



COMPANY REGISTRATION NUMBER 2904391

**PGS EXPLORATION (UK) LIMITED**  
**FINANCIAL STATEMENTS**  
**31<sup>ST</sup> DECEMBER 2001**



79

**PGS EXPLORATION (UK) LIMITED**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

| <b>Contents</b>                                 | <b>Pages</b>   |
|---|----------------|
| Officers and other information                  | <b>1</b>       |
| The directors' report                           | <b>2 to 4</b>  |
| Independent auditors' report to the shareholder | <b>5</b>       |
| Profit and loss account                         | <b>6</b>       |
| Statement of total recognised gains and losses  | <b>6</b>       |
| Balance sheet                                   | <b>7</b>       |
| Notes to the financial statements               | <b>8 to 17</b> |

**PGS EXPLORATION (UK) LIMITED**  
**OFFICERS AND OTHER INFORMATION**

|                                    |  |
|------------------------------------|--|
| <b>The board of directors</b>      | S Rennemo<br>C Steen-Nilsen<br>G Langseth                            |
| <b>Company secretary</b>           | H Nevile   |
| <b>Registered office</b>           | PGS Court<br>Halfway Green<br>Walton on Thames<br>Surrey<br>KT12 1RS |
| <b>Auditors</b>                    | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF        |
| <b>Company registration number</b> | 2904391  |

# **PGS EXPLORATION (UK) LIMITED**

## **THE DIRECTORS' REPORT**

### **YEAR ENDED 31ST DECEMBER 2001**

The directors present their report and the financial statements of the company for the year ended 31st December 2001.

#### **Principal activities and business review**

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

Total turnover in 2001 was £171 million as compared to £114 million for 2000.

Seismic market conditions during 2001 continued to be very difficult. However our revenue increased significantly and with better operational performance we were able to reduce our net loss. 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 projects. The company's net loss for 2001 reflects these overall market conditions. We expect however that the demand for the company's services will increase and that profitability will be restored.

#### **Results and dividends**

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

The directors have not recommended a dividend.

#### **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.

#### **Directors**

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

|            |                               |
|------------|-------------------------------|
| AR Mackewn |                               |
| C Walker   |                               |
| L Quinn    | (Resigned 20th March 2001)    |
| M Scott    | (Resigned 20th March 2001)    |
| E Hokholt  | (Resigned 30th November 2001) |

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

S Rennemo was appointed as a director on 14th February 2003.

C Steen-Nilsen was appointed as a director on 14th February 2003.

G Langseth was appointed as a director on 23rd March 2004.

K Oversjoen was appointed as a director on 14th February 2003, and resigned on 23rd March 2004.

AR Mackewn resigned as a director on 14th February 2003.

C Walker resigned as a director on 23rd December 2002.

#### **Policy on the payment of creditors**

In the UK, wherever possible, the company agrees payment terms with its external suppliers when it enters into binding contracts. It seeks to abide by the terms agreed whenever it is satisfied that the supplier has performed under the terms agreed. In the absence of any specified credit terms it is the company's practice to settle outstanding debts within 30 days of satisfactory receipt of the goods or services in question. Due to the significant volume of transactions with other PGS group companies, which are subject to specific settlement agreements, it is not practical to calculate the number of external creditor days.

## **PGS EXPLORATION (UK) LIMITED**

### **THE DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31ST DECEMBER 2001**

#### **Employee involvement, disabled persons, health & safety**

The company has developed a network for communicating with employees, including those in remote locations or at sea. Pertinent and topical information is distributed on a regular basis and channels for feedback are clearly established. Financial information is available from the parent company's web site and industry and technical news items are distributed and discussed at regular intervals.

The company will always give due consideration for job vacancies to disabled persons and should an employee working in a harsh environment become disabled full consideration will be given to retaining that person in alternative work wherever possible.

The company aspires to the highest standards of health, safety and regard for the environment. It participates in industry forums and maintains an active information and reporting system for areas of operation with particular risks.

#### **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 at the end of the year and of the profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies, as described on pages 8 to 10, 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that they have complied with these requirements and having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they will continue to adopt the going concern basis in preparing the accounts.

#### **Post Balance Sheet Events**

During 2003 the ultimate parent company, Petroleum Geo-Services ASA ("PGS ASA") was subject to a major reorganisation under Chapter 11 of the United States bankruptcy code during which the total debt of the group headed by PGS ASA was restructured to a more sustainable level. This process was completed and approved by both creditors and shareholders in November 2003, at which time PGS ASA emerged from Chapter 11.

However, PGS ASA is continuing its efforts to have an audit of its 2002 financial statements and a re-audit of its 2001 financial statements completed under U.S. GAAP. It is also continuing its efforts to prepare audited financial statements for 2003 under both Norwegian GAAP and U.S. GAAP and to address material weakness in its internal controls over financial reporting that was disclosed in November 2003. At the date of these financial statements these material weaknesses have not been eliminated. PGS ASA does not expect to release U.S. GAAP figures relating to periods prior to November 2003 until these audits and re-audit are completed. PGS ASA had established an objective of completing such work in time to permit filing its Annual Report on Form 20-F by 31 October 2004. However, there can be no assurance as to whether or when these audits and re-audits can be completed.

Until the audits and re-audit of financial statements under U.S. GAAP are completed, PGS ASA will be unable to file with the U.S. Securities and Exchange commission an Annual Report on Form 20-F that contains audited financial statements by the 30<sup>th</sup> June of each year. For so long as this condition exists, it

**PGS EXPLORATION (UK) LIMITED**

**THE DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31ST DECEMBER 2001**

**Post Balance Sheet Events (continued)**

will be precluded from, among other things, listing its American Depositary Shares ("ADSs") on a U.S. national securities exchange or on the NASDAQ Stock Market. A delay in listing of PGS ASA's ADSs in the U.S. may have a negative impact on their liquidity.

Further certain of PGS ASA loan and lease agreements contain requirements to provide audited U.S. GAAP financial statements by 30<sup>th</sup> June of each year. Such requirements were waived for financial statements due 30<sup>th</sup> June, 2004; PGS ASA intends to seek waivers of such reporting requirements going forward. However, there can be no assurance that such waivers will be obtained. If PGS ASA is unable to obtain these waivers, it could become in default under various deals and lease obligations, which eventually could lead to action by creditors and other parties seeking acceleration of repayment of various obligations. If such a default were to occur, PGS ASA might not be in a position to pay the defaulted obligations.

The restructuring of group debt was at the parent company level only, with all subsidiaries able to continue trading as usual.

**Auditors**

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

Signed by order of the board



H Nevile  
Company Secretary

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

2 September 2004

**PGS EXPLORATION (UK) LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER**  
**YEAR ENDED 31ST DECEMBER 2001**

We have audited the financial statements for the year ended 31st December 2001 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's shareholder, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 with the company is not disclosed.

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

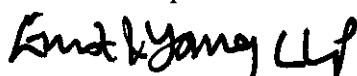
**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 as at 31st December 2001 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG LLP  
Registered Auditor  
1 More London Place  
London  
SE1 2AF

2 September 2004

**PGS EXPLORATION (UK) LIMITED**

**PROFIT AND LOSS ACCOUNT**

**YEAR ENDED 31ST DECEMBER 2001**

|  |          | <b>2001</b>            | <b>2000</b>            |
|--|----------|------------------------|------------------------|
|  |          | <b>£000</b>            | <b>£000</b>            |
| <b>Turnover</b>  | <b>2</b> | 171,272                | 114,182                |
| Cost of sales  |          | (190,434)              | (148,663)              |
| <b>Gross loss</b>  |          | <u>(19,162)</u>        | <u>(34,481)</u>        |
| Administrative expenses  |          | (5,437)                | (10,133)               |
| <b>Operating loss</b>  | <b>3</b> | (24,599)               | (44,614)               |
| Interest receivable  | <b>6</b> | 903                    | 6,396                  |
| Interest payable   | <b>7</b> | (5,452)                | (6,710)                |
| <b>Loss on ordinary activities before taxation</b>                                   |          | <u>(29,148)</u>        | <u>(44,928)</u>        |
| Tax on loss on ordinary activities   | <b>8</b> | (2,757)                | (797)                  |
| <b>Loss on ordinary activities after taxation, being loss for the financial year</b> |          | <u><u>(31,905)</u></u> | <u><u>(45,725)</u></u> |

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

|  | <b>2001</b>            | <b>2000</b>            |
|--|------------------------|------------------------|
|  | <b>£000</b>            | <b>£000</b>            |
| Loss for the financial year attributable to the shareholder            | (31,905)               | (45,725)               |
| Currency translation differences relating to foreign currency branches | 2,965                  | —                      |
| <b>Total gains and losses recognised since the last annual report</b>  | <u><u>(28,940)</u></u> | <u><u>(45,725)</u></u> |



**PGS EXPLORATION (UK) LIMITED**

**BALANCE SHEET**

**31ST DECEMBER 2001**

|  | Note | 2001<br>£000    | £000            | 2000<br>£000    | £000            |
|--|------|-----------------|-----------------|-----------------|-----------------|
| <b>Fixed assets</b>  |      |                 |                 |                 |                 |
| Tangible assets  | 9    |                 | 3,144           |                 | 2,492           |
| <b>Current assets</b>  |      |                 |                 |                 |                 |
| Stocks   | 10   | 22,396          |                 | 79,779          |                 |
| Debtors due within one year                                    | 11   | 112,362         |                 | 57,961          |                 |
| Debtors due after one year                                     | 11   | 6,549           |                 | 6,549           |                 |
| Cash at bank   |      | 1,052           |                 | 73              |                 |
|  |      | <u>142,359</u>  |                 | <u>144,362</u>  |                 |
| <b>Creditors: amounts falling due within one year</b>          | 12   | <u>(38,692)</u> |                 | <u>(17,732)</u> |                 |
| <b>Net current assets</b>                                      |      |                 | 103,667         |                 | 126,630         |
| <b>Total assets less current liabilities</b>                   |      |                 | 106,811         |                 | 129,122         |
| <b>Creditors: amounts falling due after more than one year</b> | 13   |                 | <u>(50,413)</u> |                 | <u>(43,784)</u> |
|  |      |                 | <u>56,398</u>   |                 | <u>85,338</u>   |
| <b>Capital and reserves</b>                                    |      |                 |                 |                 |                 |
| Called-up equity share capital                                 | 17   |                 | 130,817         |                 | 130,817         |
| Profit and loss account  | 18   |                 | <u>(74,419)</u> |                 | <u>(45,479)</u> |
| <b>Shareholder's funds</b>                                     | 19   |                 | <u>56,398</u>   |                 | <u>85,338</u>   |

These financial statements were approved by the directors on 2 September 2004 and are signed on their behalf by:



Director

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**1. Accounting policies**

**Basis of accounting**

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

In preparing the financial statements for the current year, the company has adopted FRS 17 'Retirement Benefits', FRS 18 'Accounting Policies' & FRS 19 'Deferred Tax'. There has been no revision to the financial statements of either the current or prior period as a result of the adoption of these standards. The financial statements have been prepared on a going concern basis as the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

**Cash flow statement**

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

**Turnover**

The turnover shown in the profit and loss account represents amounts invoiced net of value added tax for services rendered during the year.

**Research and development**

Research and development expenditure is written off in the year in which it is incurred.

**Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

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

**Work in progress**

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

**Leasing and hire purchase commitments**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

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

**Pension costs**

The group operates a defined benefit pension scheme for the majority of the group's employees. Due to the nature of the scheme individual group companies are unable to identify their share of the underlying assets and liabilities. Therefore, in the accounts of the subsidiaries, the scheme is treated as a defined contribution scheme.

The company also contributes to a defined contribution scheme. Payments to this scheme are charged to the profit and loss account as incurred.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

The exchange difference arising from the translation of the net investment in the foreign branches are taken directly to reserves.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**2. Turnover**

The turnover and loss before tax are attributable to the one principal activity of the company.  
 An analysis of turnover is given below:

|                          | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|--------------------------|----------------------------|----------------------------|
| United Kingdom           | 5,605                      | 21,375                     |
| Other European countries | 91,698                     | 9,370                      |
| America                  | 35,739                     | 67,818                     |
| Rest of the world        | 38,230                     | 15,619                     |
|                          | <u>171,272</u>             | <u>114,182</u>             |

**3. Operating loss**

Operating loss is stated after charging/(crediting):

|  | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|--|----------------------------|----------------------------|
| Directors' emoluments                                      | 438                        | 424                        |
| Research and development expenditure written off           | 468                        | 83                         |
| Depreciation of owned fixed assets                         | 531                        | 544                        |
| Depreciation of assets held under finance lease agreements | 137                        | 714                        |
| Auditors' remuneration:                                    |                            |                            |
| - <i>current auditors</i>                                  | -                          | -                          |
| - previous auditors  | 49                         | 65                         |
| - for other services                                       | 154                        | 50                         |
| Operating lease costs:                                     |                            |                            |
| Land and buildings   | 1,086                      | 1,086                      |
| Hire of plant and machinery                                | 62,264                     | 62,696                     |
| Exchange (profit)/loss                                     | (2,074)                    | 4,825                      |
| Impairment of own seismic data                             | <u>639</u>                 | <u>13,610</u>              |

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**4. Particulars of employees**

The average number of staff employed by the company during the financial year amounted to:

|                                | <b>2001</b> | <b>2000</b> |
|--------------------------------|-------------|-------------|
|                                | <b>No</b>   | <b>No</b>   |
| Number of administrative staff | 153         | 156         |
| Number of field crew           | —           | 179         |
|                                | <u>153</u>  | <u>335</u>  |

The aggregate payroll costs of the above were:

|                       | <b>2001</b>  | <b>2000</b>   |
|-----------------------|--------------|---------------|
|                       | <b>£000</b>  | <b>£000</b>   |
| Wages and salaries    | 7,337        | 13,806        |
| Social security costs | 675          | 569           |
| Other pension costs   | 1,502        | 919           |
|                       | <u>9,514</u> | <u>15,294</u> |

All employees were involved in the principal activity of the company and were based its principal office. No employees (2000: 179) are now based offshore on PGS Group operated vessels.

**5. Directors' emoluments**

The directors' aggregate emoluments in respect of qualifying services were:

|  | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| Emoluments receivable  | 438         | 424         |
| Value of company pension contributions to money purchase schemes | 14          | 23          |
|  | <u>452</u>  | <u>447</u>  |

**Emoluments of highest paid director:**

|   | <b>2001</b> | <b>2000</b> |
|---|-------------|-------------|
|   | <b>£000</b> | <b>£000</b> |
| Total emoluments (excluding pension contributions): | <u>319</u>  | <u>225</u>  |

Benefits are accruing under a defined benefits pension scheme and, at the year end the cost of the accrued pension amounted to £22,000 (2000 - £10,000).

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**5. Directors' emoluments** *(continued)*

The number of directors who are accruing benefits under company pension schemes was as follows:

|                         | <b>2001</b>   | <b>2000</b>   |
|-------------------------|---------------|---------------|
|                         | <b>No</b>     | <b>No</b>     |
| Money purchase schemes  | 1             | 1             |
| Defined benefit schemes | 2             | 2             |
|                         | <u>      </u> | <u>      </u> |

All directors have either been granted or have exercised share options in the ultimate holding company, Petroleum Geo-Services ASA. Details may be found in the Annual Report & Accounts of that company.

**6. Interest receivable**

|                                    | <b>2001</b> | <b>2000</b>  |
|------------------------------------|-------------|--------------|
|                                    | <b>£000</b> | <b>£000</b>  |
| Bank interest receivable           | 100         | 101          |
| Interest receivable on group loans | 803         | 6,295        |
|                                    | <u>903</u>  | <u>6,396</u> |

**7. Interest payable**

|                                    | <b>2001</b>  | <b>2000</b>  |
|------------------------------------|--------------|--------------|
|                                    | <b>£000</b>  | <b>£000</b>  |
| Interest payable on bank borrowing | 46           | 18           |
| Finance charges                    | 4            | 54           |
| Interest payable on group loans    | 5,402        | 6,638        |
|                                    | <u>5,452</u> | <u>6,710</u> |

**8. Tax on loss on ordinary activities**

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

|                                    | <b>2001</b>  | <b>2000</b> |
|------------------------------------|--------------|-------------|
|                                    | <b>£000</b>  | <b>£000</b> |
| <b>Foreign tax</b>                 |              |             |
| Current tax on income for the year | 2,757        | 797         |
| Total current tax                  | <u>2,757</u> | <u>797</u>  |

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**8. Tax on loss on ordinary activities** *(continued)*

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

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2000 - 30%). Deferred tax assets relating to carried forward tax losses have not been recognised.

|  | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|--|----------------------------|----------------------------|
| Loss on ordinary activities before taxation            | (29,148)                   | (44,928)                   |
| Profit/(loss) on ordinary activities by rate of tax    | (8,744)                    | (13,478)                   |
| Tax losses and other timing differences not recognised | 8,744                      | 13,478                     |
| Foreign tax  | 2,757                      | 797                        |
| Total current tax (note 8(a))                          | <u>2,757</u>               | <u>797</u>                 |

The company has carried forward tax losses and other timing differences of £16,518,333 (2000: £10,984,998) that are available indefinitely to be offset against future taxable profits. Deferred tax assets have not been recognised in relation to these losses, as they do not satisfy the recognition criteria for deferred tax assets in FRS 19 'Deferred Tax'.

**9. Tangible fixed assets**

|                              | <b>Office<br/>equipment<br/>£000</b> | <b>Fixtures &amp;<br/>Fittings<br/>£000</b> | <b>Leased<br/>Equipment<br/>£000</b> | <b>Total<br/>£000</b> |
|------------------------------|--------------------------------------|---|--------------------------------------|-----------------------|
| <b>Cost</b>                  |                                      |   |                                      |                       |
| At 1st January 2001          | 2,248                                | 3,052                                       | 1,891                                | 7,191                 |
| Additions                    | 1,452                                | 151   | 24                                   | 1,627                 |
| Disposals                    | —                                    | —   | (307)                                | (307)                 |
| <b>At 31st December 2001</b> | <u>3,700</u>                         | <u>3,203</u>                                | <u>1,608</u>                         | <u>8,511</u>          |
| <b>Depreciation</b>          |                                      |   |                                      |                       |
| At 1st January 2001          | 1,512                                | 1,746                                       | 1,441                                | 4,699                 |
| Charge for the year          | 222                                  | 309   | 137                                  | 668                   |
| <b>At 31st December 2001</b> | <u>1,734</u>                         | <u>2,055</u>                                | <u>1,578</u>                         | <u>5,367</u>          |
| <b>Net book value</b>        |                                      |   |                                      |                       |
| <b>At 31st December 2001</b> | <u>1,966</u>                         | <u>1,148</u>                                | <u>30</u>                            | <u>3,144</u>          |
| At 31st December 2000        | <u>736</u>                           | <u>1,306</u>                                | <u>450</u>                           | <u>2,492</u>          |

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**9. Tangible fixed assets** *(continued)*

**Finance lease agreements**

Included within the net book value of £3,144,000 is £30,000 (2000: £450,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £137,000 (2000: £714,000).

**10. Stocks**

|                             | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|-----------------------------|----------------------------|----------------------------|
| <b>Seismic Data Library</b> |                            |                            |
| Work in progress            | 10,442                     | 7,261                      |
| Completed data              | 11,954                     | 72,518                     |
|                             | <u>22,396</u>              | <u>79,779</u>              |

During the year, the company sold data with a value of £75 million to a sister company.

**11. Debtors**

|                                    | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|------------------------------------|----------------------------|----------------------------|
| Trade debtors                      | 24,684                     | 12,017                     |
| Amounts owed by group undertakings | 75,336                     | 42,407                     |
| Other debtors                      | 3,893                      | 867                        |
| Prepayments and accrued income     | 14,998                     | 9,219                      |
|                                    | <u>118,911</u>             | <u>64,510</u>              |

The debtors above include the following amounts falling due after more than one year:

|                                    | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|------------------------------------|----------------------------|----------------------------|
| Amounts owed by group undertakings | <u>6,549</u>               | <u>6,549</u>               |

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

|                                    | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|------------------------------------|----------------------------|----------------------------|
| Trade creditors                    | 9,151                      | 2,413                      |
| Amounts owed to group undertakings | 27,049                     | 11,784                     |
| PAYE and social security           | 448                        | 334                        |
| Finance lease agreements           | —                          | 295                        |
| Foreign withholding tax            | 1,630                      | 685                        |
| Accruals and deferred income       | 414                        | 2,221                      |
|                                    | <u>38,692</u>              | <u>17,732</u>              |



**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**13. Creditors: amounts falling due after more than one year**

|                                    | 2001<br>£000 | 2000<br>£000 |
|------------------------------------|--------------|--------------|
| Amounts owed to group undertakings | 50,413       | 43,784       |

Inter-company debt is repayable on demand, however it is not expected this will be made in the foreseeable future and will depend upon the overall funding position of the company (see note 22)..

**14. Commitments under finance lease agreements**

Future commitments under finance lease agreements are as follows:

|  | 2001<br>£000 | 2000<br>£000 |
|--|--------------|--------------|
| Amounts payable within 1 year                                | —            | 296          |
| Less interest and finance charges relating to future periods | —            | (5)          |
|  | <u>—</u>     | <u>291</u>   |

**15. Commitments under operating leases**

At 31st December 2001 the company had annual commitments under non-cancellable operating leases as set out below.

|                                | 2001                        |                            | 2000                        |                            |
|--------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                                | Land &<br>Buildings<br>£000 | Seismic<br>Vessels<br>£000 | Land &<br>Buildings<br>£000 | Seismic<br>Vessels<br>£000 |
| Operating leases which expire: |                             |                            |                             |                            |
| Within 2 to 5 years            | —                           | 66,524                     | —                           | 10,728                     |
| After more than 5 years        | 1,086                       | —                          | 1,086                       | 51,829                     |
|                                | <u>1,086</u>                | <u>66,524</u>              | <u>1,086</u>                | <u>62,557</u>              |

The operating leases relating to the seismic vessels are charged in USD and the average rate over the term of the leases as at 31<sup>st</sup> December 2001 has been used to convert to GBP.

**16. Related party transactions**

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.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**17. Share capital**

**Authorised share capital:**

|  | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|--|----------------------------|----------------------------|
| 150,000,000 Ordinary shares of £1 each | <u>150,000</u>             | <u>150,000</u>             |

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

|                            | <b>2001</b><br><b>No</b> | <b>£000</b>    | <b>2000</b><br><b>No</b> | <b>£000</b>    |
|----------------------------|--------------------------|----------------|--------------------------|----------------|
| Ordinary shares of £1 each | <u>130,816,509</u>       | <u>130,817</u> | <u>130,816,509</u>       | <u>130,817</u> |

**18. Profit and loss account**

|   | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|---|----------------------------|----------------------------|
| Balance brought forward                 | (45,479)                   | 246                        |
| Accumulated loss for the financial year | (31,905)                   | (45,725)                   |
| Foreign currency retranslation          | 2,965                      | —                          |
| Balance carried forward                 | <u>(74,419)</u>            | <u>(45,479)</u>            |

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

|                                     | <b>2001</b><br><b>£000</b> | <b>2000</b><br><b>£000</b> |
|-------------------------------------|----------------------------|----------------------------|
| Loss for the financial year         | (31,905)                   | (45,725)                   |
| New equity share capital subscribed | —                          | 130,807                    |
|                                     | <u>(31,905)</u>            | <u>85,082</u>              |
| Foreign currency retranslation      | 2,965                      | —                          |
| Net (reduction)/addition to funds   | (28,940)                   | 85,082                     |
| Opening shareholder's equity funds  | 85,338                     | 256                        |
| Closing shareholder's equity funds  | <u>56,398</u>              | <u>85,338</u>              |

**20. Pension commitments**

The group provides pension arrangements to the majority of full time employees through a defined benefit pension scheme and the related costs are assessed in accordance with the advice of the actuary.

The individual group companies are unable to identify their share of the underlying assets and liabilities and therefore the scheme is accounted for in these accounts as a defined contribution scheme. The most recent valuation was at 31st December 2000 and full disclosure of the scheme details is made in the accounts of the parent undertaking, Petroleum Geo-Services (UK) Limited.

There exists within the pension scheme a deficit of £2,382,000, which may lead to an increase in contributions in future years.

**PGS EXPLORATION (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2001**

**21. Ultimate 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.

**22. Post Balance Sheet Events**

During 2003 the ultimate parent company, Petroleum Geo-Services ASA ("PGS ASA") was subject to a major reorganisation under Chapter 11 of the United States bankruptcy code during which the total debt of the group headed by PGS ASA was restructured to a more sustainable level. This process was completed and approved by both creditors and shareholders in November 2003, at which time PGS ASA emerged from Chapter 11.

However, PGS ASA is continuing its efforts to have an audit of its 2002 financial statements and a re-audit of its 2001 financial statements completed under U.S. GAAP. It is also continuing its efforts to prepare audited financial statements for 2003 under both Norwegian GAAP and U.S. GAAP and to address material weakness in its internal controls over financial reporting that was disclosed in November 2003. At the date of these financial statements these material weaknesses have not been eliminated. PGS ASA does not expect to release U.S. GAAP figures relating to periods prior to November 2003 until these audits and re-audit are completed. PGS ASA had established an objective of completing such work in time to permit filing its Annual Report on Form 20-F by 31 October 2004. However, there can be no assurance as to whether or when these audits and re-audits can be completed.

Until the audits and re-audit of financial statements under U.S. GAAP are completed, PGS ASA will be unable to file with the U.S. Securities and Exchange commission an Annual Report on Form 20-F that contains audited financial statements by the 30<sup>th</sup> June of each year. For so long as this condition exists, it will be precluded from, among other things, listing its American Depositary Shares ("ADSs") on a U.S. national securities exchange or on the NASDAQ Stock Market. A delay in listing of PGS ASA's ADSs in the U.S. may have a negative impact on their liquidity.

Further certain of PGS ASA loan and lease agreements contain requirements to provide audited U.S. GAAP financial statements by 30<sup>th</sup> June of each year. Such requirements were waived for financial statements due 30<sup>th</sup> June, 2004; PGS ASA intends to seek waivers of such reporting requirements going forward. However, there can be no assurance that such waivers will be obtained. If PGS ASA is unable to obtain these waivers, it could become in default under various deals and lease obligations, which eventually could lead to action by creditors and other parties seeking acceleration of repayment of various obligations. If such a default were to occur, PGS ASA might not be in a position to pay the defaulted obligations.

The restructuring of group debt was at the parent company level only, with all subsidiaries able to continue trading as usual.

**23. Other Directors' Interest**

During the year, an amount totalling £291,000 relating to personnel services was paid to Norcosse Ltd, of which Mr L.Quinn was the principal shareholder.