

Annual report 2014







KVÆRNER™

User guide

This document is an interactive PDF (iPDF) file, a universal format adapted to both digital viewing and print-outs. It works as a regular PDF, but has interactive functions for navigation by clicking on buttons and contents.

Navigation

You can click on menus, buttons or the table of contents.
Click on the logo to go to the front cover.

-  Left-hand arrow: flip one page backward (or use arrow keys or scroll wheel)
-  Right-hand arrow: flip one page forward (or use arrow keys or scroll wheel)
-  Previous view: back to previously viewed pages
-  Next view: forward to previously viewed pages
-  Find text: search for text in Adobe Reader/Acrobat
-  Full screen view on/off

PDF readers

The document is designed for Adobe Reader/Acrobat 8 or later.
Some functions may not work in web browsers that support PDF plug-ins.
If you experience problems viewing in your web browser, please save/download and reopen the PDF in Adobe Reader.

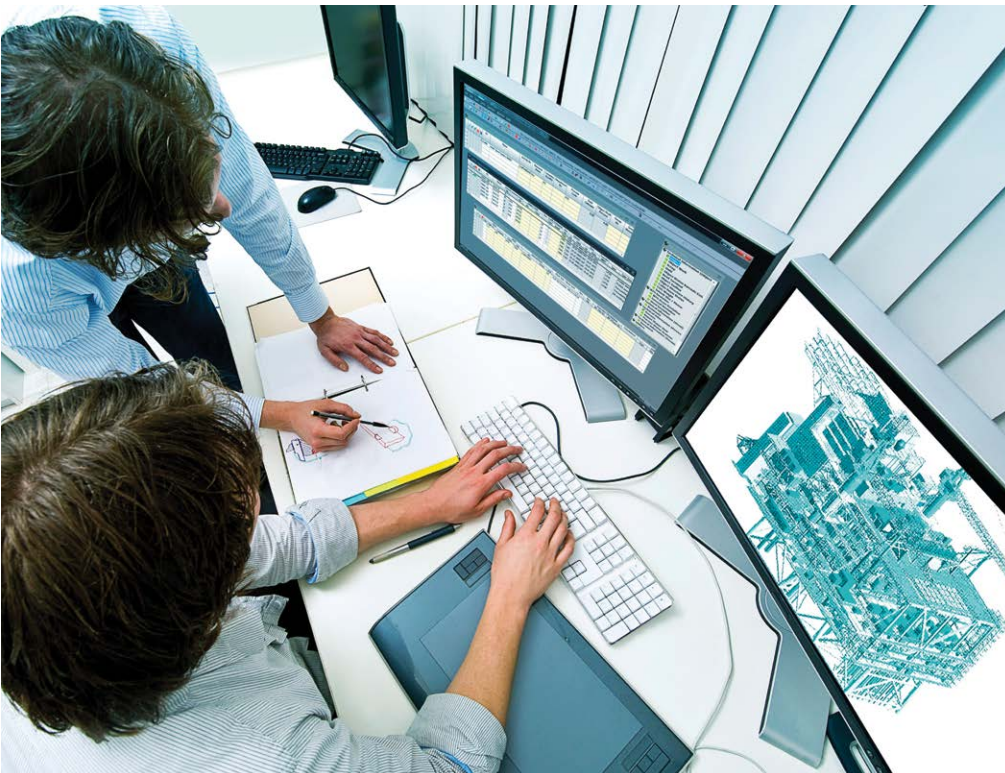
Download the free Adobe Reader here: <http://get.adobe.com/uk/reader/otherversions>

Print

The document is configured for printing on a horizontal A4 sheet in full size without margins.

Tablet

The document is optimised for iBooks, but the top navigation panel should function with all PDF readers for tablets supporting hyperlinks. The navigation buttons mentioned above may not be visible on your tablet, you will then have to use the tablets inherent functionality to browse through the document.

KVÆRNER™

Contents

Message from the President & CEO	4
Board of Directors' report	6
Annual accounts Kvaerner group	18
Annual accounts Kvaerner ASA	65
Board of Directors	78
Company information	80

Message from the President & CEO

While Kvaerner last year produced the highest revenue level ever recorded, 2014 was also a turbulent year for the global oil and gas industry. In the midst of significant market shifts, reductions in oil companies' investment plans and dropping oil price, Kvaerner still completed projects on schedule, won large new jacket contracts, and made further steps to improve safety and competitiveness. In 2015, our focus is to continue the predictable execution of ongoing projects while we also manage the volatile market for new contracts.

For HSSE (Health, Safety, Security and Environment), our annual result for 2014 showed a lost time incident frequency of 0.35 and a total recorded incident frequency of 2.3, an improvement from 2013 of 33 percent and 12 percent respectively. During 2014, we produced more than 20 million worked hours, whereof approximately 25 percent were from Kvaerner, and 75 percent from sub-contractors and partners.

On 7 March 2015, we received devastating news that one of our colleagues on the Draugen decommissioning project had been in a fatal accident on the project. Any accident is unacceptable. When we in spite of all efforts for safe work experience a fatal accident, we will investigate thoroughly how this could happen, in order to understand how we can prevent anything similar to happen again. The accident will be investigated by the police as well as an independent investigation team, and lessons learned will be used in future HSSE trainings.

In 2014, we recorded 18 serious near misses, and even if they caused no direct harm, all have been investigated and summarized in lessons learned reports communicated to all part of our operations. It is our common responsibility to work safe and take care of both our colleagues and ourselves, and we will continue our efforts and drive to further improve the safety performance in 2015.

Revenues including incorporated joint ventures reached NOK 17.5 billion, an increase of nine percent from NOK 16 billion for 2013. The results for 2014 mirrors that Kvaerner has had a particular high activity level with several projects in parallel. In addition to utilising the full capacity of our own organisation, we have had a record high number of contract staff and subcontractors assisting us in the execution of this workload

From 2013 and in to 2014, it was clear that Kvaerner's business area Jackets needed to refill the order book. To continue the business within steel substructures for offshore platforms depended not only on step change improvements to the delivery model and cost level, but also on the long term market outlook for such installations.

In June 2014, the turn-around process for the Jacket business was crowned by a prestigious six-year frame agreement with Statoil. The agreement also included a letter of intent for delivery of two jackets to the Johan Sverdrup field. This is also an illustration of how a very constructive cooperation between management, employees and their representatives enabled Kvaerner to implement fast track improvements of a significant scale.

Through 2014, we identified opportunities to further improve our competitive strength. Already from the start of 2015, we are taking additional, concrete actions in cooperation with our organisation to reduce costs and further improve competitiveness.

Kvaerner left the past year with an order book of more than NOK 16 billion, which provides a good visibility compared to historic levels. The backlog will mainly be executed in 2015 and in 2016. This activity level is also important as a momentum for improving competitiveness and win new contracts. For 2015, we are aiming for an activity level of NOK 10 to 11 billion.

Already at the start of 2014, leading operators announced that they would have to cut both costs and investments in new projects over the next few years. Through the year, various segments in the contracting and supply industry started to feel the impact of this development. Over the last half year, the about 50 percent drop in the oil price to below USD 50 dollar forced operators to take a second look at expected new projects. Within Kvaerner's market segments, we noticed that some field development projects were put on temporary hold.

Oil and gas is expected to continue to be the world's single most important energy source for decades, which drives a fundamental demand for the expertise and solutions Kvaerner represents. However, it is in the short term difficult to estimate when such market improvements will come, and how fast and how much improvement we will see.

In 2015, we expect to see contract awards of some few, but significant contract awards. As one of the largest development projects, the Johan Sverdrup field at the Norwegian

Continental Shelf has been on our radar as a key prospect. In February 2015, Statoil announced that a competitor got the EPC contract for the drilling platform topsides to Johan Sverdrup. The loss of this contract means that we will reduce our capacity within certain areas to avoid surplus capacity later in the year. Simultaneously, we are utilising the learnings from the drilling platform tender to implement further cost reductions and improvements in parallel with positioning for other contract opportunities.

Alongside the completion of projects, we started a strategic review in 2014 which identified several growth opportunities in segments adjacent to where we operate already. We will leverage these analyses in 2015 when we pursue opportunities to win new contracts. Our priorities are clear:

- Execute on-going projects safely and according to plans and expectations
- Continue to build a foundation for sound financial margins, speed up cost reductions and balance capacity
- Strategically develop the company's market position and offering in target markets

I am privileged to lead an organisation of hard working and dedicated people, including some of the industry's best experts whether we look at project management, engineering, crafts or business strategies. Also in 2015, we will strive to live up to Kvaerner's mission in the oil and gas industry: To realize energy projects and values for our customers, for our shareholders and for the society at large.

Jan Arve Haugan
Jan Arve Haugan
President & CEO
Kvaerner



I am privileged to lead an organisation of hard working and dedicated people, including some of the industry's best experts whether we look at project management, engineering, crafts or business strategies.

Board of Directors' report 2014

Operational highlights

New contracts secured

- > Completion contracts for the Aasta Hansteen project
- > Frame agreement for delivery of steel jacket substructures to Statoil-operated fields
- > Letter of intent of NOK 3 billion for delivery of two steel jackets to the Johan Sverdrup field
- > Study for unmanned dry tree wellhead platform concept - Subsea on a Stick®

Deliveries

- > Edvard Grieg jacket and piles
- > Martin Linge jacket and piles
- > Eldfisk 2/7S topside
- > H6-e drilling rig reclassification and upgrade

Strategic development

Over the last year, Kvaerner has achieved several milestones in the work aimed at strengthening and further developing the company's position. Through 2014, Kvaerner has executed several activities to further improve productivity, reduce cost level and increase overall competitiveness. A designated process has also identified opportunities for reducing the cost level in future projects.

Adjustments have been made to enable the business area jackets and the specialised fabrication facilities in Verdal to also pursue opportunities within other segments than steel jacket platform substructures, such as deliveries to onshore facilities and to modification projects. This increases the flexibility and the opportunities to leverage more market opportunities. At its facilities at Stord, Kvaerner has invested in a new, large crane; put into operations in March. The crane investment has increased efficiency and produc-

tion capacity at the yard.

Kvaerner also had high activity related to development of new technologies. This includes development of new concepts for offshore platforms which can offer reduced costs and added values to oil companies, compared to alternative solutions.

In August 2014, the company announced the establishing of a joint venture with the international contractor KBR. The focus for the partnership is to bid for, and hopefully execute offshore platform topsides contracts for the Johan Sverdrup field development. The alliance is a new step in a long standing relationship with KBR from past projects, and also for an ongoing strategic cooperation related to solutions for concrete LNG facilities.

Kvaerner has carefully worked to further build its international market position, and the business development activity has been high in all target regions.

In late February 2015, Statoil announced that the contract for delivery of the Johan Sverdrup drilling topside was awarded to a competitor. This was a job that Kvaerner had strong ambitions to win and is an illustration of how intense the competition for every contract award is. The company will utilise learnings from this tender loss to implement further cost reductions in parallel with positioning for other contract opportunities.

Kvaerner has in 2014 made several steps for streamlining and industrialising own work processes. Examples are to leverage the positive experiences from the jacket facility in Verdal with standardised work stations for fabrication also to other projects. Another example is to streamline work processes at the company's facility at Stord, including the investment in a new service tower which reduces off-tool time for personnel working on projects.

Based on Kvaerner's experience and position as a key contractor, the company sees an untapped potential for standardisation if leading industry players can cooperate in making the entire value chain more effective. To harvest this potential, the company is in dialogues with both customers and subcontractors to agree on cooperation across company boundaries.

Business overview

Principle operations

Kvaerner is one of the world's leading contractors for delivery of complete offshore platforms and onshore plants for oil and gas upstream projects. One of Kvaerner's main activities is the delivery of projects where Engineering, Procurement and Construction (EPC) are integrated in one contract.

With the technical complexity in large oil and gas installations combined with a relatively short schedule for delivery, there are few contractors world-wide who have a credible expertise for such complete deliveries.

Until year-end 2014, Kvaerner was organised in the business areas Contractors Norway, Jackets, Concrete Solutions and Contractors International. From 1 January 2015, Kvaerner is organised with the following four business areas:

Topsides have a long track record of delivering topsides for offshore platforms to oil and gas companies, including the role as a key contractor for around 70 percent of the platform development projects on the Norwegian continental shelf, as well as for a high number of challenging platform projects around the globe. The organisation of about 1 750 employees includes experts within both project management, engineering and procurement as well as skilled

operators. Kvaerner's modern and specialised facility for fabrication, hook-up and commissioning at Stord on the Norwegian West coast is one of the company's key assets, recognised for delivering complex projects on time and to the agreed specifications. The previous business area Contractors International was from 1 January 2015 mainly integrated as part of business area Topsides.

Onshore is a business area focused on delivering new onshore oil and gas facilities in Norway, or conduct up-grades and modifications to existing plants. The track record includes the role as a key contractor for a number of major onshore projects. For the execution of projects, the business area leverage resources and experts from Topsides as well as other parts of Kvaerner.

Jackets deliver conceptual and feasibility studies, front end engineering and design (FEED), detailed engineering, procurement, overall project management, fabrication management, fabrication and delivery of steel substructures for offshore platforms. Over the last 40 years, more than 40 large steel jackets have been delivered. The business area of about 800 employees which includes highly skilled engineers, operators and project management also deliver other steel structures for offshore oil and gas projects, and for onshore oil and gas facilities. Jackets operate a highly specialised and modern fabrication facility in Verdal in Mid-Norway, with design and engineering offices both in Oslo and Trondheim.

Kvaerner Piping Technology is a highly specialised unit located at the fabrication facilities in Verdal. The products include delivery of cold bending, prefabrication as well as welding of pipes and pipe systems to the oil and gas process facilities and land based industries, both in Norway and internationally.

Concrete Solutions delivers conceptual studies, front end engineering and design, detailed engineering, procurement, overall project management, fabrication management, fabrication and delivery of concrete substructures for fixed and floating offshore oil and gas platforms. The concrete substructures have for decades been the preferred solutions among oil companies with offshore field developments in regions with harsh or Arctic weather conditions. In addition,

the concrete structures' inherent internal storage capacity and low maintenance needs make this an attractive solution also for projects located far from existing export pipelines and infrastructure.

Kvaerner's solid track record from delivering more than 20 concrete substructures for both fixed and floating platforms around the world has positioned the company as the oil industry's leader for such solutions.

Strategic partnerships and use of subcontractors

Kvaerner's business model includes a clear strategy for not doing every part of a project in house if it benefits the value chain to use partners and subcontractors. Hence, in addition to the company's own multi-discipline organisation and specialised facilities organised in focused business areas, Kvaerner has established strategic cooperation with some selected partners. Going forward, the company expects to continue this development, in order to further standardise and industrialise the value chain.

Project Execution Model

Proven through decades of experience from delivering some of the world's most demanding projects, Kvaerner has developed a proprietary Project Execution Model (PEM™). This delivery model provides a full overview of the project, the project team, customer and subcontractors. PEM™ documents overall scope, deliverables in each project phase, interdependencies and milestones, progress, quality and other key parameters. This systematic approach to project execution increases efficiency, allows flexibility for use of best-value suppliers, reduces risks and enhances predictability.

Objectives and strategic direction

While some projects world-wide are relatively simple, Kvaerner focuses on the segment where the customers in the oil companies have projects which are challenging to develop.

Kvaerner's mission as a supplier in this industry is clear: We make it possible for our customers to realise the world's most amazing and demanding projects. We make it possible

for the world to realise energy projects for prosperity, striving against zero harm to people, property or the environment.

Based on the long track record, the established position and the organisation of experienced experts, Kvaerner's vision is to become a top league international EPC player.

Strategic direction

In 2012, Kvaerner proved its competitive strength by winning a series of new contracts. The order backlog has been at high levels through 2013 and 2014. At the end of 2012 and into 2013, Kvaerner experienced that international competitors succeeded in winning several new projects of interest to Kvaerner. Hence, Kvaerner has in 2013 and 2014 initiated and implemented a series of measures to further improve its delivery model and cost efficiency. The company expects to see positive effects of these improvements when bidding for projects in 2015 and onwards.

With this background, Kvaerner has set some clear, overall objectives for the coming years:

- Successfully execute the existing order backlog according to the customers' specifications and to own internal expectations
- Complete implementation of ongoing improvement projects, in order to contribute to effective execution of current projects, and to increase competitive strength for future contracts
- Carefully select prospects of strategic importance, successfully bid for and win new projects
- Achieve a profitable development of business opportunities in adjacent market segments
- Leverage the execution of new projects to grow and develop Kvaerner further
- Gradually strengthen Kvaerner's position as a leading EPC player

A key driver for Kvaerner's customers is to avoid expensive delays compared to planned schedule for production start, or quality issues which are time consuming and costly to correct in the last phase of a project. Increasingly, a low initial cost for projects is also a priority for many customers.

Controlled and predictable project execution is also a key for risk management of a contract. The company will continue to nurture this as a core characteristic, also when Kvaerner establish partnerships or increase use subcontractors for the execution of projects. For 2014, Kvaerner targeted to reduce its cost base for new projects by at least 15 percent compared to similar previous projects. Examples of improvements in engineering are reduced engineering costs through a combination of lower rates and reduced number of man-hours in cooperation with KBR. In procurement, lower prices from suppliers have been negotiated and internal work flows and routines have been improved. In fabrication, work processes and logistics are being industrialised, and overall project management optimised.

These efforts will continue in 2015, and the aim is to develop a culture for continuous improvement. It is a priority for Kvaerner that the reduced cost base should result in both improved competitiveness as well as sound financial margins.

In September, Kvaerner announced that a strategic review has been initiated. In this review, the ambition is to ensure Kvaerner's long term growth and global competitiveness. As part of the review further improvement initiatives, new industrial partnerships or changes to ownership structures may be considered, as well as a further streamlining of the products and services offered. In the current volatile market, Kvaerner's primary focus in the short term will not be on opportunities which may involve large new investments or changes to ownership.

Already, this process has identified that Kvaerner can increase its activities in business segments adjacent to the traditional EPC-based deliveries of offshore platforms. In December, Kvaerner adjusted its corporate structure as a first step to optimise the use of existing resources, also for the pursuit of upcoming prospects in adjacent business segments. The new structure was implemented as from 1 January 2015.

Markets and target regions

Markets

The fundamental driver for Kvaerner's EPC-deliveries of offshore oil and gas installations and onshore facilities for upstream oil and gas production is the global demand for oil and gas as energy sources.

At the end of 2014, the short term level and the short term drivers for global demand for oil and global supply of oil is in a turbulent cycle. Even if the picture is uncertain, Kvaerner shares the view of leading analysts that the long term global demand for oil will continue, and that the oil price and oil companies investments will in the future increase from the levels seen at year-end 2014. As such, the long term market fundamentals suggest a continued demand for Kvaerner's expertise. However, it is in the short term difficult to conclude when, how fast and to which degree the market will recover.

Kvaerner is in close dialogue with several oil and gas operators, and the company's own market analyses show a number of opportunities both in a short, medium and long term perspective. Kvaerner expects to see the outcome of some few but important contracts awards for fields in the North Sea region already in 2015.

Kvaerner continues to also see opportunities for interesting projects in other regions, such as in Canada and Russia. However, the timing for a possible start of the near term prospects is uncertain in both these markets. In Canada, the planned development of White Rose West has been postponed. For the market in Russia, the geopolitical situation with trade sanctions may limit some opportunities. At the start of 2015, there are no estimates for when these sanctions may be lifted.

Target regions

Kvaerner focus on offering effective execution of challenging projects, particularly for developments in regions with harsh weather conditions. Geographically, Kvaerner has a strong market position for oil and gas projects in the countries around the Arctic Circle, in particular in Norway, Canada and Russia. The company also has a long track record for projects in the UK sector of the North Sea. The company is

together with partners also positioning for selected prospects in other regions, when the project demands capabilities which enable Kvaerner to leverage its competitive strengths.

Kvaerner has a network of offices around the world for studies and business development. Outside Norway, Kvaerner currently has offices in London, Houston, Moscow, St. John's (Canada), Beijing, and Pori (Finland). In Norway, Kvaerner has own facilities in Verdal, Trondheim, Molde, Stord and Oslo.

Market segments

Kvaerner is fully focused on upstream oil and gas production projects and pursues opportunities within these market segments:

- EPC projects for fixed and floating oil and gas production facilities
- EPC projects for steel and concrete substructures for offshore platforms
- EPC projects for onshore oil and gas upstream facilities
- EPC projects for larger rebuilds/refurbishment of offshore platforms/onshore plants
- Separate contracts for assembly, hook-up, completion, commissioning, offshore platforms and onshore plants
- Separate contracts for engineering management, procurement management, fabrication management or project management related to offshore platforms or onshore plants

Frame conditions

Several of the world's key oil and gas operators have in 2014 communicated that they will aim to reduce cost levels for new field developments, and that they will strive to achieve this by internal cost cuts and expected improvements among their contractors.

Since these announcements at the beginning of 2014, the oil price dropped about 50 percent before year-end. This has resulted in additional announcements of spending cuts from operators. Also, several projects around the world have been put on hold until further notice.

Significant shifts in market cycles are something Kvaern-

er has experienced many times before. Kvaerner's strategy in this picture is to aim for retaining robustness and flexibility through this cycle, to enable a forceful pursuit of carefully selected prospects.

Competition among the contractors has also increased over the last few years. In the first half of 2013, both Kvaerner and other Norwegian suppliers experienced the loss of bids for new projects to fabrication yards in Asia. Consequently, Kvaerner initiated a group-wide process to strengthen the company's competitiveness. Opportunities for cost reductions and increased efficiency have been identified, and implementation of improvements is expected to improve competitiveness for future bids.

Kvaerner will seek to combine these efforts with possible further step change improvements, in close cooperation with the customers.

Report for 2014

Financials

Kvaerner presents its accounts in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. Unless otherwise specified, figures in brackets represent figures for the previous year (2013).

Profit and loss

Consolidated operating revenue for 2014 was NOK 13 945 million (NOK 12 960 million). The increase from last year is mainly due to high activity on projects for the North Sea and onshore Norway.

Earnings before interest, taxes, depreciation, amortisation and impairment (EBITDA) amounted to NOK 828 million, an increase of NOK 192 million from 2013 (NOK 636 million). The EBITDA margin for 2014 was 5.9 percent (4.9 percent). The increase in EBITDA and margin is reflecting high activity on on-going projects and positive impact from final close out of a historic project, more than offsetting negative cost developments in some projects. On-going projects have a relatively wide margin range and negative cost developments in some projects are putting pressure on margins.

Depreciation charges totalled NOK 70 million, an in-

crease of NOK 7 million from 2013 (NOK 63 million), mainly reflecting capital investments at the Stord yard. Goodwill impairment in the year of NOK 266 million (NOK nil) was related to business area Contractors International. The impairment is based on the company's impairment test in accordance with International Financial Reporting Standards (IFRS) IAS 36 Impairment of Assets, reflecting accounting judgements following market developments.

Consolidated earnings before interest and taxes (EBIT) were NOK 492 million (NOK 573 million). Net financial expenses amounted to NOK 105 million (NOK 96 million), and include net interest expense of NOK 46 million (NOK 57 million) and unrealised loss on foreign currency contracts and foreign exchange loss in the year of NOK 25 million (NOK 7 million) and NOK 34 million (NOK 31 million) respectively. Loss on foreign currency contracts is related to hedging instruments not qualifying for hedge accounting and foreign currency loss is resulting from intercompany loans and equity settlements with foreign branches with no cash impact.

Share of result from associated companies and joint ventures defined as financial investments, was a loss of NOK 59 million (loss of NOK 78 million). The results for both 2014 and 2013 were impacted by impairment charges.

The tax expense was NOK 301 million (NOK 160 million), which corresponded to an effective tax rate of 92 percent (40 percent). The relatively high tax rate reflects goodwill impairment and write-down of investment in associated company without tax effects, write down of tax assets and increased provision for foreign tax audits. Adjusting for these on-off items, the adjusted tax rate is within the expected range of around 30 percent. Please see [Note 28](#) Contingent events ([page 63](#)), for further details on foreign tax audits.

Profit from continuing operations amounted to NOK 27 million (NOK 239 million), and basic and diluted earnings per share from continuing operations were NOK 0.10 (NOK 0.89).

Net loss from discontinued operations was NOK 96 million (profit of NOK 206 million). Net profit in 2013 included gain on sale of the North American construction business of

NOK 272 million. Basic and diluted earnings per share for discontinued operations were negative NOK 0.36 (positive NOK 0.77).

Net profit for total operations in 2014 was negative NOK 69 million (profit of NOK 445 million), with basic and diluted earnings per share of negative NOK 0.26 (positive NOK 1.66). The reduction from last year's result is both due to impairment charges and one-off tax charges in 2014, but also gain on sale of business in 2013.

Cash flow

Consolidated cash flow from operating activities depend on a number of factors, including progress on and delivery of projects, changes in working capital and pre-payments from customers. Net cash inflow from operating activities was NOK 193 million in 2014 (inflow of NOK 606 million). The reduction mainly reflects increased working capital in 2014, only partly offset by improved EBITDA and reduced tax payments.

Net cash outflow from investing activities in 2014 was NOK 171 million (inflow of NOK 208 million). Cash inflow in 2013 was positively impacted by consideration from sale of the North American construction business. The capital expenditures for 2014 amounted to NOK 157 million (NOK 164 million) and was mainly related to the new gantry crane at the Stord facilities in Norway. The crane was put in operations in March 2014 and it has increased efficiency and production capacity at the yard. Capital expenditure also includes investments in intangible assets of NOK 35 million, mainly related to Kvaerner's Subsea-on-a-Stick® concept and development of Cost Estimation Model. A total maintenance capex for the group of approximately NOK 30-50 million is expected annually.

Net cash outflow from financing activities was NOK 370 million in 2014 (outflow of NOK 356 million), mainly reflecting dividend payments and payment of loan interests.

Balance sheet and liquidity

The group's total assets were NOK 7 424 million on 31 December 2014 (NOK 7 825 million).

Net current operating assets (NCOA) were negative NOK 922 million at year-end, an increase of NOK 344 million from the end of 2013 (negative NOK 1 266 million). The group's NCOA is normally expected to be in the range negative NOK 500 million to negative NOK 1 500 million, with quarterly fluctuations. Equity as of 31 December 2014 totalled NOK 2 337 million (NOK 2 511 million). The group's equity ratio was 31.5 percent at year-end 2014, compared with 32.1 percent at year-end 2013. The group's interest bearing debt amounted to NOK 487 million (NOK 479 million) at the end of the year.

Bank facilities of NOK 3 000 million consist of a revolving credit facility of NOK 2 500 million and a term loan of NOK 500 million, both maturing in May 2016. The NOK 500 million term loan was refinanced and extended from May 2014 to May 2016 in January 2014 at improved terms. The facilities are provided by a syndicate of international banks. The term loan is fully drawn, whilst the revolving credit facility was undrawn at year-end 2014. The terms and conditions include restrictions that are customary for these kinds of facilities, including inter alia negative pledge provisions and restrictions related to acquisitions, disposals and mergers. There are also certain provisions included in the agreements relating to change of control. There are no restrictions for dividend payments and both the revolving credit facility and the term loan are unsecured.

The financial covenants are based on three sets of key financial ratios: An equity ratio based on consolidated total borrowings/consolidated total equity; a cash covenant calculated by consolidated total borrowings, less consolidated net current operating assets; and consolidated cash and cash-equivalent assets and an interest coverage ratio based on consolidated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. The margin applicable to the facility is based on a price grid determined by the gearing ratio.

Consolidated non-current assets totalled NOK 2 010 million (NOK 2 150 million) as of 31 December 2014, of which goodwill amounted to NOK 805 million (NOK 1 071 million). Reduction is due to goodwill impairment on goodwill relat-

ed to business area Contractors International. Net interest-bearing cash amounted to NOK 722 million at the end of 2014 (NOK 1 069 million). The change between 2014 and 2013 is due to decreased cash positions; cash and cash equivalents was NOK 1 208 million at 31 December 2014 (NOK 1 545 million). With undrawn, committed, long-term credit facilities of NOK 2.5 billion, the Board considers available capital adequacy and liquidity as good and ensures that Kvaerner is well positioned to meet the challenges and opportunities over the coming years.

Segment review

Following the sale of Kvaerner's onshore construction business in North America in December 2013, the Downstream & Industrials segment is classified as discontinued operations. Consequently, Kvaerner only has one reportable segment; Upstream.

As from 1 January 2015 a new corporate organisational structure has been implemented comprising the business areas Topsides, Onshore, Jackets and Concrete Solutions. The previous business area Contractors International was from 1 January 2015 mainly integrated as part of business area Topsides. These changes will not change the group's segment reporting as from 2015.

Upstream

Through 2014, the Upstream segment was divided into four separate business areas: Jackets, Concrete Solutions, Contractors Norway and Contractors International.

Operating revenues in 2014 totalled NOK 17 531 million (NOK 16 091 million). EBITDA was NOK 911 million (NOK 708 million), with an EBITDA margin of 5.2 percent, an increase from 4.4 percent in 2013. The EBITDA reflects projects with a relatively wide margin range. EBITDA for the year was positively impacted by high activity on on-going projects, including one major project passing 20 percent progress with recognition of accumulated profit in addition to positive impact from final close out of a historic project. However, negative cost developments in some projects during 2014 are putting pressure on margins.

Order intake for the year amounted to NOK 10 727 million (NOK 18 662 million). In June 2014, Statoil signed a letter of intent for Kvaerner to deliver two of the planned steel jackets for Johan Sverdrup. Subject to all necessary approvals for the project to proceed, the early estimate of the total value of the two jacket deliveries was approximately NOK 3 billion. In January 2015, Kvaerner signed the EPC-contract for delivery of the jacket for the riser platform. Order intake for 2014 also includes two contracts for completion work on the Aasta Hansteen project, growth in existing projects as well as small orders. Order backlog as of 31 December 2014 was NOK 16 451 million (NOK 22 809 million).

Contractors Norway experienced high activity during the year with the three major projects; Eldfisk topside, Edvard Grieg topside and Nyhamna onshore project. For Edvard Grieg, assembly and commissioning activities were on-going during the year with high activity at the Stord yard. Planned delivery is in April 2015. Eldfisk was delivered as planned and left the yard in May. Kvaerner is also performing the hook-up work of the topsides and a major milestone was reached for Eldfisk 3 January 2015 with first oil achieved and start of production the following day. The Nyhamna onshore project is progressing as planned with pre-fabrication at yards in China, Poland, UK, Verdalen and Stord. Civil work on site has been on-going throughout the year.

In the Jacket business area, activity was high during the first part of 2014. The two jackets Edvard Grieg for Lundin Norway AS and Martin Linge for Total E&P Norge AS were successfully delivered in second quarter as planned. In February, the Verdalen yard was awarded three compressor modules for the Nyhamna EPCm Project. In June, Kvaerner and Statoil signed a historic frame agreement for delivery of steel jacket substructures to Statoil-operated fields. The arbitration process for the Nordsee Ost project will take more time than earlier anticipated due to high complexity and resolution has been delayed. Please see [Note 28](#) Contingent events ([page 63](#)), for further details.

Within Concrete Solutions, engineering, procurement and construction activities for the Hebron GBS project progress-

es in Newfoundland and Labrador, Canada. Detailed Engineering is nearing completion in St. John's, and construction in the Bull Arm dry dock culminated in the tow-out of the 27 meters tall GBS to the deep water site in July. Concrete pouring of the major slip form up to an elevation of 71 metres at the deep water site was successfully completed in October, the first deep water slip forming operation since Hibernia in the 1990s. At the Bull Arm deep water site, progressing the installation of solid ballast as well as preparations for further mechanical outfitting were the main activities towards year-end. The project is a 50/50 joint venture between Peter Kiewit Infrastructure and Kvaerner. Concrete Solutions in 2014 continued its active R&D program, developing new concepts, methods and materials specifically focussed on harsh, ice infested environments in order to meet the oil and gas companies' needs for cost effective solutions in these challenging environments.

Primary activities for the business area Contractors International last year included positioning and bidding preparations for new contracts, as well as executing work for international clients. Projects included technology development for deep-water floating production for oil companies with such operations, and engineering for the Chinese Enping Phase II development in cooperation with Kvaerner's strategic partner COOEC.

Discontinued operations

In December 2013 Kvaerner sold its onshore construction business in North America to Matrix Service Company. Kvaerner retained the assets and liabilities related to the contract with Longview Power LLC, including any financial effects of the arbitration. Through 2014, Kvaerner has continued the efforts aimed at settling the claims after the Longview power plant project which was delivered in 2011.

Net loss from discontinued operations was NOK 96 million (profit of NOK 206 million), resulting from costs related to the on-going arbitration process. In early January 2015, settlement agreements were reached with Longview Power, LLC and others, resulting in an aggregate amount of USD 48 million from various parties. The settlement has not impact-

ed Kvaerner's accounting position for the remaining claim against Amec Foster Wheeler. Please see [Note 27](#) Discontinued operations ([page 62](#)), [Note 28](#) Contingent events ([page 63](#)) and [Note 29](#) ([page 64](#)) Subsequent events and section below for further details.

Corporate and unallocated costs

For the full year, unallocated costs were NOK 83 million (NOK 72 million). It is expected that the recurring level of net corporate costs will be approximately NOK 70-80 million annually.

Going concern

Based on the group's financial results and position described above, the Board of Directors confirms that the company is a going concern and that the annual accounts for 2014 have been prepared under this assumption.

Parent company accounts

The parent company, Kvaerner ASA, had a net loss of NOK 138 million for 2014 (profit of NOK 114 million) Kvaerner ASA has no employees and operating expenses are mainly shareholder costs for the parent holding company. The parent company's main asset is shareholdings in subsidiaries. Equity ratio was 64.9 percent at year-end 2014 (70.8 percent).

Dividend policy

Kvaerner ASA's dividend policy is based on visibility and predictability. The Board announces the proposed semi-annual dividends in connection with the reporting of fourth quarter results and second quarter results, respectively. The ambition is to pay semi-annual dividends with increases, in order to give a stable and predictable dividend growth, balancing out the underlying volatility of earnings. In line with the policy, semi-annual dividends of NOK 0.61 per share and NOK 0.64 per share were paid in April and October 2014 respectively. The Board will assess the dividend policy in 2015 to ensure it reflects the developments in the company's long term markets and outlook.

Allocation of net results

Pursuant with the company's dividend policy, the Board of Directors proposes to the Annual General Meeting that a dividend of NOK 0.67 per share should be paid in April 2015. The Board of Directors thereby proposes the following allocation of net loss in Kvaerner ASA:

Proposed dividend	NOK 180 million
Transferred from other equity	(NOK 318 million)
Total allocated	(NOK 138 million)

Total equity in Kvaerner ASA after the proposed dividend payment amounts to NOK 4 520 million (NOK 5 010 million). The Board of Directors have considered the proposed dividend in conjunction with equity and liquidity requirements under the Norwegian Limited Company Act and based on the Board's best judgment, the proposed dividends are within these requirements.

Events after the balance sheet date

New corporate organisational structure

Kvaerner has from 1 January 2015 implemented a new corporate organisational structure comprising the business areas Topsides, Onshore, Jackets and Concrete Solutions. Previous business area Contractors International was as from 1 January 2015 integrated mainly as part of business area Topsides. The change is part of the process aimed at increasing the company's competitiveness. The new corporate structure will facilitate more effective internal cooperation and work processes. With the new structure in place, the management team have clear roles for driving the process for increased competitiveness.

Settlement agreements with Longview Power, LLC and others

In January 2015, Kvaerner North American Construction Inc (a subsidiary of Kvaerner) executed agreements with each of Longview Power, LLC, Siemens Energy Inc and others regarding the disputes between them in both the arbitration proceedings concerning the Longview Project and the subsequent bankruptcy cases of Longview Power, LLC. Under

the agreements, Kvaerner North American Construction Inc received an aggregate amount of USD 48 million from various parties. Kvaerner North American Construction Inc continues the arbitration proceedings against Amec Foster Wheeler North America Corp. This process is expected to continue until third quarter 2015. Please see [Note 28](#) Contingent events ([page 63](#)), for further details.

EPC contract for the first Johan Sverdrup jacket signed

The contract for delivery of the steel jacket substructure for the riser platform at the Johan Sverdrup field was signed in January 2015. The contract is based on the letter of intent from June last year and had a contract value of close to NOK 2 billion. The riser platform is scheduled to be delivered in the summer of 2017. Engineering for the new jacket has started in Oslo, and project management will be based at the company's specialised jacket-facility in Verdal. This is also where fabrication will be performed, and where the assembly will take place from first quarter of 2016.

The Board propose dividend of NOK 0.67 per share

The Board of Directors has in accordance with the dividend policy proposed to pay a dividend of NOK 0.67 per share in April 2015. Subject to approval by the Annual General Meeting (AGM), the dividend payment will take place on or about 24 April 2015 to shareholders of record as per the date of the AGM scheduled for 9 April 2015. The shares will be traded exclusive dividend from and including 10 April 2015.

Capacity reductions

After the Johan Sverdrup drilling topside was awarded to a competitor in late February 2015, Kvaerner needs to start capacity reductions before the summer within selected areas. The size and pace of such reductions will depend on how successful Kvaerner is in the competition for other contracts this spring.

Fatal accident at Stord, Norway

On 7 March 2015, Kvaerner regrettably suffered a fatality at the demolition site at Eldøyane, Stord. One person, a man

in his late 30s from Poland, lost his life in the accident. The accident will be further investigated by the local police as well as an independent investigation team.

Corporate Governance

Kvaerner performs corporate governance within the relevant framework of several different legal regulations and principles in the respective jurisdictions in which it operates.

As Kvaerner exercises ultimate governance and control from its headquarters in Norway, and is listed on Oslo Børs (Oslo Stock Exchange), Norwegian legislation is a significant framework in terms of company and securities legislation, financial reporting and other corporate issues. As part of its corporate governance model, Kvaerner's Board of Directors has adopted the Norwegian Code of Practice for Corporate Governance. Kvaerner's detailed corporate governance statement can be found on www.kvaerner.com/cg. In general, corporate governance in Kvaerner is based on the model wherein shareholders, at the Annual General Meeting appoint the Board of Directors to act as their representatives in governing the company.

The Board of Directors sets the strategic direction, the overall governance structure, values and policies, in accordance with Norwegian legislation and frameworks. Kvaerner has a Code of Conduct and a set of global policies and procedures which provides direction on acceptable performance and guides decision-making in all parts of the company. The Kvaerner Code of Conduct was approved by the Board of Directors in March 2012. All Kvaerner policies are subject to an annual review and, when deemed necessary, updates are made. In 2014 several of the policies were updated to further develop and formalise processes and strengthen the risk methodology in all parts of the organisation.

As set out in the Norwegian Public Limited Liability Companies Act, Kvaerner's Board of Directors has established an Audit Committee, comprising the Directors Trine Sæther Romuld (Chair), Birgit Nørgaard and Rune Rafdal. The Board has also established a Remuneration Committee, with the Directors Leif-Arne Langøy (Chairman), Tore Torvund and Vibeke Hammer Madsen as members.

Kvaerner encourages its employees as well as contract staff, partners, suppliers and customers to report any concerns in terms of compliance with law and/or ethical standards. The company has a whistleblowing channel to the Corporate VP Compliance and an investigation team for follow-up of compliance issues.

Risk management

Risk management at corporate level

Kvaerner focuses on risk management in all parts of the organisation. Every year, a risk review is performed and presented to the Board of Directors, with updates during the year. The risk review is executed in order to identify the most significant risk areas and to establish risk reducing actions within these areas. In this assessment, the consolidated view across all Kvaerner's units is looked into, top risk areas are identified and risk reducing measures agreed upon.

The risk review is divided into four areas: Finance; Business Development and Operations; Health, Safety, Security and Environment (HSSE) and Business Integrity. Financial risks cover treasury, tax, investor relations, IT, accounting and controlling, insurance and legacies. Business Development and Operations risks cover business development, processes and organisation as well as project specific risks. HSSE risks cover risks within health, safety, security and environment. Business Integrity covers human rights, corruption and improper payments as well as fraud. The Corporate Treasury function is responsible for managing financial market risk and the group's exposure to financial markets. Please see [Note 5](#) Financial risk management and exposures ([page 32](#)), for a detailed description of the group's financial risks and [Note 28](#) Contingent events ([page 63](#)) for an overview of significant current disputes. Kvaerner has defined procedures and routines for managing the group's financial market exposure.

The Kvaerner Corporate Risk Committee performs tender reviews. The Corporate Project Review and Support Team identify critical issues based on independent assessments and a mandate to initiate reviews when necessary. In addition, the team performs selected project milestone gate reviews as well as project reviews after start-up.

The Kvaerner Corporate Internal Audit Function Team performs compliance audits, i.e. compliance with the Kvaerner policies, laws and regulations and other audits resulting from the annual risk review. In 2014 four corporate internal audits were executed.

A regular risk management procedure is the Monthly Operating and Quarterly Business Review meetings held between corporate management and the different business areas.

Risk management in the operations

Each legal entity is responsible for ensuring compliance with governing documentation and with all other applicable regulations and legal requirements.

The Project Execution Model (PEM™) is the methodology followed when executing projects. All risk management processes and controls shall be described according to the respective operating system of the business area unit. In each of the project phases there are defined milestones that the project needs to pass and between all the phases there are defined gate reviews/audits.

All projects in Kvaerner have a register where identified risks and opportunities are categorised and assessed in terms of impact and probability. In 2014 Kvaerner further strengthened the risk management at business area level.

Kvaerner works with a number of partners and hundreds of suppliers and subcontractors around the world. Kvaerner performs risk based due diligences as part of the pre-qualification processes. All joint venture partners and third party representatives have to go through due diligence assessments and have to be approved by the President & CEO. The Kvaerner Supplier Qualification and Information system database is a key enabler for Kvaerner in order to increase supplier performance. This database provides a good tool for monitoring the suppliers in a system that integrates information on risk, quality, HSSE, anti-corruption and human rights. A supplier which does not meet Kvaerner's requirements will not be awarded any contracts until the necessary mitigating actions have been made.

Health, Safety, Security and Environment (HSSE)

Kvaerner's ambitions within HSSE are not only part of the company's core values, but are regarded as a licence to operate.

The HSSE operating environment

Kvaerner may have business activities in regions or operating environments where it is challenging to establish and maintain a strong HSSE performance. Independent of this, and above all other objectives, Kvaerner's principle for HSSE is to strive for zero harm to people, health, environment and property.

The company continuously seeks to improve the HSSE culture and performance. Care for HSSE is a core value of Kvaerner and is expressed through its Just Care™ mind-set. A key element in the Kvaerner's Just Care™ approach is that all employees accept personal responsibility for HSSE by actively caring for themselves, co-workers and the environment. Through Just Care™, the HSSE message effectively addresses individual employees. Managers act as positive HSSE role models and have a strong commitment through communication and training. This creates attitudes that integrate HSSE focus for all employees every day.

Proactive HSSE activities

A common HSSE operating system sets expectations for the key elements in HSSE management and leadership. Regular reviews uncover possible gaps in relation to expectations, and the necessary activities for improvement are identified and initiated. Key HSSE performance indicators have been implemented. A strong focus on leading activities in the HSSE field, combined with defined targets measured against actual results, guides Kvaerner towards continual improvements in HSSE performance.

Just Rules is a set of concrete guidelines within Kvaerner's HSSE operating system. These have been established to control the most safety-critical activities in our operations. Just Rules is a mandatory part of Kvaerner's safety training for all employees, also providing clear and simple checklists and controls for operations.

To further establish its proactive approach to HSSE, Kvaerner uses a number of leading key performance indicators to monitor and further encourage HSSE performance. The benefits of using leading indicators can be seen in further improvements in lagging indicators. Use of leading indicators provides an accurate and continuous picture of status of control measures needed to prevent major incidents. Kvaerner has chosen to focus on inspections and task-risk analyses, and has met the set targets for 2014. The continued focus on risk awareness and documented observations resulted in 69 500 observations, corresponding to 6.6 observations per man-year worked.

To safeguard the increased activities at brownfield location, special training and risk reducing activities have been implemented.

Training and information to further build a common HSSE culture.

Competence is crucial in Kvaerner's HSSE programme. To reach out to all employees in an efficient manner, Kvaerner uses dedicated training programmes at business area and project levels, as well as eLearning programmes for HSSE key areas. Training packages at project level are tailored to individuals, both in terms of content and language. Line managers are trained to be role models and to drive HSSE improvements through specific safety academy programmes. In 2014, 1.2 percent of total man-hours worked were invested in HSSE training.

Sharing of best practice and learning from incidents

All incidents are identified and classified according to their severity. Investigations are initiated based on the severity and the potential consequence of the incident. All serious incidents and serious near misses are investigated in accordance with specific internal guidelines. Actions for improvement are identified and improvements are subsequently implemented. Following serious incidents, lessons learned packages are produced and shared throughout Kvaerner with the aim of preventing similar future incidents.

Safety

During 2014, Kvaerner continuously improved its safety performance, a direct result of implementing further safety systems. At year-end, a lost time incident frequency (LTIF) of 0.35 and a total recordable incident frequency (TRIF) of 2.3 were recorded, improving from corresponding 0.53 and 2.64 for 2013. These figures also include Kvaerner's sub-contractors and are calculated per million man-hours worked. 18 hand and fingers injuries and ten foot injuries accounted for the majority of the in total 40 injuries.

Kvaerner has numerous examples of projects and units with long periods without any serious incidents or personal injury. As examples, the Eldfisk 2/75 topside project delivered the best HSSE result ever for a topside project. The Hebron GBS project has since 2011 and until year-end 2014 reported more than 14 million worked hours without any LTI. This proves that the zero incident target is achievable.

In 2014, Kvaerner had one serious incident that caused severe injury to one person. 16 serious near misses were identified and thoroughly investigated. The majority of these incidents resulted from working at height or crane operations.

Occupational health

The company's sponsorship of and participation in the Aker Active programme are examples of health initiatives in 2014 focusing on physical exercise and nutrition.

Total sick leave for Kvaerner in 2014 was 20 1701 sick leave hours for own employees, resulting in 4.4 percent (4.2 percent in 2013) of total man-hours. The Kvaerner companies in Norway are part of the More Inclusive Working Life (IA) agreement. The IA Agreement is an instrument aimed at reducing sick leave and to increase the focus on job presence.

Environment

Kvaerner continuously works to reduce its environmental footprint. Total energy consumption by the business in 2014, based on recorded use of oil, gas and electricity, amounted to 70 500 megawatt-hours. Carbon emissions

relating to this use are estimated at 4 500 tonnes. Corresponding figures for 2013 were 91 500 megawatt-hours and 8 300 tonnes of emissions. The methodology used derives from the Greenhouse Gas Protocol (GHG), and Global Reporting Initiative (GRI). Waste recorded in connection with the business totalled 3 900 tonnes, of which 69 percent was recycled. In 2013, the recorded waste amounted to 4 400 tonnes. Kvaerner has during the year increased the recycling factor also on waste wood material.

The main energy consumption, carbon emissions and waste disposal are in relation to activities at the yards. The two Norwegian yards are certified according to the ISO 14001 environmental standard.

The HSSE leadership development initiatives, eLearning and the management system, incorporate clear components that focus on the environment. Collectively, these contribute to continuous improvements in environmental awareness and attitudes among managers and employees. This inspires the organisation to achieve further gains in environmental performance in Kvaerner's own activities, and to assist customers in making environmental improvements through the products developed and projects executed.

Security

Due to the global nature of Kvaerner's operations, the company is exposed to changes in the global risk situation. Its projects operate in a wide range of areas, which means that potential security threats may arise. Kvaerner is linked to International SOS, which provides a global tool for risk assessment and risk control. To mitigate possible risk situations all employees can be provided with a reliable and updated risk assessment and have access to information, as well as to local contacts and an existing network, at all times. Currently Kvaerner have no operations in areas with high or extreme risk as classified by International SOS. For the operations in China, Kazakhstan and Russia, special security measures are implemented. Specific end-to-end security audits are performed at location in China and at the Moscow office.

Corporate Social Responsibility (CSR)

With operations in a broad range of local societies and countries, Kvaerner believes that sound CSR is both a licence to operate as well as a key factor for developing results which benefits the company as well as its stakeholders. The company strives to run all operations with integrity, in line with Kvaerner values and governing documents, relevant laws and regulations, and the society's expectations. Kvaerner aims at having a business which has a positive impact on people, society and the environment.

The company is committed to respect the fundamental human and trade union rights, including a specific focus on non-discrimination. Kvaerner's CSR principles are based on the company's values, and on a wide range of Norwegian and international guidelines, standards, regulations and laws.

Kvaerner has clear objectives for its work within CSR, and these objectives are updated every year. Throughout every year, the CSR work and related issues are evaluated by company management and Board of Directors. The results of the company's CSR efforts are systematically measured, and Kvaerner annually publishes a separate in-depth report on CSR and risk management results and principles.

For further information regarding Kvaerner's CSR efforts and risk management, please see the separate CSR report published on the website www.kvaerner.com/csr.

People and organisation

Until year-end 2014, Kvaerner was organised in the business areas Contractors Norway, Jackets, Concrete Solutions and Contractors International. From 1 January 2015, Kvaerner is organised with the following four business areas: Topsides, Onshore, Jackets and Concrete Solutions. In addition, adjustments have been made to the organisation of corporate functions in order to increase efficiency and reduce costs. Business Support was established as a new corporate function from 1 January 2015 and includes several staff functions.

Executive management team (EMT)

The executive management team represents a wealth of national and international business experience. The nine EMT members have experience from senior positions in major oil and gas companies as well as from the supply industry, and have worked on some of the largest field development projects around the globe. The EMT members have also worked in a broad range of complementary and associated industries.

During 2014, Bjørn Gundersen left Kvaerner, and Arnt Knudsen has succeeded him as Executive Vice President (EVP) for the business area Concrete Solutions. Olav Jan Støve, who was previously working with strategic improvement processes, was from 1 January 2015 appointed EVP for the new business area Onshore. Tony Allen was previously EVP for the business area Contractors International. This business area is from the beginning of 2015 integrated in the other operations, and Tony Allen is from the same time responsible for the pursuit of selected international projects. Knut Johan Malvik was recruited and appointed Senior Vice President for Business Support, all four are also part of the EMT. For a complete presentation of the EMT, please visit www.kvaerner.com/emt.

Developing people and teams

Even if Kvaerner has some of the most modern and specialised facilities for delivery of new platforms, the core of Kvaerner's strategic position is its employees. The company is recognised for its experienced experts for oil and gas projects, organised in an effective value chain.

Kvaerner aims at attracting, retaining and developing talented and motivated people and teams who understand the customer's needs and requirements. Hence, Kvaerner focuses strongly on continuous training of leaders, employees and teams at all levels of the organisation. In order to ensure safe operations and added value for the customers, shareholders and other stakeholders, leadership and project management education and practical training is strongly emphasised. All training is based on the company's core values, Code of Conduct and leadership principles. HSSE is one of the core values and is part of all training activities.

The Kvaerner Leadership Training programme (KLT) was established in 2011, providing practical training for leaders in the organisation. To secure that the leadership principles and learnings are implemented in our operations, follow-up training is provided to each project. The Project leadership and alignment programs (LEAP) applies to all personnel holding leading roles in projects, including client and sub-contractor leaders.

Project management is a crucial success factor for Kvaerner. To maintain and upgrade formal project management qualification certification, Kvaerner provides post-qualifying education and certification for selected managers in projects. Kvaerner Training Centre was established to secure alignment between project management teams and Kvaerner management. To increase the number of engineers and operators with special qualifications in the organisation, Kvaerner in 2011 also established new and specific programmes to provide the opportunity for skilled workers and operators to obtain further education and training. For further information about Kvaerner's efforts to develop its organisation and employees, please see the Corporate Social Responsibility Report for 2014 at www.kvaerner.com/csr.

Organisation and recruitment

As of 31 December 2014, the overall workforce comprised 4 638 individuals which included 3 049 permanent employees and 1 589 contract staff. Corresponding figures for 2013 were 2 832 permanent employees and 1 324 contract staff. Gender distribution at Kvaerner is approximately 15 percent women and 85 percent men. 96 percent of the permanent employees work in Norway while the remaining four percent work in USA, Finland, China, Canada and Russia.

Kvaerner emphasises both the retention of its experienced workforce, the inflow of graduates and apprentices and recruitment and development of new competencies. The company offers an inspiring and challenging work place with a high degree of teamwork and good individual career and development opportunities. In 2014, Kvaerner recruited 228 new employees, of which 39 were women and 189 were men. 43.5 percent of the new employees were below

30 years of age; 43.5 percent were between 30 and 50 years old, and 13 percent were above the age of 50. The total voluntary employee turnover was four percent in 2014, same level as in 2013.

Kvaerner operates two fabrication yards in Norway; at Stord and in Verdal. The inflow of a new generation skilled workers and operators is vital for the transfer of core knowledge and experience. Apprenticeships are an important method of recruiting to these professions, and Kvaerner has a continuous focus on recruiting new apprentices. In 2014 68 new apprentices were recruited, and at year-end 2014 it was a total of 167 apprentices under applicable agreements compared to 160 apprentices at year-end 2013.

Kvaerner's first people survey was carried out in 2014, including working environment topics as well as organisational issues. A response rate of 80 percent was achieved. The report provided valuable feedback and recommendations, and a clear follow-up plan to capture improvements has been established. For further information about the people survey, please see the Corporate Social Responsibility Report for 2014 at www.kvaerner.com/csr.

Diversity and equal opportunity

As the nature of Kvaerner's operations calls for employees from different operating entities and geographical regions nationally and internationally, the principles of equal opportunity are well established throughout the group. No differences shall exist between treatment of genders, nationalities or ethnic groups. Employment conditions and compensation packages are based on responsibility and personal performance, irrespective of gender or ethnicity.

Kvaerner's commitment to diversity and equal opportunities are described in the policies and in the Global Framework Agreement for development of good working relations, a three-party frame agreement with national and international trade unions.

Since 2012, Kvaerner has had strong focus on training all employees to avoid any form of discrimination, harassment and bullying and the training will continue throughout 2015 and the years to come. All leadership trainings include a section focusing on preventing discrimination, harassment

and bullying in the work place.

Approximately 16 percent of senior managers are women. Leadership training is an important contribution toward increasing the number of women promoted to managerial positions. From 2013 to 2014, Kvaerner succeeded in maintaining the share of women holding senior management positions at 16 percent, and the share completing leadership training, at four percent. Three of Kvaerner's six shareholder-elected Directors are women. All of the Directors elected by and among the employees are men. This fulfils legal requirements, since women account for less than 20 percent of Kvaerner's workforce.

Kvaerner aims at using new recruitments as an opportunity to attract more qualified women, and thus increase the share of women in the organisation.

Performance culture and employee remuneration

Kvaerner's global remuneration policy and remuneration guidelines are aimed at enabling the company to attract and retain employees with the right attitudes, skills and ability to deliver strong performance on a global basis. In order to foster a high level of engagement, Kvaerner provides both monetary and non-monetary rewards. The company's global remuneration policy is based on the following: Competitive, internally fair, consistent, and comprehensive compensation systems. The total compensation, consisting of fixed salary and incentives, or other benefits, shall reflect the employee's experience, level of responsibility and performance.

The leadership development and leadership performance enables Kvaerner to offer a supportive working environment, encouraging open and direct dialogue.

Kvaerner's performance management process is a prerequisite when considering the connection between performance and remuneration. Objectives are set and performance is measured on both team and individual level. Objectives are determined on the basis of strategies and financial budgets. Both personal behaviour and commercial dimensions are evaluated and measured.

Minimum once a year, manager and the employee evaluate the results achieved. The dialogue at this meeting pro-

vides an important opportunity for recognition, rewards, consideration of career development and future direction for individual performance improvements.

Performance-based pay is regarded as an attractive part of total remuneration at Kvaerner. Variable pay programmes are in place for different positions in the organisation. Annual variable pay is offered to key management personnel. This is based on the commercial results for the group and business areas, key performance indicators, personal performance and to what extent these measures comply with Kvaerner's values. Further details about remuneration to EMT members are provided in [Note 9](#) Salaries, wages and social security costs ([page 44](#)) in the consolidated financial statements. The report to shareholders on executives' remuneration is approved by the Board of Directors and is available on the group's website www.kvaerner.com.

Research & Development (R&D)

There is a growing demand for field development solutions which can help the oil companies to reduce their overall costs by leveraging standardised technologies and industrialised delivery models. Part of Kvaerner's competitive strength is based on technology and methods which are attractive in the market because they add value to the customers' operations and reduce their costs by enabling a more effective project execution.

Kvaerner's R&D strategy has a clear focus on creating values and results. The company strives to identify the potential commercial opportunities before new R&D activities are started, and new developments are often executed with customers or business partners as sponsors. This approach increases the market interest in new technologies and methods.

In 2014, Kvaerner has continued to focus on R&D projects which will contribute to distinguish Kvaerner from competitors in upcoming projects. Examples of activities last year includes studies for Statoil Canada for subsea processing and storage based on concrete tanks at the seabed. It also includes developing the CONDRILL® Arctic Driller, a re-locatable concrete platform concept which enable safe and effective year-around drilling in ice infested waters.

Another example is the Subseacon a Stick® concept for a light unmanned wellhead platform, which can offer several advantages for satellite field developments compared to developments based on subsea installations. Both concepts have been well received by major oil companies, including contracts for further technology development.

Share capital

The company's shares are listed on Oslo Børs (Oslo Stock Exchange) and are freely transferable. No transferability restrictions are incorporated into the Articles of Association. There are 269 000 000 shares issued and outstanding, all of which are of the same class and with equal voting and dividend rights. Each share has a par value of NOK 0.34.

The largest shareholder of Kvaerner ASA is Aker Kværner Holding AS, holding 41.02 percent of the shares. Aker ASA owns 70 percent of Aker Kværner Holding, while the Norwegian Government owns 30 percent as of 31 December 2014. Proposition No. 88 (2006-2007) to the Storting (Norwegian Parliament) contains more detailed information concerning the establishment of Aker Kværner Holding AS and the agreement between Aker ASA and the Norwegian Government. The company is not party to any agreement that is conditional upon offerings of take-over in the company.

Kvaerner had 9 265 shareholders (10 253) as of 31 December 2014, of which 38 percent (38 percent) were non-Norwegian. The share price was NOK 8.89 at year-end 2014, compared to NOK 11.50 at year-end 2013.

As of 31 December 2014, Kvaerner ASA held no treasury shares.

Outlook

The company's first priority is to execute and deliver the existing projects according to plans and expectations. Kvaerner's order book provides a good foundation for the next few years. It also provides a positive momentum for improvement processes aimed at winning new projects.

The volatility in the oil price and the customers' investment plans create significant uncertainty for estimating how the market will develop. Based on a close dialogue with key customers, Kvaerner's assessment is that there are

short term prospects which are likely to be awarded in 2015.

As the market will present a reduced number of new prospects in the short term, it is expected that competition for each contract will be intense. Some key oil companies are pushing not only for reduced prices, but also for suppliers to accept terms and conditions with inherit increased risk. In sum, this market development is anticipated to continue to challenge the contracting industry's financial margins. Kvaerner's response to this is to continue to use further cost reductions as one of the factors to increase competitiveness and simultaneously provide room for

sound margins. The company will in 2015 take new steps in the industrialisation of its value chain, and consider extended use of strategic partners for parts its deliveries.

This outlook reflects current views about future events and is thus subject to significant risks and uncertainties related to its future occurrence.

Acknowledgements

2014 was a year where Kvaerner experienced an activity at an historical all time high level. Execution and delivery of ongoing projects have been performed simultaneously with implementation of extensive improvement processes.

On top of this, the activity related to preparing for new bids and exploring new strategic opportunities have been high. Within HSSE, comprehensive efforts have resulted in improvements. The Board of Directors recognise the turbulent market, but are pleased to see several on-going initiatives and improvements across the organisation to adapt to the market situation and for leveraging new opportunities. The Board of Directors extends its gratefulness to management and employees for the achievements they have delivered.

Vækerø, 16 March 2015


Board of Directors and President & CEO of Kvaerner ASA


Leif-Arne Langøy
Chairman


Birgit Nørgaard
Director


Tore Torvund
Deputy Chairman


Rune Rafdal
Director


Kjell Inge Røkke
Director


Ståle Knoff Johansen
Director


Vibeke Hammer Madsen
Director


Bernt Harald Kilnes
Director


Trine S. Romuld
Director


Jan Arve Håugan
President & CEO

Annual accounts Kvaerner group

Consolidated income statement 01.01 - 31.12	19	Note 19	Property, plant and equipment	54	
Consolidated statement of comprehensive income 01.01 - 31.12	20	Note 20	Intangible assets	55	
Consolidated balance sheet as of 31 December	21	Note 21	Other non-current assets	56	
Consolidated statement of changes in equity 01.01 - 31.12	22	Note 22	Equity-accounted investees	56	
Consolidated statement of cash flows 01.01 - 31.12	23	Note 23	Interest-bearing liabilities	58	
Note 1	General information	24	Note 24	Employee benefits - pensions	59
Note 2	Basis of preparation	24	Note 25	Financial instruments	61
Note 3	Significant accounting policies	24	Note 26	Group companies as of 31 December 2014	62
Note 4	Accounting estimates and judgments	30	Note 27	Discontinued operations	62
Note 5	Financial risk management and exposures	32	Note 28	Contingent events	63
Note 6	Earnings per share	36	Note 29	Subsequent events	64
Note 7	Related parties	37	Note 30	Capital and reserves	64
Note 8	Operating segments	39			
Note 9	Salaries, wages and social security costs	44			
Note 10	Operating leases	47			
Note 11	Other operating expenses	48			
Note 12	Finance income and expenses	48			
Note 13	Income taxes	48			
Note 14	Trade and other current assets	51			
Note 15	Construction contracts	52			
Note 16	Trade and other payables	52			
Note 17	Provisions	52			
Note 18	Derivative financial instruments	53			

Consolidated income statement 01.01 - 31.12

Amounts in NOK million	Note	2014	2013
Total revenue and other income	8	13 945	12 960
Materials, goods and services		(10 144)	(9 579)
Salaries, wages and social security costs	9	(2 345)	(2 194)
Other operating expenses	11	(628)	(552)
Operating profit before depreciation, amortisation and impairment		828	636
Depreciation	19	(70)	(63)
Goodwill impairment	20	(266)	-
Operating profit		492	573
Financial income	12	15	10
Financial expenses	12	(120)	(106)
Share of profit or loss of equity accounted investees and impairment charges	22	(59)	(78)
Profit before tax		329	399
Income tax expense	13	(301)	(160)
Profit from continuing operations		27	239
Profit/(loss) from discontinued operations	27	(96)	206
Profit/(loss) for the year		(69)	445
Profit for the period attributable to:			
Equity holders of the parent company		(69)	445
Earnings per share (NOK)			
Basic and diluted EPS continuing operations	6	0.10	0.89
Basic and diluted EPS discontinued operations	6	(0.36)	0.77
Basic and diluted EPS total operations	6	(0.26)	1.66

The notes on [pages 24 to 64](#) are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income 01.01 - 31.12

Amounts in NOK million	2014	2013
Profit/(loss) for the year	(69)	445
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges, net of tax		
- Fair value adjustment recognised in equity	(2)	12
- Reclassified to profit or loss	(1)	12
Translation differences - equity-accounted investees	25	(3)
Translation differences - foreign operations (no tax impact)	236	163
Items that may be reclassified to profit or loss in subsequent periods	258	185
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(losses) on defined benefit pension plans, pre tax	(37)	(7)
Actuarial gains/(losses) on defined benefit pension plans, tax effect	10	2
Actuarial gains/(losses) on defined benefit pension plans, net of tax	(27)	(5)
Items not to be reclassified to profit or loss in subsequent periods	(27)	(5)
Total other comprehensive income for the year, net of tax	232	179
Total comprehensive income for the year	163	624
Total comprehensive income attributable to:		
Equity holders of the parent company	163	624

The notes on [pages 24 to 64](#) are an integral part of these consolidated financial statements.

Consolidated balance sheet as of 31 December

Amounts in NOK million	Note	2014	2013
Assets			
Non-current assets			
Property, plant and equipment	19	736	713
Deferred tax assets	13	123	193
Intangible assets	20	850	1 080
Investments in associated companies and jointly controlled entities	22	288	132
Other non-current assets	21	13	31
Total non-current assets		2 010	2 150
Current assets			
Current tax assets	13	31	93
Trade and other current assets	14	3 268	3 122
Cash and cash equivalents		1 208	1 545
Retained assets of business sold	27	906	916
Total current assets		5 414	5 676
Total assets		7 424	7 825

Amounts in NOK million	Note	2014	2013
Equity and liabilities			
Equity			
Share capital		91	91
Share premium		729	729
Retained earnings		1 309	1 715
Other reserves		208	(24)
Total equity	6, 30	2 337	2 511
Non-current liabilities			
Non-current interest-bearing liabilities	23	487	479
Employee benefits obligations	24	176	170
Total non-current liabilities		664	649
Current liabilities			
Current tax liabilities	13	182	56
Provisions	17	81	330
Trade and other payables	16	4 109	4 057
Retained liabilities of business sold	27	51	223
Total current liabilities		4 423	4 666
Total liabilities		5 087	5 315
Total liabilities and equity		7 424	7 825

The notes on [pages 24 to 64](#) are an integral part of these consolidated financial statements.

Vækerø, 16 March 2015
Board of Directors and President & CEO of Kvaerner ASA


Leif-Arne Langøy
Chairman


Birgit Nørgaard
Director


Tore Torvund
Deputy Chairman


Rune Rafdal
Director


Kjell Inge Røkke
Director


Ståle K. Johansen
Director


Vibeke Hammer Madsen
Director


Bernt Harald Kilnes
Director


Trine S. Romuld
Director


Jan Arve Håugan
President & CEO

Consolidated statement of changes in equity 01.01 - 31.12

Amounts in NOK million	Number of shares	Share capital	Share premium	Retained earnings	Hedge reserve	Currency translation reserve	Pension reserve	Total equity
Equity as of 31 December 2012, restated	269 000 000	91	729	1 578	(22)	(176)	(6)	2 195
Profit for the period		-	-	445	-	-	-	445
Other comprehensive income		-	-	-	24	160	(5)	179
Total comprehensive income		-	-	445	24	160	(5)	624
Employee share purchase programme		-	-	(3)	-	-	-	(3)
Changes in treasury shares		-	-	(1)	-	-	-	(1)
Dividend		-	-	(304)	-	-	-	(304)
Equity as of 31 December 2013	269 000 000	91	729	1 715	3	(16)	(11)	2 511
Profit/(loss) for the period		-	-	(69)	-	-	-	(69)
Other comprehensive income		-	-	-	(3)	261	(27)	232
Total comprehensive income		-	-	(69)	(3)	261	(27)	163
Dividend		-	-	(336)	-	-	-	(336)
Equity as of 31 December 2014	269 000 000	91	729	1 309	-	246	(38)	2 337

The notes on [pages 24 to 64](#) are an integral part of these consolidated financial statements.

Consolidated statement of cash flows 01.01 - 31.12

Amounts in NOK million	Note	2014	2013
Cash flow from operating activities			
Profit/(loss) for the period		(69)	445
Adjusted for:			
Income tax expense	13	280	190
Net interest cost	12	105	96
Depreciation, amortisation and impairment	19, 20	336	70
Difference between pension premiums paid and pension expense, defined benefit schemes		(17)	(12)
Difference between income and dividends received from equity accounted investees	22	(117)	24
Sales (gains)/losses		1	(272)
Interest paid and received		8	6
Income taxes paid		(16)	(110)
Changes in other net operating assets		(320)	170
Net cash from operating activities	8	193	606
Cash flow from investing activities			
Acquisition of property, plant and equipment	19	(157)	(164)
Proceeds from sale of property, plant and equipment, investments and operations		-	376
Change in other investments		(13)	(4)
Net cash from investing activities		(171)	208
Cash flow from financing activities			
Interest paid		(46)	(53)
Payment of dividend		(336)	(304)
Transactions in own shares		12	1
Net cash from financing activities		(370)	(356)
Effect of exchange rate changes on cash and bank equivalents		11	19
Net increase/(decrease) in cash and bank equivalents		(337)	476
Cash and cash equivalents at the beginning of the period		1 545	1 069
Cash and cash equivalents at the end of the period		1 208	1 545

The notes on [pages 24 to 64](#) are an integral part of these consolidated financial statements.

Note 1 General information

Kværner ASA was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Drammensveien 264, 0283 Oslo, Norway.

Kværner ASA (the company) and its subsidiaries (together Kvaerner or the group) is a specialised provider of engineering, procurement and construction services for offshore platforms and onshore plants. See [Note 8](#) Operating segments, for further details.

Note 2 Basis of preparation

General

The consolidated financial statements of Kværner ASA incorporate the financial statements of the company and its subsidiaries, and the group's interest in associates and joint ventures.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, relevant interpretations and additional requirements following the Norwegian Accounting Act as of 31 December 2014.

The consolidated financial statements were approved by the Board of Directors and President & CEO as shown on the dated and signed balance sheet.

The consolidated financial statements will be approved by the Annual General Meeting on 9 April 2015.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments and defined benefit pension plan assets and liabilities which are measured at fair value.

Functional and presentation currency

The consolidated financial statements are presented in Norwegian kroner (NOK), which is Kværner ASA's functional currency.

All financial information presented in NOK has been rounded to the nearest million, except where otherwise indicated. As a result of rounding differences, numbers or percentages may not add up to the total.

Measurement of performance

The group's key measure of financial performance is EBITDA. EBITDA definition: Earnings before interest (net financial items), Taxes, Depreciation, Amortisation and Impairment.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Changes in accounting policies

IFRS 11 Joint Arrangements

As of 1 January 2014, Kvaerner implemented IFRS 11 Joint Arrangements replacing IAS 31 Interests in joint ventures. The new standard removes the choice of equity or proportionate consolidation accounting for jointly controlled entities. Adoption of this IFRS has not affected the group's financial statements, as the group's joint arrangements comprise joint venture activities which were also equity accounted under IAS 31.

IFRS 10 Consolidated Financial Statements

As of 1 January 2014, Kvaerner implemented IFRS 10 Consolidated Financial Statements. IFRS 10 introduces a new control model. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Adoption of this IFRS has not affected the group's financial statements directly, and application of standard has not involved any judgmental assessments. Following Aker ASA's revised assessment of control under IFRS 10, Aker Solutions ASA and Akastor ASA have been reported as related parties of Kvaerner as from 2014.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group is exposed to or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in associates

Associates are those entities in which the group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20 and 50 percent of the voting power of another entity, but this is assessed on a case-by-case basis.

Investments in associates are accounted for using the equity method and are recognised initially at cost.

The consolidated financial statements include the group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting

policies with those of the group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and further losses are not recognised except to the extent that the group has legal or constructive obligations or has made payments on behalf of the investee.

Joint arrangements

Joint arrangements exist when the group has joint control over such an arrangement, established by contractual agreement and requiring unanimous consent of the parties to the arrangement for strategic, financial and operating decisions. Joint arrangements may be either joint ventures or joint operations.

Joint ventures

A joint venture is a joint arrangement whereby the ventures have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method, with Kvaerner's share of net result after tax recognised in profit or loss. Results from joint ventures where tax is levied on the partners rather than the joint venture; Kvaerner's share of the tax will be included in the tax expense line in the group's consolidated income statement.

Joint operations

A joint operation is a joint arrangement whereby the parties have rights to the assets, liabilities and obligations relating to the arrangement. Joint operations are proportionately consolidated in the group financial statements. For the years reported, the group have not had any joint operations.

Transactions eliminated in consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Presentation of results

The purpose of the investment determines where its results are presented in profit or loss. When entities are formed to share risk in executing a project or are closely related to Kvaerner's operating activities, the share of the profit or loss is reported as part of other income in operating profit. Share of profit or loss from financial investments is reported as part of financial items.

Foreign currency

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of the group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate on the date of the

transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated according to the functional currency at the exchange rates on the date the fair value was determined.

Foreign exchange translation differences are recognised in profit or loss, except for differences arising from translation of qualifying cash flow hedges (to the extent that the hedge is effective), which are recognised in other comprehensive income. Translation impacts of monetary assets and liabilities related to operating activities are recognised within operating result.

Foreign operations

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates. The results and financial position of all group entities that have a functional currency different from the group's presentation currency are translated to the group's presentation currency of NOK as follows:

- Assets and liabilities, including goodwill and applicable consolidation adjustments, for each balance sheet presented, are translated at the closing rate on the date of that balance sheet
- Income and expenses for each income statement are translated at the average exchange rates for the year, calculated on the basis of 12 monthly rates

Foreign exchange differences arising from this translation are recognised in other comprehensive income, and presented as a separate component in equity.

Exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income as a translation reserve. These translation differences are reclassified to the income statement upon disposal or liquidation of the related operations.

Exchange differences arising from non-current monetary receivable or payable by a foreign operation where settlement is neither planned nor likely in the foreseeable future, forms part of the net investment in that entity and are recognised in other comprehensive income. These translation differences are reclassified to the income statement upon disposal of the related operations or when settlement of the receivable or payable is planned or is considered likely to happen in the foreseeable future.

FINANCIAL INSTRUMENTS

Financial assets

The group initially recognises loans and receivables on the date that they originate. All other financial assets are recognised on the trade-date, being the date that the group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has substantially transferred all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount presented only when the group has the legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies its financial assets according to the following categories: at fair value through profit or loss; loans and receivables and available for sale. The classification depends on the

purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, with transaction costs expensed in profit or loss as incurred, and are subsequently carried at fair value with any changes therein recognised in profit or loss.

The group's financial assets at fair value through profit or loss comprise derivative financial instruments which are not designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value, plus any attributable transaction costs, and are subsequently carried at amortised cost using the effective interest method, less any impairment losses.

The group's loans and receivables comprise "trade and other current assets" in the balance sheet.

Cash and cash equivalents include cash on hand, demand deposits held at banks and other short-term highly liquid investments with original maturity of three months or less. Restricted cash primarily relates to projects executed through joint ventures. The amounts fluctuate with the projects' life cycle and are usually released when the project is delivered or close to delivery.

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value, plus any attributable transaction costs, and are subsequently carried at fair value with any changes therein recognised in other comprehensive income and presented in fair value reserve in equity. If fair value is lower than book value and the fall in value is significant or long term, impairment will be recognised in the income statement.

Financial liabilities

Kvaerner initially recognises financial liabilities on the trade-date, being the date that the group becomes party to the contractual provisions of the instrument. Financial liabilities are derecognised when the group's contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities are classified as other financial liabilities category. Such

financial liabilities are initially recognised at fair value, less any attributable transaction costs, and are subsequently carried at amortised cost using the effective interest method.

The group's other financial liabilities comprise interest-bearing liabilities, bank overdrafts and trade and other payables in the balance sheet.

Derivative financial instruments

The group holds derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financial and investment activities.

Embedded derivatives may exist where commercial contracts are to be settled in a currency different from the functional currency of the contracting parties. Examples are for the group's activities in countries that do not have an international convertible currency, or where customers wish to use foreign currency settlements as part of their own hedging strategy.

Embedded foreign exchange derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

All derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The gain or loss on re-measurement of the group's embedded derivatives and other derivatives that do not qualify for hedge accounting is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, recognition of any gain or loss depends on the nature of the item being hedged.

Hedging activities

Kvaerner engages in these types of hedging relationships:

- Hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction with variability in cash flows (cash flow hedge)
- Hedges of the fair value of assets or liabilities (fair value hedge)

On initial designation of the derivative as a hedging instrument, the group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The group makes an assessment, at inception and on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as a cash flow hedge is recognised in other comprehensive income and presented as a hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss within finance income and expenses. The amount accumulated in hedge reserves is reclassified as profit or loss in the periods when the hedged item affects profit or loss.

Hedge accounting is discontinued when the group revokes the hedging relationship, or when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in comprehensive income as a hedge reserve at that time, remains in the hedge reserve and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in the hedge reserve is recognised immediately in profit or loss.

Fair value hedges

The change in fair value of the hedging instrument is recognised in profit or loss together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss related to the hedging instrument is recognised in profit or loss within financial items.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity.

Revenue recognition**Engineering and construction contracts**

Revenues from contracts to provide construction, engineering, design or similar services are recognised using the percentage-of-completion method, based primarily on contract costs incurred to date compared to estimated total contract costs. As a general practice, total amount of any settlement with customers related to disputed matters and arbitration awards are included within revenues.

When the final outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent costs incurred are expected to be recoverable. The revenue recognised in one period will be the revenues attributable to the period's progress and the progress to date effect of any changes to the estimated final outcome. Losses on contracts are fully recognised when identified.

Contract revenues include variation orders and incentive bonuses when it is probable that they will result in revenue that can be measured reliably. Disputed amounts and claims are recognised when it is probable the customer will accept the claim and the amount can be measured reliably. Management updates its assessment of recognised revenues at each reporting period.

See [Note 4](#) Accounting estimates and judgements, for further details of revenue recognition criteria in respect of engineering and construction contracts.

Goods sold and other services rendered

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is usually when goods are shipped to customers.

Revenue from other services rendered is recognised in proportion to the stage of completion of the transaction at the balance sheet date, or is invoiced based on hours performed at agreed rates. The stage of completion is normally assessed based on the proportion of costs incurred for work performed to date compared to the estimated total contract costs.

No revenue is recognised if there is significant uncertainty regarding recovery of consideration due.

When the group acts in the capacity of an agent rather than as the principal in the transaction, revenue recognised is the net amount earned by the group.

Other income

Other income include share of profit from associated companies and jointly controlled operations closely related to the group's operating activities, gains and losses related to sale of operating assets and further revenue from FEED, studies and other projects.

Expenses construction contracts

Contract costs include costs that relate directly to the specific contract and allocated costs that are attributable to general contract activity. Costs that cannot be attributed to contract activity are expensed as incurred and are classified as other operating expenses.

Bidding costs are capitalised when it is probable that the company will be chosen as a party to the resulting customer contract. All other bidding costs are expensed as incurred.

Finance income and expenses

Finance income and expenses comprise interest receivable on funds invested, dividend income, foreign exchange gains and losses, interest payable on borrowings calculated using the effective interest rate method, fair value gains or losses on financial assets at fair value through profit or loss, gains or losses on hedging instruments that are recognised in profit or loss and reclassification of amounts previously recognised in other comprehensive income.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is not recognised for:

- › Goodwill not deductible for tax purposes
- › The initial recognition of assets or liabilities that affect neither accounting nor taxable profit
- › Differences relating to investments in subsidiaries and joint ventures to the extent that they will not reverse in the foreseeable future

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against amounts that can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, interest cost on qualifying assets, an appropriate proportion of production overheads, and, where relevant, the estimated costs of dismantling and removing the items and restoring the site on which they are located.

Where components of property, plant and equipment have different useful lives, they are accounted for as separate components.

Subsequent costs

The group capitalises the cost of a replacement part or a component of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are expensed as incurred.

Depreciation

Depreciation expenses are recognised on a straight line basis based upon the costs of the assets less any residual value over the estimated useful lives of the assets.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets. Where fair value of net assets acquired exceeds consideration paid, the resulting gain arising on an acquisition is recognised directly in the income statement. Goodwill recognised on acquisitions of subsidiaries is presented within intangible assets.

Acquisitions of equity accounted investees do not result in goodwill as the full cost of acquisition is included in the carrying value of the investment.

Goodwill is carried at cost less accumulated impairment losses (see Impairment). Gains and losses on the disposal of an entity or an interest in an entity include the carrying amount of goodwill relating to the ownership interest sold.

Research and development

Expenditures on research activities undertaken with the prospect of obtaining new scientific or technical knowledge and understanding is recognised in profit or loss as incurred.

Expenditures on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible as well as being a separable asset. Capitalised costs include the cost of materials, external contractors, direct labour and capitalised interest on qualifying assets arising. Other development expenditures are recognised in profit or loss as incurred.

Amortisation

Except for goodwill, intangible assets, all of which have finite useful lives, are amortised on a straight-line basis over their estimated useful lives, from the date they are available for use.

Construction work in progress

Construction work in progress represents the value of construction work performed less payments by customers. The value of construction work performed is measured at revenue recognised to date less progress billings and recognised losses. If payments by customers exceed revenues recognised, the difference is presented as advances from customers.

IMPAIRMENT

Financial assets

Kvaerner recognises impairment of financial assets measured at amortised cost, including trade receivables, when there is objective evidence that it will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being unlikely.

Non-financial assets

Carrying amounts of the group's non-financial assets, other than inventories, deferred tax assets and employee benefit assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment annually or more frequent if impairment indicators are identified.

An impairment loss is recognised if the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount.

Recoverable amount

The recoverable amount of an asset or a CGU is the greater of their net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value

using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows independently of other assets or CGUs. Subject to the operating segment limit, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed, reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill is allocated to groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Impairment loss recognition

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then, to reduce the carrying amount of the other non-financial assets in the CGU (or group of CGUs) on a pro rata basis.

Reversals of impairment

An impairment loss on goodwill is not reversed. An impairment loss on other assets is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

OTHER ACCOUNTING POLICIES

Provisions

A provision is recognised in the balance sheet when the group has a present obligation as a result of a past event, it is probable that the group will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a market based pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the liability-specific risks. The unwinding of the discount is recognised as a finance cost.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Leases

Payments made under an operating lease are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each

period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as incurred.

Defined benefit plans

The group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of plan assets is deducted. When the actuarial calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

The discount rate is the yield at the balance sheet date on high-quality corporate bonds with maturities consistent with the terms of the obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, and the return on plan assets excluding interest. The group recognises actuarial gains and losses immediately in other comprehensive income and all other expenses related to defined benefit plans are recognised as employee benefits in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs. The group recognises gains and losses on settlements of defined benefit plans when settlements occur.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been published, but are not yet effective and have not been applied in preparing these consolidated financial statements.

The most relevant changes for Kvaerner are:

IFRS 15 Revenue from Contracts with Customers, effective for annual reporting periods beginning from 1 January 2017, replaces the existing revenue recognition guidance, including IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The standard introduces a new revenue recognition model that features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. Kvaerner is in the early stage of assessing the potential impacts on its consolidated financial statements resulting from the application of IFRS 15. The standard gives companies options on how to transition to the new standard which will impact the date of transition and the contracts

which will be affected by the transition. Kvaerner has yet not taken any decision which of these transition options to be applied.

IFRS 9 Financial Instruments, effective for annual reporting periods beginning from 1 January 2018, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. The standard includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Kvaerner expects limited potential impact on its consolidated financial statements resulting from the application of IFRS 9.

Note 4 Accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the group's reported revenues, expenses, assets and liabilities. Given the size and complexity of Kvaerner's projects, the financial results could be materially impacted for the differences between our estimates and actual outcomes. Estimation uncertainties result primarily from the outcome of arbitration processes and final project results impacted by costs to complete, incentives etc. Estimates and underlying assumptions are continuously reviewed, based on historical experiences and expectations of future events. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties that may impact the next financial year are detailed below.

Revenue recognition

The percentage-of-completion method is used to account for construction contracts. This method requires estimates of the final revenue and costs of the contract, as well as measurement of progress achieved to date as a proportion of the total work to be performed.

The main uncertainty when assessing contract revenue is related to recoverable amounts from variation orders, claims and incentive payments which are recognised when, based on management's judgment, it is probable that they will result in revenue and are reliably measurable. This assessment is adjusted upon management's evaluation of liquidated damages to be imposed by customers typically relating to contractual delivery terms. In many projects there are frequent changes in scope of work resulting in a number of variation orders. Normally contracts with customers include procedures for submission of variation orders for agreement. At any point in time, there will be unapproved variation orders and claims included in project revenue where recovery is assessed as probable and other criterias are met. Even though management has extensive experience in assessing the outcome of such negotiations, uncertainties exist.

Cost to complete depends on productivity factors and the cost of inputs. Weather conditions, performance of subcontractors and others with an impact on schedules, commodity prices and currency rates can all affect cost estimates. Experience, systematic use of the project execution model and focus on core competencies reduces but do not eliminate the risk that estimates may change significantly. A risk contingency is included in project cost based on the risk register that is prepared for every project and is updated throughout the project as the need for contingencies lapses or new risks are identified.

Progress measurement based on costs has an inherent risk related to the cost estimate as described above. In situations where cost is not seen to properly reflect actual progress, alternative measures such as hours or plan progress are used to achieve more precise revenue recognition. The estimation uncertainty during the early stages of a contract is mitigated by a policy of normally not recognising revenue in excess of costs on large projects before the contract reaches 20 percent completion.

In the group's view there are two legacy projects that are subject to significant estimation uncertainty and where the outcome could have a material impact on the consolidated financial statements. These are the Longview project and the Nordsee Ost project, which are further described in [Note 28](#) Contingent events.

Pre-contract costs

Costs will normally incur prior to securing the contract, including costs for assigned tenders and tenders that are not yet awarded. These tender costs are capitalised when it is probable that Kvaerner will obtain the contract. If balance sheet recognition requirements are not met, the costs will be expensed as other operating expenses.

If an assumed probable tender is awarded to competitors, the capitalised tender costs will be expensed in the period the project is awarded as other operating expenses. Tender costs that have been expensed in previous periods are not reinstated as contract cost if the contract is obtained or the probability of obtaining the contract has increased.

Warranties

A provision is made for expected warranty expenditures. The warranty period is normally two years. Based on experience, the provision is often set at one percent of the contract value, but can also be a higher or lower amount following a specific evaluation of the actual circumstances for each contract. The evaluations are based on experience from earlier projects. Factors that could affect the estimated warranty cost include the group's quality initiatives and project execution model. See [Note 17](#) Provisions, for further information about provisions for warranty expenditures on delivered projects.

Goodwill

In accordance with the stated accounting policy, the group tests whether goodwill has suffered any impairment, annually or more frequently if impairment indicators are identified. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which require the use of estimates and judgments. Further details about assumptions used for value-in-use calculations are included in [Note 20](#) Intangible assets.

Investments in associated companies and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. The carrying amount of the investment including goodwill or other intangible assets identified on the acquisition, are tested for impairment annually or more frequently if there are indicators of impairment. See [Note 22](#) Equity-accounted investees for recognised value of investments in associated companies and joint ventures.

Income taxes

Kvaerner is subject to income taxes in numerous jurisdictions. Significant judgement is required to determine the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Provisions for anticipated tax audit issues are based on estimates of eventual additional taxes.

Income tax expense is calculated based on reported income in the different legal entities. Deferred income tax expense is calculated based on the differences between the assets' carrying value for financial reporting purposes and their respective tax basis that are considered temporary in nature.

The total amount of income tax expense and allocation between current and deferred income tax requires management's interpretation of complex tax laws and regulations in the many tax jurisdictions where Kvaerner operates. Valuation of deferred tax assets is dependent on management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the near future, planned transactions or planned tax optimising measures. Economic conditions may change and lead to a different conclusion regarding recoverability, and such change may affect the results for each reporting period.

Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change. During the period when tax authorities may challenge the taxable income, management is required to make estimates of the probability and size of possible tax adjustments. Such estimates may change as additional information becomes known. Further details about income taxes are included in [Note 13](#) Income taxes.

Pension benefits

The present value of pension obligations depends on a number of factors determined on the basis of actuarial assumptions. These assumptions include financial factors such as discount rate, expected salary growth and return on assets as well as demographical factors concerning mortality, employee turnover, disability and early retirement. Assumptions about all these factors are based on the situation at the time the assessment is made. However, it is reasonably certain that such factors will change over the very long periods for which pension calculations are made. Any changes in these assumptions will affect the calculated pension obligations. Further information about the pension obligations and the assumptions used are included in [Note 3](#) Significant accounting policies and [Note 24](#) Employee benefits - pensions.

Note 5 Financial risk management and exposures

Financial risks

The group is exposed to a variety of financial risks: currency risk, interest rate risk, price risk, credit risk, liquidity risk and capital risk. Market risk affects the value of financial instruments held. The objective of financial risk management is to manage and control financial risk exposure and thereby increase the predictability and minimise the potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposure and applies hedge accounting in order to reduce profit or loss volatility.

The group's approach to risk management includes identifying, evaluating and managing risk in all activities using a top-down approach with the purpose of avoiding sub-optimisation and utilising correlations observed from a group perspective.

Risk management is present in every project and it is the responsibility of the project managers in cooperation with Corporate Treasury to identify, evaluate and hedge financial risk under policies approved by the Board of Directors. The group has well-established principles for overall risk management, as well as policies for the use of derivatives and financial investments.

Currency risk

Kvaerner operates internationally and is exposed to currency risk on commercial transactions, recognised assets and liabilities. Commercial transactions and recognised assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective functional currency of the group company. The group's exposure to currency risk is primarily related to USD, GBP, CAD, and EUR but it is also exposed to several other currencies on a smaller scale.

The purpose of the group's hedging policy is generally to secure that entities hedge their entire contractually bidding currency risk exposure in any project using forward contracts. Corporate Treasury manages internal exposures by entering into external forward contracts. The group has a large number of contracts involving foreign currency exposures and the currency risk policy has been established for many years.

For segment reporting purposes, each legal entity designates all currency hedge contracts with Corporate Treasury as cash flow hedges. External foreign exchange contracts are designated at group level as hedges of currency risk on a gross basis. These hedges are done back-to-back. When hedges do not qualify for hedge accounting under IFRS, an adjustment is done at group level. See [Note 18](#) Derivative financial instruments, for information regarding the accounting treatment of hedging and embedded derivatives.

The group's exposure to its main foreign currencies

2014

Amounts in million	CAD	GBP	USD	EUR
Cash	-	6	59	19
Balance sheet exposure	-	6	59	19
Estimated forecast receipts from customers	30	-	1	25
Estimated forecast payments to vendors	-	-	-	(1)
Cash flow exposure	30	-	1	24
Forward exchange contracts	(30)	-	-	(24)
Net exposure	-	6	60	19

2013

Amounts in million	GBP	USD	EUR
Cash	-	84	9
Balance sheet exposure	-	84	9
Estimated forecast receipts from customers	-	1	17
Estimated forecast payments to vendors	(4)	(1)	(14)
Cash flow exposure	(4)	-	3
Forward exchange contracts	3	(15)	22
Net exposure	(1)	69	34

Estimated forecasted receipts and payments in the tables above are calculated based on the group's hedge transactions through Corporate Treasury. These are considered to be the best estimate of the currency exposure given that all currency exposure is hedged, in accordance with the group's policy. A foreign currency sensitivity analysis indicates that changes in the foreign currency rates would only have minor effects on equity and profit and loss. A ten percent weakening of the NOK against the currencies listed as of 31 December would have increased/ (decreased) equity and profit and loss by the amounts shown in the table below. Larger movements have been seen in 2014, but the selected rate of ten percent reflects average of recent years' changes in currency rates.

Changes in currency rates change the values of hedging derivatives and cash balances. The table below illustrates the aggregated effects of derivatives and cash balances. Hedges that qualify for hedge accounting are reported in the profit and loss according to the progress of projects. Deferred value of cash flow hedges is reported as hedging reserve in equity. Any changes to currency rates will therefore affect equity.

Value of hedging instruments that do not qualify for hedge accounting cannot be deferred from profit and loss. Changes in profit and loss are based on changes in fair values of the hedges that

do not qualify for hedge accounting and any ineffectiveness in hedges that are hedge accounted. The analysis includes only project-related items and assumes that all other variables, in particular interest rates, remain constant. Calculations are based on amounts and foreign currency exchange rates as of 31 December 2014. The analysis is performed on the same basis as it was for 2013.

Although hedge accounting is not applied to all foreign exchange contracts, these contracts are still economically hedged. The effect on profit and loss under financial items in the table below will have an opposite effect on future operating income or expense as progress on projects increases. Equity in the following table is the hedge reserve that follows from cash flow hedges.

Amounts in NOK million	2014		2013	
	Profit before tax	Equity ¹⁾	Profit before tax	Equity ¹⁾
USD	-	6	1	10
EUR	(12)	(7)	12	8
CAD	(19)	-	-	-
GBP	(1)	-	-	3

1) The effects to equity that follow directly from the effects to profit and loss are not included.

A ten percent strengthening of the NOK against the above currencies as of 31 December 2014 would have had the equal but opposite effect on the above amounts, on the basis that all other variables remain constant. The sensitivity analysis does not include effects on the consolidated result and equity from changed exchange rates used for consolidation of foreign subsidiaries.

Translation exposure

Translation exposure occurs when foreign operations are translated for inclusion in the financial statements of the group.

Kvaerner has several investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is normally only hedged to the extent of agreed future payments.

Significant exchange rates applied for group consolidation

Currency	Average rate		Closing rate	
	2014	2013	2014	2013
USD	6.3172	5.8875	7.4560	6.0795
CAD	5.7226	5.7010	6.4304	5.7085
EUR	8.3764	7.8185	9.0467	8.3858
GBP	10.3982	9.2321	11.6146	10.0199

The next table illustrates the group's exposure to translation risk. Had the Norwegian currency depreciated by ten percent during 2014, the consolidated financial statements would have been affected by the changes in the table below. The sensitivity analysis is only a translation sensitivity and does not reflect changes in competitiveness, derivatives or other effects from currency fluctuations. Sensitivity analyses per currency have been made. The total result is given in the presented table.

Amounts in NOK million	2014 Total reported			10% depreciation			Change		
	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
USD	20	(138)	1 279	22	(152)	1 407	2	(14)	128
EUR	41	-	(9)	46	-	(10)	4	-	(1)
GBP	28	(11)	2	31	(12)	2	3	(1)	-
CAD	379	337	152	416	371	167	38	34	15
KZT	190	153	210	209	168	231	19	15	21
NOK	13 117	509	743	13 117	509	743	-	-	-
Other	171	(23)	227	188	(25)	250	17	(2)	23
Total	13 945	828	2 603	14 028	860	2 789	83	32	186

Amounts in NOK million	2013 Total reported			10% depreciation			Change		
	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
USD	1 628	299	1 115	1 791	329	1 226	163	30	111
EUR	34	(1)	(8)	37	(1)	(8)	3	(0)	(1)
GBP	34	(6)	(31)	38	(7)	(34)	3	(1)	(3)
CAD	3 507	290	51	3 858	319	56	351	29	5
NOK	7 736	65	1 427	7 736	65	1 427	-	-	-
Other	21	(12)	(44)	23	(13)	(48)	2	(1)	(4)
Total	12 960	636	2 510	13 483	693	2 619	522	57	108

Interest rate risk

Kvaerner's interest rate risk arises from interest-bearing liabilities with related parties and external loans. Interest-bearing liabilities issued at variable rates expose the group to cash flow interest rate risk.

An increase of 100 basis points in interest rates during 2014 would have increased/(decreased) equity and profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2013.

Amounts in NOK million	2014	2013
Cash and cash equivalents	12	15
External loan	(5)	(5)
Cash flow sensitivity (net)	7	10

Price risk

Kvaerner is exposed to fluctuations in market prices in the operating businesses related to individual contracts, including changes in market price for raw materials, equipment and development in wages. These risks are managed in bid processes by locking in committed prices from vendors as a basis for offers to customers or through escalation clauses with customers.

Credit risk**Customer credit risk**

Credit risk is the risk of financial loss to the group if customer or counterparty to financial investments/instruments fails to meet its contractual obligations, and arises principally from external receivables. Assessment of credit risk related to customers and subcontractors is an important requirement in the bid phase and throughout the contract period. Such assessments are based on credit ratings, income statement and balance sheet reviews and on using credit assessment tools available (e.g. Dun & Bradstreet). Sales to customers are settled in cash.

Based on estimates of incurred losses in respect of trade and other receivables, the group establishes a provision for impairment. Provisions for loss on debtors are based on individual assessments. Provisions for loss on receivables are low, and there are no historical losses of any significance.

Revenues are mainly related to large and long-term projects closely followed up in terms of payments up front and in accordance with agreed milestones. Normally, lack of payment is due to disagreements related to project deliveries and is solved together with the customer or escalated for resolution through arbitration or other mechanisms provided for in the contract.

Customers are typically large and highly reputable oil companies with a low credit risk, which reduces the credit risk significantly. However, the contractual counterparty may be a special purpose asset owning vehicle or similar entity of the customer. In these cases an evaluation of credit risk takes into account the facts and circumstances of such arrangements, and credit risk is mitigated where possible by requiring parent company guarantees, customer pre-payments, obtaining contractor liens and other such actions. The risk of counterparties not meeting their contractual obligations will normally be related to legal disputes, see [Note 28](#) Contingent events.

The maximum exposure to credit risk as at the reporting date equals the book value of each category's financial assets. The group does not hold collateral as security.

Derivative credit risk

Derivatives are only traded against approved banks, through Corporate Treasury. All approved banks are participants in the group's loan syndicate and have the highest ratings at Moody's and S&P. Credit risk related to derivatives is therefore considered to be insignificant.

Liquidity risk

Liquidity risk is the risk that the group could encounter difficulty in meeting the obligations associated with its financial liabilities. The group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity reserves to meet its liabilities when due. The nature of the group's business dictates a close monitoring of liquidity. Payment from customers is often monthly cash-calls and involves large sums of cash.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Corporate Treasury maintains flexibility in funding by maintaining availability under committed credit lines, see [Note 23](#) Interest-bearing liabilities.

Management monitors rolling weekly and monthly forecasts of the group's liquidity reserve on the basis of expected cash flows. For information regarding capital expenditures and net operating assets, see [Note 8](#) Segment.

Financial liabilities and the period in which they mature**2014**

Amounts in NOK million	Note	Book value	Total undiscounted cash flow ¹⁾	6 mths and less	6-12 mths	1-2 years	2-5 years
Interest-bearing liabilities	23	(487)	(527)	(10)	(9)	(508)	-
Trade and other payables	16	(4 109)	(4 109)	(4 109)	-	-	-
Total		(4 596)	(4 636)	(4 119)	(9)	(508)	-

1) Nominal currency value including interests.

2013

Amounts in NOK million	Note	Book value	Total undiscounted cash flow ¹⁾	6 mths and less	6-12 mths	1-2 years	2-5 years
Interest-bearing liabilities	23	(479)	(550)	(12)	(10)	(21)	(507)
Trade and other payables ²⁾	16	(4 057)	(4 057)	(4 057)	-	-	-
Total		(4 536)	(4 607)	(4 069)	(10)	(21)	(507)

1) Nominal currency value including interests.

2) In trade and other payables derivative financial instruments liabilities of NOK 40 million (2013: NOK 12 million) are included. Reference is made to [Note 18](#) for further details of derivative financial instruments.

Group policy for the purpose of optimising availability and flexibility of cash within the group is to operate a centrally managed cash-pooling arrangement. Such arrangements are either organised with a bank as a service provider, or as a part of the operation of the internal treasury function. An important condition for the participants (legal entities) in such cash-pooling arrangements is that the group as an owner of such pools is financially viable and capable of servicing its obligations concerning repayment of any net deposits made by the entities.

Capital management

The group's objective for managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt. Kvaerner ASA's dividend policy is based on visibility and predictability. The ambition is to pay semi-annual dividends with increases, in order to give a stable and predictable dividend growth, balancing out the underlying volatility of earnings.

The group monitors capital on the basis of equity ratio (gross debt/total equity), cash (gross debt less NCOA and cash and cash equivalents) and interest coverage ratio (EBITDA/net finance cost). The ratios are calculated from gross debt, including all interest-bearing liabilities as shown in [Note 25](#) Financial instruments, EBITDA and finance cost. The reported ratios are well within the requirements of the loan agreements.

Guarantee obligations

The group has provided the following guarantees on behalf of wholly owned subsidiaries as of 31 December (all obligations are per date of issue):

Amounts in NOK million	2014	2013
Parent company guarantees to group companies ¹⁾	50 707	48 578
Counter guarantees for bank/surety bonds	1 566	2 462
Total	52 273	51 040

1) Kvaerner ASA has provided indemnities to Aker Solutions of NOK 26 billion (2013: NOK 25 billion) in respect of parent company guarantees issued by Aker Solutions on behalf of Kvaerner group companies (included in the table above).

Note 6 Earnings per share

Kvaerner ASA's share capital has a value of, NOK 91 460 000 consisting of 269 000 000 shares.

	2014	2013
Profit/(loss) attributable to ordinary shares (NOK million):		
Net profit - continuing operations	27	239
Net profit - discontinued operations	(96)	206
Net profit - total operations	(69)	445
Weighted average number of shares outstanding	269 000 000	268 611 353
Earnings per share (NOK):		
Basic and diluted EPS - continuing operations	0.10	0.89
Basic and diluted EPS - discontinuing operations	(0.36)	0.77
Basic and diluted EPS - total operations	(0.26)	1.66

Note 7 Related parties

The largest shareholder of Kvaerner ASA, Aker Kvaerner Holding AS, is controlled by Aker ASA (70 percent) which in turn is controlled by Kjell Inge Røkke and his family through TRG Holding AS and The Resource Group AS. All entities controlled by Aker ASA are considered related parties to Kvaerner. These entities are referred to as Aker Solutions, Akastor and other entities controlled by Aker in this note.

Kvaerner operates in an industry where it is common to establish associated companies and joint ventures to deliver large and complex projects to customers. In such arrangements two or more suppliers have responsibility for parts of a project. The group holds stakes in associated companies and joint ventures related to significant projects in the portfolio, and these meet the definition of a related party. See [Note 22](#) Equity-accounted investees.

In accordance with International Accounting Standards 24 Related Party Disclosures, all entities controlled by Aker ASA, associated companies and joint ventures of Kvaerner and certain other related parties are reported as related parties to Kvaerner. Aker Solutions was not considered a related party to Kvaerner in 2012 and 2013. Following Aker ASA's assessment of control under IFRS 10 requirements, Aker Solutions and Akastor entities are considered as related parties to Kvaerner effective from 2014. Comparative period disclosures include transactions with Aker Solutions and Akastor.

Related party transactions with entities controlled by Aker Solutions and Akastor

Services acquired from Aker Solutions and Akastor include subcontracting, hire of personnel and shared services, transactions which are all part of Kvaerner's ordinary business operations. Revenue is mainly related to sale of man hours.

Pricing models vary between types of projects and services, but all transactions with related parties are based on arms-length terms.

Related party transactions with associated companies and joint ventures

Operating revenue from joint ventures is mainly sale of man hours to joint venture projects. Operating expenses from associated entities are mainly related to rent of buildings and sale of man hours. Refer to further details in [Note 22](#) Equity accounted investees on joint venture dividends and [Note 10](#) Operating leases for details on long term lease entered with related party Fornebuporten AS.

Related party transactions with entities controlled by Aker

Aker Pensjonskasse

Aker Pensjonskasse was established by Aker ASA to manage the retirement plan for employees and retirees in Kvaerner as well as other Aker companies. Kvaerner's premiums paid to Aker Pensjonskasse amounts to NOK 26 million in 2014 (2013: NOK 25 million).

Other

Kvaerner ASA has entered into an agreement with employee representatives that regulates use of grants to employee unions for activities related to professional updating. The grant in 2014 was NOK 534 000 (2013: NOK 484 500).

2014

Amounts in NOK million	Aker Solutions	Akastor	Other entities controlled by Aker	Associated companies	Joint ventures	Other related parties	Total ¹⁾
Income statement							
Operating revenues	213	19	2	1	244	-	479
Operating expenses	(2 439)	(391)	(3)	(52)	(19)	(0)	(2 904)
Balance sheet as of 31 December							
Trade and other receivables	33	4	1	0	42	-	79
Trade and other payables	(246)	(48)	-	(5)	(3)	-	(302)

2013

Amounts in NOK million	Aker Solutions	Akastor	Other entities controlled by Aker	Associated companies	Joint ventures	Other related parties	Total ¹⁾
Income statement							
Operating revenues	201	22	1	1	218	-	443
Operating expenses	(1 731)	(375)	(2)	(117)	-	(2)	(2 227)
Net financial items	-	-	-	1	2	-	3
Balance sheet as of 31 December							
Trade and other receivables	27	5	-	1	19	-	52
Interest-bearing non-current receivables	-	-	-	-	1	-	1
Trade and other payables	(123)	(46)	-	(8)	-	-	(177)

1) Figures include discontinued operations.

Trade receivables and trade payables are derived from ordinary business operations.

Please see [Note 22](#) Equity-accounted investees for information on Kvaerner's associated companies and joint ventures.

Note 8 Operating segments

Following the sale of Kvaerner's onshore construction business in North America in December 2013, Kvaerner does not have any remaining operations in the US within the Downstream & Industrials segment, and remaining legacies within the segment are presented as discontinued operations in the group's financial statements. Consequently, Kvaerner only have one reportable segment as from fourth quarter 2013; Upstream. The Upstream segment includes four separate business areas: Contractors Norway delivering topsides, floaters and onshore upstream facilities; Jackets delivering large steel jackets for oil and gas installations; Concrete Solutions delivering concrete substructures and Contractors International delivering topsides, floaters and onshore upstream facilities.

The business areas within the Upstream segment may meet the definition of an operating segment but have been aggregated based upon criterias in IFRS.

As from 1 January 2015 a new corporate organisational structure has been implemented comprising the business areas Topsides, Onshore, Jackets and Concrete Solutions. The previous business area Contractors International will as from 1 January 2015 mainly be integrated as part of business area Topsides. These changes will not change the group's segment reporting as from 2015.

Measurement of segment performance

Performance is measured by segment operating profit before depreciation, amortisation and impairment (EBITDA) and operating profit (EBIT), as included in the internal management reports. The Upstream segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities. Segment profit, together with key financial information as described below, gives management relevant information in evaluating the results of the operating segment and is relevant in evaluating the results of the segment relative to other entities operating within the industry. The President & CEO will normally not review financial items or total liabilities on segment level.

Inter-segment pricing is determined according to arm's length principles.

The accounting principles of the reportable segment are the same as described in [Note 2](#) Basis of preparation and [Note 3](#) Significant accounting policies, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiaries hedge the exposure with Corporate Treasury. Hedge accounting is applied independently of whether the hedge qualifies for hedge accounting in accordance with IFRS or not. The correction of the non-qualifying hedges to ensure that the consolidated financial statements are in accordance with IFRS, is made as an adjustment at Kvaerner's corporate level. This means that the group's segment reporting reflects all hedges as qualifying even though they may not qualify in accordance with IFRS.

2014 Operating segments

Amounts in NOK million	Note	Upstream	Other/Eliminations ¹⁾	Total
Operating revenue and other income				
Construction contracts		12 968	-	12 968
Services revenue		53	-	53
Share of result from joint ventures		3 918	(3 577)	341
Other income ²⁾		583	-	583
External operating revenue		17 522	(3 577)	13 945
Inter-segment revenue		9	(9)	-
Total operating revenue and other income		17 531	(3 586)	13 945
EBITDA				
Depreciation	19	(70)	0	(70)
Goodwill impairment	20	(266)	-	(266)
EBIT		575	(83)	492
Assets				
Current operating assets		3 242	26	3 268
Non-current operating assets		1 581	7	1 588
Operating assets		4 823	33	4 856
Tax-related assets				155
Investment in associates and jointly controlled entities				288
Investments in other companies				9
Financial receivables				2
Cash and cash equivalents				1 208
Retained assets on business sold				906
Total assets				7 424

Amounts in NOK million	Note	Upstream	Other/Eliminations ¹⁾	Total
Liabilities				
Current operating liabilities		4 081	109	4 190
Non-current operating liabilities		169	7	176
Operating liabilities		4 251	115	4 366
Tax-related liabilities				182
Current interest-bearing liabilities				-
Non-current interest-bearing liabilities				487
Retained liabilities on business sold				51
Total liabilities				5 087
Net current operating assets		(839)	(83)	(922)
Cash flow				
Cash flow from operating activities		424	(232)	193
Acquisition of property, plant and equipment ³⁾	19	99	(6)	94
Order intake (unaudited)		10 727	(9)	10 718
Order backlog (unaudited)		16 451	-	16 451
Own employees (unaudited)		3 002	47	3 049

1) Other/Eliminations include figures for the Downstream & Industrials segment for cash flow from operating activities and own employees.

2) Other income includes studies, FEEDs, sale of man hours etc.

3) Compared to capital expenditure in the cash flow statement acquisition of property, plant and equipment excludes NOK 35 million for intangible assets and NOK 28 million for assets not paid at year end 2013.

2013 Operating segments

Amounts in NOK million	Note	Upstream	Other/Eliminations ¹⁾	Total
Operating revenue and other income				
Construction contracts		12 013	-	12 013
Services revenue		158	-	158
Share of result from joint ventures		3 386	(3 080)	307
Other income		482	(0)	482
External operating revenue		16 040	(3 080)	12 960
Inter-segment revenue		51	(51)	-
Total operating revenue and other income		16 091	(3 131)	12 960
EBITDA				
		708	(72)	636
Depreciation	19	(63)	-	(63)
EBIT		645	(72)	573
Assets				
Current operating assets		3 114	7	3 121
Non-current operating assets		1 813	(0)	1 813
Operating assets		4 927	7	4 934
Tax-related assets				286
Investment in associates and jointly controlled entities				132
Investments in other companies				9
Financial receivables				3
Cash and cash equivalents				1 545
Retained assets on business sold				916
Total assets				7 825

Amounts in NOK million	Note	Upstream	Other/Eliminations ¹⁾	Total
Liabilities				
Current operating liabilities		4 371	16	4 387
Non-current operating liabilities		165	5	170
Operating liabilities		4 536	21	4 557
Tax-related liabilities				56
Current interest-bearing liabilities				-
Non-current Interest-bearing liabilities				479
Retained liabilities on business sold				223
Total liabilities				5 315
Net current operating assets		(1 257)	(9)	(1 266)
Cash flow				
Cash flow from operating activities		728	(122)	606
Acquisition of property, plant and equipment ²⁾	19	174	9	183
Order intake (unaudited)		18 662	(48)	18 615
Order backlog (unaudited)		22 809	-	22 809
Own employees (unaudited)		2 789	44	2 833

1) Other/Eliminations include figures for the Downstream & Industrials segment for cash flow from operating activities, acquisition of property, plant and equipment and own employees.

2) Compared to capital expenditure in the cash flow statement acquisition of property, plant and equipment includes NOK 28 million for assets not paid and excludes NOK 9 million for intangible assets.

Major customers

For the group, revenue from the three largest customers represented NOK 12.2 billion, or 87 percent, of total revenue of NOK 13.9 billion (2013: NOK 10.4 billion and 80 percent). Of this, one customer represented 41 percent (2013: 39 percent), the second represented 31 percent (2013: 29 percent) and the third represented 16 percent (2013: 12 percent) of total revenue for the group.

For the Upstream segment, revenue from the three largest customers represented NOK 13.9 billion, or 79 percent, of the segment's total revenue of NOK 17.5 billion (2013: NOK 12.3 billion and 76 percent). Of this, one customer represented 33 percent (2013: 32 percent), the second represented 24 percent (2013: 24 percent) and the third represented 22 percent (2013: 21 percent) of the total revenue of the Upstream segment.

Geographical information

Geographical segment revenue is based on the geographical location of customers' operations. Non-current segment assets are based on geographical location of the assets.

Amounts in NOK million	Operating revenues		Non-current segment assets	
	2014	2013	2014	2013
Norway	13 122	11 513	1 616	1 824
Europe	13	794	1	3
Canada	600	539	0	0
Rest of the world ¹⁾	210	114	11	62
Total	13 945	12 960	1 629	1 889

1) Includes operations in Kazakhstan and the Russian Federation.

Note 9 Salaries, wages and social security costs

Amounts in NOK million	Note	2014	2013
Salaries and wages including holiday allowance		1 897	1 750
Social security tax/national insurance contribution		272	263
Pension cost	24	110	113
Other employee costs		65	67
Salaries, wages and social security costs		2 345	2 194

Employee share purchase programmes

Kvaerner offered a share purchase programme in 2012 and 2013. No share purchase programme was offered in 2014. In 2013, 1 770 314 Kvaerner ASA shares were distributed to employees and managers at a price of NOK 10.04 per share.

Guidelines for remuneration to the President & CEO and the executive management of Kvaerner

The main purpose of the executive remuneration programme is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to executives consists of a market competitive base salary, standard employee benefits and participation in the company's executive variable pay programme.

General

The company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President & CEO and executive management.

Benefits

The President & CEO and the members of the executive management team participate in the standard pension and insurance plan applicable to all employees in the company.

Variable pay programme

The company has a deliberate policy of offering limited fixed benefits, and rather securing market competitiveness by offering participation in an executive variable pay programme. The objective of the programme is to recognise and reward the achievement of financial- and operational results as well as personal performance. The earnings under the programme are dependent on annual achievement of financial targets, the company's key performance indicators and personal performance rating.

Severance pay

Severance pay is applicable in case the company requests the resignation of the executive out of concern for the affairs of Kvaerner or there is a mutual understanding between the company and the executive to the effect that the employment shall be terminated. If so, the executive would be entitled to severance pay corresponding to three or six month's regular fixed salary. Severance pay does not include holiday allowance or pension entitlements.

Share options programme

The company does not offer share options programmes to any managers or employees.

Kvaerner has no outstanding loans or guarantees to any managers, employees or Directors.

Remuneration to members of the executive management team

2014

Amounts in NOK

		Base salary ¹⁾	Variable pay ²⁾	Other benefits ³⁾	Pension benefit ⁴⁾	Total remuneration
Jan Arve Haugan	01.01.2014 - 31.12.2014	5 014 310	1 848 000	20 120	256 233	7 138 663
Eiliv Gjesdal	01.01.2014 - 31.12.2014	2 220 410	1 847 740	10 238	117 697	4 196 085
Sverre Myklebust	01.01.2014 - 31.12.2014	2 173 662	2 088 500	95 627	345 375	4 703 164
Steinar Røgenes	01.01.2014 - 31.12.2014	2 203 100	849 746	21 879	143 678	3 218 403
Anthony Paul (Tony) Allen ⁵⁾	01.01.2014 - 31.12.2014	3 431 264	3 482 652	168 274	477 267	7 559 457
James Harry (Jim) Miller ⁵⁾	01.01.2014 - 31.12.2014	3 320 475	4 152 769	64 308	94 150	7 631 702
Henrik Inadomi	01.01.2014 - 31.12.2014	2 098 465	1 487 771	14 780	83 712	3 684 728
Bjørn Gundersen ⁶⁾	01.01.2014 - 30.11.2014	2 366 836	2 614 655	19 465	181 843	5 182 799
Arnt Knudsen	01.12.2014 - 31.12.2014	183 432	86 975	1 653	23 411	295 471
		23 011 955	18 458 807	416 344	1 723 366	43 610 472

1) Base salary represents salary expensed while holding an executive position, and includes holiday pay.

2) Variable pay reported is reflecting estimated expense.

3) Other benefits include telephone, insurance agreements, car allowance, housing etc.

4) Pension benefits include the standard employee and management pension scheme, a pension compensation scheme related to the transfer from a defined benefit scheme to a defined contribution scheme and a disability pension scheme.

5) Jim Miller and Tony Allen are paid in USD and GBP respectively. Amounts reported are translated to NOK using applicable average currency rates for the portion expensed each year, please see [Note 5](#).

6) Variable pay includes severance pay at end of employment.

2013

Amounts in NOK

		Base salary ¹⁾	Variable pay ²⁾	Other benefits ³⁾	Pension benefit ⁴⁾	Total remuneration
Jan Arve Haugan	01.01.2013 - 31.12.2013	4 876 792	3 592 814	13 668	275 287	8 758 561
Eiliv Gjesdal	01.01.2013 - 31.12.2013	2 172 180	1 315 823	5 556	117 002	3 610 561
Sverre Myklebust	01.01.2013 - 31.12.2013	2 123 343	1 240 410	89 723	390 528	3 844 004
Steinar Røgenes	01.06.2013 - 31.12.2013	1 034 614	423 239	8 892	80 482	1 547 226
Anthony Paul (Tony) Allen	01.01.2013 - 31.12.2013	3 002 643	2 238 787	149 598	450 486	5 841 515
Bjørn Gundersen	01.01.2013 - 31.12.2013	2 172 180	534 735	12 469	189 668	2 909 052
James Harry (Jim) Miller	01.01.2013 - 31.12.2013	3 127 599	3 486 899	73 594	90 079	6 778 170
Henrik Inadomi	01.01.2013 - 31.12.2013	2 052 733	2 599 618	9 495	86 037	4 747 884
Jan Øyri	01.01.2013 - 31.10.2013	1 767 224	-	4 451	113 876	1 885 551
Lars Eide	01.01.2013 - 31.05.2013	990 080	746 831	4 714	61 109	1 802 734
Janne Harstad Rasten (acting)	01.01.2013 - 30.04.2013	515 965	224 000	3 771	62 582	806 319
		23 835 352	16 403 156	375 931	1 917 138	42 531 577

1) Base salary represents salary expensed while holding an executive position, and includes holiday pay.

2) Variable pay reported is based on expensed, rather than paid benefits.

3) Other benefits include telephone, insurance agreements, car allowance, housing etc.

4) Pension benefits include the standard employee and management pension scheme, a pension compensation scheme related to the transfer from defined benefit scheme to defined contribution scheme and a disability pension scheme.

Remuneration to the Board of Directors**2014**

Amounts in NOK	Board fees ¹⁾	Audit Committee fees ¹⁾	Remuneration Committee fees ¹⁾
Leif-Arne Langøy	602 000	40 750	31 500
Tore Torvund ²⁾	521 500		31 500
Kjell Inge Røkke	328 000		
Vibeke Hammer Madsen	328 000		31 500
Birgit Nørgaard ³⁾	246 000	63 000	
Trine Sæther Romuld ³⁾	246 000	122 250	
Rune Rafdal ⁴⁾	164 000	84 000	
Ståle Knoff Johansen ⁴⁾	164 000		
Bernt Harald Kilnes ⁴⁾	164 000		
Live Haukvik Aker ⁵⁾	82 000	21 000	

1) Fees listed in table are earned remuneration for work performed in 2014 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by Annual General Meeting in April 2014.

2) Directors resident outside Scandinavia are granted NOK 12 700 per physical Board meeting.

3) Director from Annual General Meeting in April 2014.

4) Directors appointed by and from the employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives. Employee elected directors have in addition received ordinary salaries from the companies in which they are employed.

5) Resigned from the Board in April 2014.

2013

Amounts in NOK	Board fees ¹⁾	Audit Committee fees ¹⁾	Remuneration Committee fees ¹⁾
Leif-Arne Langøy ²⁾	451 500	122 250	23 625
Tore Torvund ⁶⁾	506 500	-	31 375
Kjell Inge Røkke ³⁾	394 250	-	7 750
Vibeke Hammer Madsen	326 750	-	31 375
Live Haukvik Aker ⁴⁾	246 000	63 000	-
Rune Rafdal ⁷⁾	163 375	63 000	-
Ståle Knoff Johansen ⁷⁾	163 375	-	-
Bernt Harald Kilnes ⁷⁾	163 375	20 750	-
Bruno Weymuller ^{5) 6)}	155 750	20 750	-
Lone Fønss Schrøder ⁵⁾	80 750	40 250	-

1) Fees listed in table are earned remuneration for work performed in 2013 related to Board, Audit Committee and Remuneration Committee meetings.

2) Chairman of the Board from Annual General Meeting in April 2013.

3) Chairman of the Board from Annual General Meeting in April 2012 and Board member from Annual General Meeting in April 2013.

4) Board member from Annual General Meeting in April 2013.

5) Resigned from the Board in April 2013.

6) Directors resident outside Scandinavia are granted NOK 12 500 per physical Board meeting.

7) Directors appointed by and from the employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives. Employee elected directors have in addition received ordinary salaries from the companies in which they are employed.

According to Aker policies, fees to Directors employed in Aker companies will be paid to the Aker companies, not to the Directors in person. The same policy is implemented for fees for the Remuneration and Audit Committees.

Nomination Committee

The Articles of Association stipulate that the company shall have a Nomination Committee. The Nomination Committee shall have no less than three members, who shall normally serve for a term of two years.

The current members of the Nomination Committee are:

Kjetil Kristiansen (Chairman), Mette Wikborg and Leif Teksum. Kvaerner's General Meeting has adopted guidelines governing the duties of the Nomination Committee.

Audit Committee

The current members of the Audit Committee are the following three Directors:

Trine Sæther Romuld (Chair), Birgit Nørgaard and Rune Rafdal.

Fees to the current Audit Committee members are subject to approval by the Annual General Meeting 9 April 2015.

Remuneration Committee

The current members of the Remuneration Committee are the following three Directors: Leif-Arne Langøy (Chair), Tore Torvund and Vibeke Hammer Madsen.

Fees to the current Remuneration Committee members are subject to approval by the Annual General Meeting 9 April 2015.

Directors' and members of executive management team's shareholding

		Direct shareholding ²⁾
Jan Arve Haugan ¹⁾	President & CEO	183 547
Eiliv Gjesdal	EVP & CFO	22 989
Anthony Paul (Tony) Allen	EVP Contractors International	35 440
James Harry (Jim) Miller	EVP Americas	6 897
Steinar Røgenes	EVP Contractors Norway	6 603
Arnt Knudsen	EVP Concrete Solutions	12 695
Henrik Inadomi	Legal Counsel	4 981
Ståle Johansen	Director	4 732
Rune Rafdal	Director	6 329
Bernt Harald Kilnes	Director	11 868

1) Jan Arve Haugan and related parties.

2) The overview includes only direct ownership of Kvaerner shares and does not include:

- Chairman Leif-Arne Langøy holdings of 44 827 shares through a privately owned company.
- Director Kjell Inge Røkke's indirect ownership in Aker ASA through the Resource Group TRG AS and subsidiaries which he co-owns with his wife.

Note 10 Operating leases

Kvaerner has entered into various operating lease contracts, mainly related to rental of buildings and equipment. The lease terms vary from short term contracts to contracts with duration up to twelve years. None of the leases include significant contingent rent. The majority of the contracts are renewable at the end of the lease period at market rates.

On 23 April 2013 Kvaerner signed an agreement with Fornebuporten AS for a long term lease for Kvaerner's new headquarters at Fornebu, scheduled for completion in second quarter 2015. The lease contract is for approximately 8 000 square metres at market terms, representing an all-inclusive annual average lease payment of NOK 27 million for the initial lease term. The term of the agreement is 12 years with options for five plus five years. Fornebuporten AS is owned by Aker ASA, and the lease agreement is therefore with related party.

Total non-cancellable operating lease commitments

Amounts in NOK million	2014	2013
Contracts due within one year	70	81
Contracts running from one to five years	168	168
Contracts running for more than five years	205	202
Total	444	450

Minimum lease payments recognised in the income statement

Amounts in NOK million	2014	2013
Buildings	85	80
Plant, equipment and machinery	42	51
Total	127	130

Sublease payments and contingent rent recognised in the income statement for the years ended 31 December 2014 and 2013 were insignificant. The group has not entered into any non-cancellable sublease contracts.

Note 11 Other operating expenses

Amounts in NOK million	2014	2013
Rental cost for buildings and other office and premises cost	86	74
Other operating expenses related to office and equipment	82	78
Hired services and external consultants including audit fees	176	137
Travel expenses	35	32
Insurance, guarantee and other service cost	56	54
Maintenance buildings and equipment	43	59
Other ¹⁾	151	118
Total	628	552

1) Other expenses of NOK 151 million in 2014 and NOK 118 million in 2013 mainly include electricity, gas, tools, welding material and miscellaneous maintenance and personnel costs.

Fees to auditor

Amounts in NOK million	2014	2013
Audit	7	6
Other assurance services	1	0
Other services ¹⁾	2	0
Total fees to KPMG	11	7
Total audit fees - other auditor	0	0
Total continuing operations	11	7
Total discontinued operations	1	1
Total	12	8

1) Other services of NOK 2.4 million include NOK 1.8 million in advisory services and NOK 0.6 million in tax advisory services.

Note 12 Finance income and expenses

Amounts in NOK million	2014	2013
Interest income on bank deposits measured at amortised cost	8	3
Interest income related party	-	3
Other finance income	6	3
Finance income	15	10
Interest expense on financial liabilities measured at amortised cost	(55)	(63)
Interest expense related party	(0)	(0)
Net foreign exchange loss	(34)	(31)
Net finance cost pension	(5)	(4)
Other finance cost ¹⁾	(26)	(7)
Finance expenses	(120)	(106)
Net finance expenses recognised in profit and loss	(105)	(96)

1) In 2014, NOK 25 million relates to loss on foreign currency contracts.

See [Note 25](#) Financial instruments for information of the finance income and expense generating items.

Note 13 Income taxes

Income tax expense

Amounts in NOK million	2014	2013
Current tax expense	240	110
Prior year adjustment	7	(3)
Total current tax expense	246	107
Current year's deferred tax expense	56	53
Prior year deferred tax adjustment	(1)	-
Total deferred tax expense/(income)	55	53
Total tax expense	301	160

Effective tax rate reconciliation

Amounts in NOK million	2014	2013
Profit before tax, total	329	399
Expected income taxes (27 percent) of profit before tax ¹⁾	89	113
Tax effects of:		
Prior year adjustments (current and deferred tax)	6	(3)
Permanent differences ²⁾	80	12
Effect of unrecognised timing differences and tax loss ³⁾	3	11
Change in tax rates ⁴⁾	-	5
Differences in tax rates from 27 percent ¹⁾	7	5
Other reconciling items		
- Write down of tax balances (including tax credits)	72	-
- Increased provisions related to tax audits ⁵⁾	26	7
- Other ⁶⁾	19	10
Total tax expense	301	160
Effective tax rate	92%	40%
Tax effect of differences	213	47

1) Nominal income tax rate of 27 percent in Norway in 2014, down from 28 percent in previous years.

2) Permanent differences in 2014 is significantly impacted by goodwill impairment and loss on associated investment not being tax deductible, in addition to revised assessment of tax deduction of withholding tax following Supreme court ruling in 2014. Tax increasing permanent differences are partly offset by written of tax credits claimed as tax deductible costs.

3) Effect of non-recognised timing differences and tax losses is related to tax losses in international operations.

4) Change in tax rate is related to impact of tax balances due to change in Norwegian tax rate from 28 to 27 percent in 2013, impacting 2013 year-end deferred tax balances.

5) Please refer to [Note 28](#) Contingent events for more details on tax audits.

6) Other items are mainly related to paid withholding taxes.

Recognised deferred tax assets and liabilities

2014			
Amounts in NOK million	Assets	(Liabilities)	Net
Property, plant and equipment	34	-	34
Pensions	47	-	47
Projects under construction	-	(1 146)	(1 146)
Tax loss carry-forwards	1 133	-	1 133
Provisions	18	-	18
Other	38	-	38
Total	1 269	(1 146)	123
2013			
Amounts in NOK million	Assets	(Liabilities)	Net
Property, plant and equipment	33	-	33
Pensions	44	-	44
Projects under construction	-	(765)	(765)
Tax loss carry-forwards	785	-	785
Provisions	88	-	88
Other	7	-	7
Total	958	(765)	193

Change in net recognised deferred tax assets and liabilities**2014**

	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Translation differences	Balance as of 31 December
<i>Amounts in NOK million</i>					
Property, plant and equipment	33	(2)	2	-	34
Net pensions	44	(0)	3	-	47
Projects under construction	(765)	(381)	(0)	-	(1 146)
Tax loss carry-forwards	785	380	(33)	1	1 133
Provisions	88	(70)	-	(0)	18
Other	7	18	14	(0)	38
Total	193	(55)	(14)	0	123

2013

	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Translation differences	Balance as of 31 December
<i>Amounts in NOK million</i>					
Property, plant and equipment	42	(9)	1	(0)	33
Net pensions	45	(1)	1	0	44
Projects under construction	(214)	(551)	-	(0)	(765)
Tax loss carry-forwards	260	527	1	(3)	785
Provisions	101	(13)	-	0	88
Other	19	(6)	(9)	3	7
Total	253	(53)	(6)	0	193

Tax loss carry-forwards

Amounts in NOK million	2014	2013
Recognised tax losses carried forward	4 195	2 910
Unrecognised tax losses carried forward	85	62
Total tax losses carried forward - continuing operations	4 280	2 972

Recognised tax losses are related to the Norwegian operations of which NOK 9.7 million is related to interest deduction limitation rules in Norway and expire after ten years. Remaining recognised tax losses have indefinite expiry dates. Unrecognised tax losses are related to international offices of which NOK 16 million expire after five years and the remaining have indefinite expiry dates.

In addition to the tax losses above for continuing operations, unrecognised tax losses in the group's discontinued operations in North America amounted to NOK 552 million at year end 2014 (2013: NOK 176 million). Increased loss carried forward is following current year loss, but also currency impact and increase in last year's reported number following final filing of 2013 tax returns.

Tax losses are recognised in the balance sheet to the extent that forecasts and realistic expectations about results show that Kvaerner will be able to use the tax losses before they expire.

Current tax assets of NOK 31 million (2013: NOK 93 million) relate to excess prepaid taxes and unused tax credits in Norway for tax paid abroad. Amount recognised as per year-end 2014 is related to unused tax credits in Norway and expire in 2019.

Current tax liabilities of NOK 182 million (2013: NOK 56 million), mainly related to tax on joint venture results where tax is levied on the partners and provisions for tax audits.

Note 14 Trade and other current assets

Amounts in NOK million	Note	2014	2013
Trade receivables		985	796
Less provision for impairment of receivables		(4)	-
Trade receivables, net		981	796
Advances to suppliers		3	6
Work in progress	15	1 689	2 103
Accrued operating revenue		462	122
Other receivables		124	81
Derivative financial instruments	18	2	6
Total trade and other receivables		3 261	3 114
Other		7	8
Total trade and other current assets		3 268	3 122

Impairment losses in 2014 was nil (2013: nil).

Aging of trade receivables

Amounts in NOK million	2014	2013
Current	515	604
Past due 0-30 days	444	143
Past due 31-90 days	5	5
Past due 91 days to one year	17	44
Past due more than one year	4	-
Total	985	796

Note 15 Construction contracts

Amounts in NOK million	Note	2014	2013
Cumulative value of work performed on uncompleted contracts		27 022	16 860
Invoiced to customers		25 332	14 757
Work in progress to be invoiced		1 689	2 103
Trade receivables		142	147
Net receivables on construction contracts		1 832	2 250
Advances from customers	16	54	16
Largest projects in progress at year end 2014 (unaudited):			
Project		Customer	Estimated delivery
Upstream segment:			
Nyhamna onshore		Shell	2018
Hebron gravity based structure		ExxonMobil	2017
Edvard Grieg topside		Lundin	2015

Note 16 Trade and other payables

Amounts in NOK million	Note	2014	2013
Trade creditors		1 433	1 198
Advances from customers		54	16
Accrued operating and financial costs		2 219	2 520
Derivative financial instruments	18	41	12
Sundry taxes		244	229
Other current liabilities		118	82
Total trade and other payables		4 109	4 057

Note 17 Provisions

Amounts in NOK million	Warranties	Other	Total
Balance as of 31 December 2012	63	275	338
Provisions made during the year	37	(1)	36
Provisions used during the year	(13)	(25)	(38)
Provisions reversed during the year	(4)	0	(4)
Provisions reclassified to retained liabilities on business sold	-	(1)	(1)
Balance as of 31 December 2013	83	248	330
Provisions made during the year	33	2	34
Provisions used during the year	(16)	(207)	(222)
Provisions reversed during the year	(20)	(42)	(62)
Balance as of 31 December 2014	80	1	81
Expected timing of payment as of 31 December 2014			
Non-current	64	-	64
Current	16	1	17
Total	80	1	81

Warranties

The provision for warranties relates to the possibility that Kvaerner, based on contractual agreements, needs to perform guarantee work related to products and services delivered to customers. The provision has been estimated based on historical warranty data associated with similar products and services. See [Note 4](#) Accounting estimates and judgements, for further description.

Other

Other provisions significantly reduced from year-end 2013 following completion of the modification work for Transocean Barents Drilling Rig performed and completed during third quarter 2014.

Note 18 Derivative financial instruments

Kvaerner uses derivative financial instruments to hedge foreign exchange risks. Further information regarding the group's risk management policies is available in [Note 5](#) Financial risk management and exposures.

Forward foreign exchange contracts

The table below presents fair value of derivative financial instruments and a maturity analysis of the derivative's undiscounted cash flows. The total notional amount of the instruments is NOK 416 million (2013: NOK 398 million). The financial derivatives are both related to cash flow hedges for project expenses and revenues, and to secure NOK dividends from overseas projects. Given the Kvaerner's hedging policy and the assumption that the projects are cash neutral, this table also indicates when the cash flows related to project expenses are expected to impact profit

and loss. The majority of project revenues are recognised in accordance with International Accounting Standard 11 Construction Contracts using the percentage-of-completion method. This may result in different timing of cash flows related to project revenues and revenue recognition. Loss of NOK 28 million (2013: NOK 7 million) related to non-qualifying hedges has been recognised in the income statement in 2014.

Fair value of derivative financial instruments are calculated as the difference between contract forward rate and market forward rate, discounted with applicable interest rate.

2014

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value	Total undiscounted cash flow ¹⁾	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	-	(3)	(3)	(2)	(2)	-	-
Embedded derivatives	-	(8)	(8)	(9)	(7)	(2)	-
Not hedge accounted	-	(29)	(29)	(30)	(12)	(11)	(7)
Total	-	(40)	(40)	(41)	(21)	(13)	(7)

2013

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value	Total undiscounted cash flow ¹⁾	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	4	(1)	3	3	3	-	-
Embedded derivatives	2	(9)	(7)	(7)	(7)	-	-
Not hedge accounted	-	(2)	(2)	(2)	(2)	-	-
Total	6	(12)	(6)	(6)	(6)	-	-

1) Undiscounted cash flows are translated to NOK using the exchange rates as of the balance sheet date.

Fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity is more than 12 months and as a current asset or liability if the maturity is less than 12 months. If the hedged item is related to projects, such as work in progress or trade receivables, the hedging derivative is classified as a current asset or liability.

Foreign exchange derivatives

Kvaerner hedges the group's future transactions in foreign currencies against external banks, with currency exposure hedged back-to-back in order to meet the requirements for hedge accounting. All other hedges are not designated as hedges for accounting purposes and will have an effect on profit or loss. These are mainly related to hedging of anticipated future dividends receivable. All hedges qualifying for hedge accounting are cash flow hedges. The company has entered into currency forward contracts in 2014 for economic hedging of embedded derivatives.

Hedged transactions in foreign currency that are subject to cash flow hedge accounting are highly probable future transactions expected to occur at various dates during the next one to two years, depending on progress in the projects. Gains and losses on forward foreign exchange contracts are recognised in comprehensive income and reported as hedging reserve in equity until they are recognised in the income statement in the period or periods during which the hedged transactions affect the income statement. This is generally within 12 months from the balance sheet date.

The following table shows unsettled cash flow hedges' impact on profit or loss and equity (not adjusted for tax).

Forward exchange contracts

Amounts in NOK million	2014	2013
Fair value of all hedging instruments	(3)	3
Hedging reserve from settlements	1	2
Recognised in profit and loss	1	(2)
Deferred in equity (hedging reserve)	(0)	3

The purpose of the hedging instrument is to secure a situation where the hedged item and the hedging instrument together represent a predetermined value independent of fluctuations of exchange rates. Revenue and expense on the underlying construction contracts are recognised in the income statement in accordance with progress. Hedging reserve in equity will be reclassified to income statement within the next six months.

Note 19 Property, plant and equipment

Amounts in NOK million	Buildings and sites	Machinery, equipment and software	Under construction	Total
Historical cost as of 1 January 2013	726	911	7	1 644
Additions	38	141	3	183
Disposals	(13)	(74)	-	(87)
Transfers	-	7	(7)	-
Currency translation differences	0	3	0	4
Historical cost as of 31 December 2013	751	989	4	1 743
Accumulated depreciation as of 1 January 2013	(419)	(604)	-	(1 023)
Depreciation for the year	(30)	(41)	-	(70)
Disposals	10	56	-	66
Currency translation differences	(0)	(2)	-	(2)
Accumulated depreciation as of 31 December 2013	(439)	(591)	-	(1 030)
Book value as of 31 December 2013	312	398	4	713
Historical cost as of 1 January 2014	751	989	4	1 743
Additions	69	25	-	94
Disposals	-	(7)	-	(7)
Transfers	4	-	(4)	-
Currency translation differences	1	0	0	1
Historical cost as of 31 December 2014	825	1 007	0	1 832
Accumulated depreciation as of 1 January 2014	(439)	(591)	-	(1 030)
Depreciation for the year	(35)	(35)	-	(70)
Disposals	-	5	-	5
Currency translation differences	(1)	(0)	-	(1)
Accumulated depreciation as of 31 December 2014	(475)	(621)	-	(1 095)
Book value as of 31 December 2014	350	386	0	736

Kvaerner has not entered into any financial lease contracts as of 31 December 2014. At year-end 2014, Kvaerner has no significant contractual commitments for acquisition of property, plant and equipment.

Depreciation

Assets are mainly depreciated on a straight-line basis over their expected economic useful lives as follows:

Machinery, equipment and software	3-15 years
Buildings	8-30 years
Sites	No depreciation

Estimates for residual values are reviewed annually.

Note 20 Intangible assets

Amounts in NOK million	Intangible assets excl. goodwill	Goodwill	Total
Balance as of 1 January 2013	-	1 157	1 157
Disposals	-	(89)	(89)
Additions	9	-	9
Currency translation differences	-	4	4
Balance as of 31 December 2013	9	1 071	1 080
Amortisation	-	-	-
Impairment	-	(266)	(266)
Disposals	-	-	-
Additions	35	-	35
Currency translation differences	-	-	-
Balance as of 31 December 2014	44	805	850

Intangible assets other than goodwill have finite useful lives and are amortised over their expected economic useful life, ranging between five to ten years.

Research and development costs

For the year ended 31 December 2014, the group capitalised NOK 23 million related to development of a cost estimation model and its Subsea-on-a-Stick concept (2013: NOK 9 million). In addition the group capitalised NOK 12 million related to IT activities. NOK 11 million (2013: NOK 12 million) has been expensed for research and development as the criterias for capitalisation were not met. Research and development costs paid by customers were NOK 5 million in the period (2013: NOK 1 million).

Goodwill**Allocation of goodwill by operating segment**

Amounts in NOK million	2014	2013
Upstream	805	1 071
Contractors Norway	421	421
Jackets	186	186
Concrete Solutions	198	198
Contractors International	-	266
Total	805	1 071

Impairment testing of goodwill

Goodwill originates from a number of historic acquisitions. Goodwill was allocated to the business areas, based on relative fair value estimates of the businesses at the time of demerger from Aker Solutions in 2011.

The group performs an impairment test annually, or more frequently if indications of impairment exists, to ensure that the recoverable amount related to recorded goodwill exceeds the related carrying value. Recoverable amounts are based on value in use calculations.

Key assumptions

Management's approach to determine the values that are assigned to each key assumption reflect past experience and are as follows:

- > Cash flow projections based on budgets and strategic forecasts for the period 2015-2018. These projections include both current on-going projects and assumed project wins. Prior years' forecasts have been assessed with regards to actual wins, and main deviation has been related to assumed international project wins
- > An annual growth rate of 1.5 percent for subsequent periods
- > The pre-tax discount rate (weighted average cost of capital) used is calculated based on the post-tax rate using an iterative process that gives the same net present value of cash flows pre- and post-tax. The post-tax discount rate applied in the testing is 9.9 percent, and pre-tax discount rates range from 12.5 percent to 13.0 percent for the different business areas

2014 Impairment test

For Kvaerner, assumed project awards is an essential element in the impairment testing. The group's business development organisation is reviewing and considering market prospects and selecting target projects. Assumed project wins reflect past experience, strategic considerations and Kvaerner's capacity to execute projects.

For business areas Contractors Norway, Jackets and Concrete Solutions, recoverable amount for recognised goodwill exceeds the related carrying values, and consequently the analysis indicates

that no impairment is required. There is considerable headroom compared to the carrying amount for these business areas. Estimated enterprise value and equity calculated based on budgets and strategic forecasts exceeds market value indicating that market pricing mainly reflects current backlog.

Following the impairment test performed in 2014 and accounting judgements following adverse market developments, a goodwill impairment loss of NOK 266 million was recognised related to business area Contractors International. Recoverable amount is nil based on value in use calculations for this Cash Generating Unit (CGU).

Sensitivities

Cash flow estimates are sensitive to changes in volume, margin (projects) and discount rate assumptions. Reasonable changes to key assumptions do not imply impairment for the business areas Contractors Norway and Concrete Solutions.

For business area Jackets, there is room for the following adverse changes in combination, before carrying amount exceeds estimated recoverable amount; revenue reduction of 50 percent, EBIT margin reduction of five percentage points and increase in post-tax discount rate of two percentage points.

Note 21 Other non-current assets

Amounts in NOK million	Note	2014	2013
Pension funds	24	2	14
Interest-bearing non-current receivables		2	3
Other non-current operating assets		0	5
Other investments		9	9
Total		13	31

Note 22 Equity-accounted investees

Joint ventures are accounted for using the equity method. Associated companies and joint ventures are defined as related parties to Kvaerner. See [Note 7](#) Related parties, for overview of transactions and balances between Kvaerner and associated companies and joint ventures.

Joint Venture Agreement with Peter Kiewit Infrastructure Co

Kiewit-Kvaerner Contractors (KKC) is a partnership under Newfoundland and Labrador law, owned 50 percent by each of the partners Peter Kiewit Infrastructure Co and Kvaerner. The partnership is regulated by a partnership agreement and it follows from the partnership act and the partnership agreement that both partners are jointly and several liable for the obligations of the partnership. The risk is however limited on partner level as the partners are limited liabilities companies. Partnership property is held in the name of the partnership. Profit is shared 50:50 by the partners.

KKC is building the gravity base structure (GBS) for the Hebron oil platform for ExxonMobil Corporation. The work is performed in Newfoundland and Labrador, Canada.

Joint Venture Agreement with KGNT Holding LLP

Investment in Kvaerner Caspian B.V. has been impaired in 2014 with no further exposure for the group.

Investments in associated companies and jointly controlled entities**2014**

Amounts in NOK million	Book value as of 1 January	Additions/ Disposals	Dividend	Profit/ (loss) ¹⁾	Currency translation differences	Book value as of 31 December
Kiewit-Kvaerner Contractors (KKC)	54	-	(165)	352	30	270
Kvaerner Caspian B.V.	58	-	-	(57)	(2)	-
Other associated companies and jointly controlled entities	20	12	(5)	(7)	(3)	17
Total	132	12	(170)	288	25	288

2013

Amounts in NOK million	Book value as of 1 January	Additions/ Disposals	Dividend	Profit/ (loss) ¹⁾	Currency translation differences	Book value as of 31 December
Kiewit-Kvaerner Contractors (KKC)	0	-	(251)	305	0	54
Kvaerner Caspian B.V.	77	-	-	(16)	(3)	58
Other associated companies and jointly controlled entities	30	0	(1)	(9)	(0)	20
Total	106	0	(252)	280	(3)	132

1) Purpose of investment decides presentation in the income statement. Results from KKC are presented within operating revenue and other income in the consolidated income statement. The line Share of profit/(loss) from equity accounted investees and impairments in the consolidated income statement includes negative results and impairment charges related to Kvaerner Caspian.

Summary of financial information for significant equity accounted investees (100 percent basis)**2014**

Amounts in NOK million	Business office	Percentage held ²⁾	Assets	Liabilities	Equity	Revenues	Net profit/(loss)
Kiewit-Kvaerner Contractors (KKC) ¹⁾	Newfoundland, Canada	50.0%	615	74	541	7 823	704

2013

Amounts in NOK million	Business office	Percentage held ²⁾	Assets	Liabilities	Equity	Revenues	Net profit/(loss)
Kiewit-Kvaerner Contractors (KKC) ¹⁾	Newfoundland, Canada	50.0%	342	238	105	6 765	609

1) Jointly controlled entity.

2) Percentage of voting rights equals percentage held.

Note 23 Interest-bearing liabilities

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the group's exposure to capital risk, including interest rates, foreign currency and liquidity risk, see [Note 5](#) Financial risk management and exposures.

Bank debt

The term loan and revolving credit facilities agreement of NOK 3 000 million is split in two tranches; a term loan of NOK 500 million and a revolving credit facility of NOK 2 500 million, both maturing in May 2016. The facilities are provided by a syndicate of high quality international banks. The term loan was fully drawn per end of year 2014 whilst the revolving credit facility was undrawn per same. The terms and conditions include restrictions which are customary for these kind of facilities, including inter alia negative pledge provisions and

restrictions related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreement. There are no restrictions for dividend payments. The facilities are unsecured.

The financial covenants are based on three sets of key financial ratios; an equity ratio based on consolidated total borrowings/consolidated total equity, a cash covenant calculated by consolidated total borrowings less consolidated net current operating assets and consolidated cash and cash equivalent assets and an interest coverage ratio based on consolidated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2014 the company is in compliance with all covenants. The margin applicable to the facility is based on a price grid determined by the gearing ratio.

2014

Amounts in NOK million	Currency	Nominal currency value	Book value ¹⁾	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 500	-	2.10%-2.50%	-	-	3 May 2016	IBOR + Margin ²⁾
Term loan	NOK	500	487	2.50%	4.18%	4.25%	3 May 2016	NIBOR + Margin
Total credit facility		3 000	487					
Total non-current borrowings			487					

2013

Amounts in NOK million	Currency	Nominal currency value	Book value ¹⁾	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 500	-	2.10% - 2.50%	-	-	3 May 2016	IBOR + Margin ²⁾
Term loan	NOK	500	479	2.00% - 3.00%	4.65%	4.73%	3 May 2016	NIBOR + Margin
Total credit facility		3 000	479					
Total non-current borrowings			479					

1) The book value is calculated by reducing the nominal value on NOK 500 million by total issue costs related to the credit facility.

2) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 40 percent of the margin.

Note 24 Employee benefits - pensions

The group's pension costs represent the future pension entitlement earned by employees in the financial year. In a defined contribution plan the company is responsible for paying an agreed contribution to the employee's pension assets. In such a plan the annual contribution is also the cost. In a defined benefit plan it is the company's responsibility to provide a certain pension benefit. The measurement of the cost and the pension liability for such arrangements are subject to actuarial valuations.

Pension plans in Norway

The main pension arrangement in Norway is a general pension plan organised by the Norwegian state. This arrangement provides the main general pension entitlement of all Norwegians. All pension arrangements by employers, consequently represent limited additional pension entitlements.

Norwegian employers are obliged to provide an employment pension plan, which can be organised as a defined benefit plan or as a defined contribution plan. Kvaerner closed its defined benefit plans in 2008 and are now providing defined contribution plans for all of their employees under 64 years of age.

Defined contribution plan

The annual contribution expensed for the defined contribution plan was NOK 95 million (2013: NOK 88 million). The estimated contributions expected to be paid in 2015 is NOK 103 million.

Defined benefit plan

Employees who were 58 years or more in 2008, when the plan was closed, are still in the defined benefit plan. This is a funded plan and represent most of the funded pension liability reported. Kvaerner's contribution to this plan in 2014 was NOK 26 million (2013: NOK 25 million) and expected contribution for 2015 is NOK 21 million. Contributions will reduce as the employees retire during the next three years.

The net pension obligation is sensitive to deviations in mortality for the members versus the mortality table used for calculating the obligation. As payments of the funds are relatively close in time - in a pension perspective - the net pension obligation is sensitive to reductions in the values of the investments.

Compensation plan

To ensure that the employees were treated fairly at the change from the defined benefit plan to the defined contribution plan, the company introduced a compensation plan. The employees are entitled to a compensation amount being the difference between calculated pension capital in the defined benefit plan and the value of the defined benefit plan at the age of 67 years. The compensation amount will be adjusted annually in accordance with the adjustment of the employees' pensionable income and accrued interest according to market interest. The compensation plan is an unfunded plan, and the obligation is calculated by actuary on a yearly basis. The first payment to employees from this plan will start in three years.

AFP- early retirement arrangement

AFP is an early retirement arrangement organised by Norwegian employers, The Norwegian Confederation of Trade Unions (LO) and the Norwegian state. The "old AFP" arrangement was established to provide pension between the age of 62 and 67 for employees who retired before the general retirement age of 67. This pension plan is now closed and estimated remaining employer contributions to cover the plan deficit have been provided for. Payments from the plan are finished in 2015.

A "new AFP" plan was established in 2011 to provide additional life long pensions to employees that retire early to compensate for the reduction in the ordinary pension entitlements. In this plan the employees are given a choice of retirement age, but with lower pension at earlier retirement. The Norwegian Accounting Standards Board has issued a comment concluding that the "new AFP" plan is a multi-employer defined benefit plan. The "new AFP" plan exposes the participating entities to actuarial risk associated with employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual participating entities. Sufficient information is not available to use defined benefit accounting and the "new AFP" plan is accounted for as a defined contribution plan.

Pension plans outside Norway

All pension plans outside Norway are defined contribution plans. Contributions to these plans were NOK 1 million in 2014 (2013: NOK 2 million). Estimated contributions in 2015 is NOK 1 million.

Pension cost including payroll tax

Amounts in NOK million	2014	2013
Service cost ¹⁾	11	12
Administration cost	1	1
Curtailments and settlements	1	13
Net periodic pension cost defined benefit plans	14	26
Pension cost defined contribution plans	97	88
Net periodic pension cost	110	113
Net interest cost/(income)	4	4
Net periodic pension cost including net interest cost	115	117

1) Both in 2014 and 2013, the service cost was reduced by NOK 15 million following reversal of AFP accruals.

Movement in pension obligation and plan asset

Amounts in NOK million	2014	2013
Projected benefit obligation as of 1 January	515	524
Service cost including cost related to the compensation plan	11	12
Interest cost on projected benefit obligation	19	18
Acquisition and disposal	4	(6)
Payroll tax of employer contribution assets	(3)	(3)
Benefits paid	(34)	(36)
Remeasurements loss/(gain) to other comprehensive income (OCI)	27	6
Projected benefit obligation as of 31 December	539	515
Plan assets at fair value as of 1 January	360	364
Interest income on plan assets	14	12
Acquisition and disposal	3	(18)
Contributions paid into the plan	26	25
Payroll tax of employer contribution assets	(3)	(3)
Benefits paid by the plan	(25)	(19)
Remeasurements loss/(gain) to other comprehensive income (OCI)	(9)	(1)
Plan assets at fair value as of 31 December	365	360
Net benefit obligation as of 31 December	174	155
As presented in the balance sheet		
Employee benefit assets	2	14
Employee benefit obligations	(176)	(170)
Total	(174)	(155)

Defined benefit obligation specified by funded and unfunded pension plans

Amounts in NOK million	2014	2013
Funded	375	351
Unfunded	164	164
Net employee benefit assets/(employee benefit obligations)	539	515

Plan assets at fair value of funded schemes are NOK 365 million (2013: NOK 360 million).

Included in other comprehensive income (OCI)

Amounts in NOK million	2014	2013
Remeasurements loss/(gain) from changes in:		
Discount rate	66	(9)
Other financial assumptions	(36)	(1)
Mortality table	-	10
Experience defined benefit obligation (DBO)	(3)	(3)
Experience Assets	1	2
Investment management cost	9	8
OCI losses/(gains)	37	7

Analyses of plan assets

Plan assets comprise:

Amounts in NOK million	2014	2013
Equity instruments		
- Oil & Gas	10	11
- Maritime Transportation	1	1
- Energy Infrastructure	-	2
- Oilfield Services & Equipment	8	2
- Telecom Services	5	4
Bonds		
- Government	11	6
- Finance	30	7
- Private and Government enterprise	69	78
- Municipalities	221	240
Fund/Private Equity	10	8
Plan assets	365	360

Fair value of equities is based on their quoted prices at the reporting date without any deduction for estimated future selling cost. The equity portfolio is invested globally.

Investments in bonds are done in the Norwegian market and most of the bonds are not listed on any exchange. Market value at year end is based on official prices provided by the Norwegian Securities Dealers Association. Bond investments have on average a high credit rating, and most of the investments are in Norwegian municipalities with a credit rating of AA.

Investments in fund/private equity are mainly funds that invest in listed securities and where fund value is based on quoted prices.

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date.

	2014	2013
Discount rate	2.50%	4.10%
Asset return	2.50%	4.10%
Salary progression	3.25%	3.75%
Pension indexation	1.25-2.50%	1.90-2.50%
G - multiplier	3.00%	3.50%
Mortality table	K2013BE	K2013

The discount rate is based on the Norwegian high quality corporate bond rate.

Assumptions regarding future mortality are based on the dynamic mortality table K2013BE. The dynamic model expects improvements in life expectancy over time, and that is expected for Kvaerner employees as well. The current longevity underlying the values of the defined benefit obligation at the reporting date were as follows:

	2014	2013
Longevity at age of 65 for current pensioners		
Males	21.3	20.4
Females	24.4	23.2
Longevity at age of 65 for current members aged 40		
Males	23.5	23.7
Females	26.8	26.9

Sensitivity analysis

Calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above. An entity shall disclose a sensitivity analysis for each significant actuarial assumption. Possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

Effects in NOK million	Defined benefit obligation	
	Increase	Decrease
Discount rate (1% movement)	(44)	52
Future salary growth (1% movement)	7	(7)
Future pension growth (1% movement)	50	(44)
One year longer life all members	14	

Note 25 Financial instruments

Financial instruments are classified into level 1, 2 and 3 in the measurement hierarchy based on how objective the measuring method is. Level 1 indicates use of quoted prices in an active market for identical assets and liabilities. Kvaerner has limited financial instruments beyond cash and short term receivables and payables. Cash, receivables and payables are measured at fair value based on observable prices, or at amortised cost.

Level 2 implies fair value measurements based on price inputs, other than quoted prices, which are derived from observable market transactions in an active market for identical assets or liabilities. Kvaerner's financial instruments within this category is related to derivative financial instruments, where fair value is determined based on forward prices on foreign currency exchange rates, see [Note 18](#) Derivative financial instruments. Fair value measurements in level 3 indicate use of unobservable inputs; fair value calculations on the basis of input and assumptions that are not from observable market transactions. Kvaerner has no such level 3 assets or liabilities.

Non-current loans

Non-current loans consist of a term loan maturing May 2016. The carrying amount is measured at amortised cost. Fair value is equal to book value of NOK 487 million (2013: 479 million). Credit facilities have floating interest and the notional amount is a reasonable approximation of fair values.

Note 26 Group companies as of 31 December 2014

Company name	City	Country of incorporation	Ownership (percent) ¹⁾
Kværner ASA	Oslo	Norway	
Kværner AS	Oslo	Norway	100
Kværner Engineering AS	Oslo	Norway	100
Kværner Stord AS	Stord	Norway	100
Kværner Verdal AS	Verdal	Norway	100
Kværner Concrete Solutions AS	Oslo	Norway	100
Kværner Jacket Technology Trondheim AS	Trondheim	Norway	100
Kværner Jacket Technology AS	Oslo	Norway	100
Kværner Piping Technology AS	Verdal	Norway	100
Verdal 1309 AS	Verdal	Norway	100
Kværner Contracting Spain AS	Oslo	Norway	100
Kværner Contracting Italy AS	Oslo	Norway	100
Kværner Contracting Russia AS	Oslo	Norway	100
Norwegian Contractors AS	Sandvika	Norway	100
Aker Solutions Contracting AS	Oslo	Norway	100
Kværner Resources AS	Oslo	Norway	100
Kværner Finland Oy	Ulvila	Finland	100
Kværner Contracting Ltd	London	UK	100
Kværner Resources Ltd	London	UK	100
Kværner Field Development Inc	Houston	USA	100
Kværner Americas Holdings Inc	Canonsburg	USA	100
Kværner Americas Inc	Canonsburg	USA	100
Kværner North American Construction Inc	Canonsburg	USA	100
Kværner Industrial Constructors Inc	Canonsburg	USA	100
Kværner Oil & Gas Australia Pty Ltd	Perth	Australia	100
Kværner Canada Ltd	St. John's	Canada	100
Kværner Engineering & Technology (Beijing) Co Ltd	Beijing	China	100

1) Ownership equaling the percentage of voting shares.

There have been no significant changes to the Group composition in 2014.

Note 27 Discontinued operations

Following the sale of Kvaerner's onshore construction business in North America in December 2013, Kvaerner does not have any remaining operations in the US within the Downstream & Industrials segment, and remaining legacies within the segment are presented as discontinued operations in the group's financial statements.

The results for the discontinued business is reported separately under the heading Profit/(loss) from discontinued operations in the group's income statement. Reference is made to [Note 28](#) Contingent Events for more information on the Longview project.

Summary of financial data for discontinued operations

Amounts in NOK million	2014	2013
Total revenue and other income	4	1 666
Operating expenses	(121)	(1 398)
EBIT	(117)	268
Net financial income/(expense)	(0)	(32)
Profit/(loss) before tax	(117)	236
Income tax expense	21	(29)
Net profit/(loss) discontinued operations	(96)	206
Of which:		
Operations	(96)	(66)
Gain on sale of discontinued operations	-	272
Basic and diluted earnings/(losses) per share (NOK)	(0.36)	0.77
Net assets	855	693

Cash flow from discontinued operations

Amounts in NOK million	2014	2013
Cash flow from operating activities	(154)	45
Cash flow from investing activities	-	271
Cash flow from financing activities	117	(604)
Translation adjustments	6	16
Net increase/(decrease) in cash and bank deposits	(32)	(272)
Cash and cash equivalents at the beginning of the period	56	328
Cash and cash equivalents at the end of the period	24	56

Note 28 Contingent events

Given the scope of Kvaerner's worldwide operations, group companies are inevitably involved in legal disputes in the course of their activities. Provisions have been recognised to cover expected outcome of any disputes and litigation proceedings in accordance with applicable accounting rules. Such provisions are based on management's best judgement and estimates of a likely outcome of the dispute and will be subject for review by in-house or external legal advisors. However, the final outcome of such disputes and litigation proceedings will always be subject to uncertainties, and resulting liabilities may exceed recorded provisions. The disputes and litigation proceedings are continuously monitored and reviewed, and recognised provisions are adjusted to reflect management's best estimates of most recent facts and circumstances. Litigation and arbitration costs are recognised as they occur.

Significant current disputes**Longview project**

In 2011, Kvaerner North American Construction, Inc. (KNAC) and its consortium partner initiated arbitration against Longview and Amec Foster Wheeler North America Corp. (Foster Wheeler) related to the Longview project delivered in 2011. Kvaerner's claim is substantial and intended to recover excess construction costs and other damages incurred by KNAC in execution of the project. Counter and cross claims against KNAC have been presented by the other parties in the arbitration process.

In early January 2015, settlement agreements were reached with Longview Power, LLC, KNAC's consortium partner and others, resulting in an aggregate amount of USD 48 million received by KNAC from the various parties in February 2015. The remaining claims to be resolved in arbitration after this settlement are between KNAC and Foster Wheeler. The settlement has not impacted Kvaerner's overall accounting position and KNAC will continue the arbitration proceedings against Foster Wheeler for the remaining claim. This process is expected to continue until third quarter 2015.

Nordsee Ost project

In 2012, arbitration related to the Nordsee Ost project was filed. The last wind jackets for the project were delivered in October 2013. The arbitration process for the project will take more time than earlier anticipated due to high complexity and resolution has been delayed. It is currently not possible to estimate when the arbitration will be finalised.

Tax audits in foreign jurisdictions

A subsidiary of Kvaerner has been subject to a tax audit in Italy since November 2011 related to a historic project, with report from tax authorities received in 2013 and further Notice of assessment for one year received in December 2014. Kvaerner disputes the tax authorities' position and negotiations are on-going.

A foreign branch of Kvaerner has been subject to tax audit in Kazakhstan since June 2012, related to a historic project, with report from tax authorities received in January 2014. The tax authorities' findings are disputed by Kvaerner and issues have been appealed.

There are still substantial uncertainties with respect to the final financial outcome of the above projects and tax audits, and to avoid prejudicing Kvaerner's position, no estimate of the expected final outcome is disclosed.

Note 29 Subsequent events

New corporate organisational structure

Kvaerner has from 1 January 2015 implemented a new corporate organisational structure comprising the business areas Topsides, Onshore, Jackets and Concrete Solutions. Contractors International will as from 1 January 2015 mainly be integrated as part of the business area Topsides. The change is part of the process aimed at increasing the company's competitiveness. The new corporate structure will facilitate more effective internal cooperation and work processes. With the new structure in place, the management team have clear roles for driving the process for increased competitive power.

Settlement agreements with Longview Power, LLC and others

In January 2015, Kvaerner North American Construction Inc. (a subsidiary of Kvaerner) executed agreements with each of Longview Power, LLC, Siemens Energy Inc. and others regarding the disputes between them in both the arbitration proceedings concerning the Longview Project and the subsequent bankruptcy cases of Longview Power, LLC. Under the agreements, Kvaerner North American Construction Inc. has received an aggregate amount of USD 48 million from various parties. In consideration, Kvaerner North American Construction Inc. have settled certain claims and released the mechanics' liens filed against the Longview power plant properties in Maidsville, West Virginia, and have waived all objections in the ongoing Longview Power, LLC bankruptcy proceedings. Kvaerner North American Construction Inc. will continue the arbitration proceedings against Amec Foster Wheeler North America Corp. This process is expected to continue until third quarter 2015.

Contract for delivery of steel jacket substructure for Johan Sverdrup riser platform

In January 2015, Kvaerner signed the final contract for delivery of the steel jacket substructure for the riser platform at the Johan Sverdrup field. Since the letter of intent for the delivery was signed in June 2014, Kvaerner has detailed out and confirmed a range of improvements to cost levels and productivity which will be implemented during project execution. For Kvaerner, the contract signing marks a milestone for the company's strategy to increase its competitiveness. Contract value for the riser platform jacket is close to NOK 2 billion.

The Board propose dividend of NOK 0.67 per share

The Board of Directors has in line with the dividend policy proposed to pay a semi-annual dividend of NOK 0.67 per share in April 2015, confirming a predictable dividend growth. Subject to approval by the Annual General Meeting (AGM), the dividend payment will take place on or about 24 April 2015 to shareholders of record as per the date of the AGM scheduled for 9 April 2015. The shares will be traded exclusive dividend from and including 10 April 2015.

Capacity reductions

After the Johan Sverdrup drilling topside was awarded to a competitor in late February 2015, Kvaerner needs to start capacity reductions before the summer within selected areas. The size and pace of such reductions will depend on how successful Kvaerner is in the competition for other contracts this spring.

Fatal accident at Stord

On 7 March 2015, Kvaerner regrettably suffered a fatality at the demolition site at Eldøyane, Stord, Norway. One person, a man in his late 30s from Poland, lost his life in the accident. The accident will be further investigated by the local police as well as an independent investigation team.

Note 30 Capital and reserves

Share capital

Kvæerner ASA has one class of shares, ordinary shares, with equal rights for all shares. The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at General Meetings.

Total outstanding shares are 269 000 000 at par value of NOK 0.34 per share. All issued shares are fully paid.

Dividends	2014	2013
Paid dividend per share (NOK)	1.25	1.13
Dividend per share proposed by the Board of Directors (NOK)	0.67	0.61
Total dividend proposed (NOK million)	180	164

Dividends paid in 2014 consist of a dividend payment of NOK 0.61 per share in April and NOK 0.64 per share in October.

Hedging reserve

The hedging reserve relates to cash flow hedges of future revenues and expenses against exchange rate fluctuations. The income statement effects of such instruments are recognised in accordance with the progress of the underlying construction contract as part of revenues or expenses as appropriate. The hedging reserve represents the value of such hedging instruments that are not yet recognised in the income statement. The underlying nature of a hedge is that a positive value on a hedging instrument exists to cover a negative value on the hedged position, see [Note 18](#) Derivative financial instruments.

Currency translation reserve

The currency translation reserve includes exchange differences arising from the translation of the net investment in foreign operations.

Annual accounts Kværner ASA

Income statement 01.01 - 31.12	66
Balance sheet as of 31 December	67
Statement of cash flows 01.01 - 31.12	68
Notes to the financial statements	69
Note 1 Accounting principles	69
Note 2 Operating revenue and operating expenses	70
Note 3 Net financial items	70
Note 4 Tax	70
Note 5 Investments in group companies	70
Note 6 Shareholders' equity	71
Note 7 Receivables and borrowings from group companies	72
Note 8 Other current receivables and current liabilities	74
Note 9 Interest-bearing liabilities	74
Note 10 Guarantees	74
Note 11 Financial risk management and exposures	75
Note 12 Shareholders	75

Income statement 01.01 – 31.12

Amounts in NOK thousands	Note	2014	2013
Operating revenue	2	14 439	15 088
Operating expenses	2	(47 844)	(47 507)
Operating loss		(33 405)	(32 419)
Net financial items	3	(126 723)	190 664
Profit/(loss) before tax		(160 128)	158 245
Tax income/(expense)	4	22 181	(43 887)
Net profit/(loss)		(137 947)	114 358
Net profit/(loss) for the year and dividends are distributed as follows:			
Dividends paid		-	156 020
Proposed dividend		180 230	164 090
Transferred from other equity		(318 177)	(205 752)
Net profit/(loss)		(137 947)	114 358
Group contribution with tax effect		-	161 579

Balance sheet as of 31 December

Amounts in NOK thousands	Note	2014	2013
Assets			
Deferred tax asset	4	22 641	460
Investments in group companies	5	6 843 335	2 692 749
Non-current interest-bearing receivables from group companies	7	1 422	4 274 332
Total non-current assets		6 867 398	6 967 541
Non interest-bearing receivables from group companies	7	39 149	4 017
Other current receivables	8	1 810	5 834
Cash and cash equivalents	7	56 175	102 749
Total current assets		97 134	112 600
Total assets		6 964 532	7 080 141
Liabilities and shareholders' equity			
Issued capital		91 460	91 460
Share premium reserve		729 027	729 027
Other equity		3 699 106	4 189 443
Total equity	6	4 519 593	5 009 930
Non-current interest-bearing borrowing	9	487 424	479 178
Total non-current liabilities		487 424	479 178
Interest-bearing current borrowing from group companies	7	1 624 439	1 128 203
Provision for dividend	6	180 230	164 090
Other current liabilities to group companies	7	104 432	280 429
Other current liabilities	8	48 414	18 311
Total current liabilities		1 957 515	1 591 033
Total liabilities and shareholders' equity		6 964 532	7 080 141

Vækerø, 16 March 2015
Board of Directors and President & CEO of Kvaerner ASA


Leif-Arne Langøy
Chairman


Tore Torvund
Deputy Chairman


Kjell Inge Røkke
Director


Vibeke Hammer Madsen
Director


Trine S. Romuld
Director


Birgit Nørgaard
Director


Rune Rafdal
Director


Ståle Knoff Johansen
Director


Bernt Harald Kilnes
Director


Jan Arve Håugan
President & CEO

Statement of cash flows 01.01 - 31.12

Amounts in NOK thousands

	2014	2013
Profit/(loss) before tax	(160 128)	158 245
Changes in accounts receivable	4 024	29 890
Changes in other net operating assets	15 705	(7 866)
Change in long term receivables in related party	-	14 485
Amortisation of loan costs	8 246	10 195
Net cash from operating activities	(132 153)	204 949
Decrease in long term borrowings to group companies	87 192	2 715 414
Increase/(reduction) in short term debt	496 216	(721 929)
Group contribution paid	(161 579)	(2 205 635)
Proceeds from employee share purchase programme	-	(19 155)
Repurchase of shares	-	18 422
Dividends paid	(336 250)	(303 970)
Net cash from financing activities	85 579	(516 853)
Net increase (decrease) in cash and bank deposits	(46 574)	(311 904)
Cash and bank deposits at the beginning of the period	102 749	414 653
Cash and bank deposits at the end of the period	56 175	102 749

Notes to the financial statements

Note 1 Accounting principles

Kværner ASA was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Drammensveien 264, 0283 Oslo, Norway.

The accounts are prepared in accordance with Norwegian legislation and Norwegian generally accepted accounting principles. The functional and presentation currency is Norwegian kroner (NOK).

Foreign currency translation

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Foreign currency exchange impacts are recognised in the income statement as they occur.

Revenue recognition

Operating revenue comprise parent company guarantees recharged entities within the group. The revenue is recognised over the guarantee period.

Tax

Tax income/(expense) in the income statement comprises current tax and changes in deferred tax. Deferred tax at 31 December 2014 is calculated as 27 percent of temporary differences between accounting and tax values as well as any tax losses carried forward at year end. A net deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against amounts that can be utilised.

Classification and valuation of balance sheet items

Current assets and current liabilities include items due within one year or items that are part of the operating cycle. Other balance sheet items are classified as non-current assets/debt.

Current assets are valued at the lowest of cost and fair value. Current debt is valued at nominal value at time of recognition.

Non-current debt is initially valued at transaction value less attributable transaction costs. Subsequent to initial recognition, interest-bearing long-term debt is recognised at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

Accounts receivable and other current receivables are recognised in the balance sheet at nominal value less provisions for doubtful accounts.

Investment in subsidiaries and associates

Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends or group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

Cash in cash pool system

Kværner ASA has a cash pool that includes parent company's cash as well as net deposits from subsidiaries in the group cash pooling system owned by parent company. Correspondingly, the parent company's current debt to group companies will include their net deposits in the group's cash pool system.

Share capital

Cost related to purchase and sale of own shares are accounted for directly against equity, including any transactions costs.

Cash flow

The cash flow is presented using the indirect method.

Note 2 Operating revenue and operating expenses

Operating revenue relates to parent company guarantees recharged entities within the Kvaerner group. Total recharged guarantees in 2014 amounts to NOK 42 000 (2013: NOK 41.1 million) and has been fully paid by the entities. Remaining recharged amount will be recognised as revenue over the guarantee period.

There are no employees in Kværner ASA and hence no salary or pension related costs, and no loans or guarantees related to the executive management team. Group management and corporate staff are employed by other Kvaerner companies and costs for their services as well as other parent company costs are recharged to Kværner ASA. Total parent company cost for 2014 amounts to NOK 47.8 million (2013: NOK 47.5 million).

Fees to KPMG for statutory audit of the parent company amounted to NOK 2.8 million (2013: NOK 2.8 million) excluding VAT.

NOK 3.3 million (2013: NOK 3.1 million) has been allocated to payable fees to the Board of Directors for 2014.

See [Note 9](#) Salaries, wages and social security costs in the group accounts for further details regarding remuneration of the Board of Directors and President & CEO.

Note 3 Net financial items

Amounts in NOK thousands	2014	2013
Interest income from group companies	18 915	337 263
Interest expense to group companies	(8 618)	(64 167)
Net interest group companies	10 297	273 096
Interest income from external companies	-	358
Interest expense to external companies	(54 428)	(62 513)
Net interest external	(54 428)	(62 155)
Net other financial items ¹⁾	(82 592)	(20 277)
Net financial items	(126 723)	190 664

1) Net other financial items include write-down of loans to group companies of NOK 78 million in 2014.

Note 4 Tax

Amounts in NOK thousands	2014	2013
Taxable income		
Profit/(loss) before tax	(160 128)	158 245
Group contribution with tax effect	-	(161 579)
Changes in temporary differences	(1 705)	3 334
Permanent differences ¹⁾	77 977	-
Taxable income/(loss)	(83 856)	-
Temporary differences and deferred tax		
Unrealised gain/(loss) on forward exchange contracts	-	(1 705)
Tax losses carried forward	(83 856)	-
Total temporary differences	(83 856)	(1 705)
Deferred tax asset	22 641	460
Tax expense		
Tax expense on taxable income	-	(45 242)
Correction of tax payable from prior period	-	439
Effect of changes in tax rate	-	(17)
Changes in deferred tax	22 181	934
Total tax income/(expense) in income statement	22 181	(43 887)
Rate of taxation	14%	28%

1) Permanent differences relates to write-down on loans to group companies.

Note 5 Investments in group companies

Amounts in NOK thousands	Registered office	Share capital	Number of shares held	Book value ¹⁾	Percentage owner-/ voting share
Kværner AS	Oslo, Norway	1 010	10 000	6 843 335	100%

Conversion of debt to equity is booked against the shares in subsidiary Kværner AS, increasing the book value with NOK 4 151 million.

Kværner AS results 2014

Amounts in NOK thousands	
Profit/(loss) for the period	(90 560)
Equity as of 31 December 2014	5 878 113

1) Impairment test performed by 31 December supports the book value of subsidiary Kværner AS.

Note 6 Shareholders' equity

Amounts in NOK thousands	Number of shares	Share capital	Share premium	Other equity	Total
Equity as of 31 December 2012	269 000 000	91 460	729 027	4 395 928	5 216 415
Shares buy back	(1 834 575)	-	-	(19 155)	(19 155)
Shares issued to employees through share programmes	1 834 575	-	-	18 422	18 422
Profit for the period	-	-	-	114 358	114 358
Dividends paid	-	-	-	(156 020)	(156 020)
Proposed dividend	-	-	-	(164 090)	(164 090)
Equity as of 31 December 2013	269 000 000	91 460	729 027	4 189 443	5 009 930
Profit/(loss) for the period	-	-	-	(137 947)	(137 947)
Dividends paid	-	-	-	(172 160)	(172 160)
Proposed dividend	-	-	-	(180 230)	(180 230)
Equity as of 31 December 2014	269 000 000	91 460	729 027	3 699 106	4 519 593

Share purchase programmes for employees and managers were offered in 2012 and 2013. No share purchase programme was offered in 2014.

The share capital of Kvaerner ASA is divided into 269 000 000 shares with a par value of NOK 0.34.

Note 7 Receivables and borrowings from group companies

Amounts in NOK thousands	2014	2013
Kværner ASA bank deposits	56 175	102 749
Total Cash in cash pool system	56 175	102 749
Non-current interest-bearing receivables from group companies ¹⁾	1 422	4 274 332
Interest-bearing current borrowings from group companies ¹⁾	(1 624 439)	(1 128 203)
Net interest-bearing receivables/(liabilities) from group companies	(1 623 017)	3 146 129
Non interest-bearing receivables from group companies ¹⁾	39 149	4 017
Other current liabilities to group companies ¹⁾	(104 432)	(280 429)
Net non interest-bearing liabilities to group companies	(65 283)	(276 412)
Net cash and group receivables/(liabilities)	(1 632 125)	2 972 466

1) See details in tables below.

2014

Group companies	Loan to group companies - deposits and accrued interest	Interest-bearing current borrowings from group companies	Non-interest bearing receivables - net internal hedge	Other current liabilities
Kværner AS	-	(162 809)	-	(47 321)
Kvaerner Oil & Gas Australia Pty	146	-	-	-
Kvaerner Resources Ltd	1 163	-	-	-
Kvaerner Finland OY	113	-	-	-
Kvaerner North American Construction Inc	-	(425 372)	-	-
Kværner Stord AS	-	-	10 632	(54 461)
Kværner Verdal AS	-	-	-	(2 650)
Cash pool	-	(1 036 258)	-	-
Kværner Concrete Solutions AS	-	-	28 517	-
Total receivables/(liabilities)	1 422	(1 624 439)	39 149	(104 432)
Other current liabilities - specified	Revenue - Parent company guarantee	Parent company cost	Group contribution	Customer invoices
Kværner AS	-	(47 844)	-	523
Kværner Stord AS	(54 461)	-	-	-
Kværner Verdal AS	(2 650)	-	-	-
Total other current liabilities	(57 111)	(47 844)	-	523

2013

Group companies	Loan to group companies - deposits and accrued interest	Interest bearing current borrowings from group companies	Non-interest bearing receivables	Other current liabilities
Kværner AS	4 151 942	(94 771)	(908)	(208 920)
Kværner Oil & Gas Australia Pty	52 665	-	-	-
Kværner Contracting Ltd	36 007	-	-	(1)
Kværner Resources Ltd	3 024	-	-	-
Kværner Newfoundland Ltd	16 336	-	-	-
Kværner Finland OY	14 359	-	-	-
Kværner North American Construction Inc	-	(440 569)	-	-
Kværner Stord AS	-	-	5 838	(67 642)
Kværner Verdal AS	-	-	(913)	(3 821)
Cash pool	-	(592 863)	-	-
Kværner Americas Inc	-	-	-	(45)
Total receivables/(liabilities)	4 274 333	(1 128 203)	4 017	(280 429)
Other current liabilities - specified	Revenue - Parent company guarantee	Parent company cost	Group contribution	Vendor/ Hedge liabilities
Kværner AS	-	(47 506)	(161 579)	165
Kværner Stord AS	(67 642)	-	-	-
Kværner Verdal AS	(3 821)	-	-	-
Kværner Contracting Ltd	(1)	-	-	-
Kværner Americas Inc	(45)	-	-	-
Total other current liabilities	(71 509)	(47 506)	(161 579)	165

Note 8 Other current receivables and current liabilities

Amounts in NOK thousands	2014	2013
Other current external receivables	1 810	5 834
Other current external liabilities	(48 414)	(18 311)
Net other current receivables and liabilities	(46 604)	(12 477)

Net other current receivables and other current liabilities include unrealised forward exchange contracts with external counterparts, see also [Note 11](#) Financial risk management and exposures.

Note 9 Interest-bearing liabilities

This note provides information about the contractual terms of Kværner ASA's interest-bearing loans and borrowings which are measured at amortised cost. For more information about Kværner ASA's exposure to interest rates, foreign currency and liquidity risk, see [Note 11](#) Financial risk management and exposures.

Bank debt

The term loan and revolving credit facilities agreement of NOK 3 000 million is split in two tranches; a term loan of NOK 500 million and a revolving credit facility of NOK 2 500 million, both maturing in May 2016. The facilities are provided by a syndicate of high quality international banks. The term loan was fully drawn at year-end 2014 whilst the revolving credit facility was undrawn per same. The terms and conditions include restrictions which are customary for these kind of facilities, including inter alia negative pledge provisions and restrictions related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreement. There are no restrictions for dividend payments. The facilities are unsecured.

The financial covenants are based on three sets of key financial ratios; an equity ratio based on consolidated total borrowings/consolidated total equity, a cash covenant calculated by consolidated total borrowings less consolidated net current operating assets and consolidated cash and cash equivalent assets and an interest coverage ratio based on consolidated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2014 the company is in compliance with all covenants. The margin applicable to the facility is based on a price grid determined by the gearing ratio.

The book value of the term loan is NOK 487 million as of 31 December 2014. For further details we refer to [Note 5](#) and [Note 23](#) in the Annual accounts for the group.

Note 10 Guarantees

Amounts in NOK million	2014	2013
Parent company guarantees to group companies ¹⁾	50 707	48 577
Counter guarantees for bank/surety bonds ²⁾	1 566	2 461
Total	52 273	51 038

1) Kværner ASA has provided indemnities to Aker Solutions of NOK 26 billion (included in the amount above) in respect of parent company guarantees issued by Aker Solutions on behalf of Kvaerner group companies.

2) Financial guarantees including counter guarantees for bank/surety bonds.

The guarantees/surety bonds are issued under contractual obligations with third party, hence these are not included in Kværner ASA accounts as liabilities.

Note 11 Financial risk management and exposures

Foreign exchange

Kværner ASA entered into currency contracts with subsidiaries in 2014 with a total gross notional value of NOK 395 million. Hundred percent of contracts are hedged back-to-back with external banks.

Currency exposure from equity investments in foreign currencies is only hedged when specifically instructed by management. As of 31 December 2014, the company has secured its currency exposures on anticipated dividends.

Currency risk and balance sheet hedging

Amounts in NOK thousands	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Fair value of forward exchange contracts with group companies	40 959	(1 810)	9 646	(5 629)
Fair value of forward exchange contracts with external counterparts	1 810	(40 959)	5 834	(11 556)
Total	42 769	(42 769)	15 480	(17 185)

Interest rate risk

The company is exposed to changes in interest rates because of floating interest rate on loan receivables and loan payables. The company does not hedge transactions exposure in financial markets, and does not have any fixed interest rate loan receivables nor loan payables. The company is therefore not exposed to fair value risk on its outstanding loan receivables or loan payables. Interest bearing loan receivables and loan payables expose the company to income statement and cash flow interest rate risk.

Credit risk

Credit risk relates to loans to subsidiaries and associated companies, hedging contracts, guarantees to subsidiaries and deposits with external banks. Loans to subsidiaries are assessed by the internal credit committee. Loss provisions are made in situations of negative equity and where the company is not expected to be able to fulfil its loan obligations from future earnings. External deposits and forward contracts are done according to a list of approved banks and primarily with banks where the company also have a borrowing relation.

Liquidity risk

Liquidity risk relates to the risk that the company will not be able to meet its debt and guarantee obligations and is managed through maintaining sufficient cash and available credit facilities. Development in the group's and thereby Kværner ASA's available liquidity, is continuously monitored through weekly and monthly cash forecasts, annual budgets and long term planning.

Note 12 Shareholders

Shareholders with more than one percent shareholding as of 31 December 2014

Company	Nominee	Number of shares held	Ownership percent
AKER KVÆRNER HOLDING AS		110 333 615	41.02
J.P. MORGAN CHASE BANK	X	17 643 184	6.55
SKANDINAVISKA ENSKILDA	X	12 126 434	4.50
MORGAN STANLEY & CO	X	11 049 611	4.10
J.P. MORGAN CHASE BANK	X	8 127 210	3.02
FONDSFINANS SPAR		3 925 000	1.45
VERDIPAPIRFONDET DNB		3 390 627	1.26
GOLDMAN SACHS & CO	X	3 338 925	1.24
VERDIPAPIRFONDET DNB		3 150 000	1.17
VPF NORDEA NORGE		3 069 087	1.14

Source: Norwegian Central Securities Depository (VPS).

Declaration by the Board of Directors and President & CEO

The Board of Directors and the President & CEO of Kvaerner ASA have today considered and approved the annual report and financial statements for the 2014 calendar year ended on 31 December 2014 for the Kvaerner group and its parent company Kvaerner ASA.

The Board has based this declaration on reports and statements from the President & CEO of Kvaerner ASA, on the results of the group's activities, and on other information that is essential to assess the group's position.

We confirm to the best of our knowledge that:

- > The 2014 financial statements for the group and parent company have been prepared in accordance with all applicable accounting standards
- > The information provided in the financial statements gives a true and fair view of the group's assets, liabilities, profit and overall financial position as of 31 December 2014
- > The annual report provides a true and fair overview of:
 - the development, profit and financial position of the group and parent company
 - the most significant risks and uncertainties facing the group and the parent company

Vækerø, 16 March 2015

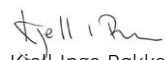
Board of Directors and President & CEO of Kvaerner ASA


Leif-Arne Langbøy
Chairman


Birgit Nørgaard
Director


Tore Torvund
Deputy Chairman


Rune Rafdal
Director


Kjell Inge Røkke
Director


Ståle K. Johansen
Director


Vibeke Hammer Madsen
Director


Bernt Harald Kilnes
Director


Trine S. Romuld
Director


Jan Arve Håugan
President & CEO



KPMG AS
P.O. Box 7000 Majorstuen
Sørkedaleveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual Shareholders meeting of Kværner ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Kværner ASA, which comprise the financial statements of the parent company Kværner ASA and the consolidated financial statements of Kværner ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2014, the income statement and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2014, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the President and CEO's Responsibility for the Financial Statements

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway, and for the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the President and CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Offices in:
Oslo
Ålesund
Arendal
Bergen
Bosnia
Eivernum
Finnsnes
Grimstad
KPMG AS is a Norwegian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Statsautoriserte revisorer - medlemmer av Den norske Revisjonsforening

Ottlo	Hamar	Sandnessjøen
Ålesund	Haugesund	Stavanger
Bergen	Kristiansund	Stord
Bosnia	Larvik	Trondheim
Eivernum	Molde	Tromsø
Finnsnes	Narvik	Tvedestrand
Grimstad	Reis	Åsund

TM



Independent auditor's report
Kværner ASA

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Kværner ASA as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Kværner ASA and its subsidiaries as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and Report and the Statements on Corporate Governance and Corporate Social Responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and Reports on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures, we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 16 March 2015
KPMG AS


Tom Myhre
State Authorised Public Accountant (Norway)

Board of Directors



Leif-Arne Langøy
Chairman

Leif-Arne Langøy (born 1956) is chairman of the board for Det Norske Veritas and Sparebanken Møre. Mr Langøy has gained senior executive experience from several companies, including as President & CEO of Aker Yards and Aker ASA. Mr Langøy has extensive experience as the chairman of non-executive boards from a number of different industrial companies. Mr Langøy holds M.Sc. in economics from the Norwegian School of Economics in Bergen, Norway. He holds 44 827 shares in Kværner ASA through a privately owned company, and has no stock options. Mr Langøy is a Norwegian citizen. He has been elected for the period 2014-2016.



Tore Torvund
Deputy Chairman

Tore Torvund (born 1952) is the President & CEO of REC Silicon ASA. Mr Torvund has senior executive experience from more than twenty years in the oil and gas industry, including as executive vice president of Exploration & Production Norway at the oil company StatoilHydro, and executive vice president of Oil and Energy at Norsk Hydro. He has held several management positions related to drilling operations, field development and technology projects. Mr Torvund holds a M.Sc. in petroleum engineering from the Norwegian University of Science and Technology. He holds no shares in Kværner ASA, and has no stock options. Mr Torvund is a Norwegian citizen. He has been elected for the period 2014-2016.



Kjell Inge Røkke
Director

Kjell Inge Røkke (born 1958) is an entrepreneur and industrialist, and has been a driving force in the development of Aker since the 1990's. Mr Røkke owns 67.8 percent of Aker ASA through The Resource Group TRG AS and subsidiaries which he co-owns with his wife. He is chairman of Aker ASA, board member of Aker Solutions ASA, Akastor ASA, Det norske oljeselskap ASA and Ocean Yield ASA. He holds no shares in Kværner ASA, and has no stock options. Mr Røkke is a Norwegian citizen. He has been elected for the period 2014-2016.



Vibeke Hammer Madsen
Director

Vibeke Hammer Madsen (born 1955) has been the CEO of Virke (The Enterprise Federation of Norway) since 2002. Prior to this, she was a partner in the PA Consulting Group working for international companies. From 1993 to 1999 she was vice president holding various positions in Statoil. Ms Madsen is currently a director of Verdens Gang, and has previously held a number of board positions, including as board member of the Research Council of Norway, chair of the Board of Innovation, chair of the Board of Junior Achievement Young Enterprise, as well as a board member of Aker Floating Production (2006-2010) and of Aker Solutions ASA (2008-2011). Ms Madsen is a graduate of the Norwegian School of Radiography. She holds no shares in Kværner ASA, and has no stock options. Ms Madsen is a Norwegian citizen. She has been elected for the period 2014-2016.



Trine S. Romuld
Director

Trine Sæther Romuld (born 1968) is executive finance director Europe in MRC Global. From 2010 she was executive vice president & CFO of Stream (acquired by MRC Global 2013). From 2008-2009 she was executive vice president in Akas ASA. Ms Romuld has held positions as CFO in Aker Drilling ASA and Marine Harvest ASA and as finance manager in Transocean AS. Ms Romuld is the deputy chair of the board of directors of Havfisk ASA as well as chair of the audit committee. She has experience from the board of directors of several listed companies, including DNB ASA and Bakkafrøst, both as a director and as member of the audit committee. Ms Romuld is a state-authorized auditor from the Norwegian School of Economics in Bergen, Norway. She holds no shares in Kværner ASA, and has no stock options. Ms Romuld is a Norwegian citizen. She has been elected for the period 2014-2016.



Birgit Nørgaard
Director

Birgit Nørgaard (born 1958) is a professional board member with extensive experience in consulting and management. Mrs Nørgaard was CEO of Grontmij | Carl Bro AS, as well as COO of Grontmij N.V. from 2006 to 2010. From 2003 to 2006 she was CEO of the Carl Bro Group AS. Ms Nørgaard has executive experience from several companies, including McKinsey, Danisco and TDC Mobile International. Ms Nørgaard has held several board positions since 1994, and from 2010 she has been a full time director for various public and private entities, including companies in the engineering business. She is currently a director of among other WSP Inc, IMI Plc, Lindab International AB and DSV A/S. Ms Nørgaard is the deputy chair of the board of NNE Pharmaplan A/S. She holds a M.Sc. from the Copenhagen Business School and an MBA from INSEAD in France. She holds no shares in Kvaerner ASA, and has no stock options. Ms Nørgaard is a Danish citizen. She has been elected for the period 2014-2016.



Rune Rafdal
Director

Rune Rafdal (born 1963) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Rafdal has been employed by Kvaerner since 1980 and has been a local union representative for Aker Stord AS and Kvaerner Stord AS on a full-time basis since 1996, a group union leader since 2005 and served several periods on the boards of Aker Stord AS and Aker Kvaerner Stord AS during the period between 2000 and 2011. Mr Rafdal is a sheet metal worker and holds a certificate of apprenticeship in the sheet metal discipline. He holds 6 329 shares in Kvaerner ASA, and has no stock options. Mr Rafdal is a Norwegian citizen. He has been elected for the period 2013-2015.



Ståle Knoff Johansen
Director

Ståle K. Johansen (born 1968) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Johansen has been employed by Kvaerner since 1986 and has been a local union representative for Aker Verdal AS and Kvaerner Verdal AS on a full-time basis since 2010 and served on the boards of Aker Verdal AS and Kvaerner Verdal AS. Mr Johansen is a welder and sheet metal worker and holds a certificate of apprenticeship in the welding discipline. He holds 4 732 shares in Kvaerner ASA, and has no stock options. Mr Johansen is a Norwegian citizen. He has been elected for the period 2013-2015.



Bernt Harald Kilnes
Director

Bernt Harald Kilnes (born 1949) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Kilnes has been employed by Kvaerner since 1989 and is a group union representative for white-collar employees on a half-time basis and has served on the boards of Kvaerner ASA, Aker Kvaerner ASA and Aker Verdal AS. Mr Kilnes holds degrees within telecommunication as well as economics and business administration. He holds 11 868 shares in Kvaerner ASA, and has no stock options. Mr Kilnes is a Norwegian citizen. He has been elected for the period 2013-2015.

Company information

Kværner ASA
Drammensveien 264
0283 Oslo

Postal address:
P.O.Box 74
NO-1325 Lysaker

Telephone: +47 21 08 90 00
Telefax: +47 21 08 99 99

e-mail: ir@kvaerner.com
Web: www.kvaerner.com

COPYRIGHT AND LEGAL NOTICE Copyright in all published material including photographs, drawings and images in this publication remains vested in Kvaerner and third party contributors to this publication as appropriate. Accordingly, neither the whole nor any part of this publication can be reproduced in any form without express prior permission. Articles and opinions appearing in this publication do not necessarily represent the views of Kvaerner. While all steps have been taken to ensure the accuracy of the published contents, Kvaerner does not accept any responsibility for any errors or resulting loss or damage whatsoever caused and readers have the responsibility to thoroughly check these aspects for themselves. Enquiries about reproduction of content from this publication should be directed to Kværner ASA.

KVÆRNER[™]

www.kvaerner.com
© 2015 Kvaerner
All rights reserved

Layout design: Haugvar AS Programming iPDF: Teigens Design Production: Bolt Communication AS Photos: Studio Vest AS; Bård Gudim