Company Number: 55100

TRAFALGAR HOUSE FINANCE LTD

REPORT AND FINANCIAL STATEMENTS

30 JUNE 1998

TRAFALGAR HOUSE FINANCE LIMITED

DIRECTORS' REPORT

The Directors have pleasure in submitting their report, together with the Financial Statements for the year ended 30 June 1998.

Principal Activities and Business Review

The Company continues to provide financial services to satisfy the evolving requirements of the Kværner Group. These services include foreign exchange dealing, the management of short-term liquidity and financial exposures and the arrangement and provision of debt and other financial facilities.

Results

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

Dividends

The Directors do not propose to recommend the payment of any dividend on the issued ordinary share capital of the Company in respect of the year ended 30 June 1998.

Directors

The following persons were Directors of the Company throughout the year.

A. Farstad
F.E. Fosse
J.M. Heggelund
I.C. Musgrave
G.B. Shields

Mr Heggelund resigned as a director on 6 April 1999. Mr Musgrave resigned as a director on 31 August 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 change to this position between 30 June 1998 and the date of this report.

Policy on the 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 nature of the Company's activities is such that it has no creditors. Accordingly, it is not relevant for the Company to provide a statement.

TRAFALGAR HOUSE FINANCE LIMITED

DIRECTORS' REPORT, continued

Year 2000

Kværner has 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. This programme takes into consideration commercial, legal and technological aspects. Progress is monitored carefully and regular milestone reports are submitted to Group management.

Annual General Meeting

The Company has dispensed with the obligation 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

Rufus Laycock
Secretary

Date: 1 September 1999

Registered office:
68 Hammersmith Road,
London W14 8YW

TRAFALGAR HOUSE FINANCE LTD

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;
* prepare the financial statements on a 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.

TRAFALGAR HOUSE FINANCE LIMITED

AUDITORS' REPORT

To The Shareholders of Trafalgar House Finance Limited

We have audited the financial statements on pages 5 to 13, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2, 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 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 17 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 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 accounts, 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 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

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

1 September 1999

Profit and loss account for the year ended 30 June 1998

	Notes	Year ended 30 June 1998	Year ended 30 June 1997
		£'000	£'000
Interest receivable and similar income	2	289,511	174,247
Interest payable and similar charges	3	(121,254)	(56,457)
		168,257	117,790
Other net operating income			
Profit on ordinary activities before taxation	4	168,257	117,790
Tax on profit on ordinary activities	5	(15)	(25)
Profit for the financial year	13	168,242	117,765

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

The notes on pages 6 to 12 form an integral part of these financial statements.

TRAFALGAR HOUSE FINANCE LTD

Balance Sheet at 30 June 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	8	66	110
CURRENT ASSETS			
Debtors	9	2,515,114	2,345,577
Cash at bank and in hand		9,651	6,516
		2,524,765	2,352,093
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Borrowings	10	(55,058)	(20,428)
Other creditors	11	(1,830,345)	(1,860,589)
		(1,885,403)	(1,881,017)
NET CURRENT ASSETS		639,362	471,076
TOTAL ASSETS LESS CURRENT LIABILITIES		639,428	471,186
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Other creditors	11	(163,500)	(163,500)
NET ASSETS		475,928	307,686
CAPITAL AND RESERVES			
Called up share capital	12	102,121	102,121
Profit and loss account	13	373,807	205,565
Equity shareholders' funds		475,928	307,686

The notes on pages 7 to 12 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 1 SEPTEMBER 1999
and signed on its behalf by:

F.E. FOSSE
Director

TRAFALGAR HOUSE FINANCE LTD

Notes to the Accounts

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 accounts 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, all of which are continuing.

(b) Cash flow statement

The company is exempt from the requirements of FRS1 to include a cash flow statement as part of its financial statements because it is a wholly owned subsidiary of Kværner ASA, a company registered in Norway which produces consolidated accounts that are publicly available and include the results of the company.

(c) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year end except where rates of exchange are fixed under contractual arrangements. Transactions are recorded at the rate of exchange ruling at the date of the transaction. Translation and transaction exchange differences are taken to the profit and loss account when they arise.

(d) 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 accounts to the extent that it is probable that a liability or asset will crystallise in the future.

(e) Fixed Asset Depreciation

Fixed Assets consists of office equipment, which is depreciated over its estimated useful life of 3 years on a straight line basis.

(f) Leased Assets

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

Notes to the Accounts

	1998	1997
	£'000	£'000

2. Interest receivable and similar income

	1998 £'000	1997 £'000
Parent and fellow subsidiary undertakings	283,935	173,177
Bank and other short term deposits	159	241
Other interest receivable and similar income	3,862	829
Exchange profit	1,555	-
	289,511	174,247

3. Interest payable and similar charges

	1998 £'000	1997 £'000
Parent and fellow subsidiary undertakings	117,647	54,472
Bank loans, overdrafts and other loans repayable within five years	3,486	1,061
Other interest payable and similar charges	121	828
Exchange loss	-	96
	121,254	56,457

4.Profit on ordinary activities before taxation

The profit on ordinary activities before tax arises from continuing financial services operations within the United Kingdom.

	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
Audit work	17	24
Depreciation	44	21
Operating lease rentals - amount payable in respect of hire of *office equipment*	7	17

Notes to the Accounts

	1998	1997
	£'000	£'000
5. Tax on profit on ordinary activities		
Overseas tax charge	15	25
	15	25

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

There is no potential liability to deferred taxation.

6. Staff numbers and costs

	Number	Number
The average weekly number of employees,all of whom were engaged in the United Kingdom on the company's principal activity.		
Management and administration	18	15

	1998	1997
	£'000	£'000
Wages and salaries	808	677
Social security costs	77	62
Other pension costs (note 16)	58	64
	943	803

7. Directors' Emoluments

Directors' emoluments set out below include pension contributions and the estimated money value of benefits in kind.

In respect of managing the affairs of the company	221	280

The emoluments, excluding pension contributions but including the estimated value of benefits in kind of the directors are:

Remuneration of the highest paid director	102	105

Notes to the Accounts

7. Directors' emoluments (contd)	1998 Number	1997 Number
The number of directors who are members of pension schemes was as follows:		
Defined benefit schemes	2	2

The deferred pension under the Kvaerner Executive Pension Scheme of the highest paid director at 30 June 1998 was £11,193; (1997- £7,933) per annum.

8. Tangible fixed assets

	Equipment
Cost	£'000
At 1 July 1997	137
Additions	-
At 30 June 1998	137
Accumulated depreciation	
At 1 July 1997	27
Provided during the year	44
At 30 June 1998	71
Net book value at 30 June 1998	66
Net book value at 30 June 1997	110

9. Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Amounts owed by other group undertakings	2,515,064	2,251,259
Prepayments and accrued income	50	68
	2,515,114	2,251,327
Amounts falling due after more than one year		
Amounts owed by other group undertakings	-	94,250
	2,515,114	2,345,577

Notes to the Accounts

10. Borrowings	1998 £'000	1997 £'000
Borrowings are repayable as follows:		
Amounts falling due within one year:	55,058	20,428
Analysis of bank borrowings, which are all unsecured:		
Bank overdrafts and loans at varying rates of interest	55,058	20,428
	55,058	20,428

11. Other creditors

Amounts falling due within one year:		
Amounts owed to other group undertakings	1,829,966	1,860,031
Other taxes and social security	-	77
Accruals and deferred income	379	481
	1,830,345	1,860,589
Unsecured amounts falling due after five years:		
Amounts owed to fellow subsidiary	163,500	163,500

12. Share capital

Authorised:		
102,121,000 shares of £1 each	102,121	102,121
Allotted, called up and fully paid:		
102,121,000 shares of £1 each	102,121	102,121

Notes to the Accounts

13. Reserves

	£'000
As at 1 July 1997	205,565
Profit for the year	168,242
As at 30 June 1998	373,807

	1998	1997
	£'000	£'000
14. Reconciliation of movements in shareholders' funds		
Profit for the year	168,242	117,765
Opening shareholders' funds	307,686	189,921
Closing shareholders' funds	475,928	307,686

15. Contingent liabilities

The company has a contingent liability pursuant to a general deed of indemnity executed by the company and a fellow subsidiary company, in favour of a surety in respect of bonds issued in the ordinary course of business by or at the request of the surety on behalf of fellow subsidiaries or undertakings in which the fellow subsidiary company has a participating interest.

16. Pensions

The company's employees are members of defined benefit and defined contribution pension schemes operated by the Kvaerner 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 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 are contained in the report and accounts of Kvaerner PLC.

TRAFALGAR HOUSE FINANCE LIMITED

Notes to the Accounts

17 Post balance sheet events and strategic review and financing

Trafalgar House Finance 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 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 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 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 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.