

Corporate social responsibility

Report 2016



KVERNER™



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Introduction

A cornerstone of Kvaerner is our commitment to conduct our business with integrity, and according to the highest ethical standards. This is why Corporate Social Responsibility (CSR) is integral to all aspects of management within Kvaerner. The ultimate responsibility for our corporate goals and policies within CSR lies with the Board of Directors.

In our Code of Conduct and policies, we describe how we shall run our business, including how we work with our partners, subcontractors and suppliers. The CSR key performance indicators are set every year with separate targets for each operational area.

Concern for Health, Safety, Security and the Environment (HSSE) is a core value for Kvaerner, and essential for our licence to operate. HSSE is fundamental to all Kvaerner's operations. The people working with Kvaerner are all key-stones in our work towards the ultimate goal of zero harm to people, material and non-material assets, and to the environment. Every day, we work systematically to improve our HSSE culture and performance.

Kvaerner's workload in 2016 consisted of several large projects in different phases of execution. The Nyhamna expansion, the topsides and three steel jackets for Johan Sverdrup, the Hebron gravity-based structure and the Njord A frame agreement projects all reached important milestones as scheduled during the year. In addition, Kvaerner is working on studies and business development activities in Norway and internationally.

During 2016, Kvaerner continued to strengthen its efforts with regards to both the pre-qualification and follow-up of the supply chain, particularly within labour conditions, for instance through inspections and audits. These matters have also received increased focus from our customers.

Kvaerner continues to pursue international business opportunities, of which some are in countries with high inherent business integrity risks. All levels of our manage-

ment acknowledge that doing business in regions with high business integrity risks requires special attention to compliance and focus on risk assessment and implementation of actions that reduce risks in an effective and proactive way.

The downturn in the oil and gas industry has affected our workforce. Fluctuating workloads in the regions of Western and Eastern Norway has resulted in periods of temporary leave for some categories of employees, as well as a permanent reduction in employees in Kvaerner total of about 214 in 2016. In October 2016, we performed Kvaerner's second people survey with a response rate of 82.5 percent, representing an increased response rate of 2.5 percentage points compared to the 2014 survey. The further process of interpreting the results and defining improvement goals throughout the company will be completed with a high degree of involvement throughout the organisation. Through 2017, the progress of completed improvement actions will be followed-up on a quarterly basis.

Kvaerner shall safeguard quality and strive for continuous improvement in all our deliveries and our execution processes. We will have a proactive focus on new opportunities and continuous improvements within CSR. We believe this is the basis for conducting our business in a way that makes people proud to work for and with our company.



Jan Arve Haugan
President & CEO



About Kvaerner and how we work with CSR

Kvaerner is headquartered at Fornebu, Norway, and has offices and fabrication facilities in some of the world's main oil and gas regions. The company 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.

Our people, portfolio and major project execution activities

The Kvaerner organisation includes offices in Norway, Canada, UK, USA, Russia, Finland and China. A typical project involves several hundred first line suppliers. Kvaerner uses many large subcontractors. In 2016, Kvaerner was reorganised into a more effective organisation with a simplified company structure including merging of legal entities in Norway and transfer of personnel into one company.

In 2015, the 22 000 tonnes topside for the Edvard Grieg field was delivered by Kvaerner, on time and budget as planned. The Edvard Grieg project was awarded the "Project of the Year" for 2016 by the Petroleum Economist.

Kvaerner's workload in 2016 consisted of several large projects with different customers presented on page 8 and 9.

Studies and business development activities

Kvaerner is also exploring new business opportunities in Norway and internationally.

Kvaerner has, during 2016, worked on pre-study projects in Russia. The Norwegian sanctions related to Russia are aligned with EU sanctions. In particular, there are two relevant aspects of these regulations for Kvaerner; sector restrictions and asset freeze. While the U.S. sanctions only apply directly to U.S. persons and entities, the U.S. sanctions have an important impact on Kvaerner's activities



Our common values.

through Kvaerner's financial Credit Facility Agreement.

In 2016, Kvaerner has also worked on business development activities in Iran following the sanction relief announced in January 2016.

Kvaerner is committed to complying with all applicable laws, including applicable sanctions regulations. In addition, Kvaerner has agreements with third parties (clients, financial services) who impose particular and additional restrictions. Kvaerner performs enhanced due diligence investigations into prospective external business partners in a measure to achieve this understanding.

Our Corporate Social Responsibility standards and implementation

CSR is an integrated part of the management responsibility within Kvaerner. Our corporate goals and activities within CSR are anchored at the Board of Director level and each unit is responsible for their implementation.

The **Code of Conduct** is Kvaerner's main governance document. It summarises our values and standards of behaviour in all types of activities, everywhere. Kvaerner shall always comply with all applicable laws and regulations and conduct its business with integrity, respecting cultures, dignity and rights of individuals everywhere we operate. Failure to comply with our business ethics guidelines would hurt Kvaerner's reputation as well as our bottom line. In fourth quarter 2016

Kvaerner has performed a review and update of the Kvaerner Code of Conduct. The updated version was approved by the Board of Directors in December 2016 and was published in first quarter 2017.

All Kvaerner policies and procedures must be consistent with the Kvaerner Code of Conduct. The **People Policy** sets out Kvaerner's fundamental principles for ensuring the ability to attract, engage and retain a workforce with the right skills, attitudes and behaviour. The **Business Integrity Policy** covers human rights, corruption and improper payments and fraud. The **HSSE Policy** sets out Kvaerner's fundamental principles within Health, Safety, Security and Environment. Kvaerner's **Supply Management Policy** describes the supplier qualification system, which is mandatory when engaging suppliers and subcontractors. More information on these policies is available at www.kvaerner.com.

Input from the Board of Directors and our owners, the executive management representing each operational unit, as well as our customers is taken into account. New CSR key performance indicators (KPIs) are set every year with separate targets for each operational area. At the end of each chapter in this report, the KPIs used in 2016 within each specific area are described with the achieved result. In each chapter of this report we describe the opportunities and risks within each area.



"Kvaerner's workload in 2016 consisted of several large projects with different customers"



THE NYHAMNA EXPANSION PROJECT:

Kvaerner was the main contractor for the initial development of the Nyhamna onshore gas treatment facility, and in April 2012 was awarded a frame agreement for modifications and projects at the Nyhamna/Ormen Lange onshore facilities. In second quarter 2016, Kvaerner completed the largest ever turnaround at a Norwegian onshore facility, which was done in connection with a regular maintenance shutdown at Nyhamna. Towards the end of the year, attention was centred on completing the remaining construction and pre-commissioning work, and gradually handing systems over to the client's commissioning organisation.



THE JOHAN SVERDRUP PROJECTS:

In June 2015, Kvaerner, in a joint venture with KBR, won the contract for the complete delivery of the utility and living quarter (ULQ) topside. In addition, Kvaerner is responsible for complete deliveries of three of the four steel jacket substructures for this phase of the Johan Sverdrup development. All four projects – the topsides and the three steel jackets – have progressed according to schedule throughout 2016. The topside reached 20 percent completion in the third quarter and detail design freeze in November. Of the three jackets, the riser platform jacket is at the most advanced stage, and all four roll-ups were completed on schedule in 2016. The drilling platform and process platform jackets finalised detail design and engineering in 2016, and prefabrication has started.

**THE HEBRON PROJECT:**

In March 2012, ExxonMobil Canada Properties released the option for Kvaerner's joint venture company Kiewit-Kvaerner Contractors to provide the full scope of engineering, procurement, installation and construction services for the Hebron gravity based structure (GBS). In 2016, The construction phase was completed and the mechanical outfitting of systems inside the GBS. In December, the submergence test of the GBS was completed, with subsequent successful mating of the GBS and platform topside.

**THE NJORD A FUTURE PROJECT:**

On 1 April 2016, Kvaerner signed a project framework agreement (PFA) with Statoil for the upgrading of the semi-submersible platform Njord A, which was originally delivered in 1997 by the organisation that today is Kvaerner. The first call-off for front-end engineering and design (FEED) was signed at the same time as the PFA. In May, Statoil made a call-off for yard stay in Kvaerner's yard at Stord. In September, the call-off was made for preparations of inspection, reconstruction and execution of docking of the platform, which included removal of the derrick, flare and lifeboat system. The docking of the platform was completed in mid-December. Prefabrication of two new steel pontoons, which will increase the buoyancy of the hull, is ongoing. A potential EPC contract is subject to investment approval from Statoil, and subsequent approval from Statoil and its license partner in the Njord A Future project.

Caring about our people

A competent and motivated workforce, striving toward the same goals, is vital to Kvaerner's success. All major achievements are results of team efforts. In the end, our results are dependent on the skills and motivation of our employees and contract staff. To further improve market competitiveness, Kvaerner was re-organised from autonomous business areas and legal entities into one company, structured in a matrix organisation from 1 January 2016. The new operating model has resulted in clearer roles and accountabilities, thereby further increasing productivity through better internal cooperation and use of common resources.

Organisation

Kvaerner has so far avoided large scale layoffs as the order backlog was solid when the current downturn in the oil industry started two years ago. However, two years with a highly demanding market has affected Kvaerner's workforce. Fluctuating workload in the regions of Western and Eastern Norway has resulted both in periods of temporary leave for some categories of employees as well as a permanent reduction in employees in Kvaerner total of approximately 214 in 2016. Engagement of temporary personnel has also been significantly reduced.

People survey 2016

In 2015, Kvaerner's organisation focused on delivering the improvement goals which were defined and concluded as a result of the People Survey 2014. A new people survey was completed in October 2016. For the purpose of comparing results, the same factors as well as most of the statements were reused unchanged. Hence, the following factors were measured: Kvaerner's "Values", "Health, safety, security and environment (HSSE)", "Customer drive", "Delivering results", "Hands-on management", "People and teams", "Open and direct dialogue", "Communication", "Job satisfaction", "Business integrity", "Quality focus", "Strategy" and "One Kvaerner". The respondents had the opportunity to elaborate the rating of statements with free text comments.

Going forward, the follow-up process includes three phases; Communication of results, interpretation of results to define the improvement goals and completion of improvement actions to secure achievement of the goals.

The process of interpreting the people survey results and defining improvement goals throughout the company requires a high degree of involvement from the organisation. Throughout 2017 the progress of completed improvement actions will be followed-up by quarterly reviews and reports to the executive management team as well as to the Working Environment Committees and the company committees. Communication of status to all employees will be provided on a regular basis through the company's communication channels. A new people survey is scheduled for 2018.

Diversity and equal opportunities

As the nature of Kvaerner's operations calls for employees from different operating entities and geographical regions, both nationally and internationally, the principles of equal opportunity are well established throughout the group. No differences shall exist based on genders, nationalities or ethnic groups. Our commitment is clearly outlined in the Code of Conduct, the Business Integrity Policy, People Policy and in the Global Framework Agreement for the devel-



Medarbejderundersøkelsen
2016
People survey

Medarbejderundersøkelsen
2016 foregår i perioden fra
3. oktober til 31. oktober.

The people survey 2016 takes place
between 3 October and 31 October.

Mer informasjon på: kNet & onekvaerner.com
More information on: kNet & onekvaerner.com

KVAERNER

The Kvaerner people survey was completed in October 2016. At the time of closing 82.5 percent of the employees had responded to the survey which represents an increased response rate of 2.5 percentage points compared to the People survey 2014.

"Leadership training is an important contribution towards increasing the number of females promoted to managerial positions."

opment of good working relations, a three-party frame agreement with national and international trade unions.

The Global Framework Agreement describes Kvaerner's commitment to respect human and trade union/labour rights, acknowledging the fundamental principles of human rights with a specific focus on non-discrimination.

Kvaerner aims to hinder any form of discrimination, harassment or bullying (see chapter four about Caring about integrity) through equal opportunity training of employees.

Due to fluctuating workload, temporary personnel from abroad have been engaged for periods in Kvaerner's projects. The work to improve cultural competence and awareness among leaders and employees, combined with information in all relevant languages and labour welfare, has continued from 2014 through 2015 and 2016. The activities have targeted to secure good integration of the personnel.

Equal opportunity for both genders is a basic principle in Kvaerner, evidenced in recruitment and appointments to management positions, employment conditions, compensations and training policies. However, Kvaerner still needs to improve within this area. From 2014, through 2015 and 2016 the market situation has resulted in limited recruitment of new employees. Thus, the recruitment base for relevant, managerial positions has continued to consist of fewer females than males. Currently, women account for 15 percent of Kvaerner's workforce, unchanged from 2015. Two of the eleven EMT members are female and two of Kvaerner's four shareholder-elected Directors are female. All of the Directors elected by and among the employees are men.

Leadership training is an important contribution towards increasing the number of females promoted to managerial positions. In 2016, 26 percent of women in senior management positions completed company leadership development training programmes, compared to 4 percent in 2015.



The apprentices of 2016 at the yard at Stord.

"Kvaerner's continuous focus on recruiting new apprentices is crucial to replenishing professional competence"

Employment conditions and compensation packages are based on responsibility and personal performance, irrespective of gender.

Kvaerner's equal opportunity principles are consistently applied when evaluating individuals for management position, whether the candidates are recruited internally or externally.

Recruitment and retention

Kvaerner focuses on the retention of an experienced workforce and the employment of apprentices. Kvaerner recruited 39 new employees in 2016 compared to 45 new employees in 2015. Eleven of these were below 30 years of age. The total voluntary employee turnover was 3 percent in 2016, same as in 2015.

Despite the fluctuating market conditions in the oil and gas industry, it is crucial for Kvaerner to retain core competencies and develop new competencies. The company offers an inspiring and challenging work place, with a high degree of teamwork and good career and development opportunities for individuals.

Kvaerner depends on the continued professional development of skilled operators, thus maintaining high level of core knowledge and experience at its two fabrication facilities, Stord and Verdal. Kvaerner's continuous focus on recruiting new apprentices is crucial to replenishing professional competence. At year-end 2016, there were a total of 80 apprentices at the Stord and Verdal facilities, compared to 121 apprentices at year end 2015. Kvaerner seeks to motivate young people through apprenticeships at its yards. Furthermore, Kvaerner works consistently with technology students at universities, and continues to develop its relationships with relevant vendors of contract employees in order to secure the availability of this workforce during peak project activity. In 2017, it is planned to recruit 31 new apprentices.

Due to the market situation, the general recruitment of new employees in 2017 will be limited to necessary replacements. The downturn in the oil and gas industry has caused a reduced order intake as well as few upcoming projects in 2017 and 2018. The current base organisation is staffed for higher activity level than expected in the course of the two forthcoming years. In order to increase competitiveness, the base organisation is planned to be re-structured and adapted to the reduced activity level in 2017 and 2018.

Learning and development

To execute some of the industry's most demanding projects, Kvaerner must retain and develop talented and motivated employees who understand our customers' needs and requirements. Safe and high quality operations for customers, employees, shareholders and other stakeholders are made possible through focus on training of:

- > Professional employees,
- > Teams
- > Project management
- > Leaders

All training is based on the company's core values, the Code of Conduct and the leadership principles. HSSE is one of Kvaerner's core values and central to all development activities (see also chapter 3).

Professional employees

Non-office personnel are mainly recruited through apprenticeships. Professional programmes customised to the operations at our facilities in Verdal and Stord ensure intake of a high number of apprentices every year. Programmes for operators, in all relevant trades, are designed in accordance with relevant laws and regulations. These are implemented regionally at our yards, with focus on developing a highly

skilled and productive workforce. Most non-office workers have received multi discipline training beyond the content of their original trade, enabling them to handle numerous complex work tasks. Possessing such a competence profile represents a substantial value for the company. Welders from Kvaerner have achieved impressive results in both domestic and international competitions. The latest result to mention is Alf Sundal and his bronze medal in welding in Euro skills 2016.

In order to ensure a consistent inflow of personnel possessing practical, technical skills, the company has implemented an educational pathway covering all steps from apprenticeship to engineer. This is designed to encourage and motivate qualified and skilled Kvaerner workers and operators to complete an engineering degree. The education is provided in cooperation with high schools, a technical institute and a college of engineering. The pathway allows the students to work and study in parallel, providing employees with a flexible opportunity to take further education.

Teams

Utilising awareness and knowledge: All project deliveries reflect collaborative team efforts. The Project Execution Model (PEM) is, together with highly skilled and fully aligned project teams, a key to success. Kvaerner Training Centre (KTC) trains and aligns project management teams in the practical application of PEM through predefined workshops. The workshops have participation from representatives of our executive management team, PEM process owners and the project management teams where common understanding is the key focus.

Project management

To maintain and upgrade formal project management qualification, Kvaerner provides post-qualifying education and certification for selected managers in projects.

"Providing a sound balance between work and private life is an important contribution to the health and wellbeing of the employees"

From 2012 to the end of 2016, Kvaerner has developed 59 certified leaders spread across all International Project Management Association (IPMA) competence levels. During 2016, 19 more candidates managed the certification on their level of Project Management competence according to IPMA (International Project Management Association). As a potential tool for development of younger employees, four candidates were invited to certification on level D, Project Management Associate. All candidates passed their exams and the feedback from the process was very good. Eight candidates on level C (competence level project manager), whereof four females, and eight candidates on level B (competence level senior project manager), including four females, also got their certificates.

Leadership training

The Kvaerner Leadership Training programme (KLT) provides practical leadership training for first time and first line managers. This is the basic programme for leadership in Kvaerner. The majority of the participants will take on leadership positions in projects. The Leadership Alignment Programme model (LeAP) has been developed with the purpose of securing that Kvaerner's values and leadership principles are applied in all projects. The programme is applied both internally and together with our customers and subcontractors.

Maintaining a strong focus on people and teams

Kvaerner has maintained its strong focus on developing people and teams in 2016, and has ensured that the training programmes meet the oil and gas industry's changing requirements. Kvaerner will continue to focus on developing its own staff to take on new and challenging duties. The strong focus on systematic self-development is one of Kvaerner's cultural pillars.



Apprentices at Kvaerner's yard at Verdal.

Work-life balance

Providing a sound balance between work and private life is an important contribution to the health and wellbeing of the employees, as set out in the People Policy. The company's functions, regions and departments are encouraged to create practices based on work patterns that suit the employee and the business and, as a minimum, comply with local legislation and practices. Exam-

ples of such work patterns are typically staggered hours, flexi-time, working out of the office with remote access to computer systems, and a compressed working week. Focusing on a positive work-life balance should benefit everyone concerned.

Kvaerner has not seen any increase in stress related illnesses during 2016. The work-life balance practice from previous years will be continued in 2017.

Key performance indicators

Key staff figures

<i>Number of employees</i>	2014	2015	2016
Kvaerner employees	3 049	2 811	2 663
Contract staff (at year end)	1 589	451	428
Full time/Part time	3 049 / 77	2 811 / 57	2 663 / 58
New employees	228	45	39
Age of new Kvaerner employees:			
<30	100	9	11
30-50	100	23	15
>50	28	13	13
Gender of new Kvaerner employees - M/F	189 / 39	39 / 6	35 / 4
Employee turnover	4%	3%	3%

Gender distribution:

- Number of females in percentage of total workforce	15%	15%	15%
- Number of males in percentage of total workforce	85%	85%	85%
- Share ratio in percentage - females holding senior management positions (L2,L3 and L4. L1= President& CEO)	16%	20%	16% (18 out of 109)

Overview of benefits for permanent employees - 2016

<i>Country</i>	Norway	England	Finland	USA	Canada	Russia	China
Life insurance	X	X	X	X	X	X	X
Health care	S	X	S	X	X	X	S
Disability/incapacity coverage	X	X	X	X	X	X	S
Retirement pension plan	X	X	X	X	X	S	S

"X" = The company is providing arrangements beyond any statutory requirements.
 "S" = The arrangements are limited to any statutory requirements.

Office locations as of 31 December 2016

<i>Country</i>	<i>City</i>
Canada	St. John's
China	Beijing, Qingdao
Finland	Ulvila
Kazakhstan	Atyrau
Norway	Oslo, Molde, Stavanger, Stord, Verdal
Russia	Moscow
UK	London
USA	Houston

Employees per country as of 31 December 2016

<i>Number of employees</i>	2014	2015	2016
Own employees	3 049	2 811	2 663

Staff per country:

Norway	2 932	2 732	2 596
Finland	34	26	21
UK	7	4	4
USA	14	9	5
Canada	13	15	12
Russia	20	23	23
China	27	2	2

Parental leave Norway in 2016

Number of employees	Female	Male	Total
Total employees in Norway	372	2 224	2 596
Number of employees who took parental leave	24 / 372	59 / 2 224	58 / 2 596
Number of employees returning after parental leave	18 / 372	51 / 2 224	69 / 2 596

Training programmes

	2014	2015	2016	Target 2017
Employee Training*				
Kvaerner Leadership Training (number of participants)	53	66	0	20
Kvaerner Leadership and Alignment Programme "LEAP" (number of participants)	209	185	55	100
Certification of project managers (number of employees)	37	47	59	70
Induction training (% completed)	98%	98%	98%	100%
Graduate Programmes				
Total number of apprentices (Verdal and Stord yards)	172	121	80	25
Technical College, Stord (number of employees)	14	11	5	TBD
Total number of students conducting theses	13	TBA	2	2

* For training within Integrity and HSSE - see the following sections "Caring about HSSE" and "Caring about business integrity".



Caring about HSSE

Care for Health, Safety, Security and the Environment (HSSE) is a core value in Kvaerner and expressed in the Just Care™ mind-set. HSSE is a fundament to all Kvaerner's operations and the people working for Kvaerner are all keystones in our work towards the ultimate goal of an injury and illness free workplace, causing zero harm to people, material, non-material assets and to the environment. Our biggest challenges to deliver a consistent and continuous high HSSE performance are silent deviation, high risk acceptance and limited risk awareness and Kvaerner continuously focus to perform proactive preventive actions in these areas.

In 2016, the new matrix organisation was implemented and in January we started with one HSSE organisation for the company. Kvaerner was ISO certified as one company according to ISO 14 001 and OHS 18 001 in June 2016. One HSSE team in Kvaerner has emphasis on learning and sharing across our locations.

Kvaerner management system

HSSE is an integrated part of Kvaerner's Management System and it is divided into seven main elements; leadership, organisation, communication, risk management, product realisation, third-party relationships, and continual improvement. The table below gives a summary of each element.

The HSSE management process

Leadership	Personal behaviour Accountability Management commitment
Organisation	Roles and responsibility Competence and development
Communication	Communication processes Knowledge management
Risk Management	Risk assessment and mitigation Emergency preparedness Change management
Product realisation	Product and service delivery Plant, equipment and materials
Third-party relationships	Clients and partners Contractors and suppliers The community
Continual improvement	Incident investigation and analysis Audits Measurement, review and improvement

Clear expectations

In order to measure HSSE performance, key HSSE performance indicators (KPIs) have been implemented (see table with HSSE KPIs at the end of this chapter). A strong focus on leading activities in the HSSE field, combined with defined targets measured against actual results, guides Kvaerner towards continual improvements in HSSE performance. The KPIs were reviewed by the end of the year and will be updated for 2017 as a part of the development of the HSSE Plan for 2017. The Just Rules, part of Kvaerner's HSSE Management Process, are established to control the most safety-critical activities in the operations. The Just Rules are a mandatory part of Kvaerner's safety training for all employees, also providing clear and simple checklists and controls for the operation.

Training and information to achieve a common HSSE culture

Competence occupies a central place in Kvaerner's HSSE programme. All personnel must be competent, having the necessary knowledge, skill and behaviour to perform their work safely. To reach out to all employees in an efficient way, Kvaerner uses dedicated training programmes at operational area and project levels, as well as eLearning programmes for key areas within HSSE. Training packages at project level are tailored to individuals, both in terms of content and language. Line managers are trained to be role models and to drive HSSE improvements through specific safety academy programmes.

Sharing of best practices and learning from our incidents and near miss incidents

Incidents are identified and classified according to their severity. Investigations are initiated based on the severity and the potential consequence of the incident. All serious incidents and serious near misses are investigated in accordance with specific Kvaerner guidelines. Actions for improvement are then identified and implemented. Following serious incidents or serious near misses, packages focusing on lessons learned are produced and shared throughout Kvaerner, with the aim of preventing similar incidents in the future. To ensure continuous improvements, best practices are captured and shared within the organisation.



"Carefully selected indicators assist Kvaerner in detecting any eventual decline in the quality of control measures"

We,
Kvaerner employees,
are the keystones in the work
towards our ultimate goal of an
injury and illness free workplace
that does zero harm to
the environment.

Proactive HSSE focus activities

In order to further establish its proactive approach to HSSE, Kvaerner utilises a number of leading KPIs to monitor and further enhance HSSE performance. The benefits of utilising the leading indicators can be seen in further improvement of the lagging indicators. The use of leading indicators provides an accurate and continuous picture of the status of the control measures needed to prevent major incidents. Carefully selected indicators assist Kvaerner in detecting any eventual decline in the quality of control measures, and thereby provide sufficient time to remedy the situation.

HSSE Keystone Award

Kvaerner's Keystone Awards are given out annually to honour good HSSE performance.

The HSSE Keystone Awards are given out in three categories: Individual, Project and Programme/unit and the winners received their prize in July 2016.

The individual prize award was given to two persons:

- > **Unni Gudmundsen**, Specialist Engineer, Logistics, for high focus and engagement on social and health aspects. For creating a good working environment by own initiatives like arranging activities with focus on colleague's health and well being - within and outside working hours.
- > **Bent Jensen**, Project Safety delegate at Nyhamna Expansion project. For his way of caring of each individual person and his ability to see if someone needs help or needs someone to talk to.

The project award prize was given to the Turnaround team on the Nyhamna Expansion project for the preparation and execution of Turnaround 2015.

One integrated HSSE organisation with Shell project, Shell operations, Kvaerner and Sub-contractors. The result was zero turnaround specific incidents.

- > The programme/unit award prize was given to Kvaerner's Crane Forum, for the development of a Kvaerner standard for crane, lifting and transport operations. This is a global initiative across Kvaerner's yards. The standard is based on recognised international standards, adding the provisions deemed necessary to meet the broad needs of the industry.

Health

Total sick leave for Kvaerner in 2016 was 5.75 percent in 2016 compared to 5.1 percent in 2015 of total person-hours. Kvaerner have signed the More Inclusive Working Life (IA) agreement. The IA Agreement is an instrument aimed at reducing sick leave and to increase the focus on job presence. The company's sponsorship of, and participation in, the Aker Active programme are examples of health initiatives focusing on physical exercise and nutrition. In 2016, a successful low threshold "Walk the Stairs" campaign was launched at Fornebu and similar activities have been initiated at our yards and projects locations. The focus is to offer activities that suit all employees and not only the ultra-active ones. Short lunch and learn meetings with focus on nutrition are started and will continue in 2017.

Safety

2016 has been a positive year regarding safety in Kvaerner. We have positive trends both for injuries and serious incidents with high risk potential. Especially risks during crane

"We have positive trends both for injuries and serious incidents with high risk potential"



In 2016, a successful low threshold "Walk the Stairs" campaign was launched at Fornebu and similar activities have been initiated at our yards and projects locations.

operations and work at height have had a positive development. Several good initiatives have been introduced in 2016, such as, team commitment regarding compliance, training programs in risk awareness and HSSE development of subcontractors.

In context of the merging of all units in Kvaerner, we started a process of standardising all governing documents, including HSSE procedures and work instructions.

At year-end 2016, a lost time incident frequency (LTIF) of 0.28 and a total recordable incident frequency (TRIF) of 1.92 was recorded, compared to corresponding 0.28 and 2.5 for 2015. These figures also include Kvaerner's subcontractors and are calculated per million man-hours worked. We had four lost time injuries in 2016 which were injuries to a hand, elbow, ankle and an arm.

The Hebron project has conducted 22.9 million worked

hours without any lost time injuries.

There has been positive transfer of experience between the projects and yards running in Kvaerner - Hebron, Stord, Nyhamna and Verdal. In the Johan Sverdrup project at Verdal, there is an intensive programme running which gives cash awards to local clubs and associations if the project meets certain HSSE targets. These awards are not connected to incident frequency rates, but to high scores in inspections, house-keeping and reporting rates of HSSE observations.

Kvaerner will continue the development of safety tools and processes and we will strive to secure compliance to our rules and regulations. Close cooperation and further development of relationships with our subcontractors within HSSE will also continue to be a priority. In addition, it is important for Kvaerner to maintain an active dialogue between employees and management.



Kvaerner's Keystone Awards are given out annually to honour good HSSE performance.

Security

Due to the international nature of Kvaerner's operations, the company is exposed to changes in the global risk situation. The projects operate in a wide range of areas, which means that potential security threats may arise. Kvaerner is linked to International SOS and Control Risks, which provides a global tool for risk assessment and risk control. To mitigate possible risk situations all employees can be provided with a reliable and updated risk assessment and have access to information, as well as to local contacts and an existing network, at all times. Based on the global terror situation Kvaerner issued travel bands for airports and countries after performing travel risk assessments. Currently, Kvaerner has no continuous operations in areas with high or extreme risk as classified by International SOS.

For our international operations additional security measures are implemented. Specific security audits in the Moscow office were performed in 2016. The recommendations and improvement actions identified in these audits were followed up and implemented by the end of 2016.

Environment

All companies should contribute to protection of the environment. Kvaerner continuously works to reduce the environmental footprint of Kvaerner's operations and products.

The Kvaerner methodology for reporting environmental impact derives from the Greenhouse Gas Protocol - CHG, and the Global Reporting Initiative-GRI. Kvaerner is certified according to the ISO 14 001:2015 standard.

In our Supplier Declaration, which all suppliers to Kvaerner have to sign in order to be pre-qualified, the suppliers commit to work to minimise negative impacts on the environment, taking into consideration the full life cycle of their products. The suppliers commit to work to achieve energy efficiency and minimize harmful discharge, emissions and waste production and to comply with national environmental legislation and discharge permits.

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

There are several energy efficiency initiatives ongoing in the company and environmental monitoring of dust, water, sediments and noise is performed.

The main energy consumption, carbon emissions and waste disposal vary according to activities at the yards. The

total energy intensity (MWH per million worked hours) was 2 635 in 2016 compared to 3 281 in 2015. The energy intensity (MWH per million worked hours) has had a decreasing trend the last three years. There have been several energy efficiency investments at the yards in 2015 and 2016 with good results. The CO₂ emissions (tonnes per million worked hours) was 104 in 2016 compared to 268 in 2015. The CO₂ emissions have been lower in 2016. The analysis of the reason for this has not yet been finalised, but is likely less use of gas for heating. Waste recorded in connection with the business totalled 3 940 tonnes in 2016 compared to 3 950 tonnes in 2015, of which 91 percent was recycled in 2016 compared to 85 percent in 2015.

A waste inspection was performed at Stord by the County Administration (Fylkesmannen) at 8 December looking at conformance to legislation on pollution. One deviation was identified related to declaration of hazardous waste form sand traps, and one comment made regarding metering of water from oil separator. Actions are taken to improve the metering programme and the waste declaration process.

"Of waste recorded in connection with the business, 91 percent was recycled in 2016 compared to 85 percent in 2015"

Main HSSE direction going forward into 2017

The key HSSE focus areas for 2017 are compliance, ensuring that we use the procedures, standards and guidelines we have. At the same time review the requirements and seek for simplification and be more 'to the point'. Risk awareness is another key area, including both risk acceptance and risk observations. It is important to continue working with a culture that has this mindset 24/7 and demonstrates caring about each other, our families and friends. This will be done through our key processes:

- > Learning and sharing
- > Communication and culture
- > Health
- > Security
- > Environment

Key performance indicators

Health, Safety, Security and the Environment	Actual 2014	Actual 2015	Actual 2016
Incidents - fatalities	0	1 ¹	0
Incidents - serious with disablement	1 ²	0	0
Risk observations, including positive observations (in total/per man-year worked)	69 534/ 6.7 Target: 9 Actual: 6.7	66 300 / 7.1 Target: 8.5 Actual: 7.1	33 069 / 4.5 Target: 7.0 Actual: 4.5
Sick leave rate (%)	Target: <4,3% Actual: 4.4%	Target: <4,5% Actual: 5,1%	Target: <4.8% Actual: 5.75%
HSSE training as percentage of total worked hours	Target: > 0.9% Actual: 1.2%	Target: >0.9% Actual: 1.2%	Target: >0.8% Actual: 1.03%
HSSE inspections - in total/per person-year worked	30 328/ 2.9 Target: >2 Actual: 2.9	40 561/ 4.3 Target: >2 Actual: 4.3	27 599 / 3.7 Target: >2 Actual: 3.7
HSSE task risk analyses - in total/per person-year worked	235 895 / 23 Target: > 15 Actual: 23	172 143 / 18.4 Target: >15 Actual: 18.4	140 958 /19,2 Target: >15 Actual: 19.2
Total person-hours worked (staff and contractors)	20 159 343	17 948 085	14 097 795
Lost Time Incident Frequency (LTIF), including suppliers and sub-contractors (per 1 million worked hours)	Target: 0 Actual: 0.35	Target: 0 Actual: 0.28	Target: 0 Actual: 0.28
Total Recordable Incident Frequency (TRIF) including suppliers and subcontractors (per 1 million worked hours)	Target: <1 Actual: 2.3	Target: <1.5 Actual: 2.5	Target: <2 Actual: 1.92
Energy intensity (MWH per million worked hours)	3 781	3 281	2 635
CO ₂ emissions (tonnes per million worked hours)	231	268	104
Total waste (tonnes)	3 913	3 977 ³	3 940
Recycling factor (%) (*within own sites)	70	85	91

1) Fatality at Kvaerner's demolition site Eldøyane at Stord.

2) Workers foot got hit by a pipe behind steel tip of safety shoes, resulting in amputation of part of the three middle toes.

3) A waste inspection was performed at Stord by the County Administration (Fylkesmannen) at 8th of December looking at conformance to legislation on pollution. One deviation was identified related to declaration of hazardous waste form sand traps, and one comment made regarding metering of water from oil separator. Actions are taken to improve the metering programme and the waste declaration process.



Caring about business integrity

Compliance with national, regional and international legislation and conventions is mandatory in Kvaerner, but business integrity extends beyond simple compliance. Kvaerner shall emphasise conducting business in a manner that makes people proud of working with, and for, Kvaerner.

The business integrity programme

Kvaerner's business integrity programme is owned by the Head of Compliance. The executive management team and the Board's Audit Committee conduct regular reviews of the business integrity programme and progress of ongoing actions. Leaders are expected to actively lead, promote and implement the business integrity programme, as well as being role models. The programme covers the items covered by Kvaerner's Business Integrity Policy, shown in the table below. The business integrity programme is divided into preventive, detectable and responsive activities. The programme is built upon the key principles set out in the UK Bribery Act, guidance given by Transparency International on how to build up an anti-corruption program, as well as best practices collected from other companies and organisations. The key activities within each of these three areas are shown in the table to the right.

In 2016, the Business Integrity Policy was reviewed and updated to include a section on export control and sanctions.

Training programmes

The business integrity training programme consists of classroom trainings and eLearning modules and is built up according to expectations in laws and regulations and expectations from our stakeholders.

In 2012, 99 percent of the employees participated in in-depth classroom training on business integrity. Since then all new employees participate in the mandatory face-to-face classroom induction training, which includes a module on business integrity.

Kvaerner's Code of Conduct

Kvaerner's **Business Integrity Policy** covers:

A: Human rights:

- > Freedom of expression
- > Freedom of association and collective bargaining
- > Labour standards
- > Forced labour
- > Child labour
- > Minority rights
- > Discrimination, harassment and bullying
- > Purchase of sexual services

B: Corruption and improper payments:

- > Corruption and bribery
- > Facilitation payments
- > Gifts
- > Entertainment expenses
- > Conflict of interest
- > Charitable donations and sponsorships
- > Contribution to political organisations
- > Fair business competition
- > Maintaining accurate and truthful books and financial records
- > Export controls and sanctions

C: Fraud

Kvaerner's business integrity programme

Prevention

- > Clear and visible communication at all levels in the organizations
- > Continuous risk assessments
- > Solid governing documents
- > Extensive training programs
- > Risk based integrity due diligences of external parties: partners, third party representatives, suppliers, subcontractors and clients
- > Learning from other companies and organizations – share own experience

Detection

- > Effective channels for reporting of concerns/whistleblowing
- > Risk-based inspections, reviews and audits
- > Close monitoring, follow-up of improvement actions

Response

- > Investigation of all reported concerns/whistleblowing
- > Consistent implementation of response actions

"In fourth quarter 2016 Kvaerner organized a new mandatory campaign for all employees"

In 2016, Kvaerner ran a series of face-to-face trainings for employees in highly exposed roles. Examples of highly exposed roles are all managerial positions, procurement/supply and subcontract management, business development, members of project management teams and discipline leads, legal, human resources and finance roles. All training is recorded and reported, and each participant signs-off after participation.

In 2013, Kvaerner launched a set of six eLearning modules covering substantial topics on Business Integrity and 99 percent of the employees completed a selection of these modules. Based on the feedback received from the employees after the campaign, the modules have been updated and also later adapted to the new Kvaerner organisation. In fourth quarter 2016 Kvaerner organized a new mandatory campaign for all employees. Each module consists of an introduction, summarising Kvaerner's business integrity policy on the particular subject. Furthermore, the participants practice their knowledge by solving practical cases within the respective modules and answer questions in a quiz.

Risk based integrity due diligences of external parties

During 2016, Kvaerner has experienced an increased focus from our customers with regards to both the pre-qualification and the follow-up of suppliers and subcontractors, in particular within the

labour conditions area. Kvaerner has, in 2016, continued to strengthen the focus on business integrity as part of the pre-qualification process.

Reporting of concerns - whistleblowing

Kvaerner encourages its employees, as well as contract staff, partners, suppliers and customers, to report any concerns in terms of compliance with law and/or ethical standards. In 2016, Corporate Compliance received eight reports, compared to 18 reports in 2015 and 13 reports in 2014. The majority of the whistleblowing reports are related to labour conditions, discrimination and bullying/harassment. The people survey executed in October 2016 showed that the knowledge of the whistleblowing channel is on the low side, and increasing the knowledge on this channel will be a focus area going forward.

Human rights

Labour conditions

Kvaerner has, in 2016, continued to strengthen the prequalification and follow-up routines of suppliers with respect to human rights, in particular within the area of labour conditions. Several audits were executed in 2016 and the goal is to increase the number of audits within this area in 2017.

Harassment, bullying and discrimination

The Code of Conduct states that all Kvaerner employees shall be entitled to a workplace which is free from harassment and discrimination.



"In Kvaerner audits are used as both a strong preventive tool and as a detective tool"



Updated Business integrity eLearning programme

All employees shall participate in eLearning training on business integrity in November and December 2016.

Employees will receive an invitation with links to the appropriate eLearning modules. Blue collar employees at Stord, Verdal and Nyhamna not using PCs in their daily work, will have the opportunity to use designated stations with PCs.

Start-up 1 November 2016.

More information on kNet and onekvaerner.com

KVAERNER

The business integrity training programme consists of classroom trainings and eLearning modules and is built up according to expectations in laws and regulations and expectations from our stakeholders.

- > Compliance with trade restrictions (authorities, financial institutions)
- > Bribery and other forms of financial irregularity
- > Conflict of interest in relation to clients, suppliers and partners
- > Trading in influence

In Kvaerner audits are used as both a strong preventive tool and as a detective tool. In 2015, Kvaerner executed an audit of the Russian business development activities with focus on finance, procurement and regulatory compliance. In 2016, Kvaerner executed an audit of the ongoing business development activities in Iran. The audit focused on verification of contract between Kvaerner and external parties, verification of documentation related to meetings with external parties and internal processes related to travel expense reports and financial control routines. Several improvement areas were identified both in roles and responsibilities and processes.

In 2016, various media brought forward allegations about a former supplier of Aker Kvaerner named Unaoil and its business practices in several countries, including Kazakhstan. Unaoil was, in 2007, contracted by the former Aker Kvaerner to assist with project execution in the Cas-

Corruption and improper payments

Kvaerner has local offices and activities which engage suppliers and subcontractors from many countries around the world. Kvaerner does not tolerate violations of the company's business integrity codes, and demands that its business partners operate by the same principles.

During 2016, Kvaerner continued its work on international business opportunities, some of these in Russia and Iran with inherently high corruption risks. It is acknowl-

edged by all levels of management in Kvaerner, that doing business in countries like Russia and Iran requires special attention to issues of compliance and requires a high focus on risk assessment and implementing effective proactive risk reducing actions.

The annual risk review for 2016, presented to Kvaerner's Board of Directors in September 2016, identified the business development activities in Russia and Iran as the number one risk within the compliance area due to:

Integrity *noun*

1. Moral or ethical strength.
2. The quality of being honest.
3. The condition of being free from hypocrisy.
4. The state of being entirely consistent.

pian Sea region. Kvaerner believes that its project execution in the Caspian Sea was conducted properly and within the relevant frameworks for good integrity. For further information, please see the statement published in April 2016 on Kvaerner's work in the Caspian Sea: <http://www.kvaerner.com/toolsmenu/Media/New-media-page/Kvaerners-work-for-the-Kashagan-project-in-the-Caspian-Sea/>

Main business integrity direction 2017

The key business integrity focus areas for 2017 are to secure compliance with our governing documentation. This will be done through:

- > High focus on preventive actions – risk based approach
 - Continue targeted trainings of exposed personnel and induction training of all new personnel
 - Risk based integrity due diligence of external parties
 - Close compliance follow-up of activities in inherent high risk countries such as Russia and Iran
- > High focus on detective actions – risk based approach
 - Monitoring and inspections
 - Increased used of on-site audits of external parties
- > Consistently implement response actions

Key performance indicators

Corporate internal audits within business integrity

Year	Scope
2014	Target: 2 Result: 2 Completed: 1. Audit within bribery and facilitation payments related to import of materials and passport/visa/working permits 2. Audit within bribery and conflict of interest related to selection of suppliers and subcontractors
2015	Target: 1 Result: 1 Completed: 1. Audit of Russia activities with focus on finance, procurement and regulatory
2016	Target: 1 Result: 1 Completed: Audit of Iran business development activities

Year	2014	2015	2016
Number of reported concerns via the whistleblowing channel to the Head of Compliance	13	18	8

"Kvaerner does not tolerate violations of the company's business integrity codes"

Business integrity training face-to-face courses (Kvaerner own developed material)

Topic	2014	2015	2016
% Employees trained in in-depth face-to-face courses	Target: All new in exposed roles Actual: 94%	Target: All new in exposed roles Actual: 90%	Target 1: All new in exposed roles Actual: 90% Target 2: In-depth updated training of all employees in exposed roles: 10% Actual: 8%
% New employees and contract staff trained in Induction training	Target: 98% Actual: 98%	Target: 98% Actual: 98%	Target: 98% Actual: 98%

Business integrity eLearning modules

Topic	2015 Completed in % of target	2016 Completed in % of target	Target 2017
Kvaerner own developed modules:			
> Corruption, bribery and facilitation payments	100%	Target: all new employees	Target: 100% Actual: 41% Note: deadline extended due to heavy project activity load in November and December 2016. New target is 100% completion by Q1 2017.
> Gifts and entertainment	60%		
> Discrimination, harassment and bullying	57%		
> Conflict of interest	64%		
> Labour conditions	95%		
Aker ASA module on corruption - launched in 2015	NA	Target: 100% Actual: 100%	NA



Children from Ekaterinovka Children's Home in Russia, which is supported by Kvaerner.

Caring about the community

Kvaerner employees are challenged to look for opportunities that benefit the society and our business. In addition to our own initiatives, we also support our customers' corporate responsibility programmes.

In 2016 Statoil launched a campaign to visualise how important the oil and gas industry is to value creation, employment and welfare in Norway. Kvaerner was invited by Statoil to contribute with views on challenges and opportunities. The campaign has been named "When sensible advice is young".

In all Kvaerner projects we seek to employ and train local staff. It is important for us to be a responsible employer, and Kvaerner contributes to local value creation by facilitating a higher degree of competence in both local employees and local contract staff. Local content is a key factor for many oil and gas projects. Kvaerner has long and documented experience of contributing to local content and establishing long-term local value creation through both the use of local suppliers and through training and effectively integrating local subcontractors.

All sponsoring relationships shall be strategic and aligned with Kvaerner's values. Furthermore, all sponsoring relationships shall be structured as 'win-win situations', whereby both parties achieve some gain. Several charitable donations were made to benefit local society, charity organisations or other non-profit organisations during 2016. The main areas for these donations were education, health, sports, culture, support to nongovernmental organisations, and other social welfare causes.



Children's christmas party at Kvaerner's yard at Stord.

Company information

Any questions regarding this report or its contents can be directed to:

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