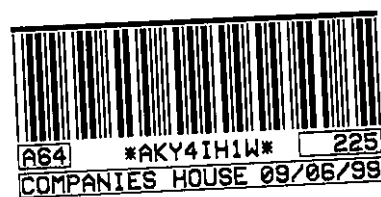


Stena HSD Limited

Directors' report and financial statements

31 December 1998

Registered number 2849743



Directors' report and financial statements

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 1998.

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 \$4,224,000 (1997: profit of \$207,000). The directors do not recommend the payment of a dividend and propose that the loss for the year be transferred to reserves.

Millennium compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and the resulting potential for commercial disruption. This is a complex and pervasive issue.

The company has addressed the impact of the Year 2000 on its business and operations by reviewing the major issues with individual companies in order to assess exposure.

Given the complexity of the problem, it is not possible for any organisation to guarantee absolutely that no Year 2000 problems will arise. However, the directors believe that the company will achieve an acceptable state of readiness and will provide resources to deal promptly with significant failures or issues that might arise.

Directors and directors' interests

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

TPAW 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

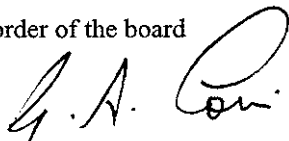
The company made no political or charitable contributions during the year.

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 black ink, appearing to read 'G.A. Cowie', written over the printed name.

GA Cowie
Secretary

Greybrook House
28 Brook Street
London W1Y 1AG

4 May 1999

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

As described on page 3 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 1998 and of its loss 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' followed by a stylized flourish.

KPMG
Chartered Accountants
Registered Auditors

4 May 1999

Profit and loss account
for the year ended 31 December 1998

	<i>Note</i>	1998 \$000	1997 \$000
Turnover	<i>1</i>	6,479	6,479
Operating costs (depreciation)		(6,446)	(5,594)
		<hr/>	<hr/>
Gross profit		33	885
Administrative expenses		119	-
		<hr/>	<hr/>
Operating profit		152	885
Interest receivable and similar income	<i>5</i>	-	1
Interest payable and similar charges	<i>6</i>	(2,443)	(3,106)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	<i>2-4</i>	(2,291)	(2,220)
Taxation on loss on ordinary activities	<i>7</i>	(1,933)	2,427
		<hr/>	<hr/>
(Loss) profit on ordinary activities after taxation for the financial year	<i>14-15</i>	(4,224)	207
		<hr/> <hr/>	<hr/> <hr/>

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 1998

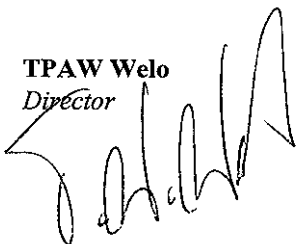
	1998 \$000	1997 \$000
Reported loss on ordinary activities before taxation	(2,291)	(2,220)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	(692)	(692)
	<hr/>	<hr/>
Historical cost loss on ordinary activities before taxation	(2,983)	(2,912)
	<hr/>	<hr/>
Historical cost loss on ordinary activities after taxation	(4,916)	(485)
	<hr/> <hr/>	<hr/> <hr/>

Balance sheet
at 31 December 1998

	<i>Note</i>	1998	1997
		\$000	\$000
Fixed assets			
Tangible assets	8	61,886	49,134
Current assets			
Debtors	9	5,716	12,720
Creditors: amounts falling due within one year	10	(57,233)	(21,453)
Net current liabilities		(51,517)	(8,733)
Total assets less current liabilities		10,369	40,401
Creditors: amounts falling due after more than one year	11	(11,000)	(35,000)
Provisions for liabilities and charges	12	(3,060)	(4,868)
Net (liabilities) assets		(3,691)	533
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	(3,691)	533
Equity shareholders' funds	15	(3,691)	533

These financial statements were approved by the board of directors on 4 May 1999 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 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

	1998	1997
	\$000	\$000
<i>The loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation	6,446	5,594
Auditors remuneration		
Audit	8	9
Other services to the company	8	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 (1997: 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 1998	Number 1997
Management and administration	3	3
	<u> </u>	<u> </u>

Staff costs incurred in the year were nil (1997: nil).

5 Interest receivable and similar income

	1998	1997
	\$000	\$000
Interest receivable from group companies	-	1
	<u> </u>	<u> </u>

6 Interest payable and similar charges

	1998	1997
	\$000	\$000
On group loans	2,443	3,106
	<u> </u>	<u> </u>

Notes (continued)

7 Taxation on loss on ordinary activities

	1998 \$000	1997 \$000
Based on the profit for the year:		
Group relief	1,265	(2,400)
Deferred tax	660	1,872
	<hr/>	<hr/>
	1,925	(528)
Adjustment for previous years:		
Group relief	2,476	(4,895)
Deferred tax	(2,468)	2,996
	<hr/>	<hr/>
	1,933	(2,427)
	<hr/> <hr/>	<hr/> <hr/>

Group relief is provided at 31% in respect of the tax charge for the year (1997: 31.49%).

8 Tangible fixed assets

	Drilling rig \$000
<i>Cost or valuation</i>	
At beginning of year	56,387
Additions	19,198
	<hr/>
At end of year	75,585
	<hr/>
<i>Depreciation</i>	
At beginning of year	7,253
Charge for year	6,446
	<hr/>
At end of year	13,699
	<hr/>
<i>Net book value</i>	
At 31 December 1998	61,886
	<hr/> <hr/>
At 31 December 1997	49,134
	<hr/> <hr/>

Notes (continued)

8 Tangible fixed assets (continued)

Particulars relating to the revalued asset are given below:

	1998 \$000	1997 \$000
At 1996 open market value	55,272	55,272
Aggregate depreciation thereon	(12,713)	(7,186)
	<u>42,559</u>	<u>48,086</u>
Historical cost of revalued asset	62,191	62,191
Aggregate depreciation based on historical cost	(21,172)	(14,953)
Historical cost net book value	<u>41,019</u>	<u>47,238</u>

9 Debtors

	1998 \$000	1997 \$000
Amounts owed by group undertakings	5,716	4,315
Group relief receivable	-	8,405
	<u>5,716</u>	<u>12,720</u>

10 Creditors: amounts falling due within one year

	1998 \$000	1997 \$000
Amounts owed to group undertakings - Loans (note 11)	4,000	4,000
- Trading accounts	51,968	17,453
Group relief	1,265	-
	<u>57,233</u>	<u>21,453</u>

Notes (continued)

11 Creditors: amounts falling due after more than one year

	1998 \$000	1997 \$000
Amounts owed to group undertakings	11,000	35,000
	<u>11,000</u>	<u>35,000</u>
	1998 \$000	1997 \$000
The loans are repayable by instalments, as follows:		
Within one to two years	4,000	4,000
Within two to five years	7,000	31,000
	<u>11,000</u>	<u>35,000</u>
Due within one year (note 10)	4,000	4,000
	<u>15,000</u>	<u>39,000</u>

Amounts owed to group undertakings represent loans from Stena (UK) Limited totalling \$15,000,000. Interest is payable quarterly at LIBOR plus 1.5% and is repayable in quarterly instalments of \$1,000,000. The balance on the loan of \$5,000,000 is repayable in full on 5 September 2001.

12 Provisions for liabilities and charges

	1998 \$000	1997 \$000
Deferred tax		
At beginning of year	4,868	-
(Release) charge in the year	(1,808)	4,868
	<u>3,060</u>	<u>4,868</u>

This represents the full potential liability at a rate of 30% (1997: 31%).

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

	1998 \$000	1997 \$000
Tax effect of timing differences because of:		
Excess tax allowances over depreciation	374	4,868
Capital gain held over	2,686	-
	<u>3,060</u>	<u>4,868</u>

Notes (continued)

13 Called up share capital

	1998 \$000	1997 \$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/>

14 Reserves

	Profit and loss account \$000
At beginning of year	533
Loss for the year	(4,224)
	<hr/>
At end of year	(3,691)
	<hr/>

15 Reconciliation of movements in equity shareholder's funds

	1998 \$000	1997 \$000
(Loss) profit for the financial year	(4,224)	207
Opening equity shareholder's funds	533	326
	<hr/>	<hr/>
Closing equity shareholder's funds	(3,691)	533
	<hr/>	<hr/>

16 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 (1997: 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)

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.

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.