

Trafalgar House Steam-Ship Limited

Report and Accounts

for the year ended

31 December 1998



Directors' Report

The Directors have pleasure in submitting their report on the affairs of the Company, together with the Accounts and auditors' report, for the year ended 31 December 1998.

Change of Name

The Company changed its name from The Cunard Steam-Ship Company Limited to Trafalgar House Steam-Ship Limited on 1st June 1998.

Principal Activities and Business Review

The Company is a holding company whose subsidiaries are involved in the operation of passenger ships.

On 28 May 1998 the Kvaerner Group disposed of its international passenger shipping business operated by the Company's subsidiary, Cunard Line Limited (which company is now known as Trafalgar House Line Limited) except for that company's interest in the passenger vessel Crown Dynasty.

Results

The results of the Company for the year are set out in the Profit and Loss Account on Page 5. The retained loss for the year ended 31 December 1998 of \$82.4 million (31 December 1997 - loss of \$12.6 million) has been transferred from reserves.

Dividends

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 1998 (1997 - nil).

Directors

The following persons were directors of the Company during the year or subsequently:

Mr E. Tønseth	(resigned 14 October 1998)
Mr A. Pankakoski	
Mr K. Ursin-Smith	(resigned 31 March 1999)
Mr J. A. Male	(appointed 26 July 1999)

Directors' Interests

None of the Directors at 31 December 1998 had any interests to be disclosed under Schedule 7 of the Companies Act 1985. There have been no changes to this position between 31 December 1998 and the date of this report.

Year 2000

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

Policy on Payment of Suppliers

Statutory Regulations issued under the Companies Act 1985 require the Company to make a statement of its policy and practice on the payment of trade creditors. As a holding company with no business other than the holding of shares in companies of the Kværner Group, the Company has no trade creditors. For the information of the reader, operating companies within the Kværner Group are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted.

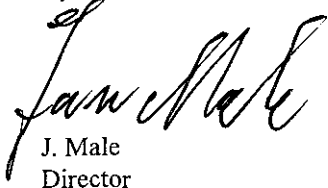
Annual General Meeting

The Company has dispensed with the requirement to lay accounts and reports before the Company in general meeting and the holding of annual general meetings.

Auditors

Arthur Andersen were auditors of the Company throughout the year and have indicated their willingness to remain in office. The Company has dispensed with the obligation to appoint auditors annually.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'J. Male', is written over the printed name and title.

J. Male
Director

31 August 2000

Registered office:
68 Hammersmith Road
London W14 8 YW

Statement of Directors' Responsibilities

Company law requires the directors to prepare Accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing those Accounts, 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 Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Auditors' Report**To the Shareholders of Trafalgar House Steam-Ship Limited**

We have audited the Accounts on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of the Accounts. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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, consistently applied and adequately disclosed.

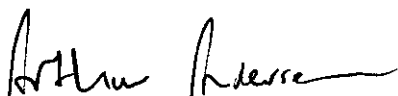
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 16 relating to the post balance sheet events, strategic review and financing of the ultimate holding company, Kværner ASA, and its subsidiaries including Trafalgar House Steam-Ship Limited. 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 as at 31 December 1998 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants & Registered Auditors

1 Surrey Street
London WC2R 2PS

31 August 2000

Profit & Loss Account for the year ended 31 December 1998

	Notes	31 December 1998 \$000	31 December 1997 \$000
Discontinued operations			
Turnover	2	-	2,076
Cost of sales		-	(846)
Gross and operating profit		-	1,230
Non operating items:			
Profit on sale of fixed assets	4	11,278	17,164
Loss on disposal of subsidiary undertakings	4	(439)	-
Write down of investment in and loans to subsidiary undertakings	4	(97,188)	(30,000)
Dividends from subsidiaries		7,628	-
Loss before interest		(78,721)	(11,606)
Interest receivable and similar income	5	326	6,412
Interest payable and similar charges	6	(4,048)	(7,403)
Loss on ordinary activities before taxation		(82,443)	(12,597)
Tax on loss on ordinary activities	7	-	-
Retained loss for the period	15	(82,443)	(12,597)

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

There are no recognised gains or losses other than the result for the year shown above.

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

Balance Sheet as at 31 December 1998

	Notes	31 December 1998 \$'000	31 December 1997 \$'000
Fixed assets			
Intangible assets	9	-	-
Investments	10	2,860	14,470
		<u>2,860</u>	<u>14,470</u>
Current assets			
Debtors	11	23,684	191,921
Cash and bank		4,072	-
		<u>27,756</u>	<u>191,921</u>
Creditors: Amounts falling due within one year	12	(4,931)	(117,231)
Net current assets		<u>22,825</u>	<u>74,690</u>
Total assets less current liabilities		<u>25,685</u>	<u>89,160</u>
Provisions for liabilities and charges	13	(68,988)	(50,020)
Total net (liabilities)/assets		<u>(43,303)</u>	<u>39,140</u>
Equity capital and reserves			
Called up share capital	14	343,056	343,056
Profit and loss account	15	(386,359)	(303,916)
Total capital employed		<u>(43,303)</u>	<u>39,140</u>

The accompanying notes are an integral part of the balance sheet.

These accounts were approved by the Board of Directors on 31 August 2000 and signed on its behalf by:


J. Male

Reconciliation of movements in shareholders' funds

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Loss for the year	(82,443)	(12,597)
Opening shareholders' funds	39,140	51,737
Closing shareholders' funds/(deficit)	(43,303)	39,140

The accompanying notes form an integral part of this reconciliation of movements in shareholders' funds.

Notes to the Accounts**1. Accounting Policies**

The following accounting policies have been applied consistently in the current year and the preceding period in dealing with items which are considered material in relation to the Company's financial statements.

(a) Accounting conventions

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

The Company is dependent on the support of its ultimate parent company and these accounts have been prepared on a going concern basis as the ultimate parent company has confirmed that sufficient funds will be made available to enable the company to continue its trading activities.

(b) Basis of preparation

The Company, as permitted by Section 228 of the Companies Act 1985, has elected not to prepare its own consolidated financial statements on the basis that it is a wholly owned subsidiary undertaking (note 17).

(c) Cash flow statement

The company has taken advantage of the exemption under the rules of FRS1 (revised) not to produce a cash flow statement. The appropriate amounts have been included in the consolidated accounts of Kværner ASA, a company registered in Norway, which produces consolidated accounts which are publicly available.

(d) Foreign Currencies

Trading results denominated in foreign currencies are translated into U.S. dollars at average rates of exchange. Assets and liabilities are translated into U.S. dollars at the rates ruling at the period end except where rates of exchange are fixed under contractual arrangements.

(e) Turnover

Turnover derives from leasing or licensing of ships.

(f) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

(g) Related party transactions

The Company has taken advantage of the exemption under the rules of FRS8 from the disclosure of transactions with other 100% owned members of the Kværner ASA group.

(h) Leases

All leases are accounted for as 'operating leases' and the rent receivable is credited to the profit and loss account on a straight line basis over the life of the lease.

1. Accounting Policies (continued)

(i) Fixed asset investments

Shares in subsidiary undertakings are stated at cost less amounts written off where, in the opinion of the directors, there has been a permanent impairment in the value of a subsidiary. In assessing impairment, the directors consider the subsidiary's long term profit earning potential.

2. Analysis of turnover and operating profit

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Discontinued activities		
Turnover	-	2,076
Operating profit	-	1,230

Turnover is derived exclusively from within the United Kingdom and from group companies

3. Operating profit is after charging:

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Depreciation - Owned assets	-	846

Audit costs are borne by Trafalgar House Line Limited, a subsidiary undertaking.

4. Exceptional items

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Non operating items		
Profit on sale of intangible fixed assets	11,278	17,164
Loss on disposal of subsidiary undertakings	(439)	-
Write down of investment in and loans to subsidiary undertakings and provisions for liabilities of subsidiary undertakings	(97,188)	(30,000)
	(86,349)	(12,836)

None of the above items affect the tax charge

5. Interest receivable and similar income

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Fellow subsidiary undertakings	326	6,412

6. Interest payable and similar charges

	Year to 31 December 1998 \$000	Year to 31 December 1997 \$000
Fellow subsidiary undertakings	4,048	7,403

7. Taxation

The potential amount of deferred taxation calculated on the liability method at 31% (1997 : 31%) is \$nil (1997: \$nil). The tax charge for the period has been eliminated through the availability of tax losses for offset against taxable profits.

8. Directors' Emoluments

The directors did not receive any emoluments from the company or any group undertaking in respect of services performed on behalf of the company (1997: \$nil). There were no staff other than the directors employed in the year.

9. Intangible fixed assets

	Trade marks \$000
Cost or valuation:	
At 1 January 1998	-
Transfers from subsidiary undertakings	48,722
Disposals	(48,722)
At 31 December 1998	-
Depreciation:	
At 1 January 1998	-
Charge for year	-
At 31 December 1998	-
Net book value:	
At 31 December 1998	-
At 31 December 1997	-

10. Fixed asset investments

	Shares in subsidiary undertakings		
	Cost or valuation \$000	Provisions \$000	Total \$000
At 1 January 1998	267,002	(252,532)	14,470
Increased investment	64,730	-	64,730
Disposals	(438)	-	(438)
Provision for permanent diminution in value	-	(75,902)	(75,902)
At 31 December 1998	331,294	(328,434)	2,860

The principal subsidiary undertakings which are wholly owned and are registered in England and Wales are as follows:

Subsidiary undertaking	Principal activity
Trafalgar House Line Limited	Ownership and operation of passenger ship
Trafalgar House SG Limited	Dormant
Trafalgar House Cruise Ships Limited	Dormant
Squareswing Limited	Dormant

11 Debtors

31 Dec 1998 **31 Dec 1997**
\$000 \$000

Amounts falling due within one year:

Amounts owed by subsidiary undertakings	23,350	109,674
Amounts owed by fellow subsidiary undertakings	-	81,925
Other debtors	334	322
	<u>23,684</u>	<u>191,921</u>

12. Creditors

31 Dec 1998 **31 Dec 1997**
\$000 \$000

Amounts falling due within one year:

Amounts owed to subsidiary undertakings	4,931	22,397
Amounts owed to fellow subsidiary undertakings	-	94,834
	<u>4,931</u>	<u>117,231</u>

13. Provisions for liabilities and charges

\$000

At 1 January 1998	50,020
Charged to the profit and loss account	18,968
At 31 December 1998	<u>68,988</u>

Provisions at 31 December 1998 relate to the guaranteed liabilities of subsidiaries.

14. Equity share capital	31 Dec 1998 \$000	31 Dec 1997 \$000
Authorised, allotted, called up and fully paid 223,000,000 ordinary shares of £1 each	343,056	343,056

The issued share capital at 1 October 1995 has been converted at the relevant exchange rate at that date. Subsequent increases in share capital are converted at the rate ruling at the date of issue.

15. Reserves	Profit and loss account \$000
As at 1 January 1998	(303,916)
Retained loss for the year	(82,443)
As at 31 December 1998	(386,359)

16. Contingencies, post balance sheet events and strategic review and financing

Trafalgar House Steam-Ship Limited and other members of the Kvaerner ASA group are co-dependent on each other for funding support (see notes 11 and 12 for balances outstanding at year end). In this connection, it should be noted that in April 1999, Kvaerner 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 Kvaerner ASA group to implement the restructuring plan and to ensure adequacy of financing. The board of Kvaerner ASA has recommended a NOK2.5 billion rights issue, which was approved at an Extraordinary General Meeting held on 19 June 2000. The group is also raising additional funds through asset disposals and securitisations, which are at an advanced stage.

The Kvaerner 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 Kvaerner ASA group's shipbuilding activities. In its calculation of certain of the financial covenants, Kvaerner ASA has excluded the provision and is of the opinion that it is in compliance with these covenants.

Forecasts prepared by Kvaerner ASA group for the period ended 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 Kvaerner 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 and actual or anticipated breaches of such covenants.

The auditors' report on the 1999 accounts of Kvaerner ASA contained an emphasis of matter note referring to various uncertainties described in the notes to the accounts.

17. Ultimate parent company

Kvaerner PLC heads the smallest group in which the results of the company are consolidated.

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

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