



PGS EXPLORATION (UK) LTD

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1999

COMPANY NUMBER 2904391



PGS EXPLORATION (UK) LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999

The directors have pleasure in presenting their report and financial statements for the year ended 31 December 1999.

DIRECTORS

The directors who have served during the year are as follows:

M Scott	(Chairman)
C Walker	
E Hokholt	
A.R Mackewn	
L Quinn	(appointed 1 st June 1999)

The directors hold no beneficial interest in the shares of the company.

RESULTS AND DIVIDENDS

The loss for the year, after taxation was £12,956,000 (1998: profit £7,162,000). This amount has been transferred from reserves. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The principal activity of the company is the acquisition of marine seismic surveys. It is a member of the Petroleum-Geo Services Group, a Norwegian registered oil services group with operations worldwide.

Total turnover in 1999 was £101.2million as compared to £95.7million for 1998. The increase in turnover is primarily due to the company having additional vessels in operation in 1999.

The seismic market worsened in late 1998 and early 1999. As the oil price declined so the activity level for oil services declined to record lows. Despite an increase in oil and gas prices the recovery in exploration and development activities has been adversely impacted by oil companies' uncertainty over the future price of oil. In addition, the continued consolidation within the oil industry has delayed commencement of many exploration and development projects. As a result of the above factors, the seismic industry's overall profitability was adversely impacted during 1999. The company's net loss for 1999 reflects these overall market conditions. We expect however that the demand for the company's services will increase and that profitability will be restored.

POST BALANCE SHEET EVENTS

With effect from 1st January 2000, the company acquired the assets, liabilities and the trade of its sister company PGS Tensor (UK) Limited. The activities of the companies were complementary and by combining the two operations it is hoped that the geological, geophysical and marketing strengths of the old businesses will enable the enlarged company to prosper.

PGS EXPLORATION (UK) LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they will be reappointed will be proposed at the Annual General Meeting.

By Order of the Board



H Nevile
Secretary

20 December 2000

Auditors' report to the members of PGS Exploration (UK) Ltd

We have audited the financial statements on pages 5 to 13, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers,
Chartered Accountants & Registered Auditors
London

21 December 2000

PGS EXPLORATION (UK) LTD

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1999**

	<u>Note</u>	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
TURNOVER	2	101,196	95,686
Cost of sales		(104,940)	(82,145)
GROSS (LOSS)/PROFIT		(3,744)	13,541
Administrative expenses		(6,244)	(5,501)
OPERATING (LOSS)/PROFIT	3	(9,988)	8,040
Interest receivable	5	474	443
Interest payable	6	(2,711)	(572)
		(2,237)	(129)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(12,225)	7,911
Tax on (loss)/profit on ordinary activities	7	(731)	(749)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(12,956)	7,162
		<u> </u>	<u> </u>

All the above results relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

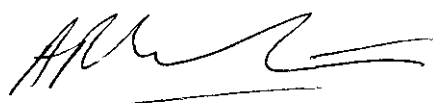
The company has no recognised gains or losses other than the loss for the year.

PGS EXPLORATION (UK) LTD

BALANCE SHEET AS AT 31 DECEMBER 1999

	<u>Note</u>	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
FIXED ASSETS			
Tangible assets	8	2,193	3,015
CURRENT ASSETS			
Own seismic data	9	90,104	26,330
Debtors	10	58,110	46,552
Cash at bank and in hand		<u>2,939</u>	<u>1,820</u>
		151,153	74,702
CREDITORS: amounts falling due within one year	11	<u>(106,126)</u>	<u>(48,087)</u>
NET CURRENT ASSETS		<u>45,027</u>	<u>26,615</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		47,220	29,630
CREDITORS: amounts falling due after more than one year	12	<u>(46,964)</u>	<u>(16,418)</u>
NET ASSETS		256	13,212
		==	==
EQUITY CAPITAL AND RESERVES			
Called up share capital	13	10	10
Profit and loss account	14	<u>246</u>	<u>13,202</u>
Total shareholders' funds	15	256	13,212
		==	==

APPROVED BY THE BOARD
20 December 2000



A.R. MACKEWN

DIRECTOR

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. The following accounting policies have been applied in dealing with all items which are considered material in relation to these financial statements.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

- Office equipment - 4 years
- Furniture, fixtures and fittings - 6 years
- Computer equipment - 3 years

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that a liability or asset is expected to crystallise in the foreseeable future.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the Balance Sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All exchange differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets acquired under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income as incurred.

Pensions

Contributions to defined benefit schemes are charged to the profit and loss account over employees working lives with the company and have been determined by a qualified actuary. Payments to defined contribution schemes are charged to the profit and loss account as incurred.

Own seismic data

Own seismic data is valued at the lower of amortised cost and net realisable value. Costs are amortised in proportion to the sales recorded in each year for each survey as a percentage of the total estimated sales over the life of the survey. The life of a survey for amortisation purposes is deemed to be four years following completion. Furthermore, should there be any impairment in the value of any survey, additional amortisation is charged so as to reduce the amortised cost to net realisable value.

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

2 TURNOVER

Turnover represents the value of goods and services provided, net of value added tax.
The turnover and (loss)/profit before tax is derived solely from the company's principal activity.

An analysis of turnover by geographical area is given below:

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
United Kingdom	18,645	40,271
Other European countries	31,993	26,152
America	22,610	32
Rest of the world	<u>27,948</u>	<u>29,231</u>
	101,196	95,686
	<u> </u>	<u> </u>

3 OPERATING (LOSS)/PROFIT

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
This is stated after charging:		
Auditors' remuneration - audit work	25	24
Auditors' remuneration - non audit work	26	17
Depreciation	856	562
Operating lease rentals		
- Hire of plant and machinery	56,655	29,582
Aggregate Directors' remuneration	385	231
	<u> </u>	<u> </u>

The remuneration of the highest paid director was £174,989 (1998: £130,949).

Pension benefits accrue to 2 (1998: 2) directors under the PGS group's defined benefit pension scheme and to 1 (1998: nil) director under a defined contribution scheme.

All directors have either been granted or exercised share options in the ultimate holding company, Petroleum Geo-Services ASA.

PGS EXPLORATION (UK) LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

4	STAFF COSTS	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Wages and salaries	9,073	8,613
	Social security costs	122	128
	Other pension costs	<u>466</u>	<u>394</u>
		9,661	9,135
		<u>=====</u>	<u>=====</u>

The average number of employees was 190 (1998:162). All employees were involved in the principal activity of the company. 126 (1998: 112) employees were based offshore on PGS Group operated vessels, 64 (1998: 50) were based at the principal office of the company.

5	INTEREST RECEIVABLE	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Bank deposits	110	87
	Group undertakings	<u>364</u>	<u>356</u>
		474	443
		<u>=====</u>	<u>=====</u>

6	INTEREST PAYABLE	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Group undertakings	2,611	457
	Finance leases	79	63
	Other	<u>21</u>	<u>52</u>
		2,711	572
		<u>=====</u>	<u>=====</u>

7	TAXATION	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Corporation tax @ 30.25% (1998:31%) based on the results for the year	-	749
	Over provision in respect of prior years	(577)	-
	Foreign withholding taxes payable	<u>1,308</u>	<u>-</u>
		731	749
		<u>=====</u>	<u>=====</u>

The full potential deferred tax asset which has not been recognised in the financial statements is £3,804,000 (1998: £160,000).

PGS EXPLORATION (UK) LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

8 TANGIBLE FIXED ASSETS

	<u>Office equipment</u> <u>£'000</u>	<u>Finance leases</u> <u>£'000</u>	<u>Fixtures & fittings</u> <u>£'000</u>	<u>Total</u> <u>£'000</u>
<u>Cost</u>				
At 1 January 1999	1,907	1,564	257	3,728
Additions	21	-	13	34
At 31 December 1999	1,928	1,564	270	3,762
<u>Depreciation</u>				
At 1 January 1999	343	261	109	713
Charge for the year	326	466	64	856
At 31 December 1999	669	727	173	1,569
<u>Net book value</u>				
At 31 December 1999	1,259	837	97	2,193
At 31 December 1998	1,564	1,303	148	3,015

Finance lease assets consist solely of computer equipment.

9 OWN SEISMIC DATA

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Completed data	8,830	6,671
Work in progress	81,274	19,659
	90,104	26,330
	<u><u> </u></u>	<u><u> </u></u>

PGS EXPLORATION (UK) LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

10	DEBTORS	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Trade debtors	12,069	6,523
	Amounts owed by group companies	29,973	33,370
	Prepayments and accrued income	12,024	3,354
	Sundry debtors	<u>4,044</u>	<u>3,305</u>
		58,110	46,552
		<u><u> </u></u>	<u><u> </u></u>
11	CREDITORS: amounts falling due within one year	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Trade creditors	2,402	2,485
	Amounts owed to group companies	96,193	40,783
	Taxation and social security costs	613	267
	Obligations under finance leases	541	505
	Accruals and deferred income	<u>6,377</u>	<u>4,047</u>
		106,126	48,087
		<u><u> </u></u>	<u><u> </u></u>
12	CREDITORS: amounts falling due after more than one year	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Amounts owed to group companies	46,725	15,638
	Obligations under finance leases	<u>239</u>	<u>780</u>
		46,964	16,418
		<u><u> </u></u>	<u><u> </u></u>
13	EQUITY SHARE CAPITAL	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	10,000 ordinary shares of £1 each:		
	Authorised, issued and fully paid	10	10
		<u><u> </u></u>	<u><u> </u></u>

PGS EXPLORATION (UK) LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

14	RESERVES	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Profit and loss account at start of year	13,202	6,040
	(Loss)/profit for the year	(12,956)	7,162
	Profit and loss account at end of year	246	13,202
		==	==
15	RECONCILIATION OF SHAREHOLDERS' FUNDS	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Balance at start of year	13,212	6,050
	(Loss)/profit for the year	(12,956)	7,162
	Balance at end of year	256	13,212
		==	==
16	OPERATING LEASE COMMITMENTS	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Annual payments on leases expiring:		
	- between two and five years	10,310	9,927
	- after more than five years	49,789	47,940
		==	==
17	FINANCE LEASE OBLIGATIONS	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
	Future minimum lease payments:		
	- obligations payable within one year	541	505
	- obligations payable between two and five years	239	780
		780	1,285
		==	==

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

18 PENSION COMMITMENTS

For certain employees, the company contributes to either a defined contribution or a benefit pension scheme. The assets of each scheme are held separately from those of the company.

Contributions to defined contribution schemes amounted to £7,000 (1998: £13,000).

The company participates in the PGS UK Pension Fund, a funded, defined benefit pension scheme. The scheme was established in 1994; the first, and most recent, actuarial valuation was at 31 December 1997. Full details of the valuation are included in the financial statements of Petroleum Geo-Services (UK) Ltd. Contributions have been made in line with actuarial advice and for 1999 amounted to £459,000 (1998: £381,000). This amount has been charged to the profit and loss account.

Of the above amounts £24,000 (1998: £23,000) related to directors of the company.

19 PARENT COMPANY

The ultimate parent company is Petroleum Geo-Services ASA, a company registered in Norway. Group financial statements are available from: Petroleum Geo-Services ASA, Strandveien 50, 1324 Lysaker, Norway. The intermediate parent company is Petroleum Geo-Services (UK) Ltd, a company registered in the United Kingdom.

20 RELATED PARTY DISCLOSURE

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

21 CASH FLOW STATEMENT

The company is a wholly owned subsidiary of Petroleum Geo-Services ASA and the cash flows of the company are included in the consolidated group cash flow statement of Petroleum Geo-Services ASA which are publicly available. Consequently, the company is exempt under the terms of Financial Reporting Standard No.1 (Revised) from publishing a cash flow statement.