

MTEM Limited

**Directors' report and financial
statements**

Registered number SC243297

31 December 2007

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Company information

Directors	B Dingwall (Chairman)	(resigned 29 June 2007)
	L Walker	
	Dr B Hobbs	(resigned 29 June 2007)
	Professor A Ziolkowski	(resigned 29 June 2007)
	M Fleming	(resigned 29 June 2007)
	E Gamman	(resigned 29 June 2007)
	O Saetre	(resigned 29 June 2007)
	G Langseth	(appointed 29 June 2007)
	C Steen Nilsen	(appointed 29 June 2007)
	S Rennemo	(appointed 29 June 2007, resigned 9 April 2008)
	J E Reinhardsen	(appointed 9 April 2008)
Company Secretary	A Robison	(resigned 9 April 2008)
	L Walker	(appointed 9 April 2008)
Registered Office	Birch House 10 Bankhead Crossway South Edinburgh EH11 4EP	
Registered Number	SC243297	
Solicitors	Dundas & Wilson LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EN	
Bankers	Bank of Scotland plc New Usher House 11 Earl Grey Street Edinburgh EH3 9BN	DnB Nor Bank ASA 20 St Dunstan's Hill London EC3R 8HY
Auditors	Ernst and Young LLP 10 George Street Edinburgh EH2 2DZ	

Directors' report

The directors present their directors' report and financial statements for the 12 month period ended 31 December 2007

Principal activities

The principal activity of the company in the period under review was that of the research, development and provision of remote electromagnetic (EM) sensing services designed to detect the presence of oil and gas

Business review

The results for the period and financial position of the company are as shown in the annexed financial statements

The directors are pleased with the progress of the business and its advancement in research and development activities during the financial period. The key milestones during the financial period are

- Successful launch of the marine EM operation. During the first quarter of the financial period the company carried out its first commercial EM survey in the North Sea. Following this the company carried out several North Sea EM surveys during the year.
- Higher take up of land EM services. During the financial period the company carried out 4 EM surveys across a variety of terrains worldwide.
- Acquisition of the company by Petroleum Geo Services ASA (PGS). On 29th June 2007 the company was acquired by PGS, a Norwegian based technology focused oilfield service company providing geophysical services worldwide. Following the acquisition the company and its operations have been successfully integrated into the PGS operation and this has provided benefits to the sales, operations and research and development activities of the existing business. The company will continue to focus on delivering more EM solutions both onshore and offshore through continued investment in its key research and development activities.

The directors are confident that following on from the integration of the company into PGS, the success of the EM surveys already undertaken and the continued innovation of additional multi transient EM solutions the current financial period will see an even greater demand for the company's EM services.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the period were as shown on page 1.

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the company according to the register of directors' interests.

	Class of share	Interest at end of period	Interest at start of period
L Walker	Ordinary – B £1 Preference £1		12,000 38,000
	Number of Options at start of period	Number of options granted	Number of options exercised
L Walker		738	(738)
			Number of options at end of period

Directors' report *(continued)*

Political and charitable contributions

The company did not make any political or charitable donations or incur any political expenditure during the period

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

During the year the company's auditors KPMG LLP resigned and the parent company's auditors Ernst & Young LLP were appointed as auditors to the company

By order of the board



C Steen Nilsen
Director

19 September 2008

40 Sciennes
Edinburgh
Lothian
EH9 1NJ
2008

Statement of directors' responsibilities in respect of the Directors' Report and the 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).

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 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,
- 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 enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of MTEM Limited

We have audited the financial statements of MTEM Limited for the 12 month period ended 31 December 2007 which comprise the profit and loss account, the balance sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 information given in 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of company's affairs as at 31 December 2007 and of the loss for the 12 month period 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
Chartered Accountants
Registered Auditor
Edinburgh

2008

19 September 2008

Profit and Loss Account

for the 12 month period ended 31 December 2007

	<i>Note</i>	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Turnover	5	2,124	513
Cost of Sales		(7,826)	(1,401)
Gross loss		(5,702)	(888)
Administrative expenses		(2,281)	(3,632)
Other operating income			135
Operating loss		(7,983)	(4,385)
Interest receivable and similar income	6	61	99
Interest payable and similar charges	7	(9,036)	(2,251)
Loss on ordinary activities before taxation	2 7	(16,958)	(6,537)
Tax (charge)/ credit on loss on ordinary activities	8	(25)	76
Loss for the financial year		(16,983)	(6,461)

All operations are continuing

Balance sheet
As at 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Intangible assets	9	561	10
Tangible assets	10	1,091	1,352
Investments	11		
		<hr/> 1,652	<hr/> 1,362
Current assets			
Debtors	12	394	355
Cash at bank and in hand		383	2,041
		<hr/> 777	<hr/> 2,396
Creditors' amounts falling due within one year	13	(1,112)	(703)
		<hr/> (335)	<hr/> 1,693
Net current assets			
Total assets less current liabilities		<hr/> 1,317	<hr/> 3,055
Creditors' amounts falling due after more than one year			
Long term intercompany debt	14	(27,077)	
Other creditors	14		(11,859)
		<hr/> (25,760)	<hr/> (8,804)
Net liabilities			
Capital and reserves			
Called up share capital	15	270	243
Profit and loss account	16	(26,030)	(9,047)
		<hr/> (25,760)	<hr/> (8,804)
Total shareholders' deficit		<hr/> <hr/> (25,760)	<hr/> <hr/> (8,804)

These financial statements were approved by the board of directors on *19 September* 2008 and were signed on its behalf by



C Steen Nilsen
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the company's financial statements except as noted below

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

The financial statements have been prepared on a going concern basis which assumes that the company can meet its liabilities as and when they fall due for payment. Petroleum Geo Services ASA have confirmed that they will provide financial assistance as is necessary for at least a period of 12 months from the date of approval of these financial statements

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 from including a cash flow in the financial statements on the grounds that the company is wholly owned and its ultimate parent company publishes a consolidated cash flow

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost

Concessions, patents, licences and trademarks purchased by the group are amortised to nil by equal annual instalments over the directors' estimate of their useful economic lives, being 5 years

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold improvements	over the life of the lease
Plant and machinery	33 3% 50% per annum
Fixtures and fittings	33 3% per annum
Computer equipment	33 3% per annum
Motor vehicles	33 3% per annum

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Government grants

Revenue based government grants are credited to other operating income in the profit and loss account on receipt of funds

Leases

Assets acquired under finance leases and similar hire purchase agreements are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Post retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Notes (continued)

1 Accounting policies (continued)

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred

Turnover

Turnover represents sales in respect of the provision of oil exploration services to external customers at invoice amounts less value added tax or local taxes on sales. Turnover is recognized in line with the performance of these services, to the extent that the performance entitles the company to receive consideration in line with the terms of the service contracts under which the company operates

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

2 Loss on ordinary activities before taxation

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	739	292
Leased	4	3
Operating lease rentals		
Land and buildings	94	94
Plant and machinery	1	2
Patents and licences amortisation	29	4
<i>Amounts receivable by the auditors and their associates in respect of</i>		
Audit of these financial statements	15	8
Other services relating to taxation		14
Foreign exchange loss	246	17
Research and development costs	1,143	980
	<hr/>	<hr/>

Notes (continued)

3 Remuneration of directors

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Directors' emoluments	134	187
Company contributions to defined contribution pension schemes	7	8
Amounts paid to third parties in respect of directors' services	164	172
	<u> </u>	<u> </u>

	Number of directors 2007	2006
Retirement benefits are accruing to the following number of directors under		
Defined contribution schemes	1	1
	<u> </u>	<u> </u>

4 Staff numbers and costs

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

	Number of employees 2007	2006
Field crew	23	12
Sales & administration	12	7
Other head office	30	26
	<u> </u>	<u> </u>
	65	45
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Wages and salaries	2,548	2,002
Social security costs	252	189
Other pension costs	119	85
	<u> </u>	<u> </u>
	2,919	2,276
	<u> </u>	<u> </u>

Notes (continued)

5 Segmental Analysis

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Europe	1,139	
North and South America	815	220
Rest of World	170	293
	<hr/> 2,124 <hr/>	<hr/> 513 <hr/>

6 Interest receivable and similar income

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Bank interest receivable	61	88
Due from subsidiary		7
Other		4
	<hr/> 61 <hr/>	<hr/> 99 <hr/>

7 Interest payable and similar charges

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
On bank loans and overdrafts	3	2
Redemption premium on convertible unsecured loan notes	3,186	114
Finance costs on preference shares classified as liabilities	4,572	2,121
Net exchange losses	246	14
On loan from parent company	1,029	
	<hr/> 9,036 <hr/>	<hr/> 2,251 <hr/>

Notes (continued)

8 Taxation

Analysis of charge in period

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
<i>Current tax</i>		
UK corporation tax for the period		(94)
Foreign tax	25	18
	<hr/>	<hr/>
<i>Deferred tax</i>	25	(76)
Current period charge		
	<hr/>	<hr/>
Total tax on loss on ordinary activities	25	(76)
	<hr/>	<hr/>

Factors affecting the current tax charge /(credit)

The current tax charge /(credit) for the period is higher (2006 lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(16,958)	(6,537)
	<hr/>	<hr/>
Current tax at 30% (2006 30 %)	(5,087)	(1,961)
<i>Effects of</i>		
Net expenses (not taxable)/ not deductible for tax purposes	(1,626)	638
Tax losses and other timing differences	6,404	1,212
Higher rate of foreign tax on income	17	12
Lower tax rate for research and development tax credit		23
Surrender of group relief	317	
	<hr/>	<hr/>
Total current tax (charge)/credit (see above)	25	(76)
	<hr/>	<hr/>

Deferred tax asset

The company has carried forward timing differences as shown below that are available indefinitely to be offset against future taxable profits

	12 month period ended 31 Dec 2007 £000	14 month period ended 31 Dec 2006 £000
Depreciation in advance of capital allowances	182	148
Other timing differences		67
Unrelieved tax losses	7,342	1,449
	<hr/>	<hr/>
Total	7,524	1,664
	<hr/>	<hr/>

A deferred tax asset has not been recognised due to uncertainties over its future recoverability

Notes (continued)

9 Intangible fixed assets

Patents and licences	2007 £000	2006 £000
<i>Cost</i>		
At beginning of period	18	18
Additions in period	580	
	<u>598</u>	<u>18</u>
<i>Amortisation</i>		
At beginning of period	8	4
Charged in period	29	4
	<u>37</u>	<u>8</u>
<i>Net book value</i>		
At 31 December 2007	<u>561</u>	<u>10</u>

10 Tangible fixed assets

	Leasehold improvements £000	Motor vehicles £000	Assets in course of construction £000	Plant and machinery £000	Fixtures & fittings £000	Computer equipment £000	Total £000
<i>Cost</i>							
At beginning of period	52	13	619	730	45	246	1,705
Additions	2		335	75		70	482
Transfers between items			(864)	864			
	<u>54</u>	<u>13</u>	<u>90</u>	<u>1,669</u>	<u>45</u>	<u>316</u>	<u>2,187</u>
<i>Depreciation</i>							
At beginning of period	7	3		224	19	100	353
Charge for period	10	4		619	15	95	743
Disposals							
	<u>17</u>	<u>7</u>	<u></u>	<u>843</u>	<u>34</u>	<u>195</u>	<u>1,096</u>
<i>Net book value</i>							
At 31 December 2007	<u>37</u>	<u>6</u>	<u>90</u>	<u>826</u>	<u>11</u>	<u>121</u>	<u>1,091</u>
At 31 December 2006	<u>45</u>	<u>10</u>	<u>619</u>	<u>506</u>	<u>26</u>	<u>146</u>	<u>1,352</u>

Notes (continued)

11 Investments

	Shares in subsidiary undertaking £
At beginning of year	1
Disposals during year	(1)
	<hr/>
At end of year	<hr/>

On 30 November 2007 the company disposed of its 100% interest in the share capital of MTEM Inc, (a company incorporated in the United States of America engaged in sales activities for the company's services) to Petroleum Geo Services Americas Inc for a cash consideration of one US dollar

12 Debtors

	2007 £000	2006 £000
Trade debtors	87	119
Other debtors	13	30
Corporation tax recoverable		94
Prepayments and accrued income	75	61
VAT recoverable	55	51
Due from other group companies	164	
	<hr/>	<hr/>
	394	355
	<hr/>	<hr/>

13 Creditors, amounts falling due within one year

	2007 £000	2006 £000
Bank loan (secured)		13
Trade creditors	278	359
Taxation and social security	62	124
Other creditors		5
Amounts due under hire purchase agreements		2
Accruals and deferred income	592	200
Due to other group companies	180	
	<hr/>	<hr/>
	1,112	703
	<hr/>	<hr/>

The bank loan was secured by a bond and floating charge over the whole of the assets of the company. The loan was repaid in full on 29 June 2007 and the security was discharged on 14 January 2008.

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Shares classified as liabilities (note 15)		7,154
Accrued finance costs on preference shares		2,583
Convertible unsecured loan notes		2,114
Amounts due under hire purchase agreements		8
Intercompany debt due to parent company	27,077	
	<u>27,077</u>	<u>11,859</u>

Analysis of debt

	2007 £000	2006 £000
Debt can be analysed as falling due		
In one year or less, or on demand	27,077	13
Between one and two years		11,851
Between two and five years		
	<u>27,077</u>	<u>11,864</u>

On 29 June 2007 the non equity preference shares, convertible loan notes and premium on the same were redeemed in full as part of the acquisition of the company by Petroleum Geo Services ASA

15 Called up share capital

	2007 £000	2006 £000
<i>Authorised</i>		
175,500 Ordinary A shares of £1 each	175	175
94,500 Ordinary B shares of £1 each	95	95
7,154,388 Preference shares of £1 each		7,154
	<u>270</u>	<u>7,424</u>

Allotted, called up and fully paid

175,500 Ordinary A shares of £1 each	175	175
94,500 (2006 67,500) Ordinary B shares of £1 each	95	68
7,154,338 Preference shares of £1 each		7,154
	<u>270</u>	<u>7,397</u>

Shares classified as liabilities		7,154
Shares classified in shareholders' funds	270	243
	<u>270</u>	<u>7,397</u>

Both 'A' and 'B' shares have the same voting right and rank pari passu as set out in the Memorandum and Articles of Association of the company

Notes (continued)

15 Called up share capital (continued)

On 28 February 2007, 11 May 2007 and 29 June 2007 the company issued 180, 675 and 26,145 respectively Ordinary B shares of £1 each fully paid up

16 Profit and loss account

	£000
At beginning of period	(9,047)
Loss for the period	(16,983)
At end of period	(26,030)

17 Commitments

Annual commitments under non cancellable operating leases are as follows

	2007 Land and buildings £000	2007 Other £000	2006 Land and Buildings £000	2006 Other £000
Operating leases which expire				
Within one year				
In the second to fifth years inclusive	94		94	2
Over five years				
	<u>94</u>	<u></u>	<u>94</u>	<u>2</u>

18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £122,000 (2006 £85,000)

19 Related party transactions

During the period the company incurred costs with the University of Edinburgh for the provision of services of two directors totalling £155,000. The amount of these costs outstanding at the end of the period was £nil. The company also incurred costs with Maziere Assignments Ltd for the provision of services of one of the non executive directors totalling £9,000. The amount of these costs outstanding at the end of the period was £nil.

In accordance with FRS 8 "Related Party Disclosure" the company is exempt from disclosing transactions with undertakings within, and investee related parties of the Petroleum Geo Services ASA Group.

20 Ultimate Parent Company

In the opinion of the directors, the company's ultimate parent company is Petroleum Geo Services ASA, a company incorporated in Norway.

Copies of the group financial statements of Petroleum Geo Services ASA are available from Petroleum Geo Services ASA, Strandveien 4, PO Box 89, N 1326 Lysaker, Norway.