and Performance**
In 2010, PGS initiated efforts designed to achieve companywide certification under the ISO 14001 standard for environmental management in order to improve how PGS measure, monitor and assess the Company's environmental performance.

Key companywide environmental focus areas have been identified for monitoring environmental performance and achieving continual improvement.

PGS Environment focus areas
- Oil spill prevention
- Interaction of field operations & marine life
- Use of new or improved technology, materials, procedures' as per updated Environmental Policy.
- Use of Best Available 'environment' technology, materials, procedures
- Waste management, recycling, segregation

PGS has identified performance objectives related to reduction or continual improvement for each of the Environment focus areas:
- Reduce oil spill/accidental release to zero, through continual risk assessment and implementation of effective prevention processes and procedures.
- Reduce risk to marine wildlife through continual risk assessment, survey planning and implementation of effective mitigation processes/procedures during seismic survey operations.
- Reduce carbon intensity ($CO_2$ emission/unit of production), through improved energy/ fuel use and implementation of efficiency measures.
- Continually implement new or improved technology, materials and procedures to reduce environmental footprint.
- Reduce material waste to landfill, through increased recycling and waste reduction

**Climate Change and Carbon Management**
Climate change presents increasing challenges from both an environmental risk and the regulatory landscape for the oil and gas industry and associated support services such as those provided by geophysical companies.

The Carbon Disclosure Index presents a score, which is normalized to a 100-point score for each participating company based on its carbon footprint data as well the transparency and quality of the information reported to the project. Over 4 years, PGS' rating has improved to 71, which moves the Company up into CDP's 'high' rating category for the first time. This demonstrates PGS' ongoing focus on measuring and managing the carbon characteristics of the Company's global operations, which in turn will improve understanding and management of both the risks and opportunities commonly associated with climate change and carbon management.

For more information, visit www.pgs.com

«PGS SUPPORTS ACTIVITIES RELATED TO LOCAL SAFETY, EDUCATION, WELFARE, AND CULTURE.»

# HEALTH, SAFETY, ENVIRONMENT AND QUALITY

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

PGS' management of HSEQ issues proved challenging and time-consuming in 2010. Key factors were the sale of the Onshore Division to Geokinetics and the comprehensive changes to PGS' organizational structure in May. Soon after the new organizational chart was implemented, the roles and responsibilities of the HSEQ department were restructured as Marine Operations HSEQ and Corporate HSEQ.

In 2010, two main HSEQ projects were greater integration of the Golden Rules of Safety into the organization, and providing HSEQ training to ensure adequate knowledge and confidence for handling HSEQ issues.

Training was provided in three areas:
- The DuPont Safety Leadership course, attended by 95 senior managers at sessions held in Oslo, Weybridge, Singapore, and Houston
- IOSH Managing Safely/OSHA 30 training for HSEQ focal points in 33 PGS offices around the world
- Project kick-off meetings with crews that detail HSEQ requirements prior to the start of projects

**«IN 2010, PGS SELECTED DET NORSKE VERITAS (DNV) AS ITS EXTERNAL CERTIFICATION BODY FOR THE COMPANY'S HSE MANAGEMENT SYSTEM.»**

To bolster training effectiveness, an HSEQ Supervisors' course was designed with the assistance of the consultants Moody International for rollout in 2011. This training program is the second stage of 'The Road Ahead' initiative launched in 2008, a five-year HSEQ strategy aimed at securing industry-leading performance.

In 2010, PGS' global operations comprised 11,738,953 man-hours. Quantitatively, this is a huge reduction, compared with the 28,263,479 man-hours recorded in 2009. However, the 2009 figure includes 15,321,821 man-hours attributable to the Onshore business segment, which was sold to Geokinetics.

The PGS organization (Marine Operations and PGS Offices) experienced the following health and safety incident rates:
- Zero fatalities, compared with zero in 2009
- Seven Lost Time Incidents, compared with seven in 2009
- 10 Restricted Work Day Cases, compared with 10 in 2009
- Six Medical Treatment Cases, compared with six in 2009
- Five High Potential Incidents, compared with nine in 2009.

The overall Lost Time Incident Frequency (LTIF) increased to 0.60 per million man-hours in 2010, compared with 0.53 in 2009. The Total Recordable Case Frequency (TRCF) also increased, to 1.96 per million man-hours from 1.75 in 2009.

While the number of Lost Time Incidents, Restricted Work Day Cases and Medical Treatment Cases remained unchanged, it is important to note that the number of High Potential Incidents decreased from nine in 2009 to five in 2010.

In 2010, PGS selected Det Norske Veritas (DNV) as its external certification body for the Company's HSE management system. Certification will be obtained for the following standards:
- Health and Safety OHSAS 18001
- Environmental management ISO 14001

The gap analysis of PGS' current HSE Management System and the two standards was completed early 2011.

**Marine Operations**

In 2010, PGS' Marine Operations experienced the following health and safety incident rates:
- Zero fatalities, compared with zero in 2009

- Six Lost Time Incidents, compared with seven in 2009
- 10 Restricted Work Day Cases, compared with 10 in 2009
- Five Medical Treatment Cases, compared with five in 2009
- Four High Potential Incidents, compared with four in 2009

In 2010, PGS' Marine operations comprised 7,849,843 man-hours, compared with 9,156,288 in 2009.

The overall Lost Time Incident Frequency (LTIF) remained unchanged from 2009 at 0.76 per million man-hours. The Total Recordable Case Frequency (TRCF) increased to 2.68 per million man-hours from 2.40 per million in 2009. The number of total recordable incidents declined from 22 in 2009 to 21 in 2010.

**Office HSEQ**

In 2010, the task of improving office HSEQ performance continued worldwide. Key focus areas were:

- *Phase 1:*
  Establish an Office HSE "Focal Point" at every office and provide IOSH Managing Safely Training
- *Phase 2:*
  Establish common HSE documents and processes (policy and guidelines, core values, liability insurance, safety meetings, etc.)
- *Phase 3:*
  HSE reporting (monthly HSE, SAFE card, and incident reports)
  Each office to establish HSE reporting according to a standardized format
- *Phase 4:*
  Hazard Identification & Risk Assessment
  Each office to identify hazards and complete an Office Risk Assessment
  Each office to identify various "emergency scenarios" and complete an Office Emergency Response plan using a standard framework
- *Phase 5:*
  Ongoing HSEQ improvement and implementation of improvement plans.

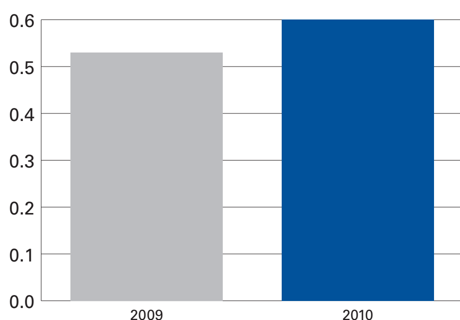
All PGS offices have finalized their Office Emergency Response Plan and have applied a standard framework.

Company offices now report monthly HSE statistics in line with Marine's reporting format. Safe Card reporting has increased from zero in 2008, to 149 in 2009, and to 517 in 2010.

**«ALL PGS OFFICES HAVE FINALIZED THEIR OFFICE EMERGENCY RESPONSE PLAN AND HAVE APPLIED A STANDARD FRAMEWORK.»**

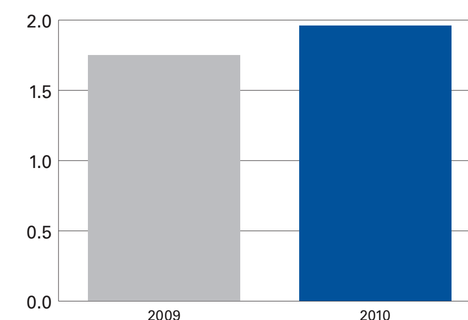
## Lost Time Incidents Frequency

*(LTIF)*




## Total Recordable Case Frequency

*(TRCF)*



**«IN 2010, THE TASK OF IMPROVING OFFICE HSEQ PERFORMANCE CONTINUED WORLDWIDE.»**

Offices are now recording environmental data in a standard manner and preparing monthly reports. Data includes:
- Volume of electricity, water, and diesel used
- Quantity of waste produced
- Quantity of waste recycled

Reporting will be expanded in 2011 to monitor Hazardous Waste produced at offices worldwide.

Personnel at office HSEQ Focal Points have received training to professionally handle office HSEQ issues and support their local management team.

In 2010, PGS' offices experienced the following health and safety incident rates:
- Zero fatalities, compared with zero in 2009
- Zero Lost Time Incidents, compared with zero in 2009
- Zero Restricted Work Day Cases, compared with zero in 2009
- One Medical Treatment Case, compared with one in 2009
- One High Potential Incident, compared with five such incidents in 2009.

PGS office operations in 2010 totaled 3,889,110 man-hours, compared with 3,984,720 in 2009.

The overall Lost Time Incident Frequency (LTIF) decreased to 0.00 per million man-hours in 2010, compared with 0.25 in 2009. The Total Recordable Case Frequency (TRCF) was 0.26 per million man-hours, compared with 0.50 in 2009.

Personnel at office HSEQ Focal Points have received training to professionally handle office HSEQ issues and support their local management team.

# THE PGS SHARE

***The PGS share has its primary listing on the Oslo Stock Exchange. In the United States, shares are quoted on the Pink Sheets and trade as American Depository Shares (ADS) in the OTC market. PGS' share price continued to improve in 2010 and performed well above its peer group average.***

**Share Price Development**
In 2010, the PGS share price increased 37 percent, and thus performed well above the average of its peer group, which includes Norwegian and international companies. Ranked against comparable indices, the PGS share outperformed all of them by a significant margin, including the OBX index. The OBX index comprises the 25 largest and most traded shares listed on the Oslo Stock Exchange (OSE); PGS shares have an OBX index weight of approximately 2.5 percent.

Interest among investors in PGS shares is strong. On average, approximately 3.7 million shares traded daily in 2010, which made PGS the eighth most traded OSE stock, measured by turnover value. Liquidity of PGS' American Depository Shares (ADS) traded on the US Pink Sheets is significantly lower; the average daily trading volume was approximately 25,000 in 2010.

**«ON AVERAGE, APPROXIMATELY 3.7 MILLION SHARES TRADED DAILY IN 2010, WHICH MADE PGS THE EIGHTH MOST TRADED OSE STOCK, MEASURED BY TURNOVER VALUE.»**

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

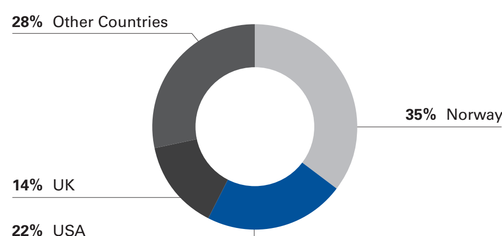
In mid-November 2010, a private share placement directed at professional Norwegian and international investors was completed. The placement comprised 19,799,998 new shares at a per-share price of NOK 83. The issue price was determined under an accelerated book-building process; total proceeds from the private placement were approximately $269 million. Interest among investors was good and the placement was successfully completed. The purpose of the private placement was to preserve the conservative financial profile and flexibility of the Company and secure financing of the new-build program and any subsequent exercising of options for additional vessels.

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

**Stockman Award**
In 2010, PGS was awarded the prestigious Stockman prize by the Norwegian Association

## Citizenship of Shareholders

*as of 31 December, 2010*



## 20 largest PGS shareholders as of 31 December 2010

| Rank | Shareholder | Shares held | Ownership (%) |
|---|---|---|---|
| | | | |
| 1 | Folketrygdfondet "The Norwegian State Pension Fund" | 20 477 610 | 9.40 |
| 2 | State Street Bank (Nominee) | 6 086 590 | 2.79 |
| 3 | Euroclear Bank (Nominee) | 6 051 084 | 2.78 |
| 4 | Handelsbanken (Nominee) | 5 500 000 | 2.53 |
| 5 | Clearstream Banking (Nominee) | 5 086 407 | 2.34 |
| 6 | State Street Bank (Nominee) | 4 500 125 | 2.07 |
| 7 | State Street Bank (Nominee) | 4 339 045 | 1.99 |
| 8 | Bank of New York Mellon (Nominee) | 4 001 622 | 1.84 |
| 9 | State Street Bank (Nominee) | 3 797 942 | 1.74 |
| 10 | Citibank, Holder of American Depository Shares (ADS) (Nominee)[1] | 3 758 123 | 1.73 |
| 11 | JPMorgan Chase Bank (Nominee) | 3 620 189 | 1.66 |
| 12 | Vital Forsikring Asa | 3 604 260 | 1.65 |
| 13 | Caceis Bank (Nominee) | 3 071 202 | 1.41 |
| 14 | Statoil Pensjon | 2 947 252 | 1.35 |
| 15 | Rasmussengruppen AS | 2 500 000 | 1.15 |
| 16 | JPMorgan Chase Bank (Nominee) | 2 368 942 | 1.09 |
| 17 | DnB NOR Bank ASA | 2 339 840 | 1.07 |
| 18 | HSBC Bank (Nominee) | 2 333 105 | 1.07 |
| 19 | Danske Bank (Nominee) | 2 212 253 | 1.02 |
| 20 | The Northern Trust (Nominee) | 2 176 401 | 1.00 |
| | **Total, 20 largest shareholders** | **90 771 992** | **41.68** |

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

**«IN 2010, PGS WAS AWARDED THE PRESTIGIOUS STOCKMAN PRIZE BY THE NORWEGIAN ASSOCIATION OF FINANCIAL ANALYSTS.»**

of Financial Analysts. PGS won the Open Class, which includes all companies listed on the Oslo Stock Exchange. This prize is awarded to the Norwegian company that is judged best at informing the financial market and shareholders about its current business, and which delivers the best annual report and quarterly reports based on the principles of financial analysis.

The PGS investor relations (IR) team received special recognition for its performance. Factors cited were the Company's annual Capital Markets Day presentation, the informational content and quality of presentations, ready availability of key corporate-team members, responsiveness to analysts, and most importantly the open, credible, and consistent quality of its IR information.

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

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

On 1 January 2008, the amended Norwegian Securities Trading Act and Stock Exchange Act went into effect. A requirement of the new legislation and regulations is that all companies whose shares trade on the

Oslo Stock Exchange must publish their financial reports in Norwegian. PGS has been exempted from this requirement. The exemption stems from factors that include the Company's international operations; PGS' listing on the Pink Sheets in the US, which requires press releases to be in English; the composition of PGS' shareholder base, which has remained international for several years; and the use of English as the Company's in-house language.

At the extraordinary general meeting in October 2009 it was approved that documents for the general meeting can be distributed electronically.

**«PGS INTENDS TO DISTRIBUTE TO SHAREHOLDERS 25-50 PERCENT OF NET INCOME AS DIVIDENDS.»**

Early in 2011, PGS was also exempted from the requirement in the Norwegian Accounting Act (Section 3-4, third paragraph) that companies produce a Norwegian version of their annual report.

### Treasury Shares

PGS is authorized to purchase up to 10 percent of its own share capital. The authorization was made by the Company's 2010 Annual General Meeting and remains valid for one year following its date of registration with the Norwegian Register of Business Enterprises. As of 31 December 2010, the Company owned 0.25 percent of total shares outstanding.

### Dividend

In 2010 PGS announced its intention to implement a dividend policy in 2012, based on financial-year 2011 performance. A fuller discussion of dividend issues was made at the Company's December 2010 Capital Markets Day presentation: PGS intends to distribute to shareholders 25-50 percent of net income as dividends. Factors to be considered in determining dividend payouts include the year's business performance, operating environment, growth opportunities, investments, and the effects of non-recurring items. Excess cash flow in peak years could qualify for distribution via extraordinary dividends. The Company's Board and management expect to propose a dividend disbursement in 2011 totaling approximately $40 million.

### Analyst Coverage

As of 31 December 2010, there were 25 sell-side analysts covering PGS on a regular basis with market updates and estimates of PGS' financial results. Of these, eight are based in the UK, two in France, one in Lithuania, and one in Singapore; the rest are based in Norway. An updated list of analyst coverage is published on the Company's website: www.pgs.com.

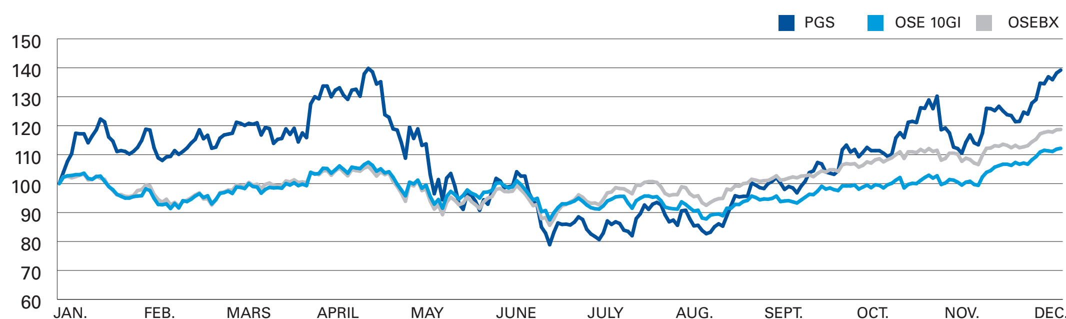
### Shareholders

PGS had 6,883 shareholders on record as of 31 December 2010, according to the Norwegian Central Securities Depository (VPS).

By year-end 2010, non-Norwegian investors owned approximately 65 percent of outstanding shares, of which US (22 percent) and UK (14 percent) shareholdings were the largest. As a result of the financial crisis, foreign investors sold off a significant proportion of their PGS holdings in late 2008 and early 2009. At the lowest point, US-based investors held 17 percent of PGS shares while UK-based investors held 13 percent. Before stock markets started to decline in late 2008, US shareholders owned approximately 35 percent of PGS stock, while UK investors held just under 20 percent. During the second half of 2009, foreign shareholders started to show increased interest in the PGS share and that trend continued throughout 2010.

As of 31 December 2010, Folketrygdfondet (The Norwegian State Pension Fund) was the largest PGS shareholder, owning 9.4 percent of outstanding shares.

## PGS vs. Norwegian Markets in 2010



**2011 Annual General Meeting**
PGS' 2011 Annual General Meeting is scheduled for 11 May 2011 at the Company's headquarters at Strandveien 4, Lysaker, Oslo, Norway.

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

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

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

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

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

**Contact Information for ADS Shareholders**
The depositary bank for PGS' American Depository Shares (ADS) is Citibank, as follows:

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

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

**Corporate Debt Rating**
In 2010 PGS secured debt was upgraded from 'Ba2' to 'Ba1' by Moody's Investors Service. Standard & Poor's upgraded PGS corporate rating from 'BB-' to 'BB' with Stable Outlook. Further, PGS' convertible bond was upgraded from 'B' to a 'B+' rating by Standard & Poor's.

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

«IN 2010 PGS SECURED DEBT WAS UPGRADED FROM 'BA2' TO 'BA1' BY MOODY'S INVESTORS SERVICE.»

## PGS vs. US Markets in 2010

# CORPORATE GOVERNANCE

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

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

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

«WE HAVE ADOPTED A CODE OF CONDUCT THAT REFLECTS OUR COMMITMENT TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES TO CARRY OUT OUR BUSINESS WITH THE UTMOST INTEGRITY.»

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

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

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

Our business operations and the goals and strategies for our business areas are presented in greater detail on pages 10, 18, 24 and page 67 of this annual report.

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

The Board of Directors has adopted a dividend policy whereby it is the intention to propose to the Annual General Meeting (AGM) a distribution between 25% to 50% of future net income as dividends. It is the intention to implement this policy by introducing a proposal for dividends to the AGM for the first time in 2012.

The Board of Directors is authorized to buy back up to 10 percent of the Company's share capital. The current such authorization expires no later than 30 June 2011.

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

**Equal Treatment of Shareholders and Transactions with Close Associates**
PGS has a single share class where all

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

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

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

**Freely Transferable Shares**

The Company's shares are freely transferable.

**General Meetings**

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

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

Notices convening Extraordinary General Meetings (EGM) must be distributed at least two weeks ahead of the meeting. The Board of Directors is to call shareholders to an EGM upon a written demand by the Company's independent auditor or shareholders representing at least five percent of the share capital, or for other purposes. Shareholders who wish to attend a General Meeting must notify the Company's registrar or PGS by the date stated in the meeting notice, which must be at least two working days before the General Meeting.

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

To vote at General Meetings, in person or by proxy, a shareholder must be registered with the Norwegian Registry of Securities (VPS). Holders of ADS may vote according to the underlying shares by: (a) having the underlying shares transferred to an account with the Norwegian Central Securities Depository in the name of the holder, (b) attending the meeting as a shareholder by providing their name and address and a confirmation from 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.

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

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

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

**Nomination Committee**

According to our Articles of Association, the Company has a Nomination Committee comprised of three members to be elected by our shareholders at the AGM. Nominations should take into account the interests of shareholders in general. The members and the chairperson of the Nomination Committee are

**«THE BOARD OF DIRECTORS HAS ADOPTED A DIVIDEND POLICY WHEREBY IT IS THE INTENTION TO PROPOSE TO THE ANNUAL GENERAL MEETING (AGM) A DISTRIBUTION BETWEEN 25% TO 50% OF FUTURE NET INCOME AS DIVIDENDS.»**

elected at the General Meeting. The majority of Nomination Committee members shall qualify as independent parties, pursuant to the Norwegian Code of Practice for Corporate Governance. The term of service shall be two years unless the General Meeting determines that the period shall be shorter.

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

«ALL DIRECTORS ARE INDEPENDENT OF THE COMPANY'S MANAGEMENT.»

**Current Nomination Committee**

The current Nomination Committee comprises Roger O'Neil (chairperson), C. Maury Devine, and Hanne Harlem. All three were reelected at the AGM held 29 April 2010 for a service period ending with the 2011 AGM.

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

In 2010, the Nomination Committee held three meetings. The Nomination Committee's report on its work and recommendations will be distributed with the notice of the 2011 Annual General Meeting.

**Board of Directors — Composition and Independence**

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

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

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

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

All directors are independent of the Company's management. All directors are also, per 31 December 2010, independent of our major business relations. No member of our Board of Directors may be an executive of PGS. Directors are not permitted to perform paid consultancy work for us. Five board members, directly or indirectly, own PGS shares.

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

**Current Board of Directors**

As of 31 December 2010, the Board of Directors comprised seven shareholder representatives. Current board members are presented on the Company's website: www.pgs.com and in this annual report. Board meeting attendance in 2010-2011 exceeded 75 percent for each board member elected at the last AGM.

**The work of the Board of Directors**

In accordance with Norwegian corporate law, our Board of Directors has overall responsibility for management of our company, while our CEO is responsible for day-to-day management.

The Board of Directors supervises our CEO's day-to-day management and company activities in general. The Board of Directors is also responsible for ensuring that appropriate management, guidelines, and control systems are in place and are followed. Our CEO, as agreed with the chairperson of the Board of Directors, annually submits a schedule for the meetings of the Board of Directors in the upcoming calendar year. The schedule is subject to Board approval. In 2010, the Board of Directors held 12 meetings including conference calls.

Key elements of the Rules of Procedure cover the Board of Directors' responsibilities to determine the Company's financial targets, set

strategies along with the CEO and executive committees, and approve business plans, budgets, and budgetary and risk frameworks. In its supervision of the Company's business activities, the Board of Directors will seek to ensure that satisfactory procedures exist for monitoring and follow-up of board approved corporate principles and guidelines covering areas such as ethical conduct; adherence to laws, rules, and regulations; health, safety and environment; and corporate social responsibility.

The rules also require an annual self-evaluation to determine whether the Board of Directors and its committees are functioning effectively. The tasks and duties of our CEO vis-à-vis PGS' Board of Directors are also outlined in the rules, along with the tasks and duties of the chairperson of the Board of Directors. The CEO participates in all board meetings other than closed sessions. The Board of Directors elects a vice chairperson to chair board meetings in the chairperson's absence. The full text of the Board of Directors' Rules of Procedure is available at: www.pgs.com.

Our governance structure is organized as described below.

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

Board responsibilities include:
- The Board of Directors appoints PGS' CEO
- The CEO is responsible for the day-to-day management of company activities
- The CEO organizes PGS' Executive Committees and our Disclosure Committee to further assist the CEO
- The Board of Directors, along with the CEO, is committed to operating PGS in an effective and ethical manner in order to create value for our shareholders. Our Code of Conduct requires management to maintain an awareness of the risks involved in carrying out our business strategies. Personal interests must not override or conflict with the interests of PGS
- The CEO, under the guidance and supervision of our Board of Directors and the Audit Committee, is responsible for ensuring that the Company's financial statements in all material respects, fairly present our financial condition and the results of operations. Timely disclosure of issues to the Board of Directors is also essential to the assessment of the Company's financial condition, business performance and risks.

**Board of Directors Committees**
Our Audit Committee comprises board members Harald Norvik (chairperson), Carol Bell, and Daniel J. Piette. The majority of committee members are considered independent of the Company. The committee's functions are to assist our Board of Directors in its supervision of the integrity of PGS' financial statements; to monitor the independent auditor's qualifications, independence, and performance; to monitor the performance of the internal audit function; and to ensure that PGS is in compliance with legal and regulatory requirements.

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

**«OUR BOARD OF DIRECTORS IS RESPONSIBLE FOR THE DEVELOPMENT AND SUPERVISION OF OUR BUSINESS ACTIVITIES.»**

**Risk Management and Internal Control**
The Board of Directors is responsible for ensuring that appropriate guidelines, monitoring, and internal control systems are in place and effective.

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

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

PGS has an appropriate and effective internal

auditing system, and the Board of Directors ensures that it is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough attention.

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

«THE BOARD OF DIRECTORS CONDUCTS AN ANNUAL SELF-EVALUATION TO DETERMINE WHETHER IT AND ITS COMMITTEES ARE FUNCTIONING EFFECTIVELY.»

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

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

For details on compensation for individual board members, please see Note 34 to the financial statement of PGS.

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

The compensation structure and guidelines for executive managers are subject to annual review by the Remuneration and Corporate Governance Committee and approval by the Board of Directors. PGS currently has a compensation structure for our executive managers that includes base salary, cash bonus, share bonus, and stock option programs. A ceiling applies to performance-related remuneration.

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

**Information and Communications**
Our Board of Directors is committed to reporting financial results and other relevant information based on openness and the requirement for equal treatment of all shareholders and securities market participants. As a listed company, we comply with relevant disclosure rules and regulations. Announcements are released through the Thomson Reuters reporting channel and posted on the Oslo Stock Exchange's news service: www.newsweb.no. In addition, all announcements are available on the Company's website: www.pgs.com. Our policy of accessibility for shareholders is also presented on the Company's website.

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

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

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

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

The Ramform design is very characteristic with its wide aft beam measuring 40 meters, twice the width of a normal seismic vessel. The design makes it possible to tow up to 22 streamers with very efficient streamer retrieval and deployment. This is *Ramform Sterling* at sea trial before the vessel was put in operation mid 2009.

# BOARD OF DIRECTORS

**FRANCIS GUGEN**
Chairperson (Elected 2003)

**MR. GUGEN** was elected PGS Board Chairman in May 2009. Currently an energy-industry consultant and investor, Francis Gugen worked at Amerada Hess Corporation for 18 years, from 1982 to 2000. He served as Chief Executive of Amerada Hess UK from 1995 to 2000 and Amerada Hess' Chief Executive of North West Europe from 1998 to 2000. Mr. Gugen's board positions include Board Chairman of the listed companies IGas Energy Plc and SBM Offshore NV; he is an investor in these firms. Francis Gugen is also Chairman of the Board and investor in a number of privately held companies. A UK chartered accountant, Francis Gugen has also worked at Arthur Andersen. As of 13 April 2011, Mr. Gugen owns 30,000 PGS shares.

**HARALD NORVIK**
Vice Chairperson (Elected 2003)
Audit Committee Chairperson

**MR. NORVIK** is an independent advisor and consultant. He is Chairman of the Board of Telenor, Board Chairman of Aschehoug Publishing House, Board Chairman of Midsona AB, and Board Member of ConocoPhillips Inc and Umoe. Mr. Norvik was President and Chief Executive Officer of Statoil from 1988 to 1999. From 1981 to 1988, he was Finance Director and a Member of the Executive Board of the Aker Group. Harald Norvik served as Personal Secretary to the Prime Minister of Norway and as State Secretary in the Ministry of Petroleum and Energy from 1979 to 1981. He received his Master of Science in Business from the Norwegian School of Economics and Business Administration. As of 13 April 2011, Mr. Norvik owns 8,000 PGS shares.

**CAROL BELL**
Board Member (Elected 2009)
Audit Committee Member

**DR. BELL** has over 30 years of experience in the energy industry, with particular expertise in investment and financing in the oil and gas sector. She is the senior non-executive director of Hardy Oil and Gas plc and a member of the Investment Advisory Committee of Gemini Oil and Gas, a private investment fund, and a Senior Advisor on Oil & Gas to Europa Partners, a corporate finance advisory firm. Dr. Bell is Chair of the Investment Committee of Girton College in Cambridge. She has held senior positions in investment banking, including Managing Director of the Global Oil & Gas Group at Chase Manhattan Bank, Head of European Equity Research at JPMorgan and Global Head of its Oil and Gas Equity Research Team. Dr. Bell began her career in corporate planning and development with RTZ Oil and Gas and later worked at Charterhouse Petroleum plc. She was awarded a Ph.D. in May 2005 for her research on the evolution of economic and trade relations in the Ancient Eastern Mediterranean across the Late Bronze/Iron Age transition, and in 2006 published a book on this subject. Dr. Bell is Honorary Treasurer of the British School in Athens. She was educated as a scientist, earning an M.A. in Biochemistry from Cambridge University, a B.A. in Geology from the Open University, and a Ph.D. in Archaeology from University College, London. As of 13 April 2011, Dr. Bell owns 2,500 PGS shares.

**MS. VAN DEURSEN** currently holds non-executive director positions with Petroleum Geo-Services, Bemis Company, Inc., Actuant Corporation, Capstone Turbine Corporation, and Anson Industries, Inc. She served on BP plc's Top-Forty Executive Team as Group Vice President, Petrochemicals from 2003 to 2005 and Group Vice President, Strategy from 2001 to 2003. Prior to these executive appointments, Ms. Van Deursen held a variety of senior positions with BP and Amoco in Chicago, London, and Hong Kong. She served on the boards of directors of the American Chemistry Council and Amoco's joint ventures in Korea, Taiwan, and Japan. Ms. Van Deursen holds a B.Sc. in Chemical Engineering from the University of Kansas and an MBA from the University of Michigan. As of 13 April 2011, Ms. Van Deursen owns 2,000 PGS.

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

**DAN PIETTE** is CEO and a Board Member of Object Reservoir, a technology and services company focused on addressing complex reservoir modeling challenges in shale and other unconventional gas environments. As President and CEO of OpenSpirit Corporation from 2003 to 2011, Piette led the upstream and E&P software company through seven years of 20 percent annual growth and spearheaded its acquisition by TIBCO Software Inc. (NASDAQ: TIBX) in 2010. After receiving his B.Sc. with honors in Mining Engineering from the University of Wisconsin-Madison in 1980, Mr. Piette held several executive management positions in the oil and gas industry, including business unit manager for the land acquisition systems group at Input/Output, President and CEO of Bell Geospace, and Vice President and General Manager of the Asia Pacific region for Landmark Graphics. As of 13 April 2011, Mr. Piette owns 4,000 PGS shares.

**DAN PIETTE**
Board Member (Elected 2007)
Audit Committee Member

Until recently, **MS. MALM JUSTAD** was Chief Executive Officer of Eitzen Maritime Services. She has served as Vice President and Head of Purchasing at Yara International ASA, Vice President and Fleet Manager at Norgas Carriers AS, and has held various technical and commercial positions with Norsk Hydro ASA. Ms. Malm Justad holds a Master's degree in Technology Management from MIT/NTH, as well as a M.Sc. in Chemical engineering from NTH (now NTNU, Norwegian University of Science and Technology). Annette Malm Justad is also a Board Member of American Shipping Company ASA and Asia Offshore Drilling Ltd. As of 13 April 2011, Ms. Malm Justad does not own any PGS shares.

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

**MR. SKAUG** was Group CEO of the maritime industrial group Wilh. Wilhelmsen ASA from 2003 to 2010, after having served in several senior management positions with the group since 1990. Previously, Mr. Skaug was VP and Deputy Chief Operating Officer of SAS Airlines, a position that capped nearly three decades with the airline. Mr. Skaug is a Board Member of the ferry company DFDS AS, offshore safety monitoring innovator Miros, and the travel bureau Berg-Hansen. He is also Board Chairman of Bery Maritime AS and Ragni Invest AS, and Deputy Board Chairman of J. Lauritzen AS. Ingar Skaug is a member of the Advisory Board of Bremen Lagerhaus Gesellschaft (BLG) International Logistics Corp and Chairman of the Center for Creative Leadership. Mr. Skaug received his MBA degree from the University of Nürnberg, Germany. As of 13 April 2011, Mr. Skaug does not own any PGS shares.

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

# EXECUTIVE MANAGEMENT

**JON ERIK REINHARDSEN**
President and CEO
(Born 1956)

**MR. REINHARDSEN** joined PGS in April 2008 as President and Chief Executive Officer. Prior to leading PGS, he was Alcoa's President, Global Growth, Primary Products. In this position, he was responsible for developing and realizing major primary metals and refining growth opportunities for the company worldwide. During the period from 1983 to 2005, Reinhardsen held several executive positions at the Aker Kværner engineering and construction group, among them Group Executive Vice President, Deputy Chief Executive Officer, and Executive Vice President of Aker Kværner Oil & Gas AS, based in Houston, Texas. At Aker Maritime ASA, Jon Erik Reinhardsen was Executive Vice President of the Products and Technology business. Among his business development achievements was the launch of the marine seismic company Aker Geo AS. Reinhardsen holds a Master's degree in Applied Mathematics and Geophysics from the University of Bergen, Norway. He has also completed the International Executive Program at the Institute for Management Development (IMD) in Lausanne, Switzerland.

**GOTTFRED LANGSETH**
Senior Vice President and CFO
(Born 1966)

**MR. LANGSETH** joined PGS in November 2003 and was appointed Senior Vice President and Chief Financial Officer as of 1 January 2004. He was Chief Financial Officer of the information technology company Ementor ASA from 2000 to 2003. Mr. Langseth was Senior Vice President of Finance and Control at the offshore engineering and construction company Aker Maritime ASA from 1997 to 2000. Langseth worked at Arthur Andersen Norway from 1991 to 1997; he was certified as a Norwegian state-authorized public accountant (CPA) in 1993. Mr. Langseth received his Master of Business Administration degree from the Norwegian School of Economics and Business Administration.

**SVERRE STRANDENES**
Executive Vice President, MultiClient
(Born 1956)

**MR. STRANDENES** was appointed Executive Vice President MultiClient on 1 May 2010. Previous to that he held the position of Group President, Data Processing & Technology from November 2006. Sverre Strandenes has held several senior PGS management positions; before taking charge of Data Processing and Technology operations in 2006, he was President, Marine Geophysical EAME Region (Europe, Africa, and Middle East). Prior to joining PGS in 1995, Mr. Strandenes was the Geosciences department manager at Norsk Hydro Research Centre. Sverre Strandenes received his M.S. in Geophysics from the University of Bergen in 1981.

**GUILLAUME CAMBOIS**
Executive Vice President, Data Processing and Technology
(Born 1964)

**MR. CAMBOIS** joined PGS in 2007 as the senior advisor spearheading deployment of PGS' GeoStreamer technology. From March 2009, he acted as Marine President, Asia-Pacific. Prior to joining PGS, Guillaume Cambois spent 20 years with the geophysical services company CGGVeritas, at which he held various management positions including Executive Vice President Data Processing and Chief Technology Officer. An active member of the Society of Exploration Geophysicists, he was the Society's Vice President in 2007/2008. Mr. Cambois received his Ph.D. in Geophysics from the University of Texas at Austin.

**MR. REKSNES** advanced to EVP in April 2010, serving initially as chief of the New Ventures area, followed by heading Marine Contract. From 2007–2010, he was PGS Marine's President for Europe, Africa, Middle East and CIS. His job titles at PGS have included President for Technology, Vice President for Profiling and Marketing, and Vice President Technical Marketing. Per Arild Reksnes joined PGS in 2001 from his position as Chief Geophysics Professional at Norsk Hydro. During 16 years at Norsk Hydro, he held several geophysical and management positions. Mr. Reksnes holds a Master's degree in Applied Geophysics from the University of Oslo, and a Master's degree in Technology Management from MIT/NTH (Norwegian University of Science and Technology).

**PER ARILD REKSNES**
Executive Vice President, Marine Contract
(Born 1957)

**MR. REIERSGARD** joined PGS at its inception and has held a number of key executive positions in the PGS Group, including Vice President, Marine Acquisition; President, Marine Geophysical Asia Pacific Region, based in Singapore; and most recently President, Marine Geophysical NSA Region, based in Houston. Prior to joining PGS, he held various management positions in the survey division of Geoteam AS. He is currently on the Board of Directors of IAGC (International Association of Geophysical Contractors), an office he has held since 2005; Reiersgard served as Chairman of IAGC in 2006/2007. Mr. Reiersgard holds an Electronics degree from Agder University College, Grimstad, Norway and a business degree from BI Norwegian School of Management.

**MAGNE REIERSGARD**
Executive Vice President, Operations (Born 1961)

# BOARD OF DIRECTORS' REPORT

***Despite 2010 being a challenging year for the seismic industry, PGS delivered results in line with plans. As a result of continued robust cash generation and decisive measures, our financial position was further improved. At the end of 2010 we had the strongest balance sheet in the history of the Company. Our commitment to growth was demonstrated by commencing a fleet expansion and renewal program. With a strong technological, operational and financial platform, PGS is well positioned to take advantage of increased activity in the marine geophysical market.***

Petroleum Geo-Services (PGS) is a focused Marine geophysical company providing a broad range of seismic and reservoir services, including acquisition, processing, interpretation, and field evaluation. We also possess the world's most geographically diverse 3D MultiClient data library. We operate on a worldwide basis with headquarters at Lysaker, Norway.

Following the sale of our Onshore business to Geokinetics Inc., PGS emerged as a focused marine geophysical company. A simplified operational model based on service lines was put in place in 2010 to prepare for future growth and to enhance focus. PGS is organized in four main units. Marine Contract acquires and processes seismic data under exclusive contracts with individual customers. MultiClient acquires and processes seismic data to be a part of the MultiClient library. The processed data sets are marketed to multiple customers on a non exclusive basis. Operations manages the operation of our seismic vessels and related equipment, including fleet expansion and maintenance. The Company's global data processing services and research and development activities are managed by Data Processing and Technology (DP&T).

**2010 Business Highlights:**

- Revenues of $1,135.1 million
- EBITDA of $463.3 million
- Operating profit, excluding impairment charges, of $136.9 million
- Cash flow from operations of $343.4 million
- Strongest balance sheet in the history of PGS with net interest-bearing debt of $286.4 million and a liquidity reserve of $778.9 million
- MultiClient sales of $390.5 million
- Pre-funding level of 119 percent of capitalized MultiClient cash investments
- Completed sale of Onshore to Geokinetics in the first quarter and received approximately $184.0 million in cash in addition to 2.15 million shares in Geokinetics
- Accelerated GeoStreamer rollout on the back of strong GeoStreamer demand. By year-end approximately 35 percent of PGS 3D capacity was GeoStreamer
- Received EUR 119 million from the termination of the three shipbuilding contracts in Spain
- *PGS Apollo*, a purpose built 10-streamer vessel for the mid range segment, delivered and successfully entered operation
- *Ramform Explorer* upgraded to become one of the most productive vessels in the industry
- Signed an agreement with Petrobras to install our OptoSeis fiber optic system on the Jubarte field
- Launched a fleet expansion and renewal program of two new Ramform W-class vessels, with a cost of approximately $250 million each, for delivery in first and second half of 2013, with options for another two additional vessels in 2015
- Completed a private placement which comprised of 9.99 percent of the outstanding shares prior to the placement with net proceeds of approximately $268.6 million to preserve financial strength and strategic flexibility in addition to support the fleet expansion and renewal program
- Deposited 110 million Brazilian real with Rio de Janeiro state court related to the Brazil service tax claim (ISS)

**Health, Safety, Environment and Quality (HSEQ)**
HSEQ management and reporting are key elements in the evaluation of business performance at all management levels and by the Board of Directors.

In 2010, the two main HSEQ projects were greater integration of the Golden Rules of Safety into the organization and implementation of enhanced HSEQ training programs. The re-designed training program is the second stage of 'The Road Ahead' initiative launched in 2008, a five-year HSEQ strategy aimed at securing industry-leading performance.

PGS, excluding Onshore which has been sold, experienced the following health and safety incident rates:

- Zero Fatalities, compared with zero in 2009
- Seven Lost Time Incidents, compared with seven in 2009
- 10 Restricted Work Day Cases, compared with 10 in 2009
- Six Medical Treatment Cases, compared with six in 2009
- Five High Potential Incidents, compared with nine in 2009.

The overall Lost Time Incident Frequency (LTIF) increased to 0.60 per million man-hours in 2010, compared with 0.53 in 2009. The Total Recordable Case Frequency (TRCF) also increased, to 1.96 per million man-hours from 1.75 in 2009. The sick leave rate of our Norwegian operations was 2.5 percent in 2010, compared to 2.4 percent in 2009.

In 2010, PGS retained Det Norske Veritas (DNV) as its external certification body for the Company's HSE management system to obtain certification for the following standards:

- Health and Safety
  OHSAS 18001
- Environmental management
  ISO 14001

The gap analysis of PGS' current HSEQ Management System and the two standards was completed early 2011.

PGS has undertaken a review of all primary activities to identify how each activity may interact with the environment under both nominal and adverse or emergency conditions. A significance screening process has been applied to identify and prioritize key areas for monitoring environmental performance and achieving continual improvement.

PGS has identified performance objectives related to reduction or continual improvement of our environment focus areas, which includes:

- Reduce material waste to landfill, through increased recycling and waste reduction
- Reduce oil spill/accidental release to zero, through continual risk assessment and implementation of effective mitigation processes and procedures
- Reduce the risk to marine wildlife through continual risk assessment, survey planning and implementation of effective mitigation process/procedures during seismic survey operations
- Reduce carbon intensity (CO2 emission/unit of production), through improved energy/fuel use and implementation of efficiency measures
- Continually implement new or improved technology, materials and procedures to reduce environmental footprint

**Markets and Main Businesses**
PGS is one of the major participants in the global marine 3D market, with a market share of close to 25 percent.

In 2010 we have seen an increase in demand for seismic services. Activity among oil companies have increased on the back of general economic growth and normalization of financial markets, with a stable and increasing oil price and a need to continue exploring new areas and enhance oil recovery from producing fields to pursue an acceptable replacement of reserves.

Despite the increase in activity, there is still overcapacity in the market. During 2010 there was a capacity increase of approximately 20 percent, measured by number of streamers, primarily as a result of delivery of vessels ordered before the market downturn late 2008. The oversupply has continued to put pressure on pricing for conventional seismic acquisition.

The Macondo incident in the Gulf of Mexico, in April 2010, put a halt to the market activity offshore US. The repositioning of seismic capacity from the Gulf of Mexico to other markets caused some additional pressure on the supply/demand balance. Activity in the Gulf of Mexico is currently at low levels and a return to previous activity levels would have a positive impact on the seismic supply/demand balance.

PGS took delivery of the *PGS Apollo*, a purpose built 10-streamer vessel for the medium capacity segment of the market, which entered the fleet in mid May 2010.

After significant retirement of 3D capacity in the seismic industry in 2009, there has not been any notable amount of stacking or de-rigging of 3D capacity in 2010. PGS reduced the 2D capacity during 2010 by converting both *Falcon Explorer* and *Ocean Explorer* to support vessels. Early 2011 we continued the adjustment of the 2D fleet by de-rigging *Beaufort Explorer* and putting the chartered 2D vessel *Sanco Spirit* into operations.

PGS has been able to avoid idle time on its 3D vessels. The order book stayed at approximately six months production through 2010, allowing an adequate planning and scheduling horizon. For marine contract work, PGS achieved an average operating profit margin of 17 percent for the full year 2010, which proves the ability to perform through the cycle.

As of December 31, 2010, the order book was $584 million, compared to $438 million at December 31, 2009. The increase includes the estimated value of the OptoSeis agreement with Petrobras.

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

Contract seismic work continued to dominate the Company's business activities in 2010, with approximately 70 percent of active vessel time used for contract work. MultiClient investment in 2010 was slightly lower than in 2009, primarily due to less reprocessing and 2D seismic than in 2009. Pre-funding of new MultiClient surveys continued at high levels and in 2010 it ended at 119 percent of capitalized cash investment in the MultiClient library.

*Data Processing & Technology*

The acquisition of Applied Geophysical Services Inc, (AGS) in 2007 significantly enhanced our depth imaging capabilities. AGS Beam Migration has been a key vehicle for advancing PGS to a leading position in high-end data processing imaging. Beam Migration technology is used in 80 percent of PGS' data processing centers around the world. PGS hyperBeam, which is based on the integration of AGS Beam Migration and holoSeis provides improved client workflows from conception to production. It allows customers to iterate velocity models quickly, enabling them to make faster, more informed decisions that cut their costs and reduce risk.

High-end imaging technology has contributed to growing data processing revenues and has resulted in higher-quality data, shorter cycle times, and better-informed decision-making by customers. Our ambition for data processing remains firm. Our goal is to provide services that are recognized as being state-of-the-art and consistently maintain best-in-class MultiClient data processing capabilities that secure a 15-20 percent market share by 2012.

Data processing for external customers is becoming an increasingly important revenue contributor. In 2010, external processing revenues were $103.5 million, up from $90.2 million in 2009. The order book for external data processing has also continued to increase significantly throughout 2010 and by year-end it amounted to $91.1 million.

The GeoStreamer, the first-ever dual-sensor streamer and a proprietary PGS technology, represents a step change in streamer technology, and the best proof of PGS' technology differentiation. GeoStreamer delivers enhanced resolution, better penetration, and improved operational efficiency. Customer's acceptance for the new streamer technology continues to gain momentum at an increasing pace. The efficiency and data quality of vessels equipped with GeoStreamer show unparalleled benefits compared to vessels towing conventional streamers.

In 2010 we installed GeoStreamer on *Ramform Valiant* and *Ramform Explorer*. GeoStreamer upgrades will continue in 2011, with *Ramform Viking* in the first quarter and *PGS Apollo* planned for second quarter. After the upgrade of *PGS Apollo*, more than 50 percent of PGS capacity will be GeoStreamer. We aim for full GeoStreamer deployment by the end of 2013.

OptoSeis is a fiber-optic seismic monitoring system that is permanently installed on the seabed. The system helps optimize reservoir recovery at producing fields by providing on-demand seismic monitoring of reservoir changes over time. In 2010, we signed an agreement with Petrobras to install a permanent seismic monitoring system at the Jubarte field in the North Campos Basin, Espirito Santo province, offshore Brazil. This project is a significant step forward in the use of seismic services for reservoir surveillance.

PGS continues its effort to develop a towed Electro Magnetic (EM) system. Several milestone tests were performed in the North Sea in 2010 with good results. In 2011 we will

continue field trials with a stronger source in deeper water depths. We aim for a commercial launch of a towed EM system in 2012, which we believe will be a game changer in the EM market, redefining the efficiency benchmark for this technology.

**Ramform W-class - Our Commitment to Growth**

In fourth quarter 2010 we announced our vessel expansion and renewal program, and in February 2011, we signed a Letter of Award with Mitsubishi Heavy Industries Ltd. for delivery of two Ramform W-class vessels in 2013, with options for another two vessels to be delivered in 2015. Each vessel has an estimated cost, including seismic equipment, of $250 million. By ordering new industry leading capacity now, we continue to build our efficiency lead in the industry and proactively position PGS to take full advantage of a recovery in the marine seismic market.

**Financial Results**

Total revenues were $1,135.1 million, compared to $1,350.2 million in 2009, a decrease of 16 percent. Revenues from marine contract seismic acquisition decreased by $264.0 million, from $893.1 million in 2009 to $629.1 million in 2010; the decline was primarily driven by lower prices. Total MultiClient revenues (pre-funding and late sales combined) increased by $39.4 million, or 11 percent, to $390.5 million in 2010, driven by increased demand for MultiClient data.

Cash investment in the MultiClient library was reduced by $16.4 million, or 9 percent, to $166.7 million in 2010. Pre-funding as a percentage of capitalized cash investment was 119 percent in 2010, compared to 92 percent in 2009. The increase in pre-funding level was driven by strong pre-funding revenues on the Crystal III Wide Azimuth survey in the Gulf of Mexico and GeoStreamer surveys in the North Sea. In 2010, the fleet allocation factor (active 3D vessel time for marine contract vs. MultiClient data acquisition) was approximately 70:30, compared to 75:25 in 2009.

Operating costs, which include cost of sales, expensed research and developments costs, and selling and general administrative costs, totaled $671.8 million in 2010 compared to $678.1 million in 2009, a decrease of $6.3 million. Cost increases from adding more capacity, growing our data processing and technology activity, vessel upgrades and a higher fuel cost was offset primarily by the full year effect of capacity retirement done in second half of 2009.

Reported research and development costs decreased by $1.0 million, to $21.8 million in 2010. The expenses mainly relate to the core business activities of marine seismic acquisition and processing, as well as our efforts to develop a towed EM solution. Capitalized development projects totaled $13.2 million in 2010, compared to $8.7 million in 2009. Capitalized development costs primarily relate to OptoSeis and towed EM.

Depreciation and amortization for 2010 amounted to $326.4 million, compared to $285.3 million in 2009, an increase of $41.1 million or 14 percent.

Depreciation increased by $3.2 million. Depreciation increased due to full year impact of *Ramform Sterling*, entry of *PGS Apollo* mid May 2010, and investments in GeoStreamer, partially offset by increase of depreciation capitalized as part of the MultiClient library.

MultiClient amortization for 2010 increased by $37.9 million, or 25 percent compared to 2009. MultiClient amortization as a percentage of total MultiClient revenues was 49 percent in 2010, compared to 44 percent in 2009. The increase is driven by an increase in the share of sales relating to newer MultiClient data, which carry a higher book value. Amortization also includes a write down of certain specific MultiClient surveys due to weaker than planned performance.

The net book value of our MultiClient library was $310.8 million as of December 31, 2010, compared to $293.2 million as of December 31, 2009.

In 2010, we recorded $79.1 million in impairment charges on long-lived assets. The impairments primarily relate to the cancellation of the Arrow NB 535 and *Beaufort Explorer*, partially offset by reversal of previously recorded impairment charges on cancelled new-builds in Spain.

Operating profit was $57.8 million in 2010. Excluding impairment of long-lived assets, 2010 operating profit was $136.9 million. The corresponding 2009 operating profit was $233.3 million, and excluding impairment of long-lived assets it was $386.9 million.

Interest expense was $47.0 million in 2010, compared to $45.2 million in 2009. The increase is due to a reduction of capitalized interest associated with construction in progress, partly offset by lower interest-bearing debt and reduced interest rates.

Other financial items (which include, other financial income, other financial expense and

currency exchange gain/loss) amounted to a net loss of $2.8 million in 2010, compared to a net gain of $38.2 million in 2009.

The currency gain in 2010 was $0.9 million, compared to a gain of $24.8 million in 2009. The large gain in 2009 was due to a significant depreciation of the US dollar. To manage the foreign currency exposure on our operations we generally enter into forward contracts to buy NOK, GBP and other currencies where we incur expenditures. When the US dollar depreciates we generally record gains on these contracts.

The income from associated companies was a loss of $10.2 million in 2010 compared to a profit of $1.9 million in 2009. This is due to losses from the associated company Geokinetics in 2010, partly offset by improved profitability from PGS Khazar.

Income tax expense was $13.9 million in 2010, compared to $51.9 million in 2009. The 2010 tax expense includes a current tax expense of $18.9 million, compared to a current tax expense of $50.1 million in 2009. Current tax expense relates primarily to foreign taxes or income taxes in countries in which we have no carry forward losses or where there are limitations on the application of such losses.

PGS entered the Norwegian tonnage tax regime for some of the vessel owning subsidiaries in 2008. In the Norwegian tonnage tax regime the vessel related income is tax exempt from ordinary income taxation.

In fourth quarter 2010, the dispute with the Norwegian Central Tax Office for Large Enterprises regarding exit from the previous shipping tax regime in 2002 was settled. The settlement increased deferred tax expense by approximately $1 million.

PGS has an ongoing dispute with the tax office of Rio de Janeiro in Brazil related to municipal services tax (ISS) on the sale of MultiClient data relating to years 2000 and onwards. Both disputes mentioned above have been disclosed in earlier annual reports and are described in more detail in the notes to the 2010 financial statements.

With its multi-national operations, PGS is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. PGS has identified issues in several jurisdictions that could eventually make it liable to pay amounts in taxes relating to prior years and recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

PGS has substantial deferred tax assets in different jurisdictions, predominantly in Norway. Deferred tax assets recognized in the consolidated statements of financial position amounted to $210.8 million as of December 31, 2010, compared to $207.9 million as of December 31, 2009.

Net income to equity holders of PGS ASA was a loss of $7.6 million in 2010, compared to a gain of $165.8 million in 2009.

**Arrow Vessels**

PGS cancelled the new-build contracts for the first two vessels, NB 532 and NB 533, in 2009 due to delays. In March 2010, the Company took delivery of the *PGS Apollo* and in August 2010, the last vessel, NB 535, was cancelled.

In 2010, PGS has received approximately EUR 119 million covered by refund bank guarantees from Spanish banks after termination of the three shipbuilding contracts.

For both NB 532 and NB 533, approximately EUR 7 million per vessel with the addition of interest to be paid by the shipyard is still overdue in spite of the final arbitration awards ordering payment. The outstanding amounts are not covered by bank guarantees and PGS is pursuing different alternatives to enforce the claims.

**Cash Flows, Financial Position and Financing**

Net cash provided by operating activities totaled $343.4 million in 2010, compared to $676.1 million in 2009. The decline is largely attributable to lower profitability.

Cash and cash equivalents totaled $432.6 million as of December 31, 2010, compared to $126.0 million at year-end 2009.

In June 2007, we refinanced and established a $600 million Term Loan B maturing in 2015 and a $350 million revolving credit facility originally maturing in 2012. In the first quarter of 2011 we have signed an agreement to extend the maturity of the revolving credit facility from 2012 to 2015. The purpose of the extension is to secure a longer term liquidity reserve. Margin on the new revolving credit facility is 225 basis points, compared to 175 basis points earlier. As of December 31, 2010 $470.5 million remained outstanding on the Term Loan B and the revolving credit facility was undrawn.

The 8.28 percent Notes, due 2011, with a balance of $33.9 million was fully redeemed on June 1, 2010.

We issued $400 million of convertible notes in December 2007. The coupon interest rate

on the convertible bond is 2.7 percent and the conversion price is NOK 216.19 per PGS share. We have repurchased $55.5 million of the nominal value of the convertible notes, representing 14 percent of the total issue. As of December 31, 2010, $344.5 million of nominal value remained outstanding, with a corresponding balance sheet carrying value of $319.6 million.

In the second quarter of 2010, we amended the covenants of our $950 million credit agreement. The main change in the credit agreement was the definition of adjusted EBITDA used in calculating the leverage ratio to create more flexibility. Total fees and costs for us related to the amendment process were $7.0 million and were expensed in the second quarter 2010.

Total interest-bearing debt, including capital leases, but excluding deferred loan costs, amounted to $790.2 million as of December 31, 2010, compared to $917.6 million as of December 31, 2009.

Net interest-bearing debt (interest-bearing debt less cash and cash equivalents, restricted cash, and interest-bearing investments) was $286.4 million as of December 31, 2010, compared to $774.0 million as of December 31, 2009.

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

**Investments**
During 2010, we made total MultiClient cash investment, excluding capitalized interest, of $166.7 million, compared to $183.1 million in 2009, a decrease of $16.4 million. The decrease is primarily due to lower 2D MultiClient activity and less reprocessing of existing MultiClient data.

Capital expenditures totaled $211.4 million in 2010, compared to $231.2 million in 2009, a decrease of $19.9 million or 9 percent. The decline is largely attributable to reduced capital expenditures for new-builds, partly offset by accelerated GeoStreamer investments.

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

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

As of December 31, 2010, our debt structure included $470.5 million in floating interest-rate debt with interest based on three month LIBOR rates, plus a margin. The fixed interest rate debt had a book value of $319.6 million. To reduce the adverse effects of any interest rate increases, we have a portfolio of interest rate swaps (IRS) that have a total nominal value of $300.0 million. The fair value of the IRS portfolio was negative $28.1 million as of December 31, 2010. The swaps are for periods of six months to four years. Taking into account the effect of interest rate swaps, for every (hypothetical) one percentage point increase in LIBOR, the annual net interest expense of our debt, including finance leases, would increase by approximately $2.6 million.

*Currency exchange risk*
We conduct business in various currencies, including the US Dollar (USD), Brazilian real, Euro (EUR), Singapore dollar, Nigerian naira, British pound (GBP) and Norwegian kroner (NOK). We are subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing, and investment transactions in currencies other than the USD. We predominantly sell our products and

| | Dec. 31, 2010 | Dec. 31, 2009 |
|---|---|---|
| *In millions of US dollars* | | |
| **Unsecured:** | | |
| 10% Senior Notes, due 2010 | --- | 3.8 |
| **Secured:** | | |
| Term loan, Libor + margin, due 2015 | 470.5 | 572.0 |
| 8.28% first preferred mortgage notes, due 2011 | --- | 33.9 |
| **Convertible notes:** | | |
| Convertible notes, due 2012 | 319.6 | 307.9 |
| **Total** | **790.2** | **917.6** |

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

A stronger US dollar reduces our operating expenses as reported in US dollars. We estimate that a 10-percent appreciation of the US dollar against the two most significant non-USD currencies, NOK and GBP, would have an annual net positive impact on the operating profit of $14 to $19 million and $6 to $11 million, respectively, before currency hedging.

We hedge part of our foreign currency exposure related to operating income and expenses by entering into forward currency exchange contracts. While we enter into these contracts with the purpose of reducing our exposure to changes in exchange rates, we do not treat these contracts as hedges unless they are specifically designated as hedges of firm commitments or certain cash flows. Consequently, these forward currency exchange contracts are recorded at estimated fair value with gains and losses included in other financial items, net.

As of December 31, 2010, we had net open forward contracts to buy/sell British pounds, Norwegian kroner, Euro, Singapore dollars, and Brazil's real. The total nominal amount of these contracts was approximately $240.5 million, compared to $319.0 million at year-end 2009. Of the total notional amounts of forward exchange contracts, none were accounted for as fair value hedges as of December 31, 2010 and $8.7 million were accounted for as fair value hedges as of December 31, 2009. There were no designated foreign currency cash flow hedges in 2010 or in 2009. Outstanding contracts at year-end 2010 had a net negative fair value of $0.1 million, compared to a net positive fair value of $14.4 million at year-end 2009.

A 10 percent appreciation of the US dollar against all the currencies we have derivative contracts in, would decrease the fair value of these contracts by approximately $7.1 million. The profit and loss effect of such change would be a loss $7.1 million.

All interest bearing debt is denominated in US dollars.

*Credit risk*

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

We also monitor the counterparty credit risk of our banking partners, including derivatives counterparties and the institutions in which our cash is held on deposit. In addition, we are exposed to credit risk related to remaining refund claims against the Spanish shipyard Factorias Vulcano.

*Liquidity risk*

At December 31, 2010, we had an unrestricted cash balance of $432.6 million and a total liquidity reserve, including unutilized drawing facilities, of $778.9 million, compared to $126.0 million and $472.0 million, respectively, at year-end 2009. We have a structured approach to monitoring of credit risk against financial counterparties and have no reason to doubt their ability to meet their funding commitments if and when called upon to do so.

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

The credit agreement for the $600 million (remaining balance $470.5 million) Term Loan B and the $350 million revolving credit facility contains certain terms that place limitations on the Company. The revolving credit facility contains a covenant whereby total leverage ratio (as defined) cannot exceed 3.00:1 in 2010 and 2.75:1 thereafter. At December 31, 2010 the total leverage ratio was 1.94:1. The credit agreement generally requires the Company to apply 50 percent of excess cash flow (as defined) to repay outstanding borrowings when the senior leverage ratio exceeds 2.00:1 or if total leverage ratio exceeds 2.50:1 for the financial year.

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

*Commodity risk*
Operation of our seismic vessels consumes substantial quantities of fuel. Thus, we are exposed to changes in fuel prices. Based on our fuel consumption in 2010, a 10 percent increase in fuel prices would increase our total fuel costs, and operating expenses, by approximately $0.7 million per month. We do not hedge this exposure, but we are seeking cost adjustments on long-term contracts. The price of oil is a primary driver for demand for our services and future profitability, and therefore constitutes a natural fuel-price hedge.

**Operational and Other Risks**
The seismic industry and, as such, the demand for our services, are dependent upon the spending levels of oil and gas companies for exploration, development, exploitation and production of oil and gas. These spending levels are traditionally heavily influenced by the prices of oil and gas. In addition to the risk of less demand for our services or for data from our MultiClient data library, PGS is subject to a large number of other risk factors including but not limited to increased competition, attractiveness of our technology, changes in governmental regulations affecting our markets, technical downtime, licenses and permitting and operational hazards such as weather conditions.

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

**Shares, Share Capital, and Dividend**
We have 217,799,997 shares issued and outstanding, all of which are of the same class and with equal voting and dividend rights. Each share has a par value of NOK 3. In November 2010, we completed a private share placement directed at professional Norwegian and international investors. The placement included a share issuance of 19,799,998 new shares, equivalent of up to approximately 9.99 percent of the number of outstanding shares at the time of the offering. The price of NOK 83.0 per share was established in an accelerated book-building process. Net proceeds from the private placement amounted to $268.6 million. The purpose of the private placement was to maintain our robust financial profile and strategic flexibility. This will ensure that we are positioned to proactively manage any period of weakness in the seismic market and finance the new-build program including any subsequent exercising of options for additional vessels.
Our ordinary shares are listed on the Oslo Stock Exchange (ticker: PGS) and denominated in Norwegian kroner (NOK). The PGS share is still trading as an American Depositary Share (ADS) on the US Pink Sheets (ticker: PGSVY). Quotes are denominated in US dollars (USD) and each ADS represents one share.

In 2010, the Board of Directors resolved to introduce a dividend policy. We intend to distribute 25-50 percent of future net income as dividends. We currently expect to propose a dividend for the year 2011 of approximately $40 million to be paid following the 2012 annual general meeting. This indicative level would equate to NOK 1.10 per share based on exchange rate at year-end 2010. The dividend will be subject to business performance, operating environment and growth opportunities when determining the appropriate level in any specific year. The dividend payout decision will take non-recurring items into consideration and excess cash flow in peak years could qualify for extraordinary dividend.

At the AGM held April 29, 2010, the authorization for a share repurchase program for up to 10 percent of our share capital, initially granted in 2006, was extended for another year. We plan to propose an extension of the authorization at the May 2011 AGM.

As of December 31, 2010, we held 543,981 treasury shares, primarily to be able to satisfy exercise of options under our employee option programs.

**Events After the End of the Reporting Period**
On January 25, 2011, the PGS signed an agreement to extend maturity of the revolving credit facility (RCF) from 2012 to 2015. The purpose of the extension is to secure a longer term liquidity reserve. Margin on the new RCF is 225 basis points, compared to 175 basis points earlier.

In January 2011, PGS and SeaBird Exploration Ltd. (SeaBird) signed a strategic cooperation agreement to further develop ocean bottom node solution. The cooperation will complement PGS' product offering in reservoir monitoring and PGS will get exclusive right to offer SeaBird's autonomous seabed recording technology at market terms in Brazil. SeaBird has issued a five year convertible bond of NOK 240 million directed towards PGS with strike price NOK 3.35 and 9 percent interest.

In February 2011, PGS signed a Letter of Award with Mitsubishi Heavy Industries Ltd. for the delivery of two Ramform W-class vessels, with the option for another two vessels. The vessels

are the first in the new, fifth generation Ramform series. Planned deliveries of the two first vessels are in 2013.

**Organization**

PGS had an average of 2,090; 2,192 and 2,058 employees during the years ended December 31, 2010, 2009 and 2008, respectively (excluding Onshore employees).

The nature of our business requires a high degree of technological expertise from our employees. As an employer and as expressed in our core values, we strive for balance and equality with respect to gender, age, and cultural diversity among our staff. As of December 31, 2010, our employees represented 69 nationalities; 23 percent of our employees are women and 77 percent are men. Among our staff working in Norway, 32 percent are women and 68 percent are men. Our Board of Directors has four male and three female directors.

At our headquarters in Lysaker, 23 percent of management positions are held by women. 11 percent of women working for our organization in Norway are part-time employees.

We consciously strive to improve the nationality and gender diversity of our staff. Long-standing practices include ensuring that offshore crews are culturally diverse, and that cultural sensitivity classroom and e-learning training is offered at all levels of the organization. Recent new initiatives include interview training to improve managers' sensitivity to diversity issues, introduction of competency assessments in all major parts of the business that include measurement of cultural awareness, and identifying high potential women and minorities in our annual management talent review process.

University educated employees include geophysicists, geologists, engineers, and other professionals. The average monthly salary of a PGS employee in 2010 was $7,609 ($5,579 for female employees and $8,202 for male employees).

Our headquarters are located at Lysaker (Oslo), Norway. We also have offices in other cities in Norway, and in 25 other countries: Angola, Australia, Brazil, China, Egypt, France, India, Indonesia, Japan, Kazakhstan, Libya, Malaysia, Mexico, Netherland, Nigeria, Oman, Russia, Sao Tome & Principe, Singapore, Sweden, Turkmenistan, United Kingdom, United Arab Emirate, United States of America, and Vietnam.

**Board of Directors and Corporate Governance**

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

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

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

The Board of Directors held 12 meetings in 2010, including conference calls.

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

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

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

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

can also be raised directly with our general counsel or any Board member.

**Outlook**

In 2010, we experienced a significant increase in supply of seismic vessels. On the demand side there was an increase in sales leads and active tenders throughout 2010 on the back of a sustainable high oil price and a strong need to find reserve replacements. Still, the seismic market suffers from overcapacity, resulting in a flat pricing environment for seismic services entering into 2011.

While we observe increased activity levels and expect seismic spending to increase, we do not plan for a quick market recovery. We have not yet observed any shift to higher prices in actual awards or bidding activity.

Events in Egypt, Libya and Japan early in 2011 have impacted our operations in these countries. All personnel have been relocated or evacuated in a safe manner in accordance with our procedures. Even though the short term effects of these events on our business are negative as a result of reduced activity levels, we believe the long term effects may be increased focus on security of supply with respect to oil and gas reserves.

Longer-term the fundamentals in the seismic market are considered favorable, especially for more advanced seismic. Looking at the low reserve replacement ratio for the industry and the forecasted decline in oil supplies, we expect demand fundamentals for seismic services to be strong going forward.

We have a competitive advantage in our cost-effective and uniform fleet, which will be enhanced further when we take delivery of the two new Ramform W-class vessels. This advantage will be increasingly important for us in order to maintain industry-leading margins and generate robust cash flows through the cycles going forward.

We enter 2011 with an order book horizon on the 3D fleet of a bit more than six months and a stronger order book than ever before for data processing. We expect our revenues and EBITDA to increase in 2011, due to more capacity in our fleet and price premium for GeoStreamer work.

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

Pursuant to §3-3a of the Norwegian accounting act, the Board confirms that the 2010 financial statements have been prepared based on the assumption of a going concern and that the assumption of a going concern is appropriate.

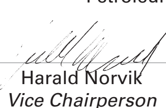
**Allocation of the Parent Company's Loss for 2010**

The financial statements of the parent company, Petroleum Geo-Services ASA (PGS ASA), are prepared and presented in accordance with generally accepted accounting principles in Norway (N GAAP). PGS ASA reported a net loss of NOK 505.6 million for 2010, compared to a net profit of NOK 1,905.0 million in 2009. PGS ASA is a holding company with no operating activities. The loss for 2010 is primarily caused by a write down of shares in Arrow Seismic ASA relating to termination of new build contracts in Spain.

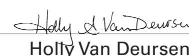
The Board proposes that the 2010 net loss of NOK 515,570,000 is transferred from other equity. Total shareholders' equity in PGS ASA as of December 31, 2010 was NOK 9,809,369,000, corresponding to 53 percent of total assets. Other equity as of December 31, 2010 was NOK 6,976,581,000 of which NOK 5,869,885,000 was unrestricted equity.

London, March 21, 2011
Board of Directors
Petroleum Geo-Services ASA

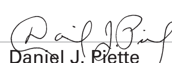
Francis Gugen
*Chairperson*


Harald Norvik
*Vice Chairperson*

Carol Bell


Holly Van Deursen

Annette Malm Justad


Daniel J. Piette

Ingar Skaug

Jon Erik Reinhardsen
*Chief Executive Officer*

# RESPONSIBILITY STATEMENT

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for PGS ASA, for the year ending and as of December 31, 2010.

PGS ASA's consolidated financial statements have been prepared and presented in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of December 31, 2010. 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, 2010. The Board of Directors report for the group and the parent company is in accordance with the requirements of the Norwegian Accounting Act and Norwegian accounting standard 16, as of December 31, 2010.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2010 have been prepared in accordance with applicable accounting standards.
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position, and result of operations as a whole as of December 31, 2010, for the group and the parent company.
- The Board of Directors' report for the group and the parent company include a true and fair review of:
  - The development and performance of the business and the position of the group and the parent company.
  - The principal risks and uncertainties the group and the parent company face.

London, March 21, 2011
Board of Directors
Petroleum Geo-Services ASA

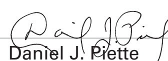
Francis Gugen
*Chairperson*

Harald Norvik
*Vice Chairperson*

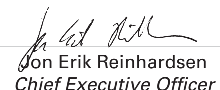
Carol Bell

Holly Van Deursen

Annette Malm Justad


Daniel J. Piette

Ingar Skaug


Jon Erik Reinhardsen
*Chief Executive Officer*

The back deck of a Ramform vessel is an efficient and safe work place.

## PETROLEUM GEO-SERVICES

# CONSOLIDATED STATEMENTS OF OPERATIONS

| | | Years ended December 31, | | |
|---|---|---|---|---|
| (In thousands of dollars) | Note | 2010 | 2009 | 2008 |
| Revenues | 6 | $1,135,134 | $1,350,202 | $1,647,401 |
| Cost of sales [(1)] | | 594,039 | 605,980 | 662,286 |
| Research and development costs[(1)] | | 21,791 | 22,806 | 19,357 |
| Selling, general and administrative costs[(1)] | | 56,014 | 49,270 | 72,798 |
| Depreciation and amortization | 6, 7 | 326,356 | 285,269 | 273,164 |
| Impairments of long-lived assets | 7 | 79,136 | 153,615 | 161,140 |
| Other operating income | | - | - | (71,561) |
| Total operating expenses | | 1,077,336 | 1,116,940 | 1,117,184 |
| Operating profit | 6 | 57,798 | 233,262 | 530,217 |
| Income (loss) from associated companies | 20 | (10,183) | 1,901 | (16,166) |
| Interest expense | 8 | (46,996) | (45,232) | (58,459) |
| Other financial income | 9 | 13,860 | 24,489 | 27,219 |
| Other financial expense | 9 | (17,580) | (11,117) | (14,594) |
| Currency exchange gain (loss) | | 916 | 24,806 | (29,843) |
| Income before income tax expense | | (2,185) | 228,109 | 438,374 |
| Income tax expense | 10 | 13,903 | 51,942 | 26,098 |
| Income (loss) from continuing operations | | (16,088) | 176,167 | 412,276 |
| Income (loss) from discontinued operations, net of tax | 4 | 8,548 | (8,248) | 5,814 |
| Net income (loss) | | $ (7,540) | $ 167,919 | $ 418,090 |
| Net income attributable to non-controlling interests | | 67 | 2,094 | 706 |
| Net income (loss) to equity holders of PGS ASA | | $ (7,607) | $ 165,825 | $ 417,384 |

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

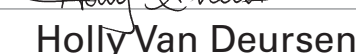
| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Earnings per share, to ordinary equity holders of PGS ASA:** | 11 | | | |
| - Basic | | $ (0.04) | $ 0.88 | $ 2.37 |
| - Diluted | | $ (0.04) | $ 0.88 | $ 2.36 |
| **Earnings per share from continuing operations, to ordinary equity holders of PGS ASA:** | 11 | | | |
| - Basic | | $ (0.08) | $ 0.92 | $ 2.34 |
| - Diluted | | $ (0.08) | $ 0.92 | $ 2.33 |

London, March 21, 2011
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen
*Chairperson*

Harald Norvik
*Vice Chairperson*

Carol Bell


Holly Van Deursen

Annette Malm Justad

Daniel J. Piette

Ingar Skaug

Jon Erik Reinhardsen
*Chief Executive Officer*

PETROLEUM GEO-SERVICES

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Years ended December 31, | | |
|---|---|---|---|---|
| (In thousands of dollars) | Note | 2010 | 2009 | 2008 |
| Net income (loss) | | $ (7,540) | $ 167,919 | $ 418,090 |
| | | | | |
| Other comprehensive income | | | | |
| Cash flow hedges | 26 | 2,701 | 15,582 | (24,588) |
| Deferred tax on cash flow hedges | 10 | (732) | (4,388) | 12,994 |
| Revaluation of shares available-for-sale | 13 | 11,946 | (2) | 725 |
| Translation adjustments and other | | (1,412) | 26 | (676) |
| Other comprehensive income (loss), net of tax | | 12,503 | 11,218 | (11,545) |
| Total comprehensive income | | 4,963 | 179,137 | 406,545 |
| Total comprehensive income attributable to non-controlling interest | | 67 | 2,094 | 706 |
| Total comprehensive income to equity holders of PGS ASA | | $ 4,896 | $ 177,043 | $ 405,839 |

PETROLEUM GEO-SERVICES

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (In thousands of dollars) | Note | December 31, 2010 | December 31, 2009 |
|---|---|---|---|
| ASSETS | | | |
| *Current assets:* | | | |
| Cash and cash equivalents | | $ 432,579 | $ 125,961 |
| Restricted cash | 12 | 4,773 | 7,977 |
| Shares available-for-sale | 13 | - | 2,039 |
| Accounts receivable | 14 | 225,301 | 197,098 |
| Accrued revenues and other receivables | 15 | 145,187 | 216,846 |
| Assets classified as held-for-sale | 16 | - | 227,292 |
| Other current assets | 17 | 98,432 | 90,148 |
| Total current assets | | 906,272 | 867,361 |
| *Long-term assets:* | | | |
| Property and equipment | 18 | 1,179,735 | 1,283,463 |
| Multi-client library | 19 | 310,843 | 293,238 |
| Restricted cash | 12 | 66,395 | 10,014 |
| Deferred tax assets | 10 | 210,766 | 207,890 |
| Investments in associated companies | 20 | 24,523 | 7,043 |
| Shares available-for-sale | 13 | 33,282 | 10,004 |
| Other long-lived assets | 21 | 27,245 | 12,053 |
| Goodwill | 22 | 139,852 | 139,852 |
| Other intangible assets | 23 | 102,594 | 98,490 |
| Total long-term assets | | 2 095,235 | 2,062,047 |
| Total assets | 6 | $ 3,001,507 | $ 2,929,408 |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| *Current liabilities:* | | | |
| Short-term debt and current portion of long-term debt | 24, 25 | $ - | $ 26,109 |
| Current portion of capital lease obligations | 27 | - | 348 |
| Accounts payable | | 95,486 | 87,153 |
| Accrued expenses | 28 | 244,938 | 286,079 |
| Liabilities classified as held-for-sale | 16 | - | 26,008 |
| Income taxes payable | 10 | 43,994 | 54,914 |
| Total current liabilities | | 384,418 | 480,611 |
| *Long-term liabilities:* | | | |
| Long-term debt | 25 | 783,693 | 882,580 |
| Deferred tax liabilities | 10 | 20,757 | 31,228 |
| Other long-term liabilities | 29 | 90,831 | 85,952 |
| Total long-term liabilities | | 895,281 | 999,760 |
| *Shareholders' equity:* | | | |
| *Paid-in capital:* | | | |
| Common stock; par value NOK 3; | | | |
| issued and outstanding 217,799,997 shares at December 31, 2010; | | | |
| issued and outstanding 197,999,999 shares at December 31, 2009 | 31 | 96,490 | 86,583 |
| Treasury shares, par value | 31 | (240) | - |
| Additional paid-in capital | | 503,111 | 237,542 |
| Total paid-in capital | | 599,361 | 324,125 |
| Accumulated earnings | | 1,133,376 | 1,147,551 |
| Cumulative translation adjustment and other reserves | | (10,941) | (23,444) |
| Non-controlling interests | | 12 | 805 |
| Total shareholders' equity | | 1,721,808 | 1,449,037 |
| Total liabilities and shareholders' equity | | $ 3,001,507 | $ 2,929,408 |

PETROLEUM GEO-SERVICES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands of dollars) | Years ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flows provided by operating activities: | | | |
| Net income | $ (7,607) | $ 165,825 | $ 417,384 |
| Adjustments to reconcile net income to net cash | | | |
| Provided by operating activities: | | | |
| Depreciation and amortization, continuing operations | 326,356 | 285,269 | 273,164 |
| Depreciation and amortization, discontinued operations | - | 22,701 | 62,352 |
| Impairments of long-lived assets | 79,136 | 153,615 | 161,140 |
| (Gain) loss on sale and retirement of assets | 9,185 | 47 | (75,581) |
| (Income) loss from associated companies | 10,183 | (1,901) | 16,166 |
| Interest expense | 46,996 | 45,035 | 56,648 |
| (Increase) decrease in deferred income taxes | (11,254) | 7,095 | (49,035) |
| Net decrease (increase) in restricted cash | 1,347 | 383 | 41,049 |
| Income taxes paid | (36,098) | (65,487) | (49,741) |
| Gain on sale of shares | (6,483) | (8,670) | - |
| Gain on sale of subsidiary (Onshore), net of transaction cost | (10,082) | - | - |
| Other items | 3,861 | 2,908 | 6,228 |
| (Increase) decrease in accounts receivable, net | (54,034) | (15,703) | 13,451 |
| (Increase) decrease in unbilled and other receivables | (3,062) | 45,721 | (32,104) |
| (Increase) decrease in other current assets | (11,665) | 39,354 | (13,688) |
| (Increase) decrease in other long-lived assets | 1,311 | 6,963 | 8,885 |
| Increase (decrease) in accounts payable | 10,009 | (6,686) | 10,089 |
| Increase (decrease) in accrued expenses and income taxes payable | (13,497) | 21,394 | 87,404 |
| Increase (decrease) in other long-term liabilities | 8,774 | (21,781) | (19,196) |
| Net cash provided by operating activities | 343,376 | 676,082 | 914,615 |
| Cash flows (used in) provided by investing activities: | | | |
| Investment in MultiClient library | (166,711) | (183,083) | (228,988) |
| Investment in MultiClient library, discontinued operations | (1,208) | (3,599) | (61,043) |
| Capital expenditures | (211,371) | (231,227) | (414,516) |
| Capital expenditures on new-builds on charter | - | (3,839) | (31,979) |
| Capital expenditures, discontinued operations | - | (10,538) | (36,103) |
| Proceeds/ refunds from new-build cancellations | 157,376 | - | - |
| Investments in other intangible assets | (12,614) | (7,811) | (12,304) |
| Investments in other intangible assets, discontinued operations | (219) | (4,577) | (156) |
| Investment/sale of associated companies, net | (9,935) | - | - |
| Proceeds from sale of assets and associated companies | 1,382 | 12,143 | 6,297 |
| Proceeds from assets held-for-sale | 2,400 | 58,000 | 24,605 |
| Investment in available-for-sale shares | (15,355) | (8,128) | - |
| Proceeds from available-for-sale shares | 15,650 | 14,681 | - |
| Sale of subsidiaries (Onshore) | 176,754 | - | - |
| Long-term deposit | (66,395) | - | - |
| Other items, net | 1,002 | 1,956 | 885 |
| Net cash used in investing activities | (129,244) | (366,022) | (753,302) |
| Cash flows (used in) provided by financing activities: | | | |
| Proceeds from issuance of common stock, net | 268,582 | 98,523 | - |
| Purchase of treasury shares | (9,224) | - | - |
| Proceeds from issuance of long-term debt | - | 20,000 | 33,702 |
| Repayment of long-term debt | (127,436) | (354,538) | (149,078) |
| Principal payments under capital leases | (354) | (3,703) | (7,686) |
| Net (decrease) increase in bank facility and short-term debt | - | - | (10,000) |
| Proceeds from sale of treasury shares | - | 20,276 | - |
| Proceeds from exercise of employee share options | 2,417 | - | 2,671 |
| Dividend paid to non-controlling interets in subsidiaries | (860) | (1,299) | (737) |
| Interest paid | (40,639) | (58,606) | (80,232) |
| Net cash (used in) provided by financing activities | 92,486 | (279,347) | (211,360) |
| Net (decrease) increase in cash and cash equivalents | 306,618 | 30,713 | (50,047) |
| Cash and cash equivalents as of January 1 | 125,961 | 95,248 | 145,295 |
| Cash and cash equivalents as of December 31 | $ 432,579 | $ 125,961 | $ 95,248 |

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flow from (used in) discontinued operation (Onshore) (a): | | | |
| Net cash provided by operating activities | - | 23 045 | 48 676 |
| Net cash used in investing activities | (1 427) | (17 350) | (96 597) |
| Net cash used in financing activities (capital leases) | - | - | (6 707) |
| Net cash from (used in) discontinued operation | (1 427) | 5 695 | (54 628) |

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

PETROLUEM GEO-SERVICES

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

| (In thousands of dollars, except for share data) | Common stock Number | Common stock Par value | Treasury shares Par value | Additional paid-in capital | Accumulated earnings (deficit) | Cumulative translation adjustm. and other reserves | Total | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of PGS ASA | | | | | | | | |
| Balance at January 1, 2009 | 180,000,000 | $ 78,208 | $ (1,868) | $ 134,658 | $ 963,334 | $ (34,662) | $1,139,670 | $ 10 | $ 1,139,680 |
| Total comprehensive income | - | - | - | - | 165,825 | 11,218 | 177,043 | 2,094 | 179,137 |
| Share issue (17,999,999 shares) (1) | 17,999,999 | 8,375 | - | 91,083 | - | - | 99,458 | - | 99,458 |
| Sale of treasury shares (2) | | - | 1,779 | - | 18,497 | - | 20,276 | - | 20,276 |
| Transferred shares, deferred consideration | - | - | 89 | - | (89) | - | - | - | - |
| Employee share options | - | - | - | 11,801 | - | - | 11,801 | - | 11,801 |
| Dividend to minority interests | - | - | - | - | - | - | - | (1,299) | (1,299) |
| Repurchase of convertible notes | - | - | - | - | (16) | - | (16) | - | (16) |
| Balance at December 31, 2009 | 197,999,999 | $ 86,583 | $ - | $ 237,542 | $ 1,147,551 | $ (23,444) | $ 1,448,232 | $ 805 | $ 1,449,037 |
| Total comprehensive income | - | - | - | - | (7,607) | 12,503 | 4,896 | 67 | 4,963 |
| Share issue (19,799,998 shares) (3) | 19,799,998 | 9,907 | - | 260,215 | - | - | 270,122 | - | 270,122 |
| Acquired treasury shares | | - | (420) | - | (8,805) | - | (9,225) | - | (9,225) |
| Exercise employee share options | - | - | 180 | - | 2,237 | - | 2,417 | - | 2,417 |
| Employee share options | - | - | - | 5,354 | - | - | 5,354 | - | 5,354 |
| Dividend to minority interests | - | - | - | - | - | - | - | (860) | (860) |
| Balance at December 31, 2010 | 217,799,997 | $ 96,490 | $ (240) | $ 503,111 | $1,133,376 | $ (10 941) | $ 1,721,796 | $ 12 | $ 1,721,808 |

(1) Transaction costs amounting to $3.4 million are recognized against "Additional paid-in-capital" net of related income benefits of $0.9 million.
(2) Transaction costs amounting to $0.7 million are recognized against "Accumulated earnings (deficit)".
(3) Transaction costs amounting to $4.0 million are recognized against "Additional paid-in capital" net of related income tax benefits of $1.5 million.

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

| (In thousands of dollars) | Net foreign currency translation adjustments | Net unrealised gain (loss) investments | Net gain (loss) cash flow hedges: Interest rate | Net gain (loss) cash flow hedges: Exchange rate | Cumulative translation adjustments and other reserves |
|---|---|---|---|---|---|
| Balance at January 1, 2009 | $ (1,301) | $ 46 | $ (33,407) | $ - | $ (34,662) |
| Year ended December 31, 2009: | | | | | |
| Revaluation of cash flow hedges | - | - | 15,582 | - | 15,582 |
| Deferred tax on cash flow hedges | - | - | (4,388) | - | (4,388) |
| Other | 26 | (2) | - | - | 24 |
| Balance at December 31, 2009 | $ (1,275) | $ 44 | $ (22,213) | $ - | $ (23 444) |
| Year ended December 31, 2010: | | | | | |
| Revaluation of cash flow hedges | - | - | 2,701 | - | 2,701 |
| Deferred tax on cash flow hedges | - | - | (732) | - | (732) |
| Revaluation of shares available-for-sale | - | 11,946 | - | - | 11,946 |
| Other | (1,412) | - | - | - | (1,412) |
| Balance at December 31, 2010 | $ (2 687) | $ 11,990 | $ (20,244) | $ - | $ (10,941) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value and assets impaired that are measured on value-in-use. The consolidated financial statements are presented in US Dollars ("$" or "dollars"), which is defined as the presentation currency.

The consolidated financial statements were authorised for issue by the Board of Directors on March 21, 2011.

**Significant transactions and events, including subsequent events**
In December 2009, the Company entered into an agreement to sell its Onshore business ("Onshore") to Geokinetics Inc ("Geokinetics"). The transaction was closed on February 12, 2010. Geokinetics paid approximately $184 million in cash and the Company received 2.15 million shares, representing 12.2% of the current outstanding common shares of Geokinetics. In fourth quarter 2010, the Company invested additional $10 million in a $30 million private placement of preferred shares issued by Geokinetics. See Notes 4 and 20 for further information.

In first quarter 2010, the Company received EUR 32 million plus interest of EUR 5 million related to payments made on the cancelled New Build contract ("NB") 532. In third quarter 2010, the Company received the same amounts related to the cancelled NB 533. The cancellation of the NB's 532 and 533 took place in 2009. See Note 18 for further information.

In March 2010, the Company took delivery of the new-build seismic 10-streamer 3D vessel *PGS Apollo*. See Note 18 for further information.

In third quarter 2010, the Company cancelled the shipbuilding contract for NB 535, resulting in impairment charges of $79.9 million and received EUR 45 million for all prepaid instalments on the vessel NB 535 with the addition of interest in October 2010. See Note 18 for further information.

In October 2010, the Company deposited 110 million Brazilian real (approximately $65 million) with Rio de Janeiro state court related to the Brazil service tax claim (ISS). See Note 27 for further information.

In November 2010, the Company completed a private placement directed towards professional Norwegian and international investors of 19,799,998 new shares with proceeds of $268.6 million, net of transaction costs. See Note 32 for further information.

In fourth quarter 2010, the Company recognized an impairment of long-lived assets with a net positive effect of $1.3 million, which mainly consist of a reversal of previous recognized impairment charges of $15.2 million on the cancelled NBs in Spain (see above), due to a received pledge in future payments by Armada Seismic to the yard and register of a mortgage on NB 533 in Spain and an impairment charge of $14.7 million relating to the decision to take *Beaufort Explorer* out of operation. See Note 18 for further information.

Income from discontinued operations for the years ended December 31, 2010, 2009 and 2008, include Onshore activities and additional proceeds that were contingent on certain events related to discontinued operations sold in 2003 (Atlantis) and 2002 (Production Services). See Note 4 for additional information.

*Subsequent events*
In January 2011, the Company and SeaBird Exploration Plc (SeaBird) signed a strategic cooperation agreement to further develop ocean bottom node solutions for deep water. SeaBird has issued a five year convertible loan of NOK 240 million directed towards PGS. The loan bear interest at 9% per annum that can be paid in cash or in kind. The loan can be converted into ordinary shares at a conversion price of 3.35 NOK per share at any time until maturity.

In February 2011, the Company signed a Letter of Award with Mitsubishi Heavy Industries Ltd. for the delivery of two Ramform W-class vessels, with the option for another two vessels. The vessels are the first in the new, fifth generation Ramform series. Planned deliveries of the two first vessels are in 2013.

## Note 2 - Summary of Significant Accounting Policies

**Adoption of new and revised policies and standards and interpretations**
The Company has adopted the following standard and interpretation effective for annual reporting periods beginning on 1 January 2010;

*IFRS 3 (revised) Business Combinations*
The revised standard continues to apply the acquisition method to business combinations, with some significant changes, including: all payments to purchase a business are to be recorded at fair value at the acquisition date, with the contingent payments that are classified as debt subsequently remeasured through the consolidated statement of operations. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. All acquisition-related costs should be expensed. The revised standard shall be applied prospectively and will affect all future business combinations.

*IAS 27 (revised) Consolidated and Separate Financial Statements*
The revised IAS 27 provides more guidance on accounting for changes in ownership interest in a subsidiary and the disposal of a subsidiary, compared to the current IAS 27. According to the revised standard the entity measures the interest retained in a former subsidiary at fair value upon loss of control of the subsidiary, and the corresponding gain or loss is recognised through consolidated statements of operations. The revised standard also includes a change in the requirements relating to the allocation of losses in a loss-making subsidiary. IAS 27 (R) requires total comprehensive income to be allocated between the controlling and the non-controlling party, even if this results in the non-controlling interest having a deficit balance. The revised standard will affect future transactions with non-controlling interests.

*Amendments to IAS 39 Financial instruments – Recognition and measurement - Eligible Hedged Items*
The amended IAS 39 clarifies the principles for determining whether a hedged risk or portion of cash flows is eligible for designation for certain risks or components of the cash flow. The approved changes gives primarily additional guidance for hedging a one-sided risk (hedging with options) and hedging of inflation risk, but also clarifies that designated risks and cash flows must be identifiable and can be reliably measured. The amendment will have no impact on the Company's consolidated financial statements.

**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 acquisition 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 non-controlling interests are presented separately in the consolidated statements of operations and consolidated statements of financial position.

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

The results and assets and liabilities of associated companies are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale (see below). Under the equity method, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company (i.e. profit or loss and equity adjustments), less any impairment in the value of individual investments. Losses of an associated company in excess of the Company's interest in

that associated company (which includes any long-term interests that, in substance, form part of the Company's net investment in the associated company) are not recognized, unless the Company has incurred legal or constructive obligations or made payments on behalf of the associated company. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

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

*Investments in joint ventures*

A joint venture is a contractual arrangement whereby the Company undertakes 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.

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

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

**Held-for-sale and discontinued operations**

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

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

**Cash and cash equivalents**

The carrying amounts of cash and cash equivalents approximate fair value. Cash and cash equivalents include demand deposits and all highly liquid financial instruments purchased with original maturities of three months or less. Cash and cash equivalents that are restricted from the Company's use are presented separately in the consolidated statements of financial position and are classified as current or long-term depending on the nature of the restrictions. Such restrictions primarily relate to OSS deposit (Note 27), employee tax withholdings, cash collateral for bid or performance bonds, certain health insurance and restricted deposits under contracts.

**Foreign currency translation and transactions**

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

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

**Operational and finance 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 finance lease arrangements relating to marine seismic equipment and Spanish and UK leases for vessels (See Note 27).

Finance 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. Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

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.

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

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

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

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

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

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

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

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

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

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

The Company classifies as amortization expense in its consolidated statements of operations any impairment of individual MultiClient surveys that are based on changes in project specific expectations and that are not individually material. The Company expects this additional, non-sales related, amortization expense to occur regularly because the Company evaluates each individual project at least annually for impairment or when specific indicators exist. The Company classifies as impairment

in its consolidated statements of operations write-downs related to fundamental changes in estimates affecting a larger part of the Company's MultiClient library where the effects are material, see *impairment of property, equipment and intangibles* below.

*Research and development costs*

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

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

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

*Patents, licenses and technology*

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

**Property and equipment**

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

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

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

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

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

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

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

**Borrowing costs**

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

**Steaming costs**

Steaming costs relate to relocating or "steaming" a vessel or crew from one location to another. The Company includes such costs in the cost of the MultiClient survey or exclusive contract with which the costs are associated. The steaming costs related to MultiClient survey are capitalized as a part of the MultiClient library (see above). Steaming 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 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. Upon internal reorganization goodwill is allocated to the new cash-generating units based on the relative fair value.

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 cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately and presented separately in the consolidated statements of operations. Impairment loss recognized for goodwill cannot be reversed in future periods.

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

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

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

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

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

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

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

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

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

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

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

*(c) Other services*
Revenue from other services is recognized as the services are performed, provided all other recognition criteria are satisfied.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Share-based payments*
Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model is based on management's best estimate and takes into account the effects of non-transferability, exercise restrictions and behavioral considerations.

Social security tax on options is based on the share value as of the end of the reporting period is recorded as a liability and is recognized over the option period.

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

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

**Financial assets and liabilities**
Financial assets and liabilities are recognized when the Company becomes party to the contractual obligations of the instrument and are initially recognized at fair value.
Financial assets and liabilities are classified into categories as follows:

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

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

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

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

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market's transaction, reference to the current fair value of other instruments that is substantially the same, discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measures are provided in Note 26.

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

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

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

**Earnings per share**
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For diluted earnings per share, diluted potential

ordinary shares are determined independently for each period presented. When the number of ordinary shares outstanding changes (e.g. share split) the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively. Basic and diluted earnings per share are presented separately for continuing and discontinued operations.

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

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

**Standards issued but not yet effective (which the Company has not early adopted)**
A number of new standards, amendment to standards and interpretation are not yet effective for the year ended 31 December 2010 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect of the financial statement of the Company, except for IFRS 9 *Financial Instruments,* which becomes mandatory for the Company's 2013 financial statement and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined, however it is not expected to have a significant impact on the Company's financial position.

## Note 3 - Critical Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

accounting policy in order to reduce the inherent risk in the general amortization policy that is based on the above described sales forecasting.

*Property, equipment and other intangibles*

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

*Impairment of property, equipment and intangibles*

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

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

*Income taxes*

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

*Pension cost*

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

*Development cost*

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

*Provision for contingencies, claims and tax litigations*

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

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

## Note 4 - Disposals

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

In 2003, the Company sold its Atlantis oil and gas activities to Sinochem. In 2010, the Company recognized $1.0 million in additional proceeds ($1.0 million in both 2009 and 2008).

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

The results of operations for Onshore are summarized as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Revenues | 21,756 | 194,624 | 273,074 |
| Operating costs (a) | 23,259 | 175,997 | 198,200 |
| Depreciation and amortization | --- | 22,702 | 62,352 |
| Total operating expenses | 23,259 | 198,699 | 260,552 |
| Operating profit | (1,503) | (4,075) | 12,522 |
| Financial items, net | 286 | 2,352 | (1,516) |
| Income before income tax expense (benefit) | (1,217) | (1,723) | 11,006 |

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

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Income before income tax expense (benefit) | (1,217) | (1,723) | 11,006 |
| Gain on sale of Onshore | 16,224 | --- | --- |
| Transaction costs Onshore | (6,142) | (2,368) | --- |
| Additional proceeds (Atlantis and Production Services, see above) | 1,000 | 1,956 | 1,462 |
| Tax from discontinued operations | (1,317) | (6,113) | (6,654) |
| Income from discontinued operations, net of tax | 8,548 | (8,248) | 5,814 |

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

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

## Note 5 - Acquisitions

Business combinations are recorded using the acquisition method of accounting. The Company did not enter in to any business combinations in the years ended December 31, 2010, 2009 or 2008.

## Note 6 - Segment and Geographic Information

Up until the sale of Onshore the Company operated its business in two segments, Marine and Onshore. Effective from May 1, 2010 the Company changed its organization to a simplified and more operational model based on service lines and the operating segments after the re-organization are Marine Contract and MultiClient.

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 segments serve a similar worldwide market. Customers for both segments are primarily composed of the same major multi-national, independent and national or state-owned oil companies.

Marine Contract and MultiClient segments meet the aggregation criteria under IFRS and are accordingly presented as a combined Marine reporting segment. Effective May 2010, the Electric magnetic (EM) business was included in Marine which is reflected in the tables below. Corporate overhead and significant charges that do not relate specifically to the operations of any one segment are presented as Other. Tables below are restated accordingly. 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, 2010:** (In thousands of dollars) | Marine | Other | Elimination of inter-segment items | Total continuing operations | Discontinued operations Onshore |
|---|---|---|---|---|---|
| Revenues by service lines: | | | | | |
| Marine Contract | 629,101 | --- | --- | 629,101 | 19,796 |
| MultiClient pre-funding | 198,278 | --- | --- | 198,278 | --- |
| MultiClient late sales | 192,262 | --- | --- | 192,262 | 1,960 |
| Data Processing | 103,471 | --- | --- | 103,471 | --- |
| Other | 9,239 | 2,783 | --- | 12,022 | --- |
| Total revenues | 1,132,351 | 2,783 | --- | 1,135,134 | 21,756 |
| Operating costs (a) | (648,302) | (22,821) | (721) | (671,844) | (23,259) |
| EBITDA | 484,049 | (20,038) | (721) | 463,290 | (1,503) |
| Impairments of long-lived assets (Note 7) | (79,136) | --- | --- | (79,136) | --- |
| Depreciation and amortization (Note 7) | (128,482) | (6,573) | --- | (135,055) | --- |
| Amortization of MultiClient library (Note 7) | (191,322) | --- | 21 | (191,301) | --- |
| Operating profit (loss) | 85,109 | (26,611) | (700) | 57,798 | (1,503) |
| **Statements of financial position items and cash investments as of December 31, 2010:** | | | | | |
| Investment in associated companies | 12,629 | 11,894 | --- | 24,523 | |
| Total assets | 2,352,201 | 649,306 | --- | 3,001,507 | --- |
| Cash additions to long-lived assets (b) | 386,060 | 4,637 | --- | 390,697 | 1,427 |

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

| **Year ended December 31, 2009:** (In thousands of dollars) | Marine | Other | Elimination of inter-segment items | Total continuing operations | Discontinued operations Onshore |
|---|---|---|---|---|---|
| Revenues by service lines: | | | | | |
| Marine Contract | 893,050 | --- | --- | 893,050 | 190,404 |
| MultiClient pre-funding | 169,043 | --- | --- | 169,043 | 1,595 |
| MultiClient late sales | 182,135 | --- | --- | 182,135 | 2,625 |
| Data Processing | 90,158 | --- | --- | 90,158 | --- |
| Other | 15,816 | --- | --- | 15,816 | --- |
| Total revenues | 1,350,202 | --- | --- | 1,350,202 | 194,624 |
| Operating costs (a) | (659,190) | (18,318) | (548) | (678,056) | (175,997) |
| EBITDA | 691,012 | (18,318) | (548) | 672,146 | 18,627 |
| Impairments of long-lived assets (Note 7) | (153,615) | --- | --- | (153,615) | --- |
| Depreciation and amortization (Note 7) | (125,339) | (6,519) | --- | (131,858) | (19,076) |
| Amortization of MultiClient library (Note 7) | (153,432) | --- | 21 | (153,411) | (3,626) |
| Operating profit (loss) | 258,626 | (24,837) | (527) | 233,262 | (4,075) |
| **Statements of financial position items and cash investments as of December 31, 2009:** | | | | | |
| Investment in associated companies | 7,032 | 11 | --- | 7,043 | --- |
| Total assets | 2,425,933 | 279,183 | --- | 2,705,116 | 224,292 |
| Cash additions to long-lived assets (b) | 422,546 | 3,414 | --- | 425,960 | 18,714 |

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

| **Year ended December 31, 2008:** (In thousands of dollars) | Marine | Other | Elimination of inter-segment items | Total continuing operations | Discontinued operations Onshore |
|---|---|---|---|---|---|
| Revenues by service lines: | | | | | |
| Marine Contract | 1,069,364 | --- | --- | 1,069,364 | 204,463 |
| MultiClient pre-funding | 249,602 | --- | --- | 249,602 | 55,958 |
| MultiClient late sales | 189,823 | --- | --- | 189,823 | 12,653 |
| Data Processing | 86,027 | --- | --- | 86,027 | --- |
| Other | 52,665 | 18 | (98) | 52,585 | --- |
| Total revenues | 1,647,481 | 18 | (98) | 1,647,401 | 273,074 |
| Operating costs (a) | (725,757) | (30,259) | 1,575 | (754,441) | (198,200) |
| EBITDA | 921,724 | (30,241) | 1,477 | 892,960 | 74,874 |
| Other operating income | 71,561 | --- | --- | 71,561 | --- |
| Impairments of long-lived assets (Note 7) | (161,140) | --- | --- | (161,140) | --- |
| Depreciation and amortization (Note 7) | (123,094) | (4,704) | 156 | (127,642) | (14,913) |
| Amortization of MultiClient library (Note 7) | (145,543) | --- | 21 | (145,522) | (47,439) |
| Operating profit (loss) | 563,508 | (34,945) | 1,654 | 530,217 | 12,522 |
| **Cash investments as of December 31, 2008:** | | | | | |
| Cash additions to long-lived assets (b) | 668,403 | 18,728 | 812 | 687,943 | 97,146 |

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

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

| **Revenues external customers: (a)** | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Americas (excluding Brazil) | 177,732 | 144,129 | 141,798 |
| Brazil | 177,196 | 238,076 | 112,394 |
| UK | 73,088 | 156,286 | 74,100 |
| Norway | 151,813 | 194,990 | 363,413 |
| Asia/Pacific | 245,798 | 288,408 | 510,644 |
| Africa | 215,164 | 200,904 | 202,847 |
| Middle East/Other | 94,343 | 127,409 | 242,205 |
| Total | 1,135,134 | 1,350,202 | 1,647,401 |

| **Revenues, including inter-area: (a)** | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Americas (excluding Brazil) | 182,924 | 144,129 | 141,798 |
| Brazil | 177,196 | 238,076 | 112,394 |
| UK | 80,998 | 164,167 | 81,978 |
| Norway | 152,500 | 195,398 | 363,812 |
| Asia/Pacific | 245,798 | 290,848 | 512,199 |
| Africa | 219,030 | 200,904 | 202,847 |
| Middle East/Other | 94,560 | 127,593 | 242,586 |
| Elimination inter-area revenues | (17,872) | (10,913) | (10,213) |
| Total | 1,135,134 | 1,350,202 | 1,647,401 |

| **Total non-current assets: (a)** | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Americas (excluding Brazil) | 201,035 | 192,876 |
| Brazil | 12,494 | 21,687 |
| UK | 592,772 | 717,087 |
| Norway | 302,927 | 336,721 |
| Asia/Pacific | 595,535 | 516,798 |
| Africa | 31,290 | 12,623 |
| Middle East/Other | 21,494 | 24,295 |
| Total | 1,757,547 | 1,822,087 |

(a) Consists of Property and equipment, Multi-Client library, Investment in associated companies, Goodwill and Other intangible assets.

In 2010, the Company's two most significant customers accounted for 12.7% and 7.5% of the Company's consolidated revenues, compared to 16.1% and 6.7% in 2009 and 11.2% and 6.3% in 2008, respectively (excluding discontinued operations).

## 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) | 2010 | 2009 | 2008 |
| Gross depreciation and amortization | (171,403) | (156,639) | (139,878) |
| Depreciation capitalized to MultiClient library (Note 19) | 36,348 | 24,781 | 12,236 |
| Amortization of MultiClient library (Note 19) | (191,301) | (153,411) | (145,522) |
| Total | (326,356) | (285,269) | (273,164) |

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Property and equipment; impairment (Notes 16 and 18) | (94,312) | (153,615) | (59,935) |
| Property and equipment; reversal of impairment (Notes 16 and 18) | 15,176 | --- | --- |
| Other intangible assets (Note 23) | --- | --- | (99,129) |
| Oil and gas assets (other long-lived assets) (Note 21) | --- | --- | (2,076) |
| Total | (79,136) | (153,615) | (161,140) |

## Note 8 - Interest Expense

Interest expense consists of the following:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Interest expense, gross | (55,425) | (70,472) | (98,428) |
| Interest capitalized in MultiClient library (Note 19) | 5,894 | 6,000 | 7,710 |
| Interest capitalized in construction in progress (Note 18) | 2,535 | 19,240 | 32,259 |
| Total | (46,996) | (45,232) | (58,459) |

The average interest rate used to determine the amount of interest expense eligible for capitalization was 5.9%, 5.9% and 6.2 % for the years ended December 31, 2010, 2009 and 2008 respectively.

## Note 9 - Other financial income and expenses

Other financial income consists of the following:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Interest income | 5,728 | 7,238 | 14,368 |
| Gain from sale of shares (Note 13 and 20) | 6,483 | 8,671 | --- |
| Gain on repurchase of convertible notes (Note 25) | --- | 3,778 | 12,147 |
| Gain on investments in shares available-for-sale (Note 13) | 711 | 3,749 | --- |
| Other | 938 | 1,053 | 704 |
| Total | 13,860 | 24,489 | 27,219 |

Other financial expenses consist of the following:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Amendment fees USD 950 million Credit Facilities (Note 25) | (7,029) | --- | --- |
| Fee in connection with redemption of 8.28% Notes (Note 25) | (1,229) | --- | --- |
| Impairment of shares available-for-sale (Note 13) | (1,742) | --- | (7,324) |
| Instruction fee convertible notes (includes professional fees) (Note 25) | --- | (6,895) | --- |
| Other | (7,580) | (4,222) | (7,270) |
| Total | (17,580) | (11,117) | (14,594) |

## Note 10 - Income Taxes

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Current taxes | 18,868 | 50,066 | 77,383 |
| Deferred taxes | (4,965) | 1,876 | (51,285) |
| Total income tax expense (benefit) | 13,903 | 51,942 | 26,098 |

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Current taxes | 6,677 | (108) | 4,405 |
| Deferred taxes | (5,360) | 6,221 | 2,249 |
| Total income tax expense (benefit) | 1,317 | 6,113 | 6,654 |

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

| | Years ended December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Interest rate hedging (Note 26) | (7,873) | (8,605) |

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Income before income tax expense from continuing operations | (2,185) | 228,109 | 438,374 |
| Norwegian statutory rate | 28% | 28% | 28% |
| Provision for income taxes at statutory rate | (612) | 63,871 | 122,745 |
| Increase (reduction) in income taxes from: | | | |
| Effects of tax rates other than statutory tax rate in Norway | (2,865) | (5,323) | (7,938) |
| Tax exempt income inside tonnage tax regimes | (7,426) | (53,244) | (26,712) |
| Effects on tax expense from tonnage tax regime entry/exit old tonnage tax regime dispute | 986 | (31,617) | (82,203) |
| Impairment Arrow vessels which are non-deductible | 23,107 | 45,186 | --- |
| Change in assessment on recoverability of prepaid income tax in Brazil | (12,332) | 21,000 | --- |
| Foreign taxes not deductible or subject to credit | 5,857 | 7,775 | 25,886 |
| Currency effects (a) | 2,622 | 2,261 | (50,533) |
| Change in tax contingencies recognized as tax expense (benefit) | 1,926 | (7,311) | 6,892 |
| Change in unrecognized deferred tax assets including current year losses where no benefit was provided | 2,805 | 18,955 | 65,844 |
| Other permanent items | (165) | (9,611) | (27,883) |
| Income tax expense | 13,903 | 51,942 | 26,098 |

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

Comments on selected line items in the preceding table:

*Norway – exit old tonnage tax regime – tax dispute*
Until 2002, PGS Shipping AS and PGS Shipping (Isle of Man) Ltd. were taxed under the Norwegian tonnage tax regime. In 2003 it was decided to exit with effect from January 1, 2002. The issue with the Norwegian Central Tax Office for Large Enterprises (“CTO”) was related to the assessment of the fair value of the shares in PGS Shipping (IoM) Ltd. upon exit in 2002. In 2010, the dispute was settled, increasing deferred tax expense by approximately $1.0 million.

*Impairment Arrow vessels*
The net impairments relating to the Arrow vessels (see Note 18), which are under the UK tonnage tax regime, are non-deductible and have as such not benefited the reported income tax expense.

*Prepaid income tax in Brazil*
The Company re-assessed the recoverability of $12.3 million of prepaid income tax in Brazil, since it now is more likely than not that the amount will be utilized.

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Deferred tax assets: | | |
| Multi-client library | (105,590) | (116,286) |
| Derivatives | (7,882) | (8,605) |
| Employee benefits | (23,740) | (28,010) |
| Tax loss carry-forwards | (244,509) | (218,935) |
| Tax credits | (28,921) | (21,325) |
| Other | (49,423) | (49,953) |
| Income tax assets, gross | (460,065) | (443,114) |
| | | |
| Deferred tax liability: | | |
| Property and equipment | 26,047 | 6,005 |
| Intangible assets | 17,417 | 16,338 |
| Derivatives | 11,749 | 14,202 |
| Current accruals/liabilities | 14,873 | 12,049 |
| Deferred taxable gain/revenue | 77,895 | 75,314 |
| Other | 18,925 | 27,336 |
| Deferred tax liabilities, gross | 166,906 | 151,244 |
| | | |
| Deferred tax assets, net | (293,159) | (291,870) |
| Deferred tax assets not recognized in the consolidated statements of financial position | 103,150 | 115,209 |
| Net recognized deferred tax assets | (190,009) | (176,661) |

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

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Deferred tax assets | (210,766) | (207,890) |
| Deferred tax liabilities | 20,757 | 31,229 |
| Net deferred tax (assets) | (190,009) | (176,661) |

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

Tax losses carried forward both recognized and unrecognized and expiration periods as of December 31, 2010 are summarized as follows:

| (In thousands of dollars) | | |
|---|---|---|
| Brazil | 156,816 | No expiry |
| Norway | 426,669 | No expiry |
| Asia Pacific | 160,609 | 2016 - No expiry |
| UK | 142,742 | No expiry |
| US | 11,944 | 2023 |
| Other | 2,298 | 2012 - No expiry |
| Losses carried forward | 901,078 | |

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

With its multi-national operations, the Company is subject to taxation in many jurisdictions around the world with increasingly complex tax laws. The Company has possible issues (mostly related to uncertain tax positions like permanent establishment issues) in several jurisdictions that could eventually make it liable to pay material amounts in taxes relating to prior years. The Company recognizes liabilities for uncertain tax positions if it is considered more likely than not that additional tax will be due, based upon management's assessment of the most likely outcome. Total accrued contingent tax liabilities as of December 31, 2010 was $13.3 million, of which $1.6 million is recorded as income taxes payable and $11.7 million as other long-term liabilities. As of December 31, 2009, such amount totalled $18.8 million, of which $7.3 million recorded as income taxes payable and $11.5 million as other long-term liabilities.

## Note 11 - Earnings Per Share

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

| (In thousands of dollars) | Years ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|
| Net income (loss) from continuing operations | (16,088) | 176,167 | 412,276 |
| Net income (loss) from discontinued operations | 8,548 | (8,248) | 5,814 |
| Minority interests | (67) | (2,094) | (706) |
| Net income (loss) to equity holders of PGS ASA | (7,607) | 165,825 | 417,384 |
| | | | |
| Effect of interest on convertible notes, net of tax | --- | --- | 21,541 |
| Net income (loss) for the purpose of diluted earnings per share | (7,607) | 165,825 | 438,925 |
| | | | |
| **Earnings per share:** | | | |
| - Basic | $ (0.04) | $ 0.88 | $ 2.37 |
| - Diluted | $ (0.04) | $ 0.88 | $ 2.36 |
| **Earnings per share from continuing operations:** | | | |
| - Basic | $ (0.08) | $ 0.92 | $ 2.34 |
| - Diluted | $ (0.08) | $ 0.92 | $ 2.33 |
| **Earnings per share from discontinued operations:** | | | |
| - Basic | $ 0.04 | $ (0.04) | $ 0.03 |
| - Diluted | $ 0.04 | $ (0.04) | $ 0.03 |
| | | | |
| Weighted average basic shares outstanding (a) | 200,052,867 | 189,061,076 | 176,014,248 |
| Dilutive potential shares (b) | --- | 499 | 10,009,795 |
| Weighted average diluted shares outstanding | 200,052,867 | 189,061,575 | 186,024,043 |

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

(b) For the years ended December 31, 2010, 2009 and 2008, respectively, share options equivalent to 7,679,975, 7,480,708 and 4,543,281 shares, were excluded from the calculation of diluted earnings per share as they were anti-dilutive. In addition 8.8 million shares related to the convertible notes (see Note 25) were excluded from the calculation for the years ended December 31, 2010 and 2009, due to the anti-dilutive effect.

## Note 12 - Restricted Cash

Restricted cash consists of:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Current: | | |
| Restricted payroll withholding taxes | 3,887 | 3,089 |
| Restricted for health insurance | 204 | 2,031 |
| Bid/performance bonds | 65 | 501 |
| Restricted under contracts (guarantees) | 356 | 377 |
| Deposits | 217 | 80 |
| Other | 44 | 1,899 |
| Total restricted cash, current | 4,773 | 7,977 |
| Long-term: | | |
| Debt service reserve fund (Note 25 and 26) | --- | 10,014 |
| Deposit ISS dispute (Note 27) | 66,395 | --- |
| Total current and long-term | 71,168 | 17,991 |

## Note 13 - Shares Available-for-Sale

Shares available-for-sale as of December 31, 2010 relates mainly to the Company's investments in Cove Energy Plc ("Cove"), San Leon Energy Plc ("San Leon"), Providence Resources Plc ("Providence"), Ithaca Energy Inc ("Ithaca"), Northern Petroleum Plc ("Northern").

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

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Balance as of January 1, | 12,043 | 6,249 |
| Investment, cash | 15,354 | 8,128 |
| Investment, non cash (a) | 4,137 | --- |
| Gain on investments | 711 | 3,749 |
| Unrealized gain (loss) recognized to other reserves in shareholders' equity, net of reversals due to sale | 11,946 | (2) |
| Sale of shares | (9,167) | (6,081) |
| Impairments | (1,742) | --- |
| Balance as of December 31, | 33,282 | 12,043 |

(a) Shares received in exchanges of providing acquisition services.

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

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (In thousands of dollars) | Fair value | Ownership | Fair value | Ownership |
| **Current:** | | | | |
| Endeavour | --- | --- | 1,814 | 1.3% |
| Other | --- | --- | 225 | --- |
| **Long-term:** | | | | |
| Cove | 11,149 | 1.5% | 5,616 | 6.0% |
| San Leon | 3,540 | 1.2% | 4,388 | 3.4% |
| Providence | 4,639 | 3.6% | --- | --- |
| Ithaca | 8,649 | 1.3% | --- | --- |
| Northern | 3,652 | 2.4% | --- | --- |
| Other | 1,653 | --- | --- | --- |
| Total | 33,282 | | 12,043 | |

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

In 2010, the Company sold the investment in Endeavour, resulting in a gain of $0.9 million. The Company has also sold shares in other investments. The total proceeds from sale of shares in 2010 were $15.7 million with a net gain of $6.5 million (see Note 9).

## Note 14 - Accounts Receivable

Accounts receivable consist of the following:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Accounts receivable – trade | 226,678 | 199,067 |
| Allowance for doubtful accounts | (1,377) | (1,969) |
| Total | 225,301 | 197,098 |

The change in allowance for doubtful accounts is as follows:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Balance as of January 1 | (1,969) | (2,176) |
| New and additional allowances | (48) | (1,999) |
| Write-offs and reversals | 640 | 2,206 |
| Total | (1,377) | (1,969) |

Aging analysis of accounts receivable is as follows:
(In thousands of dollars)

| | | | Past due, but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Not due | <30d | 30-60d | 60-90d | 90-120d | >120d |
| December 31, 2010 | 225,301 | 147,092 | 63,232 | 4,155 | 619 | 3,986 | 6,217 |
| December 31, 2009 | 197,098 | 118,719 | 38,509 | 6,933 | 13,086 | 8,926 | 10,925 |

## Note 15 - Accrued Revenues and Other Receivables

Accrued revenues and other receivables consist of the following:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Accrued, not invoiced revenues | 122,284 | 105,991 |
| Other receivables | 19,961 | 5,062 |
| VAT receivable | 2,942 | --- |
| Refund guarantee (Note 18 “Arrow vessels”) | --- | 105,793 |
| Total | 145,187 | 216,846 |

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

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

In 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 was classified as held-for-sale until it was sold at end of 2010. The Company recognized a loss of $0.6 million on this transaction. In 2009, the Company recognized an impairment of $2.2 million in the consolidated statements of operations (see Note 7).

## Note 17 - Other Current Assets

Other current assets consist of the following:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Spare parts, consumables and supplies | 32,408 | 30,974 |
| Prepaid operating expenses | 23,324 | 22,717 |
| Withholding taxes and taxes receivable | 22,566 | 12,605 |
| Deferred steaming expense | 5,108 | 5,910 |
| Unrealized gain forward exchange contracts (Note 26) | 4,366 | 17,110 |
| Prepaid reinsurances | 2,809 | --- |
| Other | 7,851 | 832 |
| Total | 98,432 | 90,148 |

## Note 18 - Property and Equipment (including finance leases)

The components of property and equipment, including property and equipment under finance 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, 2009 | 551,265 | 66,173 | 1,750,735 | 76,749 | 33,314 | 2,478,236 |
| Capital expenditures (a) | 128,299 | --- | 102,938 | 10,521 | 7 | 241,765 |
| Capital expenditures on new-builds on charter | 3,839 | --- | --- | --- | --- | 3,839 |
| Capitalized interest | 19,240 | --- | --- | --- | --- | 19,240 |
| *Ramform Sterling* delivered | (213,310) | --- | 213,310 | --- | --- | --- |
| Sale of asset | --- | | (135,317) | --- | --- | (135,317) |
| Retirements (a) | --- | --- | (78,257) | (8,233) | (2,095) | (88,585) |
| Classified as held–for-sale (Onshore) | --- | | (174,911) | (20,537) | (199) | (195,647) |
| Reclassified assets to other receivables (NB532 | (194,762) | --- | --- | --- | --- | (194,762) |
| and 533) | --- | (5,496) | 5,496 | 5,416 | (4,099) | 1,317 |
| Other/translation adjustments | | | | | | |
| Purchase costs as of December 31, 2009 | 294,571 | 60,677 | 1,683,994 | 63,916 | 26,928 | 2,130,086 |
| Capital expenditures | 15,724 | --- | 188,055 | 6,393 | 1,200 | 211,372 |
| Capitalized interest | 2,535 | --- | --- | --- | --- | 2,535 |
| *PGS Apollo* delivered | (182,586) | --- | 182,586 | --- | --- | --- |
| Sale of asset | --- | | (10,468) | --- | --- | (10,468) |
| Retirements | --- | --- | (53,972) | (3,816) | (3,115) | (60,903) |
| Reclassified assets to other receivables (NB 535) | (129,960) | --- | --- | --- | --- | (129,960) |
| Other/translation adjustments | 377 | (149) | (1,454) | (508) | (91) | (1,825) |
| Purchase costs as of December 31, 2010 | 661 | 60,528 | 1,988,741 | 65,985 | 24,922 | 2,140,837 |
| | | | | | | |
| **Accumulated depreciation and impairments:** | | | | | | |
| Depreciation as of January 1, 2009 | --- | --- | 734,686 | 53,540 | 8,942 | 797,168 |
| Impairments as of January 1, 2009 | 2,058 | 33,030 | 82,359 | --- | 1,200 | 118,647 |
| Depreciation (a) | --- | --- | 151,708 | 12,664 | 2,419 | 166,791 |
| Impairments (a) | 95,562 | --- | 67,026 | 391 | --- | 162,979 |
| Sale of asset | --- | --- | (77,317) | --- | --- | (77,317) |
| Retirements (a) | --- | --- | (67,718) | (6,940) | (1,885) | (76,543) |
| Classified as held-for-sale (Onshore) | --- | --- | (134,136) | (12,871) | (35) | (147,042) |
| Reclassified assets to other receivables (NB 532 and 533) | (97,620) | --- | --- | --- | --- | (97,620) |
| Other/translation adjustments | --- | --- | --- | (403) | (36) | (439) |
| Depreciation as of December 31, 2009 | --- | --- | 607,223 | 45,990 | 9,405 | 662,618 |
| Impairments as of December 31, 2009 | --- | 33,030 | 149,385 | 391 | 1,200 | 184,006 |
| Depreciation | --- | --- | 152,145 | 8,134 | 2,614 | 162,893 |
| Impairments | 79,594 | --- | 14,718 | --- | --- | 94,312 |
| Sale of asset | --- | --- | (9,171) | --- | --- | (9,171) |
| Retirements | --- | --- | (46,684) | (3,692) | (3,079) | (53,455) |
| Reclassified assets to other receivables (NB 535) | (79,594) | --- | --- | --- | --- | (79,594) |
| Other/translation adjustments | --- | --- | (377) | (159) | 29 | (507) |
| Depreciation as of December 31, 2010 | --- | --- | 703,136 | 50,273 | 8,969 | 762,378 |
| Impairments as of December 31, 2010 | --- | 33,030 | 164,103 | 391 | 1,200 | 198,724 |
| | | | | | | |
| **Balance as of December 31, 2009** | **294,571** | **27,647** | **927,386** | **17,535** | **16,323** | **1,283,462** |
| **Balance as of December 31, 2010** | **661** | **27,498** | **1,122,501** | **14,322** | **14,753** | **1,179,735** |

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

In March 2010, the Company took delivery of the new-build seismic 10-streamer 3D vessel *PGS Apollo*. See below.

In 2010, the Company recorded impairments on vessels and equipment of $94.3 million as a result of identifying impairment indicators, including adjusting the carrying amount of the NB 535 to estimated recoverable amount upon cancellation of the shipbuilding contract. In addition reversal of previously recognized impairments of $15.2 million related to NB 532 and 533, partly included as long-term asset at December 31, 2010 (see Note 21). See also below “Arrow vessels”.

In 2009, the Company recorded impairments on vessels and equipment of $151.2 million as a result of identifying impairment indicators including adjusting the carrying amounts for Geo Atlantic (held–for-sale) to estimated market value and adjusting the carrying amount for NB’s 532 and 533 to estimated recoverable amount. See also Note 16 for the impairment recognized in 2009 on Polar Pearl.

The net book value of property and equipment under UK leases were $145.9 million and $141.0 million at December 31, 2010 and 2009, respectively. See Note 27 for further description of these leases and the accounting impact of certain lease terminations.

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

**New-build program - Ramform vessels**
In November 2010, the Company announced a program to renew and expand the fleet of seismic vessels by building two fifth generation Ramform vessels with the option for another two ships (see also below).

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

The Arrow Group cancelled the contracts for NB’s 532 and 533 in March and August 2009, respectively due to delays. In March 2010, the Company took delivery of the NB 534 *PGS Apollo* and in the third quarter NB 535 was cancelled.

WG was released from its obligations under the charter in connection with these cancellations of NB’s 532 and 533. The yard disputed the Arrow Group’s right of termination of NB’s 532 and 533, and initiated arbitration proceedings in Norway against the Arrow companies holding each shipbuilding contract. In both arbitration cases, the yard was ordered to pay the respective Arrow companies the full amount claimed of EUR 39.7 million per vessel, as well as interest and legal costs. The portion of the awarded amounts covered by the bank refund guarantees, approximately EUR 32 million plus interest of approximately EUR 5 million on each vessel were received in 2010.

In fourth quarter 2010, Arrow received approximately EUR 45 million as repayment of all prepaid instalments on NB 535 with addition of interest. The payment was made by the bank of the Spanish shipyard Factorias Juliana following an undisputed cancellation of the vessel in third quarter 2010.

For both NB’s 532 and 533 approximately EUR 7 million per vessel with the addition of interest to be paid by Factorias Vulcano is still overdue in spite of the final arbitration awards ordering payment. The outstanding amounts are not covered by bank guarantees and the Arrow companies are pursuing different alternatives to enforce the claims. Among other things, the Arrow Group has received a pledge in a future payment by Armada Seismic to Factorias Vulcano for the delivery of NB 533 in the amount of approximately EUR 10 million. In addition, the Arrow Group has registered a pledge in NB 533 for an amount of approximately EUR 7 million with addition of interest.

The Company has entered into a Spanish lease structure for the *PGS Apollo*, see Note 27.

*Subsequent events*
In February 2011, the Company signed a Letter of Award with Mitsubishi Heavy Industries Ltd. for the delivery of two Ramform W-class vessels, with the option for another two vessels. The vessels are the first in the new, fifth generation Ramform series. Planned deliveries of the two first vessels are in 2013. The new generation Ramforms' total cost will be approximately USD 250 million each, including construction follow-up, commissioning and a comprehensive seismic package.

## Note 19 - MultiClient Library

The components of the MultiClient library are summarized as follows:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Balance as of January 1, | 293,238 | 294,601 |
| Cash investments | 166,711 | 186,682 |
| Capitalized interest (a) | 5,894 | 6,200 |
| Capitalized depreciation (a) | 36,348 | 24,781 |
| Amortization expense (a) | (191,301) | (157,037) |
| Onshore classified as held-for-sale (Note 4) | --- | (60,565) |
| Other | (47) | (1,424) |
| Balance as of December 31, | 310,843 | 293,238 |

(a) The 2009 figures includes Onshore presented as discontinued operation in the consolidated statements of operations.

Amortization expense for the year ended December 31, 2010 includes $26.6 million of additional non-sales related amortization, net. This amount includes $13.5 million in minimum amortization, $13.8 million of impairments and $0.7 million in reversal of previous recorded impairments to reflect the fair value of future sales on certain individual surveys. For the year ended December 31, 2009 the additional non-sales related amortization totalled $24.7 million, of which $10.1 million in minimum amortization, $15.0 million of impairments and $0.4 million in reversal of previous recorded impairments. For the year ended December 31, 2008, the additional non-sales related amortization totalled $12.6 million, of which $7.0 million in minimum amortization and $6.1 million of impairments and $0.5 million in reversal of previous recorded impairments.

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| **Completed surveys:** | | |
| Completed during 2005 and prior years | --- | 1,044 |
| Completed during 2006 | 348 | 1,796 |
| Completed during 2007 | 4,627 | 8,785 |
| Completed during 2008 | 31,380 | 46,925 |
| Completed during 2009 | 120,618 | 160,978 |
| Completed during 2010 | 48,082 | --- |
| Completed surveys | 205,055 | 219,528 |
| Surveys in progress | 105,788 | 73,710 |
| MultiClient library | 310,843 | 293,238 |

As of December 31, 2009 Onshore surveys are presented as held-for-sale (see Note 4).

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

| | December 31, 2010 |
|---|---|
| (In thousands of dollars) | Minimum future amortization |
| During 2011 | 23,570 |
| During 2012 | 51,080 |
| During 2013 | 73,413 |
| During 2014 | 80,847 |
| During 2015 | 46,419 |
| During 2016 | 35,514 |
| Future minimum amortization | 310,843 |

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

## Note 20 - Investments in Joint Ventures and Associated Companies

The components of investments in Joint Ventures and Associated Companies are summarized as follows:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Balance as of January 1, | 7,043 | 14,391 |
| Share of income/ (loss) (a) | (10,183) | 634 |
| Investment, cash | 5,865 | --- |
| Investment, non cash (b) | 21,798 | --- |
| Sale of shares (a) | --- | (7,959) |
| Other | --- | (23) |
| Balance as of December 31, | 24,523 | 7,043 |

(a) In 2009 gain on sale of shares was $ 1.2 million (no sale in 2010).
(b) Shares received as part of the Onshore sale ($19.1 million) and exchange of receivables ($2.7 million).

Specification by investment:

| (In thousands of dollars) | Net book value December 31, 2009 | Investment (a) | Share of income/ (loss) | Net book value December 31, 2010 | Ownership as of December 31, 2010 |
|---|---|---|---|---|---|
| Corporations and limited partnerships: | | | | | |
| Geokinetics Inc. | --- | 24,843 | (12,960) | 11,883 | 12.2% |
| PGS Overseas Operation (Cyprus) Ltd. | 6,929 | --- | 3,347 | 10,276 | 50.0% |
| Fortis Petroleum Corporation AS. | --- | 2,685 | (500) | 2,185 | 20.0% |
| Other | 114 | 135 | (70) | 179 | --- |
| Total | 7,043 | 27,663 | (10,183) | 24,523 | |

(a) Include non-cash investments of $21.8 million, see below.

The Geokinetics investment was part of the Onshore transaction closed on February 12, 2010, see Note 4 for further information. The Company had the right to nominate two board members in Geokinetics and as such it is assessed that significant influence exists. Accordingly the investment is classified as associated companies. The fair value of the shares received was $19.1 million. In fourth quarter 2010, the Company invested additional $10 million in a $30 million private placement of preferred shares done by Geokinetics, of this approximately $ 4.0 million is allocated to warrants received in the transaction and presented as long-lived assets (see Note 21). The shares in Geokinetics are listed on Nasdaq and at December 31, 2010 the market value of the 12.2% ownership was $20 million.

During second half of 2010 the Company exchanged a receivable, with an estimated fair value of $2.7 million, and received a 20% ownership in Fortis Petroleum Corporation AS.

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

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| **Statements of operations data:** | | | |
| Revenue | 70,975 | 7,731 | 3,850 |
| Share of income (loss) | (10,183) | 634 | (6,332) |
| Sale of shares | --- | 1,267 | --- |
| Write-down of investment | --- | --- | (9,834) |
| Gain (loss) from equity investments | (10,183) | 1,901 | (16,166) |

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| **Statements of financial position data:** | | |
| Total assets | 101,500 | 8,815 |
| Total liabilities | (76,977) | (1,772) |
| Net assets | 24,523 | 7,043 |

## Note 21 - Other Long-Lived Assets

Other long-lived assets consist of the following:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Claims towards yard (NB's 532 and 533) (Note 18) | 14,904 | --- |
| Warrants Geokinetics Inc. (Note 20) (a) | 4,070 | --- |
| Other long-term receivables | 3,594 | 6,858 |
| Loan to associated company | 3,132 | 2,960 |
| Prepaid expenses and deposits | 1,524 | 2,235 |
| Unrealized gain forward exchange contracts (Note 26) | 21 | --- |
| Total | 27,245 | 12,053 |

(a) PGS own $10 million in 40,000 preferred shares and 1,165,000 warrants in Geokinetics as of December 31, 2010 (see Note 20). The warrants has been valued to $ 4.1 million using a Black-Scholes option price model as of December 31, 2010, the remaining value has been allocated to the preferred shares and has been included as part of the investment in Geokinetics.

## Note 22 - Goodwill

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

The carrying amount of goodwill as of December 31, 2009 and 2010 totalling $139.9 million, relates to the 2007 acquisitions of MTEM, AGS and Roxicon. Effective from May 1, 2010 the Company changed its organization where Marine Contract and MultiClient were established as operating segments. Accordingly goodwill was reallocated to these two segments based on the relative values.

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Marine Contract | 97,897 | 97,897 |
| MultiClient | 41,955 | 41,955 |
| Total | 139,852 | 139,852 |

Key assumptions used in the calculations of value in use are growth rates, revenues, EBITDA, operating profit, capital expenditures and discount rates. The recoverable amounts are determined based on a value-in-use calculation using after tax cash flow projections based upon financial projections approved by executive management and an after tax discount rate of 9.9% as of December 31, 2010 and 2009. The nominal growth rate used to extrapolate cash flows beyond the initial 5 years projection period as of December 31, 2010 and 2009 was 2.5%.

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

Management believes that any reasonably possible change in key assumptions underlying the calculations of the recoverable amount of the Marine segment would not trigger any impairment as of December 31, 2010.

## 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, 2009 | 187,126 | 25,645 | 22,129 | 234,900 |
| Additions to costs (a) | 335 | 12,018 | --- | 12,353 |
| Other/translation adjustments | (1,057) | --- | --- | (1,057) |
| Assets held-for-sale (Onshore) | (229) | (4,539) | --- | (4,768) |
| Purchase costs as of December 31, 2009 | 186,175 | 33,124 | 22,129 | 241,428 |
| Additions to costs | 55 | 12,559 | --- | 12,614 |
| Other/ translations adjustments | (4,483) | --- | --- | (4,483) |
| Purchase costs as of December 31, 2010 | 181,747 | 45,683 | 22,129 | 249,559 |
| | | | | |
| **Accumulated amortization:** | | | | |
| Amortization as of January 1, 2009 | 130,011 | 123 | 5,007 | 135,141 |
| Amortization expense (a) | 3,681 | 1,484 | 3,763 | 8,924 |
| Other/translation adjustments | (1,019) | --- | --- | (1,019) |
| Assets held-for- sale (Onshore) | (109) | --- | --- | 109 |
| Amortization as of December 31, 2009 | 132,564 | 1,604 | 8,770 | 142,938 |
| Amortization expense | 3,262 | 1,481 | 3,763 | 8,506 |
| Other/ translations adjustments | (4,479) | --- | --- | (4,479) |
| Amortization as of December 31, 2010 | 131,345 | 3,085 | 12,533 | 146,965 |
| | | | | |
| **Balance as of December 31, 2009** | **53,611** | **31,520** | **13,359** | **98,490** |
| **Balance as of December 31, 2010** | **50,400** | **42,598** | **9,596** | **102,594** |
| Estimated useful life | 1 to 20 years | 10 years (b) | 1 to 12 years | |

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

There were no impairment indicators in 2010 and 2009. In 2008, the Company recognised $99.1 million in impairment charges of patented an unpatented technology acquired as a part of the MTEM acquisition in 2007 (see Note 5).

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

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

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Current portion of long-term debt (Note 25) | --- | 26,109 |
| Total | --- | 26,109 |

## Note 25 - Debt and Guarantees

### Long-term debt

Long-term debt consists of the following:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| **Unsecured:** | | |
| 10% Senior Notes, due 2010 | --- | 3,812 |
| Other | --- | 21 |
| **Secured:** | | |
| Term loan B, Libor + margin, due 2015 | 470,533 | 572,000 |
| 8.28% first preferred mortgage notes, due 2011 | --- | 33,910 |
| **Convertible notes:** | | |
| Convertible notes, due 2012 | 319,633 | 307,900 |
| Total | 790,166 | 917,643 |
| Less current portion | --- | (26,109) |
| Less deferred loan costs | (6,473) | (8,954) |
| Total long-term debt | 783,693 | 882,580 |

Aggregate maturities of long-term debt and expected interest payments (excluding interest rate swaps) are as follows:

| (In thousands of dollars) | December 31, 2010 | 2009 |
|---|---|---|
| Year of repayment: | | |
| 2010 | --- | 52,157 |
| 2011 | 20,873 | 53,010 |
| 2012 | 344,378 | 347,071 |
| 2013 | 18,798 | 35,389 |
| 2014 | 24,332 | 40,852 |
| 2015 | 484,410 | 559,975 |
| Total | 892,791 | 1,088,454 |
| Interest portion (a) | (102,625) | (170,811) |
| Total long term debt | 790,166 | 917,643 |

(a) Calculation of expected interest payments are based on forward interest rates as of December 31, 2010 and 2009, respectively.

In 2010, the Company made debt repayments of $139.2 million, of which $100.0 million was an optional prepayment of the Term Loan B (“Term Loan”) and $17.5 million an optional prepayment of a scheduled 2011 final repayment of the 8.28% mortgage note. In 2009 the Company made net debt repayments of $334.5 million, of which $230 million was optional repayments of the Revolving Credit Facility (“RCF”) and $83.9 million related to the loans inherited from the Arrow acquisition. The Arrow facility was terminated in 2009.

In 2010, the Company made repayments of $ 101.5 million of the Term Loan of which $100.0 million was optional (see above), while in 2009 it made no repayment of the Term Loan. The Company has hedged the interest rate on 64% of the borrowings under the Term Loan (70% in 2009) by entering into interest rate swaps where the Company receives floating interest rate based on 3 months LIBOR and pays fixed interest rate between 4.60 to 5.34% with a remaining life of 1.5 to 3.7 years. See Note 26 for further information.

The Company’s senior secured credit facility of $950 million consists of at inception an eight-year $600 million ($470.5 million outstanding) Term Loan (maturing 2015) and at inception a five-year $350 million RCF (originally maturing 2012 and extended to 2015 in January 2011). 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 financial years when the total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1 (see Note 26). Excess cash flow for any period is defined as net cash flow provided by operating activities less capital expenditures and scheduled debt services during that period, minus capital income taxes to be paid in the next period and capital expenditure committed in the period but to be paid in future periods. The Company can make optional prepayments to reduce the outstanding principal balance at no penalty. The Term Loan is an obligation of PGS ASA and PGS Finance Inc. as co-borrowers, is secured by pledges of shares of material subsidiaries and is guaranteed by the same material subsidiaries. In addition, the Company may also under the $950 million credit agreement be able to borrow an additional $400 million either as a term loan or as an RCF. Such additional borrowing would be secured by the same collateral that secures the Term Loan and borrowings under the existing RCF.

The $400 million convertible notes were issued in December 2007 and are due in December 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 4.68% of the Company’s current issued ordinary share capital. Due to repurchases in 2008 and 2009, 8.8 million shares are issuable if all the notes were converted at December 31, 2010. The conversion price is NOK 216.19 per share and is fixed in USD based upon the fixed exchange rate, which represented a 40% premium over the volume weighted average price of the Company’s ordinary shares at the time of offering. The fixed rate of exchange is 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrears.

The equity element of the convertible notes was calculated to 17.1% of the nominal value ($68.4 million) and was recorded to shareholders' equity, net of allocated portion of loan costs and taxes.
The 10% senior notes where repaid in 2010. In addition the Company repaid the 8.28% first preferred mortgage notes, of which $16.4 million scheduled in 2010 and $17.5 million was due in 2011.

**Bank credit facilities**
Under the senior secured credit facility established in June 2007 the Company has an RCF of $350 million originally maturing in 2012. In January 2011 the maturity was extended to 2015. The RCF has a $45 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 (later increased to $30 million). 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% increased to 2.25% from January 25, 2011.

At December 31, 2010 and 2009, the Company had zero outstanding in cash advances, and $3.6 million and $4.1 million, respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and $2.3 million and $7.8 million, respectively, of bid and performance bonds were drawn under the separate committed bonding facility of $30 million, with an applicable margin of 1.4%. The Company has further a smaller $2 million bid and performance bond facility intended for regional use.

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

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

- for the RCF part the total leverage ratio (see Note 26) may not exceed 3.00:1.0 in 2010 and 2.75:1.0 thereafter (maintenance covenant). The Term Loan has an incurrence test saying the Company cannot increase total leverage above 3.25:1.0 in 2010 and 3.00:1.0 in later test periods (rolling last 4 quarters).

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

The Company is in compliance with the covenants in its loan and lease agreements as of December 31, 2010.

**Pledged assets**
Certain seismic vessels and seismic equipment with a net book value of $55.1 million and $60.7 million at December 31, 2010 and 2009, respectively, are pledged as security under the Company's short-term and long-term debt. As per above the mortgage note was repaid in 2010 and the mortgage is in the process of being discharged, estimated to being completed April 1, 2011. In addition 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 $63.7 million and $49.3 million as of December 31, 2010 and 2009, 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, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| (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) | 790,166 | --- | 768,718 | 917,643 | --- | 846,417 |
| Derivatives measured at fair value through shareholders' equity: | | | | | | |
| Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a) | (28,117) | 300,000 | (28,117) | (30,733) | 375,000 | (30,733) |
| Derivatives measured at fair value through consolidated statements of operations: | | | | | | |
| Forward exchange contracts, net unrealized (loss) gain (a) | (35) | 240,457 | (35) | 14,408 | 318,957 | 14,408 |
| Interest rate swaps, net unrealized (loss) gain (a) | --- | --- | --- | (1,073) | 25,000 | (1,073) |
| Interest rate differential UK lease (Note 27) | (5,774) | --- | (5,774) | (6,730) | --- | (6,730) |

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Interest rate swaps, net (qualifying hedges) | (28,117) | (30,733) |
| Forward exchange contracts, net | (35) | 14,408 |
| Other interest rate swaps, net | --- | (1,073) |
| Total | (28,152) | (17,398) |
| Classified as follows: | | |
| Other current asset (short-term unrealized gain) (Note 17) | 4,366 | 17,110 |
| Other long-lived assets (long-term unrealized gain) (Note 21) | 21 | --- |
| Accrued expenses (short-term unrealized loss) (Note 28) | (4,075) | (6,237) |
| Other long-term liabilities (long-term unrealized loss) (Note 29) | (28,464) | (28,271) |
| Total | (28,152) | (17,398) |

The Company is required to disclose the hierarchy of how fair value is determined for financial instruments recorded at fair value in the consolidated financial statements. The hierarchy gives highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 includes assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly. The Company's derivative financial instruments including foreign currency forward contracts and interest rate swap agreements are valued using Level 2 inputs.

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

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

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

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

The Company monitors debt on the basis of the leverage ratio and other covenants in credit agreements. This ratio is calculated as gross indebtedness divided by EBITDA less non pre-funded MultiClient library investments. In addition the Company monitors a leverage ratio based on net debt. Net debt is calculated as total indebtedness (including "current and long-term debt" as shown in the consolidated statements of financial position) less cash and cash equivalents. The Company generally seeks to keep net debt below 1 or 2 times EBITDA dependent on where we are in the business cycle. It implies below 1 times EBITDA in strong market and below 2 times EBITDA in weak part of the cycle. The Company is of the opinion that the policy would generally satisfy the requirements for a BB –rating (Standard and Poor's)/Ba2-rating (Moody's). The gross leverage ratio at December 31, 2010 and 2009 was 1.92 and 1.43, respectively while the net leverage ratio was 0.99 and 1.25, respectively.

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

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

The treasury function reports regularly to the Company management and any breach of limits set in the policy shall be reported to the Board of Directors.

**Interest rate exposure**

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

As of December 31, 2010, the Company has outstanding interest rate swaps in the aggregate notional amount of $300 million ($400 million as of December 31, 2009) relating to the Term Loan established in June 2007 (see Note 25). Under the interest rate swap agreements the Company receives floating interest rate payments and pays fixed interest rate payments. The weighted average fixed interest rates under the contracts are as follows:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Matures in: | Notional amounts ($ thousands) | Weighted average fixed interest rate | Notional amounts ($ thousands) | Weighted average fixed interest rate |
| 1 year | --- | --- | 100,000 | 5. 17% |
| 1 – 2 years | 200,000 | 5.05% | --- | --- |
| 2 – 3 years | --- | --- | 200,000 | 5.05% |
| 3 – 4 years | 100,000 | 5.18% | --- | --- |
| 4 – 5 years | --- | --- | 100,000 | 5.18% |
| Total | 300,000 | 5.09% | 400,000 | 5.11% |

The aggregate negative fair value of these interest rate swap agreements at December 31, 2010 and 2009 was approximately $28.1 million and $31.8 million, respectively.

The following table indicates the maturity analysis of the interest rate swaps as at reporting date:

| (In thousands of dollars) | Notional amount | Discounted carrying amount | Total expected cash flow (gross) | Cash flow matures in, <1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years |
|---|---|---|---|---|---|---|---|---|
| December 31, 2010: | | | | | | | | |
| Interest rate swaps | 300,000 | (28,117) | (28,452) | (14,354) | (9,714) | (3,028) | (1,356) | --- |
| December 31, 2009: | | | | | | | | |
| Interest rate swaps | 400,000 | (31,806) | (32,425) | (17,328) | (9,138) | (4,490) | (1,078) | (391) |

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Debt at fixed interest rate | 319,633 | 345,622 |
| Debt at variable interest rate (a) | 470,533 | 572,369 |
| Total interest bearing debt | 790,166 | 917,991 |

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

The weighted average interest rate on the variable rate debt, inclusive finance leases, as of December 31, 2010 and 2009 was approximately 2.1% and 2.0%, respectively. As indicated above, through interest rate swaps the Company have effectively fixed the interest rate on $300 million of this floating rate debt as of December 31, 2010, with the remaining $170.5 million of the floating rate debt continuing to bear interest at a variable rate. As of December 31, 2009, the Company had fixed the interest rate on $400 million through interest rate swaps, with the remaining $172.4 million continuing to bear interest at a variable rate. After giving effect to the Company's interest rate swaps, for every one-percentage point hypothetical increase in LIBOR, our annual net interest expense on our variable rate debt, inclusive finance leases, will increase by approximately $2.6 million and $1.7 million at December 31, 2010 and 2009, respectively.

**Interest rate hedge accounting**

As of December 31, 2010 100% out of the total notional amount of interest rate swaps of $300 million were accounted for as cash flow hedges ($375 million out of the total notional amount of interest rate swaps of $400 million as of December 31, 2009). In the years ended December 31, 2010 and 2009, the fair value of these instruments were recorded as a reduction in other reserves (shareholders' equity) as the effective portion of the designated and qualifying hedging instrument.

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

| | Years ended December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Amounts transferred from equity to the consolidated statements of operations | 18,288 | 17,344 |
| Effective portion of fair value booked directly to other reserves | (15,587) | (1,762) |
| Total change in fair value (loss) | 2,701 | 15,582 |

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:

| | | | | Cash flow matures in, | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of dollars) | Notional amount | Discounted carrying amount | Total expected cash flow (gross) | <1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years |
| December 31, 2010: | | | | | | | | |
| Interest rate swaps | 300,000 | (28,117) | (28,452) | (14,354) | (9,714) | (3,028) | (1,356) | --- |
| December 31, 2009: | | | | | | | | |
| Interest rate swaps | 375,000 | (30,733) | (31,350) | (16,253) | (9,138) | (4,490) | (1,078) | (391) |

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 2010, the Company continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR, BRL, MXN and RUB on forward contracts.

As of December 31, 2010, the Company has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately $240.5 million (notional amount) with a negative fair value of $0.1 million. As of December 31, 2009, the Company has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately $319.0 million (notional amount) with a positive fair value of $14.4 million.

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

| | | | Total expected cash flow | | |
|---|---|---|---|---|---|
| | Notional | Carrying | | Matures in | |
| (In thousands of dollars) | amount | amount | Gross | <1 year | 1-2 years |
| December 31, 2010: | | | | | |
| Forward exchange contracts: | | | | | |
| Positive market value | 91,310 | 4,387 | 4,395 | 4,373 | 22 |
| Negative market value | 149,147 | (4,422) | (4,430) | (4,080) | (350) |
| | 240,457 | (35) | (35) | 293 | (328) |
| December 31, 2009: | | | | | |
| Forward exchange contracts: | | | | | |
| Positive market value | 253,482 | 17,110 | 17,134 | 17,134 | --- |
| Negative market value | 65,475 | (2,702) | (2,704) | (2,704) | --- |
| | 318,957 | 14,408 | 14,430 | 14,430 | --- |

A further 10% depreciation of the USD against all the currencies the Company have derivative contracts in, would have increased the fair value of these contracts by approximately $7.1 million. The effect on the consolidated statements of operations would have been $7.1 million. The analysis of change in fair value and effect on consolidated statements of operations is based on the Company's mix of foreign exchange contracts as of December 31, 2010, 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 Arrow vessels have, where applicable, been designated as fair value hedges. Of the total notional amounts of forward exchange contracts as per table above, none were accounted for as fair value hedges as of December 31, 2010 and $8.7 million were accounted for as fair value hedges as of December 31, 2009. The negative fair value of these contracts was $0.2 million as of December 31, 2009. Only the spot element of the forward exchange contracts has been designated as effective hedging instruments and has been included in the assessment of hedge effectiveness.

There was no foreign exchange derivatives designated as cash flow hedges outstanding at December 31, 2010 or December 31, 2009.

The change in fair value of foreign currency derivatives used in fair value hedges of firm commitments were $0.3 million (gain), $0.9 million (gain) and $2.5 million (loss) in the years ended December 31, 2010, 2009 and 2008, respectively. The corresponding change in fair value of firm commitments were $0.6 million (loss), $0.1 million (loss) and $3.4 million (loss) for the years ended December 31, 2010, 2009 and 2008, 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, 2010, 2009 and 2008 was $0.8 million (gain), $24.0 million (gain) and $44.5 million (loss), respectively. The changes described above (net effect) are included in foreign currency (loss) gain.

**Exposure to credit risk**

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

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

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Cash and cash equivalents | 432,579 | 125,961 |
| Accounts receivables (Note 14) | 225,301 | 197,098 |
| Accrued revenues, refund guarantees and other receivables (Note 15) | 145,187 | 216,846 |
| Restricted cash, current and long-term | 71,168 | 17,991 |
| Shares available-for-sale, current and long-term | 33,282 | 12,043 |
| Claims towards yard (NB's 532 and 533) (Note 21) | 14,904 | --- |
| Long term receivables and loans to associated companies (Note 21) | 10,796 | 9,818 |
| Derivatives: | | |
| - Unrealized gain forward exchange contracts, current (Note 17) | 4,366 | 17,110 |
| - Unrealized gain forward exchange contracts, long-term (Note 21) | 21 | --- |
| Total | 937,604 | 609,472 |

The Company is exposed to credit risk on certain off-balance sheet items. In addition the Company has outstanding guarantees, (see Note 25).

As described above, the Company's treasury function continuously monitors counterparties to mitigate credit risk. As of December 31, 2010, 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 above for derivatives with negative value).

## Note 27 - Leases, Commitments and Provisions

**Leases**
The Company has operating lease commitments expiring at various dates through 2023. Future minimum payments related to non-cancellable operating and finance leases were as follows:

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (In thousands of dollars) | Operating leases | Finance leases | Operating leases | Finance leases |
| 2010 | --- | --- | 51,847 | 360 |
| 2011 | 63,816 | --- | 35,985 | --- |
| 2012 | 37,332 | --- | 17,333 | --- |
| 2013 | 28,428 | --- | 13,874 | --- |
| 2014 | 21,678 | --- | 9,659 | --- |
| 2015 | 17,076 | --- | --- | --- |
| Thereafter | 10,986 | --- | 15,054 | --- |
| Total (a) | 179,316 | --- | 143,752 | 360 |
| Imputed interest | | --- | | (12) |
| Net present value of finance lease obligations | | --- | | 348 |
| Current portion of finance lease obligations | | --- | | (348) |
| Long-term portion of finance lease obligations | | --- | | --- |

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

The Company had no finance lease arrangements for the years ended December 31, 2010 and 2009.

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Marine seismic and support vessels | 82,826 | 54,651 |
| Data processing operations equipment | 5,493 | 4,994 |
| Buildings | 77,285 | 82,337 |
| Other | 13,712 | 1,770 |
| Total | 179,316 | 143,752 |

Rental expense for operating leases, including leases with terms of less than one year, was $73.5 million, $89.5 million and $146.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**Claim towards a polish yard**

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

**Spanish leases**

In connection with the purchase of Arrow (see Notes 5 and 18) the Company became party to Spanish lease structures for the construction of four high capacity seismic vessels (NB's 532, 533, 534 and 535). The contracts for NB's 532 and 533 were cancelled in 2009 due to delays and the NB 535 was cancelled in 2010. The NB 534 was delivered in 2010. See Note 18.

Under the tax lease scheme, the *PGS Apollo* is owned by a Spanish leasing company, which acquired and took delivery of the PGS Apollo from the shipyard in April 2010. Arrow Seismic Invest V Limited (Arrow V) is chartering the vessel under a bareboat charter party. The bareboat charter hire is paid by another lease company on behalf of Arrow V as part of the tax lease arrangement. Upon expiry of the bareboat charter period, which is expected to be during 2011, ownership of the *PGS Apollo* is transferred to Arrow V without any further payment from Arrow V. 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 finance leases.

**UK leases**

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

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

The remaining liability for interest rate differential on UK leases, which is accounted for at fair value, at December 31, 2010 and 2009, relates to *Ramform Valiant* and was 3.7 million British pounds (approximately $5.8 million) and 4.1 million British pounds (approximately $6.7 million), respectively.

**Brazil service tax claim**

The Company has an ongoing dispute in Brazil related to municipal services tax ("ISS") on sale of MultiClient data. The municipality has contended that licensing of MultiClient data is equal to providing a service to PGS' clients. ISS is a local service tax and the Company's primary view is that licensing of MultiClient data held by the Company should be treated as rental of an intangible asset, which is clearly not a service under the relevant provisions, and therefore not be subject to ISS. This has been confirmed by several external advisors and the Company intends to vigorously defend its view. The maximum theoretical exposure including all years at December 31, 2010 amounts to $169 million of ISS tax, including interest charges and penalties. In 2010 the Company also presented a bank guarantee of Brazilian real 49 million (approximately $29 million) following an ISS foreclosure presented by the tax office in Rio de Janeiro for the earliest exposure years. The bank guarantee was required in connection with the lawsuit filed by the Company on 4 February 2010 to challenge the assessment. The Company decided to replace the guarantee with a deposit to reduce cost in February 2011. In October 2010, the Company deposited 110 million Brazilian real (approximately $65 million) with the Rio de Janeiro court so as to be able to file a lawsuit to seek confirmation that the sale of MultiClient data is not subject to ISS. The lawsuit relates to periods after 2005, which have not yet been assessed, as well as to future transactions. Going forward, the Company will continue depositing amounts relating to future transactions. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no accruals have been made for any portion of the exposure. Amounts deposited are held on an interest bearing bank account with Banco do Brazil and will be released to the Company if and when a positive final ruling is awarded, which may take several years. The deposit is presented as long-term restricted cash in the statement of positions.

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

**Deferred consideration, acquired companies**
Following the 2007 acquisitions (see Note 5) the Company had liabilities relating to deferred considerations, presented as follows:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Accrued expenses (Note 28) | --- | 2,741 |
| Total | --- | 2,741 |

The deferred consideration related to the acquisition of Roxicon in 2007, totalling NOK 15.8 million (approximately $2.7 million at year ended December 31, 2009), which was paid in August 2010.

**Onerous contracts**
The Company has a provision for onerous contracts in connection with office lease agreements in the UK. As of December 31, 2010 this relates to minimum operational lease provision of $5.1 million for offices that is no longer in use and provisions for dilapidation of $1.1 million. In total this was of $5.2 million as of December 31, 2009.

## Note 28 - Accrued Expenses

Accrued expenses consist of the following:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Accrued employee benefits | 67,008 | 75,349 |
| Customer advances and deferred revenue | 39,388 | 78,539 |
| Accrued vessel operating expenses | 31,155 | 40,372 |
| Accrued revenue share | 22,598 | --- |
| Accrued sales tax and VAT | 18,871 | 18,952 |
| Received, not invoiced, property and equipment | 17,286 | 17,073 |
| Accrued office cost | 8,755 | 8,180 |
| Accrued commissions | 8,725 | 11,730 |
| Accrued project cost | 4,204 | 6,216 |
| Unrealized loss interest swaps/forward exchange contracts (Note 26) | 4,075 | 6,237 |
| Accrued interest expenses | 3,807 | 3,651 |
| Accrued legal, audit and consulting fee | 3,803 | 1,720 |
| Accrued onerous contracts (Note 27) | 2,422 | 3,597 |
| Deferred compensation, acquired companies (Note 27) | --- | 2,741 |
| Fair value adjustment of firm commitments | --- | 1,245 |
| Other | 12,841 | 10,477 |
| Total | 244,938 | 286,079 |

## Note 29 - Other Long-Term Liabilities

Other long-term liabilities consist of the following:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Pension liability (Note 30) | 37,539 | 35,075 |
| Unrealized loss interest swaps/forward exchange contracts (Note 26) | 28,464 | 28,271 |
| Tax contingencies | 11,731 | 11,448 |
| Accrued liabilities UK leases (Note 27) | 4,885 | 5,965 |
| Accrued onerous contracts (Note 27) | 3,789 | 1,592 |
| Other | 4,423 | 3,601 |
| Total | 90,831 | 85,952 |

## 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, 2010, 467 employees were participating in these plans.

*Actuarial valuations and assumptions*

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

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Projected benefit obligations (PBO) at January 1, | 134,510 | 108,882 |
| Service cost | 8,721 | 6,843 |
| Interest cost | 7,093 | 5,824 |
| Employee contributions | 1,261 | 984 |
| Social security tax | 73 | (719) |
| Actuarial loss, net | 8,627 | (3,232) |
| Benefits paid | (643) | (721) |
| Exchange rate effects | (3,848) | 16,649 |
| Projected benefit obligations (PBO) at December 31, | 155,794 | 134,510 |

Change in pension plan assets:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Fair value of plan assets at January 1, | 96,531 | 69,870 |
| Expected return on plan assets | 6,378 | 5,451 |
| Employer contributions | 6,229 | 8,381 |
| Employee contributions | 1,261 | 984 |
| Actuarial gain, net | 3,217 | 1,910 |
| Benefits paid | (697) | (721) |
| Exchange rate effects | (3,130) | 10,656 |
| Fair value of plan assets at December 31, | 109,789 | 96,531 |

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

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Funded status (a) | 46,005 | 37,979 |
| Unrecognized actuarial gain (loss) | (8,466) | (2,904) |
| Net pension liability | 37,539 | 35,075 |

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

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

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $128.9 million and $112.2 million as of December 31, 2010 and 2009, respectively. All plans have an 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) | 2010 | 2009 | 2008 |
| Service cost | 6,458 | 6,843 | 8,996 |
| Interest cost | 7,093 | 5,824 | 6,847 |
| Expected return on plan assets | (6,378) | (5,451) | (6,845) |
| Adjustments to prior service cost | 2,263 | 310 | --- |
| Amortization of actuarial loss | (230) | (33) | (12) |
| Administration costs | 53 | 48 | 120 |
| Social security tax | 525 | 551 | 726 |
| Net periodic pension cost | 9,784 | 8,092 | 9,832 |

Assumptions used to determine periodic pension cost:

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Norway | UK | Norway | UK | Norway | UK |
| Discount rate | 4.50% | 5.80% | 3.80% | 6.00% | 4.50% | 5.80% |
| Return on plan assets | 5.70% | 7.68% | 5.80% | 7.42% | 5.50% | 7.40% |
| Compensation rate | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Annual adjustments to pensions | 1.40% | (a) | 1.50% | (a) | 4.00% | (a) |

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

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Norway | UK | Norway | UK |
| Discount rate | 4.00% | 5.50% | 4.50% | 5.80% |
| Compensation increase | 4.00% | 4.00% | 4.00% | 4.00% |
| Annual adjustment to pensions | 1.30% | (b) | 1.40% | (b) |
| Mortality table | K2005 | SAPS Light BY Medium cohort | K2005 | SAPS Light BY Medium cohort |

(a) 3.30% for services up to July 2010 and 2.25% for services thereafter in years ended December 31, 2008, 2009 and 2010.
(b) 3.30% for services up to July 2010 and 2.25% for services thereafter as of December 31, 2009 and 2.3% as of December 31, 2010.

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

*Historical information*

The net pension liability for the past five years were as follows:

| (In thousands of dollars) | December 31, 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Projected benefit obligation | 155,794 | 134,510 | 108,882 | 135,437 | 128,628 |
| Fair value of plan assets | 109,789 | 96,531 | 69,870 | 98,409 | 80,535 |
| Net funded status (incl. payroll tax) | 46,005 | 37,979 | 39,012 | 37,028 | 48,093 |

The following table show the experience adjustment from actuarial gain and losses (the effects of differences between the previous actuarial assumptions and what has actually occurred) of the Projected benefit obligation and plan assets for the years displayed:

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Projected benefit obligation (PBO) | (0.55)% | 2.0% | 3.0% | 1.2% | (0.4)% |
| Fair value of plan assets | 3.33% | 1.9% | (35.5)% | (1.0)% | 3.0% |

*Sensitivity*

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

| (In thousands of dollars) | 1% increase in discount rate | 1% decrease in discount rate | 1% increase in yearly compensation increase | 1% decrease in yearly compensation increase | 10% appreciation of USD (a) |
|---|---|---|---|---|---|
| Increase (decrease) in pension cost | (2,941) | 2,542 | 1,343 | (2,062) | (878) |
| Increase (decrease) in benefit obligation (PBO) | (32,915) | 45,001 | 17,814 | (17,498) | (14,092) |

(a) Based on the Company's mix of Norwegian plans (NOK denominated) and UK plans (GBP denominated) as of December 31, 2010.

*Plan asset allocation*

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

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (In thousands of dollars) | Norway | UK | Norway | UK |
| Fair value of plan assets | 32,279 | 76,782 | 29,097 | 67,434 |
| Debt securities | 64% | 26% | 70% | 46% |
| Equity/diversified growth funds | 15% | 71% | 10% | 52% |
| Real estate | 20% | --- | 20% | --- |
| Other | 1% | 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.

The Company expects to contribute approximately $5.3 million to its defined benefit pension plans in 2011.

**Defined contribution plans**
Substantially all employees not eligible for coverage under the defined benefit plans in Norway and the UK are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans.

The Company's contributions to the Norwegian defined contribution plans for the year ended December 31, 2010, 2009 and 2008 were $1.4 million, $1.4 million and $1.1 million, respectively.

Under the Company's U.S. defined contribution 401(k) plan, substantially all US employees are eligible to participate upon completion of certain period-of-service requirements. The plan allows eligible employees to contribute up to 100% of compensation, subject to IRS and plan limitations, on a pre-tax basis, with a 2010 statutory cap of $16,500 ($22,000 for employees over 50 years). Employee pre-tax contributions are matched by the Company as follows: the first 3% are matched at 100% and the next 2% are matched at 50%. All contributions vest when made. The employer matching contribution related to the plan was $1.6 million, $1.8 million and $1.8 million for the years ended December 31, 2010, 2009 and 2008, respectively. Contributions to the plan by employees for these periods were $4.2 million, $4.6 million and $4.5 million, respectively.

Aggregate employer and employee contributions under the Company's other plans for the years ended December 31, 2010, 2009 and 2008, were $1.7 million and $0.8 million (2010), $2.3 million and $1.0 million (2009) and $2.7 million and $0.9 million (2008).

## Note 31 - Shareholder Information

As of December 31, 2009, Petroleum Geo-Services ASA had a share capital of NOK 593,999,997 divided on 197,999,999 shares of par value NOK 3 each. On November 17, 2010, the share capital was increased through a private placement of 19,799,998 shares (see below). As a result, the share capital as of December 31, 2010, was NOK 653,399,991, divided on 217,799,997 shares of par value NOK 3 each, all fully paid.

The private placement was made on basis of an authorization of the Board given at the annual general meeting ("AGM") held April 29, 2010. The authorization allowed for the increase of the Company's share capital with up to NOK 59,399,997. The private placement comprised 19,799,998 shares, corresponding to 9.99% of the number of outstanding shares of the Company at that time, and net proceeds amounted to $268.6 million.

The private placement was initiated to preserve the Company's financial strength and strategic flexibility in addition to support the fleet expansion and renewal program.

At the AGM held on April 29, 2010, authority was also given for the Board of Directors to acquire treasury shares at a maximum face value of the shares of NOK 59,399,997. Such shares can be disposed off to satisfy existing or future employee incentive schemes, as part of the consideration payable for acquisitions made by the Company, or use as consideration in connection with mergers, demergers or acquisitions involving the Company, by way of cancellation of the shares in part or in full, to raise funds for specific investments, for the purpose of paying down loans (including convertible bonds), or in order to strengthen the Company's capital base. The Board of Directors was further authorised to increase the share capital with a maximum of NOK 28,000,000 to meet obligations under the share option programs for employees. The Board was also authorized to issue convertible bonds at a total amount of NOK 3,500,000,000. These authorizations are valid until June 30, 2011.

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

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

| | Treasury shares | % of total shares outstanding |
|---|---|---|
| Balance at December 31, 2008 | 3,806,989 | 2.11% |
| Sale of treasury shares May 29, 2009 | (3,625,223) | |
| Used to fulfil deferred considerations, acquired companies (Note 27) | (181,766) | |
| Balance at December 31, 2009 | --- | --- |
| Acquired in 2010 | 900,000 | |
| Used to fulfil employee share option program in 2010 (Note 33) | (359,536) | |
| Transfer of excess shares | 3,517 | |
| Balance at December 31, 2010 | 543,981 | 0.25% |

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

| | December 31, 2010 | |
|---|---|---|
| | Total shares | Ownership percent |
| Folketrygdfondet | 20,477,610 | 9.40 |
| State Street Bank & Trust (nominee) | 6,086,590 | 2.79 |
| Euroclear Bank (nominee) | 6,051,084 | 2.78 |
| Handelsbanken (nominee) | 5,500,000 | 2.53 |
| Clearstream Banking (nominee) | 5,086,407 | 2.34 |
| State Street Bank & Trust Co. (nominee) | 4,500,125 | 2.07 |
| State Street Bank & Trust Co. (nominee) | 4,339,045 | 1.99 |
| Bank of New York (nominee) | 4,001,622 | 1.84 |
| State Street Bank & Trust Co. (nominee) | 3,797,942 | 1.74 |
| Citibank N.A. (nominee) | 3,758,123 | 1.73 |
| JP Morgan Chase Bank (nominee) | 3,620,189 | 1.66 |
| Vital Forsikring | 3,604,260 | 1.65 |
| Caceis Bank (nominee) | 3,071,202 | 1.41 |
| Pensjonskassen Statoil | 2,947,252 | 1.35 |
| Rasmussengruppen AS | 2,500,000 | 1.15 |
| JP Morgan Chase Bank (nominee) | 2,368,942 | 1.09 |
| DNB Nor Bank | 2,339,840 | 1.07 |
| HSBC Bank (nominee) | 2,333,105 | 1.07 |
| Danske Bank (nominee) | 2,212,253 | 1.02 |
| The Northern Trust (nominee) | 2,176,401 | 1.00 |
| Other shareholders | 127,028,005 | 58.32 |
| Total | 217,799,997 | 100.0 |

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

| | December 31, 2010 | |
|---|---|---|
| | Total | Ownership percent |
| **Board of Directors:** | | |
| Francis Gugen, Chairperson | 30,000 | (a) |
| Harald Norvik, Vice Chairperson | 8,000 | (a) |
| Holly Van Deursen | --- | --- |
| Daniel J. Piette | 4,000 | (a) |
| Annette Malm Justad | --- | --- |
| Carol Bell | --- | --- |
| Ingar Skaug | --- | --- |
| | | |
| **Chief Executive Officer and Other Executive Officers:** | | |
| Jon Erik Reinhardsen, President and Chief Executive Officer | 58,785 | (a) |
| Gottfred Langseth, Executive Vice President and Chief Financial Officer | 28,752 | (a) |
| Guillaume Cambois, Executive Vice President Data Processing & Technology | 1,885 | (a) |
| Magne Reiersgard, Executive Vice President Operations | 8,678 | (a) |
| Per Arild Reksnes, Executive Vice President Marine Contract | 5,434 | (a) |
| Sverre Strandenes, Executive Vice President MultiClient | 9,330 | (a) |

(a) Less than 1% of the Company's share as of December 31, 2010.

## Note 32 - Related Party Transactions

The following transactions were carried out with related parties:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Sale of goods and services | | | |
| Associates – MultiClient data | 1,184 | --- | --- |
| Associates – Administrative services | 2,783 | --- | --- |
| Associates – Data Processing | 996 | --- | --- |
| ConocoPhillips – Seismic services (a) | 4,188 | 13,108 | 10,104 |
| | | | |
| Purchase of services | | | |
| Wilh. Wilhelmsen – Maritime management services (b) | 6,415 | 6,070 | --- |
| | | | |
| Other | | | |
| Associates – Interest income | 172 | 330 | --- |

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

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

The Company had the following outstanding balances with related parties at December 31, 2010:

| | December 31, | |
|---|---|---|
| (In thousands of dollars) | 2010 | 2009 |
| Loan to associate (a) | 3,132 | 2,960 |
| Receivable from associate | 1,211 | --- |

(a) The loan to PGS Khazar is based on a $4.1 million frame loan agreement which can be drawn on as needed. The loan bear interest of 6.5% .

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

Directors of the Company are also on the Board of certain customers and suppliers. As of December 31, 2010 and 2009, the Company did not have any significant outstanding balances with any of these companies.
See also Note 34.

## Note 33 - Employee Share Option Programs

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

In 2008, the Company established a second employee option program. Options covering 3,060,000 shares were granted to certain key employees. Additional 40,000 options were granted from this plan in the year ended December 31, 2009.

In 2009, the Company established a third employee share option program. Options covering 3,012,500 shares were granted to certain key employees. Additional 190,000 options were granted from this plan in the year ended December 31, 2010.

In June 2010, the Company established a fourth employee share option program. Options covering 1,476,500 shares were granted to certain key employees.

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

For options granted under the 2006 employee option program, the exercise price corresponds to the weighted average trading price for the Company's ordinary shares on the Oslo Stock Exchange the week before the options were granted. For options granted under the 2008, 2009 and 2010 employee option programs the exercise price corresponds to the weighted average trading price for the Company's ordinary shares on the Oslo Stock Exchange at the date of grant.

Maximum gain on the options in the 2008, 2009 and 2010 employee option programs are subject to a cap of 1.5 times the employee's salary for each calendar year. The fair value of the cap is achieved through a reduction of the fair value of the options granted. There is no cap on the 2006 employee share option program.

The fair value determined at the grant date is expensed over the vesting period, using the accelerated method, based on the Company's estimate of the shares that will eventually vest. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The options include a service condition as the individuals participating in the plan must be employed by the Company for a certain period of time in order to earn the right to exercise the share options. The options include no performance conditions.

For the years ended December 31, 2010, 2009 and 2008, the Company recognized compensation cost with a corresponding increase in shareholders' equity of $5.3 million, $11.8 million and $9.8 million, respectively. Total net unrecognized compensation cost as of December 31, 2010 was $ 8.8 million (related to non-vested share-based options), which is expected to be recognized over a period of 3.5 years (main portion within 1 year).

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

Year ended December 31, 2010:

| Grant date: | Options outstanding December 31, 2009 | Options granted in 2010 | Options exercised in 2010 | Options forfeited in 2010 | Options outstanding December 31, 2010 | Weighted-average remaining contractual term | Options exercisable December 31, 2010 |
|---|---|---|---|---|---|---|---|
| 2006 | 1,276,788 | --- | --- | (162,006) | 1,114,782 | 0.5 years | 1,114,782 |
| 2007 | 201,000 | --- | --- | (24,000) | 177,000 | 1.4 years | 177,000 |
| 2008 | 2,965,500 | --- | --- | (437,334) | 2,528,166 | 2.4 years | 1,708,966 |
| 2009 | 3,052,500 | --- | (359,536) | (449,437) | 2,243,527 | 3.4 years | 533,840 |
| 2010 | --- | 1,666,500 | --- | (50,000) | 1,616,500 | 4.4 years | --- |
| Total | 7,495,788 | 1,666,500 | (359,536) | (1,122,777) | 7,679,975 | 2.8 years | 3,534,588 |

Year ended December 31, 2009:

| Grant date: | Options outstanding December 31, 2008 | Options granted in 2009 | Options exercised in 2009 | Options forfeited in 2009 | Options outstanding December 31, 2009 | Weighted-average remaining contractual term | Options exercisable December 31, 2009 |
|---|---|---|---|---|---|---|---|
| 2006 | 1,325,781 | --- | --- | (48,993) | 1,276,788 | 1.5 years | 1,276,788 |
| 2007 | 201,000 | --- | --- | --- | 201,000 | 2.4 years | 134,001 |
| 2008 | 3,016,500 | --- | --- | (51,000) | 2,965,500 | 3.4 years | 988,454 |
| 2009 | --- | 3,052,500 | --- | --- | 3,052,500 | 4.4 years | --- |
| Total | 4,543,281 | 3,052,500 | --- | (99,993) | 7,495,788 | 3.8 years | 2,399,243 |

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

| | Year ended December 31, 2010 | | | Year ended December 31, 2009 | | |
|---|---|---|---|---|---|---|
| Granted | Options Exercised | Exercise date | Share price at exercise date | Options exercised | Exercise date | Share price at exercise date |
| 2009 | 8,338 | June 21, 2010 | NOK 69.25 | --- | --- | --- |
| 2009 | 88,465 | August 4, 2010 | NOK61.55 | --- | --- | --- |
| 2009 | 262,733 | November 4, 2010 | NOK 80.60 | --- | --- | --- |
| Total | 359,536 | | | --- | | |

No share options have expired during the years ended December 31, 2010 and 2009.

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

| Grant date: | Options outstanding December 31, 2010 | Average exercise price | Risk free rate | Dividend yield | Volatility factor | Weighted average life | Estimated fair value at grant date (average NOK/USD per share option) |
|---|---|---|---|---|---|---|---|
| 2006 (a) | 1,114,782 | NOK 111.50 | 3.92-4.00% | --- | 45% | 3.5 years | NOK 44.10/$7.12 |
| 2007 (a) | 177,000 | NOK 141.05 | 5.02-5.22% | --- | 43% | 3.5 years | NOK 55.20/$8.87 |
| 2008 | 2,528,166 | NOK 132.91 | 4.56-5.75% | --- | 46% | 2.5 years | NOK 35.55/$6.77 |
| 2009 | 2,243,527 | NOK 40.30 | 2.28% | --- | 55% | 2.4 years | NOK 13.25/$2.08 |
| 2010 | 1,616,500 | NOK 78.31 | 2.30-2.45% | --- | 60% | 3.5 years | NOK 28.24/$4.57 |
| Total | 7,679,975 | | | | | | |

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

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

There are no traded options of the Company's shares and there are no post vesting restrictions included in the option plan.

## Note 34 - Salaries and Other Personnel Costs, Number of Employees, and Remuneration to the Board of Directors, Executive Officers and Auditors

Salary and social expenses that are included in cost of sales, research and development costs and selling, general and administrative costs, excluding such costs relating to discontinued operations (see Note 4) consist of:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Salaries and bonuses | 247,940 | 247,092 | 243,308 |
| Social security | 21,834 | 17,935 | 17,551 |
| Pension | 14,544 | 12,805 | 14,830 |
| Other benefits | 25,524 | 25,103 | 25,493 |
| Total | 309,841 | 302,935 | 301,182 |

The Company had an average of 2,090; 2,192 and 2,058 employees during the years ended December 31, 2010, 2009 and 2008, respectively (excluding Onshore employees).

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

In 2010, the Company paid compensation to its President and CEO and other executive officers as follows:

| | | Total compensation paid in 2010 (a) | | | | Benefits | Accrued |
|---|---|---|---|---|---|---|---|
| Name: | Position: | Fixed salary | Bonus (b) | Other benefits (c) | Total paid salary and compensation | paid to pension plan (d) | compensation at December 31, 2010 (e) |
| | | | | | (in dollars) | | |
| Jon Erik Reinhardsen | President and Chief Executive Officer | 784,162 | 610,058 | 38,159 | 1,432,379 | 52,697 | 1,706,553 |
| Gottfred Langseth | Executive Vice President and Chief Financial Officer | 523,329 | 697,506 | 36,680 | 1,257,515 | 52,808 | 303,384 |
| Guillaume Cambois | Executive Vice President, Data Processing & Technology (f), | 196,857 | --- | 16,088 | 212,945 | 15,722 | 208,213 |
| Magne Reiersgard | Executive Vice President, Operations (f), | 274,999 | 124,079 | 78,100 | 477,178 | 55,146 | 270,000 |
| Per Arild Reksnes | Executive Vice President, Marine Contract (f), | 276,817 | 96,455 | 109,641 | 482,913 | 47,381 | 239,445 |
| Sverre Strandenes | Executive Vice President, MultiClient | 490,078 | 618,704 | 41,232 | 1,150,014 | 83,566 | 276,923 |
| Rune Eng | Executive Vice President, Marine Contract (g) | 451,136 | 658,708 | 231,476 | 1,341,320 | 59,585 | --- |

(a) Amounts in NOK have been translated to US Dollars using average exchange rate for 2010 of NOK/USD 6.065.
(b) Includes payments for the 2008 and 2009 performance bonus plan (paid in April 2010) and the 2008 retention bonus plan (paid in October 2010).
(c) Includes items such as car allowance, payment to defined contribution plan, telephone, internet and other minor benefits. In addition taxable gain on exercised share options (see Note 33).
(d) Contribution to defined benefit plans and defined contribution plans (Norway).
(e) Includes accruals for the 2010 performance bonus plans (total as accrued at December 31, 2010 for all executives) and CEO deferred compensation (see below).
(f) Executive officers from May 2010 (see Note 4). Compensation payments from May 1st- December 31st 2010.
(g) Rune Eng resigned in November 2010.

Share options held by the CEO and executive officers at December 31, 2010 were as follows:

| Name: | Number of share options at December 31, 2009 | Number of options granted 2010 | Number of options forfeited 2010 | Numbers of options exercised 2010 | Average exercise price on exercised options (NOK) | Number of share options at December 31, 2010 | Average exercise price on outstanding options (NOK) | Weighted average remaining contractual term |
|---|---|---|---|---|---|---|---|---|
| Jon Erik Reinhardsen | 300,000 | 75,000 | --- | --- | --- | 375,000 | 85.01 | 3.2 years |
| Gottfred Langseth | 270,000 | 45,000 | --- | --- | --- | 315,000 | 92.58 | 2.5 years |
| Guillaume Cambois | 105,000 | 45,000 | --- | 20,000 | 40.29 | 130,000 | 85.59 | 3.4 years |
| Magne Reiersgard | 159,999 | 45,000 | --- | --- | --- | 204,999 | 89.70 | 2.8 years |
| Per Arild Reksnes | 159,999 | 45,000 | --- | 20,000 | 40.29 | 184,999 | 95.04 | 2.7 years |
| Sverre Strandenes | 230,001 | 45,000 | --- | --- | --- | 275,001 | 89.83 | 2.7 years |
| Rune Eng (a) | 240,000 | 45,000 | 195,000 | 30,000 | 40.29 | 60,000 | 111.50 | 0.4 years |

(a) Rune Eng resigned in November 2010 and the share options held at December 31, 2010 has to be exercised within first half 2011.

Eric Wersich was executive officer in Onshore, which businesses operation were sold in February 2010 (see Note 4) and compensation payments for one month in 2010 are not included in above tables.

In 2009, the Company paid compensation to its President and CEO and other executive officers as follows:

| | | Total compensation paid in 2009 (a) | | | | Benefits | Accrued 2009 |
|---|---|---|---|---|---|---|---|
| Name: | Position: | Fixed salary | Bonus (b) | Other benefits (c) | Total paid salary and compensation | paid to pension plan (d) | compensation at December 31, 2009 (e) |
| | | | | | (in dollars) | | |
| Jon Erik Reinhardsen | President and Chief Executive Officer | 648,673 | --- | 62,230 | 710,903 | 7,806 | 848,066 |
| Gottfred Langseth | Executive Vice President and Chief Financial Officer | 483,306 | 342,555 | 67,163 | 893,024 | 18,314 | 433,384 |
| Rune Eng | President, Marine | 481,791 | 337,830 | 75,854 | 895,475 | 22,264 | 428,243 |
| Eric Wersich | President, Onshore | 378,125 | 300,000 | 18,498 | 696,623 | --- | 327,176 |
| Sverre Strandenes | President, Data Processing & Technology | 442,762 | 294,125 | 83,448 | 820,335 | 28,396 | 373,502 |

(b) Amounts in NOK have been translated to US Dollars using average exchange rate for 2009 of NOK/USD 6.35.
(c) Includes payments for the 2007 retention bonus plan.
(d) Includes items such as car allowance, payment to defined contribution plan, telephone, internet and other minor benefits.
(e) Contribution to defined benefit plans and defined contribution plans (Norway).
(f) Includes accruals for the 2009 and 2008 performance bonus plans (including share purchase bonus), the 2008 retention bonus plan and CEO deferred compensation.

Share options held by the CEO and executive officers at December 31, 2009 were as follows:

| Name: | Number of share options at December 31, 2008 | Number of options granted 2009 | Numbers of options exercised 2009 | Average exercise price on exercised options (NOK) | Number of share options at December 31, 2009 | Average exercise price on outstanding options (NOK) | Weighted average remaining contractual term |
|---|---|---|---|---|---|---|---|
| Jon Erik Reinhardsen | 150,000 | 150,000 | --- | --- | 300,000 | 86,67 | 3.9 years |
| Gottfred Langseth | 180,000 | 90,000 | --- | --- | 270,000 | 94.95 | 3.1 years |
| Rune Eng | 150,000 | 90,000 | --- | --- | 240,000 | 92.88 | 3.3 years |
| Eric Wersich | 109,999 | 90,000 | --- | --- | 199,999 | 87.00 | 3.5 years |
| Sverre Strandenes | 140,001 | 90,000 | --- | --- | 230,001 | 92.07 | 3.4 years |

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.

Jon Erik Reinhardsen, President and CEO of the Company ("CEO"), had an annual fixed salary of NOK 4,500,000 in 2010. The CEO has a mutual 6-months period of notice. The CEO is, both during and after the employment, obliged to refrain from taking employment with companies that are direct or indirect competition with PGS. This prohibition applies for a period of two years from the termination date unless the Company sets a shorter period of time.

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

*Annual performance bonus scheme*

The Board of Directors has established an annual performance bonus scheme for the Company's CEO and other executive officers. In 2010 the CEO participated in a performance bonus scheme where he was entitled to a cash bonus and a share bonus provided the Company and the CEO met certain financial and non-financial performance targets. The target bonus for the CEO which assumes that the company goals and the CEO's individual goals are met is a cash bonus of 57% and a share purchase bonus of 28% of the CEO's annual base salary. These target bonuses can be increased or decreased in cases of performance above or below the targets set for the CEO and the Company. Any amount the CEO received as a share purchase bonus, on a net basis after withholding tax, are required to be used to buy PGS ordinary shares at market price and retained for a minimum of three years. Other executive officers, listed above, who were employed by the Company during 2010 and remain employed as of March 1, 2011 are participants in a bonus scheme where they are entitled to a cash bonus targeted at 42% of the respective executive's annual base salary. The target bonus can be increased or decreased in cases of performance above or below the targets set for the executive and the Company. The Board of Directors determined that the bonus under the performance bonus scheme for these executives for the years ended December 31, 2010 and 2009 would be in aggregate $2,221,041 and $1,649,644, respectively.

As the bonus for the year ended December 31, 2008 was heavily influenced by external factors outside the Company's control, the Board of Directors offered in February 2009 an increase of the 2008 bonus to all employees participating in the Company's bonus schemes on the condition that they accepted deferral of payment until March 2010. The bonus under the performance bonus incentive scheme for the year ended December 31, 2008 include an adjustment of the 2008 bonus totalling $615,850 as these executives accepted a deferral of payment until March 2010. The deferred 2008 bonus amounts were settled in cash only.

*Retention bonus plans*

In addition to the above annual performance bonus scheme the Board of Directors established a retention bonus scheme for the Company's executive officers, excluding the CEO, effective January 1, 2007. The yearly retention bonus was 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. As of December 31 2010 there are no earned and accrued retention bonuses under this scheme for the CEO or any executive officer ($433,312 at December 31, 2009).

**Board of Directors**

For the years ended December 31, 2010 and 2009, compensation paid to all persons who served as Directors during any period were as follows. None of our Directors has any contract with us providing benefits upon termination of service.

The table below provides information about our Directors and compensation paid during 2010:

| Name: | Position: | Director since | Term expire | Compensation (In dollars) |
|---|---|---|---|---|
| Francis Gugen | Chairperson | 2003 | 2011 | 97,845 |
| Harald Norvik | Vice Chairperson | 2003 | 2011 | 93,940 |
| Holly Van Deursen | Director | 2006 | 2011 | 91,439 |
| Wenche Kjølås | Director | 2006 | (a) | 48,324 |
| Daniel J. Piette | Director | 2007 | 2011 | 93,192 |
| Annette Malm Justad | Director | 2008 | 2011 | 77,114 |
| Carol Bell | Director | 2009 | 2011 | 94,237 |
| Ingar Skaug | Director | 2009 | 2011 | 60,944 |
| | | | Total | 657,037 |

(a) Resigned as Director May 2010.

The table below provides information about our Directors and compensation paid during 2009:

| Name: | Position: | Director since | Term expire | Compensation (In dollars) |
|---|---|---|---|---|
| Jens Ulltveit-Moe | Chairperson | 2002 | (a) | 26,111 |
| Francis Gugen | Chairperson | 2003 | 2010 | 97,331 |
| Harald Norvik | Vice Chairperson | 2003 | 2010 | 70,004 |
| Holly Van Deursen | Director | 2006 | 2010 | 90,976 |
| Wenche Kjølås | Director | 2006 | 2010 | 73,069 |
| Daniel J. Piette | Director | 2007 | 2010 | 95,060 |
| Annette Malm Justad | Director | 2008 | 2010 | 67,794 |
| Carol Bell | Director | 2009 | 2010 | --- |
| Ingar Skaug | Director | 2009 | 2010 | --- |
| | | | Total | 520,345 |

(a) Resigned as Chairperson May 2009.

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 2011 Annual General Meeting.

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

The current remuneration package for our CEO and other executive officers includes fixed elements and variable elements. The fixed elements consist of a base salary and other benefits. Other benefits include car allowance, newspaper subscription, mobile phone, internet and similar benefits. The fixed elements also include a pension plan. The CEO and three executive officers have an early retirement plan allowing for termination of employment when the CEO or the executive officers reach the age of 62. Provided that the CEO or executive officers have been employed as a CEO or an executive officer for 10 years (or in some cases longer) the CEO or the executive officers are entitled to up to 60% of the last base salary in the period up until the CEO or the executive officers reach the age of 67.

The variable elements consist of a performance bonus scheme and participation in our share option program.

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

The Group KPIs are financial targets set by the Board of Directors at the start of 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 organizational development.

The CEO and other executive officers have target bonus levels and maximum bonus levels. The maximum bonus levels may be exceeded by a limited and defined amount only if performance is extraordinary and very substantially above defined goals. The CEO and other executive officers will for 2011 be obliged to use one third of their annual bonus (net after withholding tax) to purchase shares in the Company and retain them for 3 years. The annual performance bonus for the CEO is approved by the Board of Directors in a meeting, based on recommendations from the Remuneration and Corporate Governance Committee. The annual performance bonus scheme for the other executive officers are reviewed and approved by the Remuneration and Corporate Governance Committee on the CEO's recommendation, and the executive officers achievements under the scheme are also reviewed by the Remuneration and Corporate Governance Committee. The Board of Directors will continue to use this scheme for determining the level of annual performance bonus in the coming fiscal year.

The Annual General Meetings in 2006, 2008, 2009 and 2010 authorized the implementation of certain share option programs. The Board of Directors this year proposes a new option program to the Annual General Meeting in May 2011. This option program follows similar principles as the existing programs. The full option program including all terms and conditions will be presented to the Annual General Meeting in May 2011 for approval.

This statement deals primarily with the remuneration of our CEO and other executive officers. However, the above described remuneration policy is to a large extent applicable to a broad group of key employees within the Company. Enhanced performance by the management groups is not achieved by our CEO and other executive officers alone but rather is dependent on a large number of managers and key employees throughout the Company. Therefore, a large and increasing number of managers and key employees are included in performance based remuneration schemes, which contain all or some of the above mentioned elements. More than 450 employees within the Company are currently eligible for performance based remuneration. In addition all other employees may receive up to a maximum of one month salary in annual bonus. The level of this bonus is determined by the Board based on the financial results of the Company.

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

The CEO will on April 1, 2011 receive a set retention bonus of NOK 5,000,000 with the addition of 6% annual interest from April 1, 2008 provided that he has not left PGS willingly prior to April 1, 2011. 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 2010 the Board of Directors have followed the guidelines then approved by the Annual General Meeting with respect to remuneration of the CEO and the other executive officers.

**Remuneration of auditor**

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of dollars) | 2010 | 2009 | 2008 |
| Audit fees (a) | 2,922 | 2,957 | 2,547 |
| Other attestation services (a) | 358 | 1,443 | 11 |
| Fees for tax services (b) | 145 | 72 | 278 |
| All other fees | - | 79 | 40 |
| Total (c) | 3,425 | 4,551 | 2,876 |

(a) Included within the totals are fees of $1.7 million in 2009 (include attestation services in connection with sale of Onshore) and $0.5 million in 2008 which are included within the result from discontinued operation.

(b) Fees for tax services consist of fees for tax filing services and other tax assistance.

(c) Total remuneration to auditor includes discontinued operation for the period up to demerger closing date (relates to 2009 only).

## Note 35 - Subsidiaries and Affiliated Companies

The ownership percentage in subsidiaries and affiliated companies as of December 31, 2010, was as follows:

| Company | Jurisdiction | Shareholding and voting rights |
|---|---|---|
| PGS Shipping AS | Norway | 100% |
| Oslo Seismic Services Ltd. | Isle of Man | 100% |
| PGS Geophysical AS | Norway | 100% |
| Multiklient Invest AS | Norway | 100% |
| Petroleum Geo-Services, Inc. | United States | 100% |
| Petroleum Geo-Services (UK) Ltd. | United Kingdom | 100% |
| Seahouse Insurance Ltd. | Bermuda | 100% |
| Dalmorneftegeofizika PGS AS | Norway | 49% |
| Calibre Seismic Company | United States | 50% |
| PGS Capital, Inc. | 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 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 Investigacào Petrolifera Limitada | Brazil | 100% |
| PGS Servicios C.A. | Venezuela | 100% |
| PGS Venezuela de C.A. | Venezuela | 100% |
| PGS Overseas AS | Norway | 100% |
| PGS Suporte Logistico e Servicos Ltda. | Brazil | 100% |
| PGS Finance, Inc. | United States | 100% |
| PGS Japan K.K. | Japan | 100% |
| PGS (Kazakhstan) LLP | Kazakhstan | 100% |
| PGS Eurasia LLC | Russia | 100% |
| PGS Seismic (UK) Ltd. | United Kingdom | 100% |

| Company | Jurisdiction | Shareholding and voting rights |
|---|---|---|
| PGS Data Processing & Technology Sdn. Bhd. | Malaysia | 100% |
| PGS Onshore (Algeria) EURL | Algeria | 100% |
| PGS Overseas Operation (Cyprus) Ltd. | Cyprus | 50% |
| PGS Overseas Trading (Cyprus) Ltd. | Cyprus | 100% |
| MTEM Limited | United Kingdom | 100% |
| PGS Geophysical (Netherlands) B.V. | Netherlands | 100% |
| PGS Technology (Sweden) AB | Sweden | 100% |
| Natuna Ventures Pte. Ltd. | Singapore | 100% |
| Applied Geophysical Services Corporation | United States | 100% |
| PGS Onshore do Brazil Ltda. | Brazil | 100% |
| PGS Onshore Servicos Ltda. | Brazil | 100% |
| Arrow Seismic ASA | Norway | 100% |
| Arrow Seismic Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest I Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest II Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest III Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest IV Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest V Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest VI Ltd. | United Kingdom | 100% |
| Arrow Seismic Invest VII Ltd. | United Kingdom | 100% |
| Petroleum Geological Services LLC | Oman | 100% |
| PGS Falcon AS | Norway | 100% |
| PGS Venture AS | Norway | 100% |
| PGS Asia Pacific Labuan Ltd. | Labuan | 100% |
| PGS Servicios de Mexico S.A. de C.V. | Mexico | 100% |
| PGS Data Processing SA de CV | Mexico | 100% |

## PETROLEUM GEO-SERVICES ASA

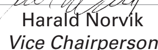
(Parent company unconsolidated financial statements)

# STATEMENTS OF OPERATIONS

| | | Years ended December 31, | | |
|---|---|---|---|---|
| (In thousands of NOK) | Note | 2010 | 2009 | 2008 |
| Revenue | | 125,401 | 125,913 | 138,397 |
| Cost of sales | | 2,691 | 2,539 | 2,404 |
| Depreciation and amortization | 5 | 2,134 | 5,214 | 12,118 |
| Selling, general and administrative costs | | 146,288 | 164,817 | 176,792 |
| Total operating expenses | | 151,113 | 172,570 | 191,314 |
| Operating loss | | (25,712) | (46,657) | (52,917) |
| Interest expense, net | 2 | (307,753) | (417,405) | (407,661) |
| Impairment, net of reversal of impairment on shares in subsidiaries/ intercompany receivable | 1, 6 | (722,393) | (75,582) | (598,875) |
| Gain on sale of subsidiaries | 6 | 176,454 | - | - |
| Other financial items, net | 3 | 279,214 | 2,758,977 | 675,878 |
| Income (loss) before income taxes | | (600,190) | 2,219,333 | (383,575) |
| Provision (benefit) for income taxes | 4 | (84,620) | 314,375 | (742,163) |
| Net income (loss) | | (515,570) | 1,904,958 | 358,588 |

London, March 21, 2011
Board of Directors
Petroleum Geo-Services ASA

Francis Gugen
*Chairperson*


Harald Norvik
*Vice Chairperson*

Carol Bell

Holly Van Deursen

Annette Malm Justad

Daniel J. Piette

Ingar Skaug

Jon Erik Reinhardsen
*Chief Executive Officer*

## PETROLEUM GEO-SERVICES ASA

(Parent company unconsolidated financial statements)

# BALANCE SHEET

| (In thousands of NOK) | Note | December 31, 2010 | 2009 |
|---|---|---|---|
| ASSETS | | | |
| *Long-term assets:* | | | |
| Deferred tax assets | 4 | 1,105,064 | 1,014,691 |
| Property and equipment, net | 5 | 2,034 | 4,168 |
| Shares in subsidiaries | 1, 6 | 11,708,126 | 12,410,484 |
| Intercompany receivables | 1 | 3,018,755 | 4,827,946 |
| Investments in associated companies | 19 | 112,515 | - |
| Other financial long-term assets | 7 | 23,942 | 4 |
| Total long-term assets | | 15,970,436 | 18,257,293 |
| *Current assets:* | | | |
| Short-term intercompany receivables | | 25,707 | 27,528 |
| Other current assets | 8 | 88,312 | 121,391 |
| Restricted cash | 9 | 2,694 | 2,006 |
| Cash and cash equivalents | | 2,358,867 | 403,798 |
| Total current assets | | 2,475,580 | 554,723 |
| Total assets | | 18,446,016 | 18,812,016 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| *Shareholders' equity:* | | | |
| *Paid in capital:* | | | |
| Common stock; par value NOK 3; | | | |
| issued and outstanding 217,799,997 shares at December 31, 2010; | | | |
| issued and outstanding 197,999,999 shares at December 31, 2009; | | 653,400 | 594,000 |
| Own shares, par value | | (1,632) | - |
| Additional paid-in capital | | 2,181,020 | 614,684 |
| Total paid in capital | | 2,832,788 | 1,208,684 |
| Other equity | | 6,976,581 | 7,524,568 |
| Total shareholders' equity | 10 | 9,809,369 | 8,733,252 |
| *Long-term liabilities* | | | |
| Long-term debt | 11, 12 | 4,586,228 | 4,990,254 |
| Intercompany debt | | 3,696,603 | 4,672,372 |
| Other long-term liabilities | 13 | 191,713 | 189,100 |
| Total long-term liabilities | | 8,474,544 | 9,851,726 |
| *Current liabilities:* | | | |
| Short-term debt and current portion of long-term debt | 11 | - | 55,783 |
| Short-term intercompany debt | | 28,354 | 9,401 |
| Accounts payable | | 26,257 | 27,306 |
| Accrued expenses | 16 | 107,492 | 134,548 |
| Total current liabilities | | 162,103 | 227,038 |
| Total liabilities and shareholders' equity | | 18,446,016 | 18,812,016 |
| Warranties | 18 | | |

PETROLEUM GEO-SERVICES ASA
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# STATEMENT OF CASH FLOW

| (In thousands of NOK) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Cash flows provided by operating activities: | | | |
| Net income (loss) | (515,570) | 1,904,958 | 358,588 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Changes in deferred tax assets | (90,373) | 349,722 | (1,069,286) |
| Depreciation and amortization charged to expense | 2,134 | 5,214 | 12,118 |
| Impairment of shares in and loan to subsidiaries, net | 722,393 | 75,583 | 598,875 |
| Gain on sale of subsidiaries, net | (176,454) | - | - |
| Dividend/ group contribution classified as financing activities | (400,000) | (1,462,325) | (2,400,000) |
| Unrealized foreign exchange (gain) loss | 168,543 | (1,476,162) | 2,199,430 |
| Changes in current assets and current liabilities | 4,202 | (246,831) | 35,500 |
| Net (increase) decrease in restricted cash | (688) | 220 | 208,169 |
| Other items | 98,209 | 64,719 | 314,346 |
| Net cash provided by (used in) operating activities | (187,604) | (784,902) | 257,739 |
| Cash flows provided by (used in) investing activities: | | | |
| Investments in property and equipment | - | (589) | (2,812) |
| Proceeds from sale of subsidiaries, net | 179,196 | - | - |
| Investment in subsidiaries and changes intercompany receivables, net | 750,708 | 269,641 | (2,322,072) |
| Investment in associate | (23,832) | - | - |
| Net cash provided by (used in) investing activities | 906,072 | 269,052 | (2,324,884) |
| Cash flows provided by (used in) financing activities: | | | |
| Share issue | 1,619,503 | 635,696 | - |
| Repayment of long-term debt | (672,254) | (1,579,551) | (288,357) |
| Net increase (decrease) in bank facility and short-term debt | - | 143 ,763 | (82,177) |
| Investment in/ sale of own shares, net | (45,084) | 128,087 | 14,876 |
| Receipts of dividend/ group contribution from group companies | 400,000 | 1,462,325 | 2 400,000 |
| Net cash provided by financing activities | 1,302,165 | 790,320 | 2,044,342 |
| Net increase (decrease) in cash and cash equivalents | 2,020,633 | 274,470 | (22,802) |
| Effect of exchange rate changes on cash and cash equivalents | (65,564) | (58,879) | 47,714 |
| Cash and cash equivalents at beginning of year | 403,798 | 188,207 | 163,295 |
| Cash and cash equivalents at end of year | 2,358,867 | 403,798 | 188,207 |

PETROLEUM GEO-SERVICES ASA
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# NOTES TO THE FINANCIAL STATEMENT

## Note 1 - Summary of Significant Accounting Policies

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

PGS ASA applies the same accounting policies as described in Note 2 in the notes to the consolidated financial statements where relevant, except that unrealized foreign exchange gain (loss) on long-term intercompany loans is recognized in the statement of operations. The financial statements are presented in Norwegian Kroner ("NOK").

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

See Note 4 to the consolidated financial statement regarding the sale of Onshore. In 2010 PGS ASA converted long term debt to equity in some of the disposed entities to fulfill the terms of the sales agreement. PGS ASA recognized a gain of NOK 176.5 million in 2010, mainly due to reversal of previous recognized impairments. See Note 6 for further information.

## Note 2 - Interest Expense, Net

Interest expense, net, consists of:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of NOK) | 2010 | 2009 | 2008 |
| Interest income, external | 7,340 | 2,391 | 12,845 |
| Interest income, intercompany | 147,118 | 342,403 | 797,366 |
| Interest expense, external | (319,787) | (386,692) | (463,943) |
| Interest expense, intercompany | (142,424) | (375,507) | (753,929) |
| Total | (307,753) | (417,405) | (407,661) |

## Note 3 - Other Financial Items, Net

Other financial items, net, consist of:

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of NOK) | 2010 | 2009 | 2008 |
| Group contribution received | 400,000 | 1,400,000 | 2,400,000 |
| Foreign currency (loss) gain | (63,740) | 1,318,274 | (1,793,971) |
| Amendment fees USD 950 million Credit Facilities (Note 25) | (42,895) | --- | --- |
| Dividends received | --- | 62,325 | --- |
| Gain on repurchase of convertible bonds | --- | 25,471 | 77,097 |
| Instruction fee convertible note | --- | (39,459) | --- |
| Other | (14,151) | (7,634) | (7,248) |
| Total | 279,214 | 2,758,977 | 675,878 |

## 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) | 2010 | 2009 | 2008 |
| Income (loss) before income taxes | (600,190) | 2,219,333 | (383,575) |
| Norwegian statutory tax rate | 28% | 28% | 28% |
| Provision (benefit) for income taxes at the statutory rate | (168,053) | 621,413 | (107,401) |
| Increase (reduction) in income taxes from: | | | |
| Non-taxable gain on sale of shares in subsidiary, net | (29,368) | (1,830) | --- |
| Impairment (reversal) of shares in subsidiaries | 170,033 | (77,318) | 167,685 |
| Non-taxable dividends/ group contribution | (28,506) | (92,255) | --- |
| Overestimation of taxes calculated previous years | --- | --- | (443,760) |
| Other permanent items | (33,285) | 59,652 | (363,967) |
| Changes in the tax losses carried forward (a) | --- | (183,559) | --- |
| Change in deferred tax assets not recognized in balance sheet | 4,559 | (11,728) | 5,280 |
| Income tax (benefit) expense | (84,620) | 314,375 | (742,163) |

(a) See Note 10 Income taxes in the consolidated financial statement regarding the tax dispute related to the exit of old tonnage tax regime.

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

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

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| Temporary differences relates to: | | |
| Property and equipment | (776) | (755) |
| Pension liabilities | (6,481) | (6,254) |
| Intercompany receivables | (504,212) | (528,134) |
| Unrealized (losses/accruals) gain | (17,409) | (1,777) |
| Shares in foreign subsidiaries | (90,608) | (86,049) |
| Compensation cost employee share options | (8,834) | (6,654) |
| Convertible notes valuation | 69,451 | 68,645 |
| Interest rate swaps (a) | (46,055) | (49,595) |
| Tax losses carried forward | (590,748) | (490,167) |
| Deferred tax assets | (1,195,672) | (1,100,740) |
| Deferred tax assets not recognized in the balance sheet | 90,608 | 86,049 |
| Deferred tax assets | (1,105,064) | (1,014,691) |

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

PGS ASA recognizes deferred tax assets when they are "more likely than not" of ultimately being realized.
As of December 31, 2010, PGS ASA has recognized deferred tax assets of NOK 1.1 billion (NOK 1.0 billion as of December 31, 2009) as available evidence, including consolidated budgets, recent profits and estimates of projected near term future taxable income, supported a more likely than not conclusion that the deferred tax assets would be realized.

## Note 5 - Property and Equipment

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

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| **Purchase costs:** | | |
| Purchase costs as of January 1 | 90,974 | 90,385 |
| Additions | --- | 589 |
| Purchase costs as of December 31 | 90,974 | 90,974 |
| **Accumulated depreciation:** | | |
| Accumulated depreciation as of January 1 | 86,806 | 81,697 |
| Depreciation | 2,134 | 5,109 |
| Accumulated depreciation as of December 31 | 88,940 | 86,806 |
| Balance as of December 31 | 2,034 | 4,168 |

Property and equipment is depreciated over 3 to 5 years.
Depreciation and amortization expense, as presented in the statement of operations, include NOK 104,591 in amortization of licenses for the year ended December 31, 2009 (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, 2010 (In thousands of NOK) |
|---|---|---|---|---|---|---|---|---|
| PGS Geophysical AS | Oslo | 1,396,805 | NOK | 139,680,500 | 100% | NOK | 100 | 2,502,650 |
| PGS Exploration (Nigeria) Ltd. | Nigeria | 2,000,000 | USD | 2,000,000 | 100% | USD | 1 | 320 |
| Petroleum Geo-Services, Inc. | Houston | 1,000 | USD | 1,000 | 100% | USD | 1 | 698,838 |
| Petroleum Geo-Services (UK) Ltd. | London | 222,731,726 | GBP | 222,731,726 | 100% | GBP | 1 | 1,132,439 |
| Seahouse Insurance Ltd. | Bermuda | 120,000 | USD | 120,000 | 100% | USD | 1 | 8,165 |
| Multiklient Invest AS | Oslo | 100,000 | NOK | 10,000,000 | 100% | NOK | 100 | 989,727 |
| PGS Shipping AS | Oslo | 4,733,975 | NOK | 9,467,950 | 100% | NOK | 2 | 1,140,992 |
| Petroleum Geo-Services Asia Pacific Pte. Ltd. | Singapore | 100,000 | SGD | 100,000 | 100% | SGD | 1 | 2,569,207 |
| PGS Investigacào Petrolifera Ltda. | Brazil | --- | BRL | 5,000 | 99% | BRL | --- | --- |
| Hara Skip AS | Oslo | 1,066,016 | NOK | 106,601,600 | 100% | NOK | 100 | 304,866 |
| Oslo Seismic Services Ltd. | Isle of Man | 1 | USD | 1 | 100% | USD | 1 | 33,570 |
| PGS Australia Pty. Ltd. | Perth | --- | --- | --- | 100% | --- | --- | 49,633 |
| PGS 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.( b) | 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 | 1,428,397 |
| MTEM Ltd | Scotland | 270,000 | GBP | 270,000 | 100% | GBP | 1 | 312,316 |
| PGS Falcon AS | Oslo | 43,195 | NOK | 4,319,500 | 100% | NOK | 100 | 524,490 |
| PGS Ventures AS | Oslo | 100 | NOK | 100,000 | 100% | NOK | 1,000 | 100 |
| PGS Servicos de Mexico SA de CV | Mexico | 500 | MXN | 50,000 | 99.8% | MXN | 100 | 23 |
| Total | | | | | | | | 11,708,126 |

(a) Voting rights are equivalent to shareholding for all companies.
(b) The remaining 99% shareholding is held by PGS Overseas AS.

In 2003, PGS ASA sold its Atlantis oil and gas activities to Sinochem. PGS ASA received $1.0 milllion (NOK 5.9 million) in 2010 in additional proceeds.

In 2009, PGS ASA entered into an agreement to sell its Onshore business ("Onshore") to Geokinetics Inc ("Geokinetics"), see Note 4 in the consolidated statement. In 2010 PGS ASA converted long term debt to equity in some of the sold entities to fulfill the agreement. PGS ASA recognized a gain of NOK 176.5 million in 2010, mainly due to reversal of previous recognized impairments of receivables towards the sold companies.

In 2010, PGS ASA recognized a NOK 607 million impairment charge on the shares in Arrow ASA (NOK 700 million in 2009). The main reasons for these impairment charges are the cancellation of the new build contracts and impairment charges in the subsidiaries of Arrow ASA (see Note 18 to the consolidated financial statement). In 2009, PGS ASA also recognized a NOK 500 million impairment on shares in MTEM Ltd, due to the restructuring of the EM business in MTEM Ltd in 2008 and 2009 and NOK 1.4 billion in reversal of previous recognized impairment charges, mainly related to Multiklient Invest AS and PGS Geophysical AS due to no impairment indicators at year-ended December 31, 2009.

PGS ASA has in 2010 recognized an impairment charge of intercompany receivables of NOK 115 million. In 2009, PGS ASA recognized a NOK 352 million impairment charge on receivables.

As of December 31, 2010, PGS ASA has accumulated impairment charges related to shares totaling NOK 4.0 billion.

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

## Note 7 - Other Financial Long-Term Assets

Other financial long-term assets consist of:

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| Warrants Geokinetics Inc. (Note 19) | 23,810 | --- |
| Unrealized gain hedge contracts (Note 12) | 124 | --- |
| Long-term receivables | 8 | 4 |
| Total | 23,942 | 4 |

## Note 8 - Other Current Assets

Other current assets consist of:

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| Short term receivables | 59,592 | 20,072 |
| Unrealized gain hedge contracts (Note 12) | 25,541 | 98,615 |
| Prepaid expenses | 2,294 | 2,022 |
| Other | 885 | 682 |
| Total | 88,312 | 121,391 |

## Note 9 - Restricted Cash

Restricted cash as of December 31, 2010 and 2009 consists of payroll withholding taxes.

## Note 10 - Shareholders' Equity

Changes in shareholders' equity for the years ended December 31, 2010 and 2009 are as follows:

| | Paid-in capital | | | | |
|---|---|---|---|---|---|
| (In thousands of NOK) | Common stock | Own shares, par value | Additional paid-in capital | Other equity | Shareholders' equity |
| Balance as of January 1, 2009 | 540,000 | (11,421) | 17,228 | 5,399,086 | 5,944,893 |
| Share issue; May 28, 2009 | 54,000 | --- | 587,661 | --- | 641,661 |
| Transferred treasury shares (MTEM) | --- | 545 | --- | (545) | --- |
| Sale of treasury shares | --- | 10,876 | --- | 117,211 | 128,087 |
| Employee share options | --- | --- | 9,795 | --- | 9,795 |
| Interest rate swaps/forward exchange contracts (net of tax) | --- | --- | --- | 103,967 | 103,967 |
| Repurchase of convertible notes | --- | --- | --- | (109) | (109) |
| Net income | --- | --- | --- | 1,904,958 | 1,904,958 |
| Balance as of December 31, 2009 | 594,000 | --- | 614,684 | 7,524,568 | 8,733,252 |
| Share issue; November 17, 2010 | 59,400 | --- | 1,560,103 | --- | 1,619,503 |
| Acquired treasury shares | --- | (2,711) | --- | (56,858) | (59,569) |
| Exercise employee share options | --- | 1,079 | --- | 13,407 | 14,486 |
| Employee share options | --- | --- | 6,233 | --- | 6,233 |
| Interest rate swaps/forward exchange contracts (net of tax) | --- | --- | --- | 11,034 | 11,034 |
| Net income | --- | --- | --- | (515,570) | (515,570) |
| Balance as of December 31, 2010 | 653,400 | (1,632) | 2,181,020 | 6,976,581 | 9,809,369 |

PGS ASA completed a private placement of NOK 1,643,399,834 (approx $274 million) in November 2010 by issuing 19,799,998 new shares at the price of NOK 83 per share. The shares issue has increased the equity by NOK 1,620 million, net of transaction costs of NOK 23.9 million (net of tax).

PGS ASA completed a private placement of NOK 656,999,964 (approx $119 million) in May 2009 by issuing 17,999,999 new shares at the price of NOK 36.5 per share and at the same time sold 3,625,223 treasury shares at the same price. The shares issue has increased the equity by NOK 641.7 million, net of transaction costs of NOK 15.3 million (net of tax). The proceeds from the sale of treasury shares were NOK 128.1 million, net of transaction cost.

As of December 31, 2010, Petroleum Geo-Services ASA has a share capital of NOK 653,999,991 divided on a total of 217,799,997 shares, of par value NOK 3, each fully paid in. See Note 31 to the consolidated financial statement for further information about the share capital and authorizations. As of December 31, 2009, Petroleum Geo-Services ASA has a share capital of NOK 593,999,997 divided on a total of 197,999,999 shares, of par value NOK 3, each fully paid in.

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

| | Treasury shares | % of total shares outstanding |
|---|---|---|
| Balance at January 1, 2008 | 4,111,756 | 2.28% |
| Used to fulfil employee share option program in 2008 (a) | (123,000) | |
| Used to fulfil deferred considerations, acquired companies (b) | (181,767) | |
| Balance at December 31, 2008 | 3,806,989 | 2.11% |
| Sale of treasury shares | (3,625,223) | |
| Used to fulfil deferred considerations, acquired companies (b) | (181,766) | |
| Balance at December 31, 2009 | --- | --- |
| Acquired treasury shares | 903,517 | |
| Used to fulfil employee share option program in 2010 (a) | (359,536) | |
| Balance at December 31, 2010 | 543,981 | 0.25% |

(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, 2010 and 2009 were 388,228 and 1,640,293 respectively.

No dividend was distributed in the years ended December 31, 2010, 2009 and 2008.

## Note 11 - Debt and Guarantees

### Long-term debt

Long-term debt consists of the following:

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| **Unsecured:** | | |
| 10% Senior Notes, due 2010 | - | 21,970 |
| **Secured:** | | |
| Term Loan, Libor + margin, due 2015 | 2,752,618 | 3,296,722 |
| **Convertible notes:** | | |
| Convertible notes, due 2012 | 1,869,853 | 1,774,582 |
| Total debt | 4,622,471 | 5,093,274 |
| Less current portion | - | (55,783) |
| Less capitalized loan cost | (36,243) | (47,237) |
| Total long-term debt | 4,586,228 | 4,990,254 |

Aggregate maturities of long-term debt are as follows:

| (In thousands of NOK) | December 31, 2010 |
|---|---|
| Year of repayment: | |
| 2011 | - |
| 2012 | 1,869,853 |
| 2013 | - |
| 2014 | - |
| 2015 | 2,752,618 |
| Thereafter | - |
| Total | 4,622,471 |

In 2010 PGS ASA made debt repayments of NOK 672 million ($105.3 million), NOK 639 million ($100.0 million) was an optional prepayment of the term loan B ("Term Loan") and NOK 24.6 million ($3.8 million) a repayment of the 10% Senior Notes. In 2009, PGS ASA made long-term debt repayments of NOK 1.5 billion ($250 million), which were optional repayments of the revolving credit facility ("RCF").

In 2010, PGS ASA made repayments of NOK 648 million ($101.5 million) of the Term Loan, of which NOK 639 million ($100.0 million) was optional (maturing 2015, see below), while in 2009 PGS ASA made no repayments on this loan. The Company has hedged the interest rate on 64% of the borrowings under the Term Loan (70% in 2009) by entering into interest rate swaps where the Company receives floating interest rate based on 3 months LIBOR and pays fixed interest rate between 4.60 to 5.34% with a remaining life of 1.5 to 3.75 years. See Note 12 for further information.

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 4.68% of PGS ASA' current issued ordinary share capital. Due to

repurchases in 2008 and 2009, 8.8 million shares are issuable if all the notes were converted at December 31, 2010. The conversion price is NOK 216.19 per share and is fixed in USD based upon the fixed exchange rate, which represented a 40% premium over the volume weighted average price of PGS ASA's ordinary shares at the time of offering. The fixed rate of exchange is 5.5188 NOK per 1.00 USD and the coupon has been set at 2.7% per annum payable semi-annually in arrears. The equity element of the convertible notes was calculated to 17.1% of the nominal value (NOK 375.7 million/$68.4 million) and was recorded as a direct contribution to accumulated earnings (shareholders' equity) net of allocated portion of loan costs (NOK 8.2 million/$1.5 million).

PGS ASA' senior secured credit facility of NOK 5.5 billion ($950.0 million) consists of an eight-year NOK 3.5 billion ($600.0 million) Term Loan (maturing 2015) and a five-year NOK 2.0 billion ($350.0 million) RCF (originally maturing 2012 and extended to 2015 in January 2011 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 the total leverage ratio exceeds 2.5:1 or the senior leverage ratio exceeds 2:1 (see Note 26 to the consolidated financial statement). Excess cash flow for any period is defined as net cash flow provided by operating activities less capital expenditures  and scheduled debt services during that period, minus capital income taxes to be paid in the next period and capital expenditure committed in the period but to be paid in future periods. PGS ASA can make optional 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 2.3 billion ($400.0 million) either as a term loan or as an RCF, which would be secured by the same collateral that secures the Term Loan and borrowings under the existing RCF.

The 10% senior notes due were repaid in 2010.

**Bank credit facilities**
Under the senior secured credit facility established in June 2007, PGS ASA had a RCF of NOK 2.0 billion ($350.0 million) maturing in 2012. In January 2011 the maturity of the RCF was extended to 2015. The RCF has a NOK 263.3 million ($45.0 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 87,75 million ($15.0 million) bonding facility (later increased to NOK 175.5 million ($30 million)). 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%, this margin increased to 2.25% after the extension of the facility in January 2011.

At December 31, 2010 and 2009, PGS ASA had zero outstanding under the RCF, NOK 21.1 million ($3.6 million) and NOK 23.6 million ($4.1million), respectively, of standby letters of credit were outstanding under the RCF with an applicable margin of 1.5% per annum, and NOK 13.5 million ($2.3 million) and  NOK 45.0 million ($7.8 million), respectively, of bid and performance bonds were drawn under the separate bonding facility of $30 million, with an applicable margin of 1.4%.

PGS ASA has further a smaller NOK 11.7 million ($2 million) bid and performance bond facility intended for regional use.

PGS ASA has also an overdraft facility of NOK 50.0 million as part of the 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 (inlc. counter guarantees), not reflected in the accompanying financial statements, of NOK 227.6 million ($38.1 million) and NOK 128.5 million
($ 22.3 million) as of December 31, 2010 and 2009, respectively.

## Note 12 - Financial Instruments

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

| | December 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| (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) | 4,622,471 | --- | 4,497,002 | 5,093,274 | --- | 4,671,052 |
| Derivatives measured at fair value through shareholders' equity: | | | | | | |
| Interest rate swaps/future interest rate agreements, net unrealized (loss) gain (a) | (164,484) | 1,755,000 | (164,484) | (177,129) | 2,161,313 | (177,129) |
| Derivatives measured at fair value through statement of operations: | | | | | | |
| Forward exchange contracts, net unrealized (loss) gain (a) | (205) | 1,406,673 | (205) | 83,041 | 1,838,309 | 83,041 |
| Interest rate swaps, net unrealized (loss) gain (a) | --- | --- | --- | (6,184) | 144,088 | (6,184) |

(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) | 2010 | 2009 |
| Interest rate swaps, net (qualifying hedges) | (164,484) | (177,129) |
| Forward exchange contracts, net | (205) | 83,041 |
| Interest rate swaps, net | --- | (6,184) |
| Total | (164,689) | (100,272) |
| Classified as follows: | | |
| Other financial long-term assets (long-term unrealized gain) (Note 7 ) | 124 | --- |
| Other current asset (short-term unrealized gain) (Note 8) | 25,541 | 98,615 |
| Other long-term liabilities (long-term unrealized loss) (Note 13 ) | (166,518) | (162,938) |
| Accrued expenses (short-term unrealized loss) (Note 16) | (23,836) | (35,949) |
| Total | (164,689) | (100,272) |

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, 2010, PGS ASA has outstanding interest rate swaps in the aggregate notional amount of NOK 1.8 billion ($300 millions) relating to the Term Loan established in June 2007 (see Note 11) (NOK 2.3 billion - $400 million as at December 31, 2009). 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, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Matures in: | Notional amounts ($ thousands) | Weighted average fixed interest rate | Notional amounts ($ thousands) | Weighted average fixed interest rate |
| 1 year | --- | --- | 100,000 | 5.17% |
| 1 – 2 years | 200,000 | 5.05% | --- | --- |
| 2 – 3 years | --- | --- | 200,000 | 5.05% |
| 3 – 4 years | 100,000 | 5.18% | --- | --- |
| 4 – 5 years | --- | --- | 100,000 | 5.18% |
| > 5 years | --- | --- | --- | --- |
| Total | 300,000 | 5.09% | 400,000 | 5.11% |

The aggregate negative fair value of these interest rate swap agreements at December 31, 2010 and 2009 was NOK164.5 million ($28.1 million) and NOK 183.3 million ($31.8 million), respectively.

**Interest rate hedge accounting**
As of December 31, 2010, all of the interest rate swaps, notional amount $300.0 million, were accounted for as cash flow hedges ($375.0 million of a total $400 million in December 31, 2009). In the years ended December 31, 2010 and 2009, 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 is exposed to currency fluctuation due to a predominantly USD-based revenue stream, while the expenses are incurred in various currencies. The larger expense currencies other than the USD are GBP, NOK and EUR. PGS ASA 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 2010, PGS ASA continued a foreign currency hedging program by entering into NOK, GBP, SGD, EUR and BRL on forward contracts. As of December 31, 2010, PGS ASA has open forward contracts to buy and sell GBP, NOK, SGD, BRL and EUR amounting to approximately NOK 1.4 billion ($241 million) (notional amount) with a negative fair value of NOK 0.2 million ($0.1 million). As of December 31, 2009, PGS ASA had open forward contracts to buy GBP, NOK, SGD, BRL and EUR amounting to approximately NOK 1.8 billion ($319 million) (notional amount) with a positive fair value of NOK 83 million ($14.4 million).

**Foreign exchange rate hedge accounting**
As of December 31, 2010 and 2009 none of the total notional amount of foreign exchange contracts was accounted for as fair value hedges.

## Note 13 - Other Long-Term Liabilities

Other long-term liabilities consist of:

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| Unrealized loss hedge contracts (Note 12) | 166,518 | 162,938 |
| Pension liability (Note 14) | 23,147 | 22,461 |
| Other long-term liabilities | 2,048 | 3,701 |
| Total | 191,713 | 189,100 |

## Note 14 - Pension Obligations

**Defined benefit plan**

PGS ASA sponsors a defined benefit pension plan for its Norwegian employees, comprising 7 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) | 2010 | 2009 | 2008 |
| Service costs | 2,857 | 3,052 | 2,430 |
| Interest cost | 833 | 658 | 859 |
| Expected return on plan assets | (763) | (668) | (424) |
| Amortization of actuarial gain | (1,254) | (1,010) | (231) |
| Adjustment prior service cost | --- | 710 | --- |
| Administrative costs | 41 | 39 | 77 |
| Payroll tax | 419 | 434 | 415 |
| Net periodic pension costs | 2,133 | 3,215 | 3,126 |

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) | 2010 | 2009 |
| Funded status | 3,642 | 5,978 |
| Unrecognized actuarial loss | 18,862 | 15,640 |
| Accrued payroll tax | 643 | 843 |
| Net pension liability | 23,147 | 22,461 |

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, | |
|---|---|---|
| | 2010 | 2009 |
| Discount rate | 4.0% | 4.5% |
| Return on plan assets | 5.4% | 5.7% |
| Compensation increase | 4.0% | 4.0% |
| Annual adjustment to pensions | 1.3% | 1.4% |

**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, 2010 and 2009 was NOK 1.1 million and NOK 0.8 million, respectively.

## Note 15 - Commitments

PGS ASA's operating lease commitments relates to corporate administration and expires on various dates through 2014. Future minimum payments related to non-cancelable operating leases existing at December 31, 2010 are as follows:

| (In thousands of NOK) | December 31, 2010 |
|---|---|
| 2011 | 4,687 |
| 2012 | 4,687 |
| 2013 | 4,687 |
| 2014 | 1,211 |
| Total | 15,272 |

Rental expense for operating leases, including leases with terms of less than one year, was NOK 11.2 million, NOK 11.2 million and NOK 11.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

## Note 16 - Accrued Expenses

Accrued expenses consist of the following:

| | December 31, | |
|---|---|---|
| (In thousands of NOK) | 2010 | 2009 |
| Foreign taxes | 46,401 | 45,496 |
| Accrued unrealized loss hedging (Note 12) | 23,836 | 35,949 |
| Accrued salary (including bonus) | 23,362 | 19,277 |
| Accrued interest expense | 4,906 | 5,381 |
| Other | 8,987 | 28,445 |
| Total | 107,492 | 134,548 |

## 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) | 2010 | 2009 | 2008 |
| Salaries and bonus | 58,880 | 53,148 | 57,130 |
| Social security | 9,632 | 7,484 | 6,866 |
| Pension | 4,349 | 3,994 | 4,136 |
| Other benefits | 379 | 4,030 | 4,299 |
| Total | 73,240 | 68,656 | 72,431 |

As of December 31, 2010, PGS ASA had 30 full time employees. Average labor years for the years ended December 31, 2010 and 2009 were 28 and 28, respectively.

**Compensation to Board of Directors, CEO and Other Executive Officers**
For a full listing of Board of Directors, CEO and Other Executive Officers and their compensation, see Note 34 to the consolidated financial statements.

**Share option programs**
In the third quarter of 2006, the second quarter of 2008, the second quarter of 2009 and in second quarter of 2010 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, 2010, 2009 and 2008, PGS ASA recorded compensation costs of NOK 6.2 million, NOK 9.8 million and NOK 7.5 million, respectively, recognized in additional paid-in capital. Total net unrecognized compensation cost as of December 31, 2010 was NOK 8.0 million (related to non-vested share-based options), which is expected to be recognized over a period of 3.5 years (main portion within 1 year).

In 2010, 359,536 options were exercised. PGS ASA used own treasury shares to facilitate these transactions and recognized NOK 14.5 million in shareholders' equity in 2010. No options were exercised during 2009.

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

| | Years ended December 31, | | |
|---|---|---|---|
| (In thousands of NOK) | 2010 | 2009 | 2008 |
| Audit fees | 3,435 | 3,548 | 3,189 |
| Other attestation services (a) | 817 | 8,331 | --- |
| Fees for tax services (b) | 35 | --- | 188 |
| All other fees | 142 | 398 | 31 |
| Total | 4,429 | 12,277 | 3,408 |

(a) Other attestation services for 2009 include fees related to attestation services in connection with the sale of Onshore completed in 2010.
(b) Include fees for tax filing services and other tax assistance.

## Note 18 - Warranties

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

## Note 19 - Investment in Associated Company

Investments in associates are recognized in PGS ASA' balance sheet at cost less any impairment:

| | Registered office | Ownership as of December 31, 2010 | Share of income/(loss) in year ended December 31, 2010 (In thousands of USD) | Equity as of December 31, 2010 (In thousands of USD) | Book value as of December 31, 2010 (In thousands of NOK) |
|---|---|---|---|---|---|
| Geokinetics Inc | United States | 12.2% | (12,960) | 46,464 | 112,515 |

The Geokinetics investment was a part of the Onshore transaction closed at February 12, 2010, see Note 4 to the consolidated financial statement for further information. The fair value of the shares received was NOK 112.5 million.

In fourth quarter 2010, PGS group invested additional $10 million (NOK 58.5 million) in 40,000 preferred stocks and 1,165,000 warrants in Geokinetics. The warrants has been valued to NOK 23.8 million using a Black-Scholes option price model as of December 31, 2010 and presented as other financial long-term assets (see Note 7). The remaining value has been allocated to the preferred shares and has been included as part of the investment in Geokinetics held by a subsidiary of PGS ASA.

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

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of Petroleum Geo-Services ASA, which comprise the financial statements of the parent company Petroleum Geo-Services ASA and the consolidated financial statements of Petroleum Geo-Services ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December, 2010, the statement of operations and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position, the statement of operations, the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*The Board of Directors and the Chief Executive Officer's Responsibility for the Financial Statements*

The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG AS, a Norwegian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslo, Alta, Arendal, Bergen, Bodø, Elverum, Finnsnes, Grimstad, Hamar, Haugesund, Kristiansand, Larvik, Mo i Rana, Molde, Narvik, Røros, Sandefjord, Sandnessjøen, Stavanger, Stord, Tromsø, Trondheim, Tønsberg, Ålesund

***Independent auditor's report***
*Petroleum Geo-Services ASA*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the separate financial statement*

In our opinion, the parent company's financial statements give a true and fair view of the financial position of Petroleum Geo-Services ASA as at 31 December, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Petroleum Geo-Services ASA and its subsidiaries as at 31 December, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

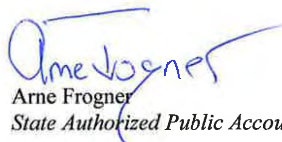
*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and coverage of the loss is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 21 March 2011
KPMG AS



Arne Frogner
*State Authorized Public Accountant (Norway)*

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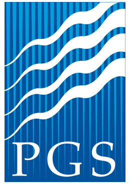

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