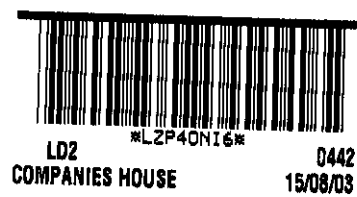


# **PGS Floating Production (UK) Limited**

## **Report and Financial Statements**

31 December 2001



# PGS Floating Production (UK) Limited

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Registered No. 2436350

## **Directors**

E Alsaker  
K M Gisvold  
R Stokke

## **Secretary**

H Nevile

## **Auditors**

Ernst & Young LLP  
Becket House  
1 Lambeth Palace Road  
London SE1 7EU

## **Bankers**

Nordea  
Olav Trygrassonsgt 39  
N-7011 Trondheim  
Norway

## **Solicitors**

Watson, Farley & Williams  
15 Appold Street  
London EC2A 2HB

## **Registered Office**

PGS Court  
Halfway Green  
Walton-on-Thames  
Surrey KT12 1RS

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2001.

### Results and dividends

The loss for the year, after taxation, amounted to £52,968,000 (2000 – £43,784,000). This amount has been transferred from reserves. The directors do not recommend the payment of a dividend.

In view of the significant losses made in the year, the company has received assurance from its parent company that it will continue to receive financial support for the foreseeable future in order for it to meet its obligations as they fall due.

### Principal activities and review of the business

The principle activity of the company is the provision of floating production systems to the oil industry. The company currently provides the FPSO Ramform Banff on contract to Conoco Phillips and its partners for the production, processing and export of hydrocarbons from the Banff field in the central North Sea.

### Directors and their Interests

The directors of the company during the year were as follows:

Kaare Gisvold	(appointed 1 February 2001)
Edgar Alsaker	(appointed 1 February 2001)
Reidar Stokke	(appointed 1 February 2001)

Other director who served the company during the year is as follows:

Bjarte Bruheim	(resigned 8 February 2001)
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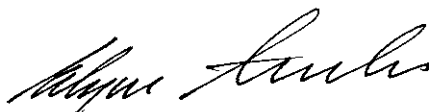
None of the directors had any interest at any time during the year in the share capital of the company.

### Auditors

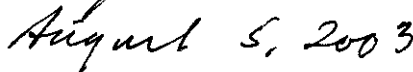
PriceWaterhouseCoopers resigned as auditors of the company on 10 October 2001. Ernst & Young LLP were appointed auditors on 26 March 2003. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Director



Date:



## **Statement of directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of PGS Floating Production (UK) Limited**

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

*We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.*

### *Fundamental uncertainty – going concern*

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the fundamental uncertainty surrounding the continuation of funding from the ultimate parent undertaking. The financial statements have been prepared on a going concern basis, the validity of which depends on future group funding becoming available. The financial statements do not include any adjustments that would result from future group funding not being available. Our opinion is not qualified in this respect.

## Independent auditors' report

to the members of PGS Floating Production (UK) Limited (continued)

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP  
Registered Auditor  
London

Date: 5 August, 2003

## Profit and loss account

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
<b>Turnover</b>	3	35,767	33,021
Cost of sales before exceptional items		(62,916)	(39,325)
Exceptional cost of sales	4	(23,149)	(37,155)
<b>Net cost of sales</b>		(86,065)	(76,480)
Administrative expenses		(1,035)	65
		(87,100)	(76,415)
<b>Operating loss</b>	5	(51,333)	(43,394)
Net interest payable and similar charges		(1,635)	(437)
<b>Loss on ordinary activities before taxation</b>		(52,968)	(43,831)
Tax on loss on ordinary activities	8	—	47
<b>Accumulated loss for the financial year</b>	15	(52,968)	(43,784)

## **Statement of total recognised gains and losses**

**for the year ended 31 December 2001**

There are no recognised gains or losses attributable to the shareholders of the company other than those recognised in the profit and loss account.

## Balance sheet

as at 31 December 2001

	Notes	2001 £000	2000 £000
<b>Fixed assets</b>			
Tangible assets	9	—	57,700
<b>Current assets</b>			
Stocks		1,262	634
Debtors	10	9,971	10,707
Cash at bank and in hand		3,225	633
<b>Creditors: amounts falling due within one year</b>	11	14,458 (8,599)	11,974 (39,813)
<b>Net current assets/(liabilities)</b>		5,859	(27,839)
<b>Total assets less current liabilities</b>		5,859	29,861
<b>Creditors: amounts falling due after more than one year</b>	12	(46,848)	(6,525)
<b>Provisions for liabilities and charges</b>			
Other provisions	13	(5,493)	(16,850)
<b>Net current (liabilities)/assets</b>		(46,482)	6,486
<b>Capital and reserves</b>			
Called up share capital	14	71,040	71,040
Profit and loss account	15	(117,522)	(64,554)
<b>Equity shareholders' funds</b>	15	(46,482)	6,486

Director

Date:

*Edgar Sturges*  
*August 5, 2003*

## Notes to the financial statements

for the year ended 31 December 2001

### 1. Fundamental uncertainty

The ultimate parent undertaking, Petroleum Geo-Services ASA, has announced that it is in breach of certain financial covenants and requires the support of their banking syndicate to continue trading. The ultimate parent undertaking also announced on 29 July 2003, that it voluntarily filed a petition for protection under chapter 11 of the United States Bankruptcy Court for the Southern District of New York. The company is funded by intercompany equity and debt and as such requires the support of the parent undertaking to enable continued trading. The financial situation of the ultimate parent undertaking is such that the required support cannot be assured and as a result the ability of the company to continue as a going concern is uncertain. Negotiations with lenders are continuing, however the outcome is uncertain. The financial statements have been prepared on a going concern basis, the validity of which depends upon future group funding becoming available. The directors consider that there is a reasonable expectation that future group funding will be available, and accordingly the financial statements do not include any adjustments which would result from a failure to obtain group funding.

### 2. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

#### Basis of preparation

The financial statements are prepared in accordance with the historical cost convention.

In addition to the requirements of the accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ("SORP"), "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", issued by the UK Oil Industry Accounting Committee on 7 June 2001. The financial statements have been in accordance with the SORP's provisions.

#### Fixed assets

The company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalised. Such costs include floating production vessels, and seismic equipment.

These costs are subject to depreciation on the unit-of-production method based on the estimated proven reserves. The depreciation charge for the year is based on the actual volume of production extracted from the reservoir.

The net book value of capital costs is limited to estimated future net revenue from production of proven reserves using prices and operating costs in effect at year-end. This test also accounts for future general and administration expenses, financing expenses and income taxes. Additional depletion is provided if the net book value of capitalised costs exceeds future net revenue.

#### Capitalisation of finance costs

Finance costs associated with the production cost of particular assets are capitalised within tangible fixed assets and depreciated in accordance with the policy stated above.

#### Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. All exchange differences are taken to the profit and loss account.

## Notes to the financial statements

for the year ended 31 December 2001

### 2. Accounting policies (continued)

#### Operating leases

Rentals paid under operating leases are charged to income as incurred.

#### Stock

Stock is stated at the lower of cost and net realisable value.

#### Deferred taxation

Deferred taxation is provided where necessary using the liability method on all timing differences to the extent that a liability or asset is expected to crystallise in the foreseeable future.

### 3. Turnover

Turnover represents the value of goods and services provided, net of value added tax. The turnover and loss before tax are principally derived from the operation of a floating production system

### 4. Exceptional items

	2001 £000	2000 £000
Recognised in arriving at operating loss:		
Impairment of tangible fixed assets	34,506	20,305
Provision of ongoing contract	(11,357)	16,850
	<u>23,149</u>	<u>37,155</u>

#### Impairment charges

In accordance with FRS 11 "Impairment of Fixed Assets" and goodwill, the directors have determined that the carrying value of the floating production vessel and associated capitalised finance costs exceeded their recoverable amount at year-end, as represented by its value in use to the company. The value in use has been determined using discounted cash flow projections. The results of such projections were such that the entire carrying value of the vessel and finance costs were not supportable and accordingly they were written down by £34,506,000 to £nil.

#### Onerous contracts

In the year ending 31 December 2000, an amount of £16,850,000 was charged to cost of sales in relation to an onerous contract (refer note 13). At 31 December 2001, the required provision in accordance with FRS 12 "Provisions, Contingent Liabilities and Contingent Assets", was £5,493,000 and accordingly £11,357,000 has been released through the profit and loss account.

### 5. Operating loss

This is stated after charging/(crediting):

	2001 £000	2000 £000
Operating lease rental – plant and machinery	19,159	8,770
Auditor's remuneration – audit services	6	9
Depreciation	14,625	1,580
Impairment loss (note 4)	34,506	20,305
Exchange loss/(gain)	1,706	(4,840)
	<u>          </u>	<u>          </u>

## Notes to the financial statements

for the year ended 31 December 2001

### 6. Directors' emoluments

The directors did not receive any emoluments for the services they provided to the company during the year (2000 – £nil).

### 7. Staff costs

	2001 £000	2000 £000
Wages and salaries	–	90
Social security costs	–	8
	<u>–</u>	<u>106</u>

The average monthly number of persons (including directors) employed by the company during the year was as follows:

	2001 No.	2000 No.
<i>By activity</i>		
Management	–	1

### 8. Tax on loss on ordinary activities

	2001 £000	2000 £000
UK corporation tax at 30% (2000 – 30%)		
Current tax on loss for the year	–	(47)
Deferred taxation	–	–
	<u>–</u>	<u>(47)</u>

Deferred taxation not recognised in respect of tax losses amounts to £7,456,800 for year ending 2001 (2000 – £7,141,500). These assets will be recognised should it become more likely than not that taxable profits or timing differences against which they may be deducted arise.

## Notes to the financial statements

for the year ended 31 December 2001

### 9. Tangible fixed assets

	<i>Floating production vessel £000</i>	<i>Capitalised finance costs £000</i>	<i>Total £000</i>
Cost:			
At January 2001	78,575	2,172	80,747
Additions	(8,570)	1	(8,569)
At 31 December 2001	70,005	2,173	72,178
Depreciation:			
At 1 January 2001	23,047	—	23,047
Provided during the year	15,706	488	16,194
Impairment charge (note 4)	32,773	1,733	34,506
Exchange variations	(1,521)	(48)	(1,569)
At 31 December 2001	70,005	2,173	72,178
Net book value:			
At 31 December 2001	—	—	—
At 31 December 2000	55,528	2,172	57,700

### 10. Debtors

	<i>2001 £000</i>	<i>2000 £000</i>
Trade debtors	4,997	2,261
Amounts owed by group undertakings	4,175	726
Other debtors	374	7,605
Prepayments and accrued income	425	115
	9,971	10,707

### 11. Creditors: amounts falling due within one year

	<i>2001 £000</i>	<i>2000 £000</i>
Accounts payable	920	23
Amounts owed to group undertakings	3,544	19,894
Other creditors	3	9,768
Accruals and deferred income	4,134	10,128
	8,601	39,813

## Notes to the financial statements

for the year ended 31 December 2001

### 12. Creditors: amounts falling due after more than one year

	2001 £000	2000 £000
Loans from parent undertaking	46,846	6,525

There are no set prepayment terms and interest is charged on the loan at a rate of LIBOR plus 2%.

### 13. Provisions for liabilities and charges

*Provisions for onerous contracts*

	2001 £000	2000 £000
At 1 January	16,850	–
Utilised in the financial year	(11,357)	16,850
At 31 December	5,493	16,850

During the year to 31 December 2000 a provision was made during the year under FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", which requires provision to be made for an onerous contract. At 31 December 2001, the required provision was £5,493,000 and accordingly £11,357,000 was released through the profit and loss account.

### 14. Share capital

	2001 £000	2000 £000
<i>Authorised</i>		
100,000,000 ordinary shares of £1 each	100,000	100,000
<i>Issued and fully paid</i>		
71,039,851 ordinary shares at £1 each	71,040	71,040

### 15. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Profit and loss account £000	Total share- holders' funds £000
At 1 January 2001	71,040	(64,554)	6,486
Loss for year	–	(52,968)	(52,968)
At 31 December 2001	71,040	(117,522)	(46,482)

## Notes to the financial statements

for the year ended 31 December 2001

### 16. Operating lease commitments

At 31 December 2001 the company had annual commitments as set out below:

	2001 £000	2000 £000
Leases which expire:		
In two to five years	35,314	25,772

### 17. Statement of cash flows

The company is a wholly-owned subsidiary of Petroleum Geo-Services ASA and the cash flows of the company are included in the consolidated group statement of cash flows of Petroleum Geo-Services ASA which are publicly available. Consequently, the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a statement of cash flows.

### 18. Related party transactions

The company has taken advantage of the exemptions provided by Financial Reporting Standard No. 8 "Related Party Transactions" in not disclosing transactions with group undertakings where there is a common ownership interest of 90% or more.

### 19. Parent undertaking

The company's ultimate parent undertaking is Petroleum Geo-Services ASA, a company registered in Norway. Group financial statements of the parent undertaking are available from Petroleum Geo-Services ASA, Strandveien 50, 1324 Lysaker, Norway.

Consolidated financial statements are also prepared for the intermediate parent undertaking Petroleum Geo-Services (UK) Limited, and are available from PGS Court, Halfway Green, Walton-on-Thames, Surrey KT12 1RS.

The company has received from its parent undertaking confirmation of its intention to continue to provide support, which may be required to enable it to continue in operation for the foreseeable future.