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# **Teekay Petrojarl Floating Production UK Limited**

(formerly known as PGS Floating Production (UK) Limited)

## **Report and Financial Statements**

31 December 2005



**Teekay Petrojarl Floating Production UK Limited**  
(formerly known as PGS Floating Production (UK) Limited)

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Registered No 2436350

**Directors**

Espen Klitzing  
Erik Evjen  
Helge Krafft

**Secretary**

Jordan Company Secretaries Limited

**Auditors**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**Bankers**

Nordea  
Olav Trygrassonsgt 39  
N-7011 Trondheim  
Norway

DnBNOR  
Munkegt 22  
7013 Trondheim

**Solicitors**

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

**Registered Office**

20-22 Bedford Row  
London  
WC1R 4JS

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2005

### Results and dividends

The loss for the year, after taxation, amounted to \$5 664 000 (2004 – \$6 482 000) The directors do not recommend the payment of a dividend

In view of the significant losses made in prior years, the company has received assurance from its parent company that it will continue to receive financial support for the foreseeable future in order for it to meet its obligations as they fall due

The company changed name from PGS Floating Production (UK) Limited to Petrojarl Floating Production UK Limited on 21 August 2006 and changed name from Petrojarl Floating Production UK Limited to Teekay Petrojarl Floating Production UK Limited on 22 May 2007

The production unit in PGS ASA was demerged as of 30 June 2006, and from the same date the ultimate parent of Teekay Petrojarl Floating Production UK Limited is Teekay Petrojarl ASA

### Principal activities and review of the business

The principal activity of the company is the provision of floating production systems to the oil industry The company currently provides the FPSO Ramform Banff on contract to CNR and its partners for the production, processing and export of hydrocarbons from the Banff field in the central North Sea

### Financial risk management objectives and policies

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks and uncertainties affecting the company are considered to relate to competition from other FPSO contractors and international oil companies

From the perspective of the company, the principal financial risks and uncertainties are integrated with the principal risks of the group and are not managed separately Accordingly, the principal risks and uncertainties of the Teekay Petrojarl Group, which include those of the company, are related to interest rates, currency exchange rates, credit risk related to trade receivables, and liquidity

Teekay Petrojarl utilise market sensitive financial instruments to hedge risk related to interest rates and currency exchange rates Furthermore, Teekay Petrojarl is of the opinion that credit risk related to our customers, which are mainly multinational integrated oil companies and independent oil and natural gas companies, is relatively low Based on the year-end cash balance, available liquidity resources and the current structure and terms of our debt, Teekay Petrojarl has adequate liquidity and that liquidity risk is at acceptable levels

### Change in reporting currency

With effect from 1 January 2005, the reporting currency of the company was changed from British pounds to US dollars as the main activities of the company are conducted in US dollars Comparative figures have been translated at an appropriate average rate and at the year-end closing rate in the profit and loss account and the balance sheet respectively

### Directors and their interests

The directors who held office during the year were as listed on page 1

None of the directors had or has any interests in the shares of the company

## Directors' report

### Policy and practice with respect to payment of suppliers

It is the company's policy to follow the CBI's prompt payment code of practice for all suppliers to the company with payments made in accordance with the relevant contractual payment terms. A copy of the code of practice may be obtained from the CBI.

The number of days' purchases represented by trade creditors at the year-end was 40.

### Auditors

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

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

Director



Date

9 AUGUST 2007

## **Statement of directors' responsibilities in respect of the financial statements**

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 accounts 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 of the company for that period. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements and having a reasonable expectation that the company has, or has access within the Petrojarl Group to, adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

## **Independent auditors' report to the members of Teekay Petrojarl Floating Production UK Limited (formerly known as PGS Floating Production (UK) Limited)**

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 17. 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**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

**Independent auditors' report to the members of Teekay Petrojarl Floating Production UK Limited (formerly known as PGS Floating Production (UK) Limited) (cont )**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

*Ernst & Young LLP*

Ernst & Young LLP

Registered auditor

London

Date 13 August 2007

## Profit and loss account

for the year ended 31 December 2005

	<i>Notes</i>	<i>2005 \$000</i>	<i>2004 \$000</i>
Turnover	2	46 483	51 509
Cost of sales		(49 903)	(52 383)
<b>Gross (loss)/profit</b>		<b>(3 420)</b>	<b>(874)</b>
Administrative expenses		(1 818)	(1 820)
<b>Operating loss</b>	3	<b>(5 238)</b>	<b>(2 694)</b>
Interest receivables	6	3 787	389
Interest payable and similar charges	6	(4 213)	(4 177)
<b>Loss on ordinary activities before taxation</b>		<b>(5 664)</b>	<b>(6 482)</b>
Tax on loss on ordinary activities	7	-	-
<b>Loss for the financial year</b>	14	<b>(5 664)</b>	<b>(6 482)</b>



**Statement of total recognised gains and losses**  
**for the year ended 31 December 2005**

There are no recognised gains or losses attributable to the shareholders of the company other than those recognised in the profit and loss account

## Balance sheet

as at 31 December 2005

	Notes	2005 \$000	2004 \$000
<b>Fixed assets</b>			
Tangible assets	8	-	-
Debtors amounts falling due after more than one year	12	5 577	5 751
<b>Current assets</b>			
Stocks		1 933	1 804
Debtors	9	13 771	11 144
Cash at bank and in hand		4 123	3 772
<b>Total current assets</b>		19 827	16 720
<b>Creditors:</b> amounts falling due within one year	10	(11 955)	(10 008)
<b>Net current assets</b>		7 872	6 712
<b>Total assets less current liabilities</b>		13 449	12 463
<b>Creditors:</b> amounts falling due after more than one year	11	(18 684)	(13 458)
<b>Provision for liabilities and charges</b>			
Other provisions	12	(19 680)	(18 256)
<b>Net liabilities</b>		(24 915)	(19 251)
<b>Capital and reserves</b>			
Called up share capital	13	228 069	228 069
Profit and loss account	14	(252 984)	(247 320)
<b>Equity shareholders' deficits</b>	14	(24 915)	(19 251)

Director

Date

*Kris Egri*  
9 AUGUST 2007

## Notes to the financial statements

for the year ended 31 December 2005

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards and include the results of the company's operations which are described in the directors' report and all of which are continuing

The financial statements have been prepared on a going concern basis as the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future

With effect from 1 January 2005, the reporting currency of the company was changed from British pounds to US dollars as the main activities of the company are conducted in US dollars. Comparative figures have been translated at an appropriate average rate and at the year-end closing rate in the profit and loss account and the balance sheet respectively

#### Comparative figures

Certain prior year figures have been restated to conform with 2005 presentation

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation

Depreciation is calculated so as to write off the cost of the fixed assets on a straight-line basis over their expected useful economic lives

Capitalized finance costs	– 5 years
Floating production vessel	– 3-20 years

#### Foreign currencies

The company's primary activities are in US Dollars. As a result, the financial statements are prepared in US Dollars, this being the functional currency of the company

Foreign currency transactions during the year have been translated at the rate of exchange ruling at the date of the transaction. Foreign currency current assets and liabilities are converted to US dollar at the rates of exchange ruling at the balance sheet date. Any exchange profits or losses are credited or charged to the profit and loss account in the year in which they arise

#### Operating leases

Rentals paid under operating leases are charged to the profit and loss account as incurred

#### Stock

Stock is stated at the lower of cost and net realisable value

## Notes to the financial statements

for the year ended 31 December 2005

### 1. Accounting policies (cont.)

#### Deferred taxation

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

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

### 2. Turnover

Turnover represents the value of goods and services provided, net of value added tax. The turnover and profit before tax are principally derived from the operation of a floating production system

### 3. Operating loss

This is stated after charging/ (crediting)

	2005 \$000	2004 \$000
Operating lease rentals – plant and machinery	16 180	22 001
Auditors remuneration – audit services	73	127
Compensation from operator for abandonment costs (note 12)	174	(338)
Unwinding of discount (note 12)	1 424	1 295
Exchange loss/(gain)	149	(669)
	<hr/>	<hr/>

### 4. Directors' emoluments

The directors did not receive any emoluments for the services they provided to the company during the year (2004 – £nil)

### 5. Staff costs

The company employed no staff during the current and previous years

## Notes to the financial statements

for the year ended 31 December 2005

### 6. Interest

	2005	2004
	\$000	\$000
Interest income	599	389
Group interest receivables	3 188	-
Group interest payable	(4 208)	(4 161)
Other financial expenses	(5)	(16)
	<u>(426)</u>	<u>(3 788)</u>

### 7. (a) Tax on loss on ordinary activities

	2005	2004
	\$000	\$000
UK corporation tax at 30% (2004 – 30%)		
Current tax on loss for the year	-	-
Deferred taxation	-	-
	<u>-</u>	<u>-</u>

### (b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004 – 30 %) The differences are reconciled below

	2005	2004
	\$000	\$000
Loss on ordinary activities before taxation	<u>(5 664)</u>	<u>(6 482)</u>

## Notes to the financial statements

for the year ended 31 December 2005

### (b) Factors affecting current tax charge (cont.)

Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004 30%)	(1 699)	(1 945)
Expenses not deductible for tax purposes	309	3 325
Tax losses not recognised	(880)	(1 789)
Other timing differences not recognised	(509)	409
Revaluation of losses carried forward	2 779	-
Prior year group relief no longer required	-	(4 219)
Prior year decreases in timing differences	902	5 151
Prior year tax losses and other timing differences not recognised	(2 974)	3 858
Prior year adjustment in 2002 – provision not recognised in timing differences	-	(4 084)
Prior period expenses not deductible	2 072	(706)
	<hr/>	<hr/>
Total current tax (note 7(a))	-	-
	<hr/>	<hr/>

### (c) Deferred tax asset

The company has carried forward tax losses and other timing differences as shown below that are available indefinitely to be offset against future trading profits

	2005 \$000	2004 \$000
Depreciation in advance of capital allowances	25 916	25 908
Other timing differences	6 142	9 487
Unrelieved tax losses	25 743	26 769
	<hr/>	<hr/>
	57 801	62 164

Deferred tax assets have not been recognised in relation to these losses and other timing differences as they do not satisfy the recognition criteria for deferred tax assets in FRS 19 'Deferred Tax'. These assets would be realised if sufficient taxable profits were to be generated in the future against which the losses and other timing differences could be offset.

## Notes to the financial statements

for the year ended 31 December 2005

### 8. Tangible fixed assets

	<i>Floating production vessel \$000</i>	<i>Capitalized finance costs \$000</i>	<i>Total \$000</i>
Cost			
At 1 January 2005/31 December 2005	<u>114 117</u>	<u>3 542</u>	<u>117 659</u>
Accumulated depreciation			
At 1 January 2005/31 December 2005	<u>114 117</u>	<u>3 542</u>	<u>117 659</u>
Net book value			
At 31 December 2005	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>

### 9. Debtors

	<i>2005 \$000</i>	<i>2004 \$000</i>
Trade debtors	5 749	5 830
Amounts owed by group undertakings	5 394	-
Other debtors	-	2 071
VAT recoverable	330	384
Prepayments and accrued income	2 298	2 859
	<u>13 771</u>	<u>11 144</u>

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

	<i>2005 \$000</i>	<i>2004 \$000</i>
Accounts payable	1 696	1 223
Amounts owed to group undertakings	7 326	6 777
Accruals and deferred income	2 933	2 008
	<u>11 955</u>	<u>10 008</u>

### 11. Creditors: amounts falling due after more than one year

	<i>2005 \$000</i>	<i>2004 \$000</i>
Loans from parent undertaking	<u>18 684</u>	<u>13 458</u>

There are no set repayment terms and interest is charged on the loan at a rate of LIBOR plus 3%

## Notes to the financial statements

for the year ended 31 December 2005

### 12. Provisions for liabilities and charges

	<i>Abandonment</i> \$000	<i>Total</i> \$000
At 1 January 2005	18 256	18 256
Unwinding of discount	1 424	1 424
At 31 December 2005	<u>19 680</u>	<u>19 680</u>

#### *Provisions for abandonment costs*

Included in the contract with CNR there is a provision that unless CNR exercises an option to acquire the subsea equipment, the company is responsible for the removal of the subsea equipment, and for cleaning up the seabed in accordance with the abandonment approval to be granted by the United Kingdom Department of Trade and Industry. If CNR does not exercise the option to acquire the subsea equipment they will pay compensation to the company.

At year-end 2005 the earned refund from CNR for the abandonment work is estimated to be \$5 577 000 (\$ 5 751 000 in 2004). The receivable from CNR is accounted for separately as a receivable falling due after more than one year. The change in refund from CNR from 2004 to 2005 is included in cost of sales as an expense of \$174 000.

### 13. Share capital

	<i>2005</i> \$000	<i>2004</i> \$000
<i>Authorised</i>		
150,000,000 ordinary shares of £1 each	<u>268 443</u>	<u>268 443</u>
<i>Allotted, called up and fully paid</i>		
130,760,851 ordinary shares of £1 each	<u>228 069</u>	<u>228 069</u>

On 23 December 2004 the company increased its authorised share capital by 50,000,000 shares of £1 each and issued 56,400,000 shares at par. The subscription monies were used to reduce the corporate indebtedness.



## Notes to the financial statements

for the year ended 31 December 2005

### 14. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital \$000</i>	<i>Profit and loss account \$000</i>	<i>Total share- holders' funds \$000</i>
At 1 January 2005	228 069	(247 320)	(19 251)
Loss for the year	-	(5 664)	(5 664)
At 31 December 2005	<u>228 069</u>	<u>(252 984)</u>	<u>(24 915)</u>

### 15. Statement of cash flows

As at 31 December 2005 the company was a wholly-owned subsidiary of Petroleum Geo-Services ASA and the cash flows of the company are included in the consolidated group statement of cash flows of Petroleum Geo-Services ASA which are publicly available. Consequently, the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a statement of cash flows.

### 16. Related party transactions

The company has taken advantage of the exemptions provided by Financial Reporting Standard No. 8 "Related Party Transactions" in not disclosing transactions with group undertakings where there is a common ownership interest of 90% or more.

During 2005, Teekay Petrojarl Floating Production UK Limited leased two shuttle tankers from Knutsen Shuttletanker Pool AS for \$10 859 000. Mr Trygve Seglem and Mr Jens Ulltveit Moe are directors of Petroleum Geo-Services ASA, the ultimate parent company of Teekay Petrojarl Floating Production UK Limited and Knutsen Shuttletanker Pool AS during 2005.

### 17. Parent undertaking

The company's ultimate parent undertaking was until 30 June 2006 Petroleum Geo-Services ASA, a company registered in Norway. Group financial statements of the parent undertaking are available from Petroleum Geo-Services ASA, Strandveien 4, 1366 Lysaker, Norway.

The production unit in PGS ASA was demerged as of 30 June 2006, and from the same date the ultimate parent of Teekay Petrojarl Floating Production UK Limited is Teekay Petrojarl ASA, Beddingen 16, 7014 Trondheim, Norway.

The company has received from its parent undertaking confirmation of its intention to continue to provide support, which may be required to enable it to continue in operation for the foreseeable future.