AKER KVAERNER - TRANSITION TO IFRS

GENERAL INFORMATION

In 2001 the EU Commission resolved that all listed companies within the European Union must apply International Financial Reporting Standards (IFRS) in their consolidated accounts by 1st of January 2005. Under the European Economic Area (EEA) agreement, this change will also apply to Norwegian companies listed at Oslo Stock Exchange.

Aker Kvaerner has converted from Norwegian Accounting Standards (NGAAP) to International Financial Reporting Standards (IFRS) with reporting effect from Q1 2005. Aker Kvaerner has prepared the opening balance sheet at the date of transition to IFRS, which is 1 April 2004 since Aker Kvaerner was established on this date. In addition, pro forma opening balance sheet as of 1 January 2004 has been prepared.

The intention of this transition report is to give the reader a guide to how the transition from NGAAP to IFRS has impacted Aker Kvaerner's consolidated financial statements. The report including IFRS reconciliations and disclosures is unaudited.

Section 1 in this report provides a description of differences in accounting policies between NGAAP and IFRS relevant for Aker Kvaerner.

Section 2 provides the reconciliation tables as required by IFRS 1, including financial statements in compliance with IFRS and note disclosures describing each material difference. Tables included are Income Statement, Balance Sheet and Statement of Changes in Equity. No changes have been identified in the Cash Flow Statement.

Section 3 includes Aker Kvaerner accounting principles expected to be applied in the financial statements in 2005.

This document is prepared on the basis of current rules and Aker Kvaerner's current understanding of IFRS applicable from 1 January 2005. There is still inherent uncertainty to how these standards should be interpreted and implemented and the numbers may be subject to change if either the IFRS rules are changed or the interpretations of the standards changes before year-end 2005.

SECTION 1

IMPACT ON AKER KVAERNER ACCOUNTING PRINCIPLES FROM TRANSITION TO IFRS

The establishment of Aker Kvaerner took effect for accounting purposes on 1 April 2004 as Kværner ASA formed a new subsidiary, Aker Kværner ASA and transferred all of its oil and gas and engineering and construction businesses to the new subsidiary. All transfers were recorded at the unchanged book amounts.

This section of the report must be read in conjunction with Aker Kvaerner IFRS accounting principles presented in section 3 of the report.

Basis for transition to IFRS
IFRS 1, First-time adoption of International Financial Reporting Standards has been adopted in preparing Aker Kvaerner opening balance sheet at 1 April 2004 and on a pro forma basis at 1 January 2004. The opening balance is the starting point for all subsequent reporting under IFRS. The quantitative adjustments as a result of applying IFRS for the first time are presented in section 2 of this document.

The key principle of IFRS is full retrospective application of all IFRS in force at the reporting date, normally 31 December 2005. For companies required to publish interim reports, the first IFRS report will be the first quarter interim report 2005. IFRS contains both mandatory and voluntary exemptions from full retrospective application.

Aker Kvaerner has applied the following voluntary exemptions in IFRS 1:

- all cumulative unrecognized actuarial gains or losses on defined benefit plans are recognised in the opening balance sheet at the date of transition
- all cumulative translation differences of foreign subsidiaries have been set to zero at the date of transition.
- both IAS 32 and IAS 39 will be adopted from 1 January 2005 with no effect for comparative figures (comparative figures regarding financial instruments are presented based on NGAAP principles)

Basis for preparation
Under IFRS, Aker Kvaerner financial statement will be prepared on a historical cost basis, with the following exemption related to IAS 32 and IAS 39 (implemented as of 1 January 2005):

- all financial assets and liabilities that are classified as available for sale are carried at fair value
- carrying values of recognized assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged

Other exemptions will be presented where applicable.

The condensed consolidated interim financial statements have been prepared on the basis of IFRSs in issue that are effective or available for early adoption at the Group's first IFRS annual reporting date, 31 December 2005. Based on these IFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first IFRS annual financial statements are prepared for the year-ended 31 December 2005.

The IFRSs that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 31 December 2005 are still subject to change and to the issue of additional interpretation(s) and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at 31 December 2005.

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under NGAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from NGAAP is described below.

Presentation

Under IFRS, the financial statements will include the following components:

- income statement
- balance sheet
- statement of changes in equity
- cash flow statement
- notes to the financial statements, including accounting principles

Under IFRS, a reconciliation of changes in equity has to be shown as a separate statement and not as a note to the financial statements.

Under IFRS, comparative information is required for the preceding period only. During 2005, Aker Kvaerner will only present one year of comparative information as required. In the annual report for 2005, the proforma 2003 income statement according to NGAAP will be included according to guidelines from the Oslo Stock Exchange

Pension Schemes and Obligations

Under IFRS pension obligations at January 1, 2004 are measured at their present value less fair value of plan assets. The difference between the net present value and the recorded amount under NGAAP at December 31, 2003 is recorded as an adjustment to equity. The actuarial assumptions applied in calculating pension obligations under IFRS as per January 1, 2004 deviate from the assumptions applied under NGAAP as per December 31, 2003. The discount rate is reduced mainly as an effect of the NGAAP discount rate being determined by reference to long-term market yields on high quality corporate bonds while the IFRS discount rate according to the Norwegian interpretation is determined by reference to long term market yields on government bonds as at closing date. In addition, the cumulative actuarial gains and losses existing on the

transition date to IFRS have been is recorded as an adjustment to equity in accordance with the IFRS transitional rules.

Net pension expense for 2004 under IFRS increases in comparison with the cost under NGAAP due to increase in pension obligations and reduction in the expected rate of return on plan assets.

Deferred tax

Deferred tax assets and liabilities will be affected by the transition to IFRS due to changes in other balance sheet values as described in this report.

Goodwill

Amortization of goodwill is not permitted under IFRS. Instead, goodwill is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Goodwill in Aker Kvaerner was subject to an impairment review at the transition date and at 31 December 2004.

Reporting currency

Under IFRS, an enterprise may present its financial statements in a currency other than its functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to an enterprise. Aker Kvaerner reporting currency will still be NOK.

Impact of implementing IAS 32 and 39 from 1.1.2005

Interest bearing loans and borrowings

Under IFRS, all loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized on the income statement over the period to redemption date. Under NGAAP the debt issuance cost were expensed to the income statement on a linear basis over the borrowing period. The change to effective interest method will have material impact on Aker Kvaerner financial statements under IFRS as the subordinated loan have been discounted to net present value at the date of refinancing in 2002 using 8% interest rate.

Financial derivatives

Under IFRS, all derivatives would have to be recognized at fair value in the balance sheet. Aker Kvaerner uses mainly currency forwards and to a lesser extent interest rate swaps. The effect on income statement will depend on whether these instruments qualify for hedge accounting or not. Aker Kvaerner structures its hedges in order for them to qualify under the strict requirements of IAS 39 to continue hedge accounting with an effect on reported income in line with NGAAP. The effects on equity will be limited since we believe most of the hedges qualify as fair value hedges, as opposed to cash flow hedges.

SECTION 2
RECONCILIATION TABLES (UNAUDITED)

1. Opening balance 01.01.2005

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

BALANCE SHEET

	NGAAP	IFRS	IFRS	NOTE
	01.01	Adj	01.01	
Amounts in NOK millions	2005		2005	
Deferred tax asset	361	188	549	1
Goodwill, patents etc	4 200	307	4 507	2
Tangible fixed assets	1 403	0	1 403	
Other long-term operating assets	87	0	87	
Long-term investments	95	0	95	
Interest-bearing long-term receivables	103	0	103	
Current operating assets	9 828	-278	9 550	5
Cash and bank deposits	3 703	0	3 703	
Total assets	19 780	217	19 997	
Equity	1 887	905	2 792	1, 2, 3, 4, 5
Minority interests	48	0	48	
Deferred tax	131	0	131	
Subordinated debt	3 826	-1 100	2 726	3
Other long-term liabilities	474	678	1 152	1
Interest-bearing long-term debt	2 435	0	2 435	
Taxes payable	66	0	66	
Other current operating liabilities	10 912	-266	10 646	5
Interest-bearing current liabilities	1	0	1	
Total liabilities and equity	19 780	217	19 997	

2. Full year

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

Group summary:

Amounts in NOK millions	NGAAP 1.1-31.12 2004	IFRS Adj	IFRS 1.1-31.12 2004	NOTE
Operating revenues	35 553	0	35 553	
Operating expenses	-34 152	-39	-34 191	1
EBITDA	1 401	-39	1 362	
Depreciation	-308	0	-308	
Amortisation	-318	307	-11	2
Operating profit	775	268	1 043	
Financial items	-396	0	-396	
Profit/loss before tax	379	268	647	
Taxation	-139	10	-129	4
Net profit/loss	240	278	518	
Minority interests	9		9	
Majority share	231		509	
Earnings per share (NOK)	4,20		9,25	

BALANCE SHEET

Amounts in NOK millions	NGAAP 31.12 2004	IFRS Adj	IFRS 31.12 2004	NOTE
Deferred tax asset	361	188	549	1
Goodwill, patents etc	4 200	307	4 507	2
Tangible fixed assets	1 403	0	1 403	
Other long-term operating assets	87	0	87	
Long-term investments	95	0	95	
Interest-bearing long-term receivables	103	0	103	
Current operating assets	9 828	0	9 828	
Cash and bank deposits	3 703	0	3 703	
Total assets	19 780	495	20 275	
Equity	1 887	-183	1 704	1, 2, 4
Minority interests	48	0	48	
Deferred tax	131	0	131	
Subordinated debt	3 826	0	3 826	
Other long-term liabilities	474	678	1 152	1
Interest-bearing long-term debt	2 435	0	2 435	
Taxes payable	66	0	66	
Other current operating liabilities	10 912	0	10 912	
Interest-bearing current liabilities	1	0	1	
Total liabilities and equity	19 780	495	20 275	

EQUITY RECONCILIATION

Amounts in NOK millions	NGAAP 1.1-31.12 2004	IFRS Adj	IFRS 1.1-31.12 2004	NOTE
Equity at the beginning of the period	1 971		1 971	
IFRS transition IB	0	-461	-461	1
Net profit/loss	231	278	509	1, 2, 4
Translation differences	-315	0	-315	
Equity at the end of the period	1 887	-183	1 704	

3. Fourth quarter 2004

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

Group summary:

Amounts in NOK millions	NGAAP Q4 2004	IFRS Adj	IFRS Q4 2004	NOTE
Operating revenues	10 060	0	10 060	
Operating expenses	-9 682	-9	-9 691	1
EBITDA	378	-9	369	
Depreciation	-83	0	-83	
Amortisation	-76	76	0	2
Operating profit	219	67	286	
Financial items	-125	0	-125	
Profit/loss before tax	94	67	161	
Taxation	-15	3	-12	4
Net profit/loss	79	70	149	
Minority interests	2		2	
Majority share	77		147	
Earnings per share (NOK)	1,40		2,67	

BALANCE SHEET

Amounts in NOK millions	NGAAP Q4 2004	IFRS Adj	IFRS Q4 2004	NOTE
Deferred tax asset	361	188	549	1
Goodwill, patents etc	4 200	307	4 507	2
Tangible fixed assets	1 403	0	1 403	
Other long-term operating assets	87	0	87	
Long-term investments	95	0	95	
Interest-bearing long-term receivables	103	0	103	
Current operating assets	9 828	0	9 828	
Cash and bank deposits	3 703	0	3 703	
Total assets	19 780	495	20 275	
Equity	1 887	-183	1 704	1, 2, 4
Minority interests	48	0	48	
Deferred tax	131	0	131	
Subordinated debt	3 826	0	3 826	
Other long-term liabilities	474	678	1 152	1
Interest-bearing long-term debt	2 435	0	2 435	
Taxes payable	66	0	66	
Other current operating liabilities	10 912	0	10 912	
Interest-bearing current liabilities	1	0	1	
Total liabilities and equity	19 780	495	20 275	

EQUITY RECONCILIATION

Amounts in NOK millions	NGAAP Q4 2004	IFRS Adj	IFRS Q4 2004	NOTE
Equity at the beginning of the period	2 043		2 043	
IFRS transition IB	0	-461	-461	1
IFRS transition earlier periods this year	0	208	208	1, 2
Net profit/loss	77	70	147	1, 2, 4
Translation differences	-233	0	-233	
Equity at the end of the period	1 887	-183	1 704	

4. Third quarter 2004

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

Group summary:

Amounts in NOK millions	NGAAP Q3 2004	IFRS Adj	IFRS Q3 2004	NOTE
Operating revenues	8 921		8 921	
Operating expenses	-8 557	-10	-8 567	1
EBITDA	364	-10	354	
Depreciation	-72		-72	
Amortisation	-75	75	0	2
Operating profit	217	65	282	
Financial items	-92	0	-92	
Profit/loss before tax	125	65	190	
Taxation	-78	3	-75	4
Net profit/loss	47	68	115	
Minority interests	6		6	
Majority share	41		109	
Earnings per share (NOK)	0,75		1,98	

BALANCE SHEET

Amounts in NOK millions	NGAAP Q3 2004	IFRS Adj	IFRS Q3 2004	NOTE
Deferred tax asset	258	185	443	1
Goodwill, patents etc	4 164	231	4 395	2
Tangible fixed assets	1 370	0	1 370	
Other long-term operating assets	46	0	46	
Long-term investments	92	0	92	
Interest-bearing long-term receivables	21	0	21	
Current operating assets	10 683	0	10 683	
Cash and bank deposits	2 899	0	2 899	
Total assets	19 533	416	19 949	
Equity	2 043	-253	1 790	1, 2, 4
Minority interests	67	0	67	
Deferred tax	53	0	53	
Subordinated debt	4 068	0	4 068	
Other long-term liabilities	428	669	1 097	1
Interest-bearing long-term debt	2 859	0	2 859	
Taxes payable	51	0	51	
Other current operating liabilities	9 953	0	9 953	
Interest-bearing current liabilities	11	0	11	
Total liabilities and equity	19 533	416	19 949	

EQUITY RECONCILIATION

Amounts in NOK millions	NGAAP Q3 2004	IFRS Adj	IFRS Q3 2004	NOTE
Equity at the beginning of the period	2 084		2 084	
IFRS transition IB	0	-461	-461	1
IFRS transition earlier periods this year	0	140	140	1, 2
Net profit/loss	41	68	109	1, 2, 4
Translation differences	-82	0	-82	
Equity at the end of the period	2 043	-253	1 790	

5. Second quarter 2004

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

Group summary:

Amounts in NOK millions	NGAAP Q2 2004	IFRS Adj	IFRS Q2 2004	NOTE
Operating revenues	8 857		8 857	
Operating expenses	-8 522	-10	-8 532	1
EBITDA	335	-10	325	
Depreciation	-79		-79	
Amortisation	-78	78	0	2
Operating profit	178	68	246	
Financial items	-109	0	-109	
Profit/loss before tax	69	68	137	
Taxation	-21	2	-19	4
Net profit/loss	48	70	118	
Minority interests	3		3	
Majority share	45		115	
Earnings per share (NOK)	0,82		2,09	

BALANCE SHEET

Amounts in NOK millions	NGAAP Q2 2004	IFRS Adj	IFRS Q2 2004	NOTE
Deferred tax asset	254	182	436	1
Goodwill, patents etc	4 269	156	4 425	2
Tangible fixed assets	1 346	0	1 346	
Other long-term operating assets	68	0	68	
Long-term investments	96	0	96	
Interest-bearing long-term receivables	38	0	38	
Current operating assets	10 809	0	10 809	
Cash and bank deposits	3 275	0	3 275	
Total assets	20 155	338	20 493	
Equity	2 084	-321	1 763	1, 2, 4
Minority interests	61	0	61	
Deferred tax	4	0	4	
Subordinated debt	4 093	0	4 093	
Other long-term liabilities	474	659	1 133	1
Interest-bearing long-term debt	3 089	0	3 089	
Taxes payable	56	0	56	
Other current operating liabilities	10 271	0	10 271	
Interest-bearing current liabilities	23	0	23	
Total liabilities and equity	20 155	338	20 493	

EQUITY RECONCILIATION

Amounts in NOK millions	NGAAP Q2 2004	IFRS Adj	IFRS Q2 2004	NOTE
Equity at the beginning of the period	2 084		2 084	
IFRS transition IB	0	-461	-461	1
IFRS transition earlier periods this year	0	70	70	1, 2
Net profit/loss	45	70	115	1, 2, 4
Translation differences	-45	0	-45	
Equity at the end of the period	2 084	-321	1 763	

6. First quarter 2004

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

Group summary:

Amounts in NOK millions	NGAAP Q1 2004	IFRS Adj	IFRS Q1 2004	NOTE
Operating revenues	7 715		7 715	
Operating expenses	-7 391	-10	-7 401	1
EBITDA	324	-10	314	
Depreciation	-74		-74	
Amortisation	-89	78	-11	2
Operating profit	161	68	229	
Financial items	-70	0	-70	
Profit/loss before tax	91	68	159	
Taxation	-25	2	-23	4
Net profit/loss	66	70	136	
Minority interests	-2		-2	
Majority share	68		138	
Earnings per share (NOK)	1,24		2,51	

BALANCE SHEET

Amounts in NOK millions	NGAAP Q1 2004	IFRS Adj	IFRS Q1 2004	NOTE
Deferred tax asset	236	180	416	1
Goodwill, patents etc	4 347	78	4 425	2
Tangible fixed assets	1 395	0	1 395	
Other long-term operating assets	82	0	82	
Long-term investments	113	0	113	
Interest-bearing long-term receivables	29	0	29	
Current operating assets	9 657	0	9 657	
Cash and bank deposits	3 700	0	3 700	
Total assets	19 559	258	19 817	
Equity	2 084	-391	1 693	1, 2, 4
Minority interests	59	0	59	
Deferred tax	7	0	7	
Subordinated debt	4 044	0	4 044	
Other long-term liabilities	445	649	1 094	1
Interest-bearing long-term debt	3 116	0	3 116	
Taxes payable	50	0	50	
Other current operating liabilities	9 625	0	9 625	
Interest-bearing current liabilities	129	0	129	
Total liabilities and equity	19 559	258	19 817	

EQUITY RECONCILIATION

Amounts in NOK millions	NGAAP Q1 2004	IFRS Adj	IFRS Q1 2004	NOTE
Equity at the beginning of the period	1 971		1 971	
IFRS transition IB	0	-461	-461	1
IFRS transition earlier periods this year	0	0	0	
Net profit/loss	68	70	138	1, 2, 4
Translation differences	45	0	45	
Equity at the end of the period	2 084	-391	1 693	

7. Pro forma transition balance 01.01.2004

AKER KVAERNER GROUP IN FIGURES

PROFIT AND LOSS ACCOUNT

BALANCE SHEET

Amounts in NOK millions	NGAAP 01.01 2004	IFRS Adj	IFRS 01.01 2004	NOTE
Deferred tax asset	241	178	419	4
Goodwill, patents etc	4 386	0	4 386	
Tangible fixed assets	1 422	0	1 422	
Other long-term operating assets	106	0	106	
Long-term investments	106	0	106	
Interest-bearing long-term receivables	30	0	30	
Current operating assets	8 924	0	8 924	
Cash and bank deposits	3 558	0	3 558	
Total assets	18 773	178	18 951	
Equity	1 971	-461	1 510	1, 2, 4
Minority interests	60	0	60	
Deferred tax	7	0	7	4
Subordinated debt	3 946	0	3 946	
Other long-term liabilities	454	639	1 093	1
Interest-bearing long-term debt	3 133	0	3 133	
Taxes payable	82	0	82	
Other current operating liabilities	9 114	0	9 114	
Interest-bearing current liabilities	6	0	6	
Total liabilities and equity	18 773	178	18 951	

NOTES TO SECTION 2 – IFRS ADJUSTMENTS

Note 1 Pension

All cumulative actuarial gains and losses on defined benefit plans existing on the transition date to IFRS have been recognized according to IFRS 1 (voluntary exemption) in the opening balance sheet at the date of transition. A total of NOK 224 million of unrecognised losses as per 1 January 2004 have been recognized as increase in pension liabilities. In addition, the discount rate is reduced from 6.5% used for the NGAAP computations to 5.5% under IFRS increasing the pension liability by an additional NOK 415 million. The corresponding increase in annual pension expenses has been calculated to be NOK 39 million.

Note 2 Goodwill

Amortisation of goodwill is no longer required under IFRS but the carrying amount of goodwill must be tested for impairment at least annually. Of the NOK 318 million of goodwill amortisation in the 2004 NGAAP accounts, NOK 11 million related to write down for impairment. The remaining NOK 307 million of amortisation for 2004 has been reversed under IFRS. Goodwill in the balance sheet is increased accordingly.

Note 3 Loans and borrowings measured at amortized cost

At the time of the refinancing of the Kvaerner Group in 2001/2002, some of the borrowings were converted into a loan with modified terms. Under NGAAP it was concluded to continue to carry the loan at nominal value in the books.

According to IAS 39 it is assumed that the value of the loan should have been reduced to fair value at the time of the transaction and that the subsequent increase back up to nominal value should be recorded as interest expense over the loan period to 2011.

This adjustment leads to a reduction in the book value of the loan by NOK 1 100 million in the opening balance for 2005. As IAS 39 is implemented from 2005 onwards there is no change to the 2004 result. If the change had been implemented earlier, the interest expense for 2004 would have increased by NOK 84 million. The valuations are based on a funding cost level of 8% per annum.

Note 4 Tax

Changes in income tax expense and deferred tax liabilities are due to changes described in note 1.

Note 5 Financial instruments

Financial instruments carried at market value and charged over profit and loss has been subject to a change in valuation method under IFRS. This leads to a loss as per 1 January 2005 of NOK 12 million.

The currency forwards used to secure revenue in foreign currencies are considered to be fair value hedges that qualify as hedging instruments. The contracts have been recognized in the balance sheet at fair value, decreasing current operating assets and current operating liabilities by NOK 278 million in the balance sheet as at January 1 2005.

Section 3
ACCOUNTING PRINCIPLES APPLIED BY AKER KVÆRNER UNDER IFRS

Explanatory commentaries of changes from N GAAP are shown in italics.

Although the main elements of IFRS have been approved, there are still certain areas and details that are yet to be clarified. Therefore there are likely to be continuous updates, adjustments and interpretations that may affect Aker Kvaerner's accounting practice in the future. The fact that the IFRS that apply on 31 December 2005 must also form the basis for actual figures for 2005 and comparative figures for 2004 poses a particular challenge. In the worst case, this could mean that figures already reported must be restated at a later date.

Statement of compliance

The consolidated financials statements of Aker Kvaerner have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies have been applied consistently throughout the Group.

Basis for preparation

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities and financial assets and financial liabilities held-for-trading that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Accounting for financial instruments in accordance with IAS 39 is one of the major changes from NGAAP. The major effects are the use of fair values and very strict criteria to qualify for hedge accounting.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accounting estimates are employed in the financial statements to determine reported amounts, including the realisability of certain assets, the useful lives of tangible and intangible assets, income taxes and others. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Upon transition to IFRS, the financial statements will be more balance sheet oriented, and the Norwegian matching model will no longer be used. IFRS-compliant financial statements must be prepared and presented in accordance with the principle of accrual accounting and the going concern assumption, and must satisfy the requirements of understandability, relevance and reliability, and all measurement must be based on a cost-benefit analysis. Assets and liabilities must be defined and items that do not satisfy these definitions cannot be recognised. The concept of fair value will be used more extensively, and the question of whether changes in value are to

be presented in the income statement or only directly in the balance sheet will largely be determined by choices that must be made by the financial statement preparer.

Consolidation principles

Consolidated companies
The consolidated accounts comprise the company and all the subsidiaries in which the parent company directly or indirectly has the ability to control the decision making process. The results of companies acquired/ sold during the year are included from/ to the date of acquisition/ sale.

Elimination of intra-group transactions
All material transactions, profits and balances between companies in the group are eliminated.

Elimination of shares in subsidiaries
Shares in group companies are eliminated in the consolidated accounts using the purchase method. The difference between the purchase price of the shares and the book value of the net assets acquired as at the acquisition date is analysed. Any excess of the cost of the acquisition over fair value of net identifiable assets is recognised as goodwill.

Goodwill is amortised in the income statement in accordance with the underlying assumptions in the purchase consideration but with no less than 5 percent annually.

Under IFRS, the allocation of value in the excess value analysis will have to be more thorough and the identification of acquired intangible assets in particular at fair value will be clearer. Goodwill will still be a residual value, but will be relatively lower than before as more of the purchase price will be allocated directly to other intangible assets.

Translation of foreign subsidiary accounts
Items included in the financial statements of each subsidiary in the Group are initially recorded in the functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary. The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the functional currency of the parent company.

Profit and loss accounts of non-Norwegian subsidiaries are translated to Norwegian kroner (NOK) using the average exchange rates for the year. The balance sheets of non-Norwegian subsidiaries are translated to NOK at the year-end exchange rates. Differences arising from varying rates of exchange compared to exchange rates at the year-end are taken to reserves. The same applies to the effect of exchange rate fluctuations on loans in the subsidiaries' reporting currencies which were raised to hedge the balance sheet value of the group's investment in the subsidiaries.

The translation process under IFRS will essentially remain the same.

Associated companies
Associated companies are undertakings in which the group holds between 20 and 50 per cent of the voting shares and is in a position to exercise considerable influence. Associated companies

are incorporated in the financial statements using the equity method of accounting. The group's investments in associates include goodwill identified on acquisition. The group's share of the results is based on the acquired company's profit after tax less amortisation of acquisition costs in excess of the book value of equity. Profits in associated companies are included within the financial income caption in the consolidated accounts and included in the balance sheet under long-term investments.

Joint ventures
Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's proportionate share of entities assets, liabilities, revenue and expenses.

Valuation and classification principles

Current assets and liabilities
Items in the operating cycle and items falling due within one year are classified as current assets and liabilities.

Under IFRS, the specifications of the structure and content of financial statements are more flexible and the criteria are less stringent. The terms "short-term and fixed assets" will be replaced by "current and non-current assets", and the distinguishing criterion of one year to maturity will continue to apply under IFRS.

Shares
Investments in shares are valued at the lower of the acquisition cost and the market value.

Contracts
Engineering and construction contract revenues are recognised using the percentage of completion method, based primarily on contract cost incurred to date compared to estimated contract costs. When the final outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. Losses on contracts are fully recognised when identified.

Contract revenues include variation orders and incentive bonuses are recognised when their realisation is probable and the amount can be measured reliably. Disputed amounts are recognised when their realisation is reasonably certain and can be measured reliably.
Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that cannot be attributed to contract activity are expensed.
Bidding costs are capitalised when it is probable that the company will be the preferred bidder. All other bidding costs are written-off as incurred.

Accumulated income is classified as operating income in the profit and loss account. Contracts in progress are classified as short-term receivables. Payments by customers are deducted from the value of contracts under the same contract or, to the extent they exceed this value, disclosed as advances from customers.

Inventories
Raw materials and components are valued at the lower of cost or net realisable value. Work in progress and finished goods are valued at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Trade receivables
Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance for impairment of these receivables. A valuation allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

According to the IFRS definition of a liability, it is not permitted to make standard provisions, based on past experience, for losses on receivables. An event must have occurred which causes a loss, as a result of which the receivables can no longer be recognised at their full value. The fact that receivables have fallen due will constitute such an event.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Provisions
A provision is recognised in the balance sheet when the group has a current legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Any probable losses for future work on construction contracts have been expensed and are classified as accrued costs / provisions in the balance sheet.

The criteria for making provisions for contingent liabilities are stricter under IFRS. There are certain rules in NGAAP that are not accepted under IFRS, such as the rule regarding the right to include the effect of anticipated sales in relation to the restructuring plan when calculating a provision. Moreover, it will not be possible under IFRS to make provisions for restructuring in connection with an acquisition, unless the restructuring had already begun in the acquired company.

Property, plant and equipment
Property, plant and equipment acquired by Group companies are stated at historical cost, except the assets of acquired subsidiaries that were stated at the fair values at the date of acquisition. Depreciation are calculated on a straight-line basis and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part over their useful lives.

Land is not depreciated, but otherwise other fixed assets in use are depreciated on a straight-line basis. Expected useful lives of long-lived assets are reviewed annually and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Major renovations are depreciated over the useful lives of the related assets.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Under IFRS, the accounting treatment of tangible assets will differ somewhat from NGAAP and factors such as the greater degree of decomposition of the business asset at the time of acquisition and greater emphasis on residual value may result in changes in annual depreciation.

Intangible assets

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of the acquisition. Goodwill on acquisitions of associates is included in investments in associates.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired, is allocated to each of the cash generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost, the difference is recognised immediately in the income statement.

Expenditure on acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives. Intangible assets are not re-valued.

Under IFRS, costs relating to internally generated intangible assets will also have to be expensed as incurred. However, the requirement for identification of costs relating to intangible assets taken over by the company through acquisitions is far more clearly defined under IFRS, and the "probability requirement" will always apply to such acquisitions. Few intangible assets are expected to be identified, but if they are recognised in the balance sheet, they will be depreciated over their useful economic life. Intangible assets with an "indefinite useful life" must undergo an annual impairment test to ensure that their value is intact. Internally generated or specially adapted computer programmes will still be recognised in the balance sheet as intangible assets.

The terms used under IFRS will be different and there are no "general valuation rules". The valuation of items is largely prescribed by individual standards. Write-downs in accordance with NGAAP are largely in line with IFRS. Regardless of indications of impairment, goodwill and intangible assets with an "indefinite lifetime" must be tested for impairment once a year.

Furthermore, goodwill will no longer be amortised, which means that over time the nature of goodwill will change from purchased to internally generated, if its value can be justified. Goodwill will also have to be tested annually for impairment or when an impairment indicator is identified. In accordance with the IFRS transitional provisions, historical goodwill (value at 31 December 2003) will remain in the balance sheet.

Financial investments
All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Other long-term investments that are intended to be held-to-maturity are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognised or impaired, as well as through the amortization process.

Impairment of long-lived assets
Property, plant and equipment and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash flows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount

is the higher of the asset's net selling price and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized in prior years.

Accounts receivable and payable in foreign currency
Assets and liabilities in foreign currency are valued at year-end exchange rates. Customer contracts and subcontractor contracts denominated in foreign currency result in currency risks. Such risks are normally hedged by entering into forward contracts to sell/purchase corresponding currency amounts. The hedging instruments are not separately reflected in the accounts but affect the accounting of the hedged positions.

Leasing
Leasing contracts are classified as financial or operational. A finance lease is a leasing contract whereby the main risks and rewards attributable to the ownership of an asset are transferred to the lessee. A finance lease is accounted for as if the asset is acquired and depreciated over its useful life accordingly, while the lease obligation is accounted for as a long-term interest-bearing liability.

Research and development costs
Research expenditures and costs associated with the development of new products and production processes are recognised in the income statement as expenses as incurred.

The IFRS criteria for capitalising R&D costs are very strict and research can never be recognised in the balance sheet. If development expenses satisfy the criteria for capitalisation, they will have to be presented in the balance sheet.

Interest-bearing liabilities
All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loss and borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized on the income statement over the period of the interest bearing liabilities. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortization process.

Interest-bearing financial instruments are reported on an accrual basis in the same way as interest on interest-bearing liabilities and receivables. Unrealised gain/loss on fixed interest positions related to interest-bearing balance sheet items is not recognised.

Interest rate derivatives are recognised in the balance sheet at fair value and, under IFRS, changes in fair value in the period will be reported in the income statement unless hedge accounting is used. In the case of hedges of floating interest rate loans, changes in the interest

rate derivative's fair value are reported temporarily in equity. In the case of hedges of fixed interest rate loans, both changes in the fair value of the loan and changes in the fair value of the interest rate hedge are recognised.

Retirement benefit costs and provision for retirement benefits
Most group companies have retirement benefit plans that give the employees a right to receive future benefits upon termination of service (Defined Benefit Plans). The benefits are determined by a formula based on the number of years of service and the expected salary upon retirement. The retirement benefit cost is derived from assumptions including the discount rate, expected future salary increases and regulations of future benefits. The effect of changes in assumptions and valuations are taken into account when they exceed 10 % of the highest of the gross pension liability and the pension assets. The profit and loss effects of such changes are recognised over the expected remaining average working lives of employees.

Some subsidiaries also have Defined Contribution Plans. Contributions to these plans are expensed as incurred.

Under IFRS, pensions are accounted for in accordance with IAS 19, which differs from the Norwegian accounting standard on pension costs on the following points of significance:

- *The discount rate must be set close to the market-based rate in effect at the balance sheet date; this will result in more frequent changes in this assumption. In Norway in autumn 2004, it was recommended that the interest rate should reflect the interest rate on government bonds because there is no functioning market for corporate bonds in Norway like those found in larger countries.*
- *For the time being, a corridor approach for variance from estimates is permitted under the current IAS 19. However, in accordance with the transitional IFRS rule, unamortised variances as of 1 January 2004 will be charged against equity before new comparative figures are prepared for 2004.*
- *Any variance from plans must be expensed immediately in the case of changes corresponding to an immediate paid-up policy entitlement; in other cases the variance should be treated on an accrual basis until such entitlement has accumulated.*

Deferred tax
Deferred tax is calculated on timing differences affecting future taxable profit. Deferred tax on operations is calculated using the appropriate tax rate as of the balance sheet date. Tax assets are calculated based on tax- deductible temporary differences and tax losses carried forward, taking into account the probability of sufficient future taxable income becoming available within the various tax regimes in which the group operates.

The tax cost includes taxes payable and the change in deferred tax liabilities/ assets.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Under IFRS, deferred tax/tax advantages relating to acquisitions must be measured at nominal value. Discounting is no longer permitted. Previously discounted deferred tax must be restated at

nominal value when the IFRS are introduced. If an entity has a deferred tax advantage, consideration must be given to whether it can justifiably be capitalised. This requires either that there are known excess values that will generate taxable income when realised or that, based on past history or budgets, the enterprise can be expected to make a taxable profit.

Financial risk management
The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cashflow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk-management is carried out under policies approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investing excess liquidity.

Derivative financial instruments are initially and thereafter recognized on the balance sheet at fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates the derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of a forecasted transaction (cash flow hedge) or of a firm commitment (fair value hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective both prospectively and retrospectively are recorded on the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective both prospectively and retrospectively are recognized in equity.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately on the income statement.

Under IFRS, all derivatives must be presented at fair value in the balance sheet. As a general rule, changes in the fair value in the period must be recognised in the income statement as they occur. In the case of hedged cash items, the effect of currency fluctuation on the hedge will offset the gain/loss on the cash item reported in the income statement.

In cases where currency hedges satisfy the strict IFRS criteria for hedge accounting, any change in fair value in the period may be temporarily charged against equity when the hedge in question is a cash flow hedge or currency hedge of a net investment. As under NGAAP, hedge accounting will make it possible to recognise any gain or loss relating to the currency hedge in the income statement in the same period as the hedged item.

In the case of fair value hedges of currency risk relating to assets and liabilities, the value of which is measured in foreign currency but which are accounted for in local currency (e.g.

portfolio investments), changes in the exchange rate of the hedged item may be recognised in the income statement when the hedge qualifies for hedge accounting, so as to offset the effect of the hedge and the hedged item on profit or loss.

Related party transactions
All transactions, agreements and business activities with related parties are conducted according on arm's length according to ordinary business terms and conditions.

Segment reporting
A segment is a distinguishable part of the group that is engaged either in providing products or services (business segment), or in a providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Exceptional items
Exceptional items comprise

- material gains / losses on sale of businesses,
- material restructuring expenses related to discontinuing businesses which are identifiable, quantifiable and based on firm decisions, and which are not covered by related revenues, and
- other material special items which are either unusual or not expected to recur frequently or regularly.

Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.