

Stenloyal Limited

**Directors' report and financial
statements**

Registered number 136129

31 December 2002



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Directors' report

The directors submit their report and audited financial statements for the year to 31 December 2002.

Principal activities

The principal activities of the company are the ownership and operation of offshore drilling rigs.

Business review

The company owns and operates the drilling rig, Stena Clyde. The Stena Clyde continues to operate in South East Asia.

	2002	2001
	\$000	\$000
Turnover	24,702	20,907
Profit (loss) on ordinary activities before taxation	1,842	(1,681)
Taxation	(1,481)	(82)
Profit (loss) on ordinary activities after taxation	361	(1,763)

The company refinanced its interest in the unit Stena Clyde on 4 April 2003. On that date it sold the unit for market value of US\$45m to its intermediate holding company Stena International BV, and leased it back under a ten year finance lease agreement.

Dividend paid and transfer to reserves

The profit for the year after taxation was \$361,000 (2001: loss of \$1,763,000). The directors recommended a dividend of \$20,000,000 (2001: \$nil) and the remaining deficit for the year has been added to reserves brought forward of \$25,197,000 (2001: \$ 26,124,000) resulting in reserves carried forward of \$7,479,000 (2001: \$25,197,000), after a transfer from revaluation reserve of \$1,921,000 (2001: \$836,000).

Directors

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

TW 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. Mr SV Carlsson is a director of the company's ultimate parent company.

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

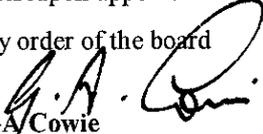
Political and charitable donations

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

Auditors

Our auditors KPMG have indicated to the directors' that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 13 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

By order of the board


G.A. Cowie
Secretary

Greenbank Crescent
East Tullos
Aberdeen
AB12 3BG

1 May 2003

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 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.



37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Stenloyal Limited

We have audited the financial statements on pages 5 to 13.

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 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company is not disclosed.

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.

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

8 May 2003

Profit and loss account
for the year ended 31 December 2002

	Note	2002 \$000	2001 \$000
Turnover	2	24,702	20,907
Operating costs		(20,996)	(20,078)
Gross profit		3,706	829
Administrative expenses		(1,882)	(2,539)
Operating profit (loss)		1,824	(1,710)
Interest receivable and similar income	6	18	29
Profit (loss) on ordinary activities before taxation	3-5	1,842	(1,681)
Taxation on profit (loss) on ordinary activities	7	(1,481)	(82)
Profit (loss) on ordinary activities after taxation for the financial year		361	(1,763)
Dividend	8	(20,000)	-
Retained loss for the year	14-15	(19,639)	(1,763)

Turnover and operating profit (loss) in the current and previous years arise wholly from continuing activities. There are no recognised gains and losses other than the results for the financial year.

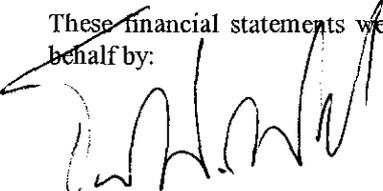
Note of historical cost profit and losses
for the year ended 31 December 2002

	2002 \$000	2001 \$000
Reported profit (loss) on ordinary activities before taxation	1,842	(1,681)
Difference between a historical cost depreciation charge and the actual depreciation charge on the revalued amount	1,016	1,023
Historical cost profit (loss) on ordinary activities before taxation	2,858	(658)
Historical cost profit (loss) on ordinary activities after taxation for the financial year	1,377	(740)

Balance sheet
at 31 December 2002

	<i>Note</i>	2002	2001
		\$000	\$000
Fixed assets			
Tangible assets	9	35,843	43,579
Current assets			
Debtors	10	8,127	11,484
Cash at bank and in hand		24	4
		<u>8,151</u>	<u>11,488</u>
Creditors: amounts falling due within one year	11	<u>(18,767)</u>	<u>(9,198)</u>
Net current (liabilities) assets		<u>(10,616)</u>	<u>2,290</u>
Total assets less current liabilities		<u>25,227</u>	<u>45,869</u>
Provisions for liabilities and charges	12	<u>(14,653)</u>	<u>(15,656)</u>
Net assets		<u>10,574</u>	<u>30,213</u>
Capital and reserves			
Called up share capital	13	-	-
Revaluation reserve	14	3,095	5,016
Profit and loss account	14	7,479	25,197
Equity shareholders' funds	15	<u>10,574</u>	<u>30,213</u>

These financial statements were approved by the board of directors on 1 May 2003 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.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards as modified by the revaluation of certain fixed assets and on a going concern basis as Stena Drilling (Holdings) 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

Tangible fixed assets are stated at cost or valuation, less depreciation. Depreciation is provided on a straight line basis to write off the cost of assets net of estimated residual value over their estimated useful life of between five and ten years.

Taxation

The charge for taxation is based on the result 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.

Pension costs

The group operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the group.

The group also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes *(continued)*

2 Turnover

Turnover comprises the revenue earned from the operation and charter of offshore drilling rigs.

	2002 \$000	2001 \$000
South East Asia	24,702	20,907
	24,702	20,907

3 Profit (loss) on ordinary activities before taxation

The profit (loss) on ordinary activities before taxation is stated after charging (crediting):

	2002 \$000	2001 \$000
Depreciation	8,283	8,104
Auditors' remuneration and expenses - audit	20	20
- non audit work	99	75
Exchange loss (gain)	7	(27)
	8,409	8,172

4 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (2001: none).

5 Staff numbers and costs

The average number of persons employed by the company during the year was as follows:

	Number 2002	Number 2001
Directors	3	3
	3	3

Staff costs incurred in the year were \$nil (2001: \$nil).

Crew for the rig are obtained through labour contractors and as such are not included in staff numbers and costs.

6 Interest receivable and similar income

	2002 \$000	2001 \$000
Receivable from group undertakings	18	29
	18	29

Notes *(continued)*

7 Taxation on profit (loss) on ordinary activities

Analysis of charge in period

	2002	2001
	\$000	\$000
<i>Group relief</i>		
Current tax on income for the year	1,320	388
Adjustments in respect of prior years	13	-
	1,333	388
<i>Overseas tax</i>		
Foreign tax (including \$317,000 (2001: \$179,000) in respect of prior years)	1,151	628
	2,484	1,016
<i>Deferred tax</i>		
Origination and reversal of timing differences	(1,003)	(934)
	1,481	82
	1,481	82

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2001: higher) than the standard rate of corporation tax in the UK 30% (2001: 30%). The differences are explained below:

	2002	2001
	\$000	\$000
<i>Current tax reconciliation</i>		
Profit (loss) on ordinary activities before tax	1,842	(1,681)
	553	(504)
<i>Effects of:</i>		
Other timing differences	(24)	-
Expenses not deductible for tax purposes	1	2
Depreciation on assets not qualifying for capital allowances	597	597
Depreciation for year in excess of capital allowances	1,027	921
Adjustments to tax charge in respect of prior years	330	-
	2,484	1,016
	2,484	1,016

Notes (continued)

8 Dividends

	2002 \$000	2001 \$000
Dividends paid	20,000	-

9 Tangible assets

		Drilling rig \$000
<i>Cost or valuation</i>		
At beginning of year		73,016
Additions		547
At end of year		73,563
<i>Depreciation</i>		
At beginning of year		29,437
Charge for year		8,283
At end of year		37,720
<i>Net book value</i>		
At 31 December 2002		35,843
At 31 December 2001		43,579

Particulars relating to the revalued asset are given below:

	2002 \$000	2001 \$000
At 1996 open market value	22,835	22,835
Aggregate depreciation thereon	(19,709)	(16,297)
Net book value	3,126	6,538
Historical cost of revalued asset	12,614	12,614
Aggregate depreciation based on historical cost	(12,583)	(10,187)
Historical cost net book value	31	2,427

Notes (continued)

10 Debtors

	2002	2001
	\$000	\$000
Trade debtors	4,212	1,117
Amounts owed by group undertakings	3,786	10,058
Other debtors	92	274
Prepayments and accrued income	37	35
	8,127	11,484
	8,127	11,484

11 Creditors: amounts falling due within one year

	2002	2001
	\$000	\$000
Amounts owed to group undertakings	14,790	6,879
Other creditors	139	-
Taxation and social security	1,934	1,198
Accruals and deferred income	571	733
Group relief payable	1,333	388
	18,767	9,198
	18,767	9,198

12 Provisions for liabilities and charges

	Deferred taxation \$000
At beginning of year	15,656
Movement in the year	(1,003)
At end of year	14,653

The deferred taxation charge represents the full potential liability at a rate of 30%.

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

	2002	2001
	\$000	\$000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	8,586	9,613
Capital gain held over	6,067	6,067
Other	-	(24)
	14,653	15,656
	14,653	15,656

Notes (continued)

13 Called up share capital

	2002	2001
	\$000	\$000
<i>Authorised</i>		
100,000 ordinary shares of £1 each	160	145
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
2 ordinary shares of £1 each	-	-
	<hr/>	<hr/>

14 Reserves

	Revaluation reserve	Profit and loss account
	\$000	\$000
At beginning of year	5,016	25,197
Transfers	(1,921)	1,921
Retained loss for the year	-	(19,639)
	<hr/>	<hr/>
At end of year	3,095	7,479
	<hr/>	<hr/>

15 Reconciliation of movements in shareholders' funds

	2002	2001
	\$000	\$000
Profit (loss) for the financial year	361	(1,763)
Dividends paid	(20,000)	-
	<hr/>	<hr/>
Opening shareholders' funds	(19,639)	(1,763)
	30,213	31,976
	<hr/>	<hr/>
Closing shareholders' funds	10,574	30,213
	<hr/>	<hr/>

16 Commitments and contingencies

(i) *Capital expenditure*

Capital commitments of the company at the end of the financial year authorised and contracted amounted to \$nil (2001: \$ 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 on a mortgage on the *Stena Clyde*.

17 Pensions

The company participates in the Stena Drilling Limited Final Salary Scheme. This scheme provides benefits based on a final pensionable salary. The assets of the Scheme are held in trust. The pension charge for this year was \$nil (2001: \$nil).

Details of the actuarial valuation of the group scheme is contained in the financial statements of Stena Drilling (Holdings) Limited.

Notes *(continued)*

18 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.