Stena HSD Limited

Directors' report and financial statements

Registered number 2849743

31 December 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

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:

	2004	2003
	$000	$000
Turnover	**15,776**	10,826
Loss on ordinary activities before taxation	**(6,903)**	(10,433)
Taxation	**(1,142)**	3,129
Loss on ordinary activities after taxation	**(8,045)**	(7,304)

Stena Spey suffered an initial but brief period of lay up at the beginning of 2004 due to soft market conditions carried over from 2003. As the North Sea drilling activity increased, the unit won several short term contracts with ChevronTexaco (UK), Britannia Operator Limited (UK), ADTI (on behalf of Walter Oil & Gas, UK) and Maersk (UK). Looking forward into 2005, *Stena Spey* is firmly booked until December for drilling programmes with Maersk (UK), Nexen (UK), Total (UK) and Chevron Texaco (UK).

Proposed dividend

The directors are not entitled to recommend the payment of a dividend due to the company not having distributable reserves at the year end.

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
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 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 *(2003: £nil)*.

By order of the board

GA Cowie
Secretary

4/5 Arlington Street
London
SW1A 1RA

30 June 2005

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 and 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.

KPMG

37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Stena HSD Limited

We have audited the financial statements on pages 4 to 12.

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 are responsible for preparing the directors' report and, as described on page 2, 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 1985. 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 audit 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 June 2005

Profit and loss account
for the year ended 31 December 2004

	Note	2004 $000	2003 $000
Turnover	*1 & 2*	**15,776**	10,826
Operating costs [including exceptional credit of $nil (*2003: $2,831,000)*]	*3*	**(19,311)**	(18,747)
Gross loss		**(3,535)**	(7,921)
Administrative expenses		**(3,368)**	(2,514)
Operating loss		**(6,903)**	(10,435)
Interest receivable and similar income		**-**	2
Loss on ordinary activities before taxation	*3-5*	**(6,903)**	(10,433)
Tax on loss on ordinary activities	*6*	**(1,142)**	3,129
Loss on ordinary activities after taxation being retained loss for the financial year	*14*	**(8,045)**	(7,304)

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

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

Balance sheet
at 31 December 2004

	Note	2004		2003	
		$000	$000	$000	$000
Fixed assets					
Tangible assets	7		27,731		33,101
Current assets					
Stock	8	-		228	
Debtors	9	7,672		7,027	
		7,672		7,255	
Creditors*: amounts falling due* *within one year*	10	(45,670)		(43,234)	
Net current liabilities			(37,998)		(35,979)
Total assets less current liabilities			(10,267)		(2,878)
Provisions for liabilities and charges	11		(2,389)		(1,733)
Net liabilities			(12,656)		(4,611)
Capital and reserves					
Called up share capital	12		-		-
Profit and loss account	13		(12,656)		(4,611)
Equity shareholders' deficit	14		(12,656)		(4,611)

These financial statements were approved by the board of directors on 30 June 2005 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*. They are prepared 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 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 FRS8 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.

The estimated remaining useful life was extended to 8 years from 2.75 years with effect from 1 January 2004.

Taxation
The charge or credit for taxation is based on the loss 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)*

2 Analysis of turnover

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

3 Loss on ordinary activities before taxation

	2004	2003
Loss on ordinary activities before taxation is stated	**$000**	$000
after charging		
Depreciation written off tangible fixed assets	**5,316**	11,759
Exchange losses	**94**	-
Auditors remuneration: audit	**20**	20
after crediting		
Release of provision (included within operating costs)	-	2,831
Exchange gains	-	55

The release of the provision of $2,831,000 in 2003 related to a provision created in an earlier year which, in the view of the directors, was no longer expected to be utilised.

4 Remuneration of directors

None of the directors received any remuneration in respect of their services to the company during the year *(2003: none)*.

5 Staff numbers and costs

The company had no employees during the year *(2003: none)*.

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

Notes *(continued)*

6 Taxation

Analysis of charge (credit) in year

	2004		2003	
	$000	**$000**	$000	$000
Group relief				
Current tax on income for the year	**(1,237)**		-	
Adjustments in respect of prior years	**1,723**		1,362	
Total current tax		**486**		1,362
Deferred tax				
Origination and reversal of timing differences	**(833)**		(3,129)	
Adjustments in respect of prior years	**1,489**		(1,362)	
		656		(4,491)
Tax on loss on ordinary activities		**1,142**		(3,129)

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2003: higher)* than the standard rate of corporation tax in the UK 30% *(2003: 30%)*. The differences are explained below:

	2004	2003
	$000	$000
Current tax reconciliation:		
Loss on ordinary activities before tax	**(6,903)**	(10,433)
Current tax at 30% *(2003: 30%)*	**(2,071)**	(3,130)
Effects of:		
Expenses not deductible for tax purposes	**1**	1
Depreciation for year in excess of capital allowances	**833**	2,952
Other timing differences	**-**	(850)
Losses for which no current year credit is taken	**-**	1,027
Adjustments in respect of prior years: group relief	**1,723**	1,362
Total current tax charge (see above)	**486**	1,362

Notes *(continued)*

7 Tangible fixed assets

	Drilling rig $000
Cost or valuation	
At beginning of year	94,552
Additions	29
Disposals	(83)
At end of year	94,498
Depreciation	
At beginning of year	61,451
Charge for year	5,316
At end of year	66,767
Net book value	
At 31 December 2004	**27,731**
At 31 December 2003	33,101

The extension of the estimated remaining useful life of the rig referred to in note 1 has resulted in a decrease in the depreciation charge for the year of approximately $5,500,000.

8 Stock

	2004 $000	2003 $000
Fuel and consumables	-	228

9 Debtors

	2004 $000	2003 $000
Trade debtors	**1,836**	1,229
Amounts owed by group undertakings	**5,691**	5,691
Other debtors	**14**	-
Prepayments and accrued income	**131**	107
	7,672	7,027

Notes *(continued)*

10 Creditors: amounts falling due within one year

	2004 $000	2003 $000
Amounts owed to group undertakings	**44,798**	41,459
Group relief payable	**486**	1,362
Accruals and deferred income	**386**	413
	45,670	43,234

11 Provisions for liabilities and charges

	2004 $000	2003 $000
Deferred tax		
At beginning of year	**1,733**	6,224
Credit for the year	**(833)**	(3,129)
Adjustments in respect of prior years	**1,489**	(1,362)
At end of year	**2,389**	1,733

The provision for deferred taxation is analysed as follows:

	2004 $000	2003 $000
Tax effect of timing differences relating to:		
Difference between capital allowances and depreciation	**(760)**	74
Capital gain held over	**3,149**	2,686
Losses	**-**	(1,027)
	2,389	1,733

12 Called up share capital

	2004 $	2003 $
Authorised		
100 ordinary shares of £1 each	**177**	177
Allotted, called up and fully paid		
1 ordinary share of £1	**2**	2

Notes *(continued)*

13 Profit and loss account

	2004
	$000
At beginning of year	(4,611)
Retained loss for the year	(8,045)
At end of year	**(12,656)**

14 Reconciliation of movements in shareholders' deficit

	2004	2003
	$000	$000
Loss for the financial year being net reduction in shareholders' funds	**(8,045)**	(7,304)
Opening shareholders' (deficit) funds	**(4,611)**	2,693
Closing shareholders' deficit	**(12,656)**	(4,611)

15 Commitments

(i) *Capital commitments*

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

	2004	2003
	$000	$000
Contracted	-	-

16 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.*

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.