

Company Registration No. 932159

KVAERNER SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003



KVAERNER SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During the year the Company provided management and administrative services to other companies within the Aker Kvaerner Group and acting as a holding company.

At 31 December 2003 and as part of adjustments to the operational and legal structure of the Aker Kvaerner Group of companies, the Company transferred all its employees to fellow subsidiary undertakings. In addition, it is the intention that responsibility for providing management and administrative services be assumed by a fellow subsidiary undertaking(s). The Company will continue as a holding company.

CHANGE OF NAME

On 7 October 2004 the Company changed its name back to Kvaerner Services Limited having previously changed its name to Aker Kvaerner Services UK Limited on 20 November 2003.

FINANCIAL STATEMENTS AND DIVIDEND

The financial statements of the Company appear on pages 5 to 12, inclusive.

A final dividend of £245,000,000 is recommended for the year ended 31 December 2003. If approved, it will be due and payable on 1 December 2004 to shareholders on the register on that day.

DIRECTORS

Shown below are the Directors who served throughout the year.

R. Brown
F.E. Fosse
R.E. Woods

On 8 October 2004, R.E. Woods resigned as a Director.

On 29 October 2004, R. Brown and F.E. Fosse resigned as Directors and R. Laycock and N.E.O. Williams were appointed as Directors.

DIRECTORS' INTERESTS

No Director has, or during the year had, or at the time he became a Director had, any interest in the shares of the Company or any other company within the same group to be disclosed in terms of the Companies Act 1985. The Directors are exempt from disclosing their interest, if any, in the shares of the ultimate parent company as it is incorporated outside of Great Britain.

EMPLOYMENT POLICIES

The Group is a knowledge and skills based company. The individual knowledge and skills of employees, and the companies' ability to combine and employ such expertise, constitutes the core of all the activities of companies constituting the Group. The Group is committed to being seen as an attractive employer for all groups of employees, independent of nationality, gender, religion and age. Details of the Group's initiatives in relation to its employees are given in the annual report of Kvaerner ASA.

KVAERNER SERVICES LIMITED

DIRECTORS' REPORT, continued

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

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. Business Areas and Business Units within the 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 agreed terms and in accordance with its contractual and other legal obligations, provided that the supplier is also complying with all relevant terms and conditions. The average creditor payment period during 2003 was 21 days (2002: 21 days).

ANNUAL GENERAL MEETING

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

AUDITOR

KPMG Audit Plc has signified its willingness to continue in office.

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditor annually and KPMG Audit Plc is, therefore, deemed re-appointed as auditor for the succeeding year.

By order of the Board,

Rufus Laycock

Rufus Laycock
Secretary

Date: **15 NOVEMBER** 2004.

Registered Office:
68 Hammersmith Road,
London W14 8YW

• 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 and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- * 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Kvaerner Services Limited

We have audited the financial statements on pages 5 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
EC4A 3BB
London

25 November 2004

- KVAERNER SERVICES LIMITED

- Profit and Loss Account for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	13,693,732	20,158,771
Cost of sales		<u>(8,287,958)</u>	<u>(9,439,513)</u>
Operating profit		5,405,774	10,719,258
Write-off pension asset	3	(2,063,000)	-
Restructuring costs	3	-	661,732
Profit on ordinary activities before interest		3,342,774	11,380,990
Interest payable and similar charges	3	(10,524,271)	(11,091,724)
Interest receivable and similar income	3	<u>27,761,226</u>	<u>27,599,118</u>
Profit on ordinary activities before taxation	3	20,579,729	27,888,384
Tax on profit on ordinary activities	4	-	-
Profit for the financial year	14	20,579,729	27,888,384
Final dividend	14	(245,000,000)	-
(Loss)/profit for the financial year transferred to reserves	14	<u>(224,420,271)</u>	<u>27,888,384</u>

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.

Balance Sheet at 31 December 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	7	-	-
Investments	8	9,001,571	9,001,571
		<u>9,001,571</u>	<u>9,001,571</u>
CURRENT ASSETS			
Stocks	9	721	3,947
Debtors	10	567,681,955	540,602,051
Cash at bank and in hand		29,845,402	31,333,989
		<u>597,528,078</u>	<u>571,939,987</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	11	<u>(502,757,522)</u>	<u>(251,882,160)</u>
NET CURRENT ASSETS		<u>94,770,556</u>	<u>320,057,827</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>103,772,127</u>	<u>329,059,398</u>
PROVISION FOR LIABILITIES AND CHARGES	12	(2,788,000)	(3,655,000)
NET ASSETS		<u>100,984,127</u>	<u>325,404,398</u>
CAPITAL AND RESERVES			
Called up share capital	13	100,000,000	100,000,000
Profit and loss account	14	984,127	225,404,398
EQUITY SHAREHOLDERS' FUNDS	15	<u>100,984,127</u>	<u>325,404,398</u>

These financial statements were approved by the Board of Directors on 25 NOVEMBER 2004
and signed on its behalf by :

Rufus Laycock
Director
R. LAYCOCK

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 and related party transactions

The company has taken advantage of the exemption under the rules of FRS 1 (revised 1996) 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 financial statements of Kvaerner ASA.

(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) Leased assets

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

(f) Fixed asset investments

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

(g) Stocks

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

(h) Pensions

The Company participates in a Group defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

During the year the Company participated in a Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group. Contributions to the scheme have been charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The Company ceased to participate in the scheme at 1 May 2004.

Notes to the financial statements

1. Accounting policies (continued)

(i) Taxation

The charge for taxation is based on the the profit/(loss) for the year.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

2. Analysis of turnover

	2003 £	2002 £
By geographical area :		
Australasia	158,728	-
North America	418,491	155,848
Europe - EC	181,368	-
United Kingdom	10,226,304	19,996,481
Norway	2,708,841	6,442
	<u>13,693,732</u>	<u>20,158,771</u>
By class of business :		
Continuing operations :		
Management fees and service charges	13,693,732	20,158,771
	<u>13,693,732</u>	<u>20,158,771</u>

3. Profit on ordinary activities before taxation

	2003 £	2002 £
Profit on ordinary activities before taxation is stated after charging :		
Auditors' remuneration		
Audit fees - for the Company and other group undertakings	123,154	93,717
Other - amounts paid to auditors	120,691	136,759
Interest paid to group companies	10,233,117	10,448,723
PDS interest	291,154	643,001
Depreciation:		
Owned assets	-	8,290
Write-off pension asset	2,063,000	-
Hire costs including operating lease payments:		
Hire of motor vehicles	36,936	7,281
and after crediting :		
Interest received from bank	762,776	986,809
Interest received from group companies	26,998,450	26,612,309
Provision release (note 12)	67,737	3,051,733
	<u>762,776</u>	<u>986,809</u>

Notes to the financial statements

4. Tax on profit on ordinary activities

Factors affecting the current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK.

The differences are as follows:-

	2003	2002
	£	£
Profit on ordinary activities before taxation	20,579,729	27,888,384
Taxation charge at UK Corporation rate of 30% (2002:30%)	6,173,919	8,366,515
Effects of		
Group relief for which no payment is made	(6,204,174)	(6,992,649)
Capital allowances in excess of depreciation	(80,515)	(104,567)
Movements on provisions	-	-
Expenditure not deductible for tax	110,770	(1,269,299)
	-	-

Factors affecting future tax charges

It is anticipated that any future taxable income in this company will be sheltered from tax by utilisation of group relief from other Group companies, and where possible, the use of the Group's tax losses arising in prior years.

The Aker Kvaerner PLC UK tax group has brought forward tax losses estimated at £230M and surplus Advance Corporation Tax of approximately £194M.

There is no potential liability to deferred taxation (2002 - £NIL).

5. Staff numbers and costs

	2003	2002
	Number	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	52	39

Staff costs

	2003	2002
	£	£
Wages and salaries	3,104,872	4,306,305
Social security costs	358,566	555,230
Other pension costs (note 17)	305,924	410,641
	3,769,362	5,272,176

6. Directors' remuneration

	2003	2002
	Number	Number
Pensions		
The number of directors who were members of pension schemes was :		
Defined benefit scheme	1	1

Notes to the financial statements

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

7. Leased assets

	2003	2002
	£	£

Operating lease commitments :

Annual rentals under operating leases are payable as follows :

Motor vehicles :

in respect of leases expiring between two and five years

	37,478	7,243
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8. Fixed assets investments

	Shares in subsidiary undertakings £	Shares in subsidiary undertakings £
Cost		
At 1st January and 31st December 2003	<u>9,001,571</u>	<u>9,001,571</u>

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 (ordinary share capital), and are registered in England and Wales:

	Nature of Business
Dearbridge Limited	Not trading
The Direct Spanish Telegraph Company Limited	Not trading
Fitzgeorge Limited	Not trading
Fitzgeorge 1 Limited	Not trading
Fitzgeorge 2 Limited	Not trading
Fitzgeorge 4 Limited	Not trading
Fitzgeorge June (1) Limited	Receipt of rentals
Fitzgeorge September (2) Limited	Receipt of rentals
Fitzgeorge December (5) Limited	Receipt of rentals
Kazan Engineering Limited (in members' voluntary liquidation)	
Kvaerner Pensions Investment Management Limited	Investment management
Kvaerner Sea Launch Limited	Investment holding company
Thos and Jno Brocklebank Limited	Not trading

The following subsidiary undertakings are wholly owned (ordinary share capital), and are registered in Scotland :

Fitzgeorge 3 Limited	Not trading
Kvaerner National Limited	Not trading

9. Stocks

	2003	2002
	£	£
Stock of consumables	<u>721</u>	<u>3,947</u>

10. Debtors

	2003	2002
	£	£
Amounts falling due within one year:		
Trade debtors	822,402	506,566
Amount owed by ultimate parent undertaking	1,519,376	1,443,734
Amounts owed by subsidiary undertakings	233,592	62,847
Amounts owed by fellow subsidiary undertakings	563,954,288	534,978,411
Other debtors	721,867	702,983
Prepayments and accrued income	430,430	844,510
	<u>567,681,955</u>	<u>538,539,051</u>
Amounts falling due after more than one year:		
Other debtors - pensions prepayment	-	2,063,000
	<u>567,681,955</u>	<u>540,602,051</u>

· Notes to the financial statements

11. Creditors : amounts falling due within one year

	2003	2002
	£	£
Trade creditors	179,135	254,941
Amounts owed to subsidiary undertakings	305,679	271,862
Amounts owed to fellow subsidiary undertakings	255,166,451	248,960,013
Other taxes and social security	201,363	564,767
Other creditors	559,433	417,913
Accruals and deferred income	1,345,461	1,412,664
Final dividend	245,000,000	-
	<u>502,757,522</u>	<u>251,882,160</u>

12. Provision for liabilities and charges

	£	£
At 1 January 2003	3,655,000	8,346,000
Transfer to profit and loss account	(67,737)	(3,051,733)
Expenditure	<u>(799,263)</u>	<u>(1,639,267)</u>
At 31 December 2003	<u>2,788,000</u>	<u>3,655,000</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 persons whose employment commenced on or before 31 December 1995.

The liability at 31 December 2003 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.

13. Share capital

	2003	2002
	£	£
Authorised:		
100,000,000 ordinary shares of £1 each	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid:		
100,000,000 ordinary shares of £1 each	<u>100,000,000</u>	<u>100,000,000</u>

14. Reserves

	Profit and loss account £	Profit and loss account £
At 1 January 2003	225,404,398	197,516,014
(Loss)/profit for the year transferred to reserves	(224,420,271)	27,888,384
At 31 December 2003	<u>984,127</u>	<u>225,404,398</u>

• Notes to the financial statements

15. Reconciliation of movement in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds	325,404,398	297,516,014
(Loss)/profit for the year added to shareholders' funds	(224,420,271)	27,888,384
Closing shareholders' funds	<u>100,984,127</u>	<u>325,404,398</u>

16. Pensions

The company's employees during the year were members of defined benefit and defined contribution pension schemes operated by the 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 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 Aker Kvaerner PLC.

The pension charge in the year represents contributions payable by the Company to the schemes and amounted to £216,783 (2002 £204,400) in respect of the defined benefit scheme and £89,142 (2002 £206,241) in respect of the defined contribution scheme.

Contributions amounting to £20,776 (2002 £34,200) in respect of the defined benefit scheme and £318,000 (2002 £285,983) in respect of the defined contribution schemes were payable at the year end and were included within creditors.

17. Contingent Liability

Of the total cash and bank balance on the balance sheet, £29,845,402 are deposits held in bank sub-accounts that are part of a group pooling system. Other Group companies may have withdrawn amounts deposited on such bank sub-accounts, such that the net balance on the accounts may be less than the reported balance. The bank has at any time a right of set-off in respect of any debit balance on any sub-account, towards satisfaction of any credit balance on other sub-accounts, in which case any debit balance represents a receivable from the Group and any credit balance represents borrowings.

18. Ultimate parent company

The immediate parent company is One Berkeley Street Limited which is registered in England and Wales.

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

The ultimate parent company at 31 December 2003 was Kvaerner ASA, a company incorporated in Norway, which heads the largest group in which the results of the company are consolidated. Subsequent to year-end the largest investor in Kvaerner ASA acquired additional shares in that company with the consequence that at the date of approval of these financial statements TRG AS, a company registered in Norway is to be regarded as the company's ultimate parent company.

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