

Kvaerner Estates Limited

Financial Statements 31 December 1998
together with directors' and auditors' reports

Registered number: 551134



Kvaerner Estates Limited

Directors' Report

The directors present their report, together with the financial statements and auditors' report, for the year ended 31 December 1998.

Principal activities and business review

The company's principal activity is, and will continue to be, that of managing properties occupied by fellow subsidiaries. During the year the company continued to provide property management services for group owned and occupied land and buildings, including acquisitions, disposals, leasing, rent reviews and rating.

Results

The results for the year are set out in the profit and loss account on page 3. Retained losses of £3,403,153 (1997 - loss £2,839,590) have been transferred to reserves.

Year 2000

The company has recognised that the year 2000 'computer bug' is an important issue and has established a programme to address the problem.

The company is following the framework set out by Kvaerner ASA, the company's ultimate parent company, and work has been completed on assessing the impact upon the company.

The cost of implementing the year 2000 compliance programme is estimated as being not significant to the company.

There can be no absolute guarantee that the problem will have been completely eliminated in advance of the year 2000. However, the company is taking the steps it considers necessary to mitigate the risk.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the company during the year were:

A R Winter	
H G R Williams	
N Latham	(appointed 26 June 1998)
G P Kelly	(resigned 26 June 1998)

Directors' share interests

None of the directors, at 31 December 1998, had any interests requiring to be disclosed under the Companies Act 1985. There were no changes in the directors' interests between 31 December 1998 and the date of this report. No director, during the year, had a material interest in any contract significant to the Company's business.

Kvaerner Estates Limited

Directors' Report (continued)

Auditors

Pursuant to Section 386 of the Companies Act 1985 an elective resolution to dispense with the obligation to appoint auditors annually has been passed at an Extraordinary General Meeting.

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. The company has an arrangement with a fellow subsidiary undertaking that all orders to suppliers and payments to them are made by that fellow subsidiary. Under these arrangements the company has no trade creditors falling within the regulations of the Companies Act 1985.

By order of the Board,



N Latham
Secretary
Windsor Plaza
68 Hammersmith Road
London W14 8YW

14 June 1999

Kvaerner Estates Limited

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 as at the end of the financial year and of the profit or loss of the company for that year. 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, and
- prepare the financial statements 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.

Kvaerner Estates Limited

Auditors' Report

To the Shareholders of Kvaerner Estates Limited:

We have audited the financial statements on pages 3 to 11 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 page 5.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the financial statements. 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs 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.

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, Kvaerner ASA, and its subsidiaries. In particular, we draw attention to the disclosure of the uncertainties relating to the compliance of the Kvaerner ASA group with the covenants relate to the new banking arrangements entered into since the year end. 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.

Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
LONDON WC2R 2PS

14 June 1999

Kvaerner Estates Limited

Profit And Loss Account for the Year Ended 31 December 1998

	Note	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Turnover			
Continuing operations	2	4,397,556	5,067,754
Property outgoings	3	(4,664,708)	(5,389,302)
Gross loss		<u>(267,152)</u>	<u>(321,548)</u>
Net operating expenses		(551,807)	(713,957)
Operating loss on continuing operations		<u>(818,959)</u>	<u>(1,035,505)</u>
Profit on sale of properties - continuing operations		-	221,494
Interest receivable and similar income		86,446	85,594
Interest payable and similar charges	4	(2,670,640)	(2,111,173)
Loss on ordinary activities before taxation	5	<u>(3,403,153)</u>	<u>(2,839,590)</u>
Taxation - on loss on ordinary activities	6	<u>-</u>	<u>-</u>
Retained loss for the financial year	13	<u><u>(3,403,153)</u></u>	<u><u>(2,839,590)</u></u>

The notes on pages 5 to 11 form part of this profit and loss account.

The company has no recognised gains or losses other than the loss for the current or prior financial year. Accordingly, a statement of total recognised gains and losses has not been prepared.

The only movement in shareholders' funds is the loss for the financial year. Accordingly, a statement reconciling the movements in shareholders' funds has not been prepared.

Kvaerner Estates Limited

Balance Sheet at 31 December 1998

	Note	31 December 1998		31 December 1997	
		£	£	£	£
Fixed assets					
Tangible assets	8		2,746,859		2,820,274
Current assets					
Debtors	9	31,805,270		30,944,383	
Cash at bank and in hand		<u>2,829,437</u>		<u>2,070,243</u>	
		34,634,707		33,014,626	
Creditors: Amounts falling due within one year	10	<u>(38,846,383)</u>		<u>(33,773,666)</u>	
Net current liabilities			(4,211,676)		(759,040)
Total assets less current liabilities			<u>(1,464,817)</u>		<u>2,061,234</u>
Provisions for liabilities and charges	11		<u>(7,493,103)</u>		<u>(7,616,001)</u>
Net liabilities			<u>(8,957,920)</u>		<u>(5,554,767)</u>
Capital and reserves					
Called up equity share capital	12		15,000,000		15,000,000
Equity reserves					
Revaluation reserve	13		2,501,147		2,501,147
Profit and loss account - (deficit)	13		(33,425,581)		(30,022,428)
Other reserves	13		<u>6,966,514</u>		<u>6,966,514</u>
Shareholders' funds			<u>(8,957,920)</u>		<u>(5,554,767)</u>

The notes on pages 5 to 11 form part of this balance sheet.

The financial statements were approved by the Board of Directors on 14 June 1999 and signed on its behalf by:



N Latham
Director

Kvaerner Estates Limited

Notes to accounts 31 December 1998

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(a) **Accounting convention**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified for the revaluation of certain tangible fixed assets.

(a) **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 financial statements of Kvaerner PLC.

(a) **Turnover**

Turnover, which includes intra-group trading, represents rental income from properties and management fees, net of VAT, and arises wholly within the United Kingdom.

(a) **Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

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

(a) **Fixed asset properties - occupied by the group**

Properties owned and occupied as business premises are included in fixed assets at their valuation plus subsequent additions at cost.

(a) **Depreciation**

Depreciation is not provided on freehold and long leasehold properties where the directors are of the opinion that the buildings concerned are currently sufficiently well maintained to ensure that the residual values of such properties are not less than the cost or valuation (based on prices prevailing at the time of acquisition or subsequent valuation) and accordingly annual depreciation or amortisation would not be material to the financial statements. For short leasehold premises, depreciation is provided over the life of the lease.

(a) **Revaluation reserve**

Surpluses or deficits arising on the revaluation of tangible fixed assets are transferred to a non distributable reserve known as the revaluation reserve, unless a deficit (or its reversal) is expected to be permanent in which case it is charged (or credited) to the profit and loss account. In accordance with FRS3, the profit or loss on sale of a tangible fixed asset is the difference between the disposal proceeds and the carrying value of the asset, including any revaluation. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss reserve and is not included in the profit for the financial year.

(a) **Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

2. Turnover - continuing operations

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Turnover represents:		
Intra- group rental income	2,371,541	3,425,014
Other rental	1,963,462	1,641,240
	<u>4,335,003</u>	<u>5,066,254</u>
Management fees	62,553	1,500
	<u>4,397,556</u>	<u>5,067,754</u>

3 Property outgoings

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Property expenses	4,664,708	5,913,795
Prior year accruals no longer required	-	(16,493)
Provisions required / (released) in respect of onerous leases	-	792,000
Provision for costs on freehold properties required/(released)	-	(1,300,000)
	<u>4,664,708</u>	<u>5,389,302</u>

4. Interest payable and similar charges

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Short term loans (repayable within 5 years, not by instalments)	3,356	842
Loan from immediate parent undertaking	390,470	176,939
Loan from fellow subsidiary undertaking	2,276,814	1,933,392
	<u>2,670,640</u>	<u>2,111,173</u>

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

5. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	Year ended 31 December 1998 £	Year ended 31 December 1997 £
Auditors' remuneration	10,000	16,961
Depreciation	73,415	20,964
Hire costs including operating lease payments: <i>Land and buildings</i>	4,431,760	5,434,996
	<hr/>	<hr/>

6. Taxation.

There is no charge for corporation tax as the company has incurred a loss for the year. Relief for the loss will be surrendered to other companies in the group for no consideration.

There is no potential liability to deferred taxation.

7. Staff numbers and costs

The average weekly number of employees was:

	Note	Year ended 31 December 1998 <u>Number</u>	Year ended 31 December 1997 <u>Number</u>
Management and administration		<u>6</u>	<u>5</u>
Staff costs including directors' emoluments:		£	£
Wages and salaries		196,940	186,381
Social security costs		17,960	16,161
Other pensions costs	15	<u>17,708</u>	<u>13,841</u>
		<hr/> 232,608	<hr/> 216,383

None of the directors received any emoluments from the company during the year (1997 - £Nil).

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

8. Tangible fixed assets

	Freehold £	Short Leasehold £	Total £
Cost or valuation:			
At 1 January 1998	2,725,965	332,437	3,058,402
Lease assignment	-	(199,800)	(199,800)
At 31 December 1998	<u>2,725,965</u>	<u>132,637</u>	<u>2,858,602</u>
Accumulated depreciation:			
At 1 January 1998	-	238,128	238,128
Charge for year	-	73,415	73,415
Lease assignment	-	(199,800)	(199,800)
At 31 December 1998	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>111,743</u>	<u>111,743</u>
Net book value			
At 31 December 1998	<u>2,725,965</u>	<u>20,894</u>	<u>2,746,859</u>
At 31 December 1997	<u>2,725,965</u>	<u>94,309</u>	<u>2,820,274</u>

The comparable amounts on a historical cost basis in respect of freehold land and leasehold properties are as follows:

224,818	132,637	357,455
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The properties owned and occupied as business premises are carried at their 30 September 1993 valuations plus additions at cost. The major properties were valued as at 30 September 1993 by Jones Lang Wootton, Chartered Surveyors, on an open market existing use basis.

All of the above valuations were carried out in accordance with Statements of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors

9. Debtors

	31 December 1998 £	31 December 1997 £
Amounts falling within one year:		
Trade debtors	540,427	329,261
Amount owed by immediate parent undertaking	19,116,700	18,007,281
Amounts owed by fellow subsidiary undertakings	11,009,164	11,835,785
Other debtors	-	19,186
Taxation and social security	-	7,101
Prepayments and accrued income	1,138,979	745,769
	<u>31,805,270</u>	<u>30,944,383</u>

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

10. Creditors

Creditors - amounts following due within one year:

	31 December 1998 £	31 December 1997 £
Amounts owed to intermediate parent Undertaking	8,673,741	8,673,741
Amounts owed to fellow subsidiary Undertakings	28,583,978	23,798,131
Taxation and social security	31,549	-
Other creditors	226,365	102,795
Accruals and deferred income	1,330,750	1,198,999
	<u>38,846,383</u>	<u>33,773,666</u>

11. Provisions for liabilities and charges

The provisions relate to onerous leases.

	£
At 1 January 1998	7,616,001
Utilised during the year	<u>(122,898)</u>
At 31 December 1998	<u>7,493,103</u>

12. Called up equity share capital

	31 December 1998 £	31 December 1997 £
Authorised, allotted and fully paid:		
Ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

13. Reserves

	Other reserves £	Revaluation reserve £	Profit and loss account £
At 1 January 1998	6,966,514	2,501,147	(30,022,428)
Loss for the financial year	-	-	(3,403,153)
At 31 December 1998	6,966,514	2,501,147	(33,425,581)

Other reserves arise from the sale of business premises and, in accordance with the company's Memorandum of Association, are non-distributable.

14. Commitments

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

	31 December 1998 £	31 December 1997 £
Land and buildings		
Operating leases which expire :		
in one year	27,500	-
between 2 and 5 years	60,000	200,720
in more than 5 years	4,478,220	4,592,390
	<u>4,565,720</u>	<u>4,793,110</u>

15. Pensions

The company's employees are members of the defined benefit and defined contribution pension schemes operated by the Kvaerner PLC group under which contributions are paid by the company and by employees. The assets of the schemes are held in trustee administered funds separate from the finances of the group.

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

16. Post balance sheet events and strategic review and financing

As at 31 December 1998, the company had net liabilities of £8,957,920.

The company, and other members of the Kvaerner ASA group are co-dependent on each other for funding support (see notes 9 and 10 for balances outstanding at year end). In this connection, it should be noted that on 13 April 1999, Kvaerner ASA announced a far-reaching strategic restructuring with a view to returning the Group to profitable performance and significantly reduce Group borrowings. In order to provide additional support and a robust base to the planned restructuring, the Kvaerner Board proposed a rights issue of NOK 2 billion. The rights issue took place on 22 June 1999, was approved by Kvaerner ASA group shareholders at the Annual General Meeting on 6 May and the fully subscribed and paid in.

Kvaerner Estates Limited

Notes to accounts (continued) 31 December 1998

16. Post balance sheet events and strategic review and financing (Continued)

The Kvaerner ASA group principal loan facilities contain certain financial covenants relating to gross borrowings to tangible net worth, net borrowings to shareholders' equity and interest coverage. In April 1999, the Kvaerner ASA group's lenders agreed to suspend the financial covenants of such loan facilities to facilitate the charges arising in connection with the strategic restructuring referred to above and to amend the financial covenants for the remaining terms of the facilities, commencing 1 April 1999. 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. Kvaerner ASA group considers that the agreement with the lenders excludes gains and losses arising from the exit of the shipbuilding business. Therefore, Kvaerner ASA group in its calculation of the financial covenants have excluded the provision and is of the opinion that it is in compliance with these covenants.

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 any actual or anticipated breaches of such covenants.

17. Ultimate parent undertaking

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 St James's House, 23 King Street, London SW1Y 6QY.