

# KVÆRNER™

## Second quarter and half year results 2014

16 July 2014



Edvard Grieg



Martin Linge

## KVÆRNER ASA – SECOND QUARTER AND HALF YEAR RESULTS 2014

### HIGHLIGHTS

- Edvard Grieg and Martin Linge jackets successfully delivered
- Eldfisk topside for ConocoPhillips completed, hook-up job on-going
- Frame agreement and Letter of Intent with Statoil for two Sverdrup jackets with estimated value of NOK 3 billion
- Semi-annual dividend of NOK 0.61 per share paid 25 April

### SUBSEQUENT EVENTS

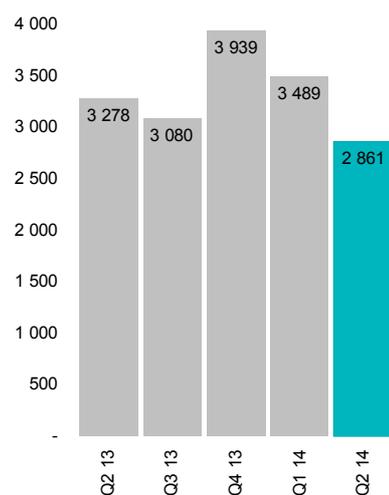
- Semi-annual dividend of NOK 0.64 per share approved by the Board of Directors

### FINANCIAL HIGHLIGHTS

#### Continuing operations

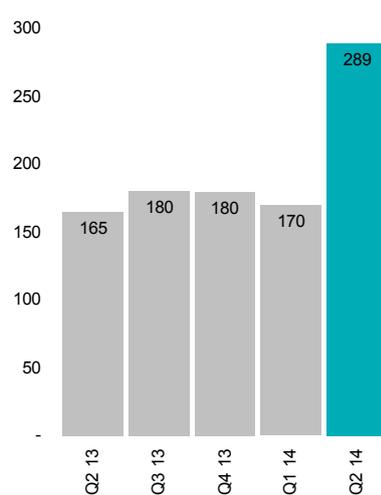
##### Operating revenue<sup>1</sup>

NOK million



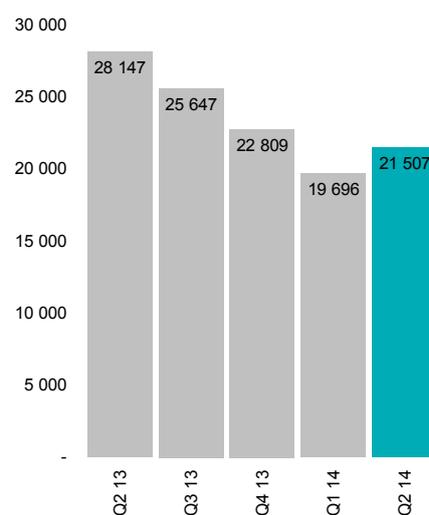
##### EBITDA

NOK million



##### Order backlog<sup>2</sup>

NOK million



<sup>1</sup> Excluding scope of work of jointly controlled entities closely related to Kvaerner's operating activities.

<sup>2</sup> Including scope of work of jointly controlled entities closely related to Kvaerner's operating activities.

## FINANCIAL KEY FIGURES

Amounts in NOK million	Q2 2014	Q2 2013 Restated	YTD 2014	YTD 2013 Restated	FY 2013
Total revenue and other income <sup>1</sup>	2 861	3 278	6 350	5 941	12 960
EBITDA <sup>2</sup>	289	165	459	276	636
EBITDA margin	10.1 %	5.0 %	7.2 %	4.6 %	4.9 %
EBIT	272	150	427	246	573
Net profit - continuing operations	123	80	218	126	239
Basic and diluted earnings per share - continuing operations	0.46	0.30	0.81	0.47	0.89
Order intake <sup>3</sup>	5 360	2 305	6 643	15 096	18 615
Order backlog <sup>3</sup>	21 507	28 147	21 507	28 147	22 809
Net current operating assets	(624)	(579)	(624)	(579)	(1 266)
Net interest bearing deposits and loans	493	723	493	723	1 069

<sup>1</sup> Excluding scope of work of jointly controlled entities closely related to Kvaerner's operating activities.

<sup>2</sup> EBITDA definition: Earnings before Interest (net financial items), Taxes, Depreciation and Amortisation.

<sup>3</sup> Including scope of work of jointly controlled entities closely related to Kvaerner's operating activities.

Please refer to note 8 and 9 for details related to discontinued operations and restatement impacts in the financial statements.

## FINANCIAL REVIEW

### Income statement

Operating revenues in second quarter 2014 amounted to NOK 2 861 million, compared with NOK 3 278 million for second quarter 2013. The decrease from last year is mainly due to lower activity within the jackets business. Kvaerner reported operating revenues of NOK 6 350 million for the first six months of 2014, compared with NOK 5 941 million for the same period in 2013.

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) for the quarter were NOK 289 million, compared with NOK 165 million in the same period last year. The EBITDA margin for second quarter 2014 was 10.1 percent, up from 5.0 percent in corresponding period in 2013. The increase in EBITDA is reflecting recognition of accumulated profit in project passing 20 percent progress and positive impact from final close out of a historic completed project, more than offsetting negative cost developments in other projects. EBITDA for the first six months of 2014 was NOK 459 million, compared with NOK 276 million for the same period in 2013.

Net financial expense for the quarter was NOK 16 million, including net interest expense of NOK 11 million, loss on foreign currency forward contracts of NOK 11 million and other financial income of NOK 5 million. Net financial expense for the same period in 2013 was NOK 7 million of which net interest expense amounted to NOK 12 million. Net financial expense for the first six months was NOK 36 million, compared to NOK 28 million in 2013.

Net result from associated companies and jointly controlled entities presented below EBITDA was negative NOK 58 million both for the quarter and for the first six months of 2014, compared to negative NOK 18 million and negative NOK 22 million in the respective periods in 2013. The second quarter and half year results were impacted by impairment charges related to investment in associated company.

Profit before tax for the second quarter 2014 was NOK 198 million compared to NOK 124 million for the same period last year. For the first six months of 2014, profit before tax was NOK 333 million compared to NOK 196 million for the same period in 2013.

Total income tax expense in the period was NOK 75 million compared to NOK 44 million for the same quarter previous year. First half year tax expense amounted to NOK 115 million, compared to NOK 70 million in 2013. The tax expense reflects an effective tax rate of 35 percent for first half year 2014 compared to 36 percent in first half year 2013. The relatively high rate in quarter and year to date compared to the Norwegian statutory tax rate of 27 percent is mainly due to impairment loss on investment not being tax deductible.

Profit from continuing operations was NOK 123 million and NOK 218 million for second quarter and first half year 2014 respectively, compared to NOK 80 million and NOK 126 million in equivalent periods in 2013. Basic and diluted earnings per share for continuing operations were NOK 0.46 for second quarter, compared to NOK 0.30 second quarter 2013 and NOK 0.81 for the first six months of 2014 compared to NOK 0.47 the first six months of 2013.

Discontinued operations reported a net loss of NOK 27 million for second quarter 2014, compared to a loss of NOK 5 million in same period last year. First half year loss from discontinued operations was NOK 59 million

compared to loss of NOK 14 million in 2013. There are no operations in the retained US business following the sale of the onshore construction business in fourth quarter 2013 and remaining activity and costs are related to legacies. Basic and diluted earnings per share for discontinued operations were negative NOK 0.10 for second quarter 2014, compared to negative NOK 0.02 for second quarter 2013, and negative NOK 0.22 for first half year 2014 compared to negative NOK 0.05 for first half year 2013.

Net profit total operations in second quarter 2014 was NOK 96 million compared to NOK 75 million in the corresponding quarter last year. Basic and diluted earnings per share for total operations for the second quarter 2014 were NOK 0.36 compared to NOK 0.28 in second quarter 2014. Net profit for the first six months of 2014 was NOK 159 million compared to NOK 112 million last year. Basic and diluted earnings per share for total operations for the first half year were NOK 0.59 and NOK 0.42 for 2014 for 2013 respectively.

### **Cash flow**

Net cash outflow from operating activities was NOK 212 million in second quarter 2014 compared to cash inflow of NOK 655 million in the same period last year. Customer pre-payments<sup>1</sup> were NOK 23 million at the end of second quarter compared to NOK 59 million at the end of the previous quarter. Net cash outflow from operating activities for first half year 2014, was NOK 274 million, compared to cash inflow of NOK 298 million in first half of 2013.

Net cash outflow from investing activities in second quarter 2014 was NOK 75 million compared to an outflow of NOK 40 million in the same quarter last year. Year to date cash outflow from investing activities amounted to NOK 118 million compared to NOK 61 million in 2013. Capital expenditure in the quarter and year to date amounted to NOK 64 million and NOK 105 million respectively, and is mainly related to the facility upgrades at the Stord yard.

Net cash outflow from financing activities was NOK 172 million in the quarter and NOK 181 million year to date compared with an outflow of NOK 176 million and NOK 181 million for the same periods in 2013. The outflows mainly relates to dividend payments of NOK 164 million in 2014 and NOK 148 million in 2013.

Net decrease in cash and bank deposits during the quarter amounted to NOK 457 million, resulting in cash and bank deposits at the end of the quarter at NOK 972 million. The group has undrawn, committed long-term credit facilities of NOK 2.5 billion. This provides access to capital totalling NOK 3.5 billion.

### **Balance sheet**

Total cash and bank was NOK 972 million at the end of second quarter, compared to NOK 1 430 million reported at the end of first quarter 2014. Net current operating assets (NCOA) were negative NOK 624 million at quarter end, compared to negative NOK 1 162 million at the end of previous quarter. Equity ratio at 30 June 2014 was 40 percent, up from 31.5 percent at 31 March 2014.

### **Order intake and backlog**

Order intake in second quarter totalled NOK 5 360 million, including scope of work of jointly controlled entities, compared to NOK 2 305 million in the same quarter last year. As of 30 June 2014, the order backlog, including scope of work of jointly controlled entities, amounted to NOK 21 507 million. Estimated scheduling for the order backlog is approximately 35 percent for execution in 2014, approximately 45 percent for execution in 2015 and remaining 20 percent for execution in 2016 and later.

### **Transactions in treasury shares**

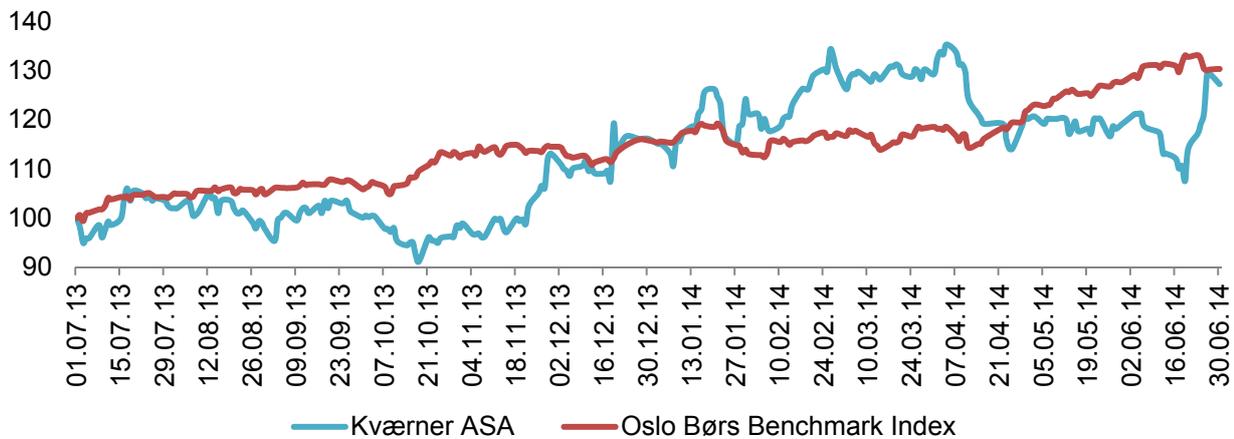
There were no transactions in treasury shares in first half year 2014 and Kværner ASA holds no treasury shares at the end of the quarter.

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<sup>1</sup> Invoicing in excess of cost and estimated earnings less amounts billed in advanced but not received (on a project by project basis).

## The Kvaerner share

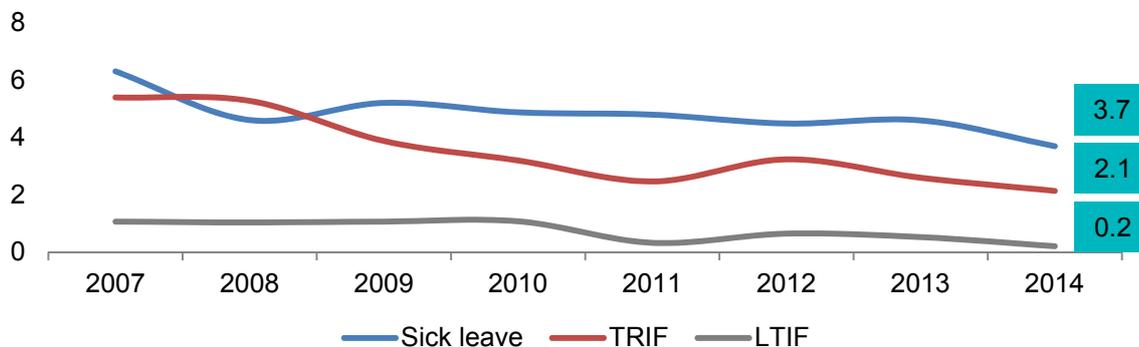
Indexed share price development last 12 months



The share price decreased from NOK 12.80 at the end of first quarter 2014 to NOK 12.60 at the end of second quarter 2014. The highest traded share price during second quarter was NOK 13.40 and the lowest traded share price was NOK 10.40. The average daily turnover during second quarter was 551 694 shares compared to 439 244 shares during first quarter 2014. The market capitalisation was NOK 3.39 billion at the end of second quarter 2014 compared to NOK 3.44 billion at the end of first quarter 2014.

## OPERATIONAL REVIEW

### Health, Safety, Security and Environment (HSSE)



#### Status

During second quarter 2014 Kvaerner had a total of nine recordable Incidents. In the same period there was one lost time incident and six serious or serious near miss incidents. More than 15 000 risk observations, including positive observations, were documented in the period.

#### Initiatives

Kvaerner is reviewing underlying reasons for its long term sick-leave and possible mitigating actions. Preparation for the third annual HSSE Summit is ongoing. This year's summit is called "Improvements together", and customers, partners, subcontractors and suppliers will be invited to share and discuss HSSE challenges, expectations, learnings and tools.

## 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 as from fourth quarter 2013. Consequently, Kvaerner only has one reportable segment; Upstream. The Upstream segment includes the business areas Contractors Norway, Jackets, Concrete Solutions and Contractors International.

Please refer to note 8 and 9 for details related to discontinued operations and restatement impacts in the financial statements.

### Upstream segment<sup>1</sup>

Amounts in NOK million	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
Total revenue and other income	3 812	3 914	7 965	7 325	16 091
EBITDA	312	183	499	314	708
EBITDA margin	8.2 %	4.7 %	6.3 %	4.3 %	4.4 %
Net current operating assets	(613)	(1 049)	(613)	(1 049)	(1 257)
Order intake	5 372	2 329	6 663	15 134	18 662
Order backlog	21 512	28 153	21 512	28 153	22 809
Employees	2 895	2 802	2 895	2 802	2 789

<sup>1</sup>The Upstream segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities.

Operating revenue from the Upstream segment totalled NOK 3 812 million in second quarter 2014, compared to NOK 3 914 million in second quarter 2013. The revenue decrease is mainly due to lower activity within the jackets business. EBITDA amounted to NOK 312 million, resulting in an EBITDA margin for the quarter of 8.2 percent, compared to NOK 183 million and 4.7 percent EBITDA margin in second quarter 2013.

EBITDA in the quarter is positively impacted by one major project passing 20 percent progress in the period with recognition of accumulated profit in addition to positive impact from final close out of a historic project. These impacts are more than offsetting negative cost developments in other projects. NCOA at the end of second quarter 2014 was negative NOK 613 million, an increase of NOK 465 million during the quarter. The disputed Nordsee Ost project will be tying up working capital until arbitration is resolved.

In June 2014, Statoil signed a Letter of Intent for Kvaerner to deliver two of the planned steel jackets to the Johan Svedrup development. Subject to all necessary approvals for the project to proceed, the early estimate of the total value of the two jacket deliveries is approximately NOK 3 billion. In addition to estimated value of the two jackets, order intake in the quarter includes increase in scope and growth in existing contracts as well as small orders, totalling NOK 5 372 million. Order backlog was NOK 21 512 million at the end of the quarter, including scope of work of jointly controlled entities.

### Operations

The Hebron gravity based structure (GBS) project is progressing in Newfoundland and Labrador, Canada, with engineering in St. John's and construction at the Bull Arm fabrication site. The dry dock has been flooded, and the GBS is scheduled to be towed out to the deep water site during July. Construction at the deep water site is scheduled to start in the summer of 2014.

In the Jacket business both the Martin Linge and Edvard Grieg projects were completed during second quarter. The fabrication of Nyhamna compressor modules started in June, and in addition a significant part of the workforce is currently employed on other Kvaerner projects. Statoil and Kvaerner established in June a frame agreement for delivery of steel jacket substructures to Statoil-operated fields.

The activity level in Contractors Norway is at its highest level during the summer months, and will remain high in the coming quarters towards the end of the year. For the Eldfisk topside, the onshore work is completed. Current focus is now on the offshore campaign including finalisation of hook-up of bridges and hook-up of main platform modules that were installed offshore in May 2014. Construction and assembly work is proceeding well on the Edvard Grieg topside, with high activity level. The Nyhamna onshore project is progressing according to plan. Fabrication is ongoing at Stord and during the summer, fabrication will start at all sites.

### Market

Kvaerner continue to see an active market with tenders moving forward in its target regions. However, the competition is expected to stay intense both from South-East Asia and Europe. FEEDs and studies for new development projects and concepts are under execution, both on the Norwegian Continental Shelf and internationally. These projects are expected to be tendered for from late 2014 and beyond. There are several opportunities for completion and hook-up projects. Within concrete substructures, Kvaerner is performing studies both in Russia and Canada. These are both areas where Kvaerner holds a unique position on a global level.

### Downstream & Industrials segment

In December 2013 Kvaerner sold its onshore construction business in North America to Matrix Service Company. Following the sale, Kvaerner retained the assets and liabilities related to the contract with Longview Power LLC, including any financial effects of the arbitration.

Please refer to note 9 for details related to discontinued operations and note 6 for more information on the Longview project.

### Unallocated costs

Unallocated costs, which are net corporate costs not directly attributable to the individual segments, amounted to NOK 22 million in second quarter, up from NOK 17 million in first quarter. It is expected that the recurring level of net corporate costs will be approximately NOK 70-80 million annually.

### OTHER

In June, Kvaerner and Statoil established a frame agreement for delivery of steel jacket substructures to Statoil-operated fields at the Norwegian continental shelf. The frame agreement includes studies, front end engineering design (FEED), detail engineering, procurement, fabrication and project management for deliveries of steel jackets. There are no limitations with respect to the number of jackets which may be ordered under the agreement lasting until 2020. Based on this frame agreement, Statoil awarded Kvaerner a Letter of Intent (LoI) for the Riser Platform jacket and the Drilling Platform jackets to the Johan Sverdrup development. Subject to all necessary approvals for the project to proceed, early estimates of the total value are approximately NOK 3 billion.

### SUBSEQUENT EVENTS

#### Engineering joint venture with China Offshore Oil Engineering Co. Ltd (COOEC)

Kvaerner and COOEC have established an engineering joint venture, Kvaerner COOEC Engineering & Technology Ltd (KCET), located in Qingdao, Shandong, China. KCET is established to carry out and further develop joint engineering capability as part of a delivery model for international EPC projects. More than 70 experienced engineering personnel from both COOEC and Kvaerner are currently working to execute basic engineering for KCET's first topside module project in China, Enping Phase II.

#### The Board of Directors approves distribution of dividend of NOK 0.64 per share

The Board of Directors has in line with the company's dividend policy and pursuant to the power of attorney to approve the distribution of dividend granted to the Board by the Annual General Meeting on 10 April 2014, resolved to approve a semi-annual dividend of NOK 0.64 per share. The dividend payment is expected to take place on 24 October 2014 to shareholders of record as per 13 October. The shares will be traded exclusive dividend from and including 14 October 2014.

### PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk is the ability to deliver existing contracts at the agreed time, quality, functionality and cost. Delivering projects and equipment in accordance with the contract terms and the anticipated cost framework represents a substantial risk element, and is the most significant factor affecting Kvaerner's financial performance. Results also depend on costs, both Kvaerner's own and those charged by suppliers, and on interest expenses, exchange rates and customers' ability to pay. For an overview of major current legal disputes, please see note 6 to the condensed consolidated interim accounts.

Kvaerner has established guidelines and systems to manage its exposure in the financial markets. These systems cover currency, interest rate, counterparty and liquidity risks. Kvaerner works systematically with risk management in all its business areas, and has extensive systems and procedures in place. Other relevant risk factors are further described in the annual report for 2013.

## **OUTLOOK**

Kvaerner's order backlog of NOK 21.5 billion provides for a good basic workload over the next few years. The company's first priority is to execute and safely deliver existing projects according to the customers' expectations. The market continues to present many opportunities within the company's target regions. In 2014 and 2015 Kvaerner expects to see several invitations to tender for new projects within all business areas. However, the competition is expected to stay intense.

Kvaerner has several improvement projects on-going throughout the value chain. The estimated positive impacts for on-going projects are taking longer than earlier anticipated. The company is however on track to achieve the target of 15 percent cost reductions for future EPC projects. The Jackets business has regained its competitiveness through comprehensive improvements implemented over the last two years. With the frame agreement and two Johan Sverdrup jackets, the long term strategic development of the jacket fabrication facility will be continued.

For 2014 Kvaerner expects revenues of NOK 15-16 billion, including revenue from jointly controlled entities. Growth in procurement volumes in the project portfolio over the last year will impact margins negatively. Based on the current project portfolio mix and expected project performance, gradual margin improvements are expected to be somewhat slower than earlier anticipated.

*Oslo, 15 July 2014*

*The Board of Directors and President & CEO*

*Kvæerner ASA*

## DECLARATION BY THE BOARD OF DIRECTORS AND PRESIDENT & CEO

The Board of Directors and the President of Kværner ASA have today considered and approved the condensed financial statements as at 30 June 2014 and for the six-month period ended 30 June 2014. The half year report has been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU and additional Norwegian regulations.

We confirm to the best of our knowledge that:

- the condensed financial statements for the six months ending 30 June 2014 have been prepared in accordance with applicable financial reporting standard
- the information provided in the financial statements gives a true and fair view of the group's assets, liabilities, financial position and result for the period
- the financial review includes a fair review of significant events during the first six months of the year and their impact on the financial statements, any major related party transactions, and a description of the principal risk and uncertainties for the remaining six months of the year

Oslo, 15 July 2014

The Board of Directors and the President & CEO of Kværner ASA



Leif-Arne Langøy  
Chairman



Tore Torvund  
Deputy Chairman



Trine S. Romuld  
Director



Vibeke Hammer Madsen  
Director



Kjell Inge Røkke  
Chairman



Birgit Nørgaard  
Director



Rune Rafdal  
Director



Ståle Knoff Johansen  
Director



Bernt Harald Kilnes  
Director



Jan Arve Håugan  
President & CEO

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**About Kvaerner:**

Kvaerner is a leading provider of engineering, procurement and construction (EPC) services, and delivers offshore installations and onshore plants for upstream oil and gas production around the world. Kvaerner ASA, through its subsidiaries and affiliates ("Kvaerner"), is an international contractor and preferred partner for oil and gas operators and other engineering and fabrication contractors. Kvaerner and its approximately 2 800 HSSE-focused and experienced employees are recognised for delivering some of the world's most amazing and demanding projects.

In 2013, the Kvaerner group had consolidated annual revenues of close to NOK 13 billion and the company reported an order backlog at 30 June 2014 of more than NOK 21.5 billion. Kvaerner is publicly listed with the ticker "KVAER" at the Oslo Stock Exchange. For further information, please visit [www.kvaerner.com](http://www.kvaerner.com).

## FINANCIAL STATEMENTS

### INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in NOK million	Q2 2014	Q2 2013 Restated	YTD 2014	YTD 2013 Restated	FY 2013
Total revenue and other income	2 861	3 278	6 350	5 941	12 960
Operating expenses	(2 571)	(3 113)	(5 890)	(5 665)	(12 324)
<b>EBITDA</b>	<b>289</b>	<b>165</b>	<b>459</b>	<b>276</b>	<b>636</b>
Depreciation and amortisation	(17)	(15)	(32)	(30)	(63)
<b>Operating profit</b>	<b>272</b>	<b>150</b>	<b>427</b>	<b>246</b>	<b>573</b>
Net financial income/(expense)	(16)	(7)	(36)	(28)	(96)
Profit from associated companies and jointly controlled entities and impairments	(58)	(18)	(58)	(22)	(78)
<b>Profit before tax</b>	<b>198</b>	<b>124</b>	<b>333</b>	<b>196</b>	<b>399</b>
Income tax expense	(75)	(44)	(115)	(70)	(160)
<b>Profit from continuing operations</b>	<b>123</b>	<b>80</b>	<b>218</b>	<b>126</b>	<b>239</b>
<b>Profit/(loss) from discontinued operations</b>	<b>(27)</b>	<b>(5)</b>	<b>(59)</b>	<b>(14)</b>	<b>206</b>
<b>Net profit</b>	<b>96</b>	<b>75</b>	<b>159</b>	<b>112</b>	<b>445</b>
<i>Attributable to:</i>					
Equity holders of the parent company - Kvæerner ASA	96	75	159	112	445
<b>Earnings per share (NOK)</b>					
Basic and diluted EPS continuing operations	0.46	0.30	0.81	0.47	0.89
Basic and diluted EPS discontinued operations	(0.10)	(0.02)	(0.22)	(0.05)	0.77
<b>Basic and diluted EPS total operations</b>	<b>0.36</b>	<b>0.28</b>	<b>0.59</b>	<b>0.42</b>	<b>1.66</b>

Restated figures for previous periods are reflecting impacts from reclassification of the Downstream & Industrials segment to discontinued operations. Please refer to note 8 for details.

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
<b>Net profit/(loss) for the period</b>	<b>96</b>	<b>75</b>	<b>159</b>	<b>112</b>	<b>445</b>
<b>Items that may be reclassified to profit or loss in subsequent periods:</b>					
Cash flow hedges, net of tax					
- Fair value adjustment recognised in equity	3	7	1	18	12
- Reclassified to profit or loss	(0)	6	(1)	6	12
Translation differences, foreign operations	30	37	6	103	160
Items that may be reclassified to profit or loss in subsequent periods	33	50	6	127	185
<b>Items not to be reclassified to profit or loss in subsequent periods:</b>					
Actuarial gains/(losses) on defined benefit pension plans, net of tax	-	-	-	-	(5)
Items not to be reclassified to profit or loss in subsequent periods	-	-	-	-	(5)
<b>Total other comprehensive income, net of tax</b>	<b>33</b>	<b>50</b>	<b>6</b>	<b>127</b>	<b>179</b>
<b>Total comprehensive income</b>	<b>128</b>	<b>125</b>	<b>164</b>	<b>239</b>	<b>624</b>
<i>Attributable to</i>					
Equity holders of the parent company - Kvæerner ASA	128	125	164	239	624

**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**

<i>Amounts in NOK million</i>	30.06.2014	30.06.2013	31.12.2013
<b>Assets</b>			
<i>Non-current assets</i>			
Property plant and equipment	748	649	713
Intangible assets	1 089	1 162	1 080
Deferred tax assets	154	216	193
Investments in associates and jointly controlled entities	110	125	132
Interest bearing receivables	3	51	3
Other non-current assets	32	29	28
<b>Total non-current assets</b>	<b>2 137</b>	<b>2 232</b>	<b>2 150</b>
<i>Current assets</i>			
Trade and other receivables	2 363	2 874	3 121
Prepaid company tax	60	133	93
Total cash and bank	972	1 146	1 545
Retained assets of business sold	744	-	916
<b>Total current assets</b>	<b>4 139</b>	<b>4 153</b>	<b>5 676</b>
<b>Total assets</b>	<b>6 275</b>	<b>6 385</b>	<b>7 825</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Share capital	91	91	91
Share premium	729	729	729
Retained earnings	1 709	1 525	1 715
Other reserves	(18)	(78)	(24)
<b>Total equity</b>	<b>2 511</b>	<b>2 267</b>	<b>2 511</b>
<i>Non-current liabilities</i>			
Interest-bearing loans	483	474	479
Deferred tax liabilities	0	1	0
Employee benefit liabilities	184	188	170
<b>Total non-current liabilities</b>	<b>667</b>	<b>662</b>	<b>649</b>
<i>Current liabilities</i>			
Trade and other payables	2 712	3 142	4 057
Tax liabilities	61	4	56
Provisions	274	310	330
Retained liabilities of business sold	50	-	223
<b>Total current liabilities</b>	<b>3 098</b>	<b>3 456</b>	<b>4 666</b>
<b>Total equity and liabilities</b>	<b>6 275</b>	<b>6 385</b>	<b>7 825</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

<i>Amounts in NOK million</i>	Total paid in capital	Retained earnings	Other reserves	Total equity
<b>Equity as of 31 December 2012</b>	<b>820</b>	<b>1 578</b>	<b>(204)</b>	<b>2 195</b>
Profit for the period 1 January to 30 June 2013	-	112	-	112
Other comprehensive income	-	-	127	127
<b>Total comprehensive income</b>	<b>-</b>	<b>112</b>	<b>127</b>	<b>239</b>
Change in treasury shares	-	(19)	-	(19)
Dividend	-	(148)	-	(148)
<b>Equity as of 30 June 2013</b>	<b>820</b>	<b>1 525</b>	<b>(78)</b>	<b>2 267</b>
Profit for the period 1 July to 31 December 2013	-	332	-	332
Other comprehensive income	-	-	53	53
<b>Total comprehensive income</b>	<b>-</b>	<b>332</b>	<b>53</b>	<b>385</b>
Change in treasury shares	-	18	-	18
Employee share purchase programme	-	(3)	-	(3)
Dividend	-	(156)	-	(156)
<b>Equity as of 31 December 2013</b>	<b>820</b>	<b>1 715</b>	<b>(24)</b>	<b>2 511</b>
Profit for the period	-	159	-	159
Other comprehensive income	-	-	6	6
<b>Total comprehensive income</b>	<b>-</b>	<b>159</b>	<b>6</b>	<b>164</b>
Dividend	-	(164)	-	(164)
<b>Equity as of 30 June 2014</b>	<b>820</b>	<b>1 709</b>	<b>(18)</b>	<b>2 511</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Amounts in NOK million</i>	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
<b>EBITDA continuing operations</b>	<b>289</b>	<b>165</b>	<b>459</b>	<b>276</b>	<b>636</b>
EBITDA discontinued operations	(39)	(2)	(71)	(10)	(37)
Taxes (paid)/refund	16	(76)	(29)	(78)	(110)
Changes in other operating assets and liabilities	(477)	569	(633)	111	117
<b>Cash flow from operating activities</b>	<b>(212)</b>	<b>655</b>	<b>(274)</b>	<b>298</b>	<b>606</b>
Capital expenditure	(64)	(39)	(105)	(60)	(164)
Proceeds from sale of assets and operations	0	0	0	0	376
Cash flow from other investing activities	(12)	(1)	(13)	(1)	(4)
<b>Cash flow from investing activities</b>	<b>(75)</b>	<b>(40)</b>	<b>(118)</b>	<b>(61)</b>	<b>208</b>
Dividends	(164)	(148)	(164)	(148)	(304)
Cash flow from other financing activities	(8)	(28)	(17)	(33)	(52)
<b>Cash flow from financing activities</b>	<b>(172)</b>	<b>(176)</b>	<b>(181)</b>	<b>(181)</b>	<b>(356)</b>
Translation adjustments	2	1	(0)	21	19
<b>Net increase/(decrease) in cash and bank deposits</b>	<b>(457)</b>	<b>441</b>	<b>(573)</b>	<b>77</b>	<b>476</b>
Cash at the beginning of the period	1 430	705	1 545	1 069	1 069
<b>Cash at the end of the period</b>	<b>972</b>	<b>1 146</b>	<b>972</b>	<b>1 146</b>	<b>1 545</b>

FY 2013 and Q1 2014 cash flows have been revised to show discontinued result separately within operating cash flow. In Q1, cash transferred to discontinued operations was shown on separate line within investing activities. As from Q2 2014, cash outflow from discontinued operations is shown within the respective categories above.

## SEGMENT INFORMATION

Following the sale of Kvaerner's onshore construction business in North America in December 2013, Kvaerner will 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 historical segment information has been restated for these changes.

Consequently, Kvaerner only have one reportable segment as from fourth quarter 2013; Upstream. The Upstream segment includes the business areas Contractors Norway, Jackets, Concrete Solutions and Contractors International.

Amounts in NOK million	Upstream		Group activities and eliminations		Consolidated	
	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013 Restated
External revenue and other income	3 803	3 894	(943)	(616)	2 861	3 278
Internal revenue	8	20	(8)	(20)	-	-
<b>Total revenue and other income</b>	<b>3 812</b>	<b>3 914</b>	<b>(951)</b>	<b>(636)</b>	<b>2 861</b>	<b>3 278</b>
<b>EBITDA</b>	<b>312</b>	<b>183</b>	<b>(22)</b>	<b>(18)</b>	<b>289</b>	<b>165</b>
Depreciation and amortisation	(17)	(15)	0	-	(17)	(15)
<b>EBIT</b>	<b>295</b>	<b>168</b>	<b>(22)</b>	<b>(18)</b>	<b>272</b>	<b>150</b>
Net current operating assets	(613)	(1 049)	(11)	470	(624)	(579)

Amounts in NOK million	Upstream		Group activities and eliminations		Consolidated	
	YTD 2014	YTD 2013	YTD 2014	YTD 2013	YTD 2014	YTD 2013 Restated
External revenue and other income	7 950	7 288	(1 600)	(1 347)	6 350	5 941
Internal revenue	15	36	(15)	(36)	-	-
<b>Total revenue and other income</b>	<b>7 965</b>	<b>7 325</b>	<b>(1 615)</b>	<b>(1 384)</b>	<b>6 350</b>	<b>5 941</b>
<b>EBITDA</b>	<b>499</b>	<b>314</b>	<b>(40)</b>	<b>(38)</b>	<b>459</b>	<b>276</b>
Depreciation and amortisation	(32)	(30)	0	-	(32)	(30)
<b>EBIT</b>	<b>467</b>	<b>284</b>	<b>(40)</b>	<b>(38)</b>	<b>427</b>	<b>246</b>

Restated figures for previous periods are reflecting impacts from reclassification of the Downstream & Industrials segment to discontinued operations. Please refer to note 8 for details.

Amounts in NOK million	Upstream	Group activities and eliminations	Consolidated
	FY 2013	FY 2013	FY 2013
External revenue	16 040	(3 080)	12 960
Internal revenue	51	(51)	-
<b>Total revenue and other income</b>	<b>16 091</b>	<b>(3 131)</b>	<b>12 960</b>
<b>EBITDA</b>	<b>708</b>	<b>(72)</b>	<b>636</b>
Depreciation and amortisation	(63)	0	(63)
<b>EBIT</b>	<b>645</b>	<b>(72)</b>	<b>573</b>
Net current operating assets	(1 257)	(9)	(1 266)

## NOTES

### Note 1 General

Kværner ASA (the company) is a company domiciled in Norway. The Kvaerner group consists of Kværner ASA and its subsidiaries.

### Note 2 Basis for preparation

#### *Statement of compliance*

The condensed consolidated interim financial statements have been prepared in accordance with the International Financing Reporting Standard (IFRS) IAS 34 Interim Financial Reporting for interim reporting as adopted by the European Union and additional Norwegian regulations.

#### *Accounting principles*

The accounting principles applied in these condensed consolidated interim financial statements are the same as those applied in the Annual accounts 2013, except for adoption of new standards and interpretations effective as of 1 January 2014. The most relevant new standards adopted by Kvaerner are:

IFRS 11 Joint Arrangements, replacing IAS 31 Interests in joint ventures and removes the choice of equity or proportionate consolidation accounting for jointly controlled entities. Adoption of this IFRS will not affect the group financial statements, as the group is applying principles in accordance with IFRS 11.

IFRS 10 Consolidated Financial Statements requiring consolidation on the basis of control rather than ownership. Adoption of this IFRS will not affect the group's financial statements directly, but indirectly through Aker ASA's revised assessment that they have control of Kværner ASA and Aker Solutions ASA under the new standard. Following this change, Aker Solutions will be reported as a related party of Kvaerner as from 2014.

The interim financial statements are condensed and do not include all the information required by IFRS for a complete set of financial statements and should be read in conjunction with the full year consolidated financial statements for Kværner ASA. The consolidated 2013 financial statements for Kvaerner are available upon request from the company's registered office at Drammensveien 264, 0283 Oslo, Norway or at [www.kvaerner.com](http://www.kvaerner.com).

The interim financial statements have not been subject to audit. The functional currency of the entities within Kvaerner is determined based on the nature of the economic environment in which they operate. The functional currency and presentation currency of Kværner ASA is NOK. Numbers are rounded to the nearest million, unless otherwise stated. As a result of rounding differences, numbers or percentages may not add up to the total.

The condensed consolidated interim financial statements reflect all adjustments, consisting only of normal, recurring adjustments that, in the opinion of Kvaerner's management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any subsequent interim period or annual accounts.

### Note 3 Judgments, estimates and assumptions

In applying the accounting policies, management makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, significant judgements made by management in applying the group's accounting policies and key sources of uncertainty in the estimates were consistent with those applied for the period ended 31 December 2013.

#### Note 4 Financial items

<i>Amounts in NOK million</i>	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
Net interest income/(expense)	(11)	(12)	(23)	(28)	(57)
Profit/(loss) on foreign currency contracts	(11)	(0)	(11)	(0)	(7)
Net foreign exchange gain/(loss)	1	4	(6)	(1)	(31)
Other financial items, net	5	1	5	1	(1)
<b>Net financial income/(expense)</b>	<b>(16)</b>	<b>(7)</b>	<b>(36)</b>	<b>(28)</b>	<b>(96)</b>

*Loss on foreign currency contracts in the quarter and year to date is related to portfolio of hedging instruments not qualifying for hedge accounting.*

#### Note 5 Share capital and equity

Kvaerner ASA has 269 000 000 shares issued each with a nominal value of NOK 0.34.

Kvaerner currently has no share-based compensation that results in a dilutive effect on earnings per share. Basic and diluted earnings per share have been calculated based on the following average number of outstanding shares:

<i>NOK thousand</i>	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
Shares issued	269 000	269 000	269 000	269 000	269 000
Effect of own shares held	-	(405)	-	(204)	(389)
<b>Average number of outstanding shares</b>	<b>269 000</b>	<b>268 595</b>	<b>269 000</b>	<b>268 796</b>	<b>268 611</b>

#### Note 6 Contingent events

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

##### *Significant, current disputes*

In 2011, arbitration was initiated against Longview and Foster Wheeler North America Corp. 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 Kvaerner North American Construction, Inc. in execution of the project. The customer's counterclaims are also substantial. Longview Power LLC, the owner of the Longview Power Plant in Madsville, West Virginia, filed for protection under Chapter 11 of the United States Bankruptcy Code in August 2013. The initiated Chapter 11 process will interfere with Kvaerner's claims and will lead to subsequent delays in the cost recovery.

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.

Based on current status of both on-going proceedings there is no change in expected financial outcome. Due to uncertainties related to these events and to avoid prejudicing Kvaerner's position, no estimate of the expected final outcome is disclosed.

## 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. In accordance with IAS 24, 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.

Following Aker ASA's revised assessment that they have control of Kvaerner ASA and Aker Solutions ASA under IFRS 10, Aker Solutions is reported as a related party of Kvaerner as from 2014. Comparative period disclosures do not include transactions with Aker Solutions.

Kvaerner believes that all transactions with related parties have been based on arm's length terms. The table below gives an overview of aggregated transactions and balances with related parties.

Amounts in NOK million	YTD 2014	YTD 2013	FY 2013
Revenue	215	65	220
Operating expenses	(1 031)	(70)	(121)
Net interest income/(expense)	(0)	1	3
Interest bearing loans	1	48	1
Trade and other receivables	64	23	20
Trade and other payables	140	1	8

Transactions and balances include discontinued operations.

## Note 8 Discontinued operations – restatement impacts

As from fourth quarter 2013, the Downstream & Industrials segment is classified as discontinued operations with comparative numbers restated:

Amounts in NOK million	YTD 2013 Reported	Segment reclassified to discontinued	YTD 2013 Restated	Q1 2013 Restated	Q2 2013 Restated	Q3 2013 Restated
<b>CONDENSED CONSOLIDATED INCOME STATEMENT</b>						
Total revenue and other income	6 523	(582)	5 941	2 663	3 278	3 080
Operating expenses	(6 257)	592	(5 665)	(2 552)	(3 113)	(2 900)
<b>EBITDA</b>	<b>266</b>	<b>10</b>	<b>276</b>	<b>110</b>	<b>165</b>	<b>180</b>
Depreciation and amortisation	(33)	4	(30)	(15)	(15)	(16)
<b>Operating profit</b>	<b>233</b>	<b>14</b>	<b>246</b>	<b>96</b>	<b>150</b>	<b>165</b>
Net financial income/(expense)	(28)	(0)	(28)	(21)	(7)	(13)
Profit from associated companies and jointly controlled entities and impairments	(22)	-	(22)	(3)	(18)	(3)
<b>Profit before tax</b>	<b>183</b>	<b>14</b>	<b>196</b>	<b>72</b>	<b>124</b>	<b>148</b>
Income tax expense	(70)	0	(70)	(25)	(44)	(47)
<b>Profit from continuing operations</b>	<b>112</b>	<b>14</b>	<b>126</b>	<b>46</b>	<b>80</b>	<b>101</b>
<b>Profit/(loss) from discontinued operations</b>	<b>-</b>	<b>(14)</b>	<b>(14)</b>	<b>(9)</b>	<b>(5)</b>	<b>(17)</b>
<b>Net profit</b>	<b>112</b>	<b>-</b>	<b>112</b>	<b>37</b>	<b>75</b>	<b>84</b>

### Note 9 Discontinued operations – summary of financial data

In December 2013, Kvaerner sold its onshore construction business in North America to Matrix Service Company. Following the sale, Kvaerner will 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 as from fourth quarter 2013. The results for the discontinued business are reported separately under the heading Result from discontinued operations in the group's income statement. In the balance sheet, retained assets and liabilities are presented on separate lines.

<i>Amounts in NOK million</i>	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
Total revenue and other income	0	338	1	582	1 666
Operating expenses	(40)	(342)	(73)	(596)	(1 398)
<b>EBIT</b>	<b>(39)</b>	<b>(4)</b>	<b>(71)</b>	<b>(14)</b>	<b>268</b>
Net financial income/(expense)	0	0	0	0	(32)
<b>Profit before tax</b>	<b>(39)</b>	<b>(4)</b>	<b>(71)</b>	<b>(14)</b>	<b>236</b>
Income tax expense	12	(0)	12	(0)	(29)
<b>Net profit from discontinued operations</b>	<b>(27)</b>	<b>(5)</b>	<b>(59)</b>	<b>(14)</b>	<b>206</b>
Of which:					
Operations	(27)	(5)	(59)	(14)	(66)
Gain on sale of discontinued operations	-	-	-	-	272
Basic and diluted earnings per share (NOK)	(0.10)	(0.02)	(0.22)	(0.05)	0.77
<b>Net assets</b>	<b>694</b>	<b>1 004</b>	<b>694</b>	<b>1 004</b>	<b>693</b>

Cash flows from discontinued operations are as follows:

<i>Amounts in NOK million</i>	Q2 2014	Q2 2013	YTD 2014	YTD 2013	FY 2013
Cash flow from operating activities	18	(35)	(102)	47	45
Cash flow from investing activities	0	(3)	0	(4)	271
Cash flow from financing activities	(22)	(139)	65	(139)	(604)
Translation adjustments	(0)	4	(0)	20	16
<b>Net increase/(decrease) in cash and bank deposits</b>	<b>(4)</b>	<b>(173)</b>	<b>(37)</b>	<b>(76)</b>	<b>(272)</b>
Cash at the beginning of the period	23	425	56	328	328
<b>Cash at the end of the period</b>	<b>19</b>	<b>252</b>	<b>19</b>	<b>252</b>	<b>56</b>

## Note 10 Quarterly historical information – continuing operations

<i>Amounts in NOK million</i>	Q2 2014	Q1 2014	Q4 2013	Q3 2013 <sup>1</sup>	Q2 2013 <sup>1</sup>	Q1 2013 <sup>1</sup>
<b>Total revenue and other income</b>	<b>2 861</b>	<b>3 489</b>	<b>3 939</b>	<b>3 080</b>	<b>3 278</b>	<b>2 663</b>
Upstream	3 812	4 153	4 667	4 100	3 914	3 411
<b>EBITDA</b>	<b>289</b>	<b>170</b>	<b>180</b>	<b>180</b>	<b>165</b>	<b>110</b>
Upstream	312	187	197	197	183	131
<b>EBITDA margin</b>	<b>10.1 %</b>	<b>4.9 %</b>	<b>4.6 %</b>	<b>5.9 %</b>	<b>5.0 %</b>	<b>4.1 %</b>
Upstream	8.2 %	4.5 %	4.2 %	4.8 %	4.7 %	3.8 %
<b>Net profit - continuing operations</b>	<b>123</b>	<b>95</b>	<b>11</b>	<b>101</b>	<b>80</b>	<b>46</b>
<b>Basic and diluted EPS continuing operations</b>	<b>0.46</b>	<b>0.35</b>	<b>0.04</b>	<b>0.38</b>	<b>0.30</b>	<b>0.17</b>
<b>Order intake <sup>2</sup></b>	<b>5 360</b>	<b>1 283</b>	<b>1 925</b>	<b>1 594</b>	<b>2 305</b>	<b>12 791</b>
Upstream	5 372	1 291	1 925	1 603	2 329	12 805
<b>Order backlog <sup>2</sup></b>	<b>21 507</b>	<b>19 696</b>	<b>22 809</b>	<b>25 647</b>	<b>28 147</b>	<b>29 836</b>
Upstream	21 512	19 698	22 809	25 657	28 153	29 844
<b>NCOA</b>	<b>(624)</b>	<b>(1 162)</b>	<b>(1 266)</b>	<b>(30)</b>	<b>(579)</b>	<b>(85)</b>
Upstream	(613)	(1 078)	(1 257)	(539)	(1 049)	(633)
<b>Net interest bearing deposits and loans</b>	<b>493</b>	<b>953</b>	<b>1 069</b>	<b>256</b>	<b>723</b>	<b>284</b>

<sup>1</sup> Please refer to note 8 for details related to restated figures for previous periods.

<sup>2</sup> Including scope of work of jointly controlled entities closely related to Kvaerner's operating activities.