

Stena HSD Limited

**Directors' report and financial
statements**

Registered number 2849743

31 December 2006

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

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. Its results for the year, and the previous year, are summarised as follows

	2006 \$000	2005 \$000
Turnover	40,006	29,893
Profit on ordinary activities before taxation	11,859	3,619
Taxation	(188)	(1,454)
Profit on ordinary activities after taxation	11,671	2,165

Stena Spey worked continuously during 2006 for Chevron Texaco (UK) and is firmly booked until mid 2009

Proposed dividend

The directors do not recommend the payment of a dividend

Directors and directors' interests

The directors who held office during the year and up to the date of this report were as follows

TW Welo (Managing Director)
SW Carlsson
SW Hultgren

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 any other group companies according to the register of directors' interests

Political and charitable contributions

The company made no political or charitable contributions during the year (2005 \$nil)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board



GA Cowie
Secretary

45 Albemarle Street
London
W1S 4JL

28 August 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 judgements 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Stena HSD Limited

We have audited the financial statements of Stena HSD Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit 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.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

28 August 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 \$000	2005 \$000
Turnover	<i>1 & 2</i>	40,006	29,893
Operating costs		(23,846)	(22,225)
		<hr/>	<hr/>
Gross profit		16,160	7,668
Administrative expenses		(4,942)	(4,049)
		<hr/>	<hr/>
Operating profit	<i>3-5</i>	11,218	3,619
Other finance income	<i>6</i>	641	-
		<hr/>	<hr/>
Profit on ordinary activities before taxation		11,859	3,619
Tax on profit ordinary activities	<i>7</i>	(188)	(1,454)
		<hr/>	<hr/>
Profit on ordinary activities after taxation being profit for the financial year	<i>13</i>	11,671	2,165
		<hr/> <hr/>	<hr/> <hr/>

Turnover and operating profit in the current and previous years arose wholly from continuing operations

The company had no recognised gains or losses other than the results for the financial years reported above

Balance sheet
at 31 December 2006

	<i>Note</i>	2006	2005
		\$000	\$000
Fixed assets			
Tangible assets	8	18,727	23,322
Current assets			
Debtors	9	12,244	13,272
Creditors amounts falling due within one year	10	(29,791)	(41,110)
Net current liabilities		(17,547)	(27,838)
Total assets less current liabilities		1,180	(4,516)
Provisions for liabilities	11	-	(5,975)
Net assets (liabilities)		1,180	(10,491)
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account	13	1,180	(10,491)
Shareholders' funds (deficit)	14	1,180	(10,491)

These financial statements were approved by the board of directors on 28 August 2007 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 financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

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 Company has a significant level of dollar assets and financing. The financial statements are therefore presented in US dollars.

As the company is a wholly owned subsidiary of Stena AB, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). A copy of the consolidated financial statements of Stena AB, within which this company is included, can be obtained from the address given in note 17.

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.

Tangible fixed assets and depreciation

Depreciation is provided on the drilling rig *Stena Spey* to write off the cost less estimated residual value by equal instalments over its estimated remaining useful economic life of 8 years.

Taxation

The charge or credit for taxation is based on the results 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.

Turnover

Turnover represents the revenue generated (net of value added tax) from the operation and charter of an offshore drilling rig.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the company

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Analysis of turnover

The company's turnover and profit before taxation are derived entirely from its principal activities. Turnover in the current and previous financial year wholly arose in Europe.

3 Profit on ordinary activities before taxation

	2006	2005
<i>Profit on ordinary activities before taxation is stated</i>	\$000	\$000
<i>after charging</i>		
Depreciation written off tangible fixed assets	5,548	5,375
Exchange (gains)/losses	(333)	102
Auditors' remuneration – audit of these financial statements	20	20
	<hr/>	<hr/>

4 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year (2005 \$nil).

Notes (continued)

5 Staff numbers and costs

The company had no employees during the year (2005 none)

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

6 Other finance income

	2006 \$000	2005 \$000
Pledge fees	308	-
Foreign exchange gains	333	-
	<u>641</u>	<u>-</u>

7 Taxation

Analysis of charge in year

	2006 \$000	2005 \$000
<i>Group relief</i>		
Current tax on income for the year	3,861	(2,218)
Adjustments in respect of prior years	4,206	86
	<u>8,067</u>	<u>(2,132)</u>
<i>Deferred tax (see note 11)</i>		
Origination and reversal of timing differences	(3,340)	3,586
Adjustments in respect of prior years	(4,539)	-
	<u>(7,879)</u>	<u>3,586</u>
Tax on profit on ordinary activities	<u>188</u>	<u>1,454</u>

Notes (continued)

7 Taxation (continued)

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2005 lower) than the standard rate of corporation tax in the UK 30% (2005 30%). The differences are explained below

	2006 \$000	2005 \$000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	11,859	3,619
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	3,558	1,086
<i>Effects of</i>		
Expenses not deductible for tax purposes	112	282
Difference between depreciation and capital allowances for the year	3,340	(3,586)
Release of deferred tax on capital gain held over (see note 11)	(3,149)	-
Adjustments in respect of prior years group relief	4,206	86
	<hr/>	<hr/>
Total current tax charge (credit) (see above)	8,067	(2,132)
	<hr/>	<hr/>

8 Tangible fixed assets

	Drilling rig \$000
<i>Cost</i>	
At beginning of year	95,464
Additions	953
	<hr/>
At end of year	96,417
	<hr/>
<i>Depreciation</i>	
At beginning of year	72,142
Charge for year	5,548
	<hr/>
At end of year	77,690
	<hr/>
<i>Net book value</i>	
At 31 December 2006	18,727
	<hr/>
At 31 December 2005	23,322
	<hr/>

Notes (continued)

9 Debtors

	2006 \$000	2005 \$000
Trade debtors	4,361	5,259
Amounts owed by group undertakings	5,691	5,691
Group relief receivable	-	2,132
Other debtors	100	18
Prepayments and accrued income	188	172
Deferred tax asset (note 11)	1,904	-
	<u>12,244</u>	<u>13,272</u>

The deferred taxation asset (2005 provision) is analysed as follows

	2006 \$000	2005 \$000
<i>Tax effect of timing differences relating to</i>		
Difference between capital allowances and depreciation	1,904	(2,826)
Capital gain held over	-	(3,149)
	<u>1,904</u>	<u>(5,975)</u>

10 Creditors: amounts falling due within one year

	2006 \$000	2005 \$000
Amounts owed to group undertakings	20,533	40,537
Group relief payable	8,067	-
Accruals and deferred income	1,191	573
	<u>29,791</u>	<u>41,110</u>

11 Provisions for liabilities

	Deferred tax \$000
At beginning of year	5,975
Charge for the year	(7,879)
Transfer to assets (see note 9)	1,904
	<u>-</u>
At end of year	<u>-</u>

Notes (continued)

12 Called up share capital

	2006 \$	2005 \$
<i>Authorised</i>		
100 ordinary shares of £1 each	196	177
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
1 ordinary share of £1	2	2
	<hr/>	<hr/>

13 Profit and loss account

	2006 \$000
At beginning of year	(10,491)
Profit for the year	11,671
	<hr/>
At end of year	1,180
	<hr/>

14 Reconciliation of movements in shareholders' funds (deficit)

	2006 \$000	2005 \$000
Profit for the financial year being net reduction in shareholders' deficit	11,671	2,165
Opening shareholders' deficit	(10,491)	(12,656)
	<hr/>	<hr/>
Closing shareholders' funds (deficit)	1,180	(10,491)
	<hr/>	<hr/>

15 Contingent liabilities

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 drilling rig *Stena Spey*.

16 Commitments

Capital commitments at the end of the financial year for which no provision has been made, are as follows

	2006 \$000	2005 \$000
Contracted	-	48
	<hr/>	<hr/>

Notes *(continued)*

17 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, which is the company's ultimate parent company and ultimate controlling party

The largest group in which the results of the company are consolidated is that headed by Stena AB. Copies of the consolidated financial statements of Stena AB can be obtained from Patent och Registreringsverket, Bolagsavdelningen, 851 81 Sunsvall, Sweden

The smallest group in which the results of the company are consolidated is that headed by Stena Drilling (Holdings) Limited, a company incorporated in England and Wales. Copies of the consolidated financial statements of Stena Drilling (Holdings) Limited can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ