COMPANY REGISTRATION NUMBER 02904391

PGS EXPLORATION (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019

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PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
COMPANY INFORMATION

Directors	C Steen-Nilsen G Langseth R Pedersen
Auditor	Ernst & Young LLP Blenheim House Fountainhall Road Aberdeen AB15 4DT
Registered office	4, The Heights Brooklands Weybridge Surrey KT13 0NY
Registered number	02904391

PGS EXPLORATION (UK) LIMITED
STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2019.

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 PGS ASA 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.

Business review and future developments

The profit for the year after taxation is $9.0 million (2018: loss of $10.0 million). The directors do not recommend payment of a dividend (2018: $nil).

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 completed surveys.

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 project execution.

The seismic market continued to strengthen during 2019, resulting in improved vessel utilisation and higher contract pricing. Revenues increased by 64% overall, and the company delivered significantly improved profitability, primarily driven by higher acquisition contract margins.

In 2020, the widespread disruption in the oil market and the significant reduction in the energy companies' 2020 budgets have impacted the seismic market, with a significant drop in revenues and available contracts. The company currently expects a challenging market for 2021.

Looking further out, oil companies will eventually have to continue exploring for oil and gas resources to meet energy demand and to compensate for the depletion rates from producing fields. The company's excellent reputation, unique technologies and solid market share in the higher-end market segment makes us an attractive contractor and partner for oil companies now and in the future.

Principal risks and uncertainties of the company

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 PGS ASA Group, which include those of the company, are discussed below.

Principal risks and uncertainties of the group

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

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

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

Liquidity risk is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due. The PGS Group has entered into binding agreements with (i) lenders representing, in aggregate, 95.4% of its $350 million RCF and $522 million term loan B facility (ii) 100% of the finance parties under its $300 million export credit financing, which will extend its current near-term maturity and amortisation profile by approximately two years and strengthen the PGS Group's liquidity profile in the currently challenging operating environment. The transaction is expected to complete in Q1 2021. Reference is made to note 24 events after the balance sheet date impacting the group's liquidity position.

The recent development following Covid-19 and the drop in oil prices represent an unprecedented change in the economic circumstances and increased uncertainty about future market development. As a result there is an increased risk that PGS may be dependent on achieving extension of maturities, amortisation holidays or other amendments relating to its financing agreements to retain a sufficient liquidity reserve, and that further impairments may arise in future periods. By operating seismic vessels, the group is exposed to commodity risk in the form of fuel price fluctuations. The group seeks to pass fuel price risk to customers on a majority of contract work.

Demand for the group's products and services are heavily influenced by oil and gas prices and the focus areas of oil and gas companies' spending. The profitability of the group is subject to a number of operational risks, including increased competition, attractiveness of technology, changes in governmental regulations, licences and permits and adverse weather conditions.

The principal risks and uncertainties of the PGS Group, which include those of the company, are discussed in more detail on pages 75 to 79 of the group's annual report.

As the global economy is impacted by the health and economic crisis following the outbreak of the Covid-19 pandemic, Management continues to monitor the potential operational and financial impacts for the company.

Section 172(1) statement

The section 172(1) statement has been included within the Directors' Report. The full statement can be found on pages 4 to 6.

Key performance indicators ("KPIs")

The directors of the PGS ASA 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 33 to 42 of the group's annual report which does not form part of this report.

Signed on behalf of the Board by:

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G Langseth
Director

3 February 2021

PGS EXPLORATION (UK) LIMITED
DIRECTORS REPORT

The directors present their Report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year after taxation is $9.0 million (2018: loss of $10.0 million). The directors do not recommend payment of a dividend (2018: $nil).

Future developments

The future development of the business has been outlined in the Strategic Report.

Directors of the company

The directors who held office during the year were as follows:

C Steen-Nilsen

G Langseth

R Pedersen

Indemnification of directors

In accordance with the articles of association, the directors have the benefit of indemnity provisions. In addition the PGS Group maintains a directors' and officers' liability insurance policy throughout the financial year, and up to the date of approval of the financial statements.

Research and development

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

Section 172(1) statement

In accordance with section 172 of the Companies Act 2006, the Board of Directors of the company act in a way that they consider in good faith would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the short and long-term.

The directors have had regard, amongst others, to the matters set out in section 172(1) (a)-(f) of the Companies Act 2006 to effectively discharge their section 172 duties. The board believes governance of the company is best achieved by delegation of its authority for the executive management of the PGS Group, subject to defined limits and monitoring by the board. The board routinely monitors the delegation of authority, ensuring that it is regularly updated, while retaining ultimate responsibility.

The PGS Group manage the group's operations on a divisional basis and the company's directors therefore see their main function as monitoring and ensuring the compliance of UK regulations and ensuring the stand-alone interests of the company and its stakeholders.

This includes the following responsibilities;

- implementing the Group's values and code of conduct, including ensuring any additional UK requirements
- Overseeing the company's compliance with financial reporting and disclosure obligations.
- *Overseeing the risk management of the PGS Group, ensuring it is sufficient for the company*
- Determining its own composition, subject to the provisions of the Company's Articles of incorporation
- Setting and approving policies specific to UK.
- Review and approve non-routine or significant transactions.
- Specific consideration of issues for employees, customers and suppliers arising from the Covid-19 pandemic, including information in relation to government guidelines, workplace planning and staff wellbeing.

Responsibilities during the year

The board of directors do not have a set schedule for meetings, but will convene as needed and receives regular reporting from management about compliance and business activities of the company.

Risk management and internal control

The Board of Directors is responsible for ensuring that appropriate guidelines, monitoring, and internal control systems are in place. These are to include embedding risk management, designating risk ownership, and implementing risk responses and controls.

The company manly relies on a system applied by all companies in the PGS Group. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute assurance against material financial misstatements or loss.

Group Management maintains and regularly reviews a risk matrix setting out the main risks for the company. These risk factors and the company's risk mitigating activities are subject to discussion by the Group Board of Directors at least once a year. The result is shared with the directors of the company.

Group Management conducts day-to-day follow-up of financial management and reporting. Management has established a structured approach to ensure that the system for Internal Control over Financial Reporting ("ICFR") is effective. ICFR includes identification and assessment of all material financial reporting risks, identifying and documenting relevant controls to address these risks, and monitoring that controls are implemented and performed. For controls that are not operationally effective at year-end, their potential financial exposure and impact on the consolidated financial statements are evaluated.

PGS Group has an Internal Audit Department reporting directly to the Audit Committee on its audit planning and audit reports. The purpose of the Internal Audit Department is to perform independent, objective assurance and consulting activities that add value and improve the company's initiatives in financial, operational and compliance areas. The scope of work for the Internal Audit Department includes determining whether the company's risk management, control, and governance, as designed and represented by management, are adequate and well-functioning. The audit reports are issued to the Group Audit Committee. In addition, the Internal Audit Department regularly monitors and reports status of management's actions to respond to identified risks or weaknesses. All reports are available to the directors of PGS Exploration (UK) Limited.

Communication with stakeholders

The company consists of various departments and functions contributing to the PGS Group. As the PGS Group is managed on a divisional basis, all departments and functions report to their respective global department heads. Decision-making is delegated by the PGS Group's authorization matrix. The Board regularly review material decisions made on behalf of the company.

Customers

The PGS Group have relatively few, but large customers. Consistently delivering high quality products and building long-term relationships to our main customers is a key priority. As most of our key customers operates globally, the directors have delegated the main responsibility for customer relations to Group Management.

Suppliers

Similar to customers, we aim to develop long-lasting relationships with our key suppliers by engaging with them on a regular basis. PGS Group has a global purchasing and contracting department that handles all key suppliers on behalf of all PGS Group entities.

PGS Group

PGS operates its vessels globally and is a highly integrated group of companies aimed at carrying out the Seismic projects in the best possible manner. PGS Exploration (UK) Limited is both a provider of imaging services and administrative services to the remainder of the group, as well as a project owner dependent on the larger group to succeed with the projects initiated. Close cooperation with other group companies is therefore paramount to the company.

Communities and the environment

The company strives to be actively engaged with our communities. We continually look to support local causes and create opportunities through recruitment.

The seismic industry has a role in enabling a reliable supply of energy now and in the future through the sustainable transition to greener energy. PGS remains devoted to conducting our operations with minimal impact on the oceans and those that are reliant upon them for their living or sustenance.

Our commitment is to leave the oceans as we find them, and our ambition is to contribute to healthier marine environment - for the benefit of all. We have therefore refocused our support to the UN Sustainable Development Goals with strong focus on Climate Action and Life Below Water. These will be the pillars of our environmental strategies and actions going forward.

We are committed to:

- Carefully planning and executing surveys to minimize any disturbance
- Immediately ceasing operations if marine mammals are observed in close proximity
- Respecting local communities and fishermen
- Not throwing anything overboard and leaving nothing behind.

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 PGS ASA's web site and industry and technical news items are distributed and discussed at regular intervals.

The company will always give due consideration of 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.

Charitable and political donations

The company made no political or charitable donations during 2019 (2018: $nil).

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 Strategic Report.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

The company is dependent for its working capital on funds provided to it by PGS ASA, the company's ultimate parent undertaking and is also highly dependent on a number of agreements with group companies for its operations, and in the event the other parties are not able to honour their commitments, that might render the company unable to complete ongoing projects and severely impact all its operations. The directors have considered the financial position of the company, including the centralized treasury arrangements with its ultimate parent company, PGS ASA as well as the financial position of PGS ASA.

PGS ASA has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements up to 31 March 2022, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. PGS ASA has however notified the company that such support may depend on its ability to agree on an extension of certain debt maturities that is currently entered into default.

As detailed in note 24, PGS ASA is, as of the date of this report, in default with respect to certain debt commitments and is depending on reaching a satisfactory resolution with its creditors to reschedule its debt. It is expected that the debt rescheduling will close during the course of Q1 2021,and in the meantime PGS ASA and its subsidiaries continue to operate business as usual by performing its other obligations, including making payments of interest, as they fall due.

Whist they are confident that the rescheduling of the PGS ASA debt will be achieved during the first quarter of 2021, the directors have concluded that the successful rescheduling of the PGS ASA debt constitutes a material uncertainty that casts significant doubt upon PGS ASA's ability to continue as a going concern and on its ability to continue to provide financial support. Therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have obtained sufficient information in terms of the financial situation of PGS ASA to conclude that the going concern assumption is still appropriate, thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

Information to the auditor

Each of the directors at the date of approval of this report confirms that:

1. So far as the director is aware, there is no relevant audit information of which the auditor is unaware; and
2. the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditor

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

Signed on behalf of the Board by:

G Langseth
Director

3 February 2021

PGS EXPLORATION (UK) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting 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 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.

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

Opinion

We have audited the financial statements of PGS Exploration (UK) Limited for the year ended 31 December 2019 which comprise the Statement of Profit and Loss and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 3, "Accounting policies – Going concern", and Note 24 "Events since the balance sheet date" in the financial statements, which indicate that the company is dependent on financial support from PGS ASA, the ultimate parent to allow the company to continue its operations for the going concern period, and it is not certain that this support will be available. As stated in Notes 3 and 24, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Kenneth MacLeod Hall (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
4 February 2021

PGS EXPLORATION (UK) LIMITED
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019

	Note	2019 $ 000	2018 $ 000
Revenue	5	256,895	156,754
Cost of sales		(236,395)	(157,555)
Gross profit/(loss)		**20,500**	**(801)**
Administrative expenses		(8,289)	(8,248)
Operating profit/(loss)	6	**12,211**	**(9,049)**
Interest receivable	9	1,661	914
Interest payable	10	(714)	(142)
Profit/(loss) before taxation		**13,158**	**(8,277)**
Taxation	11	(4,154)	(1,760)
Profit/(loss) for the year		**9,004**	**(10,037)**
Other comprehensive income		-	-
Total comprehensive income		**9,004**	**(10,037)**

The company's results are derived from continuing operations.

The notes on pages 14 to 33 form an integral part of these financial statements

PGS EXPLORATION (UK) LIMITED
BALANCE SHEET
31 DECEMBER 2019

	Note	2019 $ 000	2018 $ 000
Long term assets			
Tangible assets	12	18,758	11,202
MultiClient library	13	37,325	71,291
Investments	14	26	26
		56,109	82,519
Current assets			
Debtors	15	101,028	52,633
Cash at bank and in hand		219	352
		101,247	52,985
Creditors: Amounts falling due within one year	16	(60,205)	(61,039)
Net current assets/(liabilities)		**41,042**	**(8,054)**
Total assets less current liabilities		**97,151**	**74,465**
Creditors: Amounts falling due after more than one year	17	(9,441)	(3,165)
Net assets		**87,710**	**71,300**
Capital and reserves			
Called up share capital	20	106,214	106,214
Capital contribution reserve	20	4,680	-
Profit and loss account		(23,184)	(34,914)
Shareholders' funds		**87,710**	**71,300**

These financial statements were approved by the Board on 3 February 2021, and signed on its behalf by:

C Steen-Nilsen
Director

Registered number: 02904391

The notes on pages 14 to 33 form an integral part of these financial statements

PGS EXPLORATION (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019

	Share capital $ 000	Capital Contribution $ 000	Profit and loss account $ 000	Total $ 000
At 31 December 2017	106,214	-	(24,810)	81,404
Effect of IFRS 15 adoption	-	-	(67)	(67)
At 1 January 2018	106,214	-	(24,877)	81,337
Loss for the year	-	-	(10,037)	(10,037)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(10,037)	(10,037)
At 31 December 2018	**106,214**	**-**	**(34,914)**	**71,300**
Effect of IFRS 16 adoption (note 3)	-	-	2,726	2,726
At 1 January 2019 (note 3)	**106,214**	-	**(32,188)**	**74,026**
Profit for the year	-	-	9,004	9,004
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	9,004	9,004
Capital contribution (note 20)	-	4,680	-	4,680
At 31 December 2019	**106,214**	**4,680**	**(23,184)**	**87,710**

The notes on pages 14 to 33 form an integral part of these financial statements

1 General information

PGS Exploration (UK) Limited provides geophysical services to the oil and gas industry. The company is a private company and is incorporated and domiciled in England and Wales. The address of its registered office is 4, The Heights, Brooklands, Weybridge, Surrey KT13 0NY.

2 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of PGS Exploration (UK) Limited (the "company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 3 February 2021 and the balance sheet was signed on the board's behalf by C Steen-Nilsen.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with applicable accounting standards. The company's financial statements are presented in US dollars as this is the currency in which the company operates.

3 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 company has been determined to meet the criteria of a 'qualifying entity' under the definition in FRS 101. The financial statements in which the company is consolidated are available from the ultimate parent company as detailed in note 23.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- the requirements of IFRS 7 Financial Instruments: Disclosures,
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - (i) paragraph 79(a)(iv) of IAS 1;
    - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

3 Accounting policies *(continued)*

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 Strategic Report.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

The company is dependent for its working capital on funds provided to it by PGS ASA, the company's ultimate parent undertaking and is also highly dependent on a number of agreements with group companies for its operations, and in the event the other parties are not able to honour their commitments, that might render the company unable to complete ongoing projects and severely impact all its operations. The directors have considered the financial position of the company, including the centralized treasury arrangements with its ultimate parent company, PGS ASA as well as the financial position of PGS ASA.

PGS ASA has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements up to 31 March 2022, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. PGS ASA has however notified the company that such support may depend on its ability to agree on an extension of certain debt maturities that is currently entered into default.

As detailed in note 24, PGS ASA is, as of the date of this report, in default with respect to certain debt commitments and is depending on reaching a satisfactory resolution with its creditors to reschedule its debt. It is expected that the debt rescheduling will close during the course of Q1 2021, and in the meantime PGS ASA and its subsidiaries continue to operate business as usual by performing its other obligations, including making payments of interest, as they fall due.

Whist they are confident that the rescheduling of the PGS ASA debt will be achieved during the first quarter of 2021, the directors have concluded that the successful rescheduling of the PGS ASA debt constitutes a material uncertainty that casts significant doubt upon PGS ASA's ability to continue as a going concern and on its ability to continue to provide financial support. Therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have obtained sufficient information in terms of the financial situation of PGS ASA to conclude that the going concern assumption is still appropriate, thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

Group accounts

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent undertaking, PGS ASA, a company registered in Norway.

The financial statements contain information about PGS Exploration (UK) Limited as an individual company and do not contain consolidated financial information as the parent of a group.

3 Accounting policies *(continued)*

Revenue Recognition

Revenue from contracts with customers arise primarily from (i) performance of proprietary/exclusive seismic services in accordance with customer specifications and (ii) granting of licenses to the company's MultiClient data library. Revenue is recognised at the amount that the company expects to be entitled to and expects to collect under the contract. If a contract has multiple performance obligations, consideration is allocated among the performance obligations based on their estimated relative fair values.

Amounts received from customers in advance of the company satisfying its performance obligations are recorded as deferred revenue. In the event most of the consideration under the contract is received more than 12 months in advance of satisfying the related performance obligation, a financing factor is accrued and included in the value of the revenue recognised upon satisfying the performance obligation.

In the rare event the company has satisfied a performance obligation and is otherwise entitled to compensation under the contract but there is a significant uncertainty as to ultimately collecting the compensation, revenue recognition is delayed until such uncertainty no longer exists.

Where the company has satisfied its performance obligations and has a right to consideration, an accrued revenue is recognized.

The principles applied for each of the main types of contracts with customers are described in more detail below.

MultiClient late sales licenses

The company grants a license to a customer, which entitles the customer to have "right to use" a specifically defined portion of the MultiClient data library as it exists at that point in time. The company's performance obligation is considered to be satisfied at the "point in time" when the customer has received the underlying data or has the right to access the licensed portion of the data.

MultiClient Pre-funding licenses

The company typically obtains funding from a limited number of customers before a seismic survey project is completed. In return for the pre-funding, the customer typically gains the ability to direct or influence the project specifications and to access data as it is being acquired. The company recognises pre-funding revenue as "right to use" licenses and the revenue is to be recognised at the point in time when the "right to use" license is transferred to the customer. This "point in time" depends on the specific contract, but is typically upon completion of processing of the survey and granting of access to the finished data or delivery of the finished data.

The "point in time" of satisfying the performance obligation is generally the same for both MultiClient Late Sale licenses and MultiClient Pre-funding licenses. Accordingly, revenue is generally recognised at this same "point in time" for each of these two types of licenses in accordance with IFRS 15.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the USD exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into USD at the rates prevailing on the reporting period date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of realised and unrealised monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3 Accounting policies *(continued)*

Taxation

Income tax expense is comprised of current and deferred tax. Income tax is recognised in the Statement of Profit and Loss, except to the extent that it relates to items taken directly to the Statement of Other Comprehensive Income.

Current tax is the tax expected to be paid to or recovered from taxation authorities in respect of taxable income for the year, using tax rates enacted or substantially enacted during the period.

Deferred tax assets and liabilities are measured using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on tax rates that are expected to apply in the year of realisation or settlement, using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is not recognised on temporary differences arising from the initial recognition of goodwill, or relating to investments in subsidiaries to the extent that the temporary difference can be controlled by the company and will probably not reverse in the foreseeable future.

Deferred tax assets are recognized only when, on the basis of all available evidence, it can be regarded as probable that there will be sufficient taxable profits in the foreseeable future against which the asset can be utilised.

Deferred tax assets and deferred tax liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes are related to the same taxable entity and the same taxation authority. Deferred tax assets and liabilities are classified as long-term in the Balance Sheet.

Tangible fixed assets and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the useful life of the assets based on cost less estimated residual values. The estimated useful lives for property, plant and equipment are as follows:

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

The assets' residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at least each year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected from its use or disposal. Gains and losses arising on de-recognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year derecognised.

3 Accounting policies *(continued)*

MultiClient library

The MultiClient library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. Costs directly incurred in acquiring, imaging and otherwise completing seismic surveys are capitalised to the MultiClient library. Costs incurred while relocating or "steaming" a vessel or crew from one location to another and borrowing costs incurred during the acquisition and imaging phases of the survey are also capitalised to the MultiClient library.

A project remains in surveys-in-progress until imaging is complete which may be some months or up to more than a year after data acquisition ends, at which point it is transferred to completed surveys.

The company records the costs incurred on the MultiClient library in a manner consistent with its capital investment and operating decision analysis, which generally results in each component of the MultiClient library being recorded and evaluated separately. The cost of projects within the same political regime, with similar geological traits and that are marketed collectively are recorded and evaluated as a group by year of completion.

Straight-line amortisation — Upon completion of a survey, straight-line amortisation commences over its estimated useful life which is generally over a period of 4 years from the date it is transferred to completed surveys.

Accelerated amortisation – Following the adoption of the straight-line amortisation policy for completed surveys, recognition of impairment of library may be necessary in the event that sales on a completed survey are realised disproportionately sooner within that survey's 4-year useful life.

Further, when a project is completed and after pre-funding revenue is recognised, recognition of impairment may be necessary in the event the present value of expected Late Sales is lower than the value of the project.

This accelerated amortisation is included in "Amortisation and impairment of MultiClient library" in the statement of profit and loss.

Impairment of MultiClient library – The company updates its sales forecast for each survey at each year-end and when an impairment indicator is deemed to exist. In the event the net book value of survey exceeds its net present value of estimated future cash flows an impairment is recorded in the amount of the excess. This impairment is included in "Amortisation and impairment of MultiClient library" in the statement of profit and loss.

Impairment of property, equipment and intangibles

Tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. An asset's recoverable amount is the higher of (i) its fair value less cost to sell and (ii) its value in use. This determination is made for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount and the impairment is recognised immediately and presented separately in the Statement of Profit and Loss and Other Comprehensive Income.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Reversal of impairment is recognised if the circumstances that gave rise to the impairment no longer exist. The carrying amount of the asset is increased to the revised estimate of its recoverable amount. The increased carrying amount may not exceed the carrying amount that would have existed had no impairment been recognised for the asset. The reversal is presented separately in the Statement of Profit and Loss and Other Comprehensive Income.

3 Accounting policies *(continued)*

Research and development

Research costs are expensed as incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if all of the following have been demonstrated: technical and commercial feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development to use or sell the intangible asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date on which the intangible asset first satisfies the recognition criteria above. All other development costs are expensed as incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment, on the same basis as intangible assets acquired separately. Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset.

Steaming costs

Steaming costs relate to relocating or "steaming" a vessel and its crew from one location to another. Steaming costs are deferred to the extent the probable future economic inflows from the projects to which the vessel will steam are sufficient to recover the cost of the steam. The recoverable steaming cost associated with MultiClient surveys is capitalised as a part of the MultiClient library (see above). The recoverable steaming costs associated with exclusive contract surveys is deferred and charged to the Statement of Profit and Loss and Other Comprehensive Income.

Provision for onerous contracts

A provision is made for legally binding obligations (contracts) whereby the unavoidable costs of fulfilling the contracts exceed the economic benefits expected to be received. All costs (including depreciation of assigned assets) directly related to contract fulfilment are included in the calculation.

Defined contribution pension plans

The company pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension obligations

The company is a participating employer in the PGS (UK) Pension Fund, the assets and defined benefit obligation of which are accounted for in the financial statements of Petroleum Geo-Services (UK) Limited, a fellow subsidiary of PGS ASA. Accrual to the PGS (UK) Pension Fund ceased from 31 December 2015, after which active members became deferred members of the plan with no further salary link. Full details of the PGS (UK) Pension Fund and the relevant disclosures are included in the audited financial statements of Petroleum Geo-Services (UK) Limited.

A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognised for defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, reduced by the fair value of plan assets. The calculation of the obligation is performed annually by a qualified actuary, using the projected unit credit method and key actuarial assumptions at the reporting date.

3 Accounting policies *(continued)*

The amount charged to the statement of profit and loss comprises the cost of benefits accruing to employees over the year, plus net interest expense or income, calculated by applying the liability discount rate to the net pension liability.

Past service costs are recognised immediately in the statement of profit and loss, unless they relate to plan changes which are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are recognised on a straight line basis over the vesting period.

Actuarial gains and losses due to current period changes in assumptions applied are recognised immediately in other comprehensive income.

Bonus plans

The company recognises a provision for bonus where contractually obliged or where there is a past practice that has created a constructive obligation.

Share based payments

Restricted Stock Unit Plans are measured at the grant date using the current market value reduced by expected dividends paid before the vesting date, which is then further discounted.

Performance Restricted Stock Unit Plans are measured at the grant date using a Monte Carlo simulation with relative total shareholder return. The model simulates the future stock prices based on historical values over the length of the lifetime for the PRSU. The Relative TSR is calculated against a group of peer companies, where every company is ranked based on the simulations. If the rank is in the 25th percentile, 0% of the performance is met, if the rank is in the 75th percentile, 100% of the performance is met. There is a linear relationship between the percentiles. The awards are adjusted for expected future dividends. Social security tax on PRSU and RSU is based on the intrinsic value as of the end of the reporting period.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the company becomes party to the contractual obligations of the relevant instrument.

The company classifies its financial instruments in the following categories: at fair value through profit and loss, at fair value through other comprehensive income or at amortised cost. The company determines the classification of financial instruments at initial recognition.

Financial instruments at fair value through profit and loss

This category comprises financial assets and liabilities held for trading, including all derivative instruments. Financial instruments in this category are initially recorded at fair value, and transaction costs are expensed in the Statement of Profit and Loss. Realised and unrealised gains and losses arising from changes in the fair value are included in the Statement of Profit and Loss in the period in which they arise.

Financial instruments at fair value through other comprehensive income

On initial recognition, an election can be made to classify investments in equity instruments at fair value through other comprehensive income. Financial instruments in this category are initially recognised at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in Other Comprehensive Income.

3 **Accounting policies *(continued)***

Financial instruments at amortised cost

Financial assets and liabilities in this category are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method less any allowance for impairment. This category includes accounts receivable, accounts payable and loans and other borrowings.

Impairment of financial assets

At each reporting date, the company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses. For accounts receivables and contract assets, the company uses a simplified approach in calculating expected credit losses. The company recognises a loss allowance using factors including aging of accounts, historical experience, customer concentration, customer creditworthiness and current industry and economic trends. An impairment loss, amounting to any difference between the carrying amount of the loss allowance and the expected credit losses at the reporting date, is recognised in the Statement of Profit and Loss.

Leases

A contractual arrangement contains a lease when the contract conveys the right to use an asset for a period of time in exchange for consideration. For contracts containing a lease, the company recognises a lease liability and a corresponding right of use asset at the commencement of the lease.

Lease term

The lease term is determined on the commencement date of the lease, and corresponds to the term of the lease contract, unless the company is reasonably certain that it will exercise contractual extensions or termination options.

Measurement of lease liabilities

At the commencement date of the lease, the company recognises a lease liability measured at the present value of lease payments due under the contract, less any lease incentives receivable, plus the costs of purchase or termination options if reasonably certain to be exercised. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the company's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Subsequently, the carrying amount of the lease liability is increased to reflect the accumulation of interest on the liability balance, and reduced to reflect the lease payments made. In addition, the carrying amount of the lease liability is remeasured to reflect contractual modifications, changes to lease payments or changes in the assessment of the lease term.

Measurement of right-of-use assets

Right-of-use assets are measured at cost, comprising the initial measurement of lease liability, lease payments made at the commencement date, initial direct costs and estimated restoration costs, less any lease incentives received.

Subsequently, the right-of-use asset is measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Short term leases and low value leases

The company has elected to apply the recognition exemption to lease contracts with a duration of less than 12 months, or that relate to assets with an underlying low value. Lease payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

New and amended standards and interpretations

IFRS 16 Leases

The new leases standard, IFRS 16, replaced existing IFRS requirements for leases effective from 1 January 2019.

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The company elected to apply the new using the modified retrospective approach, and therefore comparatives for the year ended 31 December 2018 have not been restated and the reclassifications and adjustments on implementation are recognized in the opening balance sheet at 1 January 2019.

On initial application of IFRS 16, the company elected to use the following practical expedients:

- Use of a single discount rate to a portfolio of leases with similar characteristics;
- The use of hindsight when determining the length of the lease term;
- Lease contracts with a duration of less than 12 months will continue to be expensed to the income statement;
- Lease contracts for underlying assets of a low value will continue to be expensed to the income statement;
- Initial direct costs are excluded from the measurement of the right of use asset.

At 1 January 2019, the company recognized lease liabilities for properties and other assets that were previously classified as operating leases. These liabilities were measured at the present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 1 January 2019 was 5.5%.

A corresponding right-of-use-asset was recognized, measured at the amount equal to the lease liability and adjusted by the amount of lease incentives embedded in the value of the asset, asset impairment, accrued costs of restoration and any liabilities relating to onerous leases.

The impact on the statement of financial position at 1 January 2019 was as follows:

	At 31 Dec 2018 $ 000	Adjustment IFRS 16	At 1 Jan 2019 $ 000
Long term assets			
Tangible assets	11,202	11,492	22,694
MultiClient library	71,291	-	71,291
Investments	26	-	26
	82,519		94,011
Current assets			
Debtors	52,633	-	52,633
Cash at bank and in hand	352	-	352
	52,985		52,985
Creditors: Amounts falling due within one year	(61,039)	(842)	(61,881)
Net current liabilities)	**(8,054)**		**(8,896)**
Total assets less current liabilities	**74,465**		**85,115**
Creditors: Amounts falling due after more than one year	(3,165)	(7,924)	(11,089)
Net assets	**71,300**	**2,726**	**74,026**
Capital and reserves			
Called up share capital	106,214		106,214
Profit and loss account	(34,914)	2,726	(32,188)
Shareholders' funds	**71,300**	**2,726**	**74,026**

3 Accounting policies *(continued)*

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognized at 1 January 2019:

	$ 000
Future minimum payments at 31 December 2018	10,826
Commitments exempt due to expiry within 12 months	(71)
Commitments exempt due to low value	(9)
Effect of lease incentives	1,344
Effect of discounting	(1,240)
Foreign exchange	(723)
Lease liability at 1 January 2019 (Note 18)	10,127

Standards issued but not yet effective (which the company has not early adopted)

Amendments issued and not yet effective, are not applicable for the company and/or will not have a significant impact on the financial statements.

4 Critical accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with FRS 101 requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities. In many circumstances, the ultimate outcome related to the estimates, assumptions and judgments may not be known for several years after the preparation of the financial statements. Actual amounts may differ materially from these estimates due to changes in general economic conditions, changes in laws and regulations, changes in future operating plans and the inherent imprecision associated with estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of MultiClient library - Discount rate

The company applied a pre-tax discount rate of 11% in determining discounted cash flows in connection with the impairment evaluations of seismic vessels and equipment, intangible assets and the MultiClient library. The rates reflect the estimated weighted average cost of capital for company activities.

Forecast sales of MultiClient library

At least annually, management forecasts future sales for each MultiClient library survey for purposes of determining the amount of impairment, and for those surveys still in work-in-progress, the amortization rate to be applied against pre-funding revenues. In forecasting sales, management considers past experience, market developments as described above, general prospects for hydrocarbons in the area, political risk, likelihood and timing of exploration licensing rounds, existence of competitor data sets and general economic conditions. Because of the inherent difficulty in forecasting sales and future developments, it is possible that the amount of impairment could vary significantly between periods and the amortization rate applied to surveys in progress may also vary between periods. In addition, future revenues from a survey may not be sufficient to cover the existing carrying value. To the extent the future actual revenues achieved prove to be less than forecasted, future periods will reflect lower profitability with and/or impairment of MultiClient library surveys.

4 Critical accounting judgements, estimates and assumptions *(continued)*

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that future taxable profit will be available against which the losses can be utilised. Significant management judgment is required to estimate the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit. The estimates of projected future taxable profit are based on a number of factors and assumptions, many of which are subjective and outside of the company's control. Accordingly, these estimates may differ significantly from year to year, and the amount ultimately realised may differ from that which has been recognised in the balance sheet.

Provision for contingencies, claims and tax litigations

The company records accruals for contingencies, claims and other uncertain liabilities, including possible tax litigation, when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or new or additional information becomes available. In estimating the likelihood of an unfavourable outcome, management evaluates the specific facts and circumstances in light of the related laws and regulations; advice from external counsel; and the outcome of similar cases, if any. Because of the inherent uncertainty in estimating the future outcome of such matters, it is possible that some of these matters will ultimately result in the company incurring a material liability.

5 Revenue

Revenue recognised in the Statement of Profit and Loss and Other Comprehensive Income is analysed as follows:

	2019 $ 000	2018 $ 000
Revenue from geophysical services	234,584	126,985
MultiClient late sales	22,311	29,769
Total turnover from continuing operations	256,895	156,754

The company performs geophysical services on a project by project basis. An analysis of turnover by geographical area is given below:

	2019 $ 000	2018 $ 000
United Kingdom	54,413	71,590
Other European countries	47,615	2,683
Americas	1	9,616
Middle East & Africa	151,560	72,865
Rest of the World	3,306	-
	256,895	156,754

6 Operating profit/(loss)

Arrived at after charging/(crediting)

	2019 $ 000	2018 $ 000
Depreciation expense (Note 12)	6,820	4,079
Amortisation of MultiClient library (Note 13)	53,200	17,271
Impairment of MultiClient library (Note 13)	1,564	5,040
Research and development cost	-	(4,089)
Severance expense	-	(2,808)
Write down of legal receivables	-	961
Foreign exchange (gains)	(151)	(73)
Operating lease expense - plant and machinery	-	18,522
Operating lease expense – other	-	4,138
Lease expense on short-term and low value leases arising under IFRS 16		
- plant and machinery	37,817	-
- other	148	-
Auditor's remuneration		
- Audit of the financial statements	139	148
- Taxation services	62	12

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 $ 000	2018 $ 000
Wages and salaries	18,578	18,952
Social security costs	2,156	2,292
Pension costs, defined benefit scheme	4,423	4,485
Pension costs, defined contribution scheme	1,668	1,837
Share based payments (see Note 19)	765	1,123
	27,590	28,689

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

	2019 No.	2018 No.
Operations	73	110
Selling and administration	91	71
Other departments	14	7
	178	188

8 Directors' remuneration

None of the directors received any fees or remunerations for services as a director of the company during the financial year (2018: 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.

9 Interest receivable

	2019 $ 000	2018 $ 000
Bank interest receivable	24	29
Interest receivable on group loans	1,637	885
	1,661	914

10 Interest payable

	2019 $ 000	2018 $ 000
Unwinding of discount rate	143	142
Interest payable on lease liabilities under IFRS 16	500	-
Other finance costs	71	-
	714	142

11 Income tax

(a) Analysis of tax charge

	2019 $ 000	2018 $ 000
Current taxation		
UK corporation tax	363	27
Foreign tax	3,791	3,190
Total current income tax	**4,154**	**3,217**
Tax charge	**4,154**	**3,217**

11 Income tax *(continued)*

(b) Factors affecting current tax charge

The tax on loss before tax for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are reconciled below:

	2019 $ 000	2018 $ 000
Loss before tax	13,158	(8,276)
Corporation tax at standard rate	2,500	(1,573)
Expenses not deductible for tax purposes	40	290
Foreign tax expensed	933	2,584
Tax losses on which no deferred tax recognised	(1,784)	1,028
Movement in temporary differences unrecognised for deferred tax	(249)	612
Release of provision for foreign tax in relation to prior periods	2,857	(1,457)
Group relief surrendered	-	288
Claim for interest deductions disallowed in other group companies	(143)	(12)
Total tax charge	**4,154**	**1,760**

(c) Deferred tax

The company has carried forward temporary differences as shown below that are available indefinitely to be offset against future taxable profits. Deferred tax assets have been recognised in relation to those losses and other temporary differences where they satisfy the recognition criteria for deferred tax assets in line with FRS 101 'Reduced Disclosure Framework'.

As at 31 December 2019 and 31 December 2018, the deferred tax assets in respect of decelerated capital allowances, tax losses and other temporary differences were not recognised due to the uncertainty as to when these will be recovered. The value of the unrecognised deferred tax assets being $3,858,820 as at 31 December 2019 in relation to capital allowances (2018 - $3,453,000), $12,947,596 as at 31 December 2019 in relation to tax losses (2018 - $12,821,000) and $8,802,070 as at 31 December 2019 in relation to other temporary differences (2018 - $7,881,000).

Legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020 was included in the Finance Act 2016 which received Royal Assent on 15 September 2016. It is noted however, that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling enacted cut to 17%) was made under a Budget resolution on 11 March 2020 which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968. The deferred taxes at the statement of financial position date have been measured using these enacted rates.

12 Tangible assets

	Leasehold improvements $ 000	Computer equipment & software $ 000	Seismic equipment & vehicles $ 000	Furniture & office equipment $ 000	Right-of-use assets $ 000	Total $'000
Cost						
At 31 December 2018	16,599	15,639	45	7,177	-	39,460
IFRS 16 transition	-	-	-	-	11,492	11,492
At 1 January 2019	16,599	15,639	45	7,177	11,492	50,952
Additions	-	2,852	-	32	-	2,884
Disposals		(2,002)	-	-	-	(2,002)
At 31 December 2019	16,599	16,489	45	7,209	11,492	51,834
Depreciation						
At 1 January 2019	12,351	10,963	45	4,899	-	28,258
Charge for the year	955	2,911	-	342	2,612	6,820
Disposals	-	(2,002)	-	-	-	(2,002)
At 31 December 2019	13,306	11,872	45	5,241	2,612	33,076
Carrying amount						
At 31 December 2019	**3,293**	**4,617**	**-**	**1,968**	**8,880**	**18,758**
At 31 December 2018	4,248	4,676	-	2,278	-	11,202

13 MultiClient Library

Seismic data library	**2019 $ 000**	**2018 $ 000**
At 1 January	71,291	32,249
Capitalised cash costs	15,693	49,358
Capitalised interest	253	556
Capitalised depreciation	4,852	11,439
Amortisation expense	(53,200)	(17,271)
Impairments	(1,564)	(5,040)
At 31 December	37,325	71,291

In 2019, an additional impairment charge of $1,564,000 (2018: $5,040,000) was recognised to reflect the discounted cash flow of future sales on certain individual surveys.

14 Investments

The company holds a 1.25% holding in a fellow subsidiary company, PGS Data Processing Middle East SAE at a cost of $26,000.

15 Debtors

	2019 $ 000	2018 $ 000
Trade debtors	33,698	28,359
Amounts receivable from ultimate parent undertaking	43,683	8,413
Amounts receivable from group undertakings	1,977	1,189
Accrued revenue	16,745	11,482
Prepayments	1,734	1,702
Other taxes	3,171	1,488
Other debtors	20	-
	101,028	52,633

Amounts receivable from the ultimate parent undertaking, PGS ASA, are repayable on demand and unsecured, and bear interest at 3-month LIBOR plus 3% per annum.

Amounts receivable from other group undertakings are treated as trading balances and do not bear any interest.

16 Creditors

	2019 $ 000	2018 $ 000
Trade creditors	3,148	5,001
Amounts owed to immediate parent undertaking	162	-
Amounts owed to other group undertakings	25,531	13,923
Accrued expenses	9,303	5,326
Social security and other taxes	4,539	1,878
Onerous contracts	3,750	939
Lease liabilities (Note 18)	2,136	1,310
Deferred revenue	11,636	32,662
	60,205	61,039

Amounts owed to the immediate parent undertaking and other group undertakings are treated as trading balances and do not bear interest.

17 Creditors payable after more than 1 year

	2019 $ 000	2018 $ 000
Lease liabilities (Note 18)	5,995	-
Other long term liabilities	3,371	3,122
Long term bonuses and payroll related costs	75	43
	9,441	3,165

18 Lease liabilities

The company has lease contracts, primarily for office space and computer equipment, expiring at various dates through to 2023. *The company also has certain leases with lease terms of 12 months or less, and leases of* equipment with low value. The company applies the 'short-term lease' and 'lease of low value' exemptions for these leases.

The carrying amounts of lease liabilities and movements during the year are set out below:

	Buildings, fixtures and equipment $ 000
At 31 December 2018	1,310
Implementation of IFRS 16	8,817
At 1 January 2019	**10,127**
Lease payments	(2,476)
Interest	500
Revaluation	250
At 31 December 2019	**8,131**

19 Share based payments

Share options and restricted stock unit awards in the company's ultimate parent PGS ASA ("the Company") are granted to senior executives.

The Restricted Stock Unit programs ("RSU") requires the participant's continued employment with the Company (or a subsidiary) and is settled three years after grant. Settlement is in equity only. Upon settlement, the participant will receive at no charge a number of shares in the Company which equals the number of RSUs awarded. In 2015 and 2016, the Company also granted Performance based Restricted Stock Unit programs ("PRSU"). Settlement of the PRSUs and subsequent transfer of shares to the eligible employee will take place three years later subject to achieving a satisfactory Total Shareholder Return compared to the companies in STOXX TMI Oil Equipment, Services & Distribution index, adjusted for dividends and further employment by the Company.

20 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	**$ 000**	**No.**	**$ 000**
Ordinary shares of £1 each	77,229,682	106,214	77,229,682	106,214

In 2019, the company recognised a capital contribution reserve of $4,680,000. This arose from the waiver of debt due to the ultimate parent, PGS ASA, and represents the value of historic liabilities in the discontinued Libya branch.

21 Foreign exchange

The financial statements are presented in US Dollars. The exchange rate at 31 December 2019 applied was 1.3144 USD to 1.0 GBP.

22 Related party transactions

As a wholly owned subsidiary of PGS ASA the company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with other wholly owned group companies. There were no other related party transactions.

23 Ultimate parent undertaking

The company's immediate parent undertaking is Petroleum Geo-Services (UK) Limited, a company incorporated in the United Kingdom. The ultimate parent and controlling party is PGS ASA, a company registered in Norway.

The smallest and largest group in which the results of the company are consolidated is that headed by PGS ASA. These financial statements are available upon request from PGS ASA, Lilleakerveien 4C, P.O. Box 251 Lilleaker, 0216 Oslo, Norway.

24 Events since the balance sheet date

The financial statements have been prepared based on conditions existing at 31 December 2019, including those events occurring subsequent to that date which provide evidence of conditions that existed at the end of the reporting period. The COVID-19 outbreak was declared a pandemic by the World Health Organisation during March 2020, after the reporting period, and accordingly no adjustments have been made to these financial statements as a result of its impact. The pandemic and the response of governments in dealing with it is impacting general activity levels, the economy and the operations of the company. The scale and duration of the impact of the pandemic remain uncertain at the date of this report, however it will have an adverse impact on the financial statements of the company in 2020 and potentially in future periods. At the date of this report, the Directors do not consider it is practical to provide a meaningful quantitative or qualitative estimate of the potential impact of the pandemic on the company

The company has in 2020 completed a process to reduce its headcount by approximately 85 staff, mainly within seismic processing.

Rescheduling of debt PGS ASA Group

Due to the dramatic negative market change caused by the Covid-19 pandemic, the PGS ASA Group (PGS / the PGS Group) is determined to extend its near term debt maturities and amortization profiles to support its liquidity position. On October 21, 2020, PGS announced that the Group has entered into binding agreements with (i) lenders representing, in aggregate, 95.4% of its $350 million RCF and ~$522 million term loan B facility ("TLB") (the "Lock-Up Agreement"); and (ii) 100% of the finance parties under its ~$300 million export credit financing ("ECF") (the "Consent and Amendment Agreement"). The Lock-Up Agreement and Consent and Amendment Agreement are subject to customary undertakings and termination events.

24 Events since the balance sheet date *(continued)*

The main terms (the "Transaction") will, once consummated, enable the PGS Group to extend its current near-term maturity and amortization profile under its Revolving Credit Facility ("RCF")/TLB and ECF facilities by approximately two years. Together with the cost saving initiatives previously announced, the Transaction will strengthen PGS's liquidity profile in the currently challenging operating environment.

The main terms include:

- The $135 million RCF due 2020, the $215 million RCF due 2023, and the ~$2 million TLB due 2021 will be converted into a new TLB on the same terms as the ~$520 million 2024 TLB
- Quarterly amortization payments of up to 5% per annum of the original principal amount of the ~$520 million 2024 TLB will be replaced by the new amortization payments described below
- The total debt under the new TLB facilities of ~$872 million (subject to any increase in principal due to payment-in-kind fees and any reduction in principal due to lenders electing to exchange part of their existing debt into new convertible bonds, see below) maturing in March 2024 will have the following amortization profile payable pro-rata to all TLB lenders:
  - ~$135 million amortization payment due in September 2022
  - $200 million amortization payment due in September 2023
  - ~$9 million quarterly amortization starting March 2023
- Quarterly amortization payments totalling ~$106 million due over the next two years under the ECF will be deferred and repaid over four quarters starting December 2022
- The current excess cash flow sweep for the RCF/TLB facilities will be replaced by an excess liquidity sweep for any liquidity reserve in excess of $200 million at each quarter end, with such amounts to be applied against (i) the deferred amounts under the ECF and (ii) the ~$135 million TLB amortization, until they have both been paid in full; thereafter, any liquidity reserve in excess of $175 million at each quarter end will be applied against the remaining TLB amortizations
- The financial maintenance covenants will be amended, with the net leverage ratio to be 4.5x through June 30, 2021, 4.25x through December 31, 2021, 3.25x through December 31, 2022 and 2.75x thereafter
- Strengthening of the lenders' security package
- Total fees across the lender groups of up to ~$7.6 million payable in cash and up to ~$9.9 million payable in kind. Costs for legal and financial advisors for PGS and the lender groups come in addition
- An up to ~NOK 116.2 million 3-year 5% unsecured convertible bond (the "CB") which can be converted into new PGS shares at NOK 3 per share (up to a maximum of 38,720,699 shares, equalling 10% of the currently outstanding PGS shares) will be issued by PGS. Lenders under the RCF and TLB facilities will have a pro rata preferential right to subscribe for the CB against conversion of a corresponding amount of their existing secured loans. To the extent the CB is not fully subscribed, certain lenders under the TLB will (i) subscribe for 80% of the unallocated amount for cash and (ii) have the right to subscribe for the remaining 20% of the unallocated amount for cash. PGS will be able to require that bondholders convert the CB into shares if the PGS share price exceeds NOK 6 for 30 consecutive trading days

As less than 100% of the RCF and TLB lenders consented to the Transactions, the amendments to the RCF and TLB will be implemented pursuant to an English law scheme of arrangement upon approval of the English Court, after obtaining the necessary majority creditor consent (being 75% by value and a majority in number of the total RCF and TLB voting in the Scheme) (the "Scheme"). The Scheme will enable the Transaction in respect of the RCF and TLB to be implemented and bind all RCF and TLB lenders (including those who vote against or do not vote). To date, lenders holding a sufficient amount of RCF and TLB debt to meet the relevant Scheme approval levels have already signed the Lock-up Agreement.

It is anticipated that the Transaction will close during the course of Q1 2021.

24 Events since the balance sheet date *(continued)*

The Group is currently in default under the RCF, TLB and ECF. With the above described agreements and to allow for implementation of the Transaction, a required majority of the lenders under the RCF and TLB, and 100% of the finance parties under the ECF, have agreed not to accelerate their debt due to the existence of defaults or take any enforcement action. The Group expects to be able to implement the Transaction either consensually or by way of a Scheme. However, if unsuccessful, the Group is potentially exposed to enforcement or other creditor actions from individual lenders or acceleration by a majority of RCF/TLB lenders and the ECF lenders, as well as by parties under certain other agreements. The Group is not presently in receipt of any notice concerning any hostile creditor action, and as noted above, the majority of its finance creditors have agreed to stand still whilst the above Transaction is being pursued; however in the event that enforcement action is taken or any of the relevant agreements are terminated, there is a risk that PGS ASA and a several of its subsidiaries will enter into insolvency. If so it is likely that the company will not be able to continue as a going concern.