



COMPANY REGISTRATION NUMBER 02904391

**PGS EXPLORATION (UK) LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**PGS EXPLORATION (UK) LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

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

**Directors**

G Langseth  
C Steen-Nilsen  
J Reinhardsen

**Secretary**

M C Pinto (resigned 13 September 2013)  
C Richards (appointed 13 September 2013)

**Auditors**

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

**Registered office**

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

**Registered number**

02904391

# **PGS EXPLORATION (UK) LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and financial statements of the company for the year ended 31 December 2012

### **Principal activities**

The principal activity of the company is the provision of geophysical 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 a substantial international MultiClient seismic data library.

### **Results and dividends**

The profit for the year after taxation is \$7,581,000 (2011: \$10,893,000)

The directors do not recommend a dividend (2011: \$40,170,000)

### **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.

Gross profit margins increased in 2012, reflecting a stronger seismic market. Increased implementation of GeoStreamer technology also contributed to the improvement. For the first time, MultiClient revenues exceeded marine contract revenues, driven by pre-funded customer surveys in the North Sea and offshore Angola. In addition, the company achieved a greater level of late sales.

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.

### **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 seismic service providers 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 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.

## **PGS EXPLORATION (UK) LIMITED**

### **DIRECTORS' REPORT** *(continued)*

#### **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.

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. 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 65 to 67 of the group's annual report.

#### **Key performance indicators ("KPIs")**

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 60 to 70 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.

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.

## **PGS EXPLORATION (UK) LIMITED**

### **DIRECTORS' REPORT** *(continued)*

#### **Political and charitable contributions**

The company made no political or charitable donations nor incurred any political expenditure during the year

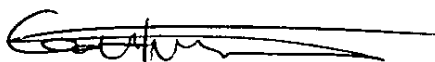
#### **Disclosure of information to auditor**

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 auditor is 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 auditor is aware of that information

#### **Re-appointment of auditor**

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

Signed on behalf of the board



G Langseth  
Director

12 September 2013

## **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.

## **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 2012 set out on pages 8 to 21. 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 auditor's 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 auditor**

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 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 Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **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 2012 and of its profit 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.

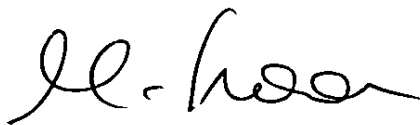


**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS  
EXPLORATION (UK) LIMITED** *(continued)*

**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



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

16 September 2013

**PGS EXPLORATION (UK) LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 \$000	2011 \$000
Turnover	<b>2</b>	333,984	328,231
Cost of sales		<u>(307,565)</u>	<u>(309,067)</u>
<b>Gross profit</b>		26,419	19,164
Administrative expenses		<u>(13,514)</u>	<u>(8,914)</u>
<b>Operating profit</b>	<b>3</b>	12,905	10,250
Interest receivable	<b>5</b>	-	1,478
Interest payable and similar charges	<b>6</b>	<u>(963)</u>	<u>(46)</u>
<b>Profit on ordinary activities before taxation</b>		11,942	11,682
Tax on profit on ordinary activities	<b>7</b>	<u>(4,361)</u>	<u>(789)</u>
<b>Profit for the financial year</b>		<u><u>7,581</u></u>	<u><u>10,893</u></u>

The company's results are derived from continuing activities.

There are no recognised gains or losses other than as shown in the profit and loss account above

The notes on pages 10 to 21 form part of these financial statements

**PGS EXPLORATION (UK) LIMITED**

**BALANCE SHEET**

**31 DECEMBER 2012**

	Note	2012 \$000	\$000	2011 \$000	\$000
<b>Fixed assets</b>					
Tangible assets	8		19,037		16,451
<b>Current assets</b>					
Stocks	9	83,036		42,188	
Debtors ( <i>including amounts receivable after more than one year of \$4,493,000 (2011 \$11,163,000)</i> )	10	54,142		88,971	
Cash at bank		27		571	
		<u>137,205</u>		<u>131,730</u>	
<b>Creditors: amounts falling due within one year</b>	11	<u>(57,919)</u>		<u>(58,116)</u>	
<b>Net current assets</b>			79,286		73,614
<b>Total assets less current liabilities</b>			98,323		90,065
<b>Creditors: amounts falling due after more than one year</b>	12		(2,895)		(2,218)
<b>Net assets</b>			<u>95,428</u>		<u>87,847</u>
 <b>Capital and reserves</b>					
Called up share capital	14		41,214		41,214
Profit and loss account	15		32,679		25,098
Special reserve	15		21,535		21,535
<b>Shareholder's funds</b>	16		<u>95,428</u>		<u>87,847</u>

These financial statements were approved by the directors on the 12 September 2013 and are signed on their behalf by

  
C Steen-Nilsen  
Director

Registered number 02904391

The notes on pages 10 to 21 form part of these financial statements.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**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

**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.

*(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.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**1. Accounting policies (continued)**

*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.

**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

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**1. Accounting policies** *(continued)*

**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 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**

The MultiClient library consists of seismic data surveys to be licensed to one or more customers on a nonexclusive basis. Costs, including depreciation and operating lease costs, incurred in acquiring, processing and otherwise completing seismic surveys are capitalised into the MultiClient library.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**1. Accounting policies** *(continued)*

The MultiClient library is recorded at cost net of accumulated amortisation and impairments. Amortisation of the multi-client library is recorded in proportion to revenue recognized to date as a percentage of the total expected revenue. At year-end, each project is evaluated for impairment and valued at the lower of cost and fair value (based upon the discounted value of future estimated revenues less selling costs). Each project is also subject to a minimum amortisation which reduces its net book value to nil over a maximum period of five years from the year of completion.

**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 in the UK. The scheme was closed to new entrants in 2006. 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 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.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**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:

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
United Kingdom	135,322	70,764
Other European countries	31,757	33,119
Americas	78,482	145,629
Middle East & Africa	67,424	59,794
Rest of the World	20,999	18,925
	<u>333,984</u>	<u>328,231</u>

**3. Operating profit**

Operating profit is stated after charging / (crediting)

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Research and development expenditure	2,544	2,859
Depreciation of owned fixed assets (note 8)	4,638	4,892
Auditor's remuneration		
Audit of these financial statements	61	117
Operating hire costs		
Other	3,259	3,163
Plant and machinery	91,921	94,706
Recharge of additional pension contributions	4,626	4,839
Loss on foreign currency translation	393	783
(Gain) on disposal of tangible fixed assets	(16)	(1)
Additional loss on disposal of business in 2010	<u>332</u>	<u>-</u>

Research and development expenditure is wholly rechargeable to a group company.

**4. Staff costs and directors' remuneration**

**(a) Staff costs**

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Wages and salaries	24,731	20,422
Social security costs	2,836	2,353
Other pension costs	1,173	1,160
	<u>28,740</u>	<u>23,935</u>



**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**4. Staff costs and directors' remuneration** *(continued)*

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

	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>
Geophysical management	1	2
Data processing & technology	136	129
Accounting and administration	40	36
Other	38	33
	<u>215</u>	<u>200</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 (2011 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**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Net interest receivable on amounts due from group undertakings	-	1,271
Unwinding of discount rate	-	207
	<u>-</u>	<u>1,478</u>

**6. Interest payable and similar charges**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Net interest payable on amounts due to group undertakings	463	-
Other interest payable	15	46
Unwinding of discount rate	485	-
	<u>963</u>	<u>46</u>

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

**7. Taxation on profit on ordinary activities**

<b>(a) Analysis of charge in the year</b>	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Current tax		
UK corporation tax for the year	-	-
Adjustment in respect of prior period	-	(287)
Foreign tax on income for the year	3,534	1,362
Foreign tax on income for prior periods	(2,137)	(5,000)
	<u>1,397</u>	<u>(3,925)</u>
Deferred taxation		
Current year charge	3,161	4,230
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(197)	484
	<u>2,964</u>	<u>4,714</u>
Total tax charge on profit on ordinary activities	<u>4,361</u>	<u>789</u>

**(b) Factors affecting current tax charge**

The tax assessed on the profit on ordinary activities for the year is lower (2011 – lower) than the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are reconciled below

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Profit on ordinary activities before taxation	<u>11,942</u>	<u>11,682</u>
Expected tax charge at standard tax rate	2,926	3,096
Expenses not deductible for tax purposes	283	1,065
Group relief claimed for no consideration	-	(577)
Current year tax losses utilised and other timing differences	(2,343)	(3,223)
Higher rate of foreign tax on income	2,668	1,001
Prior year foreign tax credit	(2,137)	(5,000)
Prior year tax charge / (credit)	-	(287)
Total current tax charge / (credit) (note 7(a))	<u>1,397</u>	<u>(3,925)</u>

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

**(c) Deferred tax asset**

The company has carried forward timing differences as shown below that are available indefinitely to be offset against certain 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 2012 \$000	Unrecognised 2012 \$000	Recognised 2011 \$000	Unrecognised 2011 \$000
Depreciation in advance of capital allowances	1,212	-	1,328	-
Other timing differences	1,211	6,186	1,339	6,186
Unrelieved tax losses	6,441	-	9,161	-
Total	<u>8,864</u>	<u>6,186</u>	<u>11,828</u>	<u>6,186</u>

The UK tax rate is in the process of being reduced from 28% to 20%. At 31 December 2012 the rate that had been substantively enacted, effective from 1 April 2013, was 23%. At 31 December 2011 the equivalent rate was 25%. Accordingly, the tax rate used for the deferred tax asset calculations at the balance sheet date is 23% (2011: 25%).

**(d) Movement on recognised deferred tax balances**

	2012 \$000	2011 \$000
At beginning of year	11,828	16,542
Charge to profit and loss account	(2,964)	(4,714)
At end of year	<u>8,864</u>	<u>11,828</u>

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**8. Tangible fixed assets**

	<b>Leasehold improvements \$000</b>	<b>Seismic equipment &amp; vehicles \$000</b>	<b>Computer equipment &amp; software \$000</b>	<b>Furniture &amp; office equipment \$000</b>	<b>Total \$000</b>
<b>Cost:</b>					
At 1 January 2012	12,130	258	19,362	10,329	42,079
Additions	16	-	7,147	140	7,303
Reclassification	(63)	-	63	-	-
Disposals	-	(61)	(5,038)	(489)	(5,588)
At 31 December 2012	<u>12,083</u>	<u>197</u>	<u>21,534</u>	<u>9,980</u>	<u>43,794</u>
<b>Depreciation:</b>					
At 1 January 2012	3,023	252	17,106	5,247	25,628
Charge for the year	1,012	3	2,905	718	4,638
On disposals	-	(61)	(4,960)	(488)	(5,509)
At 31 December 2012	<u>4,035</u>	<u>194</u>	<u>15,051</u>	<u>5,477</u>	<u>24,757</u>
<b>Net book value:</b>					
At 31 December 2012	<u>8,048</u>	<u>3</u>	<u>6,483</u>	<u>4,503</u>	<u>19,037</u>
At 31 December 2011	<u>9,107</u>	<u>6</u>	<u>2,256</u>	<u>5,082</u>	<u>16,451</u>

**9. Stocks**

	<b>2012 \$000</b>	<b>2011 \$000</b>
<b>Seismic data library</b>		
Work in progress	50,083	25,225
Completed data	<u>32,953</u>	<u>16,963</u>
	<u>83,036</u>	<u>42,188</u>

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**10. Debtors**

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Trade debtors	20,708	37,742
Amounts owed by immediate parent undertaking	109	2,053
Amounts owed by other group undertakings	5,718	7,703
Other debtors	425	1,192
Prepayments and accrued income	18,318	28,453
Deferred tax assets (notes 7(c) and 7 (d))	8,864	11,828
	<u>54,142</u>	<u>88,971</u>

Amounts owed between the company and the immediate parent undertaking or 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

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Deferred tax asset	<u>4,493</u>	<u>11,163</u>

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

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Trade creditors	3,456	4,632
Amounts owed to ultimate parent undertaking	13,267	10,535
Amounts owed to group undertakings	16,617	19,069
Other taxes and social security	746	529
Taxation	2,799	3,889
Accruals and deferred income	21,034	19,462
	<u>57,919</u>	<u>58,116</u>

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

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

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
Other creditors	<u>2,895</u>	<u>2,218</u>

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**13. Commitments under operating leases**

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	<b>2012</b>		<b>2011</b>	
	<b>Land &amp; Buildings</b>	<b>Other Items</b>	<b>Land &amp; Buildings</b>	<b>Other Items</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Operating leases which expire				
Within 1 year	-	17	-	-
Within 2 to 5 years	324	2,912	21	2,514
After more than 5 years	3,100	-	3,100	-
	<u>3,424</u>	<u>2,929</u>	<u>3,121</u>	<u>2,514</u>

Other items comprise office equipment. In addition to the items above the company charters a vessel from another group company. The lease can be terminated by either party at any time.

**14. Share Capital**

	<b>2012</b>		<b>2011</b>	
	<b>No</b>	<b>\$000</b>	<b>No</b>	<b>\$000</b>
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>

**15. Reserves**

	<b>Special reserve</b>	<b>Profit and loss account</b>
	<b>\$000</b>	<b>\$000</b>
Balance at 1 January 2012	21,535	25,098
Profit for the financial year	-	7,581
At end of year	<u>21,535</u>	<u>32,679</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.

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**16. Reconciliation of movements in shareholder's funds**

	<b>2012</b> <b>\$000</b>	<b>2011</b> <b>\$000</b>
Profit for the financial year	7,581	10,893
Dividend paid in the year	-	(40,170)
Opening shareholder's funds	87,847	117,124
Closing shareholder's funds	<u>95,428</u>	<u>87,847</u>

**17. 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.

**19. 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, Lilleakerveien 4C, P O Box 251 Lilleaker, 0216 Oslo, Norway.