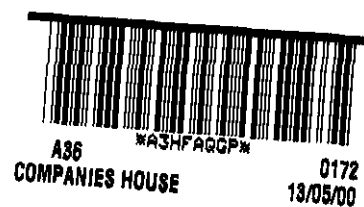


Stena HSD Limited

Directors' report and financial  
statements

Registered number 2849743

31 December 1999



## 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
Note of historical cost profits and losses	5
Balance sheet	6
Notes	7

## Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 1999.

### Principal activities

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

### Business review

The company owns the drilling rig *Stena Spey* which operates under a bareboat charter arrangement with Stena Drilling Limited and Josam Marine Investment Limited. The directors are satisfied with this arrangement and the company's performance.

### Dividend proposed and transfer to reserves

The loss for the year amounts to \$2,721,000 (1998: loss of \$4,224,000). The directors do not recommend the payment of a dividend and propose that the loss for the year be transferred to reserves.

### Millennium compliance

The company has addressed the impact of the Year 2000 on its business and operations by reviewing the major issues to assess exposure. Plans were put in place to seek to ensure the elimination of these exposures prior to the Year 2000 and the directors are confident that all internal systems have successfully made the transition into the Year 2000.

### 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

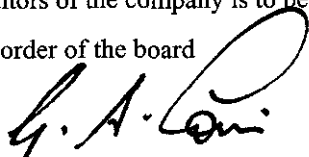
The company made no political or charitable contributions during the year.

## 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



GA Cowie  
*Secretary*

4/5 Arlington Street  
London  
SW1A 1RA

10 April 2000

## 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 1999 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

5 May 2000

**Profit and loss account**  
*for the year ended 31 December 1999*

	<i>Note</i>	<b>1999</b> <b>\$000</b>	1998 \$000
<b>Turnover</b>	<i>1</i>	<b>6,479</b>	6,479
Operating costs (depreciation)		<b>(8,291)</b>	(6,446)
<b>Gross (loss) profit</b>		<b>(1,812)</b>	33
Administrative expenses		<b>25</b>	119
<b>Operating (loss) profit</b>		<b>(1,787)</b>	152
Interest payable and similar charges	<i>5</i>	<b>(492)</b>	(2,443)
<b>Loss on ordinary activities before taxation</b>	<i>2-4</i>	<b>(2,279)</b>	(2,291)
Taxation on loss on ordinary activities	<i>6</i>	<b>(442)</b>	(1,933)
<b>Loss on ordinary activities after taxation for the financial year</b>	<i>13-14</i>	<b>(2,721)</b>	(4,224)

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

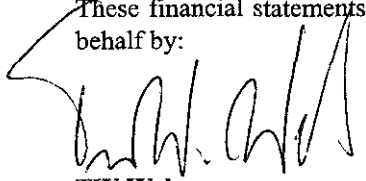
**Note of historical cost profits and losses**  
*for the year ended 31 December 1999*

	<b>1999</b> <b>\$000</b>	1998 \$000
Reported loss on ordinary activities before taxation	<b>(2,279)</b>	(2,291)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	<b>(692)</b>	(692)
Historical cost loss on ordinary activities before taxation	<b>(2,971)</b>	(2,983)
Historical cost loss on ordinary activities after taxation	<b>(3,413)</b>	(4,916)

**Balance sheet**  
*at 31 December 1999*

	<i>Note</i>	<b>1999</b>	<b>1998</b>
		\$000	\$000
<b>Fixed assets</b>			
Tangible assets	7	54,017	61,886
<b>Current assets</b>			
Debtors	8	22,265	5,716
<b>Creditors: amounts falling due within one year</b>	9	(73,301)	(57,233)
<b>Net current liabilities</b>		(51,036)	(51,517)
<b>Total assets less current liabilities</b>		2,981	10,369
<b>Creditors: amounts falling due after more than one year</b>	10	-	(11,000)
<b>Provisions for liabilities and charges</b>	11	(9,393)	(3,060)
<b>Net liabilities</b>		(6,412)	(3,691)
<b>Capital and reserves</b>			
Called up share capital	12	-	-
Profit and loss account	13	(6,412)	(3,691)
<b>Deficit on equity shareholders' funds</b>	14	(6,412)	(3,691)

These financial statements were approved by the board of directors on 10 April 2000 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 (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. 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.

#### *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 charter of the offshore drilling rig *Stena Spey*.

**Notes (continued)**

**2 Loss on ordinary activities before taxation**

	1999	1998
	\$000	\$000
<i>The loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation	8,290	6,446
Auditors remuneration		
Audit	10	8
Other services to the company	14	8
	<u>          </u>	<u>          </u>

**3 Remuneration of directors**

None of the directors received any remuneration in respect of their services to the company during the year (1998: 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 1999	Number 1998
Management and administration	3	3
	<u>          </u>	<u>          </u>

Staff costs incurred in the year were nil (1998: nil).

**5 Interest payable and similar charges**

	1999	1998
	\$000	\$000
On group loans	492	2,443
	<u>          </u>	<u>          </u>

**Notes (continued)**

**6 Taxation on loss on ordinary activities**

	1999 \$000	1998 \$000
Based on the loss for the year:		
Group relief	(5,860)	1,265
Deferred tax	6,296	660
	<hr/> 436	<hr/> 1,925
Adjustment for previous years:		
Group relief	(31)	2,476
Deferred tax	37	(2,468)
	<hr/> 442	<hr/> 1,933
	<hr/> <hr/>	<hr/> <hr/>

Group relief is provided at 30% in respect of the tax charge for the year (1998: 31%).

**7 Tangible fixed assets**

	Drilling rig \$000
<i>Cost or valuation</i>	
At beginning of year	75,585
Additions	421
	<hr/> 76,006
At end of year	<hr/> 76,006
<i>Depreciation</i>	
At beginning of year	13,699
Charge for year	8,290
	<hr/> 21,989
At end of year	<hr/> 21,989
<i>Net book value</i>	
At 31 December 1999	54,017
	<hr/> <hr/>
At 31 December 1998	61,886
	<hr/> <hr/>

## Notes (continued)

### 7 Tangible fixed assets (continued)

Particulars relating to the revalued asset are given below:

	1999 \$000	1998 \$000
At 1996 open market value	55,272	55,272
Aggregate depreciation thereon	(18,240)	(12,713)
	<u>37,032</u>	<u>42,559</u>
Historical cost of revalued asset	62,191	62,191
Aggregate depreciation based on historical cost	(27,391)	(21,172)
Historical cost net book value	<u>34,800</u>	<u>41,019</u>

### 8 Debtors

	1999 \$000	1998 \$000
Amounts owed by group undertakings	16,405	5,716
Group relief	5,860	-
	<u>22,265</u>	<u>5,716</u>

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

	1999 \$000	1998 \$000
Amounts owed to group undertakings - Loans (note 10)	-	4,000
- Trading accounts	73,301	51,968
Group relief	-	1,265
	<u>73,301</u>	<u>57,233</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 Creditors: amounts falling due after more than one year

	1999 \$000	1998 \$000
Amounts owed to group undertakings	-	11,000

	1999 \$000	1998 \$000
The loans are repayable by instalments, as follows:		
Within one to two years	-	4,000
Within two to five years	-	7,000
	-	11,000
Due within one year (note 9)	-	4,000
	-	15,000

The loan from Stena (UK) Limited was repaid in the year.

### 11 Provisions for liabilities and charges

	1999 \$000	1998 \$000
<b>Deferred tax</b>		
At beginning of year	3,060	4,868
Charge (release) in the year	6,333	(1,808)
<b>At end of year</b>	<b>9,393</b>	<b>3,060</b>

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

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

	1999 \$000	1998 \$000
Tax effect of timing differences because of:		
Excess tax allowances over depreciation	6,707	374
Capital gain held over	2,686	2,686
	<b>9,393</b>	<b>3,060</b>

## Notes (continued)

### 12 Called up share capital

	1999 \$000	1998 \$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/>

### 13 Reserves

	Profit and loss account \$000
At beginning of year	(3,691)
Loss for the year	(2,721)
	<hr/>
At end of year	(6,412)
	<hr/>

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

	1999 \$000	1998 \$000
Loss for the financial year	(2,721)	(4,224)
Opening equity shareholder's funds	(3,691)	533
	<hr/>	<hr/>
Closing equity shareholder's funds	(6,412)	(3,691)
	<hr/>	<hr/>

### 15 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 (1998: 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*.

**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.