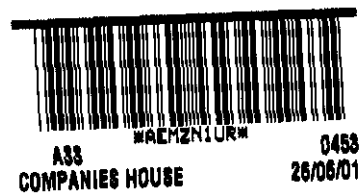


Kvaerner E&C PLC
Registered Number: 1125

REPORT AND ACCOUNTS FOR THE YEAR ENDED
31 DECEMBER 2000



DIRECTORS' REPORT

The directors have pleasure in submitting their report and accounts for the year ended 31 December 2000.

Principal activities

The principal subsidiaries and associates of the Kvaerner E&C PLC Group and their activities are listed on page 26.

Results, review of operations and dividend

The main business areas that the group operates in continued to enjoy satisfactory levels of activity given current market conditions. Turnover for the year was £590.3 million (year ended 31 December 1999 £806.3 million). The loss before tax for the year was £33.1 million (year ended 31 December 1999 loss £35.8 million).

The directors do not propose to recommend the payment of any dividends on the issued ordinary share capital of the Company in respect of the year ended 31 December 2000 (year ended 31 December 1999 £nil).

Information relating to the movements in the fixed assets is set out in notes 9 and 10 to the accounts.

On 29 March 2001, the group sold its entire interest in the share capital of Kvaerner Oil & Gas Ltd to Kvaerner PLC, a fellow subsidiary within the Kvaerner ASA group.

Board of directors

The directors who served during the year were as follows :

M Foster (resigned 31 January 2000)
J A Murphy (resigned 13 October 2000)
P C Bond (appointed 13 January 2000)
K N Henry (Chief Executive) (appointed 7 March 2000)
T G Snow (appointed 13 January 2000)
D J Tomlinson (appointed 13 January 2000)
J C Wilson (appointed 13 October 2000)

No chairman has been appointed.

Directors' share interests

No director had any notifiable interest in the shares of the Company or of the ultimate holding company Kvaerner ASA requiring to be disclosed under the Companies Act 1985.

Charitable and Political Contributions

During the year, the group made charitable contributions of £7,000 (year ended 31 December 1999 £11,000). There were no political contributions in either the current year or the prior year.

Employment policies

The Company is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex or disability.

The Company is committed to training and management development, so as to ensure a supply of trained and skilled employees.

The Company keeps employees informed about its current activities and progress by various methods, including in-house publications.

DIRECTORS' REPORT continued

Policy and practice on payment of suppliers

Statutory Regulations issued under the Companies Act 1985 require a public company to make a statement of its policy and practice on the payment of trade creditors. The Company agrees the terms and conditions under which business transactions with their suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The average number of days taken to pay the Company's trade creditors is 38 days (1999 50 days).

Auditors

KPMG Audit Plc were appointed as the company's auditors at its last Annual General Meeting, replacing Arthur Andersen who did not seek reappointment. They are willing to continue in office, and, in accordance with Section 384 of the Companies Act 1985, a resolution for their re-appointment is to be prepared at the forthcoming Annual General Meeting.

By Order of the Board



J C Wilson
Director

22 June 2001
Registered office:
20 Eastbourne Terrace
London W2 6LE

Registered number: 1125

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 group 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 group 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 open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF KVAERNER E&C PLC

We have audited the financial statements on pages 5 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the director's 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, the Listing Rules of the Financial Services Authority applicable to issuers of debt securities, 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 and of the Group at 31st December 2000 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

22 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2000

	Notes	Year Ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Turnover - continuing operations		590,276	776,718
- acquisitions		-	22,684
- discontinued operations		-	6,889
	2	<u>590,276</u>	<u>806,291</u>
Cost of sales - continuing operations	2	(558,373)	(736,853)
- acquisitions		-	(20,719)
- discontinued operations		-	(5,378)
		<u>(558,373)</u>	<u>(762,950)</u>
Gross profit - continuing operations		31,903	39,865
- acquisitions		-	1,965
- discontinued operations		-	1,511
		<u>31,903</u>	<u>43,341</u>
Net administration expenses - continuing operations		(76,850)	(81,680)
- acquisitions		-	(1,518)
- discontinued operations		-	(1,591)
		<u>(76,850)</u>	<u>(84,789)</u>
Operating loss - continuing operations		(44,947)	(41,815)
- acquisitions		-	447
- discontinued operations		-	(80)
	2,3	<u>(44,947)</u>	<u>(41,448)</u>
Share of associates' operating profit	2	<u>879</u>	<u>382</u>
Operating loss		<u>(44,068)</u>	<u>(41,066)</u>
Profit/(loss) on disposal of operations discontinued in 1999	4	16	(6,494)
Loss on termination of discontinued operations	4	<u>(3,857)</u>	<u>-</u>
Loss on ordinary activities before interest and taxation		(47,909)	(47,560)
Net interest receivable	6	<u>14,831</u>	<u>11,806</u>
Loss on ordinary activities before taxation		(33,078)	(35,754)
Tax on loss on ordinary activities	7	<u>(3,909)</u>	<u>(4,811)</u>
Loss on ordinary activities after taxation		(36,987)	(40,565)
Minority interests	25	<u>(652)</u>	<u>(26)</u>
Loss attributable to shareholders		(37,639)	(40,591)
Dividends:			
Cumulative preference dividend	8	<u>(1,228)</u>	<u>(1,228)</u>
Retained loss	22	<u>(38,867)</u>	<u>(41,819)</u>

A note of historical cost profits and losses has not been included as part of these Accounts as there is no difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The accompanying notes are an integral part of this profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2000

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Loss for the financial year attributable to shareholders	(37,639)	(40,591)
Currency translation differences on foreign currency net investments taken directly to reserves	<u>335</u>	<u>(2,288)</u>
Total recognised gains and losses relating to the year	(37,304)	<u>(42,879)</u>
Prior year adjustment	<u>(4,990)</u>	
Total gains and losses recognised since last annual report	<u>(42,294)</u>	

The prior year adjustment relates to the removal of pre-acquisition reserves of Kvaerner Redpath Engineering Services Ltd, amounting to £5.0 million, which were incorrectly included in the 1999 financial statements.

There is no material difference between the profit on ordinary activities before taxation stated in the group profit and loss account and its historical cost equivalent.

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

BALANCE SHEETS
as at 31 December 2000

		Group 31 Dec 2000 £000	Group 31 Dec 1999 restated £000	Company 31 Dec 2000 £000	Company 31 Dec 1999 £000
	Notes				
Fixed assets					
Intangible assets	9	2,254	2,309	-	-
Tangible assets	10	29,412	27,978	119	144
Investments in subsidiaries	12	-	-	148,404	148,754
Investments	13	4,510	5,328	-	-
		<u>36,176</u>	<u>35,615</u>	<u>148,523</u>	<u>148,898</u>
Current assets					
Stocks	14	2,667	14,712	-	-
Debtors	15	567,881	622,546	209,560	204,738
Cash at bank and in hand		51,452	14,761	2,632	2,830
		<u>622,000</u>	<u>652,019</u>	<u>212,192</u>	<u>207,568</u>
Creditors: amounts falling due within one year					
Borrowings	16	(4)	(9)	-	-
Other creditors	17	(402,074)	(390,417)	(177,888)	(176,291)
		<u>219,922</u>	<u>261,593</u>	<u>34,304</u>	<u>31,277</u>
Net current assets					
		<u>219,922</u>	<u>261,593</u>	<u>34,304</u>	<u>31,277</u>
Total assets less current liabilities		256,098	297,208	182,827	180,175
Creditors: amounts falling due after more than one year					
Borrowings	18	(1,665)	(1,696)	(1,615)	(1,615)
Other creditors	19	(5,031)	(12,675)	-	-
Provisions for liabilities and charges	20	(5,767)	(2,474)	(592)	(677)
		<u>243,635</u>	<u>280,363</u>	<u>180,620</u>	<u>177,883</u>
Net assets					
		<u>243,635</u>	<u>280,363</u>	<u>180,620</u>	<u>177,883</u>
Capital and reserves					
Called up share capital	21	186,089	186,089	186,089	186,089
Share premium account	21	316	316	316	316
Revaluation reserve	22	30	30	30	30
Profit and loss account	22	45,360	82,664	(5,815)	(8,552)
Equity shareholders' funds		<u>189,045</u>	<u>227,577</u>	<u>137,870</u>	<u>136,361</u>
Non-equity shareholders' funds		<u>42,750</u>	<u>41,522</u>	<u>42,750</u>	<u>41,522</u>
Shareholders' funds	23	231,795	269,099	180,620	177,883
Equity minority interests	25	11,840	11,264	-	-
		<u>243,635</u>	<u>280,363</u>	<u>180,620</u>	<u>177,883</u>

The accompanying notes form an integral part of this balance sheet.

These accounts were approved by the Board of Directors on 22 June 2001 and signed on its behalf by:


J C Wilson
Director

NOTES TO THE ACCOUNTS
31 December 2000

1 Accounting policies

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

a Accounting convention

The financial statements have been prepared under the historical cost accounting rules as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards and with the Companies Act 1985. The Company has applied the transitional rules contained in FRS 15 "Tangible fixed assets", to maintain previous valuations as the basis on which certain of these assets are held.

b Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings ("subsidiaries") and include the group's share of the results and post-acquisition reserves of its associated undertakings ("associates"). The principal subsidiaries and associates are listed on page 26. The results of subsidiaries acquired during the year are included in continuing operations from the effective date of acquisition; those of subsidiaries sold during the year are included up to the effective date of disposal. The Company, as permitted by Section 230 of the Companies Act 1985, does not present its profit and loss account.

c Cash flow statement

The Company is exempt from the requirements of FRS 1 (revised) to include a cash flow statement as part of its Accounts as it is a wholly owned subsidiary of Kvaerner ASA, a company registered in Norway, which produces consolidated accounts which incorporate the results of Kvaerner E&C PLC and are publicly available.

d Foreign currencies

Trading results denominated in foreign currencies are translated into sterling at average rates of exchange.

Assets and liabilities are translated into sterling at their rates ruling at the year end except where rates of exchange are fixed under contractual arrangements. Differences on exchange arising from the translation of the opening net assets of foreign subsidiaries and branches and any related loans are taken to reserves. Other exchange differences are taken to the profit and loss account when they arise.

e Turnover

Turnover represents the sales value of work done.

f Taxation

Overseas taxation is based on profits of overseas subsidiaries and on other overseas income. No provision is made for any tax on capital gains not covered by losses that could arise from the future disposal of any fixed assets shown in the Accounts at valuation, nor for any tax arising in the event of the distribution of profits retained by overseas subsidiaries and associates.

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Accounts to the extent that it is probable that a liability or asset will crystallise in the future.

NOTES TO THE ACCOUNTS continued
31 December 2000

g Tangible assets and depreciation

Freehold and long leasehold properties owned and occupied as business premises are included in fixed assets at their latest valuation plus subsequent additions at cost. Provision for impairment in the value of a property to below its carrying value is charged to the profit and loss account. For other freehold and long leasehold buildings, depreciation is provided on the straight line method on a 3 to 30 year anticipated life.

For other fixed assets, depreciation is provided on a straight line method based on anticipated lives as follows:

Plant and machinery, fixtures, fittings and equipment - 3 to 10 years.

Short term leasehold land and buildings are amortised over the period of the lease.

h Leased assets

Assets held under finance leases are included under tangible fixed assets at their capital value and depreciated over the shorter of the lease term and their useful lives. Leasing payments consist of capital and finance charge elements and the finance element is charged to the profit and loss account. The annual rentals under operating leases are charged to the profit and loss account.

i Fixed asset investments

Shares in subsidiaries are stated at cost less amounts written off where, in the opinion of the directors, there has been a permanent diminution in the value of a subsidiary. In assessing impairment, the directors consider the subsidiary's long term profit earning potential. Shares in associates are stated at their net asset value. Other investments are stated at cost less amounts written off.

j Long term contract work in progress

Amounts recoverable on contracts (other than small works) are valued at anticipated net sale value of work done after provision for contingencies and anticipated future losses on contracts. Claims are included in the valuation of contracts and credited to profit and loss account when entitlement has been established.

Small works are valued at the lower of cost plus attributable overheads and net sale value.

Cash received on account of contracts is deducted from amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors. Contract provisions in excess of amounts recoverable are included in provisions for liabilities and charges.

k Stocks

Stocks are valued at the lower of cost and net realisable value.

l Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between seven and a maximum of twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting treatment then in force. As permitted by the current accounting standard the goodwill previously written off has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill written off to reserves is included in determining the profit or loss on disposal.

m Research and development

Research and development expenditure is written off in the year in which it is incurred.

n Pensions

The group employees are members of defined benefit and defined contribution pension schemes operated by the Kvaerner PLC group under which contributions are paid by the group companies and by employees.

The assets of the schemes are held in trustee administered funds separate from the finances of the group.

The group companies contributions are based on the expected cost of pensions across the Kvaerner PLC group as a whole and are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees within the Kvaerner PLC group schemes.

Details of the actuarial valuation of the Kvaerner PLC group schemes are contained in the report and accounts of Kvaerner PLC.

NOTES TO THE ACCOUNTS continued
31 December 2000

2 Analysis by class of business and geographical area

	Turnover 2000 £000	Turnover 1999 £000	Operating profit/ (loss) 2000 £000	Operating profit/ (loss) 1999 £000	Net* operating assets/liab 2000 £000	Net* operating assets/liab 1999 restated £000
By class of business:						
Engineering and construction	590,276	799,402	(44,947)	(41,368)	141,336	223,431
Plastics and other engineering	-	6,889	-	(80)	45,748	47,920
	<u>590,276</u>	<u>806,291</u>	<u>(44,947)</u>	<u>(41,448)</u>	<u>187,084</u>	<u>271,351</u>
By geographical area - origin:						
United Kingdom	465,838	636,116	(48,203)	(51,194)	214,683	296,820
Europe	72,947	116,601	5,460	7,533	(9,537)	(12,049)
Asia and Africa	33,967	3,579	400	(646)	(12,730)	(11,137)
Australasia	17,524	49,995	(2,604)	2,859	(5,332)	(2,283)
	<u>590,276</u>	<u>806,291</u>	<u>(44,947)</u>	<u>(41,448)</u>	<u>187,084</u>	<u>271,351</u>
By geographical area - destination:						
United Kingdom	294,524	458,229				
Europe	146,533	151,812				
Americas	10,002	65,952				
Asia and Africa	118,401	108,639				
Australasia and elsewhere	20,816	21,659				
	<u>590,276</u>	<u>806,291</u>				

Included within cost of sales is £2,983,000 which relates to redundancy costs associated with the cessation of the manufacturing operation at Clydebank.

* Net operating assets/liabilities represent fixed assets, stocks, debtors, creditors (excluding borrowings) and provisions.

Share of associates pre-tax results and assets

	Turnover		Operating profit		Net interest		Profit before tax		Net assets	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Engineering & Construction	3,664	6,459	879	382	65	88	964	470	4,530	5,328
	<u>3,664</u>	<u>6,459</u>	<u>879</u>	<u>382</u>	<u>65</u>	<u>88</u>	<u>964</u>	<u>470</u>	<u>4,530</u>	<u>5,328</u>

Dividends in the year from associates amounted to £396,000 (1999 £1,174,000)

NOTES TO THE ACCOUNTS continued
31 December 2000

3 Operating profit

Operating loss is stated after charging (crediting) the following items

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Auditors' remuneration		
- audit -group	462	276
company	25	27
- other	42	32
Depreciation and amounts written off tangible fixed assets		
- owned	9,061	8,701
- held under finance leases	52	38
Amortisation of goodwill	55	60
Research and development - current year expenditure	3,743	3,406
Operating lease rentals		
- plant and machinery	10,119	6,169
- other	11,005	10,597
Government grants	(212)	(705)

4 Exceptional Items

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Profit / (loss) on disposal of operations discontinued in 1999	16	(6,494)
Loss on termination of discontinued operations	(3,857)	-
	(3,841)	(6,494)

The profit on disposal of discontinuing operations of £16,000 relates to the sale of the Thermal Power business in the UK and Norway.

The loss on termination of discontinued operations of £3,857,000 relates to costs in connection with the closure of the Clydebank manufacturing business.

The effect on the taxation charge in the year for these exceptional items is £Nil. These items do not affect minority interests.

NOTES TO THE ACCOUNTS continued
31 December 2000

5 Directors and group employees

	Year ended 31 Dec 2000 £	Year ended 31 Dec 1999 £
--	-----------------------------------	-----------------------------------

The emoluments of the directors of the Company were:
Emoluments

	703,127	575,656
	<u>703,127</u>	<u>575,656</u>

In addition to the emoluments shown above Mr M Foster received compensation for loss of office of £33,000 upon his resignation from the board on 31 January 2000.

Emoluments of the highest paid director :
Basic emoluments

	373,618	254,081
	<u>373,618</u>	<u>254,081</u>

Pensions

The number of directors who were members of defined benefit pension schemes was 2 (31 December 1999, 3)
The amount of accrued pension at the year end for the highest paid director was £Nil (31 December 1999, £14,086)

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
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Other information on directors and employees:

Director and employee costs:

Wages and salaries	168,061	264,432
Social security costs	21,355	28,872
Employers' pension contributions	11,073	10,884
	<u>200,489</u>	<u>304,188</u>

	2000 Number	1999 Number
--	----------------	----------------

Average monthly number of persons employed by the group
(including executive directors):

Engineering and construction	7,338	8,353
Plastics and other engineering	-	171
	<u>7,338</u>	<u>8,524</u>

6 Net interest receivable

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Interest payable to group undertakings	(7,939)	(8,417)
Interest payable on bank loans and overdrafts	(373)	(105)
Interest payable on finance leases	(3)	(8)
Interest payable on other loans	(329)	(516)
	<u>(8,644)</u>	<u>(9,046)</u>
Interest receivable from group undertakings	19,952	18,655
Other interest receivable	3,523	2,197
Net interest receivable	<u>14,831</u>	<u>11,806</u>

NOTES TO THE ACCOUNTS continued
31 December 2000

7 Tax on profit on ordinary activities

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
United Kingdom corporation tax:		
Current year provision at 30.0% (1999 30.3%)	-	2,451
Less: Double taxation relief	-	(2,451)
	-	-
Amounts attributable to associated undertakings	231	158
Overseas deferred tax	145	227
Overseas taxation	3,533	4,426
	<u>3,909</u>	<u>4,811</u>

There is no potential unprovided liability for deferred taxation on a group basis. The tax charge reflects the availability of brought forward losses and the surrender of group relief for nil consideration.

8 Dividends

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 £000
Cumulative preference dividend appropriation	<u>1,228</u>	<u>1,228</u>

The cumulative arrears in respect of the above Preference shares are as follows:

Cumulative preference dividend arrears	<u>7,675</u>	<u>6,447</u>
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9 Intangible assets

	Year ended 31 Dec 2000 £000
Goodwill	
Cost	
At 1 January 2000 and at 31 December 2000	<u>2,369</u>
 Amortisation	
At 1 January 2000	60
Charge for the year	<u>55</u>
At 31 December 2000	<u>115</u>
Net book value:	
31 December 2000	<u>2,254</u>
1 January 2000	<u>2,309</u>

NOTES TO THE ACCOUNTS continued
31 December 2000

10 Tangible fixed assets

Group	Total £000	Land and buildings freehold £000	Land and buildings leasehold long term £000	Land and buildings leasehold short term £000	Plant and machinery £000	Fixtures, fittings and equipment £000
Cost or valuation:						
1 January 2000	106,549	17,932	307	16,486	26,980	44,844
Additions	19,635	3,365	-	579	8,466	7,225
Disposals	(14,820)	-	(122)	-	(11,605)	(3,093)
Exchange adjustments	(57)	-	-	2	(732)	673
31 December 2000	111,307	21,297	185	17,067	23,109	49,649
Depreciation:						
1 January 2000	78,571	2,626	63	13,614	25,762	36,506
Reclassification	-	1,630	-	-	-	(1,630)
Charge for the year	9,061	1,319	-	395	1,785	5,562
Disposals	(9,716)	-	-	-	(8,973)	(743)
Exchange adjustments	3,979	100	-	578	1,171	2,130
31 December 2000	81,895	5,675	63	14,587	19,745	41,825
Net book value:						
31 December 2000	29,412	15,622	122	2,480	3,364	7,824
1 January 2000	27,978	15,306	244	2,872	1,218	8,338
Historical cost valuation						
31 December 2000	29,382	15,592	122	2,480	3,364	7,824
1 January 2000	27,948	15,276	244	2,872	1,218	8,338

All major properties were valued by Jones Lang Wootton, Chartered Surveyors, on an open market existing use basis as at 30 September 1993. Minor properties were valued on an open market existing use basis jointly with the Kvaerner Group's Chartered Surveyors. All of the valuations were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors.

The net book value of leased assets included within plant and machinery, fixtures, fittings and equipment is £44,000 (31 December 1999 £91,000).

NOTES TO THE ACCOUNTS continued
31 December 2000

10 Tangible fixed assets continued

	Total £000	Land and buildings freehold £000	Plant and machinery £000	Fixtures, fittings and equipment £000
Company				
Cost:				
1 January 2000	263	30	71	162
Disposals	(15)	-	(5)	(10)
31 December 2000	248	30	66	152
Depreciation:				
1 January 2000	119	-	15	104
Charge for the year	25	-	7	18
Disposals	(15)	-	(5)	(10)
31 December 2000	129	-	17	112
Net book value:				
31 December 2000	119	30	49	40
1 January 2000	144	30	56	58
			Group 2000 £000	Group 1999 £000
Capital commitments:				
Authorised and contracted for			1,298	-

The Company has no capital commitments as at 31 December 2000 (31 December 1999 £Nil).

11 Obligations under operating leases

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 31 Dec 2000 £000	Other 31 Dec 2000 £000	Land and buildings 31 Dec 1999 £000	Other 31 Dec 1999 £000
Group				
Expiry date				
Within one year	2,043	1,310	1,941	860
Between two and five years	7,572	1,743	5,822	1,798
After five years	4,989	-	5,958	-
	14,604	3,053	13,721	2,658

NOTES TO THE ACCOUNTS continued
31 December 2000

12 Investments in subsidiaries
Company

	Cost £000	Provisions £000	Net £000
1 January 2000	252,967	(104,213)	148,754
Additions	6,525	(6,840)	(315)
Disposals	(35)	-	(35)
	<u>259,457</u>	<u>(110,053)</u>	<u>148,404</u>

The principal subsidiaries are shown on page 26.

13 Investments in associates

	Share of net assets £000
1 January 2000	5,124
Exchange adjustments	67
Disposals	(899)
Reclassification of associates to subsidiary undertakings	(302)
Retained profit for the year	<u>316</u>
31 December 2000	<u>4,306</u>

	Cost £000	Provisions £000	Net £000
Loans			
1 January 2000 and 31 December 2000	<u>738</u>	<u>(534)</u>	<u>204</u>

Total investments at 31 December 2000	<u>4,510</u>
Total investments at 31 December 1999	<u>5,328</u>

14 Stocks

Group	31 Dec 2000 £000	31 Dec 1999 £000
Raw materials and stocks	<u>936</u>	<u>10,065</u>
Manufacturing work in progress	<u>1,731</u>	<u>4,647</u>
	<u>2,667</u>	<u>14,712</u>

NOTES TO THE ACCOUNTS continued
31 December 2000

15 Debtors

	Group 31 Dec 2000 £000	Group 31 Dec 1999 £000	Company 31 Dec 2000 £000	Company 31 Dec 1999 £000
Trade debtors	70,514	70,785	-	-
Other debtors and prepayments	25,257	28,972	320	639
Amounts recoverable on contracts	33,171	71,555	-	-
Amounts owed by associates	-	995	-	-
Amounts owed by group undertakings	438,939	450,239	209,240	204,099
	<u>567,881</u>	<u>622,546</u>	<u>209,560</u>	<u>204,738</u>

**Of which amounts falling due after more
than one year**

Other debtors and prepayments	<u>103</u>	<u>456</u>	<u>-</u>	<u>-</u>
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16 Creditors: amounts falling due within one year

	Group 31 Dec 2000 £000	Group 31 Dec 1999 £000	Company 31 Dec 2000 £000	Company 31 Dec 1999 £000
Borrowings:				
Bank overdrafts	-	5	-	-
Finance leases	4	4	-	-
	<u>4</u>	<u>9</u>	<u>-</u>	<u>-</u>

17 Creditors: amounts falling due within one year

	Group 31 Dec 2000 £000	Group 31 Dec 1999 restated £000	Company 31 Dec 2000 £000	Company 31 Dec 1999 £000
Other creditors:				
Payments in excess of contract valuation	55,507	26,066	-	-
Trade creditors and bills payable	38,644	57,990	48	183
Other creditors including sundry taxes	32,138	9,113	97	204
Taxation	3,974	4,560	-	31
Amounts owed to group undertakings	214,818	227,357	176,554	173,929
Amounts owed to associates	242	491	-	-
Accruals and deferred income	56,751	64,840	1,189	1,944
	<u>402,074</u>	<u>390,417</u>	<u>177,888</u>	<u>176,291</u>

The 1999 note has been restated to reflect a prior year adjustment, details of which can be found in note 22.

NOTES TO THE ACCOUNTS continued
31 December 2000

18 Creditors: amounts falling due after more than one year

	31 Dec 2000 £000	31 Dec 1999 £000
Borrowings:		
Company		
5 5/8% Secured Loan stock 2003	1,331	1,331
4 7/8% Secured Loan stock 2003	284	284
	<u>1,615</u>	<u>1,615</u>
Subsidiaries		
Finance leases	50	81
Group	<u>1,665</u>	<u>1,696</u>
Aggregate amounts, including instalments, repayable:		
Between one and two years	4	4
Between two and five years	1,661	1,615
After five years	-	77
	<u>1,665</u>	<u>1,696</u>

The Company and its UK subsidiaries have given floating charges over their undertakings, assets and property in respect of the Company's issues of:

5 5/8% Secured Loan stock 2003	£1,330,511
4 7/8% Secured Loan stock 2003	£284,272

Kvaerner PLC has provided guarantees in respect of banking and ECGD facilities.

19 Creditors: amounts falling due after more than one year

	31 Dec 2000 £000	31 Dec 1999 £000
Other creditors:		
Group		
Accruals and deferred income	<u>5,031</u>	<u>12,675</u>

20 Provisions for liabilities and charges

	Group £000	Company £000
1 January 2000	2,474	677
Exchange translation differences	(51)	-
Charged/(released) to profit and loss account	3,222	(75)
Expenditure during the year	(2,264)	(10)
Transferred from creditors	2,386	-
31 December 2000	<u>5,767</u>	<u>592</u>

At 31 December 2000, provisions for the group included amounts in respect of deferred tax, building dilapidations and warranties in respect of businesses sold.

NOTES TO THE ACCOUNTS continued
31 December 2000

21 Called up share capital

	31 December 2000 and 31 December 1999	
	<u>Number</u>	<u>£000</u>
Authorised:		
Ordinary shares of 25p	620,000,000	155,000
3.5% Cumulative Redeemable Preference shares of £1	24,889,000	24,889
3.5% Convertible Cumulative Redeemable Preference shares of £1	10,186,000	10,186
Authorised share capital		<u>190,075</u>
Allotted, called up and fully paid:		
Ordinary shares of 25p	604,055,148	151,014
3.5% Cumulative Redeemable Preference shares of £1	24,889,000	24,889
3.5% Convertible Cumulative Redeemable Preference shares of £1	10,186,000	10,186
Called up share capital		<u>186,089</u>

None of the 3.5% Convertible Cumulative Redeemable Preference shares were converted prior to 15 September 1995. Accordingly all Preference shares are redeemable at par on 30 June 1998. Redemption did not take place due to the deficiency of the Company's distributable reserves.

The holders of the 3.5% Cumulative Redeemable Preference shares are entitled to a fixed cumulative preferential dividend at the rate of 3.5% per annum payable half-yearly on 31 March and 30 September. The holders of the 3.5% Convertible Cumulative Preference shares are entitled to a fixed cumulative preferential dividend at the rate of 3.5% per annum payable half-yearly on 30 June and 31 December.

The shares do not confer on the holders the right to vote at general meetings of the Company.

In the event of a return of capital on liquidation or otherwise the assets of the company available for distribution among the members shall be applied first in repaying to the holders of the 3.5% Cumulative Redeemable Preference shares and 3.5% Convertible Cumulative Redeemable Preference shares the nominal amounts paid up on such shares together with any arrears or accruals of the fixed dividend. The 3.5% Convertible Cumulative Preference shares and the 3.5% Cumulative Redeemable Preference shares rank pari passu and rateably in all respects as regards capital rights.

Share premium account

	31 December 2000 and 31 December 1999
	<u>£000</u>
Share premium account attributable to equity shareholders	<u>316</u>

NOTES TO THE ACCOUNTS continued
31 December 2000

22 Reserves

	Total £000	Profit and loss account £000	Revaluation reserve £000
Group			
31 December 1999 as previously reported	87,684	87,654	30
Prior year adjustment	(4,990)	(4,990)	-
1 January 2000 restated	82,694	82,664	30
Foreign exchange adjustments	335	335	-
Loss for the year	(38,867)	(38,867)	-
Preference share appropriation	1,228	1,228	-
31 December 2000	45,390	45,360	30
Company			
1 January 2000	(8,522)	(8,552)	30
Profit for the year	1,509	1,509	-
Preference share appropriation	1,228	1,228	-
31 December 2000	(5,785)	(5,815)	30

The prior year adjustment relates to the removal of pre-acquisition reserves of Kvaerner Redpath Engineering Services Ltd, amounting to £5.0 million, which were incorrectly included in the 1999 financial statements.

23 Reconciliation of movements in shareholders' funds

	31 Dec 2000 restated £000	31 Dec 1999 restated £000
Loss for the year attributable to shareholders	(37,639)	(40,591)
Other recognised net gains/(losses) relating to the year	335	(2,288)
Dividends	(1,228)	(1,228)
Preference share appropriation	1,228	1,228
Net decrease to shareholders' funds	(37,304)	(42,879)
Opening shareholders' funds restated for prior year adjustment (note 22)	269,099	311,978
Closing shareholders' funds	231,795	269,099

24 Profit of the Company

The consolidated profit for the financial year includes a profit of £2,737,000 (1999, profit of £5,179,000) which is dealt with in the financial statements of the Company. As permitted by Section 230 of the Companies Act 1985, no profit and loss account is provided in respect of the Company.

25 Minority interests

	Equity £000
At 1 January 2000	11,264
Profit on ordinary activities after taxation	652
Dividends paid	(18)
Exchange differences	(58)
At 31 December 2000	11,840

26 Derivatives and Other Financial Instruments

Financial Risk Management Policy

Kvaerner E&C PLC and its subsidiaries are members of the Kvaerner Group of companies (with ultimate holding company Kvaerner ASA) and are governed by prudent financial policies and procedures implemented for the whole of Kvaerner Group. Kvaerner Financial Services (Group Treasury), manage on a day to day basis all treasury activity of the group, including but not limited to foreign exchange and interest rate risk management of the Kvaerner E&C PLC Group.

The Kvaerner Group Financial Policy provides strict guidelines as regards use of financial derivatives and other financial instruments, and the aim is to reduce the group's exposure to foreign exchange and interest rate movements. The Kvaerner E&C PLC Group does not use such instruments for speculative purposes and does not trade in financial instruments. The Kvaerner E&C PLC group of companies only use such instruments to hedge transaction exposures deriving from the cash flows of commercial contracts.

Foreign Currency Risk

The Kvaerner E&C PLC Group's transactional foreign currency exposures derive from its contractual based business operations in the area of Engineering and Construction. These businesses often enter into large contracts with contract duration of more than one year. The Group's policy requires all Business Units to hedge with Group Treasury all trade generated exposures at the time of commitment, by way of entering into forward currency contracts and currency option agreements. The Kvaerner E&C PLC group of companies have no currency options outstanding as at 31 December 2000.

The Kvaerner E&C PLC Group's net assets and liabilities in currencies other than sterling are selectively hedged to reduce the effect of currency movements on the Group's sterling balance sheet. The policy is to minimise this effect by matching the currency assets with currency liabilities by way of debt or forward currency contracts.

Short term trade debtors and creditors have been omitted from all disclosures.

Interest rate risk

The Kvaerner Group's exposure to interest rate fluctuations on its borrowings, deposits and other interest bearing items is managed centrally by Group Treasury and any hedge by use of interest rate derivatives, interest rate swaps and options etc., are therefore only used at Group Treasury level. The Kvaerner E&C PLC Group has no interest rate swaps outstanding as at 31 December 2000.

The Group's financial assets include cash held in bank accounts that are part of the Kvaerner Group's cash pooling arrangements, loans to the Kvaerner ASA group, long term debtors and cash held in other bank accounts, but exclude short term trade debtors. Forward currency contracts taken out to hedge translation exposure have been included. Interest on bank accounts within the pooling arrangements is linked to base rate for sterling deposits and prime rate for US Dollar deposits. Interest on bank deposits is based on the prevailing short-term money market interest rates at time of deposit.

NOTES TO THE ACCOUNTS continued
31 December 2000

26 Derivatives and Other Financial Instruments (cont.)

Financial assets	Total £m	Floating Rate £m	Interest Free £m
Sterling	391.1	368.2	22.9
Other	82.8	66.0	16.8
Total	473.9	434.2	39.7

The gross financial liabilities of the Kvaerner E&C PLC Group includes issued bonds, loan stock, preference shares and other bank and Kvaerner ASA group borrowings but excludes short term trade creditors. Forward currency contracts taken out to hedge translation exposure are also included.

Financial Liabilities	Total £m	Floating Rate £m	Fixed Rate £m	Interest Free £m	Weighted average rate	Weighted average years for which rate is fixed
Sterling						
- Borrowings	154.8	11.2	1.6	142.0	5.48%	2.7
- Non equity shares	35.1	-	35.1	-	3.50%	*
Other	50.1	31.7	-	18.4	-	-
Total	240.0	42.9	36.7	160.4	-	-

*Details of Non equity shares are contained in note 21

The interest rate on floating rate financial liabilities is linked to the inter-bank offer rate. The interest rate on amounts due to and from group undertakings is based on LIBOR.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2000 was as follows:

	Non-equity shares £m	Borrowings £m	Total £m
In 1 year or less or on demand	35.1	198.0	233.1
More than 1 year but not more than 2 years	-	5.3	5.3
More than 1 year but not more than 5 years	-	1.6	1.6
Total	35.1	204.9	240.0

Borrowing facilities

The group has no undrawn committed borrowing facilities at 31 December 2000.

Currency exposure

As noted above the Group's policy is that all currency exposures are hedged back into the base currency of the company using forward currency contracts as soon as they arise. Therefore transaction exposure giving rise to net currency gains and losses is not considered significant.

However, the profile of the net outstanding forward currency contracts re transaction exposures, as at 31 December 2000, is listed below:

NOTES TO THE ACCOUNTS continued
31 December 2000

26 Derivatives and Other Financial Instruments (cont.)

Currency	Original currency		Sterling	
	Net buy m	Net sale m	Net buy £m	Net sale £m
Euros	6.6	-	4.1	-
Swiss Francs	6.6	-	2.7	-
Japanese Yen	21.8	-	0.1	-
Norwegian Kroner	6.8	-	0.5	-
Sterling	61.4	-	61.4	-
US Dollars	-	88.5	-	59.1
Singapore Dollars	5.9	-	2.3	-
South African Rand	-	130.5	-	11.5
Total			71.1	70.6

Fair values

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 December 2000

£m	Book Value	Fair Value
Primary financial instruments held or issued to finance the Group's operations		
Financial assets	204.9	204.9
Financial liabilities	473.9	473.9
Derivative financial instruments held to manage the currency profile		
Forward foreign currency contracts (transaction hedges)	-	1.1
Forward foreign currency contracts (translation hedges)	-	-

Listed below are the main characteristics of the bonds and loan stocks.

Type	Carrying Value £m	Interest Rate	Interest Period	Final Maturity
Loan Stock 2003	1.3	5.625	Semi-annual	30/9/03
Loan Stock 2003	0.3	4.875	Semi-annual	30/9/03
Preference shares				Details of Kvaerner E&C PLC preference shares are shown in note 21

Gains and losses on hedges

The Kvaerner E&C PLC group of companies as members of the Kvaerner Group uses an accounting principle including percentage of completion as a basis for its recognition of operating revenues and operating costs. Transactional currency hedges are therefore integrated with the underlying project accounting method and are recognised in the profit and loss account in line with the completion ratio of the contracts under construction. For those transaction currency hedges that have matured in the current accounting year, the recognition of profit or loss from the hedge is treated as operating revenue or operating costs. For those transaction currency hedges that are outstanding as at 31 December 2000 (see table above), an element has been recognised as part of the contract completion accounting. The remaining un-accrued element will be recognised in line with the completion ratio of the relevant contracts. A summary of the total (accrued and un-accrued) gains and losses for all such hedges outstanding as at 31 December 2000 is as follows:

£m	Gains 2000	Loss 2000	Net 2000
Gains and losses arising in previous years not recognised in year	-	-	-
Gains and losses not recognised in the year arising in the year	1.3	(0.2)	1.1
Gains and losses on hedges at 31.12.00	1.3	(0.2)	1.1
Of which:			
Gains and losses expected to be recognised in 2001	1.3	(0.2)	1.1
Gains and losses expected to be recognised in 2002	-	-	-

NOTES TO THE ACCOUNTS continued
31 December 2000

27 Contingencies, post balance sheet events, strategic review and financing

Legal disputes

Kvaerner E&C PLC and its subsidiaries are, in the ordinary course of business, involved in legal disputes. Provisions have been made to cover the expected outcome of the disputes to the extent that negative outcomes are likely and reliable estimates can be made. However the final outcome of these cases will always be subject to uncertainties and resulting liabilities may exceed booked provisions.

Project risks and uncertainties

The Kvaerner group's operations are subject to long term contracts, many of which are fixed price, turnkey contracts awarded on a competitive bidding basis. Failure to meet schedule or performance guarantees or increases in contract costs can result in non recoverable costs, which could exceed revenues realised from the applicable project. Even though contract risks have been reduced though 2000 compared with earlier years, at the year end there are uncertainties related to some contracts.

On 29 March 2001, the group sold its entire interest in the share capital of Kvaerner Oil & Gas Ltd to Kvaerner PLC, a fellow subsidiary within the Kvaerner ASA group.

28 Ultimate parent undertaking

The ultimate parent company is Kvaerner ASA, incorporated in Norway, which heads the largest group in which the results of the Company are consolidated.

Copies of the financial statements can be obtained from Kvaerner PLC at Kvaerner House, 68 Hammersmith Road, London, W14 8YW.

PRINCIPAL SUBSIDIARIES

31 December 2000

Listed below are the principal subsidiaries which are wholly owned and registered in England and Wales, unless stated otherwise below, and carry on their activities principally in the country of their incorporation. All subsidiaries shown are direct subsidiaries of the Company except where marked +.

ENGINEERING AND CONSTRUCTION

Process engineering

Kvaerner E&C UK Limited

+ Kvaerner Process (Netherlands) BV - Netherlands

+ Kvaerner E&C Australia Pty Ltd - Australia

Total engineering, management, construction and commissioning services to the hydrocarbons, chemicals and polymers, pharmaceutical, transportation, environmental and other process and energy related industries.

Offices in London, Portsmouth, Warrington, The Netherlands, Australia, Germany and Moscow.

Technology

Kvaerner Process Technology Limited

+ Kvaerner Process Technology (Switzerland) AG - Switzerland

+ Kvaerner Heurtey (France) SA - France

+ Kvaerner Heurtey Italiana SrL - Italy

Development and design of licensed technology for the chemicals, petroleum, petrochemical and other related process industries.

Power and general engineering

Kvaerner Energy Limited

Total engineering, management, construction, commissioning, operation and maintenance services, together with the supply of spare parts and the manufacture of industrial gas turbines.

Offshore construction

Trafalgar House Offshore Holdings Limited

Holding Company for the UK Oil & Gas division of Kvaerner.

+ Kvaerner Oil & Gas Limited

Principal trading company of the UK Oil & Gas division of Kvaerner.

PRINCIPAL ASSOCIATES

31 December 2000

Listed below is the principal associate which is not directly held by the Company, its country of incorporation, its main areas of operation and details of its issued capital and the percentage held.

	Principal area of operation	Issued capital	Percentage held
Kvaerner Powergas India Limited - India	India	235,000 INR Ordinary shares	49

FIVE YEAR FINANCIAL RECORD

	1996	1997	1998	1999	2000
	£000	£000	£000	restated £000	£000
Turnover	1,219,974	847,444	937,835	806,291	590,276
Profit/(loss) before taxation	31,939	48,990	7,522	(35,754)	(33,078)
Profit/(loss) after taxation and minority interests	19,525	46,272	(1,756)	(40,591)	(37,639)
Profit/(loss) retained	17,990	45,044	(2,984)	(41, 819)	(38,867)
Equity shareholders' funds	231,637	275,926	276,674	227,577	189,045

This record does not form part of the audited Accounts.