

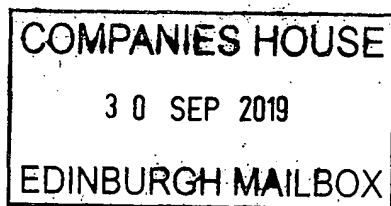
COMPANY REGISTRATION NUMBER 02904391



PGS EXPLORATION (UK) LIMITED

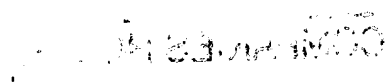
REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018



**PGS EXPLORATION (UK) LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018**

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 IAN HEDGES
 Director

**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 2018.

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 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 loss for the year after taxation is \$10,037,000 (2017: \$33,249,000). The directors do not recommend payment of a dividend (2017: \$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 remained challenging in 2018, with low vessel utilization particularly over the winter season. However, market fundamentals improved and the company achieved higher pricing for contract work compared to 2017. Additionally, following the reorganization of the PGS Group effective 1 January 2018, the company delivered a substantial cost reduction and as a result profitability improved significantly despite a 36% decrease in overall revenues. Looking to 2019, the trend of improvement in the seismic market is expected to continue. The company expects significant cash flow generation among clients and an increase in exploration and production spending, including offshore spending, to contribute to further recovery of the marine seismic market fundamentals going forward. Contract seismic is likely the activity benefitting most from the improvement, driven by more 4D acquisition and generally higher demand for new seismic data.

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.

From 1 January 2018 the trade, assets and liabilities of PGS Reservoir Limited, a fellow group company, were transferred to PGS Exploration (UK) Limited at net book value.

Principal risks and uncertainties of the company

On 23 June 2016, the eligible voters in the United Kingdom voted in a referendum to leave the European Union ('EU'). At present, the consequences of this decision are still not known in detail, so it is difficult to estimate the impact on the company. Management have been preparing for different scenarios for the UK's exit from the EU but do not believe that any of these scenarios will pose a significant risk to the business.

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

PGS EXPLORATION (UK) LIMITED
STRATEGIC REPORT *(continued)*

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 had a substantial liquidity reserve including unutilised drawings of the Revolving Credit Facility of \$257.3million as of 31 December 2018, which can be used to meet the group's funding commitments if called upon.

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.

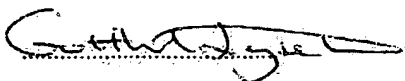
Demand for the group's products and services are heavily influenced by oil and gas prices and the focus areas of oil and gas companies' spending. The profitability of the group is subject to a number of operational risks, including increased competition, attractiveness of technology, changes in governmental 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 39 to 41 of the group's annual report.

Key performance indicators ("KPIs")

The directors of the PGS 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 34 to 43 of the group's annual report which does not form part of this report.

Signed on behalf of the Board by:



G Langseth
Director

27 September 2019

PGS EXPLORATION (UK) LIMITED

DIRECTORS REPORT

The directors present their Report and the financial statements for the year ended 31 December 2018.

Results and dividends

The loss for the year after taxation is \$10,037,000 (2017: \$33,249,000). The directors do not recommend payment of a dividend (2017: \$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

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.

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.

Charitable and political donations

The company made no political or charitable donations during 2018 (2017: \$nil).

Going concern

The directors have considered the financial position the company, including the arrangements with its ultimate parent company, PGS ASA. The directors have also considered the financial position of PGS ASA, including centralised treasury arrangements.

The company has received assurance from PGS ASA that it will continue to receive financial support for a period of at least 12 months from the signing of the accounts in order to meet its obligations as they fall due. Based on their assessment, the directors have no reason to believe that a material uncertainty exists that may cast doubt on the ability of PGS ASA to continue to provide financial support. Therefore, the directors are satisfied, at the time of approving the financial statements, that it is appropriate to adopt the going concern basis in preparing the financial statements.

Information to the auditor

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

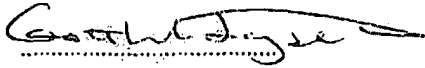
1. So far as the director is aware, there is no relevant audit information of which the auditor is unaware; and
2. the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors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

PGS EXPLORATION (UK) LIMITED
DIRECTORS REPORT *(continued)*

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:

A handwritten signature in black ink, appearing to read 'G Langseth', written over a dotted line.

G Langseth
Director

27 September 2019

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 2018 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 20, 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 2018 and of its loss 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 6, 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.

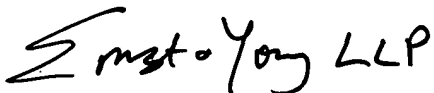
Auditor's responsibilities for the audit of the financial statements

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

27 September 2019

PGS EXPLORATION (UK) LIMITED
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2018

	Note	2018 \$ 000	2017 \$ 000
Revenue	5	156,754	245,028
Cost of sales		<u>(157,555)</u>	<u>(264,970)</u>
Gross loss		(801)	(19,942)
Administrative expenses		<u>(8,248)</u>	<u>(7,464)</u>
Operating loss	6	(9,049)	(27,406)
Interest receivable	9	914	6
Interest payable	10	<u>(142)</u>	<u>(2,353)</u>
Loss before taxation		(8,277)	(29,753)
Taxation	11	<u>(1,760)</u>	<u>(3,496)</u>
Loss for the year		(10,037)	(33,249)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss		<u>(10,037)</u>	<u>(33,249)</u>

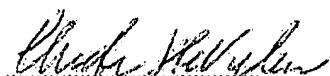
The company's results are derived from continuing operations.

The notes on pages 12 to 30 form an integral part of these financial statements

PGS EXPLORATION (UK) LIMITED
BALANCE SHEET

	Note	2018 \$ 000	2017 \$ 000
Long term assets			
Tangible assets	12	11,202	10,652
MultiClient library	13	71,291	32,249
Investments	14	26	26
		<u>82,519</u>	<u>42,927</u>
Current assets			
Debtors	15	52,633	77,298
Cash at bank and in hand		352	3,451
		<u>52,985</u>	<u>80,749</u>
Creditors: Amounts falling due within one year	16	<u>(61,039)</u>	<u>(38,025)</u>
Net current (liabilities)/assets		(8,054)	42,724
Total assets less current liabilities		74,465	85,651
Creditors: Amounts falling due after more than one year	17	<u>(3,165)</u>	<u>(4,247)</u>
Net assets		<u>71,300</u>	<u>81,404</u>
Capital and reserves			
Called up share capital	20	106,214	106,214
Profit and loss account		<u>(34,914)</u>	<u>(24,810)</u>
Shareholders' funds		<u>71,300</u>	<u>81,404</u>

These financial statements were approved by the Board on **27** September 2019, and signed on its behalf by:



C Steen-Nilsen
Director

Registered number: 02904391

The notes on pages 12 to 30 form an integral part of these financial statements

PGS EXPLORATION (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018

	Share capital \$ 000	Special reserve \$ 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 (note 3)	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

	Share capital \$ 000	Special reserve \$ 000	Profit and loss account \$ 000	Total \$ 000
At 1 January 2017	41,214	21,535	(13,096)	49,653
Issue of share capital	65,000	-	-	65,000
Release of special reserve	-	(21,535)	21,535	-
Loss for the year	-	-	(33,249)	(33,249)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(33,249)	(33,249)
At 31 December 2017	106,214	-	(24,810)	81,404

The notes on pages 12 to 30 form an integral part of these financial statements

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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 27 September 2019 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 2018.

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 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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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 for the following reasons. The company is dependent for its working capital on funds provided to it by PGS ASA ("PGS"), the company's ultimate parent undertaking. PGS has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, 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. The directors of the company are satisfied with the ability of PGS to meet their undertaking.

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. At 31 December 2018, the PGS Group's liquidity reserve, cash and cash equivalents and the undrawn part of the Revolving Credit Facility ("RCF") was \$159.5 million. The undrawn portion of the RCF constitutes a significant portion of the PGS Group's liquidity reserve. The RCF matures in September 2020 and has a drawing limit of \$350 million, reduced by \$50 million from \$400 million in September 2018. As of 31 December 2018, PGS had drawings of \$265.0 million outstanding on the RCF.

At December 31, 2018 the TLR was 2.58:1, well below the maximum level of 3.50:1. The maximum TLR will be reduced by 0.25:1 each of the following three quarters to come down to 2.75:1 by end of Q3 2019 and will thereafter stay at 2.75:1 for the remaining life of the facility.

If PGS ultimately ends up breaching this covenant, the breach would represent an event of default under the loan agreement. In such case PGS may be able to continue to access the RCF if PGS receives a waiver of the breach or implements remedial actions acceptable to the lenders thereunder. Should a breach continue without a waiver or re-mediation by PGS, the RCF agent or a majority of the RCF banks could ultimately declare default and demand a repayment of drawings on the RCF which again would represent an event of default in most of PGS' other loan agreements and debt instruments. However, this scenario is in PGS' view highly unlikely since firstly PGS believes it has plans and available measures to avoid an event of default and secondly even in an event of default, several viable alternatives to avoid acceleration would exist.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

On the basis of their assessment of the company's financial position and available liquidity resources, including the current structure and terms of the ultimate parent company debt, the company's directors have a reasonable expectation that the company has sufficient funding and liquidity to be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual 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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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

Assets acquired under finance leases, which transfer substantially all the rights and obligations of ownership, are accounted for as though purchased outright. The fair value of the asset at the inception of the lease is included in tangible fixed assets and the capital element of the leasing commitment is included in creditors. Finance charges are calculated on an actuarial basis and are allocated over each lease to produce a constant rate of charge on the outstanding balance.

Costs incurred under operating leases are charged to the Statement of Profit and Loss on a straight line basis over the period of the lease.

New and amended standards and interpretations

IFRS 9 Financial Instruments

The new financial instruments standard, IFRS 9, replaced existing IFRS requirements for financial instruments effective from 1 January 2018.

The company has completed a detailed assessment of its financial assets and liabilities as at 1 January 2018. The new classification of financial instruments under IFRS 9 is as follows:

Accounts and other receivables: these items previously classified as loans and receivables are classified and continue to be measured at amortised cost.

Accounts payable and accrued expenses: these items continue to be classified and measured at amortised cost.

The company has assessed the classification of comparable figures for the year ended 31 December 2018. The standard did not have any material effect on the classification and valuation of financial assets or liabilities.

IFRS 15 Revenue from Contracts with Customers

The new revenue recognition standard, IFRS 15, replaced existing revenue requirements effective from 1 January 2018. The core principle of IFRS 15 is that revenue is recognised to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services.

Implementation of IFRS 15 does not impact the recognition of revenues for proprietary contracts and MultiClient late sales. The principal area impacted on adoption of IFRS 15 is the recognition of revenue for MultiClient prefunding agreements.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

3 Accounting policies (continued)

Under the previous revenue recognition policy for MultiClient prefunding agreements, the acquisition and processing of MultiClient data is considered a service to the pre-funders, and therefore revenue was recognised as the service is performed over time during the acquisition and processing of MultiClient data. Under IFRS 15 MultiClient pre-funding agreements are considered "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. Refer to the Revenue Recognition section above for further information.

The company has applied the modified retrospective approach in transitioning to the new principle. Under this approach, the cumulative effect of initially applying IFRS 15 is recognized at the date of initial application, i.e. the 2018 opening balance, and the comparative periods are not restated. As a consequence, previously recognised revenue from MultiClient pre-funding agreements for which final data had not yet been delivered as of 31 December 2017 was reversed effective 1 January 2018, along with the related MultiClient amortisation expense, and has been recognised in the 2018 and future periods Statement of Profit and Loss without prior periods being restated.

The transition adjustments are as follows:

	31 December 2017 \$ 000	IFRS 15 Adjustments	1 January 2018 \$ 000
Long term assets			
Tangible assets	10,652	-	10,652
MultiClient library	32,249	82	32,331
Investments	26	-	26
	<u>42,927</u>	<u>82</u>	<u>43,009</u>
Current assets			
Debtors	77,298	(18)	77,280
Cash at bank and in hand	3,451	-	3,451
	<u>80,749</u>	<u>(18)</u>	<u>80,731</u>
Creditors: Amounts falling due within one year	(38,025)	(131)	(37,894)
Net current assets/(liabilities)	42,724	(149)	42,573
Total assets less current liabilities	85,651		85,582
Creditors: Amounts falling due after more than one year	(4,247)	-	(4,247)
Net assets	81,404	(67)	81,337
Capital and reserves			
Called up share capital	106,214	-	106,214
Profit and loss account	(24,810)	(67)	(24,877)
Shareholders' funds	81,404	(67)	81,337

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

3 Accounting policies (*continued*)

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

IFRS 16 Leases

IFRS 16 provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. The company will implement IFRS 16 from 1 January 2019. The expected impact of adopting IFRS 16 is disclosed below.

The company has elected to apply the modified retrospective transition method. Under this method, the comparative information will not be restated, but the cumulative impact of applying IFRS 16 will be recognised within the opening balance of retained earnings at the date of initial application, 1 January 2019.

Under IFRS 16, the company will capitalise the right of use of properties and other assets that are currently held under operating leases. The lease term will correspond to the term of the lease contract, unless the company is reasonably certain that it will exercise contractual extension or termination options. A corresponding lease liability will be recognised in the Balance Sheet, representing the obligation to make lease payments. Operating lease expenses currently recognised within cost of sales will be replaced by depreciation of the right of use asset and interest costs arising from the effect of discounting. The company will apply the interest rate implicit in the lease, or alternatively its incremental borrowing rate if this cannot be readily determined.

The company has elected to use the following practical expedients on initial application, as proposed by IFRS 16:

- 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 Statement of Profit and Loss;
- Lease contracts for underlying assets of a low value will continue to be expensed to the Statement of Profit and Loss;
- Initial direct costs will be excluded from the measurement of the right of use asset.

On transition, the right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of lease incentives embedded into the value of the asset, asset impairment, accrued costs of restoration and any liabilities relating to onerous leases.

As of January 1, 2019 the company will recognise lease liabilities of \$10.1 million and right-of-use assets of \$11.5 million, together with a reduction in accrued expenses of \$1.8 million and a decrease to equity of \$3.1 million.

Other 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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

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

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.

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

5 Revenue

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

	2018	2017
	\$ 000	\$ 000
Revenue from geophysical services	126,985	216,852
MultiClient late sales	29,769	28,176
Total turnover from continuing operations	<u>156,754</u>	<u>245,028</u>

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

	2018	2017
	\$ 000	\$ 000
United Kingdom	71,590	80,290
Other European countries	2,683	43,690
Americas	9,616	22,481
Middle East & Africa	72,865	98,421
Rest of the World	-	146
	<u>156,754</u>	<u>245,028</u>

6 Operating loss

Arrived at after charging/(crediting)

	2018	2017
	\$ 000	\$ 000
Depreciation expense (Note 12)	4,079	3,754
Amortisation of MultiClient library (Note 13)	17,271	20,799
Impairment of MultiClient library (Note 13)	5,040	3,697
Research and development cost	(4,089)	2,443
Severance expense	(2,808)	4,260
Write down of legal receivables	961	-
Foreign exchange (gains)/losses	(73)	(301)
Operating lease expense - plant and machinery	18,522	12,883
Operating lease expense - other	4,138	6,817
Auditor's remuneration		
- Audit of the financial statements	148	142
- Taxation services	<u>12</u>	<u>2</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

7 Staff costs

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

	2018	2017
	\$ 000	\$ 000
Wages and salaries	18,952	17,579
Social security costs	2,292	2,056
Pension costs, defined benefit scheme	4,485	4,240
Pension costs, defined contribution scheme	1,837	1,668
Share based payments (see Note 19)	1,123	660
	<u>28,689</u>	<u>26,203</u>

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

	2018	2017
	No.	No.
Operations	110	116
Selling and administration	71	34
Other departments	7	51
	<u>188</u>	<u>201</u>

8 Directors' remuneration

None of the directors received any fees or remunerations for services as a director of the company during the financial year (2017: 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

	2018	2017
	\$ 000	\$ 000
Bank interest receivable	29	6
Interest receivable on group loans	885	-
	<u>914</u>	<u>6</u>

10 Interest payable

	2018	2017
	\$ 000	\$ 000
Interest payable on group loans	-	2,216
Unwinding of discount rate	142	119
Other finance costs	-	18
	<u>142</u>	<u>2,353</u>

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

11 Income tax

(a) Analysis of tax charge

	2018 \$ 000	2017 \$ 000
Current taxation		
UK corporation tax	27	-
Foreign tax	3,190	3,496
Total current income tax	3,217	3,496
Tax charge	3,217	3,496

(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% (2017 – 19.25%). The differences are reconciled below:

	2018 \$ 000	2017 \$ 000
Loss before tax	(8,276)	(29,753)
Corporation tax at standard rate	(1,573)	(5,728)
Expenses not deductible for tax purposes	290	140
Foreign tax expensed	2,584	2,823
Disallowable interest expense	-	427
Tax losses on which no deferred tax recognised	1,028	5,090
Movement in temporary differences unrecognised for deferred tax	612	744
Release of provision for foreign tax in relation to prior periods	(1,457)	-
Group relief surrendered	288	-
Claim for interest deductions disallowed in other group companies	(12)	-
Total tax charge	1,760	3,496

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

11 Income tax (continued)

(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 2018 and 31 December 2017, 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 \$3,453,000 as at 31 December 2018 in relation to decelerated capital allowances (2017 - \$2,844,000), \$12,821,000 as at 31 December 2018 in relation to tax losses (2017 - \$12,148,000) and \$7,881,000 as at 31 December 2018 in relation to other temporary differences (2017 - \$7,942,000).

The UK tax rate is in the process of being reduced to 17%. At 31 December 2018 and 31 December 2017, the UK tax rates that had been substantively enacted were 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020). Due to the uncertainty around when the timing differences will be recovered, the tax rate used for the deferred tax asset calculations at the balance sheet date is 17% (2017: 17%).

12 Tangible assets

	Leasehold improvements \$ 000	Computer equipment & software \$ 000	Seismic equipment & vehicles \$ 000	Furniture & office equipment \$ 000	Total \$'000
Cost					
At 1 January 2018	16,599	11,343	45	7,177	35,164
Additions	-	5,879	-	-	5,879
Disposals	-	(1,583)	-	-	(1,583)
At 31 December 2018	16,599	15,639	45	7,177	39,460
Depreciation					
At 1 January 2018	10,931	8,978	45	4,558	24,512
Charge for the year	1,420	2,318	-	341	4,079
Disposals	-	(333)	-	-	(333)
At 31 December 2018	12,351	10,963	45	4,899	28,258
Carrying amount					
At 31 December 2018	4,248	4,676	-	2,278	11,202
At 31 December 2017	5,668	2,365	-	2,619	10,652

Additions during the year include \$2,325,000 of imaging computer equipment held under finance leases. The carrying value of tangible assets held under finance lease at 31 December 2018 was \$2,064,000.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

13 MultiClient Library

	2018	2017
	\$ 000	\$ 000
Seismic data library		
Balance as at 1 January	32,249	54,362
Capitalised cash costs	49,358	2,098
Capitalised interest	556	55
Capitalised depreciation	11,439	230
Amortisation expense	(17,271)	(20,799)
Impairments	(5,040)	(3,697)
Balance as at 31 December	<u>71,291</u>	<u>32,249</u>

In 2018, an additional impairment charge of \$5,040,000 (2017: \$3,697,000) was recognised to reflect the discounted cash flow of future sales on certain individual surveys.

14 Investments

In 2017, the company purchased a 1.25% holding in a fellow subsidiary company, PGS Data Processing Middle East SAE for a consideration of \$26,000.

15 Debtors

	2018	2017
	\$ 000	\$ 000
Trade debtors	28,359	21,466
Amounts receivable from ultimate parent undertaking	8,413	36,196
Amounts receivable from group undertakings	1,189	6,248
Accrued revenue	11,482	9,620
Prepayments	1,702	2,315
Other taxes	1,488	1,441
Other debtors	-	12
	<u>52,633</u>	<u>77,298</u>

On 28 December 2017 the company issued an additional 48,330,730 shares of £1 each to its parent company, Petroleum Geo-Services (UK) Limited, in order to improve the financing structure of the company. The subscription was satisfied by the assignment of a loan receivable from the ultimate parent in the amount of \$65,000,000.

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.

PGS EXPLORATION (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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16 Creditors

	2018	2017
	\$ 000	\$ 000
Trade creditors	5,001	2,556
Amounts owed to immediate parent undertaking	-	250
Amounts owed to other group undertakings	13,923	5,095
Accrued expenses	5,326	16,700
Social security and other taxes	1,878	2,759
Onerous contracts	939	8,667
Obligations under finance leases	1,310	-
Deferred revenue	32,662	1,998
	<u>61,039</u>	<u>38,025</u>

Amounts payable to the ultimate parent undertaking, PGS ASA, are repayable on demand and unsecured, and bore interest at 3-month LIBOR plus 3% per annum until they were settled with the proceeds of the share issue on 28 December 2017.

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

	2018	2017
	\$ 000	\$ 000
Other long term liabilities	3,122	4,193
Long term bonuses and payroll related costs	43	54
	<u>3,165</u>	<u>4,247</u>

18 Operating lease commitments

The company has operating lease commitments, primarily for office space and computer equipment, expiring at various dates through to 2023. Future minimum payments related to non-cancellable operating leases of buildings, seismic equipment and office equipment were as follows:

	2018	2017
	\$ 000	\$ 000
Within one year	2,475	5,651
In 2 to 5 years	8,351	11,628
After 5 years	-	1,191
	<u>10,826</u>	<u>18,470</u>

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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:

	2018		2017	
	No.	\$ 000	No.	\$ 000
Ordinary shares of £1 each	<u>77,229,682</u>	<u>106,214</u>	<u>77,229,682</u>	<u>106,214</u>

21 Foreign exchange

The financial statements are presented in US Dollars. The exchange rate at 31 December 2018 applied was 1.2733 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.