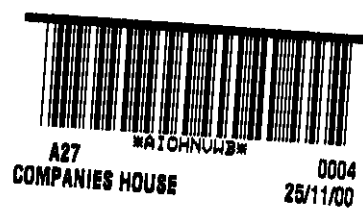


**KVAERNER SERVICES LIMITED**  
**REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1999**



# **KVAERNER SERVICES LIMITED**

## **DIRECTORS' REPORT**

The Directors have pleasure in submitting their report, together with the accounts for the year ended 31 December 1999.

## **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Company's principal activities are the provision of management and administrative services to other companies within the Kvaerner Group ("Kvaerner") 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**

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 1999 (1998 interim: £30,000,000).

## **DIRECTORS**

The following persons were directors of the Company during the year:-

J.M. Charlton	(appointed 23 November 1999)
F.E. Fosse	
L.N. Simpson	(appointed 24 June 1999)
Mrs M.R.A. Ellis	(resigned 31 December 1999)
A. Farstad	(resigned 31 October 1999)
J.M. Heggelund	(resigned 6 April 1999)

## **DIRECTORS' INTERESTS**

None of the directors at 31 December 1999 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 1999 and the date of this report.

## **EMPLOYMENT POLICIES**

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

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

Kvaerner 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 Kvaerner 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 Company's average creditor payment period at 31 December 1999 was 21 days (1998: 21 days).

#### **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.

#### **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 the accounts have been audited by them. KPMG are to be appointed with effect from the financial year 2000.

The Company has dispensed with the obligation to appoint auditors annually.

By order of the Board

*Rufus Laycock*

.....  
R. Laycock  
*Secretary*

Date: 30 JUNE 2000

*Registered Office:*  
68 Hammersmith Road,  
London W14 8YW

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each accounting period which give a true and fair view of the state of affairs of the company as at the end of the accounting 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 ; and
- \* 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 accounts 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 accounts 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 preparing the accounts in accordance with applicable United 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, consistently applied and adequately disclosed.

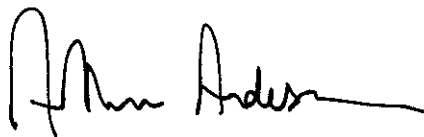
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 20, relating to the contingencies, post balance sheet events, strategic review and financing of the ultimate parent company, Kvaerner ASA, and its subsidiaries including Kvaerner Services Limited. In particular, we draw attention to the disclosure of the uncertainties relating to the compliance of the Kvaerner 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 at 31 December 1999 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**ARTHUR ANDERSEN  
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS  
1 SURREY STREET  
LONDON WC2R 2PS**

**30 JUNE , 2000**

**KVAERNER SERVICES LIMITED**

**Profit and Loss Account for the year ended 31 December 1999**

	Notes	1999 £	1998 £
Turnover	2	35,448,009	25,792,940
Cost of sales		<u>(27,000,039)</u>	<u>(23,434,920)</u>
Operating profit		8,447,970	2,358,020
Write-down of investment in subsidiary undertakings	10	0	(660,921)
Loss on sale of investment in subsidiary undertakings	10	(7,331,048)	0
Dividend income from subsidiary undertaking		3,961,054	0
		<hr/>	<hr/>
Profit on ordinary activities before interest		5,077,976	1,697,099
Interest payable and similar charges	3	(251)	(415)
Interest receivable and similar income	4	<u>25,487,262</u>	<u>31,163,060</u>
Profit on ordinary activities before taxation	4	30,564,987	32,859,744
Tax on profit on ordinary activities	5	<u>0</u>	<u>0</u>
Profit for the year		30,564,987	32,859,744
Ordinary dividend		<u>0</u>	<u>(30,000,000)</u>
Retained profit for the year transferred to reserves		<u><u>30,564,987</u></u>	<u><u>2,859,744</u></u>

All activities of the company are continuing operations.

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

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 31 December 1999**

	Notes	1999 £	1998 £
<b>FIXED ASSETS</b>			
Tangible assets	8	753,691	1,372,432
Investments	10	<u>13,199,547</u>	<u>13,647,352</u>
		<u>13,953,238</u>	<u>15,019,784</u>
<b>CURRENT ASSETS</b>			
Stocks	11	95,067	134,229
Debtors	12	487,210,527	452,798,168
Cash at bank and in hand		<u>5,768,284</u>	<u>6,137,650</u>
		<u>493,073,878</u>	<u>459,070,047</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Other creditors	13	<u>(269,009,198)</u>	<u>(268,191,900)</u>
<b>NET CURRENT ASSETS</b>		<u>224,064,680</u>	<u>190,878,147</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>238,017,918</u>	<u>205,897,931</u>
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	14	<u>(8,972,000)</u>	<u>(7,417,000)</u>
<b>NET ASSETS</b>		<u><u>229,045,918</u></u>	<u><u>198,480,931</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	100,000,000	100,000,000
Profit and loss account	16	129,045,918	98,480,931
		<u><u>229,045,918</u></u>	<u><u>198,480,931</u></u>

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

These accounts were approved by the Board of Directors on 30 JUNE 2000  
and signed on its behalf by :

X F.E.F. 

F.E. FOSSE  
Director

30 JUNE , 2000

# **KVAERNER SERVICES LIMITED**

## **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 accounts.

#### **(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, 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 accounts.

#### **(c) Cash flow statement and related party transactions**

The company has taken advantage of the exemption under the rules of FRS 1 (revised) not to produce a cash flow statement, and the exemption under the rules of FRS 8 not to disclose related party transactions with other Kvaerner group companies. The appropriate amounts will be included in the consolidated accounts 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:

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 average remaining service lives of employees in the schemes.



# KVAERNER SERVICES LIMITED

## Notes to the Accounts

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

### 2. Analysis of turnover

	1999 £	1998 £
By geographical area :		
North America	820,772	74,588
Europe - EC	222,143	391,581
South/Central America	192	2,049
Africa	39,838	52,419
Asia - South East	121,313	112,094
United Kingdom	33,395,342	24,744,902
Norway	848,409	415,307
	<u>35,448,009</u>	<u>25,792,940</u>

#### By class of business :

Continuing operations :		
Management fees and service charges	35,448,009	25,792,940
	<u>35,448,009</u>	<u>25,792,940</u>

### 3. Interest payable and similar charges

	1999 £	1998 £
Other	251	415
	<u>251</u>	<u>415</u>

### 4. Profit on ordinary activities before taxation

	1999 £	1998 £
--	-----------	-----------

Profit on ordinary activities before taxation is stated after charging :

Auditors' remuneration		
Audit fees	40,969	144,362
Other - amounts paid to auditors	285,700	3,047
Depreciation:		
Owned assets	528,531	390,138
Hire costs including operating lease payments:		
Hire of motor vehicles	70,772	106,082

#### and after crediting :

Interest received from bank	345,060	413,577
Interest received from group companies	25,142,202	30,749,483
	<u>25,142,202</u>	<u>30,749,483</u>

# KVAERNER SERVICES LIMITED

## Notes to the Accounts

### 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

	1999 Number	1998 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	98	139
Staff costs including directors' emoluments		
	1999 £	1998 £
Wages and salaries	4,594,906	5,589,374
Social security costs	424,461	485,259
Other pension costs (note 17)	332,080	383,175
	<u>5,351,447</u>	<u>6,457,808</u>

### 7. Directors' remuneration

	1999 £	1998 £
The remuneration of directors requiring to be disclosed under Schedule 6 of the Companies Act 1985 is as follows :		
Emoluments	75,912	76,908
Defined benefit pension contributions	6,143	6,143
Compensation for loss of office	24,986	0
	<u>107,041</u>	<u>83,051</u>

	1999 Number	1998 Number
Pensions		
The number of directors who were members of pension schemes was :		
Defined benefit scheme	1	1

# KVAERNER SERVICES LIMITED

## Notes to the Accounts

### 8. Tangible fixed assets

	Plant and Equipment £
<b>Cost:</b>	
At 1 January 1999	3,242,533
Additions	31,265
Disposals	(375,297)
Transfers to group undertakings	(14,864)
At 31 December 1999	<u>2,883,637</u>
<b>Accumulated depreciation :</b>	
At 1 January 1999	1,870,101
Charge for the year	528,531
Disposals	(260,939)
Transfers to group undertakings	(7,747)
At 31 December 1999	<u>2,129,946</u>
<b>Net book value :</b>	
At 31 December 1999	<u>753,691</u>
At 1 January 1999	<u>1,372,432</u>

Plant and equipment includes computer equipment and office furniture and equipment.

### 9. Leased assets

	1999 £	1998 £
<b>Operating lease commitments :</b>		
Annual rentals under operating leases are payable as follows :		
Motor vehicles :		
in respect of leases expiring between two and five years	75,300	75,000
	<u>75,300</u>	<u>75,000</u>

# KVAERNER SERVICES LIMITED

## Notes to the Accounts

### 10. Fixed assets investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 1999	14,935,272
Additions	11,404,238
Disposals	(11,852,043)
At 31 December 1999	<u>14,487,467</u>
Provision	
At 1 January 1999	1,287,920
Disposal	0
At 31 December 1999	<u>1,287,920</u>
Net book value	
At 31 December 1999	<u>13,199,547</u>
At 1 January 1999	<u>13,647,352</u>

During the year, the company made the following acquisitions :

- 1) Kvaerner National Limited from fellow subsidiary Kvaerner Boving Limited, on 24 February 1999, for nil value, and
- 2) Fitzgeorge 1 Limited and Fitzgeorge 2 Limited from an unrelated third party, Humberclyde Limited, on 21 December 1999, for £100 and £396,519 respectively.

During the year, the company made the following disposals :

- 1) Kvaerner Investments Limited to its immediate parent company, Kvaerner plc, on 24 June 1999 at nil value,
- 2) Berkeley Street (No.2) Limited to its fellow subsidiary, Kvaerner Process Overseas Holdings Limited, on 12 February 1999, at nil value,
- 3) Lysaker Travel Management Limited to its immediate parent company, Kvaerner plc, on 10 February 1999, for £4,221,000, and
- 4) Its interest in Kvaerner Hellas SA, which is in course of liquidation, on 31 December 1999, for £20.

The company also acquired an interest in its fellow subsidiary company, Kvaerner Kincaid Limited, by the capitalisation of group debt of £6,107,619, then sold that interest to its fellow subsidiary, Kvaerner International Limited, for £1, both on 30 November 1999.

The company acquired the beneficial interest in the Kvaerner Group's investments in AUSI Limited and AUSI Iron NL, both Australian companies, from Kvaerner Process (Belgium) NV, on 13 July 1999, for £4,900,000, and disposed of those interests at nil value as part of the sale of its fellow subsidiary, Kvaerner Corporate Development Limited, to an unrelated third party on 29 October 1999.

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

# KVAERNER SERVICES LIMITED

## Notes to the Accounts

### 10. Fixed assets investments (continued)

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

	Nature of Business
Kvaerner Pensions Investment Management Limited	Investment management
Kvaerner Technology and Research Limited	Intellectual property
Kvaerner Sea Launch Limited	Investment holding company
Thos. and Jno. Brocklebank Limited	Dormant
Fitzgeorge Limited	Receipt of rentals
Fitzgeorge 1 Limited	Receipt of rentals
Fitzgeorge 2 Limited	Receipt of rentals
Collin Wilson Limited	In members' voluntary liquidation
One Berkeley Street Limited	In members' voluntary liquidation

Collin Wilson Limited and One Berkeley Street Limited were dissolved in February 2000 for their carrying values, which resulted in no gain or loss.

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

Kvaerner National Limited	Dormant
---------------------------	---------

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

Trafalgar House Services (Jersey) Limited	Administration services
---	-------------------------

### 11. Stocks

	1999 £	1998 £
Stock of consumables	<u>95,067</u>	<u>134,229</u>

### 12. Debtors

	1999 £	1998 £
Amounts falling due within one year:		
Trade debtors	910,302	174,507
Amounts owed by subsidiary undertakings	165,841	34,793
Amounts owed by fellow subsidiary undertakings	476,681,372	446,513,829
Amounts owed by associated undertakings of the immediate parent company	0	3,047
Other debtors	1,351,558	1,517,976
Prepayments and accrued income	2,077,400	2,477,655
Dividend receivable from subsidiary undertaking	3,961,054	0
Pensions prepayment	0	13,361
	<u>485,147,527</u>	<u>450,735,168</u>

Amounts falling due after more than one year:

Other debtors - pensions prepayment	2,063,000	2,063,000
	<u>487,210,527</u>	<u>452,798,168</u>

# KVAERNER SERVICES LIMITED

## Notes to the Accounts

### 13. Creditors : amounts falling due within one year

	1999	1998
	£	£
Trade creditors	397,090	491,335
Amount owed to ultimate parent undertaking	783,580	178,564
Amount owed to immediate parent undertaking	169,346,702	179,854,877
Amounts owed to subsidiary undertakings	9,871,679	10,238,424
Amounts owed to fellow subsidiary undertakings	75,794,566	69,427,668
Other taxes and social security	4,706,784	4,515,267
Other creditors	5,541,982	1,401,567
Accruals and deferred income	2,412,754	2,084,198
Pensions accrual	154,061	0
	<u>269,009,198</u>	<u>268,191,900</u>

### 14. Provision for liabilities and charges

	£
At 1 January 1999	7,417,000
Transfer from profit and loss account	3,448,045
Expenditure	<u>(1,893,045)</u>
At 31 December 1999	<u>8,972,000</u>

On 31 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 31 December 1995.

The liability at 31 December 1999 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

	1999	1998
	£	£
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 1 January 1999	98,480,931
Retained profit for the year	<u>30,564,987</u>
At 31 December 1999	<u>129,045,918</u>

## Notes to the Accounts

## 17. Reconciliation of movement in shareholders' funds

	1999 £	1998 £
Opening shareholders' funds	198,480,931	195,621,187
Profit for the year added to shareholders' funds	30,564,987	2,859,744
Closing shareholders' funds	<u>229,045,918</u>	<u>198,480,931</u>

## 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 accounts of Kvaerner Public Limited Company.

## 19. Ultimate parent company

The immediate parent company is Kvaerner Public Limited Company which is registered in England and Wales. The smallest group in which the results of the company are consolidated is that headed by Kvaerner Public Limited Company.

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 accounts can be obtained, when published, from Kvaerner Public Limited Company at Kvaerner House, 68 Hammersmith Road, London W14 8YW.

## 20. Contingencies, post balance sheet events and strategic review and financing

Kvaerner Services Limited and other members of the Kvaerner ASA group are co-dependent on each other for funding support (see notes 12 and 13 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 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 below 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. 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 any actual or anticipated breaches of such covenants.

20. Contingencies, post balance sheet events and strategic review and financing (continued)

The board of Kvaerner 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 Kvaerner 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 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 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 not 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 and Structural Steel businesses has been concluded. Aggregate sales proceeds are £52.3 million and the loss on disposal estimated to be £12.8 million.

Legal disputes

Kvaerner PLC and its subsidiaries, including Kvaerner Services Limited, 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 are considered to be :

Beirut Sports Stadium

Kvaerner Construction is seeking payment of approximately US\$32 million from a Beirut Government body for extra costs arising from changes and delay in the construction of the Beirut Sports Stadium.

Hadeed

Kvaerner's Engineering and Construction business area is seeking payment of approximately US\$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 Arabia.

Other uncertainties relating to the Kvaerner 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 Kvaerner ASA group. Among the items in question are :

Transocean

A legal dispute exists between Transocean and Kvaerner Oil and Gas relating to the modification of a drilling rig. Kvaerner claims additional compensation for variation work, disruptions, etc., for an amount of NOK 263 million. A court hearing in the Stavanger City Court is scheduled to take place late in the year 2000.



**20. Contingencies, post balance sheet events and strategic review and financing (continued)**

**Warnow**

Kvaerner has filed a complaint with the EU court against the EU Commission's decision that Kvaerner is to pay a penalty of DEM 102 million, including interest, for alleged breach of production limitations in 1998. In February 2000 the EU Commission made a similar claim of DEM 12.6 million, plus interest, for alleged over-production in 1997. Kvaerner ASA has made a provision in the 1999 accounts for the full amount claimed.

The EU Commission has opened formal proceedings to examine whether the Kvaerner Warnow yard, a subsidiary of Kvaerner ASA, has received approximately DEM 120 million of excess subsidies from the German authorities in connection with the privatisation of the shipyard in 1992 and if so, to what extent Kvaerner can be required to repay any such subsidies. Kvaerner has rejected any suggestion that it should repay any subsidies to the German authorities. Kvaerner's position is supported by the German authorities, which have emphasised that they do not consider any excess subsidies to have been paid to Kvaerner.

**Finland tax dispute**

A Finnish tax office has disallowed a loss of FIM 360 million, claimed by Kvaerner Pulping, a subsidiary of Kvaerner ASA, in 1997, to be deducted from taxable income. A local tax tribunal is currently hearing the case, but no decision has been made.

**20% owned Sea Launch venture**

Following a write-down of NOK 420 million in 1998, the investments in Sea Launch comprise loans from Kvaerner ASA to Sea Launch of NOK 780 million and an unsettled trade receivable of NOK 420 million. Kvaerner has committed to contribute a further loan of NOK 312 million to finance the repayment of Kvaerner's trade receivable. Kvaerner has also guaranteed NOK 1,823 million of loans to Sea Launch from third parties. Repayment of the loans depends on positive results/cash flows in the Sea Launch companies. In 1999 a test launch and commercial launch were successfully completed. In March 2000 a rocket and its payload was lost over the Pacific Ocean. A Launch Failure Review Oversight Board, established to investigate this failed launch, has concluded that a software malfunction in the rocket caused the failure. A third commercial launch is planned for July 2000.

**Sale of businesses**

Over the last year there have been a number of business disposals. Some of the sale agreements are based on warranties and representations made by Kvaerner. Kvaerner has also retained certain liabilities and risks for some assignments to be completed by the units that are sold. Provisions have been made to cover any expenses under these agreements based on current best estimates of the final outcomes. The amount, if any, payable by Kvaerner group under these warranties and representations is inherently difficult to estimate as claims by the acquiror may only materialise some time after the transaction is completed.

The auditors' report on the 1999 accounts of Kvaerner ASA, whilst not qualified in respect of the above issues, contained an emphasis of matter note referring to the uncertainties described in the notes to the accounts.