



PGS EXPLORATION (UK) LTD  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000  
COMPANY NUMBER 2904391



## **PGS EXPLORATION (UK) LTD**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000**

The directors hereby present their report and financial statements for the year ended 31 December 2000.

#### **DIRECTORS**

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

AR Mackewn	E Hokholt (resigned 30 November 2001)
C Walker	M Scott (resigned 20 March 2001)
	L Quinn (resigned 20 March 2001)

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

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation was £45,725,000 (1999: loss £12,956,000). This amount has been transferred from reserves. No dividends will be paid.

#### **PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

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 2000 was £114 million as compared to £101 million for 1999. The increase in turnover is primarily due to the company having additional vessel capacity and the data processing operations acquired on 1<sup>st</sup> January 2000 from PGS Tensor (UK) Ltd.

Seismic market conditions during 2000 were very difficult and while we succeeded in maintaining our revenues this was largely due to an increase in operating capacity. Our profitability was severely impacted and the company recorded a significant loss. Despite an increase in oil and gas prices the recovery in exploration and development activities has been slower than expected. In addition, the continued consolidation within the oil industry has delayed commencement of many projects. The company's net loss for 2000 reflects these overall market conditions. We expect however that the demand for the company's services will increase and that profitability will be restored.

In December 2000 the company received a significant capital injection of £130 million as debts to other group companies were waived in exchange for the issuance of additional share capital.

#### **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.

## **PGS EXPLORATION (UK) LTD**

### **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)**

#### **CREDITOR PAYMENT POLICY**

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.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

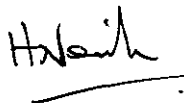
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **AUDITORS**

The auditors, PricewaterhouseCoopers are not seeking re-election. A resolution will be put to the members to appoint new auditors.

By Order of the Board



H Nevile  
Secretary

9 December 2002

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies on page 7.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

### Basis of audit opinion

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

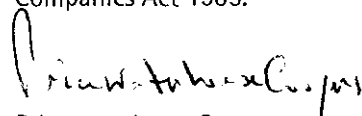
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

### Fundamental Uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements <sup>basis</sup> concerning the basis of preparation. The financial statements have been prepared on the going concern and the validity of this depends on the continued support of the group's bankers and bondholders. The financial statements do not include any adjustments that would result from failure to obtain such continued support. Details of the circumstances relating to this fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers,  
Chartered Accountants & Registered Auditors  
London

9 December 2002

PGS EXPLORATION (UK) LTD

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2000

	<u>Note</u>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
TURNOVER	2	114,182	101,196
Cost of sales		(148,663)	(104,940)
GROSS (LOSS)/PROFIT		(34,481)	(3,744)
Administrative expenses		(10,133)	(6,244)
OPERATING (LOSS)/PROFIT	3	(44,614)	(9,988)
Interest receivable	5	6,396	474
Interest payable	6	(6,710)	(2,711)
		<u>(314)</u>	<u>(2,237)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(44,928)	(12,225)
Tax on (loss)/profit on ordinary activities	7	<u>(797)</u>	<u>(731)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(45,725)</u>	<u>(12,956)</u>

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

PGS EXPLORATION (UK) LTD

BALANCE SHEET  
AS AT 31 DECEMBER 2000

	<u>Note</u>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
<b>FIXED ASSETS</b>			
Tangible assets	8	2,492	2,193
<b>CURRENT ASSETS</b>			
Own seismic data	9	79,779	90,104
Debtors	10	63,812	58,110
Cash at bank and in hand		<u>73</u>	<u>2,939</u>
		143,664	151,153
<b>CREDITORS: amounts falling due within one year</b>	11	<u>(17,034)</u>	<u>(106,126)</u>
<b>NET CURRENT ASSETS</b>		<u>126,630</u>	<u>45,027</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		129,122	47,220
<b>CREDITORS: amounts falling due after more than one year</b>	12	<u>(43,784)</u>	<u>(46,964)</u>
<b>NET ASSETS</b>		<u>85,338</u>	<u>256</u>
<b>EQUITY CAPITAL AND RESERVES</b>			
Called up share capital	13	130,817	10
Profit and loss account	14	<u>(45,479)</u>	<u>246</u>
Total shareholders' funds	15	<u>85,338</u>	<u>256</u>

APPROVED BY THE BOARD  
9 December 2002



A.R. Mackewn

Director

## PGS EXPLORATION (UK) LTD

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

#### 1 ACCOUNTING POLICIES

##### **Basis of preparation of the financial statements – going concern assumption**

The company is dependant on the support of the ultimate parent company. The ultimate parent company has engaged financial advisors to assist with evaluating the financial condition of the group and making recommendations to the Board of Directors regarding alternatives for enhancing or preserving value to the stakeholders. These financial advisors are also expected to assist the group with the possible extension of upcoming debt maturities and/or other restructuring alternatives. The group has approximately \$1.1 billion of debt and other contractual obligations maturing in 2003. In connection with certain one time impairment charges taken in quarter 3 2002, the group is currently in violation of certain financial covenants in various bank credit and leasing agreements and have commenced discussions with various creditors to obtain waivers of such financial covenant defaults. There can be no assurance that any such extension of debt maturities or required waivers will be obtained. The group notes that the breaches that have been triggered are restricted to certain financial creditors only and these breaches of themselves will not cross default contracts with other financial creditors. The group is current on all payment obligations under its indebtedness.

The financial statements have been prepared on the going concern basis on the assumption that the outcome of the negotiations, referred to above, is successful.

If the group were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

##### **Depreciation**

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

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

##### **Deferred taxation**

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

##### **Foreign currencies**

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

##### **Leasing and hire purchase commitments**

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

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

**Pensions**

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

**Own seismic data**

Own seismic data is valued at the lower of amortised cost and net realisable value. Costs are amortised in proportion to the sales recorded in each year for each survey as a percentage of the total estimated sales over the life of the survey. 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.

2 **TURNOVER**

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

An analysis of turnover by geographical origin is given below:

	<u>2000</u>	<u>1999</u>
	<u>£'000</u>	<u>£'000</u>
United Kingdom	21,375	18,645
Other European countries	9,370	31,993
America	67,818	22,610
Rest of the world	<u>15,619</u>	<u>27,948</u>
	<u>114,182</u>	<u>101,196</u>

Further segmental analysis is not provided on the grounds that the directors believe that to do so would be prejudicial to the interests of the company.

3 **OPERATING (LOSS)/PROFIT**

	<u>2000</u>	<u>1999</u>
	<u>£'000</u>	<u>£'000</u>
This is stated after charging:		
Auditors' remuneration - audit work	65	25
Auditors' remuneration - non audit work	50	26
Depreciation		
- Owned assets	544	390
- Leased assets	714	466
Operating lease rentals		
- Hire of plant and machinery	62,696	56,655
- Land and Buildings	1,086	1,086
Foreign Exchange loss	4,825	989
Impairment of own seismic data	13,610	-

The impairment of own seismic data was caused by data sales failing to reach the levels previously forecast together with a downward revision of future sales expectations.



PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

<b>4</b>	<b>STAFF AND DIRECTORS COSTS</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Wages and salaries	13,806	9,073
	Social security costs	569	122
	Other pension costs	<u>919</u>	<u>466</u>
		<u>15,294</u>	<u>9,661</u>

The average number of employees was 335 (1999:190). All employees were involved in the principal activity of the company. 179 (1999: 126) employees were based offshore on PGS Group operated vessels, 156 (1999: 64) were based at the principal offices of the company.

Aggregate Directors' remuneration	424	385
Aggregate company contributions to defined contribution scheme	23	7
Highest Paid Director's remuneration	225	175
Accrued benefits under defined benefit scheme	<u>10</u>	<u>8</u>

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

<b>5</b>	<b>INTEREST RECEIVABLE</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Bank deposits	101	110
	Group undertakings	<u>6,295</u>	<u>364</u>
		<u>6,396</u>	<u>474</u>

<b>6</b>	<b>INTEREST PAYABLE</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Group undertakings	6,638	2,611
	Finance leases	54	79
	Other	<u>18</u>	<u>21</u>
		<u>6,710</u>	<u>2,711</u>

<b>7</b>	<b>TAXATION</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Corporation tax based on the results for the year	-	-
	Over provision in respect of prior years	-	(577)
	Foreign withholding taxes payable	<u>797</u>	<u>1,308</u>
		<u>797</u>	<u>731</u>

The full potential deferred tax asset which has not been recognised in the financial statements is £3,804,000 (1999: £3,804,000).

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

8 TANGIBLE FIXED ASSETS

	<u>Office equipment</u> <u>£'000</u>	<u>Leased Computer Equipment</u> <u>£'000</u>	<u>Fixtures &amp; fittings</u> <u>£'000</u>	<u>Total</u> <u>£'000</u>
<b><u>Cost</u></b>				
At 31 December 1999	1,928	1,564	270	3,762
Transfers in 1.1.2000	1,985	525	713	3,223
Additions	256	327	120	703
Recategorise/disposals	(1,921)	(525)	1,949	(497)
At 31 December 2000	2,248	1,891	3,052	7,191
<b><u>Depreciation</u></b>				
At 31 December 1999	669	727	173	1,569
Transfers in 1.1.2000	1,036	461	541	2,038
Charge for the year	851	5	402	1,258
Recategorise/disposals	(1,044)	248	630	(166)
At 31 December 2000	1,512	1,441	1,746	4,699
<b><u>Net book value</u></b>				
At 31 December 2000	736	450	1,306	2,492
At 31 December 1999	1,259	837	97	2,193

Leased computer equipment consists of owned assets subject to finance lease agreements. The Transfer in relates to assets acquired from PGS Tensor (UK) Ltd. These are shown at their original cost along with the accumulated depreciation within that company at the date of acquisition.

9 OWN SEISMIC DATA

	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
Completed data	72,518	8,830
Work in progress	<u>7,261</u>	<u>81,274</u>
	<u>79,779</u>	<u>90,104</u>

10 DEBTORS

	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
Trade debtors	12,017	12,069
Amounts owed by group companies	42,407	29,973
Prepayments and accrued income	9,219	12,024
Sundry debtors	<u>169</u>	<u>4,044</u>
	<u>63,812</u>	<u>58,110</u>

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

11	<b>CREDITORS: amounts falling due within one year</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Trade creditors	2,413	2,402
	Amounts owed to group companies	11,784	96,193
	Taxation and social security costs	321	613
	Obligations under finance leases	295	541
	Accruals and deferred income	<u>2,221</u>	<u>6,377</u>
		<u>17,034</u>	<u>106,126</u>

12	<b>CREDITORS: amounts falling due after more than one year</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Amounts owed to group companies	43,784	46,725
	Obligations under finance leases	-	239
		<u>43,784</u>	<u>46,964</u>

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.

13	<b>EQUITY SHARE CAPITAL</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Ordinary shares of £1 each:		
	Authorised	150,000	10
	Issued and fully paid	<u>130,817</u>	<u>10</u>

The owner of 100% share capital of the company, Petroleum Geo-Services (UK) Ltd, waived certain debts receivable from the company in exchange for the subscription, at par, of 130,806,509 additional ordinary shares. No costs were incurred in the issuance of those shares.

14	<b>RESERVES</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
	Profit and loss account at start of year	246	13,202
	(Loss)/profit for the year	<u>(45,725)</u>	<u>(12,956)</u>
	Profit and loss account at end of year	<u>(45,479)</u>	<u>246</u>

PGS EXPLORATION (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

<b>15 RECONCILIATION OF SHAREHOLDERS' FUNDS</b>	<u>2000</u> <u>£'000</u>	<u>1999</u> <u>£'000</u>
Balance at start of year	256	13,212
Issue of shares	130,807	-
(Loss)/profit for the year	(45,725)	(12,956)
Balance at end of year	<u>85,338</u>	<u>256</u>
 <b>16 OPERATING LEASE COMMITMENTS</b>	 <u>2000</u> <u>£'000</u>	 <u>1999</u> <u>£'000</u>
Annual payments on leases expiring:		
- between two and five years		
- Hire of plant and machinery	10,728	10,310
- after more than five years		
- Hire of plant and machinery	51,829	49,789
- Land and buildings	1,086	1,086
	<u>          </u>	<u>          </u>
 <b>17 FINANCE LEASE OBLIGATIONS</b>	 <u>2000</u> <u>£'000</u>	 <u>1999</u> <u>£'000</u>
Future minimum lease payments:		
- obligations payable within one year	295	541
- obligations payable between two and five years	<u>0</u>	<u>239</u>
	<u>296</u>	<u>780</u>
Future lease payments above include		
- future finance charges	<u>5</u>	<u>52</u>

**18 PENSION COMMITMENTS**

The company participates in both defined contribution and benefit pension schemes. The assets of each scheme are held separately from those of the company.

Contributions to defined contribution schemes amounted to £23,000 (1999: £7,000).

The PGS UK Pension Fund is a funded, defined benefit, Inland Revenue approved pension scheme. The last completed actuarial valuation was at 31 December 2000. Further details of the scheme are included in the financial statements of the immediate parent company Petroleum Geo-Services (UK) Ltd. Contributions have been made in line with actuarial advice and for 2000 amounted to £768,000 (1999: £459,000). This amount has been charged to the profit and loss account.

Of the above amounts £39,000 (1999: £24,000) related to directors of the company.

**PGS EXPLORATION (UK) LTD**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)**

**19 PARENT COMPANY**

The ultimate parent company is Petroleum Geo-Services ASA, a company registered in Norway. This is also the smallest group into which the Company is consolidated. Group financial statements are available from: Petroleum Geo-Services ASA, Strandveien 4, 1366 Lysaker, Norway. The intermediate parent company is Petroleum Geo-Services (UK) Ltd, a company registered in the United Kingdom.

**20 RELATED PARTY DISCLOSURE**

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

**21 CASH FLOW STATEMENT**

The company is a wholly owned subsidiary of Petroleum Geo-Services (UK) Ltd which in turn is a wholly owned subsidiary of Petroleum Geo-Services ASA and its cash flows are included in that company's consolidated group cash flow statement. Consequently the company is exempt under the terms of FRS 1 (revised) from presenting a cash flow statement.