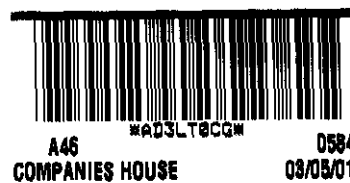


**Stena HSD Limited**

**Directors' report and financial  
statements**

**Registered number 2849743**

**31 December 2000**



## Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors to the members of Stena HSD Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

## Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2000.

### Principal activities

The principal activity of the company is the ownership and operation of an offshore drilling rig, the *Stena Spey*.

### Business review

The company owns the drilling rig, *Stena Spey* which operates in the UK Sector of the North Sea. In prior years the *Stena Spey* was bareboat chartered to Stena Drilling Limited 50% and Josam Marine Investment Limited 50%.

	2000 \$000	1999 \$000
Turnover	46,957	6,479
Profit (loss) on ordinary activities before taxation	24,560	(2,279)
Taxation	(6,428)	(442)
Profit (loss) on ordinary activities after taxation	18,132	(2,721)

### Dividend proposed and transfer to reserves

The profit for the year amounts to \$18,132,000 (1999: loss of \$2,721,000). The directors do not recommend the payment of a dividend and propose that the profit for the year be transferred to reserves.

### Directors and directors' interests

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 or other group companies. Mr SV Carlsson is a director of the company's ultimate holding company.

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

### Political and charitable contribution

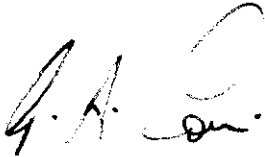
The company made no political or charitable contributions during the year.

## Directors report *(continued)*

### 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

A handwritten signature in dark ink, appearing to read 'G. A. Cowie', is written over the printed name and title.

**GA Cowie**  
*Secretary*

4/5 Arlington Street  
London  
SW1A 1RA

17 April 2001

## 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

## **Report of the auditors to the members of Stena HSD Limited**

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

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, 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. 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 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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' or a similar stylized mark.

**KPMG**  
*Chartered Accountants*  
*Registered Auditors*

18 April 2001

**Profit and loss account**  
*for the year ended 31 December 2000*

	<i>Note</i>	<b>2000</b> <b>\$000</b>	1999 \$000
<b>Turnover</b>	<i>1</i>	<b>46,957</b>	6,479
Operating costs		<b>(20,709)</b>	(8,291)
		<hr/>	<hr/>
<b>Gross profit (loss)</b>		<b>26,248</b>	(1,812)
Administrative expenses		<b>(1,636)</b>	25
		<hr/>	<hr/>
<b>Operating profit (loss)</b>		<b>24,612</b>	(1,787)
Interest payable and similar charges	<i>5</i>	<b>(52)</b>	(492)
		<hr/>	<hr/>
<b>Profit (loss) on ordinary activities before taxation</b>	<i>2-4</i>	<b>24,560</b>	(2,279)
Taxation on profit (loss) on ordinary activities	<i>6</i>	<b>(6,428)</b>	(442)
		<hr/>	<hr/>
<b>Profit (loss) on ordinary activities after taxation for the financial year</b>	<i>12-13</i>	<b>18,132</b>	(2,721)
		<hr/> <hr/>	<hr/> <hr/>

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

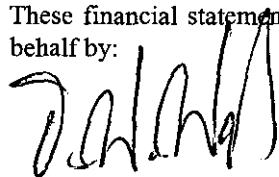
**Note of historical cost profits and losses**  
*for the year ended 31 December 2000*

	<b>2000</b> <b>\$000</b>	1999 \$000
Reported profit (loss) on ordinary activities before taxation	<b>24,560</b>	(2,279)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	<b>(692)</b>	(692)
	<hr/>	<hr/>
Historical cost profit (loss) on ordinary activities before taxation	<b>23,868</b>	(2,971)
	<hr/> <hr/>	<hr/> <hr/>
Historical cost profit (loss) on ordinary activities after taxation	<b>17,440</b>	(3,413)
	<hr/> <hr/>	<hr/> <hr/>

**Balance sheet**  
*at 31 December 2000*

	Note	2000 \$000	1999 \$000
<b>Fixed assets</b>			
Tangible assets	7	45,180	54,017
<b>Current assets</b>			
Debtors	8	13,414	22,265
<b>Creditors: amounts falling due within one year</b>	9	<u>(38,194)</u>	<u>(73,301)</u>
<b>Net current liabilities</b>		(24,780)	(51,036)
<b>Total assets less current liabilities</b>		<u>20,400</u>	<u>2,981</u>
<b>Provisions for liabilities and charges</b>	10	(8,680)	(9,393)
<b>Net assets (liabilities)</b>		<u>11,720</u>	<u>(6,412)</u>
<b>Capital and reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	11,720	(6,412)
<b>Equity shareholders' funds</b>	13	<u>11,720</u>	<u>(6,412)</u>

These financial statements were approved by the board of directors on 17 April 2001 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 in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of the *Stena Spey* 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.

Compliance with FRS12 *Provisions contingent liabilities and contingent assets* was mandatory for accounting periods ending on or after 23 March 1999. The group has adopted this standard from this date. The accounting policies affected by this standard related to dry docking provisions and depreciation. Comparative amounts have been adjusted as appropriate. The effect on the current year was to increase profit after tax by \$958,000.

#### *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*

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.

#### *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.

#### *Turnover*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### 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.

### 2 Profit (loss) on ordinary activities before taxation

	2000	1999
<i>The profit (loss) on ordinary activities before taxation is stated after charging:</i>	<b>\$000</b>	\$000
Depreciation	9,373	8,290
Loss on disposal of fixed assets	38	-
Auditors remuneration		
Audit	10	10
Other services to the company	15	14
	<hr/>	<hr/>

### 3 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (1999: none).

### 4 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 2000	Number 1999
Management and administration	3	3
	<hr/>	<hr/>

Staff costs incurred in the year were nil (1999: nil).

### 5 Interest payable and similar charges

	2000	1999
	<b>\$000</b>	\$000
On group loans	-	492
Exchange losses (net)	52	-
	<hr/>	<hr/>
	52	492
	<hr/>	<hr/>

## Notes (continued)

### 6 Taxation on profit (loss) on ordinary activities

	2000 \$000	1999 \$000
Based on the profit (loss) for the year:		
Group relief	6,938	(5,860)
Deferred tax	(541)	6,296
	<hr/> 6,397	<hr/> 436
Adjustment for previous years:		
Group relief	203	(31)
Deferred tax	(172)	37
	<hr/> 6,428	<hr/> 442
	<hr/> <hr/>	<hr/> <hr/>

Group relief is provided at 30% in respect of the tax charge for the year (1999: 30%).

### 7 Tangible fixed assets

	Drilling rig \$000
<i>Cost or valuation</i>	
At beginning of year	76,006
Additions	574
Disposals	(66)
	<hr/> 76,514
<i>Depreciation</i>	
At beginning of year	21,989
Charge for year	9,373
Disposals	(28)
	<hr/> 31,334
<i>Net book value</i>	
At 31 December 2000	<hr/> 45,180
	<hr/> <hr/>
At 31 December 1999	<hr/> 54,017
	<hr/> <hr/>

## Notes (continued)

### 7 Tangible fixed assets (continued)

Particulars relating to the revalued asset are given below:

	2000 \$000	1999 \$000
At 1996 open market value	55,272	55,272
Aggregate depreciation thereon	(24,798)	(18,240)
	<u>30,474</u>	<u>37,032</u>
Historical cost of revalued asset	62,191	62,191
Aggregate depreciation based on historical cost	(34,641)	(27,391)
Historical cost net book value	<u>27,550</u>	<u>34,800</u>

### 8 Debtors

	2000 \$000	1999 \$000
Trade debtors	7,292	-
Amounts owed by group undertakings	5,691	16,405
Group relief	-	5,860
Other debtors	111	-
Prepayments and accrued income	320	-
	<u>13,414</u>	<u>22,265</u>

### 9 Creditors: amounts falling due within one year

	2000 \$000	1999 \$000
Amounts owed to group undertakings	28,184	73,301
Group relief	6,938	-
Other creditors	77	-
Accruals and deferred income	2,995	-
	<u>38,194</u>	<u>73,301</u>

Included within the trading accounts balance is a subordinated loan from Stena Drilling Limited of \$12,021,000 which is repayable on demand. The loan is unsecured and bears no interest.

**Notes (continued)**

**10 Provisions for liabilities and charges**

	2000 \$000	1999 \$000
<b>Deferred tax</b>		
At beginning of year	9,393	3,060
(Release) charge in the year	(713)	6,333
	<hr/>	<hr/>
<b>At end of year</b>	<b>8,680</b>	<b>9,393</b>
	<hr/>	<hr/>

This represents the full potential liability at a rate of 30%.

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

	2000 \$000	1999 \$000
Tax effect of timing differences because of:		
Excess tax allowances over depreciation	6,844	6,707
Capital gain held over	2,686	2,686
Other	(850)	-
	<hr/>	<hr/>
	<b>8,680</b>	<b>9,393</b>
	<hr/>	<hr/>

**11 Called up share capital**

	2000 \$000	1999 \$000
<b>Authorised</b>		
100 ordinary shares of £1 each	-	-
	<hr/>	<hr/>
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1	-	-
	<hr/>	<hr/>

**12 Reserves**

	<b>Profit and loss account \$000</b>
At beginning of year	(6,412)
Profit for the year	18,132
	<hr/>
<b>At end of year</b>	<b>11,720</b>
	<hr/>

## Notes (continued)

### 13 Reconciliation of movements in equity shareholder's funds

	2000 \$000	1999 \$000
Profit (loss) for the financial year	18,132	(2,721)
Opening equity shareholder's funds	(6,412)	(3,691)
<b>Closing equity shareholder's funds</b>	<b>11,720</b>	<b>(6,412)</b>

### 14 Commitments and contingencies

#### (i) Capital expenditure

Capital commitments for the company at the end of the financial year authorised and contracted for amounted to nil (1999: 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 by a mortgage on the *Stena Spey*.

### 15 Pensions

The company operates a defined contribution pension scheme. The pension cost charge for the year of \$nil (1999: \$nil) represents contributions payable by the company to the fund. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The company also 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.

Group contributions to the Pension Scheme were at the rate of 14% of contributory salary per annum. The rate of group contribution is the amount (calculated by the Scheme's actuary) required to maintain the Stena Drilling Holdings Group share of the fund at a level that meets the obligations to employees.

The latest actuarial valuation of the Stena Drilling Limited Final Salary Scheme was carried out as at 5 April 1999 using the Projected Unit Method. The main assumptions were:

Investment return	8.0%
Pension increases	3.0%
Contributory salaries increases	6.0%
Equity dividend increases	4.25%
Price inflation	4.0%

The market value of the scheme's assets at 5 April 1999 was £7,926,000 and the actuarial value of these assets represented 102% of the value of the benefits that had accrued to members.

The pension charge for this year was \$nil (1999: \$nil).

**Notes** *(continued)*

**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.

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.