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**Kvaerner E&C PLC**  
**Registered Number: 1125**

**REPORT AND ACCOUNTS FOR THE YEAR ENDED**  
**31 DECEMBER 2001**



# **KVAERNER E&C PLC**

## **DIRECTORS' REPORT**

The directors have pleasure in submitting their report and accounts for the year ended 31 December 2001.

### **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 £527.2 million (year ended 31 December 2000 £590.3 million). The profit before tax for the year was £133.1 million (year ended 31 December 2000 loss £33.1 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 2001 (year ended 31 December 2000 £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.

On 16 November 2001, the Company and its subsidiaries disposed of their activities known as "Kvaerner Hydrocarbons" and "Kvaerner Process Technology" to Yukos Oil company, a Russian oil company. The total consideration for the sale amounted to US\$ 91.7 million.

On 28 November 2001, the Company's ultimate parent company, Kvaerner ASA, announced that it had reached agreement with its largest shareholder, Aker Maritime, on a comprehensive industrial and financial solution to the problems experienced by Kvaerner during 2001. This financial and industrial plan has provided a solid financial platform for the Kvaerner ASA group.

### **Board of directors**

The directors who served during the year were as follows :

P C Bond  
K N Henry (Chief Executive)  
T G Snow  
D J Tomlinson (resigned 16 November 2001)  
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 Kvaerner ASA requiring to be disclosed under the Companies Act 1985.

### **Charitable and Political Contributions**

During the year, the Group made charitable contributions of £9,000 (year ended 31 December 2000 £7,000). There were no political contributions in either the current year or the prior year.

# KVAERNER E&C PLC

## DIRECTORS' REPORT *(continued)*

### 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.

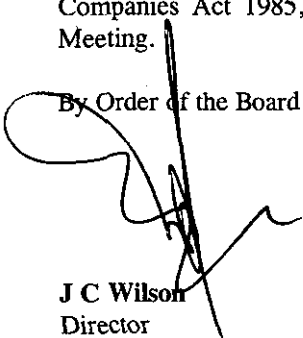
### Policy and practice on payment of suppliers

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 12 days (2000 38 days).

### 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

1 March 2002  
Registered office:  
20 Eastbourne Terrace  
London W2 6LE

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.

### 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.

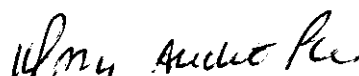
### Basis of opinion

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 2001 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**  
*Chartered Accountants*  
*Registered Auditor*  
London

1 March 2002

# KVAERNER E&C PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001

		Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
	Notes		
Turnover	- continuing operations	441,321	300,951
	- discontinued operations	85,920	289,325
	2	<u>527,241</u>	<u>590,276</u>
Cost of sales	- continuing operations	(422,892)	(268,797)
	- discontinued operations	(64,376)	(289,576)
		<u>(487,268)</u>	<u>(558,373)</u>
Gross profit	- continuing operations	18,429	32,154
	- discontinued operations	21,544	(251)
		<u>39,973</u>	<u>31,903</u>
Net administration expenses	- continuing operations	(29,782)	(34,996)
	- discontinued operations	(14,574)	(41,854)
		<u>(44,356)</u>	<u>(76,850)</u>
Operating loss	- continuing operations	(11,353)	(2,842)
	- discontinued operations	6,970	(42,105)
	2, 3	<u>(4,383)</u>	<u>(44,947)</u>
Share of associates' operating profit	2	1,215	879
Operating loss		<u>(3,168)</u>	<u>(44,068)</u>
Profit on disposal of operations discontinued in 2000	4	-	16
Profit/(loss) on termination of discontinued operations	4	113,137	(3,857)
Profit on fixed asset disposals	4	<u>2,801</u>	<u>-</u>
Profit/(loss) on ordinary activities before interest and taxation		112,770	(47,909)
Net interest receivable	6	<u>20,284</u>	<u>14,831</u>
Profit/(loss) on ordinary activities before taxation		133,054	(33,078)
Tax on profit/(loss) on ordinary activities	7	<u>(290)</u>	<u>(3,909)</u>
Profit/(loss) on ordinary activities after taxation		132,764	(36,987)
Minority interests	26	<u>229</u>	<u>(652)</u>
Profit/(loss) attributable to shareholders		132,993	(37,639)
Dividends:			
Cumulative preference dividend	8	<u>(1,228)</u>	<u>(1,228)</u>
Retained profit/(loss)	23	<u>131,765</u>	<u>(38,867)</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 2001

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Profit/(loss) for the financial year attributable to shareholders	132,993	(37,639)
Currency translation differences on foreign currency net investments taken directly to reserves	(433)	335
Total recognised gains and losses relating to the year	132,560	(37,304)

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

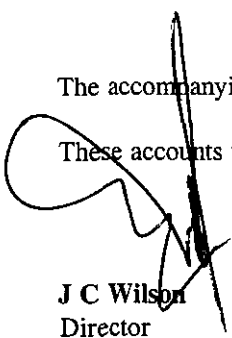
## BALANCE SHEETS

As at 31 December 2001

	Notes	Group 31 Dec 2001 £000	Group 31 Dec 2000 £000	Company 31 Dec 2001 £000	Company 31 Dec 2000 £000
<b>Fixed assets</b>					
Intangible assets	9	-	2,254	-	-
Tangible assets	10	5,704	29,412	81	119
Investments in subsidiaries	12	-	-	109,913	148,404
Investments in associates	13	5,120	4,510	-	-
		<b>10,824</b>	<b>36,176</b>	<b>109,994</b>	<b>148,523</b>
<b>Current assets</b>					
Stocks	14	362	2,667	-	-
Debtors	15	622,721	567,881	284,581	209,560
Cash at bank and on deposit	16	48,260	51,452	1,718	2,632
		<b>671,343</b>	<b>622,000</b>	<b>286,299</b>	<b>212,192</b>
<b>Creditors: amounts falling due within one year</b>					
Borrowings	17	-	(4)	-	-
Other creditors	18	(308,474)	(402,074)	(201,706)	(177,888)
<b>Net current assets</b>		<b>362,869</b>	<b>219,922</b>	<b>84,593</b>	<b>34,304</b>
<b>Total assets less current liabilities</b>		<b>373,693</b>	<b>256,098</b>	<b>194,587</b>	<b>182,827</b>
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	19	(1,615)	(1,665)	(1,615)	(1,615)
Other creditors	20	(1,720)	(5,031)	-	-
Provisions for liabilities and charges	21	(3,559)	(5,767)	-	(592)
<b>Net assets</b>		<b>366,799</b>	<b>243,635</b>	<b>192,972</b>	<b>180,620</b>
<b>Capital and reserves</b>					
Called up share capital	22	186,089	186,089	186,089	186,089
Share premium account	22	316	316	316	316
Revaluation reserve	23	30	30	30	30
Profit and loss account	23	169,017	45,360	6,537	(5,815)
Equity shareholders' funds		<b>320,377</b>	<b>189,045</b>	<b>157,897</b>	<b>137,870</b>
Non-equity shareholders' funds		<b>35,075</b>	<b>42,750</b>	<b>35,075</b>	<b>42,750</b>
<b>Shareholders' funds</b>	24	<b>355,452</b>	<b>231,795</b>	<b>192,972</b>	<b>180,620</b>
Equity minority interests	26	11,347	11,840	-	-
		<b>366,799</b>	<b>243,635</b>	<b>192,972</b>	<b>180,620</b>

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

These accounts were approved by the Board of Directors on 1 March 2002 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 2001

### 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.

#### 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 made up to 31 December 2001. 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 profit for the financial year dealt with in the financial statements of the holding company was £21.3 million (year ended 31 December 2000 : £2.7 million).

#### 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.

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2001

### **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.

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2001

### **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.

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 2 Analysis by class of business and geographical area

	Turnover 2001 £000	Turnover 2000 £000	Operating (loss)/ profit 2001 £000	Operating (loss)/ profit 2000 £000	*Net operating assets/liab 2001 £000	*Net operating assets/liab 2000 £000
By class of business:						
Engineering and construction	527,241	590,276	(4,383)	(44,947)	269,127	141,336
Plastics and other engineering	-	-	-	-	46,266	45,748
	527,241	590,276	(4,383)	(44,947)	315,393	187,084
By geographical area - origin:						
United Kingdom	227,407	465,838	10,863	(48,203)	356,251	214,683
Europe	193,085	72,947	(13,356)	5,460	(14,687)	(9,537)
Asia and Africa	80,259	33,967	1,769	400	(16,710)	(12,730)
Australasia	26,490	17,524	(3,659)	(2,604)	(9,461)	(5,332)
	527,241	590,276	(4,383)	(44,947)	315,393	187,084
By geographical area - destination:						
United Kingdom	134,888	294,524				
Europe	203,343	146,533				
Americas	3,862	10,002				
Asia and Africa	153,848	118,401				
Australasia and elsewhere	31,300	20,816				
	527,241	590,276				

\* 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	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Engineering & Construction	3,922	3,664	1,215	879	18	65	1,234	964	5,120	4,510
	3,922	3,664	1,215	879	18	65	1,234	964	5,120	4,510

Dividends in the year from associates amounted to £108,000 (2000 £396,000).

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 3 Operating profit/(loss)

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

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Auditors' remuneration		
- audit - group	324	462
- audit - company	24	25
- other	61	42
Depreciation and amounts written off tangible fixed assets		
- owned	4,122	9,061
- held under finance leases	158	52
Amortisation of goodwill	160	55
Research and development - current year expenditure	4,033	3,743
Government grants	-	(212)
Operating lease rentals		
- plant and machinery	1,985	10,119
- other	4,283	11,005

### 4 Net profit on disposals

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Profit on disposal of operations discontinued in 2000	-	16
Profit/(loss) on termination of discontinued operations	113,137	(3,857)
Profit on fixed asset disposals	2,801	-
	<b>115,938</b>	<b>(3,841)</b>

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

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, for £1.

On 16 November 2001, the Group sold its Hydrocarbons and Technology business streams to Yukos Oil for a cash consideration of US\$91.7 million. The results of the businesses were included within the Group's consolidated results until the end of October 2001; the result after tax of these up to the date of disposal was a profit of £5.9 million and for the last financial year was a profit of £10.1 million. In the agreement, Kvaerner retained risks and liabilities relating to excluded projects. In addition, Kvaerner has given representations and warranties considered to be normal for this type of transaction. The Directors have included an appropriate provision for the retained risks from this disposal.

	Kvaerner Oil & Gas Ltd £000	Hydrocarbons & Technology £000	Net assets disposed £000
Fixed assets	15,558	13,518	29,076
Current assets	244,868	89,262	334,130
Creditors	(333,160)	(57,395)	(390,555)
Net assets	(72,734)	45,385	(27,349)
Related goodwill	-	2,094	2,094
Profit on sale	72,734	40,403	113,137
Gross sales proceeds	-	87,882	87,882

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2001

### 5 Directors and group employees

	Year ended 31 Dec 2001 £	Year ended 31 Dec 2000 £
The emoluments of the directors of the Company were:		
Emoluments	1,162,711	703,127
	<u>1,162,711</u>	<u>703,127</u>
Emoluments of the highest paid director:		
Basic emoluments	577,700	373,618
	<u>577,700</u>	<u>373,618</u>

### Pensions

The number of directors who were members of defined benefit pension schemes was 3 (31 December 2000, 2)  
The amount of accrued pension at the year end for the highest paid director was £Nil (31 December 2000, £Nil).

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Other information on directors and employees:		
Director and employee costs:		
Wages and salaries	110,777	168,061
Social security costs	10,197	21,355
Employers' pension contributions	5,663	11,073
	<u>126,637</u>	<u>200,489</u>
	2001 Number	2000 Number
Average monthly number of persons employed by the Group (including executive directors):		
Engineering and construction	4,863	7,338
Plastics and other engineering	-	-
	<u>4,863</u>	<u>7,338</u>

### 6 Net interest receivable

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Interest payable to group undertakings	(2,730)	(7,939)
Interest payable on bank loans and overdrafts	-	(373)
Interest payable on finance leases	-	(3)
Interest payable on other loans	(86)	(329)
	<u>(2,816)</u>	<u>(8,644)</u>
Interest receivable from group undertakings	20,220	19,952
Other interest receivable	2,880	3,523
Net interest receivable	<u>20,284</u>	<u>14,831</u>

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2001

### 7 Tax on profit on ordinary activities

	Year ended 31 Dec 2001 £000	Year ended 31 Dec 2000 £000
Amounts attributable to associated undertakings	404	231
Overseas deferred tax	-	145
Overseas taxation	(114)	3,533
	<u>290</u>	<u>3,909</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 2001 £000	Year ended 31 Dec 2000 £000
Cumulative preference dividend appropriation	-	1,228

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

Cumulative preference dividend arrears	-	7,675
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The Company now has distributable profits and is able to pay the cumulative arrears on the above preference shares.

### 9 Intangible assets

	31 Dec 2001 £000
<b>Goodwill</b>	
Cost	
At 1 January 2001	2,369
Disposal	(2,369)
At 31 December 2001	-
Amortisation	
At 1 January 2001	115
Charge for the year	160
Disposal	(275)
At 31 December 2001	-
Net book value:	
31 December 2001	-
1 January 2001	2,254

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 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 2001	111,307	21,297	185	17,067	23,109	49,649
Exchange adjustments	(205)	-	-	-	(205)	-
Reclassification	-	-	-	-	49,649	(49,649)
Additions	2,915	-	-	88	2,827	-
Disposals	(88,125)	(19,661)	-	(16,953)	(51,511)	-
31 December 2001	25,892	1,636	185	202	23,869	-
Depreciation:						
1 January 2001	81,895	5,675	63	14,587	19,745	41,825
Exchange adjustments	(193)	-	-	-	(193)	-
Reclassification	-	-	-	-	41,825	(41,825)
Charge for the year	4,280	146	-	112	4,022	-
Disposals	(65,794)	(4,315)	-	(14,661)	(46,818)	-
31 December 2001	20,188	1,506	63	38	18,581	-
Net book value:						
31 December 2001	5,704	130	122	164	5,288	-
1 January 2001	29,412	15,622	122	2,480	3,364	7,824
Historical cost valuation						
31 December 2001	5,674	100	122	164	5,288	-
1 January 2001	29,382	15,592	122	2,480	3,364	7,824

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 £16,000 (31 December 2000 £44,000).



# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 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 2001	248	30	66	152
Reclassification	-	-	152	(152)
Disposals	(15)	(15)	-	-
31 December 2001	233	15	218	-
Depreciation:				
1 January 2001	129	-	17	112
Reclassification	-	-	112	(112)
Charge for the year	23	-	23	-
Disposals	-	-	-	-
31 December 2001	152	-	152	-
Net book value:				
31 December 2001	81	15	66	-
1 January 2001	119	30	49	40
			<b>Group 2001 £000</b>	<b>Group 2000 £000</b>
Capital commitments:				
Authorised and contracted for			39	1,298

The Company has no capital commitments as at 31 December 2001 (31 December 2000 £Nil).

### 11 Obligations under operating leases

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

	Land and buildings 31 Dec 2001 £000	Other 31 Dec 2001 £000	Land and buildings 31 Dec 2000 £000	Other 31 Dec 2000 £000
Group				
Expiry date				
Within one year	404	161	2,043	1,310
Between two and five years	2,178	746	7,572	1,743
After five years	435	-	4,989	-
	3,017	907	14,604	3,053

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 12 Investments in subsidiaries

Company	Cost £000	Provisions £000	Net £000
1 January 2001	259,457	(111,053)	148,404
Additions	-	(17,560)	(17,560)
Disposals	(67,000)	46,069	(20,931)
<b>31 December 2001</b>	<b>192,457</b>	<b>(82,544)</b>	<b>109,913</b>

The principal subsidiaries are shown on page 26.

### 13 Investments in associates

	Share of net assets £000
1 January 2001	4,306
Exchange adjustments	(2)
Additions	-
Disposals	(110)
Reclassification of associates to subsidiary undertakings	-
Retained profit for the year	926
<b>31 December 2001</b>	<b>5,120</b>

	Cost £000	Provisions £000	Net £000
<b>Loans</b>			
1 January 2001	738	(534)	204
Written off during the year	(738)	534	(204)
<b>31 December 2001</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Total investments at 31 December 2001**

**5,120**

Total investments at 31 December 2000

4,510

### 14 Stocks

Group	31 Dec 2001 £000	31 Dec 2000 £000
Raw materials and stocks	362	936
Manufacturing work in progress	-	1,731
	<b>362</b>	<b>2,667</b>

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 15 Debtors

	Group 31 Dec 2001 £000	Group 31 Dec 2000 £000	Company 31 Dec 2001 £000	Company 31 Dec 2000 £000
Trade debtors	53,175	70,514	-	-
Other debtors and prepayments	20,129	25,257	1,985	320
Amounts recoverable on contracts	27,760	33,171	-	-
Amounts owed by group undertakings	521,657	438,939	282,596	209,240
	<b>622,721</b>	<b>567,881</b>	<b>284,581</b>	<b>209,560</b>

Of which amounts falling due after more than one year:

Other debtors and prepayments	1,301	103	-	-
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### 16 Cash at bank and on deposit

Of the total cash and bank balances on the balance sheet, £26.1 million are deposits held in bank sub-accounts that are part of a Kværner ASA group pooling system. In consequence, to the extent that other Kværner ASA group companies have withdrawn amounts from the group pooling system, such amounts represent a receivable from the Kværner ASA group.

### 17 Borrowings

	Group 31 Dec 2001 £000	Group 31 Dec 2000 £000	Company 31 Dec 2001 £000	Company 31 Dec 2000 £000
Borrowings:				
Bank overdrafts	-	-	-	-
Finance leases	-	4	-	-
	-	4	-	-

### 18 Creditors: amounts falling due within one year

	Group 31 Dec 2001 £000	Group 31 Dec 2000 £000	Company 31 Dec 2001 £000	Company 31 Dec 2000 £000
Other creditors:				
Payments in excess of contract valuation	14,771	55,507	-	-
Trade creditors and bills payable	38,553	38,644	21	48
Dividends payable on preference shares	8,903	-	8,903	-
Other creditors including sundry taxes	38,564	32,138	8,695	97
Taxation	805	3,974	-	-
Amounts owed to group undertakings	148,275	214,818	182,900	176,554
Amounts owed to associates	359	242	-	-
Accruals and deferred income	58,244	56,751	1,187	1,189
	<b>308,474</b>	<b>402,074</b>	<b>201,706</b>	<b>177,888</b>

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 19 Borrowings

	31 Dec 2001 £000	31 Dec 2000 £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
Group	<u>1,615</u>	<u>1,665</u>
Aggregate amounts, including instalments, repayable:		
Between one and two years	1,615	4
Between two and five years	-	1,661
After five years	-	-
	<u>1,615</u>	<u>1,665</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

### 20 Creditors: amounts falling due after more than one year

	31 Dec 2001 £000	31 Dec 2000 £000
Other creditors:		
Group		
Accruals and deferred income	<u>1,720</u>	<u>5,031</u>

### 21 Provisions for liabilities and charges

	Group £000	Company £000
1 January 2001	5,767	592
Exchange translation differences	(1,482)	-
Charged/(released) to profit and loss account	3,513	-
Expenditure during the year	(4,239)	(592)
31 December 2001	<u>3,559</u>	<u>-</u>

At 31 December 2001, 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 2001

### 22 Called up share capital

31 December 2001  
and 31 December 2000

	Number	£000
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.

The Company now has distributable profits and is able to pay the cumulative arrears on, and to redeem, the above preference shares.

### Share premium account

31 December 2001  
and 31 December 2000

	£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 2001

### 23 Reserves

	Total £000	Profit and loss account £000	Revaluation reserve £000
Group			
1 January 2001	45,390	45,360	30
Foreign exchange adjustments	(433)	(433)	-
Profit for the year	131,765	131,765	-
Reverse preference share appropriation	(7,675)	(7,675)	-
<b>31 December 2001</b>	<b>169,047</b>	<b>169,017</b>	<b>30</b>
Company			
1 January 2001	(5,785)	(5,815)	30
Profit for the year	20,027	20,027	-
Reverse preference share appropriation	(7,675)	(7,675)	-
<b>31 December 2001</b>	<b>6,567</b>	<b>6,537</b>	<b>30</b>

### 24 Reconciliation of movements in shareholders' funds

	31 Dec 2001 £000	31 Dec 2000 £000
Profit/(loss) for the year attributable to shareholders	132,993	(37,639)
Foreign exchange adjustments	(433)	335
Dividends	(1,228)	(1,228)
Preference share appropriation	-	1,228
Reverse preference share appropriation	(7,675)	-
Net increase/(decrease) to shareholders' funds	123,657	(37,304)
Opening shareholders' funds	231,795	269,099
Closing shareholders' funds	355,452	231,795

### 25 Profit of the Company

The consolidated profit for the financial year includes a profit of £21,255,000 (2000, profit of £2,737,000) 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.

### 26 Minority interests

	Equity £000
At 1 January 2001	11,840
Profit on ordinary activities after taxation	(229)
Dividends paid	(288)
Exchange differences	24
<b>At 31 December 2001</b>	<b>11,347</b>

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2001

### 27 Derivatives and Other Financial Instruments

#### Financial Risk Management Policy

Kvaerner E&C PLC and its subsidiaries are members of the Kvaerner ASA group of companies (with ultimate holding company Kvaerner ASA) and are governed by prudent financial policies and procedures implemented for the whole of Kvaerner 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 Kvaerner 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 2001.

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 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 2001.

The Group's financial assets include cash held in bank accounts that are part of the Kvaerner ASA 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.

Financial assets	Floating		Interest
	Total	Rate	Free
	£m	£m	£m
Sterling	478.4	460.9	17.5
Other	79.3	56.1	23.2
Total	557.7	517.0	40.7

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.

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2001

### 27 Derivatives and Other Financial Instruments (continued)

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	72.1	2.1	1.6	68.4	5.48%	2.7
- Non equity shares	35.1	-	35.1	-	3.50%	*
Other	52.7	47.9	-	4.8	-	-
<b>Total</b>	<b>159.9</b>	<b>50.0</b>	<b>36.7</b>	<b>73.2</b>		

\*Details of Non equity shares are contained in note 22.

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 2001 was as follows:

	Non-equity shares £m	Borrowings £m	Total £m
In 1 year or less or on demand	35.1	121.0	156.1
More than 1 year but not more than 2 years	-	3.8	3.8
More than 1 year but not more than 5 years	-	-	-
<b>Total</b>	<b>35.1</b>	<b>124.8</b>	<b>159.9</b>

#### Borrowing facilities

The Group has no undrawn committed borrowing facilities at 31 December 2001.

#### 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 2001, is listed below:

Currency	Original currency		Sterling	
	Net buy m	Net sale m	Net buy £m	Net sale £m
Euros	11.5	-	7.0	-
Swiss Francs	-	1.2	-	0.5
Sterling	39.1	-	39.1	-
US Dollars	-	67.6	-	46.6
South African Rand	-	46.1	-	2.6
Australian Dollars	10.8	-	3.8	-
<b>Total</b>			<b>49.9</b>	<b>49.7</b>



# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2001

### 27 Derivatives and Other Financial Instruments *(continued)*

#### 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 2001:

	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the Group's operations		
Financial assets	557.7	557.7
Financial liabilities	124.8	124.8
Derivative financial instruments held to manage the currency profile		
Forward foreign currency contracts (transaction hedges)	-	(0.6)
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 22

#### Gains and losses on hedges

The Kvaerner E&C PLC group of companies as members of the 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 2001 (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 2001 is as follows:

£m	Gains 2001	Loss 2001	Net 2001
Gains and losses arising in previous years not recognised in the year	-	-	-
Gains and losses not recognised in the year arising in the year	1.4	(2.0)	(0.6)
<b>Gains and losses on hedges at 31.12.01</b>	<b>1.4</b>	<b>(2.0)</b>	<b>(0.6)</b>
Of which:			
Gains and losses expected to be recognised in 2002	1.4	(0.9)	0.5
Gains and losses expected to be recognised in 2003 or later	-	(1.1)	(1.1)

# KVAERNER E&C PLC

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* For the year ended 31 December 2001

### 28 Contingencies, post balance sheet events, strategic review and financing

Kvaerner E&C PLC and other members of the Kværner ASA group are co-dependent on each other for funding support. In this connection, it should be noted that in December 2001, the Kværner ASA shareholders approved a financing plan for the group at an extraordinary general meeting, which has provided a solid financial platform. The main elements are:

- Restructuring of NOK 4.5 billion of Kværner ASA's debt to a 10 year subordinated bullet loan to be interest free for the first five years and carry interest of 5.0% p.a. thereafter. Completed 10 January 2002.
- Conversion of approximately NOK 4.1 billion of Kværner ASA's debt to a 3 year senior secured bullet loan carrying interest at Libor + 1.25%. Completed 10 January 2002.
- A directed issue of 250 million shares for a consideration of NOK 2.0 billion to new investors and a preferential rights issue of 187.5 million shares to existing shareholders for a consideration of NOK 1.5 billion. Completed 10 January 2002 and 8 February 2002 respectively.

The carrying value of receivables between the Kvaerner E&C PLC and Kværner ASA group are unaffected by this restructuring.

#### 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.

### 29 Ultimate parent undertaking

The ultimate parent company is 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 2001

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, 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.

#### Technology

+ 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

## PRINCIPAL ASSOCIATES

31 December 2001

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