Earnings Release
Q4 - 2016

Productivity and Technology Leadership

Strong Full Year MultiClient Performance
Refinancing Successfully Completed

Highlights 2016

- Revenues of $764.3 million, compared to $961.9 million in 2015
- EBITDA of $313.4 million, compared to $484.4 million in 2015
- EBIT, excluding impairments and other charges, of negative $137.5 million, compared to a profit of $15.8 million in 2015
- MultiClient pre-funding revenues of $242.3 million with a corresponding pre-funding level of 121%, compared to $380.4 million and 125% respectively in 2015
- MultiClient late sales of $226.8 million, compared to $194.3 million in 2015
- Cash flow from operations of 320.9 million, compared to 487.9 million in 2015
- Completed refinancing to reduce debt and extend maturities to 2020
- Gross cash cost further reduced by $130.8 million compared to 2015
- Solid operational performance
- Continue to strengthen imaging capabilities
- *Ramform Tethys* delivered. Moderate remaining capital expenditure to complete new build program in Q1 2017

"In 2016, our MultiClient revenues amounted to $469.1 million. With capitalized MultiClient cash investment of $201.0 million we achieved a sales-to-investment ratio of 2.3 times, a positive trend compared to last year when the ratio was 1.9 times. Our ability to maintain a robust pre-funding level of more than 120% and the 17% increase in late sales from 2015 were driven by the Ramform vessels' productivity advantage, our superior GeoStreamer technology and a strong and focused organization.

As a result of low activity levels and continued excess supply of vessels, the marine contract market remained challenging through 2016. To improve cash flow we have continued our efforts to reduce costs. Gross cash cost for the full year 2016 ended at $662.3 million, down $130.8 million compared to 2015, and more than 40% lower than our gross cash cost in 2014."

Jon Erik Reinhardsen,
President and Chief Executive Officer

Outlook

PGS expects the higher and more stable oil price and improved cash flow among clients, combined with an increasing constraint on available streamers in the industry, to benefit the marine 3D seismic market fundamentals going forward. The Company expects the volume of marine 3D seismic acquired by the industry to increase in 2017 compared to 2016, partly driven by an expected increase of 4D streamer monitoring surveys and more MultiClient 3D projects.

Based on the current operational projections and with reference to disclosed risk factors, PGS expects full year 2017 gross cash cost to be approximately $700 million. The increase from 2016 is primarily driven by more operated capacity and an expected increase in fuel prices, partly offset by further cost reductions.

MultiClient cash investments are expected to be approximately $275 million, with a pre-funding level of approximately 100%.

Approximately 55% of the 2017 active 3D vessel time is expected to be allocated to MultiClient acquisition.

Capital expenditure is expected to be approximately $150 million, of which approximately $85 million relates to completion of the new build *Ramform Hyperion*.

The order book totaled $215 million at December 31, 2016 (including $113 million relating to MultiClient), compared to $190 million at September 30, 2016 and $240 million at December 31, 2015.

Key Financial Figures

(In millions of US dollars, except per share data)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Revenues	154.1	229.3	764.3	961.9
EBITDA	53.1	116.5	313.3	484.4
EBIT ex. impairment and other charges	(65.5)	(22.9)	(137.5)	15.8
EBIT as reported	(92.4)	(332.9)	(180.3)	(430.4)
Income (loss) before income tax expense	(118.7)	(357.1)	(262.8)	(505.5)
Net income (loss) to equity holders	(156.1)	(334.6)	(293.9)	(527.9)
Basic earnings per share ($ per share)	(0.61)	(1.48)	(1.21)	(2.43)
Net cash provided by operating activities	64.7	121.0	320.9	487.9
Cash investment in MultiClient library	47.8	70.2	201.0	303.3
Capital expenditures (whether paid or not)	28.7	41.7	208.6	165.7
Total assets	2 817.0	2 914.1	2 817.0	2 914.1
Cash and cash equivalents	61.7	81.6	61.7	81.6
Net interest bearing debt	1 029.7	994.2	1 029.7	994.2

Condensed Consolidated Statements of Profit and Loss and Other Comprehensive Income

(In millions of US dollars)	Note	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Revenues	1	154.1	229.3	764.3	961.9
Cost of sales	2	(86.4)	(95.3)	(393.2)	(413.1)
Research and development costs	2	(5.3)	(5.0)	(19.5)	(20.3)
Selling, general and administrative costs	2	(9.4)	(12.5)	(38.4)	(44.1)
Amortization and impairment of MultiClient library	3	(97.6)	(204.3)	(323.9)	(430.1)
Depreciation and amortization of long term assets (excl. MultiClient library)	3	(42.0)	(37.6)	(157.0)	(141.0)
Impairment and loss on sale of long-term assets (excl. MultiClient library)	3	(7.8)	(172.4)	(12.0)	(294.7)
Other charges, net	3	1.9	(35.1)	(0.6)	(49.0)
Total operating expenses		(246.6)	(562.2)	(944.6)	(1 392.3)
Operating profit (loss)/EBIT		(92.4)	(332.9)	(180.3)	(430.4)
Share of results from associated companies	4	(6.2)	(6.9)	(30.1)	(16.1)
Interest expense	5	(14.3)	(7.3)	(46.1)	(29.5)
Other financial expense, net	6	(5.8)	(10.1)	(6.4)	(29.6)
Income (loss) before income tax expense		(118.7)	(357.1)	(262.8)	(505.5)
Income tax	7	(37.4)	22.5	(31.2)	(22.4)
Net income (loss) to equity holders of PGS ASA		**(156.1)**	**(334.6)**	**(293.9)**	**(527.9)**
Other comprehensive income					
Items that will not be reclassified to profit and loss	12	13.4	2.1	(32.7)	1.3
Items that may be subsequently reclassified to profit and loss	12	(2.0)	(2.8)	(0.9)	(2.4)
Other comprehensive income for the period, net of tax		11.4	(0.7)	(33.6)	(1.1)
Total comprehensive income to equity holders of PGS ASA		**(144.7)**	**(335.3)**	**(327.5)**	**(529.0)**

Condensed Consolidated Statements of Financial Position

(In millions of US dollars)	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	10	61.7	81.6
Restricted cash	10	32.3	19.0
Accounts receivable		98.4	112.8
Accrued revenues and other receivables		120.3	158.1
Other current assets		69.1	98.8
Total current assets		381.9	470.3
Property and equipment	8	1 391.5	1 397.5
MultiClient library	9	647.7	695.0
Restricted cash	10	68.7	52.5
Deferred tax assets		55.5	79.4
Other long-term assets		113.1	57.7
Other intangible assets		158.6	161.6
Total long-term assets		2 435.1	2 443.8
Total assets		**2 817.0**	**2 914.1**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term debt and current portion of long-term debt	10	38.8	24.8
Accounts payable		54.9	52.6
Accrued expenses and other current liabilities		133.3	196.5
Income taxes payable		19.4	24.4
Total current liabilities		246.4	298.4
Long-term debt	10	1 132.0	1 099.9
Deferred tax liabilities		2.5	1.6
Other long-term liabilities		76.7	50.5
Total long-term liabilities		1 211.2	1 152.0
Common stock; par value NOK 3;			
issued and outstanding 325,079,996 shares		133.7	104.0
Treasury shares, par value		(0.8)	(1.1)
Additional paid-in capital		816.3	622.8
Total paid-in capital		949.2	725.7
Accumulated earnings		505.7	799.9
Other comprehensive income		(95.5)	(61.9)
Total shareholders' equity		1 359.4	1 463.7
Total liabilities and shareholders' equity		**2 817.0**	**2 914.1**

Condensed Consolidated Statements of Cash Flows

(In millions of US dollars)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31 2016	Year ended December 31 2015
Net income (loss) to equity holders of PGS ASA	**(156.1)**	**(334.6)**	**(293.9)**	**(527.9)**
Depreciation, amortization, impairment and loss on sale of long-term assets	147.4	414.3	493.0	865.8
Share of results in associated companies	6.2	6.9	30.1	16.1
Interest expense	14.3	7.3	46.1	29.5
Loss (gain) on sale and retirement of assets	1.5	2.4	4.5	0.3
Change in deferred tax	37.0	(22.4)	24.7	2.8
Income taxes paid	(1.3)	(4.3)	(7.4)	(25.2)
Other items	(6.3)	5.4	0.7	14.5
(Increase) decrease in accounts receivable, accrued revenues & other receivables	34.2	28.3	52.2	172.1
Increase (decrease) in accounts payable	(0.2)	(4.0)	9.9	(33.9)
Change in other current items related to operating activities	(7.5)	26.7	(33.0)	0.4
Change in other long-term items related to operating activities	(4.5)	(4.9)	(6.1)	(26.4)
Net cash provided by operating activities	**64.7**	**121.0**	**320.9**	**487.9**
Investment in MultiClient library	(47.8)	(70.2)	(201.0)	(303.3)
Investment in property and equipment	(25.9)	(47.2)	(218.2)	(164.0)
Investment in other intangible assets	(3.5)	(4.5)	(11.1)	(19.0)
Investment in other current -and long-term assets	-	(9.0)	(93.1)	(24.2)
Proceeds from sale and disposal of assets	1.0	1.5	2.5	88.6
Increase in long-term restricted cash	(4.5)	(2.0)	(7.8)	(5.0)
Net cash used in investing activities	**(80.7)**	**(131.4)**	**(528.7)**	**(426.9)**
Proceeds, net of deferred loan costs, from issuance of long-term debt	(10.4)	(1.8)	102.5	35.8
Repayment of long-term debt	(210.0)	(6.2)	(235.3)	(24.8)
Net drawdown of Revolving Credit Facility	30.0	(65.0)	165.0	(75.0)
Proceeds from sale of treasury shares/share issue	217.1	104.2	217.1	104.2
Dividend paid	-	-	-	(20.3)
Interest paid	(26.3)	(21.5)	(61.4)	(54.0)
Net cash (used in) provided by financing activities	**0.4**	**9.7**	**187.9**	**(34.1)**
Net increase (decrease) in cash and cash equivalents	(15.6)	(0.7)	(19.9)	26.9
Cash and cash equivalents at beginning of period	77.3	82.3	81.6	54.7
Cash and cash equivalents at end of period	**61.7**	**81.6**	**61.7**	**81.6**

Condensed Consolidated Statements of Changes in Shareholders' Equity

For the twelve months ended December 31, 2015

	Attributable to equity holders of PGS ASA					
(In millions US of dollars)	Common stock par value	Treasury shares par value	Additional paid-in capital	Accumulated earnings	Other comprehensive income	Shareholders' equity
Balance as of January 1, 2015	**96.5**	**(1.9)**	**526.9**	**1 340.9**	**(60.8)**	**1 901.6**
Total comprehensive income	-	-	-	(527.9)	(1.1)	(529.0)
Share issue (1)	7.5	-	89.2	-	-	96.7
Sale of own shares (2)	-	0.6	-	7.3	-	7.9
Dividend paid (3)	-	-	-	(20.3)	-	(20.3)
Employee benefit plans	-	0.2	6.7	-	-	6.9
Balance as of December 31, 2015	**104.0**	**(1.1)**	**622.8**	**799.9**	**(61.9)**	**1 463.7**

(1) Transaction costs amounting to $1.8 mill are recognized against "Additional paid-in capital" net of related income tax benefits of $0.5 million.
(2) Transaction costs amounting to $0.2 mill are recognized against "Accumulated earnings"
(3) NOK 0.70 per share was paid as ordinary dividend for 2014

For the twelve months ended December 31, 2016

	Attributable to equity holders of PGS ASA					
(In millions US of dollars)	Common stock par value	Treasury shares par value	Additional paid-in capital	Accumulated earnings	Other comprehensive income	Shareholders' equity
Balance as of January 1, 2016	**104.0**	**(1.1)**	**622.8**	**799.9**	**(61.9)**	**1 463.7**
Total comprehensive income	-	-	-	(293.9)	(33.6)	(327.5)
Share issue (1)	29.7	-	187.4	-	-	217.1
Employee benefit plans	-	0.3	6.1	(0.3)	-	6.1
Balance as of December 31, 2016	**133.7**	**(0.8)**	**816.3**	**505.7**	**(95.5)**	**1 359.4**

(1) Transaction costs amounting to $5.3 mill are recognized against "Additional paid-in capital". The Norwegian krone proceeds from the share issue have been translated at the USD/NOK exhange rate 8.65 (registration December 15, 2016 in Norwegian Register of Business Enterprises), which deviates from the USD/NOK 8.53 exchange rate at the announcement date November 22, 2016.

Notes to the Condensed Interim Consolidated Financial Statements
Fourth Quarter and Preliminary Full Year 2016 Results

Note 1 – Revenues

Revenues by service type:

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Marine revenues by service type:				
- Contract seismic	29.3	43.5	212.6	274.0
- MultiClient pre-funding	50.9	98.0	242.3	380.4
- MultiClient late sales	52.4	67.5	226.8	194.3
- Imaging	19.6	18.2	70.0	93.7
- Other	1.9	2.2	12.6	19.6
Total revenues	**154.1**	**229.3**	**764.3**	**961.9**

Vessel allocation(1):

	Quarter ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Contract	25 %	40 %	45 %	35 %
MultiClient	27 %	33 %	29 %	39 %
Steaming	15 %	9 %	14 %	11 %
Yard	4 %	8 %	2 %	3 %
Stacked/standby	29 %	10 %	10 %	12 %

1) The statistics exclude cold-stacked vessels.

Full year 2016 revenues for Petroleum Geo-Services ASA ("PGS" or "the Company") decreased by $197.6 million, or 21%, compared to 2015. The revenue reduction reflects reduced spending by oil companies, which had a negative impact on pricing, utilization and the general demand for seismic services. The revenue mix shifted towards more MultiClient late sales, while the other revenue lines were weaker compared to 2015.

Marine contract revenues for the full year 2016 decreased by $61.4 million, or 22%, compared to 2015, primarily as a result of lower prices and more non-chargeable vessel time, partly offset by more capacity allocated to marine contract activities.

In 2016, MultiClient pre-funding revenues decreased by $138.1 million, or 36%, compared to 2015. The decrease is mainly driven by a reduction in MultiClient cash investment and less capacity allocated to MultiClient activities. Pre-funding of MultiClient projects conducted by the Company in 2016 was in line with the previous year, with a pre-funding level of 121%, compared to 125% in 2015. For the full year 2016, MultiClient pre-funding revenues were strongest in Europe, and North and South America.

MultiClient late sales revenues in 2016 increased by $32.5 million, or 17%, compared to 2015. The increase is mainly driven by greater general interest for MultiClient data. Late sales were strongest in Europe, South America and Africa.

The decrease in external imaging revenues in 2016 of $23.7 million, or 25%, compared to 2015 reflects the challenging global market for imaging services.

In Q4 2016, revenues decreased by $75.2 million, or 33%, compared to Q4 2015. This reflects a 33% reduction in marine contract revenues and a 38% reduction in total MultiClient revenues.

Lower marine contract revenues in Q4 2016, compared to Q4 2015, were due to low pricing for contract work, more non-chargeable vessel time and limited capacity allocated to marine contract activities.

MultiClient pre-funding revenues decreased $47.1 million in Q4 2016, or 48%, compared to Q4 2015, owing to less capacity used for MultiClient surveys and weaker sales from surveys in the processing phase. MultiClient pre-funding revenues in Q4 2016 were strongest in Asia Pacific and Europe.

MultiClient late sales revenues in Q4 2016 decreased by $15.1 million, or 22%, compared to Q4 2015. MultiClient sales vary significantly between quarters and regions and the Company had relatively greater success in realizing sales in Q3 than it had in Q4. In Q4 2016 late sales were strongest in Europe and North America.

The increase in external imaging revenues in Q4 2016 of $1.4 million, or 8%, compared to Q4 2015 is mainly due to more resources allocated to external processing contracts relative to internal MultiClient projects. The Company experienced an overall challenging global market for imaging services also in Q4 2016.

Note 2 – Net Operating Expenses

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Cost of sales before investment in MultiClient library	(133.4)	(165.5)	(594.2)	(716.4)
Research and development costs before capitalized development costs	(8.8)	(7.8)	(29.7)	(32.6)
Sellling, general and administrative costs	(9.4)	(12.5)	(38.4)	(44.1)
Cash costs, gross	**(151.6)**	**(185.8)**	**(662.3)**	**(793.1)**
Cash investment in MultiClient library	47.0	70.2	201.0	303.3
Capitalized development costs	3.5	2.8	10.2	12.3
Net operating expenses	**(101.0)**	**(112.8)**	**(451.0)**	**(477.5)**

Reported gross cash cost for the Company (excluding depreciation, amortization, impairments and other charges/(income)) for the full year 2016 were $130.8 million, or 16%, lower than full year 2015. The decrease is driven by vessel capacity adjustments and other cost reduction initiatives, partially offset by a somewhat higher fuel cost as a result of the increasing oil price during 2016. Net operating expenses for the full year 2016, compared to the full year 2015 were also lower despite significantly less cost capitalized to the MultiClient library.

The Company monitors the development of its gross cash costs closely and has achieved a reduction by more than 40%, compared to 2014. Capacity reduction is the main contributor, in addition to office closures, staff reductions, reduced fuel cost, favorable foreign exchange development, and other general cost savings measures.

The decrease in gross R&D costs for the full year 2016, compared to the full year 2015 is driven by overall cost reductions and focus on supporting, validating and deploying existing projects. The Company's R&D costs are mainly incurred to support and develop core business activities of marine seismic acquisition and imaging.

In Q4 2016, the reported gross cash cost for the Company was $34.2 million, or 18%, lower than in Q4 2015. The reduction is mainly driven by general cost reductions and lower project and fuel costs as a result of standby time in the quarter. Net operating expenses in Q4 2016, compared to Q4 2015 were also lower despite a reduction in cost capitalized to the MultiClient library of $23.2 million, or 33%.

The Increase in gross R&D costs in Q4 2016, compared to Q4 2015 is due to field testing of marine seismic technology.

Note 3 – Amortization, Depreciation, Impairments and Other Charges, net

Amortization and impairment of MultiClient library consist of the following:

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Amortization of MultiClient library	(76.6)	(101.8)	(279.2)	(327.6)
Accelerated amortization of MultiClient library, see note 14	-	-	(14.6)	-
Impairment of MultiClient library	(21.0)	(102.5)	(30.1)	(102.5)
Total	**(97.6)**	**(204.3)**	**(323.9)**	**(430.1)**

Amortization of the MultiClient library as a percentage of MultiClient revenues was 63% for the full year 2016, compared to 57% for the full year 2015. The amortization expense for the full year 2016 ended at $293.8 million, including accelerated amortization. Effective January 1, 2016 the Company amended its accounting policy for MultiClient amortization as described in Note 14.

In Q4 2016 the amortization rate for the MultiClient library was 74%, compared to 62% in Q4 2015. The relatively high amortization rate is primarily due to lower MultiClient late sales as well as accelerated amortization on certain surveys.

Impairment of the MultiClient library of $21.0 million and $30.1 million in Q4 2016 and full year 2016, respectively, relates to surveys performing weaker than anticipated.

Depreciation and amortization of long term assets (excl. MultiClient library) consist of the following:

(In millions of US dollars)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Gross depreciation	(54.7)	(54.2)	(218.7)	(245.2)
Depreciation capitalized and deferred, net	12.7	16.6	61.7	104.2
Total	**(42.0)**	**(37.6)**	**(157.0)**	**(141.0)**

For the full year 2016, gross depreciation decreased by $26.5 million, or 11%, compared to the full year 2015, as a result of a general reduction in maintenance capital expenditures and lower book values due to impairment charges. Capitalized depreciation decreased by $42.5 million, or 41%, compared to full year 2015 owing to a combination of less vessel capacity being allocated to MultiClient projects and the reduced gross depreciation.

In Q4 2016 the gross depreciation was in line with Q4 2015, while the capitalized depreciation was $3.9 million, or 23%, lower, compared to Q4 2015 as a result of less vessel capacity allocated to MultiClient projects.

Impairment and loss on sale of long-term assets (excluding MultiClient library) consist of the following:

(In millions of US dollars)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Property and equipment (1)	(7.8)	(0.5)	(12.0)	(122.2)
Goodwill	-	(171.9)	-	(139.9)
Other Intangible assets	-	-	-	(32.6)
Total	**(7.8)**	**(172.4)**	**(12.0)**	**(294.7)**

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

The Company recorded impairment charges, excluding impairment of MultiClient library, of $12.0 million for the full year 2016 and $7.8 million in Q4 2016, primarily relating to adjustments to the expected schedule for returning cold-stacked vessels to operation.

The Company recorded significant impairment charges in 2015 and 2016. The market for seismic data is still uncertain and depending on several factors, including market developments and the Company's projections and plans, further impairment of long-term assets, including property and equipment, MultiClient library and deferred tax asset may arise in future periods.

Other charges, net consist of the following:

(In millions of US dollars)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Stacking and upgrade cost	-	(16.3)	-	(17.6)
Restructuring cost	(0.5)	(6.9)	(4.7)	(16.3)
Onerous contract with customers	2.4	(7.9)	3.7	(11.1)
Other	-	(4.1)	0.4	(4.0)
Total	**1.9**	**(35.1)**	**(0.6)**	**(49.0)**

Other charges, net in Q4 2016 and for the full year 2016 primarily relates to provision for onerous contracts.

As of December 31, 2016 the Company's provision for onerous contracts amounted to a total of $7.4 million, a decrease of $2.3 million compared to September 30, 2016 and a decrease of $3.7 million compared to December 31, 2015. The provision primarily represents the estimated loss in future periods relating to binding customer contracts where revenues are lower than the full cost of completing the contract.

Note 4 – Share of Results from Associated Companies

The share of results from associated companies for Q4 2016 and the full year 2016 primarily relate to the 45% interest in Azimuth Ltd.

Note 5 – Interest Expense

Interest expense consists of the following:

(In millions of US dollars)	Quarter ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Interest expense, gross	(18.0)	(15.0)	(66.6)	(58.2)
Capitalized interest, MultiClient library	2.0	4.9	12.6	19.6
Capitalized interest, construction in progress	1.7	2.8	7.9	9.1
Total	**(14.3)**	**(7.3)**	**(46.1)**	**(29.5)**

Gross interest expense for the full year 2016 and Q4 2016 increased compared to the same periods in 2015 as a result of a higher debt level.

Interest expense capitalized to construction in progress and to the MultiClient library for the full year 2016 and Q4 2016 were down compared to the same periods in 2015 due to lower aggregate new building capital expenditures and a lower volume of MultiClient surveys in progress.

Note 6 – Other Financial Expense, net

Other financial expense, net consists of the following:

(In millions of US dollars)	Quarter ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Interest income	0.9	1.3	3.4	2.7
Currency exchange gain (loss)	(6.2)	(3.4)	(5.2)	(18.5)
Other	(0.4)	(7.9)	(4.5)	(13.7)
Total	**(5.8)**	**(10.1)**	**(6.4)**	**(29.6)**

The currency exchange loss in for both Q4 and full year 2016 relates primarily to currency devaluation losses in Egypt and Nigeria.

For Q4 and full year 2016 the line Other includes a gain from repurchase of $212 million of the 2018 Senior Notes at 95% of par value as part of the refinancing of the Company. This was partially offset by expenses relating to the repurchase as well a charge from writing off the pre-existing deferred loan cost relating to debt that was refinanced before the initial maturity.
The Company holds foreign currency positions to manage its operational currency exposure. These positions are marked to market at each balance sheet date together with receivables and payables in non-US currencies.

Note 7 – Income Tax and Contingencies

Income tax consists of the following:

(In millions of US dollars)	Quarter ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Current tax	(0.4)	0.1	(6.3)	(19.6)
Deferred tax	(37.0)	22.4	(24.9)	(2.8)
Total	**(37.4)**	**22.5**	**(31.2)**	**(22.4)**

Current tax expense for the full year 2016 of $6.3 million relates primarily to foreign tax.

The deferred tax expense for Q4 and full year 2016 is caused mainly by a $50 million additional valuation allowance for deferred tax assets. The Company has established this additional valuation allowance since it, as a result of the weak market, has had cumulative losses in some of its primary tax regimes, including Norway and UK.

In addition, the deferred tax expense is negatively impacted by some of the losses being within the Norwegian tonnage tax regime (with no tax assets to be recognized) and the reduction of the Norwegian corporate income tax rate from 25% to 24% effective from January 1, 2017. While the income tax rate reduction is positive longer term, it resulted in a reduction in deferred tax assets of approximately $3.6 million in Q4 2016.

Tax Contingencies

The Company has ongoing tax disputes related to charter of vessels into Brazil. The assessments, which seek to levy 15% withholding tax and 10% CIDE (service) tax, amount to $33.6 million in total. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

Other contingencies

The Company has an ongoing dispute in Brazil related to 5% ISS tax on the sale of MultiClient data from year 2000 and onwards. As of December 31, 2016, the exposure is $134.9 million, including possible penalties and interest. PGS has made deposits covering $68 million of the total exposure. The deposits are included in long-term restricted cash. In Q4 2016 the last part of the dispute related to the ISS tax was heard by the Taxpayers Council. The Council requested more information and a new date for ruling the case has not been set. This part of the ISS case has not yet gone to legal trial and the Company has consequently not made any deposit related to this part of the case, which represents a total exposure of approximately $66.9 million. Because the Company considers it more likely than not that the contingency will be resolved in its favor, no provision has been made for any portion of the exposure.

Note 8 – Property and Equipment

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

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Seismic equipment	13.3	6.4	18.9	17.6
Vessel upgrades/Yard	5.7	-	20.1	10.9
Processing equipment	1.6	0.9	12.8	5.3
Newbuilds	7.5	33.1	154.4	116.6
Other	0.6	1.3	2.4	15.3
Total capital expenditures, whether paid or not	**28.7**	**41.7**	**208.6**	**165.7**
Change in working capital and Capital leases	(2.8)	5.5	9.6	(1.7)
Investment in property and equipment	**25.9**	**47.2**	**218.2**	**164.0**

Ramform Hyperion is under construction at the shipyard Mitsubishi Heavy Industries Shipbuilding Co. Ltd ("MHIS") in Japan. The vessel is scheduled to be delivered in March 2017.

The capital expenditure of *Ramform Hyperion* is expected to be approximately $260 million, including commissioning and a comprehensive seismic equipment package, but excluding capitalized interest and post-delivery cost. The cost is reduced compared to earlier indications due to various cost savings, as well as re-use of available seismic equipment. Accumulated capital expenditures related to *Ramform Hyperion* as of December 31, 2016 was $176.2 million.

Note 9 – MultiClient Library

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

	December 31,	
(In millions of US dollars)	2016	2015
Completed during 2011		10.8
Completed during 2012	9.3	19.1
Completed during 2013	16.6	25.9
Completed during 2014	61.2	91.5
Completed during 2015	117.1	175.7
Completed during 2016	303.4	-
Completed surveys	507.6	323.1
Surveys in progress	140.1	371.9
MultiClient library, net	**647.7**	**695.0**

Key figures MultiClient library:

(In millions of US dollars)	Quarter ended December 31, 2016	Quarter ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
MultiClient pre-funding revenue	50.9	98.0	242.3	380.4
MultiClient late sales	52.4	67.5	226.8	194.3
Cash investment in MultiClient library	47.8	70.2	201.0	303.3
Prefunding as a percentage of MultiClient cash investment	107 %	140 %	121 %	125 %
Capitalized interest in MultiClient library	2.0	4.9	12.6	19.6
Capitalized depreciation (non-cash)	13.3	17.0	62.1	107.0
Amortization of MultiClient library	(76.6)	(101.8)	(279.2)	(327.6)
Accelerated amortization of MultiClient library, see note 14	-	-	(14.6)	-
Impairment of MultiClient library	(21.0)	(102.5)	(30.1)	(102.5)

In 2016, MultiClient pre-funding revenues corresponded to 121% of capitalized MultiClient cash investment (excluding capitalized interest), compared to 125% in 2015. The continued high pre-funding level illustrates the Company's ability to generate solid MultiClient projects attracting strong customer interest, combined with industry leading project execution and reduced cost.

The reduced MultiClient cash investment in 2016, compared to 2015 is mainly due to lower acquisition cost and less capacity allocated to MultiClient.

In Q4 2016, MultiClient pre-funding revenues corresponded to 107% of capitalized MultiClient cash investment (excluding capitalized interest), compared to 140% in Q4 2015. The lower pre-funding level is mainly related to lower sales from projects in the processing phase.

The reduced MultiClient cash investment in Q4 2016, compared to Q4 2015 is mainly due to a lower cost level and somewhat less capacity used for MultiClient projects.

Note 10 – Liquidity and Financing

In 2016, net cash provided by operating activities was $320.9 million, compared to $487.9 million in 2015. In Q4 2016 net cash provided by operating activities was $64.6 million, compared to $121.0 million in Q4 2015. The decrease is mainly due to lower earnings. Both for Q4 2016 and the full year 2016 cash provided by operating activities were higher than the reported EBITDA, reflecting a reduction of working capital.

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

To strengthen the financial position through the ongoing market uncertainty PGS completed a refinancing process in Q4 2016, consisting of three main elements:

- The revolving credit facility ("RCF") originally maturing in 2018 was extended to 2020 and reduced to $400 million, with a further scheduled reduction to $350 million in September 2018.
- An equity private placement of approximately $225 million (followed by a subsequent equity offering of approximately $35 million completed in January 2017).
- An exchange offer for the $450 million Senior Notes maturing in 2018, whereby bondholders representing approximately 94% of the outstanding amount exchanged 50% of their holding for cash at 95% of par value and exchanged the remaining 50% into new Senior Notes maturing in December 2020.

The refinancing reduces PGS' financial risk profile by reducing debt and interest expense, extending debt maturities from 2018 to 2020 and maintaining a robust liquidity position for the Company.

The liquidity reserve, including cash and cash equivalents and the undrawn part of the RCF, was $271.7 million as of December 31, 2016, compared to $417.3 million as of September 30, 2016 and $556.6 million as of December 31, 2015. The liquidity reserve as of December 31, 2016 reflects a resized RCF of $400 million. In addition, the Company has $91.2 million of undrawn credit on the Export Credit Financing ("ECF") facility to cover the final yard installment on the *Ramform Hyperion* new build scheduled for delivery in March 2017.

Long term debt consists of the following:

(In millions of US dollars)	December 31, 2016	2015
Secured		
Term loan B, Libor (min. 75 bp) + 250 Basis points, due 2021	389.0	393.0
Export credit financing, due 2025	182.3	203.1
Export credit financing, due 2027	192.1	76.1
Revolving credit facility, due 2018	190.0	25.0
Unsecured		
Senior notes, Coupon 7.375%, due 2018	26.0	450.0
Senior notes, Coupon 7.375%, due 2020	212.0	
Total	**1 191.4**	**1 147.2**
Less current portion LT debt	(37.8)	(24.8)
Less deferred loan costs, net of debt premiums	(21.6)	(22.5)
Total long-term debt	**1 132.0**	**1 099.9**

Fair value of the long term debt was $1,100.4 million and $969.7 million as of December 31, 2016 and 2015, respectively.

Undrawn facilities consists of the following:

(In millions of US dollars)	December 31, 2016	2015
Secured		
Revolving credit facility, due 2018	210.0	475.0
Export credit financing	91.2	228.5
Unsecured		
Bank facility (NOK 50 mill)	5.8	5.7
Performance bond	12.5	13.0
Total	**319.5**	**722.2**

Summary of net interest bearing debt:

(In millions of US dollars)	December 31, 2016	2015
Cash and cash equivalents	61.7	81.6
Restricted cash (current and long-term)	101.0	71.5
Short-term debt and current portion of long-term debt	(38.8)	(24.8)
Long-term debt	(1 132.0)	(1 099.9)
Adjustment for deferred loan costs (offset in long-term debt)	(21.6)	(22.5)
Total	**(1 029.7)**	**(994.2)**

The relatively high level of restricted cash relates primarily to deposits made in 2010 and 2011 to initiate law suits with the Rio de Janeiro courts to seek confirmation that sale of MultiClient data in Brazil is not subject to ISS tax (see annual report 2015 for more details). The deposits are denominated in Brazilian Real and the carrying value at end Q4 2016 was approximately $68.7 million. Restricted cash also includes $24.0 million held in debt service reserve accounts related to the export credit financing of *Ramform Titan*, *Ramform Atlas* and *Ramform Tethys*.

At December 31, 2016, the Company had approximately 50% of its debt at fixed interest rates. The Q4 2016 weighted average cash interest cost of gross debt reflects an interest rate of approximately 4.7%, including credit margins paid on the debt. PGS has a debt structure with no material scheduled maturities until 2020, except on the export credit financing (“ECF”). The ECF is repaid in separate semiannual installments and the scheduled principal payments in 2016 were approximately $34 million. After delivery of the *Ramform Hyperion,* installments will increase to approximately $47 million for 2017 and each subsequent year until it tapers off following maturity of one after one of the four facilities in the period 2025 to 2027.

The undrawn portion of the RCF constitutes a significant portion of the Company’s liquidity reserve. As a part of the refinancing completed in Q4 2016 the stepdown of the Total Leverage Ratio (“TLR”) covenant, with which the Company must comply in order to draw on the RCF, was amended to a flatter profile. It starts with a maximum of 5.50:1 from Q4 2016 through Q2 2017, then tightening by 0.25:1 in Q3 2017, another 0.50:1 in Q4 2017 and Q1 2018, and thereafter by 0.25:1 for each of the subsequent quarters down to 2:75 by Q3 2019 to stay at that level for the remaining life of the facility. At December 31, 2016 the total leverage ratio was 3.94:1.

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

Note 11 – Earnings per Share

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

	Quarter ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
- Basic	(0.61)	(1.48)	(1.21)	(2.43)
- Diluted	(0.61)	(1.47)	(1.21)	(2.42)
Weighted average basic shares outstanding	254 687 364	226 143 123	242 555 132	217 310 643
Weighted average diluted shares outstanding	255 821 720	227 036 772	243 643 599	218 441 710

Note 12 – Other Comprehensive Income

Changes to Other comprehensive income consists of the following:

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Actuarial gains (losses) on defined benefit pensions plans	22.8	4.0	(32.8)	3.0
Income tax effect on actuarial gains and losses	(9.4)	(1.9)	0.1	(1.7)
Items that will not be reclassified to profit and loss	**13.4**	**2.1**	**(32.7)**	**1.3**
Cash flow hedges				
Gains (losses) arising during the period	(2.0)	(1.1)	0.5	(1.1)
Reclassification adjustments for losses (gains) included in profit and loss	0.1	-	-	-
Shares available for sale				
Gains (losses) arising during the period	(0.2)	-	(0.6)	-
Reclassification adjustments for losses (gains) included in profit and loss	0.9	-	0.6	-
Other comprehensive income (loss) of associated companies	(0.8)	(1.8)	(1.4)	(0.8)
Translation adjustments and other	-	0.1	-	(0.5)
Items that may be subsequently reclassified to profit and loss	**(2.0)**	**(2.8)**	**(0.9)**	**(2.4)**

Note 13 – Reconciliation EBITDA and EBIT excl. Impairment and Other Charges

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Operating profit (loss)	**(92.4)**	**(332.9)**	**(180.3)**	**(430.4)**
Other charges, net	(1.9)	35.1	0.6	49.0
Amortization and impairment of MultiClient library	97.6	204.3	323.9	430.1
Depreciation and amortization of long term assets (excl. MultiClient library)	42.0	37.6	157.0	141.0
Impairment and loss on sale of long-term assets (excl. MultiClient library)	7.8	172.4	12.0	294.7
EBITDA	**53.1**	**116.5**	**313.3**	**484.4**

	Quarter ended December 31,		Year ended December 31,	
(In millions of US dollars)	2016	2015	2016	2015
Operating profit (loss)	**(92.4)**	**(332.9)**	**(180.3)**	**(430.4)**
Other charges, net	(1.9)	35.1	0.6	49.0
Impairment of MultiClient library	21.0	102.5	30.1	102.5
Impairment and loss on sale of long-term assets (excl. MultiClient library)	7.8	172.4	12.0	294.7
EBIT ex. impairment and other charges	**(65.5)**	**(22.9)**	**(137.5)**	**15.8**

Note 14 – Basis of Presentation

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

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

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

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

Accelerated amortization of finished library may be necessary in the event that sales on a survey are realized disproportionately sooner within that surveys 4 year useful life than originally estimated.

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

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

EBIT excluding impairments and other charges
Management believes that EBIT excluding impairments and other charges is a useful measure because it provides an indication of the profitability of the Company’s operating activities for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently. EBIT excluding impairments and other charges is reconciled in note 13.

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

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

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

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

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

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

Note 15 - Risk Factors

The Company emphasizes that the information included herein contains certain forward-looking statements that address activities, events or developments that the Company expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, many of which are beyond its control and all of which are subject to risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to the demand for seismic services, the demand for data from the Company's MultiClient data library, the attractiveness of PGS' technology, changes in governmental regulations affecting markets, technical downtime, licenses and permitting, currency and fuel price fluctuations, and extreme weather conditions.

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

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

Subsequent Events

On January 5, 2017, PGS completed a subsequent offering for the shareholders that were not allocated shares in in the private placement announced on November 22, 2016. In the subsequent offering 13,500,000 shares were issued at a price of NOK 22.5 per share, resulting in gross proceeds of approximately $35.0 million.

Oslo, February 15, 2017

Walter Qvam
Chairperson

Daniel J. Piette
Director

Carol Bell
Director

Anne Grethe Dalane
Director

Holly A. Van Deursen
Director

Berit Osnes
Director

Espen Grimstad
Director

Anette Valbø
Director

Morten Borge
Director

Jon Erik Reinhardsen
Chief Executive Officer

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

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

For more information on Petroleum Geo-Services visit www.pgs.com.

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Holly Van Deursen
Daniel J. Piette
Anne Grethe Dalane
Carol Bell
Morten Borge
Anette Valbø (employee elected)
Espen Grimstad (employee elected)
Berit Osnes (employee elected)

Executive Officers:

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

Other Corporate Management:

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

Web-Site:

www.pgs.com

Financial Calendar:

Q4 2016 report	February 16, 2017
CMD	February 16, 2017
AGM	May 10, 2017
Q1 2017 report	May 11, 2017
Q2 2017 report	July 27, 2017
Q3 2017 report	October 26, 2017
Q4 2017 report	February 1, 2018

The dates are subject to change.