

BUE MARITIME SERVICES LIMITED

Report and Financial Statements

31 December 2004



BUE MARITIME SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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BUE MARITIME SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P G W Gill
J Adams
C G Rolaston
E B Cunningham

SECRETARY

HBJ Secretarial Limited

REGISTERED OFFICE

Exchange Tower
19 Canning Street
Edinburgh
EH3 8EH

SOLICITORS

Henderson Boyd Jackson
Exchange Tower
19 Canning Street
Edinburgh
EH3 8EH

BANKERS

Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Edinburgh

DIRECTORS' REPORT

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

ACTIVITY

The Company's principal activity during the year was the management of vessels for the support of underwater engineering services and support to the offshore oil industry on the Caspian Sea.

RESULTS, DEVELOPMENTS AND FUTURE PROSPECTS

The profit for the year after taxation was £4,898 (2003 – loss of £78,174). No dividends were paid during the year (2003 – £Nil) and the retained profit of £4,898 has been transferred to reserves.

The Directors will continue to seek appropriate trading opportunities to enhance profitability.

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1.

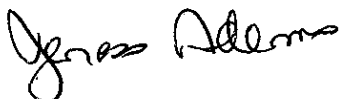
The Directors held no interests in the shares of the Company at 1 January 2004 or 31 December 2004.

The interests of the Directors in the shares of the Company's immediate parent undertaking, BUE Caspian Limited, and its ultimate parent undertaking, BUE Marine Limited, are disclosed in the financial statements of those companies.

AUDITORS

A resolution to reappoint Deloitte & Touche LLP as auditors of the Company will be proposed at the next Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



J Adams
Director

10 May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the Company 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; 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUE MARITIME SERVICES LIMITED

We have audited the financial statements of BUE Maritime Services Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. 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 auditors' 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

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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.

Uncertainty regarding going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the negotiation of additional finance to fund, in particular, the group's commitments in respect of new vessel acquisitions which are due to be incurred over the period to 31 December 2005 to a value of approximately \$45.4 million and the implications of such funding under the group cross guarantees disclosed in Note 17. The financial statements have been prepared on a going concern basis, the validity of which depends upon this future funding being available or adequate alternative funding arrangements being available if the vessel acquisition program does not go ahead as planned. The financial statements do not include any adjustments that would result from a failure to obtain such funding.

We have also considered the adequacy of the disclosures made in note 17 to the financial statements concerning the ongoing enquiries by the UK tax authorities into certain payments made by the group in prior periods, as well as specific matters in relation to income and cost recognition, and provisional assessments for tax totalling £2.2 million. The financial statements do not include any adjustments that might arise as a result of the completion of these enquiries.

Given the significance of these matters, we consider that they should be brought to your attention but our opinion is not qualified in respect of these matters.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
BUE MARITIME SERVICES LIMITED (continued)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 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 black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh

10 May 2005

BUE MARITIME SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	2004 £	Restated (note 7) 2003 £
TURNOVER: continuing operations	2	382,202	401,080
Cost of sales		(149,110)	(282,827)
Gross profit		233,092	118,253
Administrative expenses		(229,936)	(201,040)
OPERATING PROFIT/(LOSS): continuing operations	4	3,156	(82,787)
Interest receivable	5	1,503	261
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		4,659	(82,526)
Tax on profit/(loss) on ordinary activities	6	239	4,352
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	13	4,898	(78,174)

There have been no recognised gains and losses attributable to the shareholders other than the result for the current and preceding financial years and, accordingly, no Statement of Total Recognised Gains and Losses is shown.

BUE MARITIME SERVICES LIMITED

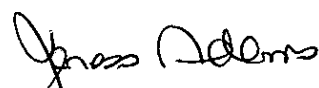
BALANCE SHEET

As at 31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible assets	8	<u>2,033</u>	<u>8,422</u>
CURRENT ASSETS			
Stock	9	130,136	34,360
Debtors	10	207,348	231,304
Cash at bank and in hand		<u>218,824</u>	<u>255,412</u>
		556,308	521,076
CREDITORS: amounts falling due within one year	11	<u>(800,160)</u>	<u>(776,215)</u>
NET CURRENT LIABILITIES		<u>(243,852)</u>	<u>(255,139)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(241,819)</u>	<u>(246,717)</u>
CAPITAL AND RESERVES			
Called up share capital	13	100	100
Profit and loss account	14	<u>(241,919)</u>	<u>(246,817)</u>
EQUITY SHAREHOLDERS' DEFICIT	15	<u>(241,819)</u>	<u>(246,717)</u>

These financial statements were approved by the Board of Directors on 10 May 2005.

Signed on behalf of the Board of Directors


J Adams
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the prior year.

Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards.

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary of BUE Marine Limited and its cash flows are included in the consolidated cash flow statement in the financial statements of that company.

Going Concern

As part of its ongoing strategy to expand its operations where contract opportunities can be secured, the Group has committed to an extensive program of vessel acquisition and construction over the period to 31 December 2005. The total value of this program is expected to be approximately \$45.4 million. The funding of such expenditure is under ongoing negotiation with the Group's bankers as well as third parties and is expected to be confirmed shortly. The Group is dependent upon such future funding or adequate alternative funding if the vessel program does not go ahead as planned, in order to continue to meet its financial obligations as they fall due over the period of twelve months from the date of these accounts. The company is a member of a guarantor group for the group's obligations to its bank and other providers of finance as set out in note 17. The directors are confident that the required level of funding will be secured and consequently have prepared the accounts on a going concern basis.

Tangible fixed assets

Depreciation is provided on a straight line basis on all tangible fixed assets at rates calculated to write off their cost over their expected useful lives as follows:

Motor vehicles and equipment	20% - 33 1/3%
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Stocks

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign exchange

Foreign currency transactions are translated at the rate prevailing at the date of the transaction. Foreign currency balances at the year end are translated into sterling at the rate of exchange ruling at the balance sheet date. Gains and losses on translation are taken to the profit and loss account in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

2. TURNOVER

Turnover arises wholly from the principal activity of the Company in the Caspian Sea and is stated net of value added tax.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

There were no employees during the year other than the Directors (2003 - Nil).

The Directors received no emoluments during the year in respect of their services to the Company (2003 - £Nil). All emoluments paid to Directors in respect of their services to the group are disclosed in the financial statements of BUE Marine Limited.

4. OPERATING PROFIT/(LOSS)

	2004	2003
	£	£
Operating profit/(loss) is after charging:		
Auditors' remuneration – audit services	2,500	2,500
Depreciation – owned assets	6,389	5,631
Loss on foreign exchange	53,385	45,966
	<u>53,385</u>	<u>45,966</u>

5. INTEREST RECEIVABLE

	2004	2003
	£	£
Bank interest receivable	1,503	261
	<u>1,503</u>	<u>261</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2004 £	2003 £
Overseas taxation	8,669	-
<i>Current taxation</i>	8,669	-
Timing differences, origination and reversal	(9,192)	(4,352)
Adjustment in respect of prior years	254	-
<i>Deferred taxation (see note 12)</i>	(8,908)	(4,352)
Tax credit on profit/(loss) on ordinary activities	(239)	(4,352)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2003-30%). The actual tax charge for the year varies from the standard rate for the reason set out in the following reconciliation:

	2004 £	2003 £
Profit/(loss) on ordinary activities before tax	4,659	(82,526)
Tax on profit/(loss) on ordinary activities at standard rate	1,398	(24,758)
Factors affecting charge for the year:		
Depreciation in excess of capital allowances	(89)	1,406
Group relief not paid for	-	23,352
Capital allowances in excess of depreciation	(268)	-
Utilisation of tax losses	(846)	-
Unrelieved foreign tax	(6,068)	-
Total actual amount of current tax	8,669	-

7. RESTATEMENT OF PRIOR YEAR PROFIT AND LOSS ACCOUNT

Certain costs which were previously disclosed as costs of sales were reclassified as administrative expenses in the current year. The prior year financial statements has been restated to ensure comparability. This has resulted in the 2003 cost of sales decreasing by £123,851 and the administrative expenses increasing by £123,851. This has resulted in no net effect on either the operating loss or the retained loss or net assets/(liabilities) of the company.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2004

8. TANGIBLE FIXED ASSETS

	Motor vehicles and equipment £
Cost	
At 1 January 2004 and 31 December 2004	26,311
Depreciation	
At 1 January 2004	17,889
Charge for year	6,389
At 31 December 2004	24,278
Net book value	
At 31 December 2004	2,033
Net book value	
At 31 December 2003	8,422

9. STOCK

	2004 £	2003 £
Consumables	130,136	34,360

10. DEBTORS

	2004 £	2003 £
Trade debtors	138,490	103,588
Amounts due by group undertakings	37,790	118,394
Other debtors	17,380	4,698
Prepayments and accrued income	428	272
Deferred tax asset (note 12)	13,260	4,352
	207,348	231,304

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Bank overdraft	605,577	455,162
Trade creditors	73,475	35,273
Amounts due to parent undertakings	31,158	275,218
Other creditors and accruals	89,950	10,562
	<u>800,160</u>	<u>776,215</u>

The bank overdraft is secured by a bond and floating charge over all the assets of the BUE Marine Limited group.

12. DEFERRED TAX

	Deferred tax asset £
At 1 January 2004	4,352
Credited to profit and loss account – current year (note 6)	8,908
	<u>13,260</u>
At 31 December 2004	<u>13,260</u>

A deferred tax asset exists at 31 December 2004. The asset is presented within debtors (see note 10). The deferred tax balance represents fixed asset timing differences computed at the expected long term rate of 30%.

13. CALLED UP SHARE CAPITAL

	2004	2003
	£	£
Authorised		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
Called up, allotted and fully paid		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

14. PROFIT AND LOSS ACCOUNT

	£
At 1 January 2004	(246,817)
Retained profit for the financial year	4,898
	<u>(241,919)</u>
At 31 December 2004	<u>(241,919)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2004 £	2003 £
Profit/(loss) for the financial year	4,898	(78,174)
Net movement in shareholders' deficit	4,898	(78,174)
Opening shareholders' deficit	(246,717)	(168,543)
Closing shareholders' deficit	(241,819)	(246,717)

16. PARENT UNDERTAKINGS

The Company's immediate parent undertaking is BUE Caspian Limited, a company registered in Scotland. The Company's ultimate parent undertaking is BUE Marine Limited, a company registered in Scotland, for which consolidated financial statements are prepared. Copies of the Group financial statements are available from BUE Marine Limited, Imperial House, Albert Dock, Edinburgh, EH6 7DN.

17. CONTINGENT LIABILITY

The Company has entered into cross guarantees with the Group's bank and other providers of loan finance in respect of the borrowings of BUE Marine Limited. At 31 December 2004 the total liability of the group in respect of these guarantees was £46,746,558 (2003 - £56,499,390) secured by a bond and floating charge over the assets of the Group.

The directors have been notified that the UK tax authorities are enquiring into certain payments made by the Group in prior periods and a number of other specific matters in relation to income and cost recognition. Additional tax has been paid by the group subsequent to the year end of £367,000 on account of potential additional liabilities and this has been accrued within the 2004 financial statements. In relation to the other matters under enquiry, the UK tax authorities have issued provisional assessments for additional tax totalling £2.2 million although they are not seeking payment of any such tax pending completion of their enquiries.

While recognising that the enquiries by the UK tax authorities are ongoing and as a result the outcome remains uncertain, the directors consider that the assessments raised are unfounded and that, having made the payments on account of £367,000, no further material liability should accrue to the Group. Consequently, no adjustment has been made in the financial statements for any tax payable or other adjustments that might arise as a result of the completion of the enquiries by the UK tax authorities.

18. TRANSACTIONS WITH RELATED PARTIES

As stated in Note 16 the Company is a wholly owned subsidiary of BUE Caspian Limited, which is itself a wholly owned subsidiary of BUE Marine Limited. The Company has therefore taken advantage of the exemptions available under Financial Reporting Standard Number 8 with regard to the non-disclosure of transactions between Group companies.