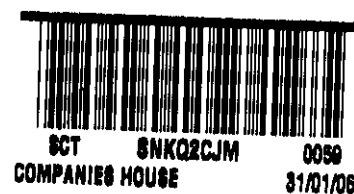


**Company Registration No. 3492253**

**PIERCE PRODUCTION COMPANY  
LIMITED**

**Report and Financial Statements**

**31 December 2004**



# **PIERCE PRODUCTION COMPANY LIMITED**

## **Report and financial statements 2004**

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# **PIERCE PRODUCTION COMPANY LIMITED**

## **Report and financial statements 2004**

### **Officers and professional advisers**

#### **Directors**

I W M Ross  
A P van de Korput

#### **Secretary**

P Williams

#### **Registered Office**

15 Appold Street  
London  
EC2A 2HB

#### **Bankers**

ING Bank  
Bijlmerplein 888 HE 03.01  
Postbus 1800  
1000 BV  
Amsterdam  
The Netherlands

#### **Solicitors**

Watson, Farley & Williams  
15 Appold Street  
London  
EC2A 2HB

#### **Auditors**

Deloitte & Touche LLP  
Aberdeen

# **PIERCE PRODUCTION COMPANY LIMITED**

## **Directors' report (continued)**

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### **Activities**

The principal activity of the company is to operate the Floating Production Storage and Offtake facility Haewene Brim.

### **Review of developments and prospects**

The company operates the Haewene Brim facility located on the Pierce field on behalf of its client Shell (Enterprise Oil being the contracted entity wholly owned by Shell). Performance in terms of safety / environment and production during 2004 was very good. The vessel was taken off station during the summer months for a planned 35 day quayside upgrade at Newcastle, to install a water injection module and carry out a repair life time extension programme (actual 37 days alongside). The main activities for the year were geared around the quayside event, which included many months of preparation work prior to the disconnection.

The water injection facility should give circa 60M bbl of oil recovery, however the booking of reserves and consequent life on field can only be taken when sufficient water has been injected to prove the theoretical reserves. It should be noted that during 2004 gas shut off from wells was achieved which enhances oil recovery, however this has an effect of reducing windfall payment to the company should the process facility not remain gas constrained.

Significant workscopes during 2004 :-

- Water injection facility with associated chemical and treatment units.
- Upgrade of gas compression turbine engine drives.
- Repairs to fire water ring main
- Painting of the hull
- Thrusters overhauled
- Process vessel integrity inspections

Contract discussions have faulted over the course of the year whilst the water injection upgrade has progressed. The original personnel involved in determining the future shape of the contract have also moved and the principle of full operating expenditure reimbursable is weakening. The emphasis now is to work the issue of exchange rate that debilitates the profitability of the company.

### **Results and dividends**

The results for the year ended 31 December 2004 are set out on page 6. The loss for the year after taxation was £2,737,000 (2003: profit £33,000).

No dividend is proposed and the loss for the year will be transferred against reserves.

### **Directors and their interests**

The directors who held office during the year and during the subsequent period to the date of signing of the financial statements were as follows:

I W M Ross  
A P van de Korput

No director held any interests in the share capital of the company or any group companies which are required to be disclosed under the provisions of the Companies Act 1985.

## PIERCE PRODUCTION COMPANY LIMITED

### Directors' report (continued)

#### Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed by order of the Board



Secretary

31 DECEMBER

2005

# **PIERCE PRODUCTION COMPANY LIMITED**

## **Statement of directors' responsibilities**

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## **Independent auditors' report to the members of PIERCE PRODUCTION COMPANY LIMITED**

We have audited the financial statements of Pierce Production Company Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Aberdeen

30 January 2006

# PIERCE PRODUCTION COMPANY LIMITED

## Profit and loss account

Year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<b>Turnover: continuing operations</b>	1	89,573	46,251
Cost of sales		(90,989)	(45,474)
<b>Gross (loss)/profit</b>		(1,416)	777
Administrative expenses		(1,360)	(1,136)
<b>Operating loss: continuing operations</b>	3	(2,776)	(359)
Interest receivable	2	24	20
<b>Loss on ordinary activities before taxation</b>		(2,752)	(339)
Tax on loss on ordinary activities	6	15	372
<b>Retained (loss)/profit for the year</b>	10	(2,737)	33

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current and preceding financial year. Accordingly, no Statement of Total Recognised Gains and Losses is presented.



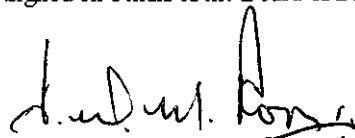
# PIERCE PRODUCTION COMPANY LIMITED

## Balance sheet 31 December 2004

	Notes	2004 £'000	2003 £'000
<b>Current assets</b>			
Debtors	7	11,655	7,687
Cash at bank and in hand		1,722	4,689
		<u>13,377</u>	<u>12,376</u>
<b>Creditors: amounts falling due within one year</b>	8	(14,074)	(10,336)
<b>Net (liabilities)/assets</b>		<u>(697)</u>	<u>2,040</u>
<b>Capital and reserves</b>			
Called up share capital	9	2,086	2,086
Profit and loss account	10	(2,783)	(46)
		<u>(697)</u>	<u>2,040</u>
<b>Equity shareholders' (deficit)/ funds</b>	11	<u>(697)</u>	<u>2,040</u>

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

31 / 12 / 2005.



Director

# PIERCE PRODUCTION COMPANY LIMITED

## Notes to the financial statements Year ended 31 December 2004

### 1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Basis of preparation

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent company undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Bluewater Services (UK) Limited the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

#### Turnover

Turnover represents gross revenue earned from the provision to third parties of floating production, storage and offtake facilities and related commissions and excludes value added tax and trade discounts.

All turnover arose in the United Kingdom.

#### Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

The taxation liabilities of companies within the Bluewater Services (UK) Limited group are reduced wholly or in part by the surrender of losses by fellow subsidiary undertakings. As losses surrendered are not paid for by the undertaking which claims the tax losses, group relief assets and liabilities are not recognised in the financial statements of the UK group companies.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

# PIERCE PRODUCTION COMPANY LIMITED

## Notes to the financial statements Year ended 31 December 2004

### 1. Accounting policies (continued)

#### Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

### 2. Interest receivable

	2004 £'000	2003 £'000
Bank interest	24	20

### 3. Loss on ordinary activities before taxation

*Loss on ordinary activities before taxation is stated after charging:*

	2004 £'000	2003 £'000
Hire costs including operating lease payments:		
Charter of floating, production, storage and offtake facility	17,955	22,546
Foreign exchange loss	541	198
Auditors' remuneration:		
audit fees	7	7
non audit fees	-	2

### 4. Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (2003: £nil).

### 5. Employee information

There were no persons employed by the company during the year other than the directors (2003: Nil). Crew for the FPSO obtained through labour contractors are not regarded as employees. Onshore staff are employed by the company's immediate parent, Bluewater Services (UK) Limited, which charges a management fee in respect of services provided.

# PIERCE PRODUCTION COMPANY LIMITED

## Notes to the financial statements Year ended 31 December 2004

### 6. Tax on loss on ordinary activities

	2004 £'000	2003 £'000
Adjustments in respect of prior years	15	372

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(2,752)	(339)
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (2003 – 30%)	826	102
Effects of:		
Permanently disallowed expenditure	(7)	(23)
Deferred tax movement not charged	(819)	(79)
Adjustments to tax charge in respect of previous periods	15	372
Current tax credit for the year	15	372

A deferred tax asset of £893,000 has not been recognised in respect of carried forward losses as it is not expected that these will crystallise within the foreseeable future.

### 7. Debtors: amounts falling due within one year

	2004 £'000	2003 £'000
Trade debtors	909	2,545
Amounts due from fellow group undertakings	10,205	2,865
Prepayments and other debtors	154	1,905
Corporation tax	387	372
	11,655	7,687

# PIERCE PRODUCTION COMPANY LIMITED

## Notes to the financial statements Year ended 31 December 2004

### 8. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Other taxes and social security costs	-	433
Amounts owed to group undertakings	14,074	9,853
Accruals	-	50
	<u>14,074</u>	<u>10,336</u>

### 9. Called up equity share capital

#### *Authorised*

	2004 \$'000	2003 \$'000	2004 £'000	2003 £'000
10,000,000 ordinary shares of \$1 each	<u>10,000</u>	<u>10,000</u>	<u>6,135</u>	<u>6,135</u>

#### *Allotted, called-up and fully paid*

	2004 \$'000	2003 \$'000	2004 £'000	2003 £'000
3,400,000 ordinary shares of \$1 each	<u>3,400</u>	<u>3,400</u>	<u>2,086</u>	<u>2,086</u>

### 10. Profit and loss account

	£'000
At 1 January 2004	(46)
Loss for the year	<u>(2,737)</u>
At 31 December 2004	<u>(2,783)</u>

# PIERCE PRODUCTION COMPANY LIMITED

## Notes to the accounts

### Year ended 31 December 2004

#### 11. Reconciliation of movement in shareholders' (deficit)/funds

	2004 £'000	2003 £'000
Opening equity shareholders' funds	2,040	2,007
(Loss)/profit for the financial year	(2,737)	33
Closing shareholders' (deficit)/funds	(697)	2,040

#### 12. Financial commitments

##### (a) Capital expenditure

Capital commitments at the end of the financial year authorised and contracted for amounted to £Nil (2003 - £Nil).

##### (b) Operating lease commitments

At the end of the financial year there were annual commitments under non-cancellable operating leases as follows:

Minimum rental amounts under floating production, storage and offtake facility operating leases:

	£'000
2005	16,064

The rental amounts under the floating production, storage and offtake facility operating leases are variable. The rentals are calculated quarterly based upon income from third parties for the provision of the facilities.

##### (c) Securities and guarantees

Under group banking arrangements, through the ultimate parent company, the company has granted security interests over substantially all of the company's assets to the group lenders.

#### 13. Related party transactions

The company is exempt from the requirements of FRS8 to disclose transactions with related parties who are fellow group undertakings.

#### 14. Ultimate parent undertaking

The company is a subsidiary undertaking of Bluewater Services (UK) Limited, a company incorporated in England and Wales.

The ultimate parent company and the largest group in which the results of the company are consolidated is that headed by Aurelia Energy NV, a company incorporated in The Netherlands Antilles whose accounts are available to the public.

The smallest group in which they are consolidated is that headed by Bluewater Services (UK) Limited, a company incorporated in England and Wales. The consolidated accounts for this company can be obtained from the Registrar of Companies, Crown Way, Cardiff, CF4 3TG.