



**PGS EXPLORATION (UK) LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2009**

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**PGS EXPLORATION (UK) LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

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

<b>Directors</b>	G Langseth C Steen-Nilsen J Reinhardsen
<b>Secretary</b>	M C Pinto
<b>Auditors</b>	KPMG LLP One Snow Hill Snowhill Queensway Birmingham West Midlands, B4 6GH United Kingdom
<b>Registered office</b>	4, The Heights Brooklands Weybridge Surrey, KT13 0NY United Kingdom
<b>Registered number</b>	2904391

# **PGS EXPLORATION (UK) LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and financial statements of the company for the year ended 31 December 2009

### **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 with operations worldwide. The group offers a wide range of seismic and reservoir services, including acquisition, processing, interpretation and field evaluation. It also possesses the world's most extensive MultiClient data library.

### **Results and dividends**

The profit for the year after taxation is \$31,681,000 (2008: \$21,759,000)

The directors do not recommend a dividend (2008: 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.

During 2009 the company has achieved higher revenues for acquisition activities particularly relating to Brazilian surveys that commenced in late 2008 and continued throughout 2009. Such activities were accompanied by increased costs of sale.

Revenues from data processing also increased during the year primarily due to the fact that PGS offers differentiating technologies 'GeoStreamer' and 'AGS Beam', providing customers with unique tools to better image their reservoir. Data processing also has tight cost control and is taking steps to align its resource level with market conditions while growing external revenue, thereby increasing margins.

The seismic industry continues to be impacted by changes in the financial markets and oil prices, however the company retains a competitive advantage in its cost efficient and uniform fleet which has been an important factor in operating successfully in a temporarily weaker market.

### **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 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

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 56 to 58 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 50 to 60 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)*

### **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

27 September 2010

## **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 2009 set out on pages 8 to 22. 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 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/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

**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 2009 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.

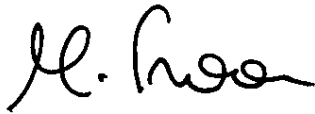


**PGS EXPLORATION (UK) LIMITED**  
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS**  
**EXPLORATION (UK) LIMITED** *(continued)*

**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 2010

**PGS EXPLORATION (UK) LIMITED**

**PROFIT AND LOSS ACCOUNT**

**31 DECEMBER 2009**

	Notes	2009 \$000	2008 \$000
Turnover	2	326,773	220,587
Cost of sales		<u>(287,157)</u>	<u>(167,715)</u>
<b>Gross profit</b>		39,616	52,872
Administrative expenses		<u>(7,108)</u>	<u>(16,793)</u>
<b>Operating profit</b>	3	32,508	36,079
Interest receivable	5	4,016	3,543
Interest payable and similar charges	6	<u>(371)</u>	<u>-</u>
<b>Profit on ordinary activities before taxation</b>		36,153	39,622
Tax on profit on ordinary activities	7	<u>(4,472)</u>	<u>(17,863)</u>
<b>Profit for the financial year</b>		<u>31,681</u>	<u>21,759</u>

The company's results are derived from continuing activities. There are no recognised gains and losses other than the results for the current and preceding year as set out above.

The notes on pages 10 to 22 form part of these financial statements.


**PGS EXPLORATION (UK) LIMITED**

**BALANCE SHEET**

**31 DECEMBER 2009**

	Note	2009 \$000	2008 \$000
<b>Fixed assets</b>			
Tangible assets	8	22,395	25,272
<b>Current assets</b>			
Investments	9	840	1,156
Stocks	10	37,075	11,041
Debtors	11	144,275	142,997
Cash at bank		14,342	3,798
		<u>196,532</u>	<u>158,992</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(73,044)</u>	<u>(71,506)</u>
<b>Net current assets</b>		123,488	87,486
<b>Total assets less current liabilities</b>		<u>145,883</u>	<u>112,758</u>
<b>Creditors: amounts falling due after more than one year</b>	13	(8,427)	(6,031)
<b>Provisions for liabilities and charges</b>	14	<u>(1,714)</u>	<u>(2,666)</u>
<b>Net assets</b>		<u>135,742</u>	<u>104,061</u>
 <b>Capital and reserves</b>			
Called up share capital	16	41,214	41,214
Profit and loss account	17	72,993	41,312
Special reserve	17	21,535	21,535
<b>Shareholder's funds</b>	18	<u>135,742</u>	<u>104,061</u>

These financial statements were approved by the directors on the 27 September 2010 and are signed on their behalf by

  
C Steen-Nilsen  
Director

Registered number 2904391

The notes on pages 10 to 22 form part of these financial statements.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

**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, except as noted below

The following amendments to standards have been adopted in these financial statements for the first time

The amendment to FRS 8 Related Parties Disclosures (mandatory for periods beginning on/after 6 April 2008) The amendment has the effect that only wholly-owned subsidiaries are exempt from disclosure of intra-group transactions and there is no longer a disclosure exemption available in parent company's own financial statements

The amendment to FRS 21 Events after the balance sheet date (mandatory for periods starting on/after 1 January 2009) to confirm no obligation exists at the balance sheet date for dividends declared after that date

**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

The directors have reassessed the classification of the onerous lease provision and the dilapidations accrual and have restated certain opening balances to show a fairer presentation Full details are in Note 14

**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

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

**1. Accounting policies (continued)**

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.

*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 2009**

**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

**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.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

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

**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.

**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 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 2009**

**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>2009</b> <b>\$000</b>	<b>2008</b> <b>\$000</b>
United Kingdom	87,754	51,135
Other European countries	10,189	27,095
Americas	195,595	72,352
Middle East & Africa	31,137	45,252
Rest of the World	2,098	24,753
	<u>326,773</u>	<u>220,587</u>

**3. Operating profit**

Operating profit is stated after charging/(crediting)

	<b>2009</b> <b>\$000</b>	<b>2008</b> <b>\$000</b>
Research and development expenditure	443	1,336
Depreciation of owned fixed assets	6,415	4,895
Auditor's remuneration		
Audit of these financial statements	100	139
Other services relating to taxation	14	-
Payable to Ernst & Young LLP for audit	-	(115)
Operating hire costs		
Other	1,060	1,650
Plant and machinery	102,413	17,650
Loss on foreign currency translation	1,428	3,029
Gain on disposal of tangible fixed assets	(177)	(160)
Gain on disposal of investments (note 9)	(441)	-
Management charges relating to additional pension contributions paid by the immediate parent company	<u>7,776</u>	<u>3,881</u>

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

**(a) Staff costs**

	<b>2009</b> <b>\$000</b>	<b>2008</b> <b>\$000</b>
Wages and salaries	18,484	16,388
Social security costs	1,875	1,698
Other pension costs	(2,259)	5,353
	<u>18,100</u>	<u>23,439</u>

In 2008 the pension cost above 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



**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

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

2007 and 2008 Following a review of this policy this year, this charge has been 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

	<b>2009</b>	<b>2008</b>
	<b>No.</b>	<b>No.</b>
Geophysical management	7	5
Data processing & technology	118	108
Accounting and administration	29	28
Other	25	24
	<u>179</u>	<u>165</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 (2008 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>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Bank interest receivable	49	788
Interest receivable on amounts due from group undertakings	3,865	2,755
Other interest receivable	102	-
	<u>4,016</u>	<u>3,543</u>

**6. Interest payable and similar charges**

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Interest payable on amounts due to group undertakings	23	-
Other interest payable	1	-
Other finance charges	347	-
	<u>371</u>	<u>-</u>

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2009**

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

<b>(a) Analysis of charge in the year</b>	<b>2009 \$000</b>	<b>2008 \$000</b>
Current tax (credit)/charge		
UK corporation tax for the year	-	-
Foreign tax on income for the year	70	2,736
Foreign tax on income for prior periods	(1,656)	1,293
	<u>(1,586)</u>	<u>4,029</u>
Deferred taxation		
Current year charge	9,343	14,333
Tax credits brought forward no longer recognised	2,631	-
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	(1,592)	(499)
	<u>6,058</u>	<u>13,834</u>
Total tax on profit on ordinary activities	<u>4,472</u>	<u>17,863</u>

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

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 – 28.5%) The differences are reconciled below

	<b>2009 \$000</b>	<b>2008 \$000</b>
Profit on ordinary activities before taxation	<u>36,153</u>	<u>39,622</u>
Expected tax charge at standard tax rate	10,123	11,292
Expenses not deductible for tax purposes	214	67
Group relief claimed for no consideration	(1,124)	(1,013)
Tax losses and other timing differences	(9,343)	(14,333)
Higher rate of foreign tax on income	200	1,588
Revaluation of losses carried forward	-	4,889
Impairment of assets not allowable	-	415
Change in tax rate relating to timing differences	-	(169)
Prior year foreign tax (credit)/ charge	(1,656)	1,293
Prior year research and development claims	(1,592)	(499)
Prior period tax losses and other timing differences not recognised	1,592	499
Total current tax (credit)/charge (note 7(a))	<u>(1,586)</u>	<u>4,029</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 future taxable profits

	Recognised 2009 \$000	Unrecognised 2009 \$000	Recognised 2008 \$000	Unrecognised 2008 \$000
Depreciation in advance of capital allowances	1,348	-	912	-
Other timing differences	1,689	6,234	4,036	3,972
Unrelieved tax losses	7,141	-	11,288	-
Total	<u>10,178</u>	<u>6,234</u>	<u>16,236</u>	<u>3,972</u>

Deferred tax assets have been recognised in relation to these losses and other timing differences to the extent that they satisfy the recognition criteria for deferred tax assets in FRS 19 'Deferred Tax'

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

	2009 \$000	2008 \$000
At beginning of year	16,236	30,070
Charge to profit and loss account	(6,058)	(13,834)
At end of year	<u>10,178</u>	<u>16,236</u>

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**8. Tangible fixed assets**

	Leasehold improvements \$000	Seismic equipment & vehicles \$000	Computer equipment & software \$000	Furniture & office equipment \$000	Total \$000
<b>Cost:</b>					
At 1 January 2009	12,268	2,763	21,571	11,753	48,355
Additions	923	99	2,993	331	4,346
Disposals	<u>(763)</u>	<u>(56)</u>	<u>(89)</u>	<u>(25)</u>	<u>(933)</u>
At 31 December 2009	<u>12,428</u>	<u>2,806</u>	<u>24,475</u>	<u>12,059</u>	<u>51,768</u>
<b>Depreciation:</b>					
At 1 January 2009	409	1,846	16,782	4,046	23,083
Charge for the year	860	582	3,630	1,342	6,414
On disposals	<u>-</u>	<u>(38)</u>	<u>(61)</u>	<u>(25)</u>	<u>(124)</u>
At 31 December 2009	<u>1,269</u>	<u>2,390</u>	<u>20,351</u>	<u>5,363</u>	<u>29,373</u>
<b>Net book value:</b>					
At 31 December 2009	<u>11,159</u>	<u>416</u>	<u>4,124</u>	<u>6,696</u>	<u>22,395</u>
At 31 December 2008	<u>11,859</u>	<u>917</u>	<u>4,789</u>	<u>7,707</u>	<u>25,272</u>

**9. Investments**

	\$000
<b>Cost</b>	
At 1 January 2009	3,800
Disposals	<u>(1,040)</u>
	<u>2,760</u>
<b>Impairment</b>	
At 1 January 2009	2,644
Release of impairment in relation to disposals in period	<u>(724)</u>
	<u>1,920</u>
<b>Net book value</b>	
31 December 2009	<u>840</u>
31 December 2008	<u>1,156</u>

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**9. Investments (continued)**

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 the year the company disposed of 633,050 shares, realising proceeds of \$757,289 and a gain on sale of \$441,000.

The carrying value of the investment as at 31 December 2009 represents a holding of 1,679,450 shares at \$0.50 each. The market value of each share as at 31 December 2009 was \$1.08 giving an aggregated market value of \$1,814,000 for this investment.

**10. Stocks**

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
<b>Seismic data library</b>		
Work in progress	26,615	6,674
Completed data	10,460	4,367
	<u>37,075</u>	<u>11,041</u>

**11. Debtors**

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Trade debtors	40,275	26,590
Amounts owed by ultimate parent undertaking	58,108	44,151
Amounts owed by other group undertakings	5,677	45,099
Other debtors	41	2,574
Prepayments and accrued income	29,996	8,347
Deferred tax assets (notes 7(c) and 7 (d))	10,178	16,236
	<u>144,275</u>	<u>142,997</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.

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

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Deferred tax asset	<u>3,037</u>	<u>5,596</u>

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

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Trade creditors	12,596	36,077
Amounts owed to group undertakings	21,796	11,441
Other taxes and social security	507	606
Taxation	6,377	13,539
Accruals and deferred income	31,768	9,843
	<u>73,044</u>	<u>71,506</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**

	<b>2009</b>	<b>2008</b>
	<b>\$000</b>	<b>\$000</b>
Foreign tax payable	5,000	2,813
Other creditors	3,427	3,218
	<u>8,427</u>	<u>6,031</u>

The foreign tax creditor at 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

**14. Provisions for liabilities and charges**

	<b>2009</b>
	<b>\$000</b>
At beginning of year	2,666
Charge to the profit and loss account for the year	(1,200)
Additional amounts provided	164
Unwinding of discount rate	84
At end of year	<u>1,714</u>

The provision relates to an onerous lease arising from the relocation from the PGS Court office. In the previous year this balance of \$2,666,000 was recorded within 'Accruals and deferred income' (\$1,288,000) and the remaining balance was already within 'Provisions for liabilities and charges' (\$1,378,000). In addition, the dilapidation provision has been reviewed and reclassified entirely as 'Creditors falling due after more than one year'. In the previous year this balance of \$3,218,000 was recorded within 'Provisions for liabilities and charges' (\$943,000) with the remaining balance being already within 'Creditors falling due after more than one year' (\$2,275,000). The directors have reviewed the classification of these liabilities and as a result have restated the comparative figures to clarify this as a Provision and Long Term Creditor respectively.

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**15. Commitments under operating leases**

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below

	<b>2009</b>		<b>2008</b>	
	<b>Land &amp; Buildings \$000</b>	<b>Other Items \$000</b>	<b>Land &amp; Buildings \$000</b>	<b>Other Items \$000</b>
Operating leases which expire				
Within 1 year	135	-	141	48
Within 2 to 5 years	1,864	16	383	16
After more than 5 years	3,242	-	4,903	-
	<u>5,241</u>	<u>16</u>	<u>5,427</u>	<u>64</u>

Other items comprise office equipment

**16. Share Capital**

	<b>2009</b>		<b>2008</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>

**17. Reserves**

	<b>Special reserve \$000</b>	<b>Profit and loss account \$000</b>
At beginning of year	21,535	41,312
Profit for the financial year	-	31,681
At end of year	<u>21,535</u>	<u>72,993</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.

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

	<b>2009 \$000</b>	<b>2008 \$000</b>
Profit for the financial year	31,681	21,759
Opening shareholder's funds	<u>104,061</u>	<u>82,302</u>
Closing shareholder's funds	<u>135,742</u>	<u>104,061</u>

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**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.

**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.