

Stenloyal Limited

**Directors' report and financial
statements**

Registered number SC136129

31 December 2011

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2011.

Principal activity

The principal activity of the Company is the bareboat charter of an offshore drilling rig, the Stena Clyde.

Business review

	2011 \$000	2010 \$000
Turnover	49,704	67,340
Profit on ordinary activities before taxation	26,291	53,180
Taxation	5,690	3,161
Profit on ordinary activities after taxation	31,981	56,341

The Stena Clyde was operating in Australia for the full year, chartered to a sister company on a firm contract until 4thst quarter 2011. During the year a new contracts were sourced for the Stena Clyde, securing a competitive dayrate through to 4th quarter 2012.

The successful operation of the rig is directly linked to the need for high standards which is embraced by all members of Stena Drilling. This is reflected in the substantial group investment of \$84,000,000 made during 2010 when the Stena Clyde underwent a five year Special Periodic Survey.

Management recognise that personnel are its key asset and maintain a strong commitment to training and development. The Company's philosophy regarding quality, health, safety and the environment are embodied in policy statements which are regularly reviewed and endorsed by the Board. These policies are made known to all employees and others who may be affected by our activities. The company has zero tolerance towards unsafe acts or conditions. In order to reach this zero target we depend on continuous improvement and on motivated managers and staff who care for each other through safe behaviour. Through the Stena Drilling Safe Behaviour Programme we continuously communicate the company's commitment to safety in relation to the individual and the environment.

Proposed dividend

The directors do not recommend the payment of a dividend (2010: \$nil).

Directors

The directors who held office during the year and up to the date of this report were as follows:

TW Welo
SW Hultgren
P Claesson

Certain directors benefited from qualifying third party indemnity provision in place during the financial year and at the date of this report.

Political and charitable donations

The Company made no political or charitable contributions during the year (2010: \$nil).

Directors' report *(continued)*

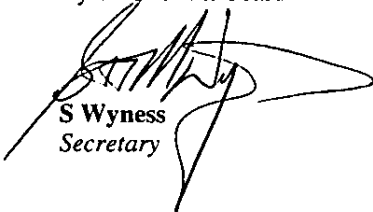
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed reappointed and KPMG LLP will therefore continue in office.

By order of the board


S Wyness
Secretary

Greenbank Crescent
East Tullos
Aberdeen
AB1 4BG

22 June 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 then apply them consistently;
- make judgements and 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 its financial statements comply with the Companies Act 2006. 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.



37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditor's report to the members of Stenloyal Limited

We have audited the financial statements of Stenloyal Limited for the year ended 31 December 2011 set out on pages 5 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements:

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

David Derbyshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

28 June 2012

Profit and loss account
for the year ended 31 December 2011

	<i>Note</i>	2011 \$000	2010 \$000
Turnover	<i>1 & 2</i>	49,704	67,340
Operating costs		(22,405)	(13,718)
		<hr/>	<hr/>
Gross profit		27,299	53,622
Administrative expenses		(763)	(61)
		<hr/>	<hr/>
Operating profit		26,536	53,561
Interest receivable and similar income	<i>6</i>	2	-
Interest payable and similar charges	<i>7</i>	(247)	(381)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	<i>3-5</i>	26,291	53,180
Tax on profit on ordinary activities	<i>8</i>	5,690	3,161
		<hr/>	<hr/>
Profit for the financial year	<i>14</i>	31,981	56,341
		<hr/>	<hr/>

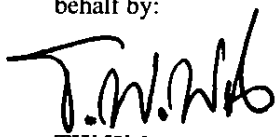
Turnover and operating profit in the current and previous years arose wholly from continuing operations.

The Company had no recognised gains or losses other than the profits for the financial years reported above.

Balance sheet
at 31 December 2011

	<i>Note</i>	2011	2010
		\$000	\$000
Fixed assets			
Tangible assets	9	79,218	84,960
Current assets			
Debtors	10	121,504	87,256
Cash at bank and in hand		966	-
		<u>122,470</u>	<u>87,256</u>
Creditors: amounts falling due within one year	11	<u>(26,525)</u>	<u>(23,459)</u>
Net current assets		<u>95,945</u>	<u>63,797</u>
Total assets less current liabilities		<u>175,163</u>	<u>148,757</u>
Creditors: amounts falling due after more than one year	12	<u>(2,908)</u>	<u>(8,483)</u>
Net assets		<u>172,255</u>	<u>140,274</u>
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	172,255	140,274
Shareholders' funds	15	<u>172,255</u>	<u>140,274</u>

These financial statements were approved by the board of directors on 22 June 2012 and were signed on its behalf by:


TW 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.

The following amendments to standards have been adopted in these financial statements for the first time:

- Improvements to FRSs (mandatory for periods starting on/after 1 January 2011). FRS 8 Related Party Disclosures is amended to replace the definition of a related party with that set out in UK law.

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 certain fixed assets.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 1.

The company has considerable financial resources together with long term contracts with a number of customers across different geographic areas. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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

The functional currency of the Company is United States Dollars. The dollar is the prevalent currency used within the oil industry and the Company has a significant level of dollar assets and financing. The financial statements are therefore presented in US dollars.

As the Company is a wholly owned subsidiary of Stena AB, the Company has taken advantage of the exemption contained in FRS 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). A copy of the consolidated financial statements of Stena AB, within which this Company is included, can be obtained from the address given in note 16.

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.

Fixed assets and depreciation

Depreciation is provided on the drilling rig Stena Clyde to write off the cost less estimated residual value by equal instalments over its estimated remaining useful economic life of five years.

Impairment of fixed assets

The carrying amounts of the company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

For fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss is recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents the revenue generated (net of value added tax) from the charter of an offshore drilling rig. Turnover is recognised on an accruals basis over the period of the related charter.

2 Analysis of turnover

The Company's turnover and profit before taxation are derived entirely from its principal activities. Turnover in the current and previous financial year wholly arose in Australia.

3 Notes to the profit and loss account

	2011 \$000	2010 \$000
<i>Profit on ordinary activities before taxation is stated after charging (crediting)</i>		
Depreciation written off tangible fixed assets (leased)	19,310	13,717
Exchange losses (gains)	2	(4)
	<u> </u>	<u> </u>
	2011 \$000	2010 \$000
<i>Auditor's remuneration</i>		
Audit of these financial statements	8	8
	<u> </u>	<u> </u>

4 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (2010: \$nil).

5 Staff numbers and costs

The Company had no employees during the year (2010: none).

6 Interest receivable and similar income

	2011 \$000	2010 \$000
Receivable from group undertakings	2	-
	<u> </u>	<u> </u>

7 Interest payable and similar charges

	2011 \$000	2010 \$000
Finance charges payable in respect of finance lease contracts	247	381
	<u> </u>	<u> </u>

Notes (continued)

8 Taxation

Analysis of credit in year

	2011	2010
	\$000	\$000
<i>Group relief</i>		
Current tax on income for the year	(6,345)	(3,886)
Adjustments in respect of prior years	7	(116)
Total current tax	(6,338)	(4,002)
<i>Deferred tax</i>		
Origination and reversal of timing differences	144	89
Other timing differences	273	289
Effect of decrease in tax rate	57	49
Adjustments in respect of prior years	174	414
Total deferred tax	648	841
Tax on profit on ordinary activities	(5,690)	(3,161)

Factors affecting the tax credit for the current year

The rate of corporation tax in the UK was reduced from 28% to 26% effective 1 April 2011. The composite rate applied during the year is 26.5%.

The current tax credit for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below:

	2011	2010
	\$000	\$000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	26,291	53,180
Current tax at 26.5% (2010: 28%)	6,967	14,890
<i>Effects of:</i>		
Depreciation for year in excess of capital allowances	(204)	(25)
Non-taxable income – 228J CAA 2001	(12,835)	(18,462)
Other timing difference	(273)	(289)
Adjustments in respect of prior years – group relief	7	(116)
Total current tax credit (see above)	(6,338)	(4,002)

Factors affecting the future tax credit

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the company's future current tax credit accordingly and further reduce the deferred tax asset at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date).

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax credit and reduce the company's deferred tax asset accordingly.

Notes (continued)

9 Tangible fixed assets

	Drilling rig \$000
Cost	
At beginning of year	193,150
Additions	13,568
	<hr/>
At end of year	206,718
	<hr/>
Depreciation	
At beginning of year	108,190
Charge for year	19,310
	<hr/>
At end of year	127,500
	<hr/>
Net book value	
At 31 December 2011	79,218
	<hr/>
At 31 December 2010	84,960
	<hr/>

The rig Stena Clyde is held under a ten year finance lease agreement.

The revalued element of the asset was fully written down to nil on both a historical cost and revalued basis during 2005.

10 Debtors

	2011 \$000	2010 \$000
Amounts owed by group undertakings	110,656	80,364
Group relief receivable	10,224	5,629
Other debtors	9	-
Deferred tax asset	615	1,263
	<hr/>	<hr/>
	121,504	87,256
	<hr/>	<hr/>

The elements of deferred tax asset are calculated at 25% (2010: 27%) as follows:

	2011 \$000	2010 \$000
Difference between accumulated depreciation and capital allowances	289	457
Other timing differences	326	806
	<hr/>	<hr/>
	615	1,263
	<hr/>	<hr/>

The movement in the deferred tax asset in the year was:

	2011 \$000	2010 \$000
At beginning of year	1,263	2,104
Charge for the year (Note 8)	(648)	(841)
	<hr/>	<hr/>
At end of year	615	1,263
	<hr/>	<hr/>

Notes (continued)

11 Creditors: amounts falling due within one year

	2011 \$000	2010 \$000
Bank overdraft	-	891
Obligations under finance lease contract (note 12)	5,575	5,266
Amounts owed to group undertakings	17,803	14,734
Foreign taxes payable	1,996	1,996
Accruals and deferred income	1,151	572
	<u>26,525</u>	<u>23,459</u>

12 Creditors: amounts falling due after more than one year

	2011 \$000	2010 \$000
Obligations under finance lease contracts	2,908	8,483
	<u>2,908</u>	<u>8,483</u>
The maturity of obligations under finance lease contracts is as follows:		
	2011 \$000	2010 \$000
Within one year	5,575	5,266
In the second to fifth years	2,908	8,483
	<u>8,483</u>	<u>13,749</u>

The company's obligation under a finance lease contract relates to the lease of the Stena Clyde.

13 Called up share capital

	2011 \$000	2010 \$000
<i>Allotted, called up and fully paid</i>		
2 ordinary shares of £1 each	-	-
	<u>-</u>	<u>-</u>

14 Reserves

	Profit and loss account \$000
At beginning of year	140,274
Profit for the year	31,981
	<u>172,255</u>
At end of year	<u>172,255</u>

Notes (continued)

15 Reconciliation of movements in shareholders' funds

	2011 \$000	2010 \$000
Profit for the year being net addition to shareholders' funds	31,981	56,341
Opening shareholders' funds	140,274	83,933
	<hr/>	<hr/>
Closing shareholders' funds	172,255	140,274
	<hr/>	<hr/>

16 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, which is the Company's ultimate parent company and ultimate controlling party.

The largest group in which the results of the Company are consolidated is that headed by Stena AB. Copies of the consolidated financial statements of Stena AB 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 of Stena Drilling (Holdings) Limited can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.