

COMPANY REGISTRATION NUMBER 4051818



**PGS IKDAM LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2006**



**PGS IKDAM LIMITED**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

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**PGS IKDAM LIMITED**

**COMPANY REGISTRATION NUMBER 4051818**

**OFFICERS AND OTHER INFORMATION**

<b>Directors</b>	C Steen-Nilsen	(appointed 29-11-2006)
	S Rennemo	(appointed 29-11-2006)
	G Langseth	(appointed 29-11-2006)
	T Ruud	(resigned 29-11-2006)
	S Eggan	(resigned 29-11-2006)

<b>Secretary</b>	S Wagner
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<b>Auditors</b>	Ernst & Young LLP 1 More London Place London SE1 2AF
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<b>Bankers</b>	None
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<b>Solicitors</b>	Herbert Smith 20 rue Quentin Bauchart 75008 Paris
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<b>Registered office</b>	PGS Court Halfway Green Walton on Thames Surrey KT12 1RS
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**PGS IKDAM LIMITED**  
**DIRECTORS' REPORT**

The directors present their report and financial statements of the company for the year ended 31 December 2006

**Results and dividends**

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements

The directors have not recommended a dividend

**Principal activities, review of the business and future developments**

The company is a member of the Petroleum Geo-Services Group, a Norwegian registered oil services group with operations worldwide

The only activity of the company is to hold a 40% investment in Ikdam Production SA, a company that owns a Floating Production, Storage and Offloading unit currently operating off the coast of Tunisia. The investment in Ikdam Production SA was sold to PGS Production SA on 4 May 2006. The company will continue pending new activity.

**Reporting currency**

With effect from 1 January 2005, the reporting currency of the company was changed from British pounds to US Dollars as the main activities of the company are conducted in US Dollars.

**Financial risk management objectives and policies**

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to competition from other international oil and gas industry consultants.

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the Petroleum Geo-Services Group, which include those of the company, are discussed on page 7 of the group's annual report which does not form part of this 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 Ikdam Limited. The development, performance and position of the group, which includes the company, is discussed on pages 34 to 48 of the group's annual report which does not form part of this report.

**Policy on the payment of creditors**

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

**PGS IKDAM LIMITED**  
**DIRECTORS' REPORT** *(continued)*

**Directors and their interests**

The directors who served the company during the year were as follows

C Steen-Nilsen	(appointed 29-11-2006)
S Rennemo	(appointed 29-11-2006)
G Langseth	(appointed 29-11-2006)
T Ruud	(resigned 29-11-2006)
S Eggan	(resigned 29-11-2006)

None of the above directors had or has any interests in the shares of the company

**Directors' statement as to disclosure of information to auditors**

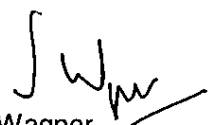
The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

**Re-appointment of auditors**

A resolution to re-appoint Ernst & Young LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

Signed by order of the board

  
S Wagner  
Company Secretary

29<sup>th</sup> October 2007

Registered office  
PGS Court  
Halfway Green  
Walton on Thames  
Surrey  
KT12 1RS

**PGS IKDAM LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**YEAR ENDED 31 DECEMBER 2006**

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies, as described on page 9, and then apply them consistently,
- make judgements 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements, and having reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PGS IKDAM LIMITED**

We have audited the financial statements of PGS Ikdam Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### **Basis of audit opinion**

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
PGS IKDAM LIMITED** *(continued)*

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- The financial statements have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the Directors' Report is consistent with the financial statements

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditors  
London

*31 October 2007*



**PGS IKDAM LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2006**

	Note	2006 \$000	2005 \$000
<b>Turnover</b>	<b>2</b>	-	-
<b>Share of results of associate</b>	<b>8</b>	42	243
		<u>42</u>	<u>243</u>
<b>Administrative expenses</b>		(25)	(21)
<b>Operating profit</b>		<u>17</u>	<u>222</u>
Interest payable to group undertakings		(3)	(191)
Interest receivable from group undertakings		93	-
<b>Profit on ordinary activities before taxation</b>	<b>4</b>	<u>107</u>	<u>31</u>
<b>Tax on profit on ordinary activities</b>	<b>7</b>	-	-
<b>Profit for the financial year</b>		<u><u>107</u></u>	<u><u>31</u></u>

The company has no recognised gains or losses other than the profit for the year as set out above. The company's results are derived from continuing activities.

The notes on pages 9 to 13 form part of these financial statements

**PGS IKDAM LIMITED**  
**BALANCE SHEET**  
**31 DECEMBER 2006**

	Note	2006 \$000	2005 \$000
<b>Fixed assets</b>			
Investment in Ikdam Production SA		-	5,653
<b>Debtors amounts falling due within one year</b>	10	2,296	-
<b>Creditors amounts falling due within one year</b>	9	(14)	(3,478)
<b>Net Assets</b>		<u>2,282</u>	<u>2,175</u>
<b>Capital and reserves</b>			
Called-up share capital	11	9,808	9,808
Profit and loss account	12	(7,526)	(7,633)
<b>Equity shareholder's funds</b>		<u>2,282</u>	<u>2,175</u>

These financial statements were approved by the directors on the 24<sup>th</sup> October 2007 and are signed on their behalf by

  
C Steen-Nilsen  
Director

The notes on pages 9 to 13 form part of these financial statements

**PGS IKDAM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

**1. Accounting policies**

**Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and include the results of the company's operations which are described in the directors' report, all of which are continuing

**Cash flow statement**

The company is a subsidiary of Petroleum Geo-Services ASA and its results are included in that company's financial statements which are publicly available. Consequently the company is exempt under the terms of FRS 1 (revised) from presenting a cash flow statement

**Fixed asset investment**

Fixed asset investments are shown at cost less provision for impairment

Investment in Ikdam Production SA is recorded using the equity method, which means that 40% of the result of the company is recorded in the profit and loss account and against the investment account in the Balance Sheet

**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 receive more, tax, with the following exceptions

- provision is made for deferred tax that would arise on remittance of 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
- 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 the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

**Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account

**2. Turnover**

The company has no turnover

**PGS IKDAM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

**3 Impairment charges**

In accordance with FRS 11 "Impairment of Fixed Assets" and goodwill, the directors determined that the carrying value of the investment in Ikdam Production SA exceeded the recoverable amount at year-end 2003, as represented by its value in use to the company. The value in use was determined using discounted cash flow projections. The results of such projections were such that the entire carrying value of the investment was not supportable and accordingly it was written down by £164,000 in the accounts for 2003. At year end of 2004 and 2005, the directors have determined that the carrying value is supported by the recoverable amount. The asset was sold on 4 May 2006 and as such the asset has zero value as at the balance sheet date.

**4. Profit on ordinary activities**

This is stated after charging

	2006 \$000	2005 \$000
Auditors remuneration – audit services	23	19
Exchange loss	<u>1</u>	<u>-</u>

**5. Directors' emoluments**

The directors did not receive any emoluments for the services they provided to the company during the year (2005 – \$nil)

**6. Staff costs**

The company employed no staff during the current and previous years

**7. Taxation on ordinary activities**

**(a) Analysis of charge in the year**

	2006 \$000	2005 \$000
Current tax		
UK Corporation tax based on the results for the year	-	-
Deferred taxation	<u>-</u>	<u>-</u>
Total tax on profit on ordinary activities	<u>-</u>	<u>-</u>

**PGS IKDAM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

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

**(b) Factors affecting current tax 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 30% (2005 - 30%)

The differences are reconciled below

	2006 \$000	2005 \$000
Profit on ordinary activities before taxation	107	31
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	32	9
Non deductible expenditure/ non taxable income	(12)	94
Group relief surrendered without payment	585	(150)
Timing differences not recognised	(605)	47
Prior period timing differences not recognised	(47)	-
Prior period group relief claimed	47	-
Total current tax (note 7(a))	-	-

**(c) Deferred tax asset**

The company has unrecognised deferred tax assets in respect of carried forward timing differences as shown below that are available indefinitely to be offset against future taxable profits

	2006 \$000	2005 \$000
Timing differences on interest payable	-	652

Deferred tax assets have not been recognised in relation to these losses and other timing differences as they do not satisfy the recognition criteria for deferred tax assets in FRS 19 'Deferred Tax'. These assets would be realised if sufficient taxable profits are generated in the future against which the profits could be offset

**PGS IKDAM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

**8 Fixed asset investment**

	Investment in shares \$000	Loans \$000	Impairment charges \$000	Share of result \$000	Total \$000
Balance at 1 January 2006	19	8,817	(3,894)	711	5,653
Share of result in 2006	-	-	-	42	42
Sale of fixed asset investment	(19)	(8,817)	3,894	(753)	(5,695)
Balance at 31 December 2006	-	-	-	-	-

The above participating interest represents a 40% holding in Ikdam Production SA. The loans represent monies lent to this company. This asset was sold to PGS Production SA on 4 May 2006 at its carrying value.

**9 Creditors: amounts falling due within one year**

	2006 \$000	2005 \$000
Amounts owed to group undertakings	14	3,478

**10 Debtors: amounts falling due within one year**

	2006 \$000	2005 \$000
Amounts owed by group undertakings	2,296	-

**11 Share capital**

**Authorised share capital:**

	2006 £000	2005 £000
10,000,000 Ordinary shares of £1 each	10,000	10,000

**Allotted, called up and fully paid:**

	2006 Nos.	\$000	2005 Nos	\$000
Ordinary shares of £1 each	5,100,100	9,808	5,100,100	9,808

**PGS IKDAM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2006**

**12. Reconciliation of shareholders' funds and movement in reserves**

	Share Capital	Profit and loss account	Total shareholders funds
	\$000	\$000	\$000
1 January 2006	9,808	(7,633)	2,175
Profit for year	-	107	107
As at 31 December 2006	<u>9,808</u>	<u>(7,526)</u>	<u>2,282</u>

**13. Related party transactions**

The company has taken advantage of the exemptions provided by FRS 8 (Related Party Transactions) in not disclosing transactions with other group companies where there is a common ownership interest of 90% or more

**14 Ultimate parent company**

The ultimate parent company and the ultimate controlling party is Petroleum Geo-Services ASA, a company registered in Norway. Group financial statements are available from Petroleum Geo-Services ASA, Strandveien 4, 1366 Lysaker, Norway. The smallest and largest group in which the results of the company are consolidated is that headed by Petroleum Geo-Services ASA.