

Kvaerner E&C PLC
Registered Number: 1125

REPORT AND ACCOUNTS FOR THE YEAR ENDED
31 DECEMBER 2002



KVAERNER E&C PLC

DIRECTORS' REPORT

The directors have pleasure in submitting their report and accounts for the year ended 31 December 2002.

Principal activities

The activities of each of the principal subsidiaries and associates of the Kvaerner E&C PLC Group 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 £313.9 million (year ended 31 December 2001 £527.2 million). The profit before tax for the year was £6.6 million (year ended 31 December 2001 profit £133.1 million).

An interim dividend of £6.5 million was declared and paid on 29 August 2002 in respect of the issued ordinary share capital. The directors do not propose to recommend the payment of a final dividend in respect of the year ended 31 December 2002 (year ended 31 December 2001 £nil).

Information relating to the movements in the fixed assets is set out in note 9 to the accounts.

Board of directors

The directors who served during the year were as follows :

P C Bond (resigned 16 June 2003)
K N Henry (Chief Executive) (resigned 25 June 2003)
T Ramstad (appointed 12 June 2003)
O-K Sivertsen (appointed 12 June 2003)
T G Snow (resigned 28 June 2002)
J Tautra (appointed 12 June 2003)
J C Wilson

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 Aker Kværner ASA (formerly Kværner ASA) requiring to be disclosed under the Companies Act 1985.

Charitable and Political Contributions

During the year, the Group made charitable contributions of £3,000 (year ended 31 December 2001 £9,000). There were no political contributions in either the current year or the prior year.

Employment policies

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

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

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

KVAERNER E&C PLC

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. As a holding company with no business other than the holding of shares in companies of the Aker Kværner Group, the Company has no trade creditors but for the information of shareholders the Business Areas and Business Units are responsible for agreeing terms and conditions under which business transactions with their suppliers are conducted. The Business Units will confirm in statements included in their annual report and accounts that payments to suppliers are made in accordance with agreed terms, provided that the supplier is also complying with all relevant terms and conditions.

Auditors

KPMG Audit Plc have signified their willingness to continue in office, and, in accordance with Section 384 of the Companies Act 1985, a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



J C Wilson
Director

30 June 2003
Registered office:
Kvaerner House
68 Hammersmith Road
London W14 8YW

Registered number: 1125

KVAERNER E&C PLC

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 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 Group and to prevent and detect fraud and other irregularities.

KVAERNER E&C PLC

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

We have audited the financial statements on pages 5 to 26. We have also audited the information in the directors' remuneration report that is described as having been audited.

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 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 listed 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 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 Group 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 Group'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 affairs of the Company and of the Group as at 31 December 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

30 June 2003

KVAERNER E&C PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

		Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
	Notes		
Turnover			
- continuing operations		300,162	423,203
- discontinued operations		13,698	104,038
	2	<u>313,860</u>	<u>527,241</u>
Cost of sales			
- continuing operations		(284,720)	(404,095)
- discontinued operations		(13,155)	(83,173)
		<u>(297,875)</u>	<u>(487,268)</u>
Gross profit			
- continuing operations		15,442	19,108
- discontinued operations		543	20,865
		<u>15,985</u>	<u>39,973</u>
Net administration expenses			
- continuing operations		(32,225)	(27,708)
- discontinued operations		(824)	(16,648)
		<u>(33,049)</u>	<u>(44,356)</u>
Operating (loss)/profit			
- continuing operations		(16,783)	(8,600)
- discontinued operations		(281)	4,217
		<u>(17,064)</u>	<u>(4,383)</u>
Share of associates' operating profit	2, 3	862	1,215
Operating loss	2	<u>(16,202)</u>	<u>(3,168)</u>
Profit on disposal of operations discontinued in 2001	4	7,095	-
(Loss)/profit on termination of discontinued operations	4	(606)	113,137
Profit on fixed asset disposals	4	-	2,801
		<u>(9,713)</u>	<u>112,770</u>
(Loss)/profit on ordinary activities before interest and taxation			
Net interest receivable	6	<u>16,359</u>	<u>20,284</u>
Profit on ordinary activities before taxation		6,646	133,054
Tax on profit on ordinary activities	7	<u>(2,912)</u>	<u>(290)</u>
Profit on ordinary activities after taxation		3,734	132,764
Minority interests	25	<u>631</u>	<u>229</u>
Profit attributable to shareholders	22	4,365	132,993
Dividends:			
Ordinary dividend	8	(6,500)	-
Cumulative preference dividend	8	(807)	(1,228)
Retained (loss)/profit		<u>(2,942)</u>	<u>131,765</u>

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

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

KVAERNER E&C PLC

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2002

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Profit for the financial year attributable to shareholders	4,365	132,993
Currency translation differences on foreign currency net investments taken directly to reserves	(781)	(433)
Total recognised gains and losses relating to the year	3,584	132,560

There is no material difference between the profit on ordinary activities before taxation stated in the consolidated 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.

KVAERNER E&C PLC

BALANCE SHEETS

As at 31 December 2002

	Notes	Group 31 Dec 2002 £000	Group 31 Dec 2001 £000	Company 31 Dec 2002 £000	Company 31 Dec 2001 £000
Fixed assets					
Tangible assets	9	3,585	5,704	15	81
Investments in subsidiaries	11	-	-	93,235	109,913
Investments in associates	12	4,451	5,120	-	-
		8,036	10,824	93,250	109,994
Current assets					
Stocks	13	-	362	-	-
Debtors	14	549,909	622,721	331,899	284,581
Cash at bank and on deposit	15	60,453	48,260	5,679	1,718
		610,362	671,343	337,578	286,299
Creditors: amounts falling due within one year					
Borrowings	16	(1,615)	-	(1,615)	-
Other creditors	17	(251,806)	(308,474)	(161,001)	(201,706)
Net current assets		356,941	362,869	174,962	84,593
Total assets less current liabilities		364,977	373,693	268,212	194,587
Creditors: amounts falling due after more than one year					
Borrowings	18	-	(1,615)	-	(1,615)
Other creditors	19	(1,044)	(1,720)	-	-
Provisions for liabilities and charges	20	(1,524)	(3,559)	-	-
Net assets		362,409	366,799	268,212	192,972
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	15	30	15	30
Profit and loss account	22	165,309	169,017	81,792	6,537
Equity shareholders' funds		351,729	320,377	268,212	157,897
Non-equity shareholders' funds		-	35,075	-	35,075
Shareholders' funds	23	351,729	355,452	268,212	192,972
Equity minority interests	25	10,680	11,347	-	-
		362,409	366,799	268,212	192,972

The accompanying notes form an integral part of these balance sheets.

These accounts were approved by the Board of Directors on 30 June 2003 and signed on its behalf by:


J C Wilson
Director

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The company has adopted FRS19 'Deferred tax' in these financial statements. The comparative figures have been restated accordingly. This does not have a material effect on prior year balances.

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.

b Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings made up to 31 December. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account and its interest in their net assets, (other than goodwill), is included in investments in the consolidated balance sheet. An associate is an undertaking in which the Group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss accounts and its interest in their net assets, (other than goodwill), is included in investments in the consolidated balance sheet. In the Company's own accounts, investment in subsidiary undertakings is stated at valuation less any impairment in the value of the investment. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial year dealt with in the financial statements of the holding company was £7.5 million (year ended 31 December 2001 profit - £21.3 million).

c Cash flow statement

The Company is exempt from the requirements of FRS 1 to include a cash flow statement as part of its Accounts as it is a wholly owned subsidiary of Aker Kværner ASA (formerly Kværner 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 during the year.

Assets and liabilities are translated into sterling at the 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, associates and branches denominated in foreign currency, and any related loans are taken to reserves together with the differences between profit and loss accounts translated at average rates and rates ruling at the year end. 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 on all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the future.

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

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 and associated companies 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 sales 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 accruals and deferred income.

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.

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

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.

The group companies contributions are affected by a deficit on the Kvaerner PLC group schemes but the Kvaerner E&C PLC group is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, contributions are accounted for as if it were a defined contribution scheme. As at 31 December 2002, the deficit on the Kvaerner PLC group schemes was £224 million (£157 million net of deferred tax).

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

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

2 Analysis by class of business and geographical area

	Turnover 2002 £000	Turnover 2001 £000	Operating (loss)/ profit 2002 £000	Operating (loss)/ profit 2001 £000	*Net operating assets/liab 2002 £000	*Net operating assets/liab 2001 £000
By class of business:						
Engineering and construction	313,860	527,241	(17,670)	(4,383)	256,947	269,127
Plastics and other engineering	-	-	-	-	42,292	46,266
	313,860	527,241	(17,670)	(4,383)	299,239	315,393
By geographical area – origin:						
United Kingdom	114,981	227,407	(10,213)	10,863	333,345	356,251
Europe	114,096	193,085	(5,439)	(13,356)	(19,747)	(14,687)
Asia and Africa	57,003	80,259	(1,787)	1,769	(14,329)	(16,710)
Australasia	27,780	26,490	(231)	(3,659)	(30)	(9,461)
	313,860	527,241	(17,670)	(4,383)	299,239	315,393
By geographical area – destination:						
United Kingdom	84,968	134,888				
Europe	123,358	203,343				
Americas	3,735	3,862				
Asia and Africa	73,995	153,848				
Australasia and elsewhere	27,804	31,300				
	313,860	527,241				

* 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	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £m	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Engineering & Construction	3,373	3,922	862	1,215	10	18	872	1,234	4,451	5,120
	3,373	3,922	862	1,215	10	18	872	1,234	4,451	5,120

Dividends in the year from associates amounted to £316,000 (2001 £108,000)

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

3 Operating profit/(loss)

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

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Auditors' remuneration		
- audit – group	170	324
- audit – company	25	24
- other	67	61
Depreciation and amounts written off tangible fixed assets		
- owned	2,337	4,122
- held under finance leases	-	158
Amortisation of goodwill	-	160
Research and development – current year expenditure	-	4,033
Operating lease rentals		
- plant and machinery	931	1,985
- other	2,342	4,283

4. Net profit on disposals

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Profit on disposal of operations discontinued in 2001	7,095	-
(Loss)/profit on termination of discontinued operations	(606)	113,137
Profit on fixed asset disposals	-	2,801
	6,489	115,938

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

5 Directors and group employees

	Year ended 31 Dec 2002 £	Year ended 31 Dec 2001 £
The emoluments of the directors of the Company were:		
Emoluments	1,109,585	1,162,711
	<u>1,109,585</u>	<u>1,162,711</u>
Emoluments of the highest paid director :		
Basic emoluments	808,079	577,700
	<u>808,079</u>	<u>577,700</u>

In addition to the emoluments shown above, Mr T G Snow received compensation for loss of office of £183,726 upon his departure from Kvaerner on 28 June 2002.

Pensions

The number of directors who were members of defined benefit pension schemes was 2 (2001, 3). The amount of accrued pension at the year end for the highest paid director was £Nil (31 December 2001, £Nil).

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Other information on directors and employees:		
Director and employee costs:		
Wages and salaries	74,436	110,777
Social security costs	7,442	10,197
Employers' pension contributions	4,141	5,663
	<u>86,019</u>	<u>126,637</u>
	2002	2001
	Number	Number
Average monthly number of persons employed by the Group (including executive directors):		
Engineering and construction	2,012	3,138
Plastics and other engineering	-	-
	<u>2,012</u>	<u>3,138</u>

6. Net interest receivable

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Interest payable to group undertakings	(2,302)	(2,730)
Interest payable on other loans	(228)	(86)
	<u>(2,530)</u>	<u>(2,816)</u>
Interest receivable from group undertakings	17,427	20,220
Other interest receivable	1,462	2,880
Net interest receivable	<u>16,359</u>	<u>20,284</u>

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2002

7. Tax on profit on ordinary activities

Analysis of tax charge in the year

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Amounts attributable to associated undertakings	344	404
UK prior year tax	694	-
Foreign tax on profits for the year	1,874	(114)
	<u>2,912</u>	<u>290</u>

There is no potential unprovided liability for deferred taxation on a group basis.

Factors affecting the current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are as follows:-

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Profit/(loss) on ordinary activities before taxation	<u>6,646</u>	<u>133,054</u>
Taxation charge at UK corporation tax rate of 30% (2001: 30%)	1,994	39,916
Effects of		
Group relief for which no payment is made	(2,518)	(9,568)
Capital allowances in excess of depreciation	(267)	(557)
Movement on provisions	191	(254)
Expenditure not deductible for tax	2,204	16,874
Non-taxable income	-	(32,819)
Net increase/(utilisation) of tax losses	310	(13,950)
Adjustments in respect of prior years	694	-
Overseas tax rates	304	648
	<u>2,912</u>	<u>290</u>

Factors affecting future tax charges

The Group has tax losses in a number of jurisdictions (principally the United Kingdom, Netherlands and Australia). To the extent that profits arise in these jurisdictions, and the available tax losses can be used to shelter this income from tax, future tax charges will be reduced.

8. Dividends

	Year ended 31 Dec 2002 £000	Year ended 31 Dec 2001 £000
Ordinary dividend	6,500	-
Cumulative preference dividend	807	1,228
	<u>7,307</u>	<u>1,228</u>

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2002

9. Tangible fixed assets

	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
Group					
Cost or valuation:					
1 January 2002	25,892	1,636	185	202	23,869
Exchange adjustments	258	-	-	-	258
Reclassification	-	185	(185)	184	(184)
Additions	846	-	-	39	807
Disposals	(3,109)	-	-	-	(3,109)
31 December 2002	23,887	1,821	-	425	21,641
Depreciation:					
1 January 2002	20,188	1,506	63	38	18,581
Exchange adjustments	232	-	-	-	232
Reclassification	-	63	(63)	184	(184)
Charge for the year	2,337	23	-	43	2,271
Disposals	(2,455)	-	-	-	(2,455)
31 December 2002	20,302	1,592	-	265	18,445
Net book value:					
31 December 2002	3,585	229	-	160	3,196
1 January 2002	5,704	130	122	164	5,288
	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
Historical cost valuation					
31 December 2002	3,570	214	-	160	3,196
1 January 2002	5,674	100	122	164	5,288

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 £1,000 (31 December 2001 £16,000).

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2002

9. Tangible fixed assets (continued)

	Total £000	Land and buildings freehold £000	Plant and machinery £000
Company			
Cost:			
1 January 2002	233	15	218
Reclassification	-	-	-
Disposals	(218)	-	(218)
31 December 2002	15	15	-
Depreciation:			
1 January 2002	152	-	152
Reclassification	-	-	-
Charge for the year	30	-	30
Disposals	(182)	-	(182)
31 December 2002	-	-	-
Net book value:			
31 December 2002	15	15	-
1 January 2002	81	15	66
		Group 2002 £000	Group 2001 £000
Capital commitments:			
Authorised and contracted for		47	39

The Company has no capital commitments as at 31 December 2002 (31 December 2001 £Nil).

10 Obligations under operating leases

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

	Land and buildings 31 Dec 2002 £000	Other 31 Dec 2002 £000	Land and buildings 31 Dec 2001 £000	Other 31 Dec 2001 £000
Group				
Expiry date				
Within one year	297	1	404	161
Between two and five years	1,718	1,059	2,178	746
After five years	-	-	435	-
	2,015	1,060	3,017	907

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2002

11 Investments in subsidiaries Company

	Cost £000	Provisions £000	Net £000
1 January 2002	192,457	(82,544)	109,913
Additions	-	(16,678)	(16,678)
Disposals	-	-	-
	192,457	(99,222)	93,235

The principal subsidiaries are shown on page 26.

12 Investments in associates Group

	Share of net assets £000
1 January 2002	5,120
Exchange adjustments	(428)
Additions	-
Disposals	-
Reclassification of associates to subsidiary undertakings	-
Retained loss for the year	(241)
Total investments at 31 December 2002	4,451
Total investments at 31 December 2001	5,120

13 Stocks Group

	31 Dec 2002 £000	31 Dec 2001 £000
Raw materials and stocks	-	362
Manufacturing work in progress	-	-
	-	362

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

14 Debtors

	Group 31 Dec 2002 £000	Group 31 Dec 2001 £000	Company 31 Dec 2002 £000	Company 31 Dec 2001 £000
Trade debtors	50,544	53,175	-	-
Other debtors and prepayments	13,299	20,129	323	1,985
Amounts recoverable on contracts	29,087	27,760	-	-
Amounts owed by group undertakings	456,979	521,657	331,576	282,596
	549,909	622,721	331,899	284,581

Of which amounts falling due after more than one year

Other debtors and prepayments	-	1,301	-	-
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15 Cash at bank and on deposit

Of the total cash and bank balances on the balance sheet, £44.7 million are deposits held in bank sub-accounts that are part of a Aker Kværner ASA (formerly Kværner ASA) group pooling system. In consequence, to the extent that other Aker Kværner ASA group companies have withdrawn amounts from the group pooling system, such amounts represent a receivable from the Aker Kværner ASA group.

16 Borrowings: amounts falling due within one year

	Group 31 Dec 2002 £000	Group 31 Dec 2001 £000	Company 31 Dec 2002 £000	Company 31 Dec 2001 £000
Borrowings:				
5 5/8% Secured Loan stock 2003	1,331	-	1,331	-
4 7/8% Secured Loan stock 2003	284	-	284	-
	1,615	-	1,615	-

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

17 Creditors: amounts falling due within one year

	Group 31 Dec 2002 £000	Group 31 Dec 2001 £000	Company 31 Dec 2002 £000	Company 31 Dec 2001 £000
Other creditors:				
Payments in excess of contract valuation	22,002	14,771	-	-
Trade creditors and bills payable	24,092	38,553	-	21
Dividends payable on preference shares	-	8,903	-	8,903
Other creditors including sundry taxes	14,257	38,564	3,948	8,695
Taxation	1,290	805	5	-
Amounts owed to group undertakings	136,634	148,275	155,742	182,900
Amounts owed to associates	119	359	-	-
Accruals and deferred income	53,412	58,244	1,306	1,187
	251,806	308,474	161,001	201,706

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2002

18 Borrowings: amounts falling due after more than one year	31 Dec 2002 £000	31 Dec 2001 £000
Borrowings:		
Company		
5 5/8 % Secured Loan stock 2003	-	1,331
4 7/8 % Secured Loan stock 2003	-	284
	-	1,615
Subsidiaries		
Finance leases	-	-
Group	-	1,615
Aggregate amounts, including instalments, repayable:		
Between one and two years	-	1,615
Between two and five years	-	-
After five years	-	-
	-	1,615

19 Creditors: amounts falling due after more than one year	31 Dec 2002 £000	31 Dec 2001 £000
Other creditors:		
Group		
Accruals and deferred income	1,044	1,720

20 Provisions for liabilities and charges	Group £000	Company £000
1 January 2002	3,559	-
Exchange translation differences	27	-
Charged/(released) to profit and loss account	1,255	-
Expenditure during the year	(3,317)	-
31 December 2002	1,524	-

At 31 December 2002, provisions for the group included amounts in respect of deferred tax, building dilapidations and warranties in respect of businesses sold.

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

21 Called up share capital	31 December 2002		31 December 2001	
	Number	£000	Number	£000
Authorised:				
Ordinary shares of 25p	1,000,000,000	250,000	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>250,000</u>		<u>190,075</u>
Allotted, called up and fully paid:				
Ordinary shares of 25p	744,355,148	186,089	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>		<u>186,089</u>

During the year the authorised share capital was increased from £190,075,000 to £250,000,000 by the creation of an additional 239,700,000 Ordinary shares of 25p each. 140,300,000 Ordinary shares of 25p each were allotted and issued, as fully paid, and the proceeds used to redeem at par the 3.5% Cumulative Redeemable Preference shares of £1 each and the 3.5% Convertible Cumulative Redeemable Preference shares of £1 each. As a consequence of the redemption, the Preference shares were cancelled and the authorised but un-issued shares resulting therefrom were subdivided and converted into Ordinary shares of 25p.

Share premium account	31 December 2002 and 31 December 2001
	£000
Share premium account attributable to equity shareholders	<u>316</u>

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2002

22 Reserves

	Total £000	Profit and loss account £000	Revaluation reserve £000
Group			
1 January 2002	169,047	169,017	30
Foreign exchange adjustments	(781)	(781)	-
Profit for the year	4,365	4,365	-
Dividends	(7,307)	(7,307)	-
Revaluation realised	-	15	(15)
31 December 2002	165,324	165,309	15
Company			
1 January 2002	6,567	6,537	30
Loss for the year	(7,453)	(7,453)	-
Dividends received	90,000	90,000	-
Dividends paid	(7,307)	(7,307)	-
Revaluation realised	-	15	(15)
31 December 2002	81,807	81,792	15

23 Reconciliation of movements in shareholders' funds

	31 Dec 2002 £000	31 Dec 2001 £000
Profit/(loss) for the year attributable to shareholders	4,365	132,993
Foreign exchange adjustments	(781)	(433)
Dividends	(7,307)	(1,228)
Reverse preference share appropriation	-	(7,675)
Net increase/(decrease) to shareholders' funds	(3,723)	123,657
Opening shareholders' funds	355,452	231,795
Closing shareholders' funds	351,729	355,452

24 Profit of the Company

The consolidated profit for the financial year includes a loss of £7,453,000 (2001, profit of £21,255,000) 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 2002	11,347
Loss on ordinary activities after taxation	(631)
Dividends paid	-
Exchange differences	(36)
At 31 December 2002	10,680

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

26 Derivatives and Other Financial Instruments

Financial Risk Management Policy

Kvaerner E&C PLC and its subsidiaries are members of the Aker Kværner ASA (formerly Kværner ASA) group of companies (with ultimate holding company Aker Kværner ASA) and are governed by prudent financial policies and procedures implemented for the whole of Aker Kværner ASA 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 Aker Kværner ASA 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 2002.

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 (other than the foreign currency exposures).

Interest rate risk

The Aker Kværner ASA 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 2002.

The Group's financial assets include cash held in bank accounts that are part of the Aker Kværner ASA group's cash pooling arrangements, loans to the Aker Kværner 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.

Financial assets	Total £m	Floating	Interest
		Rate £m	Free £m
Sterling	456.1	436.6	19.5
Other	53.3	34.2	19.1
Total	509.4	470.8	38.6

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

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

26 Derivatives and Other Financial Instruments (cont.)

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	70.0	0.5	1.6	67.9	5.48%	1.7
Other	55.2	35.0		20.2		
Total	125.2	35.5	1.6	88.1		

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 2002 was as follows:

	Borrowings £m	Total £m
In 1 year or less or on demand	123.1	123.1
More than 1 year but not more than 2 years	2.1	2.1
More than 1 year but not more than 5 years	-	-
Total	125.2	125.2

Borrowing facilities

The Group has no undrawn committed borrowing facilities at 31 December 2002.

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 2002, is listed below:

Currency	Original currency		Sterling	
	Net buy m	Net sale m	Net buy £m	Net sale £m
Euros		0.3		0.2
Norwegian Krone	0.8		0.1	
Sterling	3.4		3.4	
US Dollars		4.5		2.8
Australian Dollars		0.6		0.2
Total			3.5	3.2

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

26 Derivatives and Other Financial Instruments (cont.)

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 2002

£m	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the Group's operations		
Financial assets	509.4	509.4
Financial liabilities	125.2	125.2
Derivative financial instruments held to manage the currency profile		
Forward foreign currency contracts (transaction hedges)	-	(0.2)
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

Gains and losses on hedges

The Kvaerner E&C PLC group of companies as members of the Aker Kværner ASA 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 2002 (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 2002 is as follows:

£m	Gains 2002	Loss 2002	Net 2002
Gains and losses arising in previous years not recognised in year			
Gains and losses not recognised in the year arising in the year	-	(0.2)	(0.2)
Gains and losses on hedges at 31.12.02	-	(0.2)	(0.2)
Of which:			
Gains and losses expected to be recognised in 2003	-	(0.2)	(0.2)
Gains and losses expected to be recognised in 2004 or later	-	-	-

KVAERNER E&C PLC

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2002

27 Contingencies

Legal proceedings

With its extensive worldwide operations, Group companies are in the course of its activities involved in numerous 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 Group's operations are subject to long term contracts, many of which are fixed-price, turnkey contracts that are 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. Where a project is identified as loss making, forward loss provisions are made using the best available information.

28 Ultimate parent undertaking

The ultimate parent company is Aker Kværner ASA (formerly Kværner 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.

KVAERNER E&C PLC

PRINCIPAL SUBSIDIARIES

31 December 2002

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

+ Aker Kvaerner Netherlands BV (formerly Kvaerner Process (Netherlands) BV) - Netherlands

+ Kvaerner E&C Australia Pty Ltd - Australia

Total engineering, procurement, construction management and commissioning services to the hydrocarbons, chemicals and polymers, pharmaceutical and transportation industries.

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

PRINCIPAL ASSOCIATES

31 December 2002

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	235,000 INR Ordinary shares	49