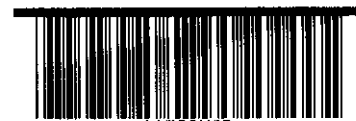


**RGC OFFSHORE LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 1999**



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Company Number: 48947

## RGC OFFSHORE LIMITED

### DIRECTORS' REPORT

The directors have pleasure in submitting their Report and Financial Statements, together with the Auditors' Report, for the year ended 31 December 1999.

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Prior to 1 October 1994 the company's principal activities were the construction of offshore structures for UK and overseas oil and gas projects. Since this date these activities have been carried out by Kvaerner Oil & Gas Limited. The company continues to lease the yard and own assets within it. A charge is made to Kvaerner Oil & Gas Limited for the use of these facilities.

#### RESULTS

The audited financial statements for the year ended 31 December 1999 are set out on pages 5 to 13, inclusive. The profit for the year after taxation was £1,363,000 (1998: £112,000).

#### DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 1999 (1998: £nil).

#### DIRECTORS

The following persons were directors of the company during the year:

S R Fudge	(Resigned 31 December 1999)
C J Moore	(Resigned 1 February 1999)
J M Lindsay	(Resigned 13 May 1999)
P D Foreman	(Resigned 21 May 1999)
A Dawson	(Resigned 21 May 1999)
N A Higgins	(Appointed 1 February 1999, Resigned 30 November 1999)
H M Payne	(Appointed 19 May 1999, Resigned 29 February 2000)
A J S Wilson	(Appointed 31 December 1999)
M Convery	(Appointed 8 May 2000)

#### 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.

## RGC OFFSHORE LIMITED

### DIRECTORS' REPORT (continued)

#### 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 period. In preparing those financial statements, the directors are required to:

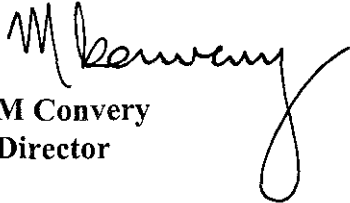
- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which 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.

#### AUDITORS

Arthur Andersen were auditors of the company throughout the year under review. Subsequent to the year end Arthur Andersen resigned as Auditors and the directors appointed KPMG to fill the vacancy. The company has dispensed with the requirement to appoint auditors annually.

By Order of the Board

  
**M Convery**  
**Director**

**Dated:** 4 September 2000

Registered Office:  
68 Hammersmith Road  
London  
W14 8YW

## **RGC OFFSHORE LIMITED**

### **AUDITORS' REPORT**

#### **To the Shareholders of RGC Offshore 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 pages 7 and 8.

#### **Respective Responsibilities of Directors and Auditors**

As described on page 2, the company's directors are responsible for the preparation of 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.

#### **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 judgments 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 in note 10 relating to the contingent events impacting the Kværner ASA group and its financing status, and its subsidiaries including RGC Offshore Limited. In particular, we draw attention to the disclosure of the uncertainties relating to the compliance of the Kværner ASA group with the covenants relating to its bank borrowings. In view of the significance of these matters and their potential impact on the going concern basis adopted in those accounts, we believe that they should be brought to your attention. Our opinion is not qualified in this respect.

**RGC OFFSHORE LIMITED**

**AUDITORS' REPORT (continued)**

**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 1999 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  
191 West George Street  
GLASGOW  
G2 2LB

Date: 4 September 2000

**RGC OFFSHORE LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED**  
**31 DECEMBER 1999**

		<u>31 December</u> <u>1999</u>	<u>31 December</u> <u>1998</u>
		<u>£000</u>	<u>£000</u>
Turnover	<u>Notes</u> 1	561	930
Cost of sales		(510)	(818)
Gross Profit		<u>51</u>	<u>112</u>
Other operating expenses		<u>-</u>	<u>-</u>
Operating Profit		51	112
Profit on fixed asset disposal		1,312	-
Profit on ordinary activities before taxation	2	<u>1,363</u>	<u>112</u>
Taxation on profit on ordinary activities	3	<u>-</u>	<u>-</u>
Profit for the financial year		<u>1,363</u>	<u>112</u>

**STATEMENT OF RETAINED**  
**PROFITS**

Retained profit at beginning of the year	3,484	3,372
Retained profit for the year	<u>1,363</u>	<u>112</u>
Balance at end of the year	<u>4,847</u>	<u>3,484</u>

The notes on pages 7 to 13 form an integral part of these financial statements.

*The above results are derived from continuing operations.*

The company had no material differences between the profit on ordinary activities before taxation and the retained profit stated above and their historical cost equivalents.

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

**RGC OFFSHORE LIMITED**

**BALANCE SHEET AS AT 31 DECEMBER 1999**

		<u>31 December</u> <u>1999</u>	<u>31 December</u> <u>1998</u>
	<u>Notes</u>	<u>£000</u>	<u>£000</u>
<u>Fixed Assets</u>			
Tangible Assets	4	2,054	3,565
<u>Current Assets</u>			
Amounts owed by group undertakings		8,104	5,230
		<u>8,104</u>	<u>5,230</u>
<u>Creditors: Amounts Falling due</u>			
<u>Within One Year</u>			
Amounts due to group undertakings		(311)	(311)
		<u>(311)</u>	<u>(311)</u>
<u>Net Current Assets</u>		7,793	4,919
<u>Net Assets</u>		<u>9,847</u>	<u>8,484</u>
<u>Capital and Reserves</u>			
Called Up Share Capital	5	4,300	4,300
Other Reserves	6	700	700
<u>Profit and Loss Account</u>		4,847	3,484
<u>Equity Shareholders' Funds</u>	7	<u>9,847</u>	<u>8,484</u>

The notes on pages 7 to 13 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 4 September 2000 and signed on its behalf by:

  
M Convery  
Director

## RGK OFFSHORE LIMITED

### YEAR ENDING 31 DECEMBER 1999

#### ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular policies are described below.

(a) Basis of Preparation of Accounts

The financial statements have been prepared under the historical cost convention and include the results of activities described in the directors' report. The company has taken advantage of the exemption under the rules of FRS1 not to produce a cash flow statement. The appropriate amounts have been included in the Consolidated Accounts of Kværner ASA.

(b) Land, Buildings and Plant

Fixed assets are recorded at original cost less accumulated depreciation. Cost comprises the direct expenditure incurred after deducting regional development grants, and in the case of assets constructed by the company, includes related overheads.

(c) Depreciation

Depreciation is calculated on a straight line basis at rates appropriate to the class of asset concerned. No depreciation is charged on assets in the course of construction, nor is any further charge made in respect of assets fully written off but still in use.

The annual depreciation rates used for the main categories of fixed assets are:

Short leasehold buildings which house plant and other works buildings	According to the period of the lease
Plant and machinery with an estimated minimum life of 10 years	10%
Plant and machinery with an estimated life of less than 10 years	According to the life

(d) Regional Development and Other Grants

The amounts received in respect of capital based grants have previously been credited to the cost of the related assets. This has the effect of reducing the annual depreciation charge and as such the capital based grants are effectively being amortised over the related assets' anticipated useful lives. Any new grants received in respect of capital based grants will be held as deferred income and released to the profit and loss account over the useful lives of the related taxable fixed assets. All other grants are credited to the profit and loss account.



**RGC OFFSHORE LIMITED**

**YEAR ENDING 31 DECEMBER 1999**

**ACCOUNTING POLICIES (continued)**

(e) Turnover

Turnover represents facility costs recharged but does not include VAT.

(f) Leases

Assets acquired under finance leases that give rights approximating to ownership are treated as if they had been purchased and an amount equivalent to their cost is included under tangible fixed assets. Depreciation is provided in accordance with the company's normal depreciation policy. Leasing payments are treated as consisting of capital and finance charge elements and the finance charge is charged to the Profit and Loss Account. All other leases are operating leases and the annual rentals are charged wholly to the Profit and Loss Account.

(g) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on 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 will crystallise in the future.

(h) Related Party Transactions

The company has taken advantage of the FRS8 exemption from having to provide details of transactions with fellow group undertakings.

**RGC OFFSHORE LIMITED**

**YEAR ENDED 31 DECEMBER 1999**

**NOTES TO THE FINANCIAL STATEMENTS**

1 **ANALYSIS OF TURNOVER**

	<b><u>31 December</u></b> <b><u>1999</u></b>	<b><u>31 December</u></b> <b><u>1998</u></b>
	<b>£000</b>	<b>£000</b>
By geographical area:		
United Kingdom	<u>561</u>	<u>930</u>

2 **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities is stated after charging:

	<b><u>31 December</u></b> <b><u>1999</u></b>	<b><u>31 December</u></b> <b><u>1998</u></b>
	<b>£000</b>	<b>£000</b>
Hire of other assets - operating leases	-	287
Depreciation	510	557

No emoluments were received by directors in the year (1998: NIL). The company had no other employees.

Auditors' remuneration for both financial years has been borne by its immediate parent company, Kvaerner Oil & Gas Limited.

3 **TAXATION**

There is no charge for corporation tax on the profit for the year as it has been eliminated by accelerated depreciation and other timing differences. The resulting loss will be surrendered to other companies in the group for no consideration.

There is no potential liability to deferred taxation.

**RGC OFFSHORE LIMITED**

**YEAR ENDED 31 DECEMBER 1999**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**4 TANGIBLE FIXED ASSETS**

	<b>Land and Buildings Short Leasehold</b>	<b>Plant, Machinery, Equipment and Vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Cost</u>			
At 1 January 1999	13,267	16,184	29,451
Disposals	<u>-</u>	<u>(8,174)</u>	<u>(8,174)</u>
At 31 December 1999	<u>13,267</u>	<u>8,010</u>	<u>21,277</u>
<u>Depreciation</u>			
At 1 January 1999	11,111	14,775	25,886
Charge for the year	337	173	510
Disposals	<u>-</u>	<u>(7,173)</u>	<u>(7,173)</u>
At 31 December 1999	<u>11,448</u>	<u>7,775</u>	<u>19,223</u>
Net Book Value at 31 December 1999	<u>1,819</u>	<u>235</u>	<u>2,054</u>
Net Book Value at 31 December 1998	<u>2,156</u>	<u>1,409</u>	<u>3,565</u>

**5 EQUITY SHARE CAPITAL**

	<b><u>31 December 1999</u></b>	<b><u>31 December 1998</u></b>
	<b>£000</b>	<b>£000</b>
Authorised:		
Equity share capital		
Ordinary Shares of £1 each	<u>7,000</u>	<u>7,000</u>
Allotted, called up and fully paid:		
Equity share capital		
Ordinary Shares of £1 each	<u>4,300</u>	<u>4,300</u>

**RGC OFFSHORE LIMITED**

**YEAR ENDED 31 DECEMBER 1999**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**6 OTHER RESERVES**

	<b><u>31 December</u></b> <b><u>1999</u></b>	<b><u>31 December</u></b> <b><u>1998</u></b>
	<b>£000</b>	<b>£000</b>
Capital Redemption Reserve	<u>700</u>	<u>700</u>

**7 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b><u>31 December</u></b> <b><u>1999</u></b>	<b><u>31 December</u></b> <b><u>1998</u></b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year	1,363	112
Net Increase to Shareholders' Funds	<u>1,363</u>	<u>112</u>
Opening Shareholders' Funds	8,484	8,372
Closing Shareholders' Funds	<u><u>9,847</u></u>	<u><u>8,484</u></u>

**8 OPERATING LEASE COMMITMENTS**

The company has minimum annual commitments under operating leases which expire as follows:

	<b>Land and Buildings</b>	
	<b><u>31 December</u></b> <b><u>1999</u></b>	<b><u>31 December</u></b> <b><u>1998</u></b>
	<b>£000</b>	<b>£000</b>
In less than one year	-	19
In two to five years	-	6
In five years or more	<u>-</u>	<u>255</u>
	<u>-</u>	<u>280</u>

## RGC OFFSHORE LIMITED

YEAR ENDED 31 DECEMBER 1999

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 9 ULTIMATE PARENT COMPANY

Kvaerner E&C Plc (formerly Kvaerner Process Plc) heads the smallest group in which the results of the Company are consolidated.

The ultimate parent company is Kvaerner ASA which heads the largest group in which the results of the Company are consolidated.

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

#### 10 CONTINGENT EVENTS IMPACTING THE KVAERNER ASA GROUP AND ITS FINANCING STATUS

RGC Offshore Limited and other members of the Kvaerner ASA 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. The restructuring set out the continued divestiture of the group's remaining shipbuilding activities and other loss making non-core businesses. The directors of the Company are therefore working with other members of the Kvaerner ASA group to implement the restructuring plan and to ensure adequacy of financing.

With its extensive worldwide operations Kvaerner ASA and certain of its subsidiaries 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 provision. Details of these legal disputes are disclosed within the accounts of Kvaerner ASA.

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, Kvaerner Group's lenders agreed to suspend the financial covenants of the loan facilities to facilitate the changes arising in connection with the strategic restructuring of Kvaerner 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. 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 the Kvaerner ASA group for the period

**RGC OFFSHORE LIMITED**

**YEAR ENDED 31 DECEMBER 1999**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

10 (continued)

ended 31 December 2000 indicate that the group will be in compliance with the financial covenants, as interpreted above, for the period and these accounts have been prepared upon this basis. However, there can be variances between forecasts and actual results. There can be no assurance over the Kværner 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 audit report of Kværner ASA whilst not qualified in respect of the above contained an emphasis of matter note referring to the uncertainties described in the notes to the accounts.