Stena HSD Limited

Directors' report and financial statements

31 December 1997
Registered number 2849743

Directors' report and financial statements

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activity of the company is the ownership of an offshore drilling rig, the *Stena Spey*, which it presently leases to group companies on a bareboat charter.

Business review

The company owns the drilling rig Stena Spey which operates under a bareboat charter arrangement with Stena Drilling Limited and Josam Marine Investment Limited. The directors are satisfied with this arrangement and the company's performance.

Dividend proposed and transfer to reserves

The profit for the year amounts to $207,000 *(1996: loss of $362,000)*. The directors do not recommend the payment of a dividend and propose that the profit for the year be transferred to reserves.

Directors and directors' interests

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

TPAW Welo (Managing Director)
SV Carlsson
P Olofsson

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company or other group companies. Mr SV Carlsson is a director of the company's ultimate holding company.

According to the register of directors' interests, no rights to subscribe for shares in the company or other group companies were granted to any of the directors or their immediate families, during the financial year.

Political and charitable contribution

The company made no political or charitable contributions during the year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

GA Cowie
Secretary

G. A. Cowie

Greybrook House
28 Brook Street
London W1Y 1AG

2 June 1998

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 for that period. 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG
37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Report of the auditors to the members of Stena HSD Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG 2 June 1998
Chartered Accountants
Registered Auditors

Profit and loss account

for the year ended 31 December 1997

	Note	**1997** **$000**	1996 $000
Turnover	*1*	**6,479**	4,242
Operating costs (depreciation)		**(5,594)**	(3,348)
Gross profit		**885**	894
Administrative expenses		**-**	(4)
Operating profit		**885**	890
Interest receivable and similar income	*5*	**1**	56
Interest payable and similar charges	*6*	**(3,106)**	(1,276)
Loss on ordinary activities before taxation	*2-4*	**(2,220)**	(330)
Taxation on loss on ordinary activities	*7*	**2,427**	(32)
Profit (loss) on ordinary activities after taxation for the financial year	*14-15*	**207**	(362)

There are no recognised gains or losses other than the profit for the financial year.

Note of historical cost profits and losses

for the year ended 31 December 1997

	1997 **$000**	1996 $000
Reported loss on ordinary activities before taxation	**(2,220)**	(330)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	**(692)**	(156)
Historical cost loss on ordinary activities before taxation	**(2,912)**	(486)
Historical cost loss on ordinary activities after taxation	**(485)**	(518)

Balance sheet
at 31 December 1997

	Note	1997 $000	1997 $000	1996 $000	1996 $000
Fixed assets					
Tangible assets	8		**49,134**		53,613
Current assets					
Debtors	9	**12,720**		5,462	
Creditors: amounts falling due within one year	10	**(21,453)**		(17,970)	
Net current liabilities			**(8,733)**		(12,508)
Total assets less current liabilities			**40,401**		41,105
Creditors: amounts falling due after more than one year	11		**(35,000)**		(40,779)
Provisions for liabilities and charges	12		**(4,868)**		-
Net assets			**533**		326
Capital and reserves					
Called up share capital	13		**-**		-
Profit and loss account	14		**533**		326
Equity shareholders' funds	15		**533**		326

These financial statements were approved by the board of directors on 2 June 1998 and were signed on its behalf by:

TPAW Welo
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of the *Stena Spey* and on a going concern basis as Stena (UK) Limited has agreed to provide the necessary financial support to enable the company to continue to trade for the foreseeable future.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

The functional currency of the company (and the Stena Drilling (Holdings) Limited group) is United States Dollars. The dollar is the prevalent currency used within the oil industry and the Group has a significant level of dollar assets and financing. The financial statements are also presented in US dollars.

As the company is a wholly owned subsidiary of Stena AB whose consolidated accounts are publicly available, advantage has been taken of the exemption contained in Financial Reporting Standard 8 that disclosure is not made of transactions with other group undertakings or investees of the group qualifying as related parties.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Depreciation

Depreciation is provided on the *Stena Spey* to write off the cost less estimated residual value by equal instalments over its estimated useful economic life of ten years.

Taxation

The credit for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover, all of which arose in Europe, comprises the revenue earned from the charter of the offshore drilling rig *Stena Spey*.

Notes *(continued)*

2 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging:	**1997** **$000**	1996 $000
Depreciation	**5,594**	3,348
Auditors remuneration		
Audit	**5**	5
Other services to the company	**5**	3

3 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (*1996: none*).

4 Staff numbers and costs

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

	Number 1997	Number 1996
Management and administration	**3**	3

Staff costs incurred in the year were nil *(1996: nil)*.

5 Interest receivable and similar income

	1997 **$000**	1996 $000
Interest receivable from group companies	**1**	56

6 Interest payable and similar charges

	1997 **$000**	1996 $000
On bank loans and overdrafts	**-**	1,276
On group loans	**3,106**	-
	3,106	1,276

Notes *(continued)*

7 Taxation on loss on ordinary activities

	1997	1996
	$000	$000
Based on the profit for the year:		
Group relief	**(2,400)**	-
Deferred tax	**1,872**	-
	(528)	-
Adjustment for previous years:		
Group relief	**(4,895)**	32
Deferred tax	**2,996**	-
	(2,427)	32

Group relief is provided at 31.49% in respect of the tax charge for the year *(1996: 33%)*.

8 Tangible fixed assets

	Drilling rig
	$000
Cost or valuation	
At beginning of year	55,272
Additions	1,115
At end of year	56,387
Depreciation	
At beginning of year	1,659
Charge for year	5,594
At end of year	7,253
Net book value	
At 31 December 1997	**49,134**
At 31 December 1996	53,613

Notes *(continued)*

8 Tangible fixed assets (continued)

Particulars relating to the revalued asset are given below:

	1997 $000	1996 $000
At 1996 open market value	**55,272**	55,272
Aggregate depreciation thereon	**(7,186)**	(1,659)
	48,086	53,613
Historical cost of revalued asset	**62,191**	62,191
Aggregate depreciation based on historical cost	**(14,953)**	(8,734)
Historical cost net book value	**47,238**	53,457

9 Debtors

	1997 $000	1996 $000
Amounts owed by group undertakings	**4,315**	4,913
Group relief receivable	**8,405**	549
	12,720	5,462

10 Creditors: amounts falling due within one year

	1997 $000	1996 $000
Amounts owed to group undertakings (note 11)	**21,453**	17,023
Group relief	**-**	947
	21,453	17,970

Notes *(continued)*

11 Creditors: amounts falling due after more than one year

	1997 $000	1996 $000
Amounts owed to group undertakings	**35,000**	40,779

	1997 $000	1996 $000
The loans are repayable by instalments, as follows:		
Within one to two years	**4,000**	5,779
Within two to five years	**31,000**	35,000
	35,000	40,779
Due within one year (note 10)	**4,000**	5,000
	39,000	45,779

Amounts owed to group undertakings represent loans from Stena (UK) Limited totalling $39,000,000. Interest is payable quarterly at LIBOR plus 1.5% and is repayable in quarterly instalments of $1,000,000. The balance on the loan of $25,000,000 is repayable in full on 5 September 2001.

12 Provisions for liabilities and charges

	1997 $000	1996 $000
Deferred tax		
At beginning of year	**-**	-
Charge in the year	**4,868**	-
At end of year	**4,868**	-

This represents the full potential liability at a rate of 31%.

Deferred taxation has been provided in the financial statements as follows:

	1997 $000	1996 $000
Tax effect of timing differences because of:		
Excess tax allowances over depreciation	**4,868**	(382)
Other	**-**	(1,190)
Asset not provided	**-**	1,572
	4,868	-

Notes *(continued)*

13 Called up share capital

	1997	1996
	$000	$000
Authorised		
100 ordinary shares of £1 each	-	-
Allotted, called up and fully paid		
1 ordinary share of £1	-	-

14 Reserves

	Profit and loss account
	$000
At beginning of year	326
Profit for the year	207
At end of year	**533**

15 Reconciliation of movements in equity shareholder's funds

	1997	1996
	$000	$000
Profit (loss) for the financial year	**207**	(362)
Opening equity shareholder's funds	**326**	688
Closing equity shareholder's funds	**533**	326

16 Commitments and contingencies

(i) *Capital expenditure*

Capital commitments for the company at the end of the financial year authorised and contracted for amounted to nil *(1996: nil)*.

(ii) *Secured asset*

The company has provided security for borrowings of Stena International BV, an intermediate holding company. The borrowings of Stena International BV are secured by a mortgage on the *Stena Spey*.

Notes *(continued)*

17 Ultimate holding company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Stena AB, a company incorporated in Sweden.

The largest group in which the results of the company are consolidated is that headed by Stena AB. Copies of the financial statements can be obtained from Patent och Registreringsverket, Bolagsavdelningen, 851 81 Sunsvall, Sweden.

The smallest group in which they are consolidated is that headed by Stena Drilling (Holdings) Limited, a company incorporated in England and Wales. Copies of the consolidated financial statements can be obtained from the Companies Registration Office (England and Wales), Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.