

Stena HSD Limited

Directors' report and financial statements

31 December 1996

Registered number 2849743



Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1
Statement of directors' responsibilities	2
Report of the auditors to the members of Stena HSD Limited	3
Profit and loss account	4
Balance sheets	5
Notes	6-11

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 1996.

Principal activities

The principal activity of the company is the ownership of 100% of an offshore drilling rig, the *Stena Spey*, which it leases to two group companies on a bareboat charter.

Business review

During the year the company acquired the remaining 50% of the drilling rig *Stena Spey*. *Stena Spey* was chartered to Stena Drilling Limited and Josam Marine Investment Limited throughout the year.

Dividend proposed and transfer to reserves

The directors recommend that no dividend be paid and the loss for the year of \$362,000 be transferred to reserves.

Directors and directors' interests

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

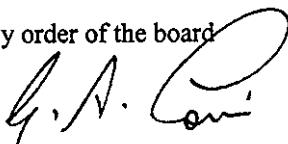
TPAW Welo (Managing Director)
SV Carlsson
P Olofsson

The directors who held office at the end of the financial year had no interests in the ordinary shares of the company or other group companies as recorded in the register of directors' interests. Mr SV Carlsson is a director of the company's ultimate parent company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



GA Cowie
Secretary

Greybrook House
28 Brook Street
London W1Y 1AG

24 September 1997

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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

Report of the auditors to the members of Stena HSD Limited

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

*Chartered Accountants
Registered Auditors*

24 September 1997

Profit and loss account
for the year ended 31 December 1996

	<i>Note</i>	1996 \$000	1995 \$000
Turnover	2	4,242	3,166
Operating costs (depreciation)		(3,348)	(2,413)
		<hr/> 894	<hr/> 753
Gross profit		(4)	(12)
Administrative expenses		<hr/> 890	<hr/> 741
Operating profit			
Interest receivable and similar income	6	56	29
Interest payable and similar charges	7	(1,276)	(390)
		<hr/> (330)	<hr/> 380
(Loss) profit on ordinary activities before taxation	3&4		
Taxation on (loss) profit on ordinary activities	8	(32)	(176)
		<hr/> (362)	<hr/> 204
(Loss) profit on ordinary activities after taxation for the financial year	16 & 17		

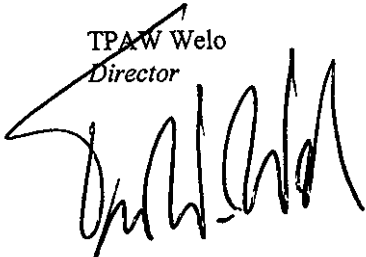
There are no recognised gains or losses other than the loss for the financial year.

Balance sheet
at 31 December 1996

	Note	1996	1995
		\$000	\$000
Fixed assets			
Tangible assets	9	53,613	12,873
Investments	10	-	499
		<u>53,613</u>	<u>13,372</u>
Current assets			
Debtors	11	5,462	3,719
Cash at bank and in hand		-	313
		<u>5,462</u>	<u>4,032</u>
Creditors: amounts falling due within one year	12	<u>(17,970)</u>	<u>(13,936)</u>
Net current liabilities		<u>(12,508)</u>	<u>(9,904)</u>
Total assets less current liabilities		<u>41,105</u>	<u>3,468</u>
Creditors: amounts falling due after more than one year	13	<u>(40,779)</u>	<u>(2,780)</u>
Provisions for liabilities and charges	14	<u>-</u>	<u>-</u>
Net assets		<u>326</u>	<u>688</u>
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	326	688
Equity shareholders' funds	17	<u>326</u>	<u>688</u>

These financial statements were approved by the board of directors on 24 September 1997 and were signed on its behalf by:

TPAW 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 accounts are prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the valuation of the *Stena Spey* and on a going concern basis as Stena (UK) 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 with effect from 1 January 1996. The dollar is the prevalent currency used within the oil industry and the Group now has a significant level of dollar assets and financing. The financial statements are also presented in US dollars. Sterling balances at 31 December 1995 (the then functional currency) were translated at the rate ruling at that date.

Depreciation

Depreciation is provided on the *Stena Spey* to write off the cost less estimated residual value by equal instalments over its estimated useful economic life of ten years.

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.

Taxation

The charge 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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Related party transactions

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.

2 Turnover

Turnover, all of which arose in Europe, comprises the revenue earned from the charter of the offshore drilling rig *Stena Spey*.

Notes (continued)

3 (Loss) profit on ordinary activities before taxation

	1996	1995
	\$000	\$000
<i>The (loss) profit on ordinary activities before taxation is stated after charging:</i>		
Depreciation	3,348	2,413
Auditors remuneration		
Audit	5	8
Other services to the company	3	3
	<hr/>	<hr/>

4 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (1995: none).

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number 1996	Number 1995
Management and administration	3	4
	<hr/>	<hr/>

Staff costs incurred in the year were \$nil (1995: \$nil).

6 Interest receivable and similar income

	1996	1995
	\$000	\$000
Bank and other interest	56	29
	<hr/>	<hr/>

7 Interest payable and similar charges

	1996	1995
	\$000	\$000
Interest on bank loans	1,276	331
Guarantee commission	-	39
Exchange losses (net)	-	20
	<hr/>	<hr/>
	1,276	390
	<hr/>	<hr/>

Notes (continued)

8 Taxation on profit on ordinary activities

	1996 \$000	1995 \$000
Based on the profit for the year:		
Group relief	-	870
Deferred tax	-	(534)
	<hr/>	<hr/>
	-	336
Adjustment for previous year:		
Group relief	32	(160)
	<hr/>	<hr/>
	32	176
	<hr/>	<hr/>

9 Tangible fixed assets

	Drilling rig \$000
<i>Cost or valuation</i>	
At beginning of year	18,103
Additions	44,088
Revaluation	(6,919)
	<hr/>
At end of year	55,272
	<hr/>
<i>Depreciation</i>	
At beginning of year	5,230
Charge for year	3,348
Revaluation	(6,919)
	<hr/>
At end of year	1,659
	<hr/>
<i>Net book value</i>	
At 31 December 1996	53,613
	<hr/>
At 31 December 1995	12,873
	<hr/>

The directors have valued the drilling rig *Stena Spey* such that the 50% share acquired during the year and the 50% already owned have no accumulated depreciation at the time 100% ownership was achieved.

Particulars relating to the revalued asset are given below:

	1996 \$000	1995 \$000
Historical cost of revalued asset	62,191	18,103
Aggregate depreciation based on historical cost	(5,781)	(2,816)
	<hr/>	<hr/>
Historical cost net book value	56,410	15,287
	<hr/>	<hr/>

Notes (continued)

10	Investments	1996 \$000	1995 \$000
	Interest bearing deposits	-	499
		<hr/>	<hr/>
11	Debtors	1996 \$000	1995 \$000
	Amounts owed by parent and fellow subsidiary undertakings	4,913	3,164
	Group relief receivable	549	555
		<hr/>	<hr/>
		5,462	3,719
		<hr/>	<hr/>
12	Creditors: amounts falling due within one year	1996 \$000	1995 \$000
	Amounts owed to parent and fellow subsidiary undertakings:		
	Stena (UK) Limited (note 13)	5,000	1,012
	Stena Drilling Limited	12,023	12,023
	Other	-	29
	Accruals	-	2
	Group relief	947	870
		<hr/>	<hr/>
		17,970	13,936
		<hr/>	<hr/>
	The loan from Stena Drilling Limited is repayable on demand and bears no interest.		
13	Creditors: amounts falling due after more than one year	1996 \$000	1995 \$000
	Amounts owed to group undertakings	40,779	2,780
		<hr/>	<hr/>

Notes (continued)

13 Creditors: amounts falling due after more than one year (continued)

	1996 \$000	1995 \$000
The loans are repayable by instalments, as follows:		
Within one to two years	5,779	1,000
Within two to five years	35,000	1,780
	<hr/> 40,779	<hr/> 2,780
Due within one year (note 12)	5,000	1,012
	<hr/> 45,779	<hr/> 3,792

Amounts owed to group undertakings represent loans from Stena (UK) Limited totalling \$45,779,000. Interest is payable quarterly at 7% and the \$2,779,000 loan is repayable in quarterly instalments of \$250,000. The loan is repayable in full by 26 November 1998. Interest is payable quarterly at LIBOR plus 1.5% and the \$43,000,000 loan is repayable in quarterly instalments of \$1,000,000. The balance on the loan of \$23,000,000 is repayable in full on 5 September 2001.

14 Provisions for liabilities and charges

	1996 \$000	1995 \$000
Deferred tax		
At beginning of year	-	534
Release for the period	-	(534)
	<hr/> -	<hr/> -
At end of year	-	-

This represents the full potential liability at a rate of 33%.

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

	1996 \$000	1995 \$000
Tax effect of timing differences because of:		
Excess tax allowances over depreciation	(382)	(121)
Other	(1,190)	(5)
Asset not provided	1,572	126
	<hr/> -	<hr/> -

Notes (continued)

15 Called up share capital

	1996 \$000	1995 \$000
<i>Authorised</i>		
100 ordinary shares of £1 each	-	-
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
1 ordinary share of £1	-	-
	<hr/>	<hr/>

16 Reserves

	Profit and loss account \$000
At beginning of year	688
Loss for the year	(362)
At end of year	<hr/> 326 <hr/>

17 Reconciliation of movements in equity shareholder's funds

	1996 \$000	1995 \$000
(Loss) profit for the financial period	(362)	204
Opening equity shareholder's funds	688	484
Closing equity shareholder's funds	<hr/> 326 <hr/>	<hr/> 688 <hr/>

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.