

COMPANY REGISTRATION NUMBER 2904391



PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010



PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

Contents	Pages
Officers and other information	1
Directors' report	2 to 4
Statement of directors' responsibilities in respect of the Directors' report and the financial statements	5
Independent auditor's report to the members of PGS Exploration (UK) Limited	6 to 7
Profit and loss account	8
Statement of total recognised gains and losses	9
Balance sheet	10
Notes to the financial statements	11 to 24

PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
OFFICERS AND OTHER INFORMATION

Directors

G Langseth
C Steen-Nilsen
J Reinhardsen

Secretary

M C Pinto

Auditors

KPMG LLP
One Snow Hill
Snowhill Queensway
Birmingham
West Midlands, B4 6GH
United Kingdom

Registered office

4, The Heights
Brooklands
Weybridge
Surrey, KT13 0NY
United Kingdom

Registered number

2904391

PGS EXPLORATION (UK) LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements of the company for the year ended 31 December 2010

Principal activities

The principal activity of the company is the provision of consulting services to the oil and gas industry

The company is a member of the Petroleum Geo-Services Group ("the group"), a Norwegian registered oil services group providing geophysical services worldwide. The group provides a broad range of geophysical and reservoir services, including seismic data acquisition, processing, interpretation and field evaluation. It also possesses the world's most extensive MultiClient data library.

Results and dividends

The loss for the year after taxation is \$(20,693,000) (2009 restated profit of \$30,587,000). The directors do not recommend a dividend (2009 Nil).

Business review

The main segments within the company are related to marine activities, i.e. seismic data acquisition, marine MultiClient library, data processing, and technology. The main revenue contributors are contract seismic where data is acquired under exclusive contractual agreements with a customer, and MultiClient where the company invests in seismic surveys which are then marketed to multiple customers on a non-exclusive basis. MultiClient revenues are further split into pre-funding revenues relating to ongoing surveys and late sales from the MultiClient library.

Profit margins are variable from project to project and therefore fluctuate from one year to another. The level of activity carried out by the company will vary significantly depending upon deployment of the fleet of vessels within the group. Net earnings in any year will also vary depending upon the pricing for the specific projects and productivity in carrying them out.

In 2009 the company was still working off backlog on projects awarded during a robust market and therefore at more favourable prices. The 2010 operating loss reflects pricing on projects, including MultiClient projects, which were initiated or awarded in the current weaker market and therefore at lower prices.

In all other respects the company has continued to operate in a similar way to previous years. No significant change in the type of business activities is expected in the immediate foreseeable future. The long-term industry fundamentals are still intact, especially for more advanced seismic since the easy oil has been extracted. Looking at the low reserve replacement ratio for the industry and the forecasted decline in oil supply we expect demand for seismic services to be strong going forward.

In previous years the company has written off all interest as it was incurred. During 2010 the directors decided to capitalise interest within stock where allowable in order to bring the company in line with group policy. This has resulted in a write back to opening stock of \$815,000. It was also the company's policy in previous years to write off steaming and mobilisation costs as incurred. During 2010 the directors decided to capitalise these costs where allowable, also to bring the company in line with group policy. This has resulted in \$1,260,000 being written back to other debtors. (See note 1)

Principal risks and uncertainties of the company

The management of the business and the execution of the company's strategy are subject to a number of risks, all of which are closely integrated with those of the group.

The key business risks and uncertainties affecting the company are considered to relate to competition from other international oil and gas industry consultants and to the price of oil, which is the key driver of demand for the company's services and future profitability.

From the perspective of the company, the principal risks and uncertainties are so integrated with the

PGS EXPLORATION (UK) LIMITED

DIRECTORS' REPORT *(continued)*

principal risks of the group that they are not managed separately. Accordingly, the principal risks and uncertainties of the Petroleum Geo-Services Group, which include those of the company, are discussed below

Principal risks and uncertainties of the group

The group is exposed to adverse changes in interest rates, which is managed through financial instruments such as interest rate swaps

A portion of the group's foreign currency exchange risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the US dollar are hedged through forward currency exchange contracts

Credit risk relating to the group's trade receivables is relatively limited due to the nature of the customer base and the historic low level of losses on trade receivables. Ongoing credit evaluations of customers are used to manage exposure to this type of risk

Finally, as a result of the global economic and financial crisis, capital markets are generally less predictable and available than historically experienced. This represents an increased risk for all companies with respect to meeting possible future funding needs. The Petroleum Geo-Services Group continuously monitors its banks and has no reason to believe that they will not meet the group's funding commitments if called upon

The principal risks and uncertainties of the Petroleum Geo-Services Group, which include those of the company, are discussed in more detail on pages 63 to 65 of the group's annual report

Key performance indicators ("KPI's")

The directors of the Petroleum Geo-Services Group manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of PGS Exploration (UK) Limited. The development, performance and position of the group, which includes the company, is discussed on pages 58 to 67 of the group's annual report which does not form part of this report

Research and development

The company contributes to the Petroleum Geo-Services Group's worldwide research and development programmes, the aims of which are the practical application and early introduction of relevant new technologies

Directors

The directors who served the company during the year and to the date of this report were as follows

C Steen-Nilsen
G Langseth
J Reinhardsen

Employee involvement, disabled persons, health & safety

The company has developed a network for communicating with employees, including those in remote locations or at sea. Pertinent and topical information is distributed on a regular basis and channels for feedback are clearly established. Financial information is available from the parent company's web site and industry and technical news items are distributed and discussed at regular intervals

The company will always give due consideration for job vacancies to disabled persons and, should an employee working in a harsh environment become disabled, full consideration will be given to retaining that person in alternative work wherever possible

PGS EXPLORATION (UK) LIMITED

DIRECTORS' REPORT *(continued)*

The company aspires to the highest standards of health, safety and regard for the environment. It participates in industry forums and maintains an active information and reporting system for areas of operation with particular risks.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Re-appointment of auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

Signed by order of the board


C Steen-Nilsen
Director

28 September 2011

PGS EXPLORATION (UK) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

PGS EXPLORATION (UK) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS
EXPLORATION (UK) LIMITED

We have audited the financial statements of PGS Exploration (UK) Limited for the year ended 31 December 2010 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

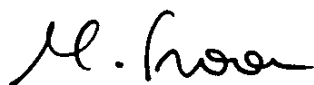
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

PGS EXPLORATION (UK) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS
EXPLORATION (UK) LIMITED *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



M Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

28 September 2011

PGS EXPLORATION (UK) LIMITED
PROFIT AND LOSS ACCOUNT
31 DECEMBER 2010

	Notes	2010 \$000	2009 \$000 <i>Restated</i>
Turnover	2	194,805	326,773
Cost of sales		(216,574)	(288,791)
Gross (loss) / profit		(21,769)	37,982
Administrative expenses		(5,737)	(7,108)
Operating (loss) / profit	3	(27,506)	30,874
Interest receivable	5	2,487	4,556
Interest payable and similar charges	6	(517)	(371)
(Loss) / profit on ordinary activities before taxation		(25,536)	35,059
Tax on (loss) / profit on ordinary activities	7	4,843	(4,472)
(Loss) / profit for the financial year		(20,693)	30,587

The company's results are derived from continuing activities

The notes on pages 11 to 24 form part of these financial statements.

PGS EXPLORATION (UK) LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
31 DECEMBER 2010

	2010 \$000	2009 \$000 <i>Restated</i>
(Loss) / profit for the financial year	(20,693)	30,587
Total recognised gains and losses relating to the year	(20,693)	30,587
Prior year adjustment	3,169	-
Total gains and losses recognised since the last annual report	(17,524)	30,587

The notes on pages 11 to 24 form part of these financial statements.

PGS EXPLORATION (UK) LIMITED

BALANCE SHEET

31 DECEMBER 2010

	Note	2010 \$000	2009 \$000 <i>Restated</i>
Fixed assets			
Tangible assets	8	19,255	22,395
Current assets			
Investments	9	-	840
Stocks	10	25,240	37,890
Debtors (<i>including amounts receivable after more than one year of \$14,237,000 (2009 \$3,037,000)</i>)	11	137,041	145,535
Cash at bank		471	14,342
		<u>162,752</u>	<u>198,607</u>
Creditors: amounts falling due within one year	12	<u>(52,733)</u>	<u>(73,044)</u>
Net current assets		110,019	125,563
Total assets less current liabilities		<u>129,274</u>	<u>147,958</u>
Creditors: amounts falling due after more than one year	13	(9,673)	(8,427)
Provisions for liabilities and charges	14	(2,477)	(1,714)
Net assets		<u>117,124</u>	<u>137,817</u>
Capital and reserves			
Called up share capital	16	41,214	41,214
Profit and loss account	17	54,375	75,068
Special reserve	17	21,535	21,535
Shareholder's funds	18	<u>117,124</u>	<u>137,817</u>

These financial statements were approved by the directors on the
are signed on their behalf by

28

September 2011 and


C Steen-Nilsen
Director

Registered number: 2904391

The notes on pages 11 to 24 form part of these financial statements.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1. Accounting policies

The following accounting policies have been consistently applied in deciding the items which are considered material in relation to the financial statements

Change in accounting policies

In previous years the company has written off all interest as it was incurred. During 2010 the directors decided to capitalise interest within stock where allowable in order to bring the company in line with group policy. This has resulted in a write back to opening stock at 1 January 2010 of \$815,000. The interest capitalised in 2010 was \$308,000 (2009 \$540,000). It was also the company's policy in previous years to write off steaming and mobilisation costs as incurred. During 2010 the directors decided to capitalise these costs where allowable, also to bring the company in line with group policy. This has resulted in \$1,260,000 being written back to other debtors at 1 January 2010. The effect of this on the 2010 profit and loss account was a credit of \$1,561,000 (2009 charge of \$1,634,000).

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. They have been presented in US\$ as this is the currency in which the company operates.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Directors' Report.

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's ultimate parent Petroleum Geo-Services ASA to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Petroleum Geo-Services ASA group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Petroleum Geo-Services ASA, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash flow statement

Under FRS 1 (revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that Petroleum Geo-Services ASA includes the Company in its own published consolidated financial statements.

Revenue recognition

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

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1. Accounting policies (continued)

(a) Sales of MultiClient library data

Late sales – The company grants a license to a customer, which entitles the customer to have access to a specifically defined portion of the MultiClient data library. The customer's license payment is fixed and determinable and typically is required at the time that the license is granted. The company recognises revenue for late sales when the customer executes a valid license agreement and has received the underlying data or has the right to access the licensed portion of the data and collection is reasonably assured.

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

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

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

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

(b) Proprietary sales/contract sales

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

(c) Other services

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

Interest income

Income is recognised as interest accrues using the effective interest method.

Research and development

Research and development expenditure is expensed in the year in which it is incurred.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1. Accounting policies (*continued*)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided to all tangible fixed assets and is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	- 15 years
Seismic equipment & vehicles	- 3 years
Computer equipment & software	- 3-5 years
Furniture & office equipment	- 4-6 years

Borrowing costs

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

Investments

Investments are held at cost less provision for permanent diminution in value. The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment of fixed assets

The carrying amounts of the company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits.

Otherwise impairments are recognised in the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1. Accounting policies *(continued)*

increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Stocks

Own seismic data is valued at the lower of amortised cost and net realisable value. Costs are amortised in proportion to the sales recorded in each year for each survey as a percentage of the total estimated sales over the life of the survey. Furthermore, should there be any impairment in the value of any survey, additional amortisation is charged so as to reduce the amortised cost to net realisable value.

Steaming costs

Steaming costs relate to relocating or 'steaming' a vessel or crew from one location to another. The company includes such costs in the cost of the MultiClient survey or exclusive contract with which the costs are associated. The steaming costs related to MultiClient survey are capitalised as a part of the MultiClient library. Steaming costs on exclusive surveys are deferred and charged to expense based upon the percentage of completion of the project.

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The group operates a defined benefit pension scheme for the majority of the group's employees. Due to the nature of the scheme individual group companies are unable to identify their share of the underlying assets and liabilities. Therefore, in the accounts of the subsidiaries, the scheme is treated as a defined contribution scheme.

The company also contributes to a defined contribution scheme. Payments to this scheme are charged to the profit and loss account as incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable, and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1. Accounting policies *(continued)*

enacted at the balance sheet date

Foreign currencies

The company's primary activities are in US Dollars. As a result, the financial statements are prepared in US Dollars, this being the functional currency of the company.

Transactions in foreign currencies are recorded at the rate ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

2. Turnover

The turnover and profit before tax are attributable to the one principal activity of the company. The company operates within the following geographical markets, UK, Other European countries, Americas, Middle-East & Africa, and Rest of the world. An analysis of turnover is given below.

	2010	2009
	\$000	\$000
United Kingdom	33,553	87,754
Other European countries	16,340	10,189
Americas	111,024	195,595
Middle East & Africa	26,658	31,137
Rest of the World	7,230	2,098
	<u>194,805</u>	<u>326,773</u>

3. Operating (loss) / profit

Operating (loss) / profit is stated after charging/(crediting)

	2010	2009
	\$000	\$000
Research and development expenditure	1,647	443
Depreciation of owned fixed assets	5,356	6,415
Auditor's remuneration		
Audit of these financial statements	167	100
Other services relating to taxation	-	14
Operating hire costs		
Other	4,895	3,019
Plant and machinery	58,807	133,493
(Gain) / loss on foreign currency translation	(1,105)	1,428
Loss / (gain) on disposal of tangible fixed assets	38	(177)
Gain on disposal of investments (note 9)	(926)	(441)
Management charges relating to additional pension contributions paid by the immediate parent company	<u>-</u>	<u>7,776</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

4. Staff costs and directors' remuneration

(a) Staff costs

	2010	2009
	\$000	\$000
Wages and salaries	18,729	18,484
Social security costs	2,199	1,875
Other pension costs	2,502	(2,259)
	<u>23,430</u>	<u>18,100</u>

In 2008 the pension cost included a charge of \$3,881,000 from the company's immediate parent, Petroleum Geo-Services (UK) Limited, for a proportion of the additional contribution made by the immediate parent company towards the deficit on the group defined benefit pension scheme in 2007 and 2008. Following a review of this policy in 2009, this charge was credited back to the company.

The average number of persons, excluding directors, employed by the company during the year, analysed by category, was as follows:

	2010	2009
	No.	No.
Geophysical management	4	7
Data processing & technology	120	118
Accounting and administration	34	29
Other	26	25
	<u>184</u>	<u>179</u>

(b) Directors' remuneration

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2009 Nil).

The remuneration of the directors is paid by the parent company, which makes no recharges to the company. The directors act in a group capacity only and do not allocate specific time to the company and therefore it is not possible to make an accurate apportionment of their emoluments in respect of the company.

5. Interest receivable and similar income

	2010	2009
	\$000	\$000
		<i>Restated</i>
Bank interest receivable	95	49
Net interest receivable on amounts due from group undertakings	2,084	3,865
Add back capitalised interest	308	540
Other interest receivable	-	102
	<u>2,487</u>	<u>4,556</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

6. Interest payable and similar charges

	2010	2009
	\$000	\$000
Interest payable on amounts due to group undertakings	-	23
Other interest payable	159	1
Other finance charges	358	347
	<u>517</u>	<u>371</u>

7. Taxation on profit on ordinary activities

(a) Analysis of (credit) / charge in the year	2010	2009
	\$000	\$000
Current tax (credit)/charge:		
UK corporation tax for the year	-	-
Adjustment in respect of prior period	38	-
Foreign tax on income for the year	796	70
Foreign tax on income for prior periods	687	(1,656)
	<u>1,521</u>	<u>(1,586)</u>
Deferred taxation		
Current year (credit) / charge	(6,455)	9,343
Tax credits brought forward no longer recognised	-	2,631
Effect of change in rate from 28% to 27%	613	-
Foreign exchange effect of change in currency of tax losses brought forward	-	(4,324)
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(522)	(1,592)
	<u>(6,364)</u>	<u>6,058</u>
Total tax (credit) / charge on (loss) / profit on ordinary activities	<u>(4,843)</u>	<u>4,472</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

7. Taxation on profit on ordinary activities *(continued)*

(b) Factors affecting current tax (credit) /charge

The tax assessed on the (loss) / profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are reconciled below

	2010 \$000	2009 \$000 <i>Restated</i>
(Loss) / profit on ordinary activities before taxation	(25,536)	35,059
Expected tax (credit) / charge at standard tax rate	(7,150)	9,816
Expenses not deductible for tax purposes	141	214
Group relief claimed for no consideration	-	(1,124)
Current year tax losses utilised and other timing differences	5,843	(9,343)
Tax on prior year adjustment	581	306
Higher rate of foreign tax on income	573	200
Loss on disposal of chargeable assets	195	-
Change in tax rate relating to timing differences	613	-
Prior year foreign tax charge / (credit)	344	(1,655)
Prior year tax charge	38	-
Prior year research and development claims	-	(1,592)
Prior year lease provision relief	(179)	-
Prior period tax losses and other timing differences	522	1,592
Total current tax (credit)/charge (note 7(a))	<u>1,521</u>	<u>(1,586)</u>

(c) Deferred tax asset

The company has carried forward timing differences as shown below that are available indefinitely to be offset against future taxable profits. Deferred tax assets have been recognised in relation to those losses and other timing differences as they satisfy the recognition criteria for deferred tax assets in FRS 19 'Deferred Tax'

	Recognised 2010 \$000	Unrecognised 2010 \$000	Recognised 2009 \$000	Unrecognised 2009 \$000
Depreciation in advance of capital allowances	1,292	-	1,348	-
Other timing differences	3,015	6,186	1,689	6,234
Unrelieved tax losses	12,235	-	7,141	-
Total	<u>16,542</u>	<u>6,186</u>	<u>10,178</u>	<u>6,234</u>

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective 1 April 2011) was substantively enacted on 20 July 2010 and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

The tax rate used for the deferred tax asset calculations at the balance sheet date is 27% (2009 28%)

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

7. Taxation on profit on ordinary activities *(continued)*

(d) Movement on recognised deferred tax balances

	2010 \$000	2009 \$000
At beginning of year	10,178	16,236
Credit / (charge) to profit and loss account	6,364	(6,058)
At end of year	<u>16,542</u>	<u>10,178</u>

8. Tangible fixed assets

	Leasehold improvements \$000	Seismic equipment & vehicles \$000	Computer equipment & software \$000	Furniture & office equipment \$000	Total \$000
Cost:					
At 1 January 2010	12,428	2,806	24,475	12,059	51,768
Additions	462	-	2,072	122	2,656
Disposals	(462)	(2,501)	(7,015)	(1,830)	(11,808)
At 31 December 2010	<u>12,428</u>	<u>305</u>	<u>19,532</u>	<u>10,351</u>	<u>42,616</u>
Depreciation:					
At 1 January 2010	1,269	2,390	20,351	5,363	29,373
Charge for the year	1,166	79	3,132	980	5,357
On disposals	(416)	(2,203)	(6,925)	(1,825)	(11,369)
At 31 December 2010	<u>2,019</u>	<u>266</u>	<u>16,558</u>	<u>4,518</u>	<u>23,361</u>
Net book value:					
At 31 December 2010	<u>10,409</u>	<u>39</u>	<u>2,974</u>	<u>5,833</u>	<u>19,255</u>
At 31 December 2009	<u>11,159</u>	<u>416</u>	<u>4,124</u>	<u>6,696</u>	<u>22,395</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

9. Investments

	\$000
Cost	
At 1 January 2010	2,760
Disposals	(2,760)
At 31 December 2010	<u>-</u>
Impairment	
At 1 January 2010	1,920
Release of impairment in relation to disposals in period	(1,920)
At 31 December 2010	<u>-</u>
Net book value	
31 December 2010	<u>-</u>
31 December 2009	<u>840</u>

In 2004, PGS Exploration (UK) Limited acquired 2,312,500 shares in Endeavour International Corporation, a company listed on the American Stock and Options Exchange at a cost of \$3.8m. This investment was impaired during 2007 and 2008 to reflect a fall in the share price to \$0.50 as at 31 December 2008.

During 2009 the company disposed of 633,050 shares, realising proceeds of \$757,289 and a gain on sale of \$441,000. In 2010 the company disposed of the remaining 1,679,450 shares, realising proceeds of \$1,765,000 and a gain on sale of \$926,000.

10. Stocks

	2010 \$000	2009 \$000 <i>Restated</i>
Seismic data library		
Work in progress	5,442	27,155
Completed data	19,798	10,735
	<u>25,240</u>	<u>37,890</u>

11. Debtors

	2010 \$000	2009 \$000 <i>Restated</i>
Trade debtors	22,371	40,275
Amounts owed by ultimate parent undertaking	59,926	58,108
Amounts owed by other group undertakings	14,132	5,677
Other debtors	1,699	1,301
Prepayments and accrued income	22,371	29,996
Deferred tax assets (notes 7(c) and 7 (d))	16,542	10,178
	<u>137,041</u>	<u>145,535</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

11. Debtors (continued)

Amounts owed between the company and the ultimate parent undertaking are covered by a mutual credit agreement in which the amounts are unsecured, repayable on demand and bear interest at 3-month LIBOR plus 3% per annum. Amounts owed between the company and other group undertakings are treated as trading balances and do not bear any interest.

Included in debtors above are amounts falling due after more than one year, as follows

	2010 \$000	2009 \$000
Deferred tax asset	<u>14,237</u>	<u>3,037</u>

12. Creditors: amounts falling due within one year

	2010 \$000	2009 \$000
Trade creditors	13,222	12,596
Amounts owed to immediate parent undertaking	1,168	-
Amounts owed to group undertakings	13,951	21,796
Other taxes and social security	543	507
Taxation	6,097	6,377
Accruals and deferred income	<u>17,752</u>	<u>31,768</u>
	<u>52,733</u>	<u>73,044</u>

Amounts owed between the company and other group undertakings are treated as trading balances and do not bear any interest.

13. Creditors: amounts falling due after more than one year

	2010 \$000	2009 \$000
Foreign tax payable	5,000	5,000
Other creditors	<u>4,673</u>	<u>3,427</u>
	<u>9,673</u>	<u>8,427</u>

The foreign tax creditor at 31 December 2010 and 31 December 2009 represents a provision for taxes payable in relation to work performed over a number of years in the Joint Development Zone between Nigeria and Sao Tome and Principe, where Nigeria is claiming taxing rights.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

14. Provisions for liabilities and charges

	2010 \$000
At beginning of year	1,714
Charge to the profit and loss account for the year	(1,497)
Additional amounts provided	2,089
Unwinding of discount rate	171
At end of year	<u>2,477</u>

The provision relates to an onerous lease arising from the relocation from the PGS Court office. The lease was surrendered on 8 April 2011.

15. Commitments under operating leases

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below:

	2010		2009	
	Land & Buildings \$000	Other Items \$000	Land & Buildings \$000	Other Items \$000
Operating leases which expire:				
Within 1 year	126	-	135	-
Within 2 to 5 years	146	66	1,864	16
After more than 5 years	3,100	-	3,242	-
	<u>3,372</u>	<u>66</u>	<u>5,241</u>	<u>16</u>

Other items comprise office equipment

16. Share Capital

	2010		2009	
	No	\$000	No	\$000
Allotted, called up share capital				
Ordinary shares of £1 each	<u>28,898,952</u>	<u>41,214</u>	<u>28,898,952</u>	<u>41,214</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

17. Reserves

	Special reserve \$000	Profit and loss account \$000 <i>Restated</i>
Balance at 1 January 2010 as previously reported	21,535	72,993
Prior year adjustment	-	2,075
	<hr/>	<hr/>
Balance at 1 January 2010 as restated	21,535	75,068
Profit for the financial year	-	(20,693)
	<hr/>	<hr/>
At end of year	<u>21,535</u>	<u>54,375</u>

Following a capital reduction process during 2006 a special reserve was created to protect certain outstanding creditors as at the capital reduction date. This reserve will be transferred back to the profit and loss account when the company no longer has any liability in respect of these creditors.

As explained in Note 1 the company now capitalises interest within stock where allowable, to bring the company in line with group policy. This has given rise to a prior year adjustment of \$815,000. In addition, the company now capitalises steaming and mobilisation costs where allowable, to bring the company in line with group policy. This has given rise to a prior year adjustment of \$1,260,000.

18. Reconciliation of movements in shareholder's funds

	2010 \$000	2009 \$000 <i>Restated</i>
(Loss) / profit for the financial year as previously reported	(20,693)	31,681
Prior year adjustment	-	(1,094)
	<hr/>	<hr/>
Restated (loss) / profit for the financial year	(20,693)	30,587
Opening shareholder's funds as previously reported	137,817	104,061
Prior year adjustment	-	3,169
	<hr/>	<hr/>
Restated opening shareholder's funds	137,817	107,230
	<hr/>	<hr/>
Closing shareholder's funds	<u>117,124</u>	<u>137,817</u>

As explained in Note 1 the company now capitalises interest within stock where allowable, to bring the company in line with group policy. This has given rise to a prior year adjustment of \$815,000. In addition, the company now capitalises steaming and mobilisation costs where allowable, to bring the company in line with group policy. This has given rise to a prior year adjustment of \$1,260,000.

19. Related party transactions

As a wholly owned subsidiary of Petroleum Geo-Services ASA the company has taken advantage of the exemptions provided by FRS 8 (Related Party Transactions) in not disclosing transactions with other wholly owned group companies. There were no other related party transactions.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

20. Immediate and ultimate parent company

The immediate parent company is Petroleum Geo-Services (UK) Limited, a company registered in the United Kingdom. The ultimate parent company and the ultimate controlling party is Petroleum Geo-Services ASA, a company registered in Norway. The smallest and largest group in which the results of the company are consolidated is that headed by Petroleum Geo-Services ASA.

Group financial statements are available from Petroleum Geo-Services ASA, Strandveien 4, 1366 Lysaker, Norway.