1125.

Kvaerner E&C PLC

Report and Accounts
for the year ended
31 December 1999

DIRECTORS' REPORT

The directors have pleasure in submitting their report and accounts for the year ended 31 December 1999.

Change of name

The name of the Company was changed from Kvaerner Process PLC to Kvaerner E&C PLC on 15 January 1999.

Principal activities

The principal subsidiaries and associates of the Kvaerner E&C PLC Group and their activities are listed on pages 27 and 28.

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 £806.3 million (year ended 31 December 1998 £937.8 million). The loss before tax for the year was £35.8 million (year ended 31 December 1998 profit £7.5 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 1999 (year ended 31 December 1998 £nil).

Details of significant events since the balance sheet date are contained in note 27 to the accounts.

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

Future developments

In April 1999 the board of Kværner implemented a comprehensive plan to return the group to profitable performance through a more focused strategy, improved cost-efficiency and a reduced risk profile, and would regain the Group's financial strength, through a significant reduction in net debt, improved cash flow and a slimmer balance sheet.

Investments

On 1 January 1999, the group acquired the business and assets of the Kvaerner Redpath business from Kvaerner Cleveland Bridge Limited, at book value.

On 16 March 1999, Kvaerner E&C PLC and Kvaerner Process Overseas Holdings Limited, a wholly owned subsidiary of the Company, sold their interests in the entire share capital of Negri Bossi SpA for a consideration of £1.7 million.

On 27 May 1999, Kvaerner Process Overseas Holdings Limited, a wholly owned subsidiary of the Company acquired a 95% interest in Kvaerner Heurtey (France) SA and an 87.5% interest in Kvaerner Heurtey Italiana SrL from another Company in the Kvaerner Group, Kvaerner Process (France) SA, for a consideration of FRF16.7 million.

Board of directors

The directors who served during the year were as follows :

D G Moorhouse (Chief Executive) (resigned 9 April 1999)
J W S Fletcher (resigned 31 December 1999)
B Bale (resigned 12 July 1999)
M St J Holt (resigned 9 April 1999)
J A Murphy (appointed 13 January 1999)
M Foster (appointed 13 January 1999 resigned 31 January 2000)
P C Bond (appointed 13 January 2000)
K N Henry (Chief Executive) (appointed 7 March 2000)
T G Snow (appointed 13 January 2000)
D J Tomlinson (appointed 13 January 2000)

No chairman has been appointed.

DIRECTORS' REPORT continued

Directors' share interests

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

Charitable and Political Contributions

During the year, the group made charitable contributions of £11,000 (year ended 31 December 1998 £53,000). There were no political contributions in either the current year or the prior year.

Employment policies

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

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

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

Year 2000

Due to the rigorous adoption of Kværner's Millennium Policies, Procedures and Guidelines, no significant problems were encountered within Kværner as a result of the Millennium rollover.

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 50 days (1998 59 days).

Auditors

Arthur Andersen have indicated that they will be resigning as auditors of the Company. Accordingly a resolution to appoint KPMG as auditors of the Company in place of Arthur Andersen will be proposed at the Annual General Meeting.

By Order of the Board

D B Hadley
Secretary

D B Hadley

3 July 2000
Registered office:
20 Eastbourne Terrace
London W2 6LE

Registered number: 1125

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts.

In preparing those Accounts, the directors are required to:

- select appropriate 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 departure disclosed and explained in the Accounts.

The directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The above statement should be read in conjunction with the audit report set out on page 4.

REPORT OF THE AUDITORS

To the Shareholders of Kvaerner E&C Plc

We have audited the Accounts on pages 5 to 28 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 3, the directors are responsible for preparing the accounts in accordance with applicable Untied Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 Accounts 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 Accounts.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures set out in Note 27 relating to the contingencies post balance sheet events, strategic review and financing of the ultimate holding company, Kværner ASA, and its subsidiaries including Kvaerner E&C PLC. In particular, we draw attention to the disclosure of the uncertainties relating to the compliance of the Kværner ASA group with the covenants related to its banking arrangements and the group's plans to raise further capital. In view of the significance of these matters and their potential impact on the going concern basis adopted in these accounts, we believe that they should be brought to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1999 and the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

3 July 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1999

	Notes	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Turnover - continuing operations		**776,718**	873,159
- acquisitions		**22,684**	-
- discontinued operations		**6,889**	64,676
	2	**806,291**	937,835
Cost of sales - continuing operations		**(736,853)**	(816,901)
- acquisitions		**(20,719)**	-
- discontinued operations		**(5,378)**	(50,290)
		(762,950)	(867,191)
Gross profit - continuing operations		**39,865**	56,258
- acquisitions		**1,965**	-
- discontinued operations		**1,511**	14,386
		43,341	70,644
Net administration expenses - continuing operations		**(81,680)**	(63,728)
- acquisitions		**(1,518)**	-
- discontinued operations		**(1,591)**	(10,378)
		(84,789)	(74,106)
Operating (loss)/profit - continuing operations		**(41,815)**	(7,470)
- acquisitions		**447**	-
- discontinued operations		**(80)**	4,008
	2,3	**(41,448)**	(3,462)
Share of associates' operating profit	2	**382**	2,742
Operating loss		**(41,066)**	(720)
Loss on disposal of discontinued operations	4	**(6,494)**	(4,269)
Loss on ordinary activities before interest and taxation		**(47,560)**	(4,989)
Net interest receivable	6	**11,806**	12,511
(Loss)/profit on ordinary activities before taxation		**(35,754)**	7,522
Tax on (loss)/profit on ordinary activities	7	**(4,811)**	(5,561)
(Loss)/profit on ordinary activities after taxation		**(40,565)**	1,961
Minority interests	25	**(26)**	(3,717)
Loss attributable to shareholders		**(40,591)**	(1,756)
Dividends:			
Cumulative preference dividend	8	**(1,228)**	(1,228)
Retained loss	22	**(41,819)**	(2,984)

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 1999

	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Loss for the financial period attributable to shareholders	**(40,591)**	(1,756)
Translation difference on revaluation reserves	**-**	(502)
Currency translation differences on foreign currency net investments taken directly to reserves	**(2,288)**	552
Total recognised gains and losses relating to the period	**(42,879)**	(1,706)

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

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

BALANCE SHEETS
as at 31 December 1999

	Notes	Group 31 Dec 1999 £000	Group 31 Dec 1998 £000	Company 31 Dec 1999 £000	Company 31 Dec 1998 £000
Fixed assets					
Intangible assets	9	**2,309**	2,369	-	-
Tangible assets	10	**27,978**	41,930	**144**	138
Investments in subsidiaries	12	-	-	**148,754**	157,320
Investments	13	**5,328**	5,162	-	-
		35,615	49,461	**148,898**	157,458
Current assets					
Stocks	14	**14,712**	43,902	-	
Debtors	15	**622,546**	676,630	**204,738**	164,490
Cash at bank and in hand		**14,761**	69,045	**2,830**	8,734
		652,019	789,577	**207,568**	173,224
Creditors: amounts falling due within one year					
Borrowings	16	**(9)**	(4,141)	-	-
Other creditors	17	**(385,427)**	(477,565)	**(176,291)**	(157,695)
Net current assets		**266,583**	307,871	**31,277**	15,529
Total assets less current liabilities		**302,198**	357,332	**180,175**	172,987
Creditors: amounts falling due after more than one year					
Borrowings	18	**(1,696)**	(1,702)	**(1,615)**	(1,615)
Other creditors	19	**(12,675)**	(24,305)	-	-
Provisions for liabilities and charges	20	**(2,474)**	(3,416)	**(677)**	(183)
Net assets		**285,353**	327,909	**177,883**	171,189
Capital and reserves					
Called up share capital	21	**186,089**	186,089	**186,089**	186,089
Share premium account	21	**316**	316	**316**	316
Revaluation reserve	22	**30**	2,765	**30**	30
Profit and loss account	22	**87,654**	127,798	**(8,552)**	(15,246)
Equity shareholders' funds		**232,567**	276,674	**136,361**	130,895
Non-equity shareholders' funds		**41,522**	40,294	**41,522**	40,294
Shareholders' funds		**274,089**	316,968	**177,883**	171,189
Equity minority interests	25	**11,264**	10,941	-	-
		285,353	327,909	**177,883**	171,189

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

These Accounts were approved by the board of directors on 3 July 2000 and signed on its behalf by

J A Murphy
Director

1 Accounting policies

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

a Accounting convention

The Accounts are prepared under the historical cost convention, except for the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

b Basis of consolidation

The Accounts consolidate the results of the Company and its subsidiary undertakings ("subsidiaries") and include the group's share of the results and post-acquisition reserves of its associated undertakings ("associates"). The principal subsidiaries and associates are listed on pages 27 and 28. The results of subsidiaries acquired during the year are included in continuing operations from the effective date of acquisition; those of subsidiaries sold during the year are included up to the effective date of disposal. The Company, as permitted by Section 230 of the Companies Act 1985, does not present its profit and loss account.

c Cash flow statement

The Company is exempt from the requirements of FRS 1 (revised) to include a cash flow statement as part of its Accounts as it is a wholly owned subsidiary of 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.

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.

g Tangible assets and depreciation

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

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

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

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

h Leased assets

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

i Fixed asset investments

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

j Long term contract work in progress

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

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

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

k Stocks

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

l Goodwill

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

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

m Research and development

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

n Pensions

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

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

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

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

NOTES TO THE ACCOUNTS continued
31 December 1999

2 Analysis by class of business and geographical area

	Turnover 1999 £000	Turnover 1998 £000	Operating profit/(loss) 1999 £000	Operating profit/(loss) 1998 £000	Net* operating assets/liab 1999 £000	Net* operating assets/liab 1998 £000
By class of business:						
Engineering and construction	**799,402**	873,159	**(41,368)**	(7,470)	**228,421**	197,664
Plastics and other engineering	**6,889**	64,676	**(80)**	4,008	**47,920**	58,257
	806,291	937,835	**(41,448)**	(3,462)	**276,341**	255,921
By geographical area - origin:						
United Kingdom	**636,116**	793,885	**(51,194)**	(6,902)	**301,810**	272,383
France	**22,684**	5,126	**447**	(300)	**(1,572)**	307
Other Europe	**93,917**	71,345	**7,086**	13,085	**(10,477)**	(7,296)
Asia and Africa	**3,579**	38,349	**(646)**	(8,289)	**(11,137)**	(9,353)
Australasia	**49,995**	29,130	**2,859**	(1,056)	**(2,283)**	(120)
	806,291	937,835	**(41,448)**	(3,462)	**276,341**	255,921
By geographical area - *destination*:						
United Kingdom	**458,229**	512,098				
Europe	**151,812**	160,001				
Americas	**65,952**	66,628				
Asia	**92,019**	149,380				
Australasia	**21,659**	32,281				
Africa	**16,620**	17,447				
	806,291	937,835				

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

Share of associates pre-tax results and assets

	Turnover 1999 £000	Turnover 1998 £000	Operating profit/(loss) 1999 £000	Operating profit/(loss) 1998 £000	Net interest 1999 £000	Net interest 1998 £000	Profit/(loss) before tax 1999 £000	Profit/(loss) before tax 1998 £000	Net assets 1999 £000	Net assets 1998 £000
Engineering & Construction	**6,459**	12,944	**382**	2,742	**88**	-	**470**	2,742	**5,328**	5,162
	6,459	12,944	**382**	2,742	**88**	-	**470**	2,742	**5,328**	5,162

Dividends in the year from associates amounted to £1,174 (1998 £Nil)

3 Operating profit

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

		Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Auditors' remuneration			
	- audit	276	169
	- other	32	44
Depreciation and amounts written off tangible fixed assets			
	- owned	8,701	7,631
	- held under finance leases	38	-
	- amortisation of goodwill	60	125
Research and development - current year expenditure		3,406	4,788
Operating lease rentals			
	- plant and machinery	6,169	5,697
	- other	10,597	7,258
Government grants		(705)	-

4 Exceptional Items

	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Loss on disposal of discontinued activities	6,494	4,269
	6,494	4,269

5 Directors and group employees

	Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
The emoluments of the directors of the Company were:		
Emoluments	575,656	481,186
	575,656	481,186
Emoluments of the highest paid director :		
Basic emoluments	254,081	303,511
	254,081	303,511

Pensions

The number of directors who were members of defined benefit pension schemes was 3 (31 December 1998, 4)

The amount of accrued pension at the year end for the highest paid director was £14,086 (31 December 1998, £92,108)

5 Directors and group employees continued

	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Other information on directors and employees:		
Director and employee costs:		
Wages and salaries	**264,432**	190,565
Social security costs	**28,872**	20,316
Employers' pension contributions	**10,884**	10,293
	304,188	221,174

	1999 Number	1998 Number
Average monthly number of persons employed by the group (including executive directors):		
Engineering and construction	**8,353**	8,720
Plastics and other engineering	**171**	343
	8,524	9,063

6 Net interest receivable

	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Interest payable to group undertakings	**(8,417)**	(9,292)
Interest payable on bank loans and overdrafts	**(105)**	(1,188)
Interest payable on finance leases	**(8)**	(11)
Interest payable on other loans	**(516)**	(2,036)
	(9,046)	(12,527)
Interest receivable from group undertakings	**18,655**	21,036
Other interest receivable	**2,197**	4,002
Net interest receivable	**11,806**	12,511

7 Tax on profit on ordinary activities

	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
United Kingdom corporation tax:		
Current year provision at 31.0% (1998 31.0%)	2,451	1,202
Less: Double taxation relief	(2,451)	(1,202)
	-	-
Amounts attributable to associated undertakings	158	801
Overseas deferred tax	227	-
Overseas taxation	4,426	4,508
Adjustments to UK tax with respect to prior years	-	252
	4,811	5,561

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 1999 £000	Year ended 31 Dec 1998 £000
Cumulative preference dividend appropriation	1,228	1,228

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

Cumulative preference dividend arrears	6,447	5,219

9 Intangible assets

Group	Year ended 31 Dec 1999 £000	Year ended 31 Dec 1998 £000
Goodwill		
Cost		
At 1 January 1999	2,369	-
Additions	-	2,369
At 31 December 1999	2,369	2,369
Amortisation		
At 1 January 1999	-	-
Charge for the year	60	-
At 31 December 1999	60	-
Net book value:		
31 December 1999	2,309	-
1 January 1999	2,369	2,369

10 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	Fixtures, fittings and equipment £000
Group						
Cost or valuation:						
1 January 1999	127,928	23,821	185	16,481	41,641	45,800
Additions	11,619	3,755	122	260	2,475	5,007
Disposals	(31,287)	(9,202)	-	(253)	(16,641)	(5,191)
Exchange adjustments	(1,711)	(442)	-	(2)	(495)	(772)
31 December 1999	106,549	17,932	307	16,486	26,980	44,844
Depreciation:						
1 January 1999	85,998	4,256	55	13,187	33,425	35,075
Charge for the year	13,439	606	8	537	6,441	5,847
Disposals	(19,847)	(2,190)	-	(110)	(13,824)	(3,723)
Exchange adjustments	(1,019)	(46)	-	-	(280)	(693)
31 December 1999	78,571	2,626	63	13,614	25,762	36,506
Net book value:						
31 December 1999	**27,978**	**15,306**	**244**	**2,872**	**1,218**	**8,338**
1 January 1999	41,930	19,565	130	3,294	8,216	10,725

	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
Historical cost valuation						
31 December 1999	**27,948**	**15,276**	**244**	**2,872**	**1,218**	**8,338**
1 January 1999	38,549	18,907	130	571	8,216	10,725

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 £91,000 (31 December 1998 £Nil).

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 1999	236	30	13	193
Additions	58	-	58	
Disposals	(31)	-	-	(31)
31 December 1999	263	30	71	162
Depreciation:				
1 January 1999	98	-	12	86
Charge for the year	52	-	3	49
Disposals	(31)	-	-	(31)
31 December 1999	119	-	15	104
Net book value:				
31 December 1999	**144**	**30**	**56**	**58**
1 January 1999	138	30	1	107

	Group 1999 £000	Group 1998 £000
Capital commitments:		
Authorised and contracted for	-	580

The Company has no capital commitments as at 31 December 1999 (31 December 1998 £Nil).

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

	Land and buildings 31 Dec 1999 £000	**Other 31 Dec 1999 £000**	Land and buildings 31 Dec 1998 £000	Other 31 Dec 1998 £000
Group				
Expiry date				
Within one year	**1,941**	**860**	2,959	863
Between two and five years	**5,822**	**1,798**	3,172	1,670
After five years	**5,958**	**-**	5,981	-
	13,721	**2,658**	12,112	2,533

12 Investments in subsidiaries

	Company 1999 £m	Company 1998 £m
Cost	261,533	261,533
Disposals	(8,566)	-
Provisions	(104,213)	(104,213)
	148,754	157,320

The principal subsidiaries are shown on page 27.

On 1 January 1999, the group acquired the business and assets of the Kvaerner Redpath business from Kvaerner Cleveland Bridge Limited. It is not practicable to determine the precise post-acquisition results of the Redpath business for the year ended 31 December 1999 as its activities have been merged into those of a group company. However, the directors estimate that the business contributed turnover of approximately £74 million and operating profit of £1.0 million in 1999. These figures are included within the results of continuing operations shown in the group profit and loss account.

On 27 May 1999, Kvaerner Process Overseas Holding Limited, a wholly owned subsidiary of the company acquired interests in Kvaerner Heurtey (France) SA and Kvaerner Heurtey Italiana Srl.

The Fair Values of assets acquired are shown in the table below:

		Fair Value Adjustments		
	NBV £000's	Revaluations £000's	Accounting Policy alignments £000's	Fair value to the group £000's
Tangible fixed assets	1,633	-	-	1,633
Current assets	47,598	-	-	47,598
Current liabilities	(42,571)	-	-	(42,571)
Net assets acquired	1,670	-	-	6,660
Consideration				6,660

The book values of the assets and liabilities have been taken from the management accounts of those companies at 1 January 1999 and the end of April 1999 respectively.

<u>Sale of Plastics Machinery</u>

On 16 March 1999, the group sold the remainder of the Plastics Machinery business.

Net assets disposed of and the related sales proceeds were as follows:

	£000's
Fixed assets	4,768
Current assets	51,874
Creditors	(22,448)
Net assets	34,194
Loss on sale	(6,494)
Sale proceeds	27,700

13 Investments in associates

	Share of net assets £000
1 January 1999	4,958
Exchange adjustments	113
Disposals	(259)
Retained profit for the year	312
31 December 1999	5,124

	Cost £000	Provisions £000	Net £000
Loans			
1 January 1999 and 31 December 1999	738	(534)	204

Total investments at 31 December 1999	**5,328**
Total investments at 31 December 1998	5,162

14 Stocks

Group	**31 Dec 1999 £000**	31 Dec 1998 £000
Raw materials and stocks	**10,065**	11,394
Manufacturing work in progress	**4,647**	30,078
Finished goods	**-**	2,430
	14,712	43,902

15 Debtors

	Group 31 Dec 1999 £000	Group 31 Dec 1998 £000	**Company 31 Dec 1999 £000**	Company 31 Dec 1998 £000
Trade debtors	**70,785**	120,845	**-**	-
Other debtors and prepayments	**28,972**	18,721	**639**	726
Amounts recoverable on contracts	**71,555**	85,062	**-**	-
Amounts owed by associates	**995**	631	**-**	-
Amounts owed by group undertakings	**450,239**	451,371	**204,099**	163,764
	622,546	676,630	**204,738**	164,490
Of which amounts falling due after more than one year	**456**	-	**-**	-

16 Creditors: amounts falling due within one year

	Group 31 Dec 1999 £000	Group 31 Dec 1998 £000	**Company 31 Dec 1999 £000**	Company 31 Dec 1998 £000
Borrowings:				
Bank overdrafts	**5**	4,116	**-**	-
Finance leases	**4**	25	**-**	-
	9	4,141	**-**	-

17 Creditors: amounts falling due within one year

	Group 31 Dec 1999 £000	Group 31 Dec 1998 £000	**Company 31 Dec 1999 £000**	Company 31 Dec 1998 £000
Other creditors:				
Payments in excess of contract valuation	**26,066**	71,502	-	-
Trade creditors and bills payable	**57,990**	77,140	**183**	470
Other creditors including sundry taxes	**9,113**	14,263	**204**	87
Taxation	**4,560**	6,513	**31**	31
Amounts owed to group undertakings	**222,367**	202,786	**173,929**	156,022
Amounts owed to associates	**491**	189	-	-
Accruals and deferred income	**64,840**	105,172	**1,944**	1,085
	385,427	477,565	**176,291**	157,695

18 Creditors: amounts falling due after more than one year

	31 Dec 1999 £000	31 Dec 1998 £000
Borrowings:		
Company		
5 5/8% Secured Loan stock 2003	**1,331**	1,331
4 7/8% Secured Loan stock 2003	**284**	284
	1,615	1,615
Subsidiaries		
Finance leases	**81**	87
Group	**1,696**	1,702
Aggregate amounts, including instalments, repayable:		
Between one and two years	**4**	87
Between two and five years	**1,615**	1,615
After five years	**77**	-
	1,696	1,702

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

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

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

19 Creditors: amounts falling due after more than one year

	31 Dec 1999 £000	31 Dec 1998 £000
Other creditors:		
Group		
Accruals and deferred income	**12,675**	24,305

20 Provisions for liabilities and charges

	Group £000	Company £000
1 January 1999	3,416	183
Exchange translation differences	(85)	-
Charged to profit and loss account	1,648	788
Expenditure during the year	(2,777)	(294)
Transferred from creditors	272	-
31 December 1999	**2,474**	**677**

At 31 December 1999 after provisions for the group included amounts in respect of deferred tax, building dilapidations and warranties.

21 Called up share capital

	31 December 1999 and 31 December 1998 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		**190,075**
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		**186,089**

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

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

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

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

21 Called up share capital (cont.)

Share premium account

	31 December 1999 and 31 December 1998 £000
Share premium account attributable to equity shareholders	316

22 Reserves

	Total £000	Profit and loss account £000	Revaluation reserve £000
Group			
1 January 1999	130,563	127,798	2,765
Foreign exchange adjustments	(2,288)	(2,288)	-
Loss for the year	(41,819)	(41,819)	-
Transfers on disposals	-	2,735	(2,735)
Preference share appropriation	1,228	1,228	-
31 December 1999	**87,684**	**87,654**	**30**
Company			
1 January 1999	(15,216)	(15,246)	30
Profit for the year	5,179	5,179	-
Exchange differences	287	287	-
Preference share appropriation	1,228	1,228	-
31 December 1999	(8,522)	(8,552)	30

23 Reconciliation of movements in shareholders' funds

	31 Dec 1999 £000	31 Dec 1998 £000
Loss for the year attributable to shareholders	**(40,591)**	(1,756)
Other recognised net (losses)/gains relating to the year	**(2,288)**	50
Dividends	**(1,228)**	(1,228)
Preference share appropriation	**1,228**	1,228
Transfer from revaluation reserve on disposals	-	-
Transfer of goodwill on disposals	-	3,682
Net (decrease)/ increase to shareholders' funds	**(42,879)**	1,976
Opening shareholders' funds	**316,968**	314,992
Closing shareholders' funds	**274,089**	316,968

24 Profit of the Company

The consolidated profit for the financial year includes a profit of £5,179,000 (1998, profit of £5,241,000) which is dealt with in the Accounts 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 1999	10,941
Profit on ordinary activities after taxation	26
Dividends paid	13
Acquisition of subsidiary undertakings	270
Exchange differences	14
At 31 December 1999	11,264

26 Derivatives and Other Financial Instruments

Financial Risk Management Policy

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

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

Foreign Currency Risk

The Kvaerner E&C PLC Group's transactional foreign currency exposures derive from its contractual based business operations in the area of Engineering and Construction. These businesses often enter into large contracts with contract duration of more than one year. The Group's policy requires all Business Units to hedge with Group Treasury all trade generated exposures at the time of commitment, by way of entering into forward currency contracts and currency option agreements. The Kvaerner E&C PLC group of companies have no currency options outstanding as at 31 December 1999.

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

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

Interest rate risk

The Kvaerner Group's exposure to interest rate fluctuations on its borrowings, deposits and other interest bearing items is managed centrally by Group Treasury and any hedge by use of interest rate derivatives, interest rate swaps and options etc., are therefore only used at Group Treasury level. The Kvaerner E&C PLC Group has no interest rate swaps outstanding as at 31 December 1999.

The Group's financial assets include cash held in bank accounts that are part of the Kvaerner Group's cash pooling arrangements, loans to the Kv□rner 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.

26 Derivatives and Other Financial Instruments (cont.)

Financial assets	Total £m	Floating Rate £m	Interest Free £m
Sterling	406.3	312.7	93.6
Other	50.9	42.0	8.9
Total	457.2	354.7	102.5

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

Financial Liabilities	Total £m	Floating Rate £m	Fixed Rate £m	Interest Free £m	Weighted average rate	Weighted average years for which rate is fixed
Sterling						
- Borrowings	153.8	96.9	1.6	55.3	5.43%	2.7
- Non equity shares	35.1	-	35.1	-	3.50%	*
Other	56.4	30.0	-	26.4	-	-
Total	245.3	126.9	36.7	81.7	-	-

*Details of Non equity shares are contained in note 21

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

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 1999 was as follows:

	Non-equity shares	Borrowings	Total
In 1 year or less or on demand	-	195.9	195.9
More than 1 year but not more than 2 years	10.2	12.7	22.9
More than 1 year but not more than 5 years	-	1.6	1.6
More than 5 years	24.9	-	24.9
Total	35.1	210.2	245.3

Borrowing facilities

The group has no undrawn committed borrowing facilities at 31 December 1999.

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 1999, is listed below:

26 Derivatives and Other Financial Instruments (cont.)

Currency	Original currency Net buy m	Net sale m	Sterling Net buy £m	Net sale £m
Australian Dollars		1.1		0.4
Euros	0.9		0.6	
Sterling	26.4		26.4	
US Dollars		42.9		26.5
Total			27.0	27.0

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 1999

	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the Group's operations		
Financial assets	447.2	447.2
Financial liabilities	242.0	242.0
Derivative financial instruments held to manage the currency profile		
Forward foreign currency contracts (transaction hedges)	-	(0.4)
Forward foreign currency contracts (translation hedges)	-	0.4

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 contained in note 21

Gains and losses on hedges

The Kvaerner E&C PLC group of companies as members of the Kvaerner Group uses an accounting principle including percentage of completion as a basis for its recognition of operating revenues and operating costs. Transactional currency hedges are therefore integrated with the underlying project accounting method and are recognised in the profit and loss account in line with the completion ratio of the contracts under construction. For those transaction currency hedges that have matured in the current accounting year, the recognition of profit or loss from the hedge is treated as operating revenue or operating costs. For those transaction currency hedges that are outstanding as at 31 December 1999 (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 1999 is as follows:

£m	**Gains 1999**	**Loss 1999**	**Net 1999**
Gains and losses arising in previous years not recognised in year	-	-	-
Gains and losses not recognised in the year arising in the year	0.6	0.6	-
Gains and losses on hedges at 31.12.99	0.6	0.6	-
Of which:			
Gains and losses expected to be recognised in 2000	0.6	0.6	-
Gains and losses expected to be recognised in 2001			

27 Contingencies, post balance sheet events and 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 (see notes 15 and 17 for balances outstanding at year end). In this connection, it should be noted that in April 1999, Kværner ASA announced a far-reaching strategic restructuring with a view to returning the Group to profitable performance and significantly reducing group borrowings. The directors of the company are working with other members of the Kværner ASA group to implement the restructuring plan and to ensure adequacy of financing.

The Kværner ASA group principal loan facilities contain certain financial covenants relating to gross borrowings, shareholders' equity and interest coverage. Certain of the accounting provisions created in connection with the restructuring programme relate to potential losses anticipated on the sale of the Kværner ASA group's shipbuilding activities. In its calculation of certain of the financial covenants, Kværner ASA has excluded the provision and is of the opinion that it is in compliance with these covenants.

The board of Kværner ASA has recommended a NOK 2.5 billion rights issue, which was approved at an Extraordinary General Meeting held on 19 June 2000. The proposed equity increase is fully underwritten. The group is also raising additional funds through asset disposals and securitisations, which are at an advanced stage. Three key objectives have been defined for the use of proceeds realised: the strengthening of Kværner ASA's balance sheet to establish a sound financial platform; scope for further reductions in net interest bearing debt; and the flexibility to assist a growth and development strategy in the core businesses. The group's borrowing facilities include a US$800m revolving facility expiring on 29 June 2001. The group expects to be able to renew or replace this facility.

Forecasts prepared by Kværner ASA group for the period ending 30 June 2001 assume the satisfactory completion of the rights issue referred to above and indicate that the group will be in compliance with the financial covenants, as interpreted above, for the period and these accounts have been prepared on this basis. The group expects to be able to operate within its facilities over the coming year and within those expected to be agreed when the group's bankers consider their renewal on renewal dates arising during this period. However, there can be variances between forecasts and actual results, and there can be no assurance over the Kværner ASA Group's ability to meet all covenants contained in its lending agreements or the lenders' willingness to extend waivers or amend terms to avoid any actual or anticipated breaches of such covenants.

The accounts have been prepared on the going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the successful conclusion of the matters referred to above. The accounts do no include any adjustments that would result if these matters were not concluded satisfactorily.

Post year end disposals

Since the year end the disposal of the Thermal Energy business has been concluded. Aggregate sales proceeds are £44.7 million and the profit on disposal is not expected to be material.

Legal disputes

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

Hadeed

Kvaerner's Engineering & Construction business area is seeking payment of approximately USD 40 million for the contract balance from, and delays and changes by, Saudi Iron Steel ("Hadeed") under the EPC contract for a Direct Reduced Iron Plant in Saudi.

27 Contingencies, post balance sheet events and strategic review and financing (cont.)

Other uncertainties relating to the Kværner ASA group

The directors are also aware that there is significant uncertainty attached to the valuation of certain contracts, assets and disputes relating to the Kværner ASA group. The auditors' report on the 1999 accounts of Kværner ASA, whilst not qualified in respect of these, contained an emphasis of matter note referring to the uncertainties described in the notes to the accounts.

28 Ultimate parent undertaking

The ultimate parent company is Kværner ASA which heads the largest group in which the results of the Company are consolidated.

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

PRINCIPAL SUBSIDIARIES
31 December 1999

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

ENGINEERING AND CONSTRUCTION
Process engineering
Kvaerner E&C UK Limited
\+ Kvaerner Process (Netherlands) BV - Netherlands
\+ Kvaerner E&C Australia Pty Ltd - Australia
Total engineering, management, construction and commissioning services to the hydrocarbons, chemicals and polymers, pharmaceutical, transportation, environmental and other process and energy related industries.

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

Technology
Kvaerner Process Technology Limited
\+ Kvaerner Process Technology (Switzerland) AG - Switzerland
\+ Kvaerner Heurtey (France) SA - France
\+ Kvaerner Heurtey Italiana SrL - Italy
Development and design of licensed technology for the chemicals, petroleum, petrochemical and other related process industries.

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

Offshore construction
Trafalgar House Offshore Holdings Limited
Holding Company for the UK Oil & Gas division of Kværner.

\+ Kvaerner Oil & Gas Limited
Principal trading company of the UK Oil & Gas division of Kværner.

PRINCIPAL ASSOCIATES
31 December 1999

Listed below are the principal associates (none of which are directly held by the Company), their country of incorporation, their main areas of operation and details of their issued capital and the percentage held. Companies not audited by Arthur Andersen are marked *

	Principal area of operation	Issued capital	Percentage held
* Kvaerner Powergas India Limited - India	India	235,000 INR Ordinary shares	49
* Masaood John Brown Limited - United Arab Emirates	United Arab Emirates	200 AED 1,000 Ordinary shares	49

FIVE YEAR FINANCIAL RECORD

	1995 £000	1996 £000	1997 £000	1998 £000	**1999 £000**
Turnover	861,488	1,219,974	847,444	937,835	**806,291**
Profit/(loss) before taxation	(24,677)	31,939	48,990	7,522	**(35,754)**
Profit/(loss) after taxation and minority interests	(39,612)	19,525	46,272	(1,756)	**(40,591)**
Profit/(loss) retained	(37,840)	17,990	45,044	(2,984)	**(41, 819)**
Ordinary shareholders' funds	215,864	231,637	275,926	276,674	**232,567**

This record does not form part of the audited Accounts.