

Company Registration No. 932159

KVAERNER SERVICES LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1998



KVAERNER SERVICES LIMITED

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report, together with the Financial Statements for the year ended 31st December 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company's principal activities are the provision of management and administrative services to other companies within the Kværner Group and to act as a holding company, both of which activities are continuing.

RESULTS

The results for the period are set out in the profit and loss account on page 5.

DIVIDENDS

An interim dividend of £30,000,000 (1997: nil) in respect of the year ended 31st December 1998 was paid on 28th August 1998. The Directors do not propose to recommend payment of a final dividend.

DIRECTORS

The following persons were Directors of the Company throughout the year:-

Mrs M.R.A. Ellis
Mr A. Farstad
Mr F.E. Fosse
Mr J.M. Heggelund

Mr J.M. Heggelund resigned as a director of the Company on 6th April 1999.

DIRECTORS' INTERESTS

The Company has not received notification of 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.

EMPLOYMENT POLICIES

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

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.

KVAERNER SERVICES LIMITED

DIRECTORS' REPORT, continued

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

Statutory Regulations issued under the Companies Act 1985 (the "Act") require the Company to make a statement of its policy and practice on the payment of trade creditors. Operating businesses within the Kværner Group are responsible for agreeing 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 calculated in accordance with the requirements of the Act is 21 days.

YEAR 2000

Kværner have instituted a group wide programme under the chairmanship of a senior executive to make sure that all business procedures, solutions and systems are millennium compliant in due time, before the end of this millennium. This programme, taking into consideration both commercial, legal and technological aspects will include regular milestone reporting to group management and the Kværner Board.

ANNUAL GENERAL MEETING

The Company has dispensed with the need to hold 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

Rufus Laycock

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R. Laycock
Secretary

Date: 23 JUNE 1999

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

KVAERNER SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial reporting period which give a true and fair view of the state of affairs of the company as at the end of the financial reporting period and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to :

- * select suitable accounting policies and then apply them consistently ;
- * make judgements and estimates that are reasonable and prudent ;
- * state whether applicable accounting standards have been followed ; 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 SERVICES LIMITED

REPORT OF THE AUDITORS

To the Shareholders of Kvaerner Services Limited

We have audited the financial statements on pages 5 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures set out in note 19 relating to the post balance sheet events, strategic review and financing of the ultimate parent 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 covenants related 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 financial statements, we believe that they should be brought to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 1998 and of its profit 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.

23 June, 1999

(4)

KVAERNER SERVICES LIMITED

Profit and Loss Account for the year ended 31st December 1998

	Notes	1998 £	1997 £
Turnover	2	25,792,940	34,017,781
Cost of sales		<u>(23,434,920)</u>	<u>(34,142,789)</u>
Operating profit (loss)		2,358,020	(125,008)
Write-down of investment in subsidiary undertakings	10	(660,921)	0
Profit (Loss) on ordinary activities before interest		<u>1,697,099</u>	<u>(125,008)</u>
Interest receivable and similar income		31,163,060	26,958,361
Interest payable and similar charges	3	<u>(415)</u>	<u>(1,106)</u>
Profit on ordinary activities before taxation	4	32,859,744	26,832,247
Tax on profit on ordinary activities	5	<u>0</u>	<u>0</u>
Profit for the year		32,859,744	26,832,247
Ordinary dividend		<u>(30,000,000)</u>	<u>0</u>
Retained profit for the year transferred to reserves		<u><u>2,859,744</u></u>	<u><u>26,832,247</u></u>

All activities of the company are continuing operations.

The notes on pages 7 to 16 form part of these financial statements.

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

KVAERNER SERVICES LIMITED

Balance Sheet at 31st December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	8	1,372,432	1,277,223
Investments	10	<u>13,647,352</u>	<u>14,293,926</u>
		<u>15,019,784</u>	<u>15,571,149</u>
CURRENT ASSETS			
Stocks	11	134,229	117,795
Debtors	12	452,798,168	441,214,232
Cash at bank and in hand		<u>6,137,650</u>	<u>4,825,177</u>
		<u>459,070,047</u>	<u>446,157,204</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	13	<u>(268,191,900)</u>	<u>(259,146,166)</u>
NET CURRENT ASSETS		<u>190,878,147</u>	<u>187,011,038</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>205,897,931</u>	<u>202,582,187</u>
PROVISION FOR LIABILITIES AND CHARGES	14	<u>(7,417,000)</u>	<u>(6,961,000)</u>
NET ASSETS		<u><u>198,480,931</u></u>	<u><u>195,621,187</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	100,000,000	100,000,000
Profit and loss account	16	98,480,931	95,621,187
		<u>198,480,931</u>	<u>195,621,187</u>

The notes on pages 7 to 16 form part of these financial statements.

These financial statements were approved by the Board of Directors on 23 JUNE 1999
and signed on its behalf by :



Director
MRS M.R.A. ELLIS

, 1999

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

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 convention and include the results of activities described in the directors' report, which are continuing except where specifically noted elsewhere.

(b) Basis of preparation

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group financial statements.

(c) Cash flow statement

The company has taken advantage of the exemption under the rules of FRS 1 (revised) not to produce a cash flow statement. The appropriate amounts will be included in the consolidated financial statements of Kvaerner Public Limited Company.

(d) Turnover

Turnover, which includes inter company trading, represents management fees and service charges, and arises within the United Kingdom, Europe and North America.

(e) Depreciation

Fixed assets are depreciated over their estimated useful lives on a straight line basis as follows:

Motor vehicles	5 years
Computer equipment	3 years
Office furniture and equipment	3 years

(f) Leased assets

All leases are operating leases and the annual rentals are charged wholly to the profit and loss account.

(g) Fixed asset investments

Shares in subsidiary undertakings are stated at cost, less any amounts written off.

(h) Stocks

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

(i) Pensions

The expected cost to the company of pensions in respect of defined benefit and defined contribution pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes.

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

1. Accounting policies (continued)

(j) Taxation

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 periods 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.

2. Analysis of turnover

	1998 £	1997 £
By geographical area:		
North America	74,588	227,578
Europe - EC	391,581	167,258
South/Central America	2,049	12,430
Africa	52,419	9,794
Asia - Hong Kong/China	0	1,074
Asia - North East	0	1,192
Asia - South East	112,094	22,289
Australasia	0	6,172
United Kingdom	24,744,902	33,503,882
Norway	415,307	66,112
	<u>25,792,940</u>	<u>34,017,781</u>

By class of business:

Continuing operations:		
Management fees and service charges	25,792,940	34,017,781
	<u>25,792,940</u>	<u>34,017,781</u>

3. Interest payable and similar charges

Other	415	1,106
	<u>415</u>	<u>1,106</u>

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

4. Profit on ordinary activities before taxation

	1998 £	1997 £
Profit on ordinary activities before taxation is stated after charging :		
Auditors' remuneration		
Audit fees	144,362	207,000
Other - amounts paid to auditors	3,047	32,431
Depreciation:		
Owned assets	390,138	288,542
Hire costs including operating lease payments:		
Hire of motor vehicles	106,082	154,495
Hire of computer equipment	0	(15,900)

5. Tax on profit on ordinary activities

There is no charge for Corporation Tax on the profit for the year as relief will be obtained for losses incurred by other companies in the Group surrendered for no consideration.

There is no potential liability to deferred taxation.

6. Staff numbers and costs

	1998 Number	1997 Number
The average monthly number of employees, all of whom were engaged in the United Kingdom on the company's principal activity :		
Management and administration	139	114

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

6. Staff numbers and costs (continued)

Staff costs including directors' emoluments

	1998 £	1997 £
Wages and salaries	5,589,374	4,405,926
Social security costs	383,175	397,958
Other pension costs (note 18)	485,259	315,284
	<u>6,457,808</u>	<u>5,119,168</u>

7. Directors' remuneration

	1998 £	1997 £
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The remuneration of directors requiring to be disclosed under Schedule 6 of the Companies Act 1985 is as follows :

Emoluments	76,908	142,801
Defined benefit pension contributions	6,143	8,827
	<u>83,051</u>	<u>151,628</u>

	1998 Number	1997 Number
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Pensions

The number of directors who were members of pension schemes was :

Defined benefit scheme	<u>1</u>	<u>2</u>
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KVAERNER SERVICES LIMITED

Notes to the Financial Statements

8. Tangible fixed assets

	Plant and Equipment £
Cost:	
At 1st January 1998	2,834,879
Additions	<u>491,262</u>
	3,326,141
Disposals	(77,020)
Transfers to group undertakings	<u>(6,588)</u>
At 31st December 1998	<u><u>3,242,533</u></u>
Accumulated depreciation:	
At 1st January 1998	1,557,656
Charge for the year	<u>390,138</u>
	1,947,794
Disposals	(77,020)
Transfers to group undertakings	<u>(673)</u>
At 31st December 1998	<u><u>1,870,101</u></u>
Net book value:	
At 31st December 1998	<u><u>1,372,432</u></u>
At 1st January 1998	<u><u>1,277,223</u></u>

Plant and equipment includes motor vehicles, computer equipment, a printing machine and office furniture and equipment.

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

9. Leased assets

1998	1997
£	£

Operating lease commitments :

Annual rentals under operating leases are payable as follows :

Motor vehicles :

in respect of leases expiring between two and five years

75,000	150,000
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<u>75,000</u>	<u>150,000</u>
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10. Fixed assets investments

Shares in
subsidiary
undertakings
£

Cost

At 1st January 1998

14,920,925

Additions

14,347

At 31st December 1998

14,935,272

Provision

At 1st January 1998

626,999

Addition

660,921

At 31st December 1998

1,287,920

Net book value

At 31st December 1998

13,647,352

At 1st January 1998

14,293,926

During the year, the company acquired Fitzgeorge Limited from an unrelated party, West Merchant Bank Limited. It also acquired an interest of 0.1% of the share capital of Kvaerner Hellas SA : the remainder of the share capital is owned by Kvaerner Overseas Holdings Limited, a fellow subsidiary.

The company disposed of its investment in Trafalgar House Trustees (PSS) Limited, which was dissolved during the year.

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

10. Fixed assets investments (continued)

In the opinion of the directors, the aggregate value of investments is not less than that shown in the balance sheet.

The following subsidiary undertakings are wholly owned and are registered in England and Wales:

	Nature of Business
One Berkeley Street Holdings Limited (in members' voluntary liquidation)	
Collin Wilson Limited (in members' voluntary liquidation)	
Kvaerner Pensions Investment Management Limited	Investment management
Kvaerner Technology and Research Limited	Intellectual property
Berkeley Street (No. 2) Limited	Dormant
Kvaerner Investments Limited	Investment holding company
Kvaerner Sea Launch Limited	Investment holding company
Lysaker Travel Management Limited (formerly Cunard Travel Limited)	Travel agency
Thos. and Jno. Brocklebank Limited	Non operating
Fitzgeorge Limited	Receipt of rentals

The following subsidiary undertaking is wholly owned and is registered in Jersey :

Trafalgar House Services (Jersey) Limited	Administration services
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KVAERNER SERVICES LIMITED

Notes to the Financial Statements

11. Stocks

	1998 £	1997 £
Consumables	<u>134,229</u>	<u>117,795</u>

12. Debtors

Amounts falling due within one year:

Trade debtors	174,507	324,514
Amount owed by ultimate parent undertaking	0	16,628
Amounts owed by subsidiary undertakings	34,793	77,668
Amounts owed by fellow subsidiary undertakings	446,513,829	434,523,054
Amounts owed by associated undertakings of the immediate parent company	3,047	20,536
Other debtors	1,517,976	2,854,093
Prepayments and accrued income	2,477,655	1,334,739
Pensions prepayment	13,361	187,546
	<u>450,735,168</u>	<u>439,338,778</u>

Amounts falling due after more than one year:

Other debtors - pensions prepayment	2,063,000	1,875,454
	<u>452,798,168</u>	<u>441,214,232</u>

13. Creditors : amounts falling due within one year

Trade creditors	491,335	242,305
Amount owed to ultimate parent undertaking	178,564	0
Amount owed to immediate parent undertaking	179,854,877	151,345,413
Amounts owed to subsidiary undertakings	10,238,424	14,085,667
Amounts owed to fellow subsidiary undertakings	69,427,668	82,836,789
Other creditors	1,401,567	4,557,044
Other taxes and social security	4,515,267	4,177,223
Accruals and deferred income	2,084,198	1,901,725
	<u>268,191,900</u>	<u>259,146,166</u>

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

14. Provision for liabilities and charges

	£
At 1st January 1998	6,961,000
Transfer from profit and loss account	2,722,236
Expenditure	(2,266,236)
At 31st December 1998	<u>7,417,000</u>

On 31st December 1995, in consideration of a payment of £7,846,378, the company assumed all the rights and obligations relating to the permanent disability insurance policy operated by the company in connection with the Permanent Disability Scheme for employees of the then Trafalgar House Group. The scheme is restricted to current employees whose employment commenced on or before 31st December 1995.

The liability at 31st December 1998 is based on an independent assessment provided by Lane, Clark & Peacock, actuaries, of the present value of the future payments of claims for current claimants and admitted potential claimants under the scheme.

15. Share capital

	1998 £	1997 £
Authorised: 100,000,000 shares of £1 each	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid: 100,000,000 shares of £1 each	<u>100,000,000</u>	<u>100,000,000</u>

16. Reserves

	Profit and loss account £
At 1st January 1998	95,621,187
Retained profit for the year	<u>2,859,744</u>
At 31st December 1998	<u>98,480,931</u>

17. Reconciliation of movement in shareholders' funds

	1998 £	1997 £
Opening shareholders' funds	195,621,187	168,788,940
Profit for the year added to shareholders' funds	<u>2,859,744</u>	<u>26,832,247</u>
Closing shareholders' funds	<u>198,480,931</u>	<u>195,621,187</u>

KVAERNER SERVICES LIMITED

Notes to the Financial Statements

18. Pensions

The company's employees are members of 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 Group schemes. Details of the actuarial valuation of the Group schemes will be included in the report and financial statements of Kvaerner plc.

19. Post balance sheet events and strategic review and financing

Since the year end, the company has sold its investment in Lysaker Travel Management Limited to its immediate parent company, Kvaerner plc, for a consideration in excess of book value.

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

The directors are also aware that there is significant uncertainty attached to the valuation of certain contracts, assets and disputes relating to the Kvaerner ASA group.

The Kvaerner ASA group's 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 term of the facilities commencing 1st 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 has 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.

20. Ultimate parent company

The immediate parent company is Kvaerner plc (formerly Trafalgar House plc) which is registered in England and Wales.

The smallest group in which the results of the company are consolidated is that headed by Kvaerner plc.

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

Copies of the respective financial statements can be obtained, when published, from Kvaerner plc at St. James's House, 23 King Street, London SW1Y 6QY.