AGR Subsea Limited

Report and Financial Statements

SC232751

31 December 2011

Directors
J Sands
J Warmedal

Secretary
MD Secretaries Limited

Auditors
Ernst & Young LLP
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Fountainhall Road
Aberdeen AB15 4DT

Bankers
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London EC3R 8HY

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Registered No. SC232751

Directors' report

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

Results and dividends

The profit for the year after taxation amounted to £2,969,000 (2010 – loss of £777,000). The directors do not recommend a dividend (2010 – £nil).

Principal activity and review of the business

The principal activity of the company is seabed intervention activities in support of the global offshore energy industry. The company's range of equipment is used in installation, maintenance and decommissioning phases of the offshore field lifecycle.

Following several years with lower than expected activity levels, 2011 proved to be extremely busy with final results substantially exceeding directors' expectations. This was due mainly to the award of a new tranche of work on Norway's Ormen Lange field and the conclusion of the Northern Scarp project. The directors note that, despite the high levels of activity, safe working was never compromised and the staff and contractors that contributed to the success can look back on 2011 with pride.

Strategy

The stated aim of the parent company, AGR Drilling Services Holding AS, is to remain ahead of the competition by continuously developing new products and systems and exploiting existing equipment in new and more efficient ways. AGR Subsea Ltd is aligned with this aim and will exploit and develop the SeaVator™ and ClayCutter X™ technologies better to meet existing and emerging client requirements. Late 2011 saw the submission of a patent application for the E-Vator™ technology that will be developed and introduced to the market in 2013.

Future developments

Offshore activity levels in oil & gas installation and decommissioning remain high. Currently the directors of AGR Subsea Limited regard the market conditions to be favourable and this is reflected in the high level of tendering activity currently experienced. A number of projects that are likely to utilise AGR technologies are anticipated to commence in the coming years and ground work is being undertaken to cement our position with the respective clients.

During 2012, a decision was taken to separate and transfer the trade and assets of the company to two separate group companies, and to discontinue the activities of this company.

Principal risks and uncertainties

Principal risks relate to oil price and demand uncertainty and the company is actively reviewing mitigation strategies including expanding further into the expanding offshore renewables market.

Financial risk management

Financial risk is controlled by the company's ultimate parent, AGR Group ASA (note 22). The company investigates credit risk by ensuring that appropriate credit checks are performed and for significant projects, ensuring that either advance payment or letters of credit are obtained.

Projects are contracted in advance of work commencing and contain predefined rates for the services to be provided; as such the directors do not believe that the company is subject to any significant price risk.

Directors' report (continued)

Principal risks and uncertainties (continued)

Financial risk management (continued)

The company's treasury function is controlled at the group level and the company does not have any external debt other than the bank overdraft facility as part of multi-option cash-pooling facility held with other AGR Group companies. The overdraft carries interest of 4.5% over the base rate. As a result the directors believe the company is only exposed to interest rate risk in respect of movements on the base rate.

The company's ultimate parent, AGR Group ASA, has undertaken to ensure that adequate funds are made available to the company to meet the working capital requirements and outstanding liabilities of the company for at least 12 months after the date of approval of the financial statements by the Board of Directors (note 1).

Directors

The directors who served the company during the year were as follows:

J Sands
J Warmedal

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

PricewaterhouseCoopers LLP resigned as auditors and Ernst & Young LLP was appointed in their place.

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

J Sands
Director

15 February 2013

Directors' Responsibilities Statement

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments 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 the financial statements comply with the Companies Act 2006. 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.

Independent auditors' report

to the members of AGR Subsea Limited

We have audited the financial statements of AGR Subsea Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 4, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the 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 United Kingdom 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.

Independent auditors' report (continued)

to the members of AGR Subsea Limited

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.

Ernst & Young LLP

Kenneth MacLeod Hall (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Aberdeen
15 February 2013

Profit and loss account

for the year ended 31 December 2011

	Notes	*2011* *£000*	*2010* *£000*
Turnover	2	40,342	2,361
Cost of sales		(34,378)	(1,955)
Gross profit		5,964	406
Administrative expenses		(1,598)	(1,218)
Operating Profit/(Loss)	3	4,366	(812)
Interest receivable and similar income	6	67	6
Interest payable and similar charges	7	(374)	(279)
Profit/(Loss) on ordinary activities before taxation		4,059	(1,085)
Tax	8	(1,090)	308
Profit/(Loss) for the financial year after taxation	16	2,969	(777)

All amounts relate to continuing activities. During 2012, a decision was taken to separate and transfer the trade and assets of the company to two separate group companies, and to discontinue the activities of this company.

There are no recognised gains or losses other than £2,969,000 in the year ended 31 December 2011 (2010 – loss of £777,000).

Balance sheet

at 31 December 2011

	Notes	*2011* *£000*	*2010* *£000*
Fixed assets			
Intangible fixed assets	9	111	135
Tangible fixed assets	10	1,722	1,438
		1,833	1,573
Current assets			
Debtors	11	2,620	1,608
Cash at bank and in hand		1,160	-
		3,780	1,608
Creditors: amounts falling due within one year	12	(6,758)	(1,715)
Net current liabilities		(2,978)	(107)
Total assets less current liabilities		(1,145)	1,466
Creditors: amounts falling due after more than one year	13	-	(5,585)
Provisions for liabilities	14	(67)	(62)
Net liabilities		(1,212)	(4,181)
Capital and reserves			
Called up share capital	15	1	1
Profit and loss account	16	(1,213)	(4,182)
Deficit on shareholders' funds	17	(1,212)	(4,181)

The financial statements were approved by the board of directors on 15 February 2013 and were signed on its behalf by:

John Sands
Director

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards.

Going concern

The company is a wholly owned subsidiary of AGR Group ASA which has undertaken to ensure that adequate funds are made available to the company to meet the working capital requirements and outstanding liabilities of the company for at least 12 months after the date of the approval of these financial statements.

Statement of cash flows

The company is exempt from the requirement of FRS 1 'Statement of cash flows' to prepare a statement of cash flow as it is a wholly owned subsidiary undertaking of a company which publishes a group statement of cash flows (note 22).

Turnover

Turnover is recognised only when it is probable that the economic benefits associated with a transaction will flow to the company and the amount of turnover can be measured reliably. Turnover from the provision of excavation services to customers is recognised as the services are rendered.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation, where cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives:

Plant and machinery	–	5-10 years
Motor vehicles	–	3 years
Office and computer equipment	–	2 - 4 years

Intangible assets

Intangible assets are capitalised and amortised over their expected useful life of 10 years.

Impairment of tangible and intangible fixed assets

At each balance sheet date, the company reviews the carrying amounts of tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided on taxable profits at current rates in the respective jurisdictions.

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

Deferred tax assets are recognised only to the extent that the directors consider that it is 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 on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The company contributes to a defined contribution pension scheme operated by the company. 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 to the financial statements

at 31 December 2011

2. Turnover

An analysis of the company's turnover by destination is as follows:

	2011	2010
	£000	£000
UK	32	–
Europe	37,612	870
Rest of World	2,698	1,491
	40,342	2,361

The company's turnover and loss before taxation are entirely derived from the company's principal activity. In the view of the directors, the company has only one class of business.

3. Operating Profit/(Loss)

This is stated after charging/(crediting):

	2011	2010
	£000	£000
Auditors' remuneration – fees payable for audit services	15	23
Depreciation (note 10)	318	308
Amortisation of patented technology (note 9)	25	25
Operating lease rentals – plant and equipment	806	806
– land and buildings	75	135
Foreign exchange (gain)/loss	(69)	142

4. Directors' remuneration

	2011	2010
	£000	£000
Directors' remuneration	132	110
Pension contributions	16	13
	148	123

The number of directors who received remuneration from the company during the year was 1 (2010 – 1).

Notes to the financial statements

at 31 December 2011

5. Staff costs

	2011	*2010*
	£000	*£000*
Wages and salaries	394	233
Social security costs	42	28
Pension costs	8	19
	444	280

The average monthly number of employees (including directors) during the year was made up as follows:

	No.	*No.*
Sales and administration	4	4

6. Interest receivable and similar income

	2011	*2010*
	£000	*£000*
Interest receivable on bank deposits	67	6

7. Interest payable and similar charges

	2011	*2010*
	£000	*£000*
Long-term group loans (note 13)	241	256
Bank overdrafts and loans	133	23
	374	279

Notes to the financial statements

at 31 December 2011

8. Tax

(a) Tax on profit/(loss) on ordinary activities

The tax charge/(credit) is made up as follows:

	2011	*2010*
	£000	*£000*
Current tax:		
UK corporation tax on the profit/(loss) for the year	1,085	(301)
Total current tax (note 8(b))	1,085	(301)
Deferred tax:		
Origination and reversal of timing differences	5	(7)
Total deferred tax (note 14)	5	(7)
Tax charge/(credit) on profit/(loss) on ordinary activities	1,090	(308)

(b) Factors affecting tax charge/(credit) for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26% (2010 – 28%). The differences are explained below:

	2011	*2010*
	£000	*£000*
Profit/(Loss) on ordinary activities before tax	4,059	(1,085)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2010 – 28%)	1,055	(304)
Effects of:		
Expenses not deductible	12	1
Timing differences	18	7
Other differences	-	(5)
Current tax for the year (note 8(a))	1,085	(301)

The corporation tax payable for the year ended 31 December 2011 was reduced by £741,000 because of group relief received from a fellow group company for which a payment will be made (2010 - £301,000).

Notes to the financial statements

at 31 December 2011

8. Tax (continued)

(c) Factors that may affecting future tax charges

The UK substantively enacted on 26 March 2012 an amendment to the corporation tax rate from 26% to 24% that was and that will be effective from 1 April 2012. Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The changes propose to reduce the corporation tax rate to 23% from 1 April 2013 and 22% by 1 April 2014.

9. Intangible fixed assets

	Patented technology £000
Cost:	
At 1 January 2011 and 31 December 2011	246
Amortisation:	
At 1 January 2011	110
Charge for the year	25
At 31 December 2011	135
Net book value:	
At 31 December 2011	111
At 1 January 2011	135

Notes to the financial statements

at 31 December 2011

10. Tangible fixed assets

	Plant and machinery	*Motor vehicles*	*Office and computer equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 1 January 2011	3,001	7	25	3,033
Additions	594	-	11	605
Disposals	(185)	-	-	(185)
At 31 December 2011	3,410	7	36	3,453
Accumulated depreciation:				
At 1 January 2011	1,568	7	20	1,595
Charge for the year	311	-	7	318
Disposals	(182)	-	-	(182)
At 31 December 2011	1,697	7	27	1,731
Net book value:				
At 31 December 2011	1,713	-	9	1,722
At 1 January 2011	1,433	–	5	1,438

11. Debtors

	2011	*2010*
	£000	*£000*
Trade debtors	2	377
Amounts owed by group undertakings	570	685
Prepayments and accrued income	1,623	370
Other debtors	207	-
Other taxes	218	176
	2,620	1,608

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements

at 31 December 2011

12. Creditors: amounts falling due within one year

	2011	*2010*
	£000	*£000*
Bank overdraft	-	542
Trade creditors	415	657
Amounts owed to group undertakings	3,996	304
Corporation tax	343	-
Other taxation and social security	27	13
Accruals and deferred income	1,977	199
	6,758	1,715

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

13. Creditors: amounts falling due after more than one year

	2011	*2010*
	£000	*£000*
Amounts owed to group undertakings	-	5.585

The amounts owed to group undertakings falling due after more than one year solely relate to an intercompany loan from AGR Drilling Services Holdings AS. The repayment terms were agreed for the loan to mature on 20 June 2013 and revised terms are currently being considered by the group. The interest rate revised on 1 July 2009 from 2.5% to 4.5% over LIBOR.

14. Provision for liabilities

	Deferred tax
	£000
At 1 January 2011	62
Charge for year (note 8(a))	5
At 31 December 2011	67

The deferred tax liability at the end of 2011 (and 2010) is wholly related to the difference between accumulated depreciation and capital allowances and is calculated at a rate of 26% (2010 – 27%).

Notes to the financial statements

at 31 December 2011

15. Issued share capital

Allotted, called up and fully paid	*No.*	*2011 £000*	*No.*	*2010 £000*
Ordinary shares of £1 each	1,000	1	1,000	1

16. Movement on reserves

	Profit and loss account £000
At 1 January 2011	(4,182)
Profit for the year	2,969
At 31 December 2011	(1,213)

There were no dividends paid during the year in respect of current or prior year (2010 – £nil).

17. Reconciliation of shareholders' funds

	2011 £000	*2010 £000*
Profit/(loss) for the year	2,969	(777)
Net movement in shareholders' funds	2,969	(777)
Opening shareholders' funds	(4,181)	(3,404)
Closing shareholders' funds	(1,212)	(4,181)

18. Other financial commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as set out below:

		2011		*2010*
	Land and buildings £000	*Plant and equipment £000*	*Land and buildings £000*	*Plant and equipment £000*
Operating leases which expire:				
In two to five years	75	806	–	806

Plant and equipment commitments relates to operating leases for high pressure pumps used in the seabed excavation process.

Notes to the financial statements

at 31 December 2011

19. Contingent liability

The company's treasury function is controlled by its ultimate parent undertaking AGR Group ASA. In 2009, the group entered into a Multicurrency Group Account System agreement with DnB Nor Bank ASA to manage their treasury function. In entering this agreement, the company granted DnB Nor Bank ASA, a floating charge over the company's assets. In the event the group defaults or breaches the terms of the agreement, the floating charge will crystallise into a fixed charge over the company's assets with the effect that DnB Nor Bank ASA will be a priority creditor.

20. Related party transactions

The company has taken advantage of the exemption available in FRS 8 'Related Party Disclosures' not to disclose any transactions with entities that are part of the group which qualify as related parties, on the grounds that it is a subsidiary which is wholly owned and controlled within the group, and the group financial statements of AGR Group ASA, its ultimate parent undertaking, are publicly available (note 22).

21. Events after the balance sheet date

During 2012, a decision was taken to separate and transfer the trade and assets of the company to two separate group companies, and to discontinue the activities of this company.

22. Ultimate parent undertaking and controlling party

The company is a subsidiary of AGR Drilling Service Holdings AS which is its immediate parent undertaking.

The ultimate parent undertaking and controlling party is AGR Group ASA, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the group financial statements of AGR Group ASA are available to the public and may be obtained from AGR Group ASA, Lonavegan, 5342 Straume, Norway.