

# Q3

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## Third Quarter 2014 Results

| October 23, 2014 | Oslo, Norway



# Challenging Market Good Contract and Cash Flow Performance

## Highlights Q3 2014

- Revenues of \$394.2 million, compared to \$365.6 million in Q3 2013
- EBITDA of \$181.7 million, compared to \$216.0 million in Q3 2013
- EBIT, excluding impairments, of \$77.5 million, compared to \$108.3 million in Q3 2013
- Group EBIT margin, excluding impairments, of 20%, compared to 30% in Q3 2013
- Cash flow from operations of \$230.7 million, compared to \$189.4 million in Q3 2013
- Strong balance sheet with \$470.4 million liquidity reserve
- EPS of \$0.04, compared to \$0.35 in Q3 2013
- Bought back own shares for \$4.9 million
- Sold *Pacific Explorer* and decommissioned *Nordic Explorer*, while *Atlantic Explorer* is rigged down to 2D – giving quarterly operational cost savings of approximately \$10 million effective Q4 2014
- Cost reduction programs expanded and on track



“We have during Q3 experienced deteriorating market conditions, including a weakening of the oil price. The cautious spending behaviour among oil companies continues to negatively impact bidding, pricing and utilization. Despite the challenging market environment we have delivered solid marine contract performance. The benefits of attractive rates secured well in advance and good production levels drove a significant improvement in marine contract EBIT margins from the first half of the year, rising to 27%.

However, in MultiClient we experienced lower sales than expected. The shortfall is primarily due to lack of pre-funding from the Triton MultiClient survey in the Gulf of Mexico.

Subsequent to Q3 we have signed up the first Triton pre-funding. This combined with a well pre-funded portfolio of other MultiClient projects, and the visibility we have with 90% of Q4 capacity already booked, although at lower rates, forms the basis for our projected Q4 earnings. The main uncertainty for the full year now relates to MultiClient late sales. Considering the weaker market we adjust our full year EBITDA guidance to approximately \$725 million.”

Jon Erik Reinhardsen,  
President and Chief Executive Officer

Key Financial Figures (In USD millions, except per share data)	3 <sup>rd</sup> Quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Revenues	394.2	365.6	1,023.6	1,142.1	1,501.6
EBITDA (as defined, see note 1)	181.7	216.0	490.9	627.9	828.9
EBIT ex. impairment charges	77.5	108.3	177.9	315.7	397.1
EBIT as reported	52.5	108.3	143.9	315.7	382.1
Income before income tax expense	27.4	97.9	74.6	283.1	327.9
Net income to equity holders	8.4	74.2	42.7	208.2	238.3
Basic earnings per share (\$ per share)	0.04	0.35	0.20	0.97	1.11
Diluted earnings per share (\$ per share)	0.04	0.34	0.20	0.96	1.10
Net cash provided by operating activities	230.7	189.4	453.0	563.4	775.3
Cash investment in MultiClient library	70.4	120.9	286.3	262.0	373.0
Capital expenditures (whether paid or not)	53.1	93.2	334.4	364.5	437.8
Total assets (at period end)	3,685.5	3,511.2	3,685.5	3,511.2	3,544.3
Cash and cash equivalents (at period end)	90.4	299.0	90.4	299.0	263.8
Net interest bearing debt (at period end)	1,039.5	638.1	1,039.5	638.1	666.7

PGS Group

In USD millions	3 <sup>rd</sup> Quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Contract revenues	238.6	155.7	526.0	555.9	677.5
MC pre-funding	55.4	108.4	204.4	266.2	360.5
MC late sales	63.9	63.0	189.0	212.1	311.3
Imaging <sup>1)</sup>	30.6	34.3	82.9	90.1	122.7
Other	5.7	4.2	21.4	17.8	29.6
<b>Total revenues</b>	<b>394.2</b>	<b>365.6</b>	<b>1,023.6</b>	<b>1,142.1</b>	<b>1,501.6</b>
EBITDA	181.7	216.0	490.8	627.9	828.9
EBIT ex imp.	77.5	108.3	177.9	315.7	397.1
Pretax profit	27.4	97.9	74.6	283.1	327.9
Net income	8.4	74.2	42.7	208.2	238.3
MC cash investment	70.4	120.9	286.3	262.0	373.0
Pre-funding % <sup>2)</sup>	79%	90%	71%	102%	97%
Operating exp.	(212.5)	(149.6)	(532.8)	(514.2)	(672.7)
<b>Vessel allocation<sup>3)</sup></b>					
Contract	62%	37%	49%	48%	46%
MultiClient	21%	57%	35%	40%	42%
Steaming	13%	5%	11%	9%	10%
Yard	4%	1%	5%	3%	2%
Standby	0%	0%	0%	0%	0%

<sup>1)</sup> External Imaging revenues.

<sup>2)</sup> Pre-funding revenues as a percentage of MultiClient cash investment.

<sup>3)</sup> Percentage of total 3D steamer capacity measured in steamer utilization.

In Q3 2014, revenues for Petroleum Geo-Services ASA (“PGS” or “the Company”) increased \$28.6 million, or 8%, compared to Q3 2013. The increase is mainly a result of higher marine contract revenues, partially offset by lower pre-funding revenues. The Company’s 3D steamer capacity is slightly higher in Q3 2014 compared to Q3 2013.

EBIT margin for the Company ended at 20%, an increase compared to 16% reported for the prior quarter, but lower than the 30% achieved in Q3 2013. The lower EBIT margin is primarily due to a weaker seismic market.

The Triton MultiClient survey was completed early August. After completion of the survey the

*PGS Apollo* steamed to Asia Pacific for contract work and the *Ramform Valiant* headed for a MultiClient project in Angola. Due to steaming and mobilization, and a scheduled yard stay for *PGS Apollo*, the two vessels have not contributed to revenues in Q3 2014.

With the current challenging market conditions, cost effective operations are key to protecting margins and preserving dividend capacity. PGS delivered the \$50 million Profit Improvement Program in 2012/2013. Late 2013 PGS launched a cost program targeting an additional \$30 million run rate reduction from end 2014. PGS is continuously pursuing further cost reductions and this program has now been expanded with an aim to realize more than \$60 million of savings.

In Q3 PGS announced the decision to retire *Pacific Explorer* and *Nordic Explorer*. *Atlantic Explorer* was permanently de-rigged from 3D to 2D operations in July, approximately one year earlier than initially planned. Operational cost savings from these initiatives are estimated to amount to approximately \$10 million per quarter effective Q4 2014. The Company is also in the process of closing down several offices in Asia Pacific. By early Q3 2015 these initiatives will be completed and from doing this the Company expects annual cost savings of approximately \$10 million.

Marine contract revenues in Q3 2014 increased by \$82.8 million, or 53%, compared to Q3 2013. The increase came from more capacity being allocated to contract work. Average pricing realized for Q3 2014 was lower than for Q3 2013. The EBIT margin for marine contract acquisition work was approximately 27% in Q3 2014, excluding the impairment charge, up from 19% in Q2 2014, but down from 36% in Q3 2013. The marine contract EBIT margin will fluctuate from quarter to quarter influenced by factors such as vessel scheduling, vessel transits, project specific variables and market conditions.

MultiClient pre-funding revenues in Q3 2014 corresponded to 79% of capitalized cash investments (excluding capitalized interest), compared to 90% in Q3 2013. The lower pre-

funding level in Q3 2014 is primarily due to lack of pre-funding for the Triton MultiClient survey in the Gulf of Mexico. Excluding the investment in the Triton MultiClient survey, which accounted for approximately \$26 million of capitalized MultiClient cash investment in the quarter, the Q3 pre-funding level for the remaining MultiClient portfolio was 125% of capitalized MultiClient cash investment. The Company expects a pre-funding level of approximately 90 % for the full year 2014.

Pre-funding revenues in Q3 2014 came primarily from projects in Europe and North America. The project mix of MultiClient surveys, which is an important factor for the pre-funding level, will vary from quarter to quarter depending on the opportunities pursued.

Capitalized MultiClient cash investment in Q3 2014 decreased by \$50.5 million, or 42%, compared to Q3 2013, reflecting less capacity allocated to MultiClient acquisition.

MultiClient late sales revenues in Q3 2014 were in line with Q3 2013. In Q3 2014 revenues were higher in Africa and South America compared to Q3 2013.

External imaging revenues in Q3 2014 were down \$3.7 million, or 11%, compared to Q3 2013. The decline is primarily due to a higher allocation of resources to MultiClient imaging in Gulf of Mexico and Asia Pacific and higher variability in national oil companies' spending. All imaging of the Company's MultiClient surveys is done in-house. As the streamer count has increased the imaging resource base and technical competency have expanded to meet internal needs, while continuing to deliver strong external production.

Net operating expenses for the Group (before depreciation, amortization and impairments) in Q3 2014 were \$62.9 million higher than in Q3 2013, primarily reflecting less cost being capitalized to the MultiClient library and a higher cost base as a result of more vessel capacity.

The order book totalled \$466 million at September 30, 2014, (including \$208 million of committed pre-funding on MultiClient projects),

compared to \$558 million at June 30, 2014 and \$579 million at September 30, 2013.

## Technology

In USD millions	3 <sup>rd</sup> Quarter		Nine months		Full year
	2014	2013	2014	2013	2013
R&D cost gross	16.7	14.6	42.5	38.9	55.1
Capitalized dev. costs	(5.0)	(4.8)	(11.9)	(11.0)	(16.4)
Net R&D costs	11.6	9.8	30.6	27.9	38.7

The Company's R&D costs mainly relate to the current core business activities of marine seismic acquisition and processing.

The increase of R&D costs in Q3 2014 compared to Q3 2013 is primarily driven by a temporary increase in externally sourced development. Excluding the external development, the overall cost levels declined due to reduction in Towed EM.

While the overall change to the capitalized development cost is minimal for Q3 it reflects an increase in marine seismic development, nearly offset by reductions in capitalized Towed EM development.

## Depreciation and Amortization

In USD millions	3 <sup>rd</sup> Quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Gross depreciation	71.2	64.4	206.3	180.0	243.9
Depreciation capitalized and deferred, net	(20.6)	(37.2)	(81.9)	(76.5)	(113.2)
Amortization of MC library	53.9	80.7	189.1	209.2	301.8
Depreciation and amortization	104.2	107.9	313.5	312.7	432.5

In Q3 2014, gross depreciation increased by \$6.8 million, or 11% compared to Q3 2013, due to *Ramform Atlas* now being a part of the PGS fleet.

Capitalized depreciation decreased by \$16.6 million in Q3 2014, compared to Q3 2013 since less vessel capacity was allocated to MultiClient projects.

Amortization of the MultiClient library as a percentage of MultiClient revenues was 45% in Q3, compared to 47% in Q3 2013. The decrease is primarily due to a change in the mix between pre-funding and late sales, with higher proportion of late sales revenues, which carry a lower amortization rate. The amortization level can vary from quarter to quarter depending on the MultiClient sales mix. For the full year 2014 the Company expects an amortization rate in the range of 50-55%. The Company has subsequent to Q3 2014 made the first sales from the Triton MultiClient survey. Due to the competitive situation in the area of the survey and resulting delay in realizing sales, the Company expects to apply an amortization rate of 80% on sales from this survey.

### Impairments of Long Term Assets

In Q3 2014, the Company recorded an impairment of \$25.0 million, related to *Pacific Explorer*, *Nordic Explorer*, *Southern Explorer* and PGS Khazar. Effective Q3 2014 PGS is accounting for the joint venture PGS Khazar as a consolidated subsidiary since, given the financial situation of the company, PGS has de facto control.

### Loss from Associated Companies

In Q3 2014, loss from associated companies amounted to \$8.6 million, primarily relating to exploration expense in Azimuth Ltd. where the Company has a 45% interest.

### Interest Expense

In USD millions	3 <sup>rd</sup> quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Gross interest expense	(14.8)	(14.3)	(42.2)	(43.4)	(57.6)
Capitalized interest MC library	5.3	2.8	14.9	6.9	10.5
Capitalized interest constr. in progress	1.8	2.4	4.7	11.7	14.8
Net interest expense	(7.7)	(9.1)	(22.6)	(24.8)	(32.3)

The increase in capitalized interest to the MultiClient library in Q3 2014 compared to Q3 2013 relates primarily to a higher value of projects in process of completion.

The reduction of capitalized interest related to construction in progress in Q3 2014 compared to Q3 2013 is due to the completion of *Ramform Atlas*.

### Other Financial Expense, Net

In USD millions	3 <sup>rd</sup> quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Interest income	0.5	0.2	1.4	1.0	1.6
Write off relating to Term Loan B refinancing	---	---	(8.8)	---	---
Currency exchange gain (loss)	(7.9)	(2.8)	(7.4)	(4.4)	(7.6)
Other	(1.4)	3.9	(5.3)	0.6	(1.6)
Net financial expense	(8.8)	(1.3)	(20.1)	(2.8)	(7.6)

Net financial expense in Q3 2014 is mainly driven by a foreign currency loss of \$7.9 million. The foreign currency loss relates to a significant strengthening of the USD and primarily the effect on legal deposits and other receivables in



Brazilian Real. The strengthening of USD against most other currencies has a positive impact on the Company's cost base going forward.

The Company holds foreign currency positions to balance its operational currency exposure. These positions are marked to market at each balance sheet date together with receivables and payables in non-US currencies, generally causing a currency exchange loss when the US dollar appreciates.

### Income Tax Expense and Tax Contingencies

In Q3 2014, the income tax expense was \$18.9 million compared to \$23.7 million in Q3 2013. The current tax expense in Q3 2014 was \$9.7 million compared to \$8.4 million in Q3 2013. Deferred tax expense in Q3 2014 was \$9.2 million compared to \$15.3 million in Q3 2013. The reported tax expense for the current quarter is negatively impacted by foreign exchange movements.

The Company has an ongoing dispute in Brazil related to ISS tax on the sale of MultiClient data from year 2000 and onwards. The issue has been disclosed in annual and quarterly reports since 2005. At September 30, 2014, the Company estimates the total exposure to be approximately \$147 million, including possible penalties and interest. PGS has made deposits totaling \$94 million, primarily in 2010 and 2011, relating to ongoing legal processes. 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.

Following a federal tax audit in Brazil for the years 2006-2008, the Company in 2012 received two tax assessments for 2008 claiming approximately \$66 million. One assessment asserts that charters of vessels into Brazil are subject to a 15% withholding tax instead of 0%. The second assessment levies a service tax of 10% ("CIDE") on the same charters. 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.

### Capital Expenditures<sup>1)</sup>

In USD millions	3 <sup>rd</sup> Quarter		Nine months		Full year
	2014	2013	2014	2013	2013
Seismic equipment	14.3	26.7	87.8	56.8	91.7
Vessel upgrades/Yard	14.6	7.0	44.9	35.4	44.3
Processing equipment	3.7	3.0	13.0	14.0	23.3
New Builds	17.9	46.1	182.5	242.3	258.5
Other	2.6	10.4	6.2	16.0	20.0
Total	53.1	93.2	334.4	364.5	437.8

<sup>1)</sup> Includes capital expenditure incurred, whether paid or not.

The main capital expenditures in Q3 2014 were related to the new build program and seismic equipment.

### New Builds

PGS has two Ramform Titan-class new builds under construction at Mitsubishi Heavy Industries Ltd ("MHI") in Japan with original scheduled deliveries in 2015. PGS has received notification from MHI that delivery of the Company's two last Ramform Titan-class new builds will be delayed by two and four months. New delivery dates provided by MHI are August 31, 2015 and January 31, 2016. PGS has taken steps to adjust timing of equipment and similar deliveries, also allowing for further possible delays in vessel delivery dates.

The cost of each of the two vessels is approximately \$285 million including commissioning and a comprehensive seismic equipment package, but excluding capitalized interest and post-delivery cost. The cost is slightly higher than the first two vessels in the Titan-class series due to additional costs related to new technology, both maritime and seismic, certain incentives in the shipbuilding contract, and inflationary price increase on equipment and project costs.

The agreement with the shipyard provides for payment based on five defined milestones per vessel, with 50% payable at delivery. Seismic equipment is procured by PGS separately from

the shipbuilding contract. Accumulated capital expenditures related to the two last Ramform Titan-class new builds as of September 30, 2014 were \$158.7 million.

### **Liquidity and Financing**

In Q3 2014, net cash provided by operating activities was \$230.7 million compared to \$189.4 million in Q3 2013. The increase is mainly due to a significant improvement in working capital.

At September 30, 2014, cash and cash equivalents amounted to \$90.4 million, compared to \$299.0 million at September 30, 2013 and \$42.9 million at June 30, 2014.

Restricted cash amounted to \$91.3 million at September 30, 2014, compared to \$88.1 million at September 30, 2013 and \$97.9 million at June 30, 2014.

The relatively high level of restricted cash relates to deposits made in 2010 and 2011 of approximately \$94 million 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 2013 for more details). The deposits are denominated in Brazilian Real.

At September 30, 2014, \$398.0 million was outstanding under the Term Loan B maturing in 2021 and \$450.0 million was outstanding of the Senior Notes maturing in 2018. Drawings of \$120.0 million were outstanding on the \$500.0 million revolving credit facility maturing in 2018.

PGS has established export credit financing totaling \$555.0 million divided by four loans for the four Ramform Titan-class vessels. The loans have a tenor of 12 year, with repayment in equal semi-annual installments. Two loans of \$125.0 million each were drawn upon delivery of the *Ramform Titan* in Q2 2013 and after delivery of *Ramform Atlas* in Q1 2014. The remaining two loans of the total export credit financing add up to \$305.0 million of which \$38.1 million was drawn in Q3 and the remaining will be drawn during construction and/or around delivery of the two remaining Ramform Titan-class vessels,

scheduled for delivery in 2015. Of the \$250.0 million borrowed for the first two vessels \$20.8 million are repaid as of September 30, 2014. Total export credit loan balance as of September 30, 2014 is \$267.2 million and undrawn lines are \$152.4 million.

Total interest bearing debt, including capital leases, was \$1,235.3 million at September 30, 2014 compared to \$1,040.8 million at September 30, 2013 and \$1,243.5 million at June 30, 2014.

Net interest bearing debt (interest bearing debt less cash and cash equivalents, restricted cash and interest bearing loans and investments) was \$1,039.5 million at September 30, 2014 compared to \$638.1 million at September 30, 2013 and \$1,091.5 million at June 30, 2014.

At September 30, 2014, the Company had approximately 64% of its debt at fixed interest rates. The weighted average cash interest cost of gross debt reflects an interest rate of approximately 4.8%, including credit margins paid on the debt.

The revolving credit facility contains a covenant whereby total leverage ratio (as defined) cannot exceed 2.75:1. At September 30, 2014 the total leverage ratio was 1.79:1.

### **Subsequent Events**

PGS has secured the first pre-funding to the Triton GeoStreamer full azimuth MultiClient survey in the Gulf of Mexico.

The oral hearings in the first instance of the Norwegian court case where EMGS ASA has sued PGS for patent infringement started in Oslo on October 13 2014. The oral hearings are expected to last for approximately four weeks and judgment in the matter is expected in Q4 2014 or Q1 2015. PGS is confident that the Company will prevail in the matter.

### **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 2013.

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.

#### **Outlook 2014**

Based on the current operational projections and with reference to the aforementioned risk factors, PGS expects full year 2014 EBITDA to be approximately \$725 million.

MultiClient cash investments are expected to be approximately \$350 million, with a pre-funding level of approximately 90% of capitalized cash investment.

Capital expenditures are estimated to be approximately \$375 million, of which \$225 million are related to the new build program.

With current market conditions PGS expects to pay the same dividend in 2015 as paid in 2014.

Oslo, October 22, 2014

Francis R. Gugen  
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*Director*

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*Director*

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Daniel J. Piette  
*Director*

Ingar Skaug  
*Director*

Walter Qvam  
*Director*

Anne Grethe Dalane  
*Director*



*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 22 countries with regional centers in London, Houston and Singapore. Our headquarters is in Oslo, Norway and the PGS share is listed on the Oslo stock exchange (OSE:PGS).*

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

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*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, which are beyond its control and are subject to certain additional 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 our multi-client data library, the attractiveness of our technology, unpredictable changes in governmental regulations affecting our markets and extreme weather conditions. For a further description of other relevant risk factors we refer to our Annual Report for 2013. As a result of these and other risk factors, actual events and our actual results may differ materially from those indicated in or implied by such forward-looking statements. The reservation is also made that inaccuracies or mistakes may occur in the information given above about current status of the Company or its business. Any reliance on the information above is at the risk of the reader, and PGS disclaims any and all liability in this respect*

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Harald Norvik (Vice Chairperson)  
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Holly Van Deursen  
Daniel J. Piette  
Ingar Skaug  
Walter Qvam  
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**Executive Officers:**

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

**Other Corporate Management:**

Terje Bjølseth	SVP Global Human Resources
Tore Langballe	SVP Corporate Communications
Rune Olav Pedersen	General Counsel
Jostein Ueland	SVP Business Development
Joanna Oustad	SVP HSEQ

**Web-Site:**

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

**Financial Calendar:**

Q3 2014 report	October 23, 2014
CMD	December 19, 2014

The dates are subject to change.

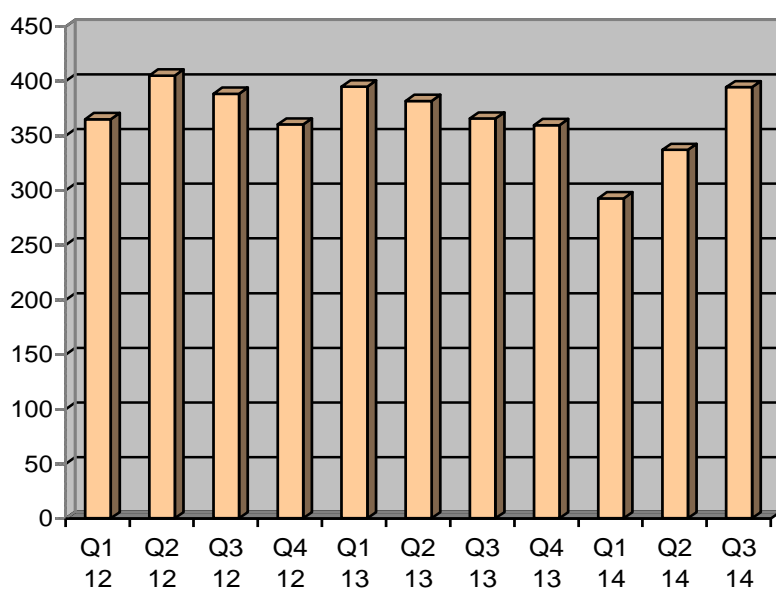
**Petroleum Geo-Services ASA and Subsidiaries**  
**Condensed Consolidated Statements of Operations**

(In millions of US dollars, except share data)	Note	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
		2014	2013	2014	2013	2013
Revenues	3	394.2	365.6	1 023.6	1 142.1	1 501.6
Cost of sales		186.2	123.8	458.0	440.2	570.9
Research and development costs	4	11.6	9.8	30.6	27.9	38.7
Selling, general and administrative costs		14.7	16.0	44.2	46.1	63.1
Depreciation and amortization	3, 5	104.4	107.9	313.5	312.7	432.5
Impairment of long-term assets	3	25.0	-	34.0	-	15.0
Other operating income	3	(0.2)	(0.2)	(0.5)	(0.5)	(0.7)
Total operating expenses		341.7	257.3	879.8	826.4	1 119.5
Operating profit/EBIT	3	52.5	108.3	143.9	315.7	382.1
Loss from associated companies	11	(8.6)	(2.6)	(26.6)	(5.0)	(14.3)
Interest expense	6	(7.7)	(9.1)	(22.6)	(24.8)	(32.3)
Other financial expense, net	7	(8.8)	1.3	(20.1)	(2.8)	(7.6)
Income before income tax expense		27.4	97.9	74.6	283.1	327.9
Income tax expense		18.9	23.7	31.9	74.9	89.6
<b>Net income to equity holders of PGS ASA</b>		<b>8.4</b>	<b>74.2</b>	<b>42.7</b>	<b>208.2</b>	<b>238.3</b>

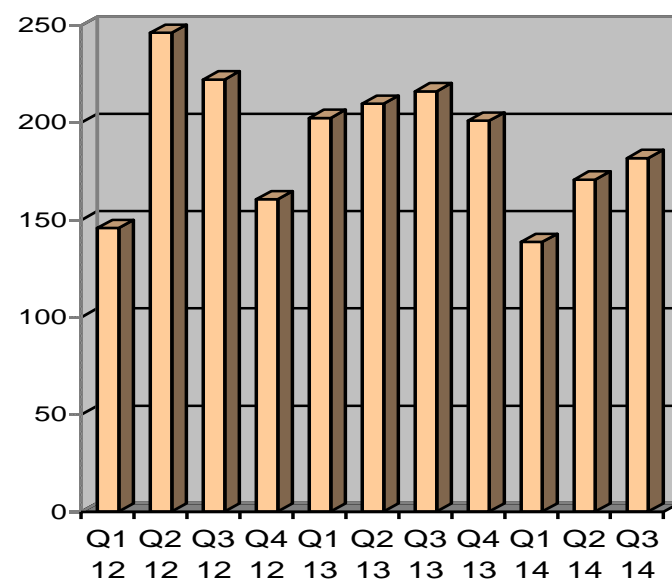
**Earnings per share, to ordinary equity holders of PGS ASA:**

- Basic	0.04	0.35	0.20	0.97	1.11
- Diluted	0.04	0.34	0.20	0.96	1.10
Weighted average basic shares outstanding	214 505 211	215 071 675	214 768 125	215 714 910	215 566 344
Weighted average diluted shares outstanding	214 967 152	215 782 458	215 503 702	216 567 946	216 400 525

**Revenues by Quarter**  
**2012 - 2014**  
**MUSD**



**EBITDA by Quarter**  
**2012 - 2014**  
**MUSD**



**Petroleum Geo-Services ASA and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income**

(In millions of US dollars)	Note	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
		2014	2013	2014	2013	2013
<b>Net income for the period</b>		8.4	74.2	42.7	208.2	238.3
Other comprehensive income:						
Actuarial gains (losses) on defined benefit pensions plans		-	-	(7.1)	-	(12.2)
Income tax effect on actuarial gains and losses		-	-	1.2	-	2.5
Items that will not be reclassified to statements of operations		-	-	(5.9)	-	(9.7)
Cash flow hedges						
Gains (losses) arising during the period		-	0.9	-	0.1	0.1
Reclassification adjustments for losses (gains) included in the condensed consolidated statements of operations		-	2.5	9.1	7.3	8.8
Deferred tax on cash flow hedges		-	(1.0)	(2.5)	(2.1)	(2.6)
Revaluation of shares available-for-sale						
Gains (losses) arising during the period		0.2	0.7	0.1	0.1	(0.6)
Reclassification adjustments for losses (gains) included in the condensed consolidated statements of operations		-	-	-	0.8	1.4
Other comprehensive income (loss) of associated companies		(0.1)	(0.8)	(0.7)	(0.1)	0.6
Translation adjustments and other		0.4	0.1	0.5	(0.2)	(0.1)
Items that may be subsequently reclassified to statements of operations		0.5	2.4	6.5	5.9	7.6
Other comprehensive income for the period, net of tax		0.5	2.4	0.6	5.9	(2.1)
<b>Total comprehensive income to equity holders of PGS ASA</b>		<b>8.9</b>	<b>76.6</b>	<b>43.3</b>	<b>214.1</b>	<b>236.2</b>

**Petroleum Geo-Services ASA and Subsidiaries**  
**Condensed Consolidated Statements of Financial Position**

(In millions of US dollars)	Note	September 30,		December 31,
		2014	2013	2013
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents	9	90.4	299.0	263.8
Restricted cash	9	16.2	9.8	14.6
Accounts receivable		191.7	227.4	177.1
Accrued revenues and other receivables		177.1	138.4	183.3
Other current assets		139.5	100.1	124.5
Total current assets		614.9	774.7	763.3
<i>Long-term assets:</i>				
Property and equipment		1 745.7	1 634.8	1 629.5
MultiClient library	8	769.8	520.7	576.9
Restricted cash	9	75.1	78.3	74.8
Deferred tax assets		105.2	120.8	110.0
Other long-term assets		55.3	83.4	85.0
Goodwill		139.9	139.9	139.9
Other intangible assets		179.7	158.6	164.9
Total long-term assets		3 070.6	2 736.5	2 781.0
Total assets		3 685.5	3 511.2	3 544.3
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<i>Current liabilities:</i>				
Short-term debt and current portion of long-term debt	9,10	24.9	10.8	10.8
Accounts payable		94.2	52.1	66.0
Accrued expenses and other current liabilities		272.2	291.1	279.4
Income taxes payable		34.6	34.5	34.3
Total current liabilities		425.8	388.5	390.5
<i>Long-term liabilities:</i>				
Long-term debt	9,10	1 185.5	1 019.0	1 019.6
Deferred tax liabilities		6.7	7.7	6.2
Other long-term liabilities		49.2	54.5	62.4
Total long-term liabilities		1 241.4	1 081.2	1 088.2
<i>Shareholders' equity:</i>				
<i>Paid-in capital:</i>				
Common stock; par value NOK 3; issued and outstanding 217,799,997 shares		96.5	96.5	96.5
Treasury shares, par value		(1.9)	(1.4)	(1.4)
Additional paid-in capital		525.2	517.8	519.5
Total paid-in capital		619.8	612.9	614.6
Accumulated earnings		1 434.5	1 449.0	1 479.4
Other comprehensive income		(36.0)	(20.4)	(28.4)
Total shareholders' equity		2 018.3	2 041.5	2 065.6
Total liabilities and shareholders' equity		3 685.5	3 511.2	3 544.3

Petroleum Geo-Services ASA and Subsidiaries  
Condensed Consolidated Statements of Changes in Shareholders' Equity

*For the nine months ended September 30, 2013*

(In millions US of dollars)	Attributable to equity holders of PGS ASA					Shareholders' equity
	Common stock par value	Treasury shares par value	Additional paid-in capital	Accumulated earnings	Other comprehensive income	
<b>Balance at December 31, 2012</b>	<b>96.5</b>	<b>(0.5)</b>	<b>513.3</b>	<b>1 328.5</b>	<b>(16.0)</b>	<b>1 921.8</b>
Effect of retrospectively adopting IAS 19R	-	-	-	-	(10.3)	(10.3)
<b>Balance as of January 1, 2013</b>	<b>96.5</b>	<b>(0.5)</b>	<b>513.3</b>	<b>1 328.5</b>	<b>(26.3)</b>	<b>1 911.5</b>
Total comprehensive income	-	-	-	208.2	5.9	214.1
Dividend paid (1)	-	-	-	(60.7)	-	(60.7)
Acquired treasury shares	-	(1.0)	-	(28.2)	-	(29.2)
Employee benefit plans	-	0.1	4.5	1.2	-	5.8
<b>Balance as of September 30, 2013</b>	<b>96.5</b>	<b>(1.4)</b>	<b>517.8</b>	<b>1 449.0</b>	<b>(20.4)</b>	<b>2 041.5</b>

(1) NOK 1.65 per share was paid as ordinary dividend for 2012.

*For the nine months ended September 30, 2014*

(In millions US of dollars)	Attributable to equity holders of PGS ASA					Shareholders' equity
	Common stock par value	Treasury shares par value	Additional paid-in capital	Accumulated earnings	Other comprehensive income	
<b>Balance as of January 1, 2014</b>	<b>96.5</b>	<b>(1.4)</b>	<b>519.5</b>	<b>1 479.4</b>	<b>(28.4)</b>	<b>2 065.6</b>
Total comprehensive income	-	-	-	42.7	0.6	43.3
Transfer of actuarial gains and losses net of tax	-	-	-	8.2	(8.2)	-
Dividend paid (1)	-	-	-	(84.0)	-	(84.0)
Acquired treasury shares	-	(0.7)	-	(14.4)	-	(15.1)
Employee benefit plans	-	0.2	5.7	2.6	-	8.5
<b>Balance as of September 30, 2014</b>	<b>96.5</b>	<b>(1.9)</b>	<b>525.2</b>	<b>1 434.5</b>	<b>(36.0)</b>	<b>2 018.3</b>

(1) NOK 2.30 per share was paid as ordinary dividend for 2013.

Petroleum Geo-Services ASA and Subsidiaries  
Condensed Consolidated Statements of Cash Flows

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
<b>Cash flows provided by operating activities:</b>					
Net income to equity holders of PGS ASA	8.4	74.2	42.7	208.2	238.3
Adjustments to reconcile net income to net cash provided by operating activities:	-		-		
Depreciation, amortization and impairment of long-term assets	129.4	107.9	347.5	312.7	447.5
Share of loss in associated companies and impairments	8.7	2.6	26.6	5.0	14.3
Interest expense	7.7	9.1	22.6	24.8	32.3
Loss on sale and retirement of assets	-	1.4	1.8	4.3	8.6
Income taxes paid	(5.5)	(4.4)	(12.3)	(25.7)	(33.8)
Other items	3.2	2.6	13.5	3.5	3.5
(Increase) decrease in accounts receivable, accrued revenues & other receivables	15.9	(2.0)	(8.3)	(35.8)	(30.7)
Increase (decrease) in accounts payable	21.3	(27.6)	23.2	(17.8)	17.0
Change in other current items related to operating activities	33.5	18.7	2.8	53.8	34.7
Change in other long-term items related to operating activities	8.1	6.9	(7.1)	30.4	43.6
<b>Net cash provided by operating activities</b>	<b>230.7</b>	<b>189.4</b>	<b>453.0</b>	<b>563.4</b>	<b>775.3</b>
<b>Cash flows used in investing activities:</b>					
Investment in MultiClient library	(70.4)	(120.9)	(286.3)	(262.0)	(373.0)
Investment in property and equipment	(70.6)	(76.8)	(337.9)	(352.6)	(438.5)
Investment in other intangible assets	(8.5)	(7.3)	(20.3)	(21.2)	(29.2)
Investment in other current -and long-term assets	(2.7)	(3.4)	(26.1)	(6.9)	(22.0)
Proceeds from sale and disposal of assets	-	-	4.9	2.6	2.6
Increase in long-term restricted cash	(3.2)	-	(3.2)	(0.6)	(0.6)
<b>Net cash used in investing activities</b>	<b>(155.4)</b>	<b>(208.4)</b>	<b>(668.9)</b>	<b>(640.7)</b>	<b>(860.7)</b>
<b>Cash flows (used in) provided by financing activities:</b>					
Proceeds, net of deferred loan costs, from issuance of long-term debt	-	-	105.4	114.6	114.6
Repayment of debt	(46.3)	(5.3)	(128.5)	(6.3)	(11.9)
Drawdown of credit facilities	38.1	-	198.1	-	-
Purchase of treasury shares	(4.9)	0.5	(15.1)	(29.2)	(29.2)
Proceeds from sale of treasury shares	-	-	2.9	1.3	1.6
Dividend paid	(7.4)	-	(84.0)	(60.9)	(60.9)
Interest paid	(7.3)	(6.9)	(36.3)	(33.5)	(55.3)
<b>Net cash (used in) provided by financing activities</b>	<b>(27.8)</b>	<b>(11.7)</b>	<b>42.5</b>	<b>(14.0)</b>	<b>(41.1)</b>
Net increase (decrease) in cash and cash equivalents	47.5	(30.7)	(173.4)	(91.3)	(126.5)
Cash and cash equivalents at beginning of period	42.9	329.7	263.8	390.3	390.3
<b>Cash and cash equivalents at end of period</b>	<b>90.4</b>	<b>299.0</b>	<b>90.4</b>	<b>299.0</b>	<b>263.8</b>



## Notes to the Condensed Interim Consolidated Financial Statements - Third Quarter 2014

### **Note 1 - General**

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.

EBIT or "operating profit" means Revenues less Total operating expenses. EBITDA, when used by the Company, means EBIT less other operating (income) expense, impairment of long-term assets and depreciation and amortization. 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 it provides useful information regarding the Company's ability to service debt and to fund capital expenditures and provides investors with a helpful measure for comparing its operating performance with that of other companies.

### **Note 2 - Basis of presentation**

The condensed interim consolidated financial statements reflect all adjustments, in the opinion of PGS' management, that are necessary for a fair presentation of the results of operations for all periods presented. Operating results 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, 2013.

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, 2013 with the exception of adoption of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28. The adopted standards do not have a significant impact on the condensed interim consolidated financial statements of the Company.

### **Note 3 - Segment information**

The chief operating decision maker reviews Contract and MultiClient as separate operating segments, however, as the two operating segments meet the aggregation criteria in IFRS 8 "Operating Segments", they are presented combined as "Marine". "Other" includes Corporate administration costs and unallocated Global Shared Resources costs (net). Other financial expense, net and income tax expense are not included in the measure of segment performance.

#### Revenues by operating segment and service type:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
Marine revenues by service type:					
- Contract seismic	238.6	155.7	526.0	555.9	677.5
- MultiClient pre-funding	55.4	108.4	204.4	266.2	360.5
- MultiClient late sales	63.9	63.0	189.0	212.1	311.3
- Imaging	30.6	34.3	82.9	90.1	122.7
- Other	5.7	4.2	21.4	17.7	29.3
Marine revenues	<b>394.2</b>	<b>365.6</b>	<b>1 023.6</b>	<b>1 142.0</b>	<b>1 501.3</b>
- Other, non Marine	-	-	-	0.1	0.3
Total revenues	<b>394.2</b>	<b>365.6</b>	<b>1 023.6</b>	<b>1 142.1</b>	<b>1 501.6</b>

#### Operating profit (loss) EBIT by operating segment:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
<i>Marine:</i>					
EBITDA	180.1	219.2	489.6	635.6	840.9
Other operating income	0.2	0.2	0.5	0.5	0.7
Impairment of long-term assets (b)	(25.0)	-	(34.0)	-	(15.0)
Depreciation and amortization (a)	(48.6)	(25.3)	(118.4)	(98.5)	(123.9)
Amortization of MultiClient library (a)	(53.9)	(80.7)	(189.1)	(209.2)	(301.8)
Operating profit EBIT, Marine	<b>52.9</b>	<b>113.4</b>	<b>148.6</b>	<b>328.4</b>	<b>400.9</b>
<i>Other:</i>					
EBITDA	1.5	(3.2)	1.3	(7.7)	(12.0)
Depreciation and amortization (a)	(2.0)	(1.9)	(6.0)	(5.0)	(6.8)
Operating loss EBIT, Other	<b>(0.4)</b>	<b>(5.1)</b>	<b>(4.7)</b>	<b>(12.7)</b>	<b>(18.8)</b>
<i>Total Operating profit:</i>					
EBITDA	181.7	216.0	490.9	627.9	828.9
Other operating income	0.2	0.2	0.5	0.5	0.7
Impairment of long-term assets (b)	(25.0)	-	(34.0)	-	(15.0)
Depreciation and amortization (a)	(50.5)	(27.2)	(124.4)	(103.5)	(130.7)
Amortization of MultiClient library (a)	(53.9)	(80.7)	(189.1)	(209.2)	(301.8)
Total Operating profit EBIT	<b>52.5</b>	<b>108.3</b>	<b>143.9</b>	<b>315.7</b>	<b>382.1</b>

(a) Presented combined in the condensed consolidated statements of operations.

(b) Effective 2014 equipment impairments and losses on scrapped equipment are aggregated and presented as impairments in the condensed consolidated statements of operations. In prior years these items are included in cost of sales and amounted to \$7.0 million for the year ended December 31, 2013.

**Note 4 - Research and development costs**

Research and development costs, net of capitalized portion were as follows:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
Research and development costs, gross	16.7	14.6	42.5	38.9	55.1
Capitalized development costs	(5.0)	(4.8)	(11.9)	(11.0)	(16.4)
<b>Total</b>	<b>11.6</b>	<b>9.8</b>	<b>30.6</b>	<b>27.9</b>	<b>38.7</b>

**Note 5 - Depreciation and amortization**

Depreciation and amortization consists of the following:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
Gross depreciation	71.2	64.4	206.3	180.0	243.9
Depreciation capitalized and deferred, net	(20.6)	(37.2)	(81.9)	(76.5)	(113.2)
Amortization of MultiClient library	53.9	80.7	189.1	209.2	301.8
<b>Total</b>	<b>104.4</b>	<b>107.9</b>	<b>313.5</b>	<b>312.7</b>	<b>432.5</b>

The Company amortizes its MultiClient library primarily based on the ratio between cost of surveys and the total forecasted sales for such surveys. The surveys are categorized into amortization categories based on this ratio. These categories range from 30-95% of sales amounts with 5% intervals, with a minimum of 45% for pre-funding. Each category includes surveys where the remaining unamortized cost as a percentage of remaining forecasted sales is less than or equal to the amortization rate applicable to each category.

The Company also applies minimum amortization criteria for the library projects based generally on a five-year life. The Company calculates and records minimum amortization individually for each MultiClient survey or pool of surveys on a quarterly basis. At year-end, or when specific impairment indicators exists, the Company carries out an impairment test of individual MultiClient surveys. The Company classifies these impairment charges as amortization expense in its condensed consolidated statements of operations since this additional, non-sales related amortization expense, is expected to occur regularly.

**Note 6 - Interest expense**

Interest expense consists of the following:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
Interest expense, gross	(14.8)	(14.3)	(42.2)	(43.4)	(57.6)
Capitalized interest, MultiClient library	5.3	2.8	14.9	6.9	10.5
Capitalized interest, construction in progress	1.8	2.4	4.7	11.7	14.8
<b>Total</b>	<b>(7.7)</b>	<b>(9.1)</b>	<b>(22.6)</b>	<b>(24.8)</b>	<b>(32.3)</b>

**Note 7 - Other financial expense, net**

Other financial expense, net consists of the following:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
Interest income	0.5	0.2	1.4	1.0	1.6
Write-off relating to Term loan refinancing (a)	-	-	(8.8)	-	-
Currency exchange gain (loss)	(7.9)	(2.8)	(7.4)	(4.4)	(7.6)
Other	(1.4)	3.9	(5.3)	0.6	(1.6)
<b>Total</b>	<b>(8.8)</b>	<b>1.3</b>	<b>(20.1)</b>	<b>(2.8)</b>	<b>(7.6)</b>

(a) See note 10.

### Note 8 - MultiClient library

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

(In millions of US dollars)	September 30,		December 31,
	2014	2013	2013
Completed during 2008	-	3.7	-
Completed during 2009	8.6	36.4	27.6
Completed during 2010	15.6	23.8	20.5
Completed during 2011	25.0	37.1	32.1
Completed during 2012	41.1	51.6	45.2
Completed during 2013	53.2	35.6	60.2
Completed during 2014	67.4	-	-
Completed surveys	210.9	188.2	185.6
Surveys in progress	558.9	332.5	391.3
MultiClient library, net	<b>769.8</b>	<b>520.7</b>	<b>576.9</b>

Key figures MultiClient library:

(In millions of US dollars)	Quarter ended September 30,		Nine months ended September 30,		Year ended December 31,
	2014	2013	2014	2013	2013
MultiClient pre-funding revenue	55.4	108.4	204.4	266.2	360.5
MultiClient late sales	63.9	63.0	189.0	212.1	311.3
Cash investment in MultiClient library (a)	70.4	120.9	286.3	262.0	373.0
Capitalized interest in MultiClient library (b)	5.3	2.8	14.9	6.9	10.5
Capitalized depreciation (non-cash)	20.0	39.2	80.8	78.5	112.9
Amortization of MultiClient library (c)	53.9	80.7	189.1	209.2	301.8

(a) See condensed consolidated statements of cash flows.

(b) See note 6.

(c) See note 3.

### Note 9 - Net interest bearing debt

Summary of net interest bearing debt:

(In millions of US dollars)	September 30,		December 31,
	2014	2013	2013
Cash and cash equivalents	90.4	299.0	263.8
Restricted cash (current and long-term)	91.3	88.1	89.4
Interest bearing receivables	14.0	15.6	20.9
Short-term debt and current portion of long-term debt (a)	(24.9)	(10.8)	(10.8)
Long-term debt (a)	(1 185.5)	(1 019.0)	(1 019.6)
Adjustment for deferred loan costs (offset in long-term debt)	(24.9)	(11.0)	(10.4)
Total	<b>(1 039.5)</b>	<b>(638.1)</b>	<b>(666.7)</b>

(a) The Term Loan was refinanced and resized from \$470.5 million to \$400 million and the maturity extended to March 2021 in Q1 2014.

The company have \$120 million outstanding on the Revolving Credit Facility and \$267.2 million outstanding on the export credit facility as of September 31, 2014.

### Note 10 - 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 fair values of other financial instruments are determined using level 2 observable inputs as described in the Company's 2013 annual report.

The carrying amounts and the estimated fair values of debt and derivative instruments are summarized as follows:

(In millions of US dollars)	Carrying amounts		Fair values		Notional amounts	
	September 30,		September 30,		September 30,	
	2014	2013	2014	2013	2014	2013
Total forward exchange contracts (hedge)	(2.6)	(1.3)	(2.6)	(1.3)	32.9	59.5
Total forward exchange contracts (non-hedge)	0.3	4.1	0.3	4.1	124.2	117.9
Total forward exchange contracts	<b>(2.4)</b>	<b>2.8</b>	<b>(2.4)</b>	<b>2.8</b>	<b>157.1</b>	<b>177.4</b>
Interest rate swaps (non-hedge)	(1.8)	(10.6)	(1.8)	(10.6)	200.0	300.0
Total interest rate swaps	<b>(1.8)</b>	<b>(10.6)</b>	<b>(1.8)</b>	<b>(10.6)</b>	<b>200.0</b>	<b>300.0</b>
Debt with fixed interest rate	594.0	512.5	612.0	559.0		
Debt with variable interest rate	641.2	527.8	628.8	519.6		
Total debt recognized at amortized cost	<b>1 235.2</b>	<b>1 040.3</b>	<b>1 240.8</b>	<b>1 078.6</b>		

Effective September 30, 2013, the Company discontinued hedge accounting on its interest rate swap agreements. As a result of refinancing the term loan, deferred loan costs from the original instrument loan and the reserve relating to the interest of the loan held in other comprehensive income, a total of \$8.8 million was expensed in Q1 2014.

***Note 11 - Loss from associated companies***

In Q1 2014, the Company recognized \$18.8 million of revenue from MultiClient data licenses to associated companies which is expensed in the financial statements of the associated companies. The Company's share of loss from associated companies includes a proportionate share of the expensed MultiClient license cost in the amount of \$7.3 million.

***Note 12 - Termination of Norwegian defined benefit plan and restructuring provision***

In Q1 2014, the Company decided to terminate the Norwegian defined benefit plan and the participants were transferred to the defined contribution plan as of April 1, 2014. A net pension liability of \$10.2 million (projected benefit obligation of \$57.4 million and plan assets of \$47.2 million) was de-recognized in Q1 2014 resulting in a settlement gain, reducing operating expenses, of approximately \$6 million after one-time administration fees and costs credited to MultiClient investment.

In Q1 2014, the Company recognized a restructuring provision of \$1.8 million relating to closure of the office in Edinburgh.