







# Annual Report 2017

# User guide

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**KVÆRNER™**

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# Board of Directors' report 2017

## Operational highlights

### New contracts secured

- Offshore hook-up of the riser platform for the Johan Sverdrup field
- Decommissioning contract from Saipem to dismantle and recycle a North Sea platform
- NOK 5 billion contract from Statoil for the complete upgrade of the Njord A platform
- FEED study for Statoil on Johan Sverdrup Phase 2 for P2 Jacket
- Framework agreement with Aker BP for construction and hook-up of fixed offshore platforms
- Decommissioning contract with A/S Norske Shell for disposal and demolition of the subsea compression pilot at Nyhamna
- Engineering and marine operations to tow out and install Husky Energy's West White Rose concrete gravity structure
- Construction of a permanent caisson support structure for the Yme New Development project, for Repsol Norge AS
- NOK 1 billion contract for delivery of topside and steel jacket substructure for Valhall Flank West
- Contract with Nord Stream 2 AG for delivery of onshore facilities for a new Russian gas export pipeline

### Key project milestones and deliveries

- Nyhamna: main scope related to expansion of gas facility completed within 2017 as planned, close-out activities and assistance to Shell continue into 2018

- Johan Sverdrup riser platform jacket: completed on schedule in June with sail-away from Verdal in July
- Johan Sverdrup drilling platform jacket: all four roll-ups completed as planned, three out of four pile clusters in place
- Johan Sverdrup process platform jackets: two roll-ups completed, three out of four pile clusters assembled
- Johan Sverdrup utility and living quarter topside (ULQ): the majority of prefabricated modules pre-assembled and lifted in place, and load-out to barge completed in November as planned
- Hebron: platform tow-out and set-down completed mid-June, with first oil achieved late November
- Njord A: dock phase at Stord completed and platform towed out of dock as planned in September
- Aasta Hansteen: SPAR sub-structure arrived at Stord mid-July, topside arrived in December for mating at Kvaerner's deep water facilities in Digernessundet, Stord

### Strategic development

Kvaerner expects that the market for delivery of new offshore platforms will be characterised by a reduced share of large installations, and a higher share of medium and smaller platforms. The customers are increasingly interested in contractors who can offer industrialised concepts which contribute to reduced costs.

Kvaerner has therefore strategically increased efforts to develop more standardised solutions and delivery models. The contract with Aker BP to deliver a platform for

the Valhall West Flank is one example of a breakthrough for Kvaerner's development of simple, smaller platform concepts.

Several improvement initiatives launched over recent years have been successfully concluded in 2017, and the cost level for upcoming projects has typically been reduced by more than 20 percent. Continuous improvement has become part of normal operations, and through 2017 Kvaerner has taken steps to further reduce costs and increase productivity and quality. In addition, ongoing projects have successfully proven the competitive effect of sourcing certain components from international low cost suppliers. Refinement of this cost effective delivery model will be key in the strategic development throughout 2018, as this is vital for Kvaerner's competitive position.

Whilst delivery of new-build offshore installations remains Kvaerner's core market, systematic steps are being taken in parallel to develop business in adjacent segments. Examples of such business include the upgrade of existing platforms, such as the ongoing Njord A project, or work at onshore plants, such as the project at Nyhamna. Experience data from the use of robotisation and automatisations in current projects has been analysed, and forms part of the foundation for a strategy to step up digitalisation as a tool to further increase competitiveness. Investment in digital systems will continue through 2018 and beyond, and will be integrated into the majority of Kvaerner's activities.

The foundation of Kvaerner's competitive position is the combination of effective yard facilities at Stord and Verdal,

together with employees with industry leading skills and experience. In 2017 the company has continued to invest in upgrading its facilities. The One Kvaerner Academy has been established and will be rolled out through 2018 as an umbrella covering all internal training. This coordinated approach to training and sharing of best practices will increase Kvaerner's competitiveness and strengthen its ability to retain and attract the most talented people.

In addition to organic strategic development, Kvaerner will also consider selected structural measures to grow and create an even more robust company, if the right opportunities arise.

## Business overview

### Principle operations

Kvaerner is one of the industry's market leaders for delivery of complete offshore platforms and onshore plants for oil and gas upstream projects. The company has been a key contractor for around 70 percent of the platform development projects on the Norwegian continental shelf. Kvaerner has also delivered a number of challenging offshore projects elsewhere in the world.

The track record includes 46 steel jackets delivered in 45 years. For concrete substructures to field developments globally, Kvaerner is the undisputed market leader with two dozen reference projects. Kvaerner has also been a key contractor for seven out of the seven largest onshore oil and gas plants in Norway.

In addition, Kvaerner has been a front runner for establishing the first purpose-built facility for effective and environmentally friendly decommissioning and recycling of offshore platforms after shut down. The company has extensive experience from decommissioning of offshore installations from both the Norwegian and UK continental shelf, with a recycling rate of more than 99 percent.

Kvaerner has a particularly strong position for projects where engineering, procurement and construction (EPC) are integrated in one contract. With the technical complexity of large oil and gas installations with a relatively short schedule for delivery, there are few contractors world-wide who have credible expertise for such complete deliveries.

The more efficient matrix-based organisational structure which was introduced in 2016 has been fully leveraged in 2017 to ensure effective use of common resources across Kvaerner and to provide the best possible support to Kvaerner's projects. The execution of all key projects are organised as one of the three operational areas' responsibility:

- Process Solutions: Responsible for delivering contracts for platform topsides and onshore facilities. Current projects include execution of the Johan Sverdrup ULQ project, the Nyhamna Onshore project, and the EPC upgrade of the Njord A platform
- Structural Solutions: Responsible for steel jacket substructure projects, including three jackets for the Johan Sverdrup field development. Also responsible for Kvaerner's Subsea on a Stick® concept and the high-tech piping manufacturing plant which is integrated in the facility in Verdal. Current projects include two EPC contracts for jackets to the Johan Sverdrup field, FEED study for Statoil on Johan Sverdrup Phase two P2 Jacket, the topside and steel jacket substructure for Valhall Flank West, plus several smaller projects within piping technology
- Concrete & New Solutions: Responsible for concrete marine structures projects. Also responsible for hook-up, completion, decommissioning and business opportunities in adjacent segments. Current projects include studies for customers related to Kvaerner's concepts for Arctic LNG, assistance for hook-up and commissioning related to the Aasta Hansteen platform, and the offshore hook-up of the Johan Sverdrup riser platform. The dismantling and recycling of a North Sea platform, the marine operations for the West White Rose concrete gravity structure offshore Canada, the Nord Stream 2 project and study work for offshore wind power projects are also part of the ongoing activities

### Strategic partnerships and use of subcontractors

Kvaerner's business model includes a clear strategy to use long term partners and subcontractors in order to optimise the value chain for its project delivery models. The joint

venture with KBR as a partner for the ongoing Johan Sverdrup ULQ topside contract, and the wellhead platform alliance established in 2017 with Aker BP, Kvaerner, ABB and Aker Solutions, illustrates potential synergy effects of such partnerships. Kvaerner has a continuous focus to develop and build on effective and flexible delivery models, and optimise contributions from external partners.

### Project Execution Model

Kvaerner's Project Execution Model PEM™ is based on 40 years' experience with complex oil and gas industry projects. The model is continuously improved by including learnings and experiences from execution of EPC projects. The PEM™ ensures that the work progresses in a controlled manner and that Kvaerner meets its business objectives. Consequently, the PEM™ contributes to maintain Kvaerner's record of safe and successful project execution.

The Kvaerner PEM™ shall safeguard safety, the environment, quality and cost efficiency by securing:

- Quality in deliveries by proper quality planning, assurance and control throughout the value chain, where strong efforts shall be invested in the early phases giving optimum return on investment
- Continuous improvement of processes and products. Lessons learnt from previous projects are always taken into account
- Predictability in project execution and operations by using standard and transparent methodology well known to the teams
- Coordinated efforts across disciplines based on understanding of interactions between work processes
- Control of internal and external interfaces as a foundation for a successful project execution
- Effective management within the defined scope, quality, resources (time and budget) and risk criteria
- That appropriate governance and control are developed, executed and monitored throughout the project's life-time

## Markets and target regions

### Markets

The fundamental driver for Kvaerner's business is global demand for oil and gas. In recent years, the dynamics in the oil and gas industry have been highly volatile, with an oversupply of both oil and gas. As a consequence, oil and gas prices have fallen significantly below the levels seen in 2013 and 2014. Despite the uptick in oil price during 2016–17, several analysts now suggest a lower-for-longer oil price scenario and oil companies have lowered their planning prices. As a result, some field developments have been postponed. For those developments still being pursued, commercial terms and conditions are under significant pressure. Competition remains fierce, both from Norwegian and international companies. Overall greenfield capex spend has fallen in recent years, though this decline now seems to have levelled out. Compared to one year ago, tendering activity is notably higher.

### Target regions

Kvaerner's traditional home market, the North Sea, is evolving as the Norwegian continental shelf is becoming more mature. As a consequence, more tie-ins and associated host platform modifications are anticipated in the North Sea and Norwegian Sea. Gradually, Kvaerner expects to see more opportunities in the Barents Sea and, thus, an increasing share of floating production facilities relative to fixed platforms.

Kvaerner offers effective execution of challenging projects, particularly for developments in regions with harsh weather conditions. Geographically, Kvaerner has a strong position for oil and gas projects in the North Sea, Canada and Russia. For the market in Russia, the geopolitical situation with trade restrictions may limit some opportunities.

Kvaerner has a network of offices around the world for studies and business development. Outside Norway, Kvaerner currently has offices in London, UK; Houston, USA; Moscow, Russia; St. John's, Canada; Beijing, China and Ulvila, Finland. In Norway, Kvaerner has facilities in Verdal, Trondheim, Molde, Stord and Fornebu.

### Market segments

Kvaerner remains focused on upstream oil and gas projects, and pursue opportunities within the following market segments:

- EPC projects for fixed and floating oil and gas production facilities
- EPC projects for steel and concrete substructures for offshore platforms
- EPC projects for onshore oil and gas upstream facilities
- EPC projects for larger rebuilds/refurbishment of offshore platforms/onshore plants
- Separate contracts for assembly, hook-up, completion, commissioning of offshore platforms and onshore plants
- Separate contracts for engineering, procurement, fabrication or project managements related to offshore platforms or onshore plants
- Unmanned wellhead platforms for tieback of satellite fields and reservoirs
- Major modifications and redeployments of offshore facilities
- Decommissioning of offshore installations
- Kvaerner also monitors other segments in which its competence and experience from the oil and gas industry may be relevant, such as offshore wind and fish farming.

### Objectives and strategic direction

Kvaerner's ambition is to support oil companies in developing their most challenging projects.

Kvaerner's mission as a supplier in this industry is clear: Kvaerner makes it possible for its customers to realise the world's most amazing and demanding projects. Kvaerner makes it possible for clients and societies to realise energy projects for prosperity, in balance with a target of zero harm to people, property and the environment.

### Strategic direction

With lower oil prices and significant pressure on commercial terms and conditions, Kvaerner continues its efforts to further improve competitiveness. Kvaerner has a strong track record of delivery on time and with expected

quality and will continue its focus on improving the company's delivery model and cost position. The company has seen positive effects of this during recent years and expects to see further benefits from these efforts when bidding for projects in 2018 and onwards.

Against this background, Kvaerner's focus for the coming years is to:

- Successfully execute its existing backlog
- Continue cost and operational improvement initiatives
- Achieve a profitable development of business opportunities in adjacent market segments
- Gradually strengthen its position as a leading EPC player

### Report for 2017

#### Financials

Kvaerner presents its accounts in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. Unless otherwise specified, figures in brackets represent figures for the previous year (2016).

#### Profit and loss

Consolidated operating revenue for 2017 was NOK 6 536 million (NOK 7 896 million). Lower revenue compared to 2016 is mainly due to lower activity within operational areas Process Solutions and Structural Solutions.

Earnings before interest, taxes, depreciation, amortisation and impairment (EBITDA) were NOK 799 million for 2017 (NOK 629 million).

The group's key measure of financial performance is Adjusted EBITDA. Adjusted EBITDA excludes impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities. Refer to [Note 4 Operating segments \(page 26\)](#) to see how the adjusted EBITDA measure is derived from the consolidated financial statements.

Adjusted EBITDA amounted to NOK 786 million, an increase of NOK 107 million from 2016 (NOK 680 million). The adjusted EBITDA margin for 2017 was 12 percent (8.6 percent). The positive margin development reflects improved quality performance in the ongoing project portfolio as well

as in the projects that were completed during 2017. The result for the year is further positively impacted by achieved milestone incentives and close out activities.

Adjusted EBITDA excludes NOK 12 million income accounting impact from embedded foreign currency derivatives, related to equity accounted investees closely related to Kvaerner's operating activities (NOK 50 million loss).

Depreciation and amortisation charges totalled NOK 106 million, an increase of NOK 5 million from 2016 (NOK 100 million), an increase mainly reflecting full year depreciation of capital investments made at the Verdalen yard in 2016. Capitalised intangibles in previous years of NOK 15 million have been impaired. This impairment is offset by reversal of excess depreciation charge in previous years, NOK 14 million. Consolidated earnings before interest and taxes (EBIT) were NOK 693 million (NOK 331 million). Net financial income amounted to NOK 4 million (expense of NOK 117 million) and include accounting loss on embedded derivatives of NOK 2 million (loss of NOK 128 million), net interest income of NOK 2 million (expense of NOK 4 million), other financial expenses of NOK 2 million (expenses of NOK 8 million) and net foreign exchange gain of NOK 6 million (gain of NOK 1 million). Profit/loss on foreign currency contracts was NOK nil million (profit of NOK 22 million). Foreign currency embedded derivatives impact is reflecting accounting effects of awarded multicurrency contracts. Profit/loss on foreign currency contracts is related to hedging instruments not qualifying for hedge accounting.

The tax expense was NOK 186 million (NOK 132 million), which corresponded to an effective tax rate of 27 percent (62 percent). Compared to the nominal Norwegian statutory tax rate in 2017 of 24 percent, the effective tax rate reflects various tax reconciling items. Items increasing the tax charge are related to prior year adjustments, deferred tax assets not recognised on losses in some jurisdictions and higher tax rate in some jurisdictions in which the group operates. Items decreasing the tax charge are related to permanent differences and change in tax rate in Norway as from 2018 from 24 to 23 percent. Profit from continuing

operations amounted to NOK 511 million (NOK 82 million), and basic and diluted earnings per share from continuing operations were NOK 1.92 (NOK 0.31).

Net profit from discontinued operations was NOK 31 million (NOK 345 million). The result reflects net insurance recoveries related to the Longview Power project of more than USD 5 million (more than USD 23 million) and tax refund. The result for 2016 was positively impacted by foreign exchange accounting effect on repayment of capital from subsidiaries of NOK 261 million. Basic and diluted earnings per share for discontinued operations were NOK 0.12 (NOK 1.30).

Net profit for total operations in 2017 was NOK 542 million (NOK 426 million), with basic and diluted earnings per share of NOK 2.04 (NOK 1.60). The increase from last year's result is due to improved EBITDA, reduced negative accounting effect on embedded derivatives and no goodwill impairment charges, partly offset by higher tax charges and lower result from discontinued operations.

#### Cash flow

Consolidated cash flow from operating activities depend on a number of factors, including progress on and delivery of projects, changes in working capital and pre-payments from customers. Net cash outflow from operating activities was NOK 113 million in 2017 (inflow of NOK 1 718 million). The decrease mainly reflects increased working capital, partly offset by increased adjusted EBITDA. Cash inflow in 2016 was positively impacted by settlement on the Longview Power project of USD 70 million and net insurance recovery of USD 23 million related to the same project.

Net cash outflow from investing activities in 2017 was NOK 93 million (outflow of NOK 201 million) and mainly relate to capacity and maintenance investments at the facilities at Stord and in Verdalen, Norway. Of this, NOK 10 million is capitalised expenses related to intangible assets. A total maintenance capex for the group of approximately NOK 30–50 million is expected annually. Additional strategic and capacity investments at the yards such as equipment and digitalisation tools may increase capex in 2018.

Net cash outflow from financing activities was NOK 27 million in 2017 (outflow of NOK 30 million), reflecting fees on credit facility and transactions in own shares.

#### Balance sheet and liquidity

The group's total assets were NOK 5 823 million on 31 December 2017 (NOK 5 980 million). Net current operating assets (NCOA) were negative NOK 650 million at year-end, an increase of NOK 884 million from the end of 2016 (negative NOK 1 534 million). The working capital is expected to increase in 2018 which will have a negative impact on the group's cash flow due to projects being completed and an increased number of smaller projects in the group's project portfolio. Movements in working capital will impact cash balances and at year-end 2017, net cash excluding negative NCOA was NOK 2 163 million. Equity as of 31 December 2017 totalled NOK 3 176 million (NOK 2 656 million). The group's equity ratio was 54.5 percent at year-end 2017, compared with 44.4 percent at year-end 2016.

The loan agreement that was refinanced in July 2015, a revolving credit facility of NOK 2 000 million, is maturing in July 2020. The facility is provided by a syndicate of high quality international banks. The revolving credit facility was undrawn per 31 December 2017. The terms and conditions include restrictions which are customary for these kinds of facilities, including inter alia negative pledge provisions and restrictions related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreement. There are no restrictions for dividend payments. The facility is unsecured.

The financial covenants are based on three sets of key financial ratios; an equity ratio based on consolidated total borrowings/consolidated total equity, a cash covenant calculated by consolidated total borrowings less consolidated net current operating assets and consolidated cash and cash equivalent assets and an interest coverage ratio based on consolidated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2017 the company is in compliance with all covenants. The margin applicable to the facility is based on a price grid determined by the gearing ratio.

Consolidated non-current assets totalled NOK 1 474 million (NOK 1 505 million) as of 31 December 2017, of which goodwill amounted to NOK 607 million (NOK 607 million). Net interest-bearing deposits and loans amounted to NOK 2 812 million at the end of 2017 (NOK 3 047 million). With undrawn, committed, long-term credit facilities of NOK 2 billion, the Board considers available capital adequacy and liquidity as good and ensures that Kvaerner is well positioned to meet the challenges and opportunities over the coming years.

### Segment review

Kvaerner does not have any remaining operations in the US within the Downstream & Industrials segment, and remaining legacies within the segment are presented as discontinued operations in the group's financial statements. Consequently, Kvaerner continues to have one reportable segment; Field Development.

Kvaerner has a matrix based organisational model, with operational areas and resource centres, where the projects are the main focus. The Field Development segment includes the following operational areas: Process Solutions delivering topsides, floaters and onshore upstream facilities; Structural Solutions delivering large steel jackets for oil and gas installations; Concrete and New Solutions delivering concrete substructures, performing hook-up, decommissioning and completion projects and working with new strategic initiatives.

### Field Development

Operating revenues in 2017 totalled NOK 7 625 million (NOK 10 364 million). EBITDA was NOK 846 million (NOK 741 million), with an EBITDA margin of 11.1 percent, an increase from 7.1 percent in 2016. Reduced activity is mainly within operational area Process Solutions, but activity has also been lower within Concrete and New Solutions and Structural Solutions due to completion of major projects. The positive development in EBITDA and margin reflects that Kvaerner has improved quality performance in the ongoing project portfolio as well as in the projects that were completed during 2017. The result

for the year is further positively impacted by achieved milestone incentives and close out activities.

Order intake for the year amounted to NOK 9 215 million (NOK 2 938 million) and reflects new secured contracts, listed under Operational highlights in this report, growth in existing projects and smaller orders. Order backlog as of 31 December 2017 was NOK 8 077 million (NOK 6 459 million).

Process Solutions' activity in the year was mainly related to the Nyhamna onshore project, Johan Sverdrup ULQ topside and the Njord A Future project.

Kvaerner's work with the Nyhamna Expansion project started in 2012. The contract for upgrading of the onshore gas processing and export facility has included planning and project management, engineering, procurement, construction management, completion and commissioning. Kvaerner has also assisted in the comprehensive periodical turnarounds for maintenance during this period. In 2017, focus was on commissioning of systems for start-up. What has been one of the largest industrial developments in Northern Europe in recent years has been completed in line with plans, and with zero serious harm to people or to the environment. During the first part of 2018, Kvaerner will be involved in some final work and close-out activities, and in supporting Shell's project organisation in taking over the facility.

In 2015, Kvaerner, in a joint venture with KBR, was awarded the contract for the complete delivery of the utility and living quarter platform topside to the Johan Sverdrup field development. The project has been progressing according to schedule, and all milestones in 2017 were achieved. Main deliveries from subcontractors in Poland were completed by end of June as planned and the focus in construction has been the outfitting and installations of modules. In November 2017 the load out and jacking of the platform up to 13 metres was successfully executed on time. At year-end, accommodation modules from Leirvik were installed, and the accommodation modules from Emtunga arrived at Kvaerner's yard at Stord. The ULQ topside is on track to be delivered first quarter 2019.

The Njord A platform moored at Stord in August 2016 and Kvaerner was awarded the contract for complete upgrade of the platform in March 2017. The critical dry dock phase was completed as planned in September, including fabrication and installation of new pontoons and reinforcement of the existing hull. The platform was moved from the dry dock to the Maureen quay in early September 2017, where the remaining upgrade work will continue until planned delivery in 2020.

Structural Solutions will deliver the three largest steel jacket substructures to the Johan Sverdrup field development. The riser platform jacket was completed on schedule in June with sailaway from Verdal in July. In June, four pile clusters for the drilling platform jacket arrived from Dubai. Assembly of the drilling platform jacket is proceeding in Verdal according to plan, and important milestones for the project were achieved, being the last roll-up of the four main frames in October and installation of the third pile cluster in December 2017. This jacket will be delivered in spring 2018. For the production platform jacket to be delivered in summer 2018, prefabrication and assembly of the jacket and the four pile clusters is ongoing in Verdal. Planning, procurement and preparatory work for the construction of a permanent caisson support structure for the Yme New Development project started in the autumn with delivery due in June 2018. The arbitration process for the Nordsee Ost project is still ongoing and will take time due to its high complexity. It is currently not possible to estimate when the arbitration will be finalised. Please see [Note 18](#) Provisions and contingent liabilities ([page 47](#)), for further details.

Within Concrete & New Solutions, the Hebron gravity based structure (GBS) project was completed in 2017. The main activities the first part of the year were related to hook-up work, removal of temporary material and preparation for tow to field. In May 2017 the tow to field and installation phase was successfully completed, followed by project close out activities towards the end of the year. The project is a 50/50 joint venture between Peter Kiewit Infrastructure and Kvaerner. Kvaerner has also assisted with the completion of the cylindrical substructure (spar)

for Aasta Hansteen and preparation for hook-up with the topside since June. From December until early spring 2018, Kvaerner will perform completion work while the platform is anchored in Digernessundet outside Stord on the west coast of Norway. Kvaerner will also assist Statoil with offshore hook-up and preparations for production in 2018.

### Discontinued operations

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

In March 2016, settlement agreements were reached with Amec Foster Wheeler North America Corp of all claims related to the Longview Power project. Kvaerner received the settlement amount of USD 70 million in March 2016, replacing recognised receivable with cash in the balance sheet.

Net profit from discontinued operations was NOK 31 million (NOK 345 million). The positive operating results for 2017 is reflecting recognition of insurance recoveries of more than net USD 5 million in 2017 and more than USD 23 million in 2016 related to the Longview Power project. The result for 2016 was further significantly impacted by a foreign exchange accounting effect of NOK 261 million on repayment of capital. Please see [Note 26](#) Discontinued operations ([page 57](#)) for Summary of financial data for discontinued operations.

### Corporate and unallocated costs

For the full year, unallocated costs were NOK 60 million (NOK 61 million). It is expected that the recurring level of net corporate costs will be approximately NOK 60–70 million annually.

### Going concern

Based on the group's financial results and position described above, the Board of Directors confirms that the

company is a going concern and that the annual accounts for 2017 have been prepared under this assumption.

### Parent company accounts

The parent company, Kværner ASA, had a net loss of NOK 32 million for 2017 (loss of NOK 26 million). Kværner ASA has no employees and operating expenses are mainly shareholder costs for the parent holding company. The parent company's main asset is shareholdings in subsidiaries. Equity ratio was 62.1 percent at year-end 2017 (62.7 percent).

### Dividend policy

The dividend policy reflects that retaining a solid balance sheet and cash position is a priority.

Kværner ASA's dividend policy is based on semi-annual dividend payments. Decisions as to dividend payments depend on outlook, liquidity and considerations such as alternative use of cash and strengthening of the company's financial structure. In periods of weak economic conditions, the dividend can be paid-out as long as the group's capital structure permits. The Board approves interim dividends based on an authorisation from the General Meeting, while the Annual General Meeting approves the final (and total annual) dividend based on a proposal from the Board of Directors.

No dividends were paid in 2017.

### Allocation of net results

The Board of Directors thereby proposes the following allocation of net loss in Kværner ASA:

Transferred from other equity	(NOK 32 million)
Total allocated	(NOK 32 million)

Total equity in Kværner ASA after the proposed allocation of net loss amounts to NOK 4 345 million (NOK 4 367 million).

### Events after the balance sheet date

There have been no subsequent events since year-end at the date of signing these accounts.

### Dividend

The Board of Directors has proposed no dividend distribution for second half of 2017. The solid financial position is a competitive lever when Kvaerner is positioning for new contracts. The market decline seems to be levelling out but the outcome of key prospects is still uncertain. Also, the future market is expected to change towards fewer new large platforms and increased share of smaller units and modifications projects that requires more working capital. The solid financial position supports Kvaerner's ongoing strategy to successfully adapt to this market environment. Furthermore, the financial position provides flexibility to selectively follow up structural opportunities and further develop selected growth segments.

### Corporate governance

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

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

The Board of Directors sets the strategic direction, the overall governance structure, values and policies in accordance with Norwegian legislation and frameworks. Kvaerner has a Code of Conduct and a set of global policies and procedures which provides direction on acceptable performance and guides decision-making in all parts of the company. All Kvaerner policies are subject to an annual review and, when deemed necessary, updates are made.

As set out in the Norwegian Public Limited Liability Companies Act, Kvaerner's Board of Directors has established an Audit Committee, currently consisting of the Directors Lone Fønss Schrøder (Chair), Thorhild Widvey and Rune Rafdal. The Board has also established a Remuneration Committee, with the Directors Leif-Arne Langøy (Chair), Tore Torvund and Thorhild Widvey as members.

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

### Risk management

As a key work process for securing Kvaerner's business, the company actively works to identify and manage risk related to all aspects of its operations. This applies both to projects and in the corporate organisation.

Kvaerner's mission is to realise complex projects, and the management of risk in these projects is instrumental to success. All Kvaerner's projects maintain a risk register where identified risks and opportunities are recorded with corresponding actions to secure the best possible outcome. This work process forms an integral part of Kvaerner's project management approach as defined in Kvaerner's Project Execution Model (PEM™). This structured methodology for controlled project execution also provides sets of quality requirements for various stages of projects through defined milestones, thus providing a framework for assessing status of the project execution through gate reviews/audits.

All projects report status on management of risk as a part of the monthly reporting to Kvaerner's operational areas. Based on this and possible operational risk issues outside projects, the operational areas report status on management of risk to the executive management team on a quarterly basis.

On a corporate level, an annual risk review is performed and presented to the Board of Directors. This report builds on the regular risk reporting from operational areas,

corporate staff functions and Kvaerner's projects. The risk review is executed to identify the most significant risk areas and to establish associated risk reducing actions. In this assessment, the consolidated view across all Kvaerner's units is looked into, top company risks are identified and risk reducing measures agreed upon. Please see [Note 20](#) Financial risk management and exposures ([page 48](#)), for a detailed description of the group's financial risks and [Note 18](#) Provisions and contingent liabilities ([page 47](#)) for an overview of significant current disputes. Kvaerner has defined procedures and routines for managing the group's financial market exposure.

Further to this, Kvaerner's Corporate Risk Committee performs risk assessment of all major tenders prior to submission and also performed reviews of selected projects after start-up.

Internal audits are performed to ensure compliance with Kvaerner policies, laws and regulations as well as project specific audits.

In 2017, the internal audit function in Kvaerner was reorganised as part of a cost reduction process executed mainly during first quarter 2017. The internal audit activities for 2017 were lower than originally planned, both due to reorganisation and due to the planned corporate internal audits being put on hold due to lower risk assessed in the areas initially selected. The planned audits will be re-assessed for the 2018 internal audit plan. It should be noted that audits initiated by the various projects and base organisation have been conducted in the year.

Kvaerner works with a number of partners and hundreds of suppliers and subcontractors around the world. Kvaerner performs risk based due diligence as part of the pre-qualification processes. Kvaerner's supplier qualification and information system database is a key enabler for Kvaerner to increase supplier performance.

All potential joint venture partners and third party representatives must go through due diligence assessments and have to be approved by the President & CEO of Kvaerner.

### Health, safety, security and environment (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 its 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. This ambition is not only part of the company's core values, but is the company's licence to operate.

Kvaerner's HSSE management is based on strong and visible management responsibility and commitment, where all HSSE processes are driven by the line management from the President & CEO to the first line supervisors. HSSE is the cornerstone in all of Kvaerner's work and a core value in the company. Kvaerner's HSSE mind-set states that: We take personal responsibility for HSSE because we care.

At year-end 2017, a lost time incident frequency (LTIF) of 0.5 and a total recordable injury frequency (TRIF) of 2.5 was recorded, compared to corresponding 0.28 and 1.92 for 2016. These figures include Kvaerner's subcontractors and are calculated per million man-hours worked. The company had five lost time injuries in 2017. These injuries were a bruised arm, various fractures and a cut hand.

The Hebron project in Newfoundland and the Nyhamnna Expansion project are examples of finalised projects with good HSSE performance. The Hebron project has executed more than 24 million worked hours without any lost time incidents. As a recognition of great HSSE achievement, the Hebron project received the 2016 ExxonMobil Development Company SSH&E Award.

In 2017, nine serious incidents or serious near misses were identified and thoroughly investigated. Actions for improvement are identified and implemented. Following serious incidents, lessons learned packages are produced and shared throughout Kvaerner with the aim of preventing similar incidents. In 2017, the number of documented risk observations was 27 118; 5.2 observations per man-year worked, compared to 33 069 observations in 2016; 4.5 observations per man-year worked.

For further information about Kvaerner's HSSE

programme and activities, including key performance indicators, please see the chapter Caring about health, safety, security and the environment in the company's CSR report: [www.kvaerner.com/csr](http://www.kvaerner.com/csr).

### The HSSE operating environment

Kvaerner may have business activities in regions or operating environments where it is challenging to establish and maintain a strong HSSE performance. HSSE is an integrated part of Kvaerner's management system and is divided into seven main sections: leadership, organisation, communication, risk management, product realisation, third-party relationships and continual improvement.

The Just Care™ mind-set is Kvaerner's umbrella for driving HSSE-related awareness-building and understanding. A key element in the Kvaerner's Just Care™ approach is that all employees accept personal responsibility for HSSE by actively caring for themselves, co-workers and the environment.

A common HSSE operating system sets expectations for the key elements in HSSE management and leadership. Regular reviews uncover possible gaps in relation to expectations, and the necessary activities for improvement are identified and initiated. Key HSSE performance indicators have been implemented. A strong focus on leading activities in the HSSE field, combined with defined targets measured against actual results, guides Kvaerner towards continual improvements in HSSE performance. Just Rules is a set of concrete guidelines within Kvaerner's HSSE operating system. These have been established to control the most safety-critical activities in our operations. Just Rules is a mandatory part of Kvaerner's safety training for all employees, providing clear and simple check-lists and controls for operations.

### HSSE training

Competence occupies a central place in Kvaerner's HSSE programme. All personnel must be competent, possess the necessary knowledge, skills and behaviour to perform their work safely. To reach out to all employees in an efficient way, Kvaerner uses dedicated training programmes

at operational and project levels, as well as eLearning programmes for key areas within HSSE.

During 2017, 1.2 percent of total worked hours were invested in HSSE training, compared to 1.0 percent in 2016. Training programmes and key performance indicators have been established to promote observation, interaction and intervention in the areas of HSSE.

### Safety

In 2017, there was a slight increase in injury frequency and the frequency of incidents with high risk potential has been stable compared to 2016. Improvement actions are implemented to address the challenges and further improve our results. The high risk potential incidents are especially related to crane operations and work at heights. Improved training programmes and management follow-up has been implemented. A specific practical work at height and dropped object prevention training has also been implemented. The crane standard has been revised and an eLearning introduction programme is developed.

Several other new initiatives have been introduced in 2017, such as team commitment regarding compliance, training programmes in risk awareness and HSSE development of subcontractors.

In the context of merging all units in Kvaerner, the process of standardising all governing documents, including HSSE procedures and work instructions, have been completed in 2017.

Digitalisation of the HSSE work has also started with an improved mobile phone app for reporting of incidents and non-conformities. Digitalisation will be part of the improvement initiatives into 2018.

There has been positive transfer of experience between Kvaerner' projects and yards, including Hebron, Stord, Nyhamna and Verdal. An incentive programme has been implemented that 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, housekeeping and reporting rates of HSSE observations.

Kvaerner will continue the development of safety tools

and processes and will strive to secure compliance to applicable rules and regulations. Close cooperation and further development of relationships with 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. This will contribute towards further improving Kvaerner's competitiveness.

### Occupational health

Total sick leave for Kvaerner in 2017 was 234 471 hours for own employees compared to 254 326 in 2016. This constitutes 5.43 percent sick leave in 2017 compared to 5.75 percent of total man-hours in 2016. Sick leave is above target of 4.8 percent. During the spring of 2017, Kvaerner initiated a project to analyse the sick leave and propose mitigating actions. This resulted in detailed action plans per region. The implementation of actions is ongoing and results are improving. Reducing sick leave is important to Kvaerner and will remain a key focus area in 2018.

Kvaerner in Norway participates in the More Inclusive Working Life (IA) agreement. The IA Agreement is an instrument aimed at reducing sick leave and increasing the focus on job presence.

The company's participation in the Aker Active programme, which offers a wide range of activities within physical exercise and nutrition for employees on all locations, is an example of health initiatives.

### Environment

Kvaerner continuously works to reduce its environmental footprint. 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 4 578 in 2017 compared to 2 635 in 2016. The energy intensity has increased last year due to higher activities at Kvaerner's yards compared to previous year. The CO<sub>2</sub> emissions (tonnes per million worked hours) were 167 in 2017 compared to 104 in 2016. This was due to higher activity at the yards. Waste recorded in connection with the business totalled 6 321 tonnes in 2017 compared to 3 940 tonnes in 2016, of which 51 percent was recycled in 2017

compared to 91 percent in 2016. The main reason for the low recycling factor is extensive use of sandblasting sand in 2017 that cannot be recycled. These masses are safely disposed.

The methodology used derives from the Greenhouse Gas Protocol (GHG), and Global Reporting Initiative (GRI). Kvaerner is certified according to the ISO 14001:2015 standard. The company's main energy consumption, carbon emissions and waste disposal are related to activities at the yards.

The HSSE leadership development initiatives include an eLearning and a management system. These 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. It is also a key motivation for assisting customers in making environmental improvements through the products and projects Kvaerner develops and delivers to them.

### Security

Due to the global nature of Kvaerner's operations, the company is exposed to changes in the global risk situation. Kvaerner operates in a wide range of regions, 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 at all times be provided with a reliable and updated risk assessment and have access to information, as well as to local contacts and a pre-established network. Currently, Kvaerner has no operations in areas with high or extreme risk as classified by International SOS. Based on the global terror situation, Kvaerner issued travel bans for airports and countries after performing travel risk assessments. For some, special security measures are implemented. Specific security assessments have been performed in 2017.

### Corporate social responsibility (CSR)

Kvaerner is committed to conduct its business with integrity and high ethical standards. That is why CSR is an integrated

part of the management responsibility within Kvaerner. The company's corporate goals and activities within CSR are anchored at the Board of Directors level.

Kvaerner is a significant part of some of the societies in which it operates, both locally and internationally. Kvaerner's aim within CSR is to ensure that the operations are run in line with the company's values, Code of Conduct and policies, relevant laws and regulations and society's expectations – with integrity. Kvaerner continuously works to identify opportunities to improve and aims at running a business which has a positive impact on people, society and the environment.

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

The results of the company's CSR efforts are systematically measured, and Kvaerner annually publishes a separate in-depth report on CSR results and principles. For further information regarding Kvaerner's CSR efforts, please see the separate CSR report published on [www.kvaerner.com/csr](http://www.kvaerner.com/csr).

### People and organisation

From 1 March 2017, Kvaerner's operating structure was subject to several changes; Concrete Solutions and New Solutions were merged into one operational area, the functional area Commercial Project Services was wound-up, a new functional Staff area was established, and the Legal function and Shared Services constituted the new Corporate Support. The functions that previously reported to Commercial Project Services were transferred to the Staff, Finance and EPCI areas (Engineering, Procurement, Construction and Installation).

At the beginning of 2017, the base organisation was staffed for a higher activity level than expected for 2017 and 2018, and necessary restructuring measures were implemented in the first quarter of 2017 to adapt the base organisation to the reduced activity.

For further information about people and organisation, including key performance indicators, please see the chapter Caring about our people in the company's CSR report: [www.kvaerner.com/csr](http://www.kvaerner.com/csr).

### Executive management team (EMT)

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

In January 2017, Sturla Magnus was appointed new executive vice president (EVP) for Structural Solutions and responsible for Kvaerner's yard at Verdal. He started in his new position 6 March 2017. Previous EVP of Structural Solutions, Sverre Myklebust stepped down as EVP for Structural Solutions at year-end 2016. Ellen Grete Andersen was appointed Chief of Staff and part of EMT from 1 March 2017. Terje Johansen and Knut Johan Malvik exited EMT on 1 March 2017. They have continued in Kvaerner as responsible for Completion/HUC and Continual Improvement respectively.

A complete presentation of the EMT is available at [www.kvaerner.com/emt](http://www.kvaerner.com/emt).

### Developing people and teams

Kvaerner is recognised for its expertise in executing oil and gas projects. Kvaerner has earned this reputation due to extensive investments in organised workplace training.

Investments in personnel over time are crucial for Kvaerner's ability to execute projects successfully. Consequently, Kvaerner focuses on continuous training at all levels of the organisation, including professional employees, teams, project management and leaders.

All training is based on the company's core values, Code of Conduct and leadership principles. HSSE is a core value and part of all training activities.

For further information about developing people and teams, including key performance indicators, please see the

chapter Learning and development in the company's CSR report: [www.kvaerner.com/csr](http://www.kvaerner.com/csr).

### Organisation and recruitment

As of 31 December 2017, the overall workforce comprised 3 500 individuals which included 2 659 permanent employees and 841 contract staff. Corresponding figures for 2016 were 2 663 permanent employees and 428 contract staff. The gender distribution is approximately 13 percent female and 87 percent male employees. 98 percent of the permanent employees work in Norway, while the remaining two percent work in USA, Finland, China, Canada and Russia.

The company offers an inspiring and challenging work place with a high degree of teamwork and good individual career and development opportunities. In 2017, Kvaerner recruited 77 new employees, of which 13 were women and 64 were men. 22 percent of the new employees were below 30 years of age, 57 percent were between 30 and 50 years old, and 21 percent were above the age of 50. The total voluntary employee turnover was three percent in 2017, the same as in 2016.

Kvaerner operates two specialised fabrication and assembly facilities in Norway; at Stord and in Verdal. A prudent inflow of new generations of skilled workers and operators is vital for the ability to effectively transfer core knowledge and experience. Apprenticeships are an important method of recruiting to these professions, and Kvaerner has a continuous focus on recruiting new apprentices. In 2017, 51 new apprentices were recruited. At year-end 2017, there were a total of 96 apprentices under applicable agreements, compared to a total of 95 apprentices at year-end 2016.

Throughout 2017, the results from Kvaerner's People Survey 2016 were analysed, improvement objectives were decided and the supporting actions have been completed according to schedule.

### Diversity and equal opportunity

As the nature of Kvaerner's operations calls for employees from different operating entities and geographical regions nationally and internationally, the principles of equal

opportunity are well established throughout the group. No differences shall exist between treatment of genders, nationalities or ethnic groups. Employment conditions and compensation packages are based on responsibility and personal performance, irrespective of gender or ethnicity.

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

Since 2012, Kvaerner has emphasised training of all employees to avoid any form of discrimination, harassment and bullying. This training has been further strengthened throughout 2017 by completing the implementation of the Working Environment Specialist's (Arbeidsmiljøspesialistene) concept and methodology to prevent harassment, bullying and discrimination in the work place. The initiative included the preparation and implementation of new company guidelines, and development of expertise on conflict solving among HR professionals and line management.

Leadership training is an important contribution towards increasing the number of women promoted to managerial positions. In 2017 the share of women holding senior management positions was 18 percent compared to 16 percent in 2016, whereof the share completing leadership training was 20 percent. In 2017, two of the nine EMT members were women and two of Kvaerner's five shareholder-elected Directors are women. All of the Directors elected by and among the employees are men.

### Remuneration and performance culture

Kvaerner shall maintain an individual compensation level for employees and management which enables the company to attract and retain employees and leaders with the right attitudes, skills and the ability to deliver strong performance in accordance with Kvaerner's values and the Code of Conduct. Kvaerner aims to reward attitudes, skills, performance and results. The total remuneration shall be internally fair, consistent, comprehensible and competitive without being market leading.

The total remuneration for executives, senior management and management consists of three main elements:

- > Annual base salary
- > Benefits
- > Participation in a variable pay programme

The executives, senior management and management are members of the standard pension and insurance schemes applicable to all employees in the company. Other benefit programmes are not granted. The variable pay programmes shall secure a market competitive total remuneration as well as being a driver for exceptional financial, operational and personal performance.

Completion of the performance management process is fundamental to secure the connection between performance and remuneration. For management taking part in variable pay programmes, predefined financial, operational and personal objectives are set on annual basis. The achievement of the objectives is assessed and form basis for the remuneration triggered by the variable pay programmes. For employees, the achievement of individual and team performance is combined with predefined professional and personal goals.

The assessment of achieved goals and performance takes place in a dialogue between the leader and his/her direct reports. This provides the opportunity for recognition, consideration of career development and future direction for individual performance improvements.

Further details about remuneration to EMT members are provided in [Note 5 Employee benefit expenses \(page 30\)](#) in the consolidated financial statements. The report to shareholders on executives' remuneration is approved by the Board of Directors and is available on [www.kvaerner.com](http://www.kvaerner.com).

### Research and development (R&D)

There is a growing demand for field development solutions that can help oil companies reduce their overall costs and increase value creation. Part of Kvaerner's competitive strength is solutions and methods that make it technically possible and financially attractive to develop reserves which have previously been considered non-viable.

Kvaerner can also offer concepts and effective project execution models that may contribute towards reducing the total costs for new field developments.

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

In 2017, Kvaerner has continued the development of the company's floater solutions with concrete hulls, including the CONDEEP® concrete floater, suitable for upcoming Barents Sea developments and concrete spar alternatives for the deeper and harsher, ice infested waters offshore Newfoundland, Canada. Focus areas in 2017 include oil storage solution and displacement water treatment as well as methods for improved prediction of motion characteristics.

Offshore wind is a developing market. Related to technology development, Kvaerner's focus in 2017 has been on concrete gravity base turbine foundations for harsh environments, with special attention on cost effective, execution-friendly design for large volume fabrication and installation. The concrete gravity base foundations are attractive in certain niche markets, particularly in areas with challenging soil conditions or difficult and harsh climatic conditions. It also allows local construction and delivery, thereby enabling local job and value creation. The development projects focuses on utilising Kvaerner's overall EPCI expertise and experience to provide new and cost effective development solutions.

Other examples include subsea treatment of produced water based on concrete tanks on the seabed, where internal development activities resulted in the execution of a client-funded joint industry development project in 2017.

The R&D activity continues for simpler facilities, unmanned platform concepts including Subsea on a Stick®. The concepts offer several advantages for marginal and satellite field developments compared to subsea production systems, especially with respect to the cost

for performing well interventions, operating costs, and the possibility to increase oil recovery rates. The concepts for simpler facilities and unmanned platforms have been well received by major oil companies, including contracts for concept evaluations for future field developments. Subsea on a Stick® as a key R&D concept project will be continued with some prioritised projects for making the concept competitive against subsea production systems, for example as alternative installation method for cost savings at the offshore installation works.

Kvaerner actively participates in several joint industry research projects, with main focus on arctic technology and concrete technology. In 2017, Kvaerner was awarded funding from the Horizon 2020 programme for one new project within concrete technology where Kvaerner is one of several European project partners. With this latest award, Kvaerner is engaged in approximately ten research projects together with national and international industry partners, universities and research organisations, with public funding through various research programmes. In addition, the company is working directly with clients on development activities through joint industry projects.

### Share capital

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

The largest shareholder of Kvaerner ASA is Aker Kværner Holding AS, holding 41.02 percent of the shares. Aker ASA owns 70 percent of Aker Kværner Holding AS, while the Norwegian Government owns 30 percent as of 31 December 2017. Proposition No. 88 (2006-2007) to the Storting (Norwegian Parliament) contains more detailed information concerning the establishment of Aker Kværner Holding AS, and the agreement between Aker ASA and the Norwegian Government. The company is not party to any agreement that is conditional upon offerings of take-over in the company.

Kvaerner had 8 291 shareholders (8 546) as of 31 December 2017, of which 28 percent (28 percent) were non-Norwegian. The share price was NOK 15.80 at year-end 2017, compared to NOK 12.10 at year-end 2016. During 2017 Kvaerner's share price increased by 32 percent, while the Oslo Stock Exchange benchmark index increased by 18 percent and the Philadelphia Oil Service Index decreased by 19 percent.

As of 31 December 2017, Kvaerner ASA held 2 157 040 treasury shares.

### Outlook

Kvaerner's first priority is always to execute projects safely and predictably. The company has in a challenging environment also in 2017 delivered solid operational performance. The company's traditional market segments seem to be levelling out. However, Kvaerner expects that the market will continue to be influenced by strong competition and over capacity within the contracting industry. Positioning for new prospects both in Norway and in international markets are ongoing, and the company anticipates seeing the outcome of some key contracts during 2018 and 2019. For 2018, the activity is expected to result in full year gross revenues of around NOK 6-7 billion. During first half of 2018, positive effects from projects being delivered and others reaching 20 percent completion are expected to impact results. For full year 2018, margins will be lower than for 2017 due to few major projects in completion phases and the composition of the project portfolio.

### Acknowledgements

During 2017, Kvaerner has continued to execute projects according to customers' plans and expectations. At year-end, all projects were on track.

Kvaerner continued to implement changes to increase productivity and reduce costs in 2017, including simplifying its organisation. The combination of all the initiatives implemented throughout 2017 contributed towards reducing Kvaerner's administrative costs by approximately NOK 100 million which further strengthened Kvaerner's

competitiveness. Kvaerner estimates that it has reduced the cost base for new projects by five to ten percent in 2017, bringing its total cost base reduction in the period 2013-2017 to approximately 20-25 percent.

The company's continued intense work to improve quality, cost, productivity and competitiveness has put Kvaerner in a good position for upcoming prospects. Since Kvaerner was established in 2011, all projects awarded have been executed and delivered without any litigation proceedings.

The Board of Directors extends its appreciation to the management and employees for its efforts and achievements in 2017, and especially for further cementing the company's reputation as a reliable and predictable EPC contractor.

# Annual accounts Kvaerner group

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# Income statement 01.01 - 31.12

Amounts in NOK million	Note	2017	2016
<b>Total revenue and other income</b>	3, 4	<b>6 536</b>	7 896
Materials, goods and services		<b>(3 184)</b>	(4 751)
Salaries, wages and social security costs	5	<b>(2 282)</b>	(2 269)
Other operating expenses	6	<b>(272)</b>	(247)
<b>Operating profit before depreciation, amortisation and impairment</b>		<b>799</b>	629
Depreciation and amortisation	10, 11	<b>(106)</b>	(100)
Goodwill impairment	11	-	(198)
<b>Operating profit</b>		<b>693</b>	331
Finance income	7	<b>31</b>	42
Finance expenses	7	<b>(27)</b>	(159)
<b>Profit before tax</b>		<b>697</b>	214
Income tax expense	8	<b>(186)</b>	(132)
<b>Profit/(loss) from continuing operations</b>		<b>511</b>	82
<b>Profit/(loss) from discontinued operations</b>	26	<b>31</b>	345
<b>Profit/(loss) for the year</b>		<b>542</b>	426
<b>Profit for the period attributable to:</b>			
Equity holders of the parent company		<b>542</b>	426
<b>Earnings per share (NOK):</b>			
Basic and diluted EPS - continuing operations	9	<b>1.92</b>	0.31
Basic and diluted EPS - discontinued operations	9	<b>0.12</b>	1.30
<b>Basic and diluted EPS - total operations</b>	9	<b>2.04</b>	1.60

The notes on pages 22 to 58 are an integral part of these consolidated financial statements.

## Other comprehensive income 01.01 - 31.12

Amounts in NOK million	2017	2016
<b>Profit/(loss) for the year</b>	<b>542</b>	426
<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	(1)	(7)
- Reclassified to profit or loss	0	(2)
Translation differences - equity-accounted investees (no tax impact)	(0)	(0)
Translation differences - foreign operations (no tax impact)	(1)	(23)
Reclassification of translation differences on discontinued operations and international branches	(8)	(261)
<b>Items that may be reclassified to profit or loss in subsequent periods</b>	<b>(10)</b>	(294)
<b>Items not to be reclassified to profit or loss in subsequent periods:</b>		
Actuarial gains/(losses) on defined benefit pension plans, pre tax	(25)	(18)
Actuarial gains/(losses) on defined benefit pension plans, tax effect	5	4
Actuarial gains/(losses) on defined benefit pension plans, net of tax	(20)	(14)
<b>Items not to be reclassified to profit or loss in subsequent periods</b>	<b>(20)</b>	(14)
<b>Total other comprehensive income for the year, net of tax</b>	<b>(29)</b>	(308)
<b>Total comprehensive income for the year</b>	<b>513</b>	118
<b>Total comprehensive income attributable to:</b>		
Equity holders of the parent company	513	118

The notes on pages 22 to 58 are an integral part of these consolidated financial statements.

# Balance sheet as of 31 December

Amounts in NOK million	Note	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	800	798
Intangible assets	11	649	666
Investments in associated companies and jointly controlled entities	24	17	35
Other non-current assets		7	6
<b>Total non-current assets</b>		<b>1 474</b>	<b>1 505</b>
<b>Current assets</b>			
Current tax assets		6	-
Trade and other current assets	12	1 524	1 413
Fair value embedded derivatives	21	7	14
Cash and cash equivalents	13	2 812	3 047
Retained assets of business sold	26	0	1
<b>Total current assets</b>		<b>4 350</b>	<b>4 474</b>
<b>Total assets</b>		<b>5 823</b>	<b>5 980</b>

Amounts in NOK million	Note	2017	2016
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		91	91
Share premium		729	729
Retained earnings		2 431	1 881
Other reserves		(75)	(46)
<b>Total equity</b>	9, 14	<b>3 176</b>	<b>2 656</b>
<b>Non-current liabilities</b>			
Employee benefits obligations	15	198	191
Other long term liabilities		6	13
Deferred tax liabilities	8	225	62
<b>Total non-current liabilities</b>		<b>430</b>	<b>267</b>
<b>Current liabilities</b>			
Current tax liabilities	8	0	46
Provisions	18	148	135
Fair value embedded derivatives	21	1	6
Trade and other payables	19	2 032	2 820
Retained liabilities of business sold	26	37	51
<b>Total current liabilities</b>		<b>2 218</b>	<b>3 058</b>
<b>Total liabilities</b>		<b>2 647</b>	<b>3 324</b>
<b>Total liabilities and equity</b>		<b>5 823</b>	<b>5 980</b>

The notes on pages 22 to 58 are an integral part of these consolidated financial statements.

Fornebu, 7 February 2018  
Board of Directors and President & CEO of Kværner ASA

  
Leif-Arne Langøy  
Chairman

  
Tore Torvund  
Deputy Chairman

  
Lone Fønss Schrøder  
Director

  
Thorhild Widvey  
Director

  
Kjell Inge Røkke  
Director

  
Rune Rafdal  
Director

  
Ståle Knoff Johansen  
Director

  
Bernt Harald Kilnes  
Director

  
Jan Arve Haugan  
President & CEO

## Equity 01.01 - 31.12

Amounts in NOK million	Number of shares	Share capital	Share premium	Retained earnings	Hedge reserve	Currency translation reserve	Pension reserve	Total equity
<b>Equity as of 31 December 2015</b>	269 000 000	91	729	1 468	11	287	(36)	<b>2 550</b>
Profit/(loss) for the period		-	-	426	-	-	-	<b>426</b>
Other comprehensive income		-	-	-	(9)	(284)	(14)	<b>(308)</b>
<b>Total comprehensive income</b>		-	-	426	(9)	(284)	(14)	<b>118</b>
Treasury shares		-	-	(12)	-	-	-	<b>(12)</b>
Other		-	-	(1)	-	-	1	<b>-</b>
<b>Equity as of 31 December 2016</b>	269 000 000	91	729	1 881	1	2	(49)	<b>2 656</b>
Profit/(loss) for the period		-	-	542	-	-	-	<b>542</b>
Other comprehensive income		-	-	-	(1)	(9)	(20)	<b>(29)</b>
<b>Total comprehensive income</b>		-	-	542	(1)	(9)	(20)	<b>513</b>
Treasury shares		-	-	9	-	-	-	<b>9</b>
Employee share purchase programme		-	-	(2)	-	-	-	<b>(2)</b>
<b>Equity as of 31 December 2017</b>	269 000 000	91	729	2 431	(0)	(6)	(69)	<b>3 176</b>

The notes on pages 22 to 58 are an integral part of these consolidated financial statements.

## Cash flows 01.01 - 31.12

Amounts in NOK million	Note	2017	2016
<b>Cash flow from operating activities</b>			
Profit/(loss) for the period		542	426
<b>Adjusted for:</b>			
Income tax expense	8	186	132
Net financial items	7	(4)	117
Foreign exchange accounting effect on repayment of capital from subsidiaries	26	-	(261)
Depreciation, amortisation and impairment	10, 11	106	298
Difference between pension premiums paid and pension expense, defined benefit schemes		8	31
Difference between income and dividends received from equity accounted investees	24	17	90
Interest income received		21	16
Income taxes paid		(65)	(77)
Changes in other net operating assets		(924)	945
<b>Net cash from operating activities</b>		<b>(113)</b>	<b>1 718</b>
<b>Cash flow from investing activities</b>			
Investment in property, plant and equipment and intangible assets	10, 11	(91)	(203)
Other cash flow from financing activities		(2)	1
<b>Net cash from investing activities</b>		<b>(93)</b>	<b>(201)</b>
<b>Cash flow from financing activities</b>			
Interest expense and fees paid		(16)	(17)
Shares purchased in connection with employee share purchase programme		(11)	(13)
<b>Net cash from financing activities</b>		<b>(27)</b>	<b>(30)</b>
Effect of exchange rate changes on cash and bank equivalents		(1)	(1)
<b>Net increase/(decrease) in cash and bank equivalents</b>		<b>(234)</b>	<b>1 486</b>
Cash and cash equivalents at the beginning of the period		3 047	1 560
<b>Cash and cash equivalents at the end of the period</b>	13	<b>2 812</b>	<b>3 047</b>

The notes on pages 22 to 58 are an integral part of these consolidated financial statements.

# Notes to the annual consolidated financial statements

## General information

### Note 1 Company information

Kværner ASA (the company) and its subsidiaries (together Kvaerner or the group) is a specialised provider of engineering, procurement and construction services for offshore platforms and onshore plants. Kværner ASA is listed on the Oslo Stock Exchange under the ticker KVAER. Kværner ASA's registered office address is Oksenøyveien 10, 1366 Lysaker, Norway.

### Note 2 Basis of preparation

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, relevant interpretations and additional requirements following the Norwegian Accounting Act as of 31 December 2017.

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

The consolidated financial statements will be approved by the Annual General Meeting on 23 March 2018.

#### Basis of measurement

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

#### Functional and presentation currency

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

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

#### Alternative Performance Measures

Kvaerner discloses alternative performance measures in addition to those normally required by IFRS. The group's key measure of financial performance is adjusted EBITDA. Adjusted EBITDA

excludes the impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities. See [Note 4](#) for adjusted EBITDA performance. EBITDA definition: Earnings before interest (net financial items), taxes, depreciation, amortisation and impairment.

#### Financial reporting principles

The relevant financial reporting principles are described in the relevant note to the consolidated statements. In the section below, principles applicable to several notes and/or the overall financial statements are detailed. The financial reporting principles have been applied consistently to all periods presented in these consolidated financial statements.

#### Consolidation

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

#### Transactions eliminated in consolidation

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

#### Foreign currency

##### Foreign currency transactions and balances

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

#### Foreign operations

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

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

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

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

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

#### Accounting estimates and judgments

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

#### New financial reporting standards

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

The most relevant changes for Kvaerner are:

#### IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for recognition of revenue, IFRS 15 Revenue from Contracts with Customers. The new revenue standard will replace the current revenue recognition guidance in IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 introduces a new five-step model that applies to revenue arising from contracts with customers. The new revenue recognition standard will not significantly change how the company recognises revenue, as revenue will still be recognised over time for both construction contracts and service revenue. Kvaerner will use the cumulative effect method at the date of initial application; 1 January 2018, with no restatement of comparative periods presented. The new standard will only be applied to contracts

not completed by initial application date and all major customer contracts have been reviewed in order to determine the impact upon transition to IFRS 15 with conclusions as indicated in the below.

#### Construction contracts

The construction contracts mainly consist of engineering, procurement and construction (EPC) contracts for offshore installations, onshore plants for upstream oil and gas production and decommissioning. The projects already use a cost progress method and this will not change as a result of implementing IFRS 15.

#### Service contracts

Revenue from service contracts are recognised in the period in which the services are rendered or by using the cost progress method. The current methods will not change as a result of implementing IFRS 15.

#### Variable consideration

Variable consideration (such as bonuses and incentives, liquidated damages and penalties) and change of scope (such as variation orders and amendments) have a higher threshold for revenue recognition under IFRS 15 than under the current IAS 11. Kvaerner is already practicing a high threshold for including this type of revenue, also considering that many of Kvaerner's contracts include bonuses and incentives related to key milestones, in particular towards the end of the project. There has therefore not been identified any impact of applying the higher threshold for variable consideration and scope changes at implementation of IFRS 15.

#### Waste cost

Waste cost for rework, scrapping and other non-value adding activities is not regarded as contract cost under the new standard. As such, waste cost will not be included in the progress measurement when determining revenue. There has not been identified any waste costs that would result in change of progress under IFRS 15.

#### Tender cost

Tender cost will normally be expensed as incurred under IFRS 15. The threshold for capitalising tender costs under IAS 11 has been high, requiring project award probable at date of cost for capitalisation. Kvaerner does not have any capitalised tender costs that need to be expensed following implementation of IFRS 15.

#### Contract assets and liabilities

New balance sheet lines will be introduced as IFRS 15 requires separate presentation for contract assets and contract liabilities, and not presented net as work in progress as under the current standard.

#### Estimated impact

The estimated impact on equity from implementing IFRS 15 per 1 January 2018, is immaterial and no transition adjustment is expected adjusted against equity. The actual impact may change if new information and guidance becomes known before the group presents its first financial statements using the new standard.

**IFRS 9 Financial Instruments**

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

**Classification and measurement**

Kvaerner does not expect any material impact on its accounting of financial instruments following the new classification requirements.

**Impairment**

Kvaerner has chosen to apply the lifetime Expected Credit Loss model for its trade receivables, with immaterial impact on the loss allowance due to the group's customer portfolio.

**Hedge accounting**

The group hedges its cash-flows on a one-to-one basis towards external banks, so most hedges qualify for hedge accounting under the IAS 39 standard. The percentage of qualifying hedges is expected to increase under IFRS 9 as the hedge accounting model is more aligned with risk management, including prospective testing and less restrictive requirements on qualifying hedging instruments. This is expected to result in less net foreign currency effects reported under financial items.

**Estimated impact**

The estimated impact on equity from implementing IFRS 9 per 1 January 2018, is immaterial and no transition adjustment is expected adjusted against equity. The actual impact may change if new information and guidance becomes known before the group presents its first financial statements using the new standard.

**IFRS 16 Leasing**

The new standard, effective for annual reporting periods beginning from 1 January 2019, replaces the existing guidance in IAS 17 Leases. The new standard will significantly change how the group accounts for its leased assets and facilities, as IFRS 16 introduces a single on-balance sheet accounting model for lessees that has some similarities to the current accounting for financial leases. Only leases for items of low value and short term leases may be exempt. The following effects are expected to impact the reported figures upon transition to IFRS 16:

- > Assets and liabilities are expected to increase with an amount close to net present value of future lease payments
- > Earnings before interest, taxes, depreciation and amortisation (EBITDA) will increase as the lease payments will be presented as depreciation and finance cost rather than operating expense
- > Operating cash flow will increase and investing and financing cash flow will decrease as lease payments will not be classified as operating cash flow

Kvaerner will use the modified retrospective approach at the date of initial application; 1 January 2019, with no restatement of comparable periods presented.

**Note 3 Revenue****Financial reporting principles****Construction contracts**

Revenues from contracts to provide construction, engineering, design or similar services are recognised using the percentage-of-completion method, based primarily on contract costs incurred to date compared to estimated total contract costs. As a general practice, total amount of any settlement with customers related to disputed matters and arbitration awards are included within revenues. When the final outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent costs incurred are expected to be recoverable. The revenue recognised in one period will be the revenues attributable to the period's progress and the progress to date effect of any changes to the estimated final outcome. Losses on contracts are fully recognised when identified. Contract revenues include variation orders and incentive bonuses when it is probable that they will result in revenue that can be measured reliably. Disputed amounts and claims are recognised when it is probable the customer will accept the claim and the amount can be measured reliably. Management updates its assessment of recognised revenues at each reporting period.

**Construction work in progress**

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

**Sale of goods sold and other services rendered**

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

**Services**

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

**Other income**

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

## Accounting estimates and judgments

### Contract accounting estimates

The majority of the group's revenues and profits are derived from long-term construction contracts which often have duration of three to four years from award date. These contracts typically comprise integrated engineering, procurement, construction and integration activities, often with the use of subcontractors, and give rise to complex technical and execution risks as they are highly customised to customer requirements. Contracts may be lump sum, reimbursable, target cost or a combination thereof, and often include incentive payments based on key performance indicators (KPIs) and meeting key milestones, in particular towards the end of the projects. KPIs can be related to schedule, cost targets, HSSE measures and others of which some are objective, subject to interpretation or at the discretion of customers, and can include reductions for penalty clauses for late delivery (liquidated damages). The scope of work to be performed by the group may also change over time and can be subject to variations and claims with both the customer and subcontractors which impact various factors including compensation, costs, and contractual delivery dates.

Following the above, estimates are inherent in the group's accounting for long-term construction contracts and judgments are required to:

- Determine the forecast revenues and profit margin on each contract based on:
  - Estimates of contract revenues including variable revenues which may be dependent upon future performance; and
  - Forecasts of contract costs at completion including contingencies for uncertain costs to complete
- Assess the stage of completion of the contract, which determines the revenues, costs and margins to be recognised based on the project forecast. Progress measurement based on costs has an inherent risk related to the cost estimate and the estimation uncertainty during the early stages of a contract is mitigated by a policy of normally not recognising revenue in excess of costs on large projects before the contract reaches 20 percent completion
- Appropriately provide for any loss-making contracts

Even though management has extensive experience in assessing project revenue, cost and margin, uncertainties exist.

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

## Amounts in the balance sheet relating to construction contracts

Amounts in NOK million	Note	2017	2016
Construction revenue in the period	4	4 812	7 022
Amounts due from customers for construction work		88	68
Advances received from customers		(427)	(687)
<b>Construction contracts in progress, net position</b>		<b>(339)</b>	<b>(618)</b>

### Construction contracts in progress at the end of the reporting period

Aggregate amount of cost incurred and recognised gross profits to date	26 727	33 389
Retentions	-	-

### Largest projects in progress at year-end 2017 (unaudited):

Project	Customer	Estimated delivery
<b>Field Development segment:</b>		
Johan Sverdrup process platform jacket	Statoil	2018
Johan Sverdrup drilling platform jacket	Statoil	2018
Aasta Hansteen completion assistance	Statoil/TechnipFMC	2018
Johan Sverdrup utility and living quarter topside	Statoil	2019
Valhall Flank West	Aker BP	2019
Johan Sverdrup riser platform HUC	Statoil	2019
Njord A Future	Statoil	2020
West White Rose engineering and marine operations	Husky Energy	2021

## Note 4 Operating segments

Kvaerner does not have any remaining operations in the US within the Downstream & Industrials segment, and remaining legacies within the segment are presented as discontinued operations in the group's financial statements. Consequently, Kvaerner continues to have one reportable segment; Field Development.

Kvaerner has a matrix based organisational model, with operational areas and resource centres, where the projects are the main focus. The Field Development segment includes the following operational areas: Process Solutions delivering topsides, floaters and onshore upstream facilities; Structural Solutions delivering large steel jackets for oil and gas installations; Concrete and New Solutions delivering concrete substructures, performing hook-up, decommissioning and completion projects and working with new strategic initiatives.

### Financial reporting principles

The accounting principles of the reportable segment are the same as described in this annual report, except for hedge accounting and accounting for joint ventures. When contract revenues and contract costs are denominated in a foreign currency, the subsidiaries hedge the exposure with Treasury. Hedge accounting is applied in segment reporting independently of whether or not the hedge qualifies for hedge accounting in accordance with IFRS. The Field Development segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities while under IFRS, Kvaerner's investment is accounted for using the equity method. The correction of the non-qualifying hedges to ensure that the consolidated financial statements are in accordance with IFRS, is made as an adjustment at Kvaerner's corporate level. This means that the group's segment reporting reflects all hedging relationships as if hedge accounting applies even though they may not qualify in accordance with IFRS.

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

### Aggregation

The operational areas within the Field Development segment may meet the definition of an operating segment but have been aggregated based upon criteria in IFRS. Aggregation of the operating segments are considered to be consistent with the core principle of IFRS 8, as the projects within all operational areas are engineering, procurement and construction services relating to the construction of onshore and offshore facilities to be used in the upstream oil and gas industry. The operating segments are considered to have similar economic characteristics. Demand for the products and services in all the operational areas are driven by the oil price. The gross margin and profit/loss in a given year is not necessarily similar. There are few projects within each operational area and the gross margin and profit/loss in a given year may be influenced by specific circumstances in one project. However, the long term gross margin is expected to be similar over the long term and into the future.

Cash flows and capex are also similar, as well as the use of EPC contracts. Customer contracts for the operational areas are typically a combination of reimbursable elements, lump sum elements, incentives and penalties. The operational areas are considered similar in the respects of nature of product/service, nature of production processes, the type of customer, distribution method

and regulatory environment. All operational areas execute large and complex EPC projects. The different operational area products are to some extent substitute solutions, for example both jackets and concrete gravity based structures (GBS) are substructures for offshore platforms. Projects within all operational areas typically construct the equipment on-shore, either on a yard or at site. The majority of Kvaerner employees can be used for projects within all areas, as skills and knowledge needed is similar in the projects within the different areas. The main customers for all projects are the large, international oil companies.

### Measurement of segment performance

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

**2017 Operating segments**

Amounts in NOK million	Note	Field Development	Other/ Eliminations <sup>1</sup>	Total
<b>Operating revenue and other income</b>				
Construction contracts		4 812	-	<b>4 812</b>
Services revenue		425	-	<b>425</b>
Revenue/share of result from joint ventures		2 055	(1 888)	<b>167</b>
Other income <sup>2</sup>		306	825	<b>1 132</b>
<b>External operating revenue</b>		<b>7 598</b>	<b>(1 062)</b>	<b>6 536</b>
Inter-segment revenue		27	(27)	-
<b>Total operating revenue and other income</b>		<b>7 625</b>	<b>(1 089)</b>	<b>6 536</b>
<b>EBITDA</b>				
Depreciation and amortisation	10, 11	(106)	-	<b>(106)</b>
Goodwill impairment	11	-	-	-
<b>EBIT</b>		<b>741</b>	<b>(48)</b>	<b>693</b>
<b>EBITDA</b>				
Adjustment for equity accounted investees <sup>3</sup>		-	(12)	<b>(12)</b>
<b>Adjusted EBITDA</b>		<b>846</b>	<b>(60)</b>	<b>786</b>
<b>Assets</b>				
Current operating assets		1 632	(101)	<b>1 531</b>
Non-current operating assets		1 466	(16)	<b>1 450</b>
<b>Operating assets</b>		<b>3 098</b>	<b>(117)</b>	<b>2 981</b>
Tax-related assets				<b>6</b>
Investments in associates and jointly controlled entities				<b>17</b>
Investments in other companies				<b>7</b>
Cash and cash equivalents				<b>2 812</b>
Retained assets of business sold				<b>0</b>
<b>Total assets</b>				<b>5 823</b>

Amounts in NOK million	Note	Field Development	Other/ Eliminations <sup>1</sup>	Total
<b>Liabilities</b>				
Current operating liabilities		2 548	(367)	<b>2 180</b>
Non-current operating liabilities		198	6	<b>204</b>
<b>Operating liabilities</b>		<b>2 746</b>	<b>(361)</b>	<b>2 385</b>
Tax-related liabilities				<b>225</b>
Retained liabilities of business sold				<b>37</b>
<b>Total liabilities</b>				<b>2 647</b>
Net current operating assets		(915)	266	<b>(650)</b>
<b>Cash flow</b>				
Cash flow from operating activities		28	(141)	<b>(113)</b>
Investment in property, plant and equipment and intangible assets	10, 11	91	-	<b>91</b>
Order intake (unaudited)		9 215	-	<b>9 215</b>
Order backlog (unaudited)		8 077	-	<b>8 077</b>
Own employees (unaudited)		2 636	29	<b>2 665</b>

1 Other/Eliminations include Discontinued operations for cash flow from operating activities and own employees

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

3 Impact of embedded derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities

**2016 Operating segments**

Amounts in NOK million	Note	Field Development	Other/ Eliminations <sup>1</sup>	Total
<b>Operating revenue and other income</b>				
Construction contracts		7 009	13	<b>7 022</b>
Services revenue		64	-	<b>64</b>
Share of result from joint ventures		3 119	(2 933)	<b>186</b>
Other income <sup>2</sup>		137	486	<b>623</b>
<b>External operating revenue</b>		<b>10 330</b>	<b>(2 434)</b>	<b>7 896</b>
Inter-segment revenue		34	(34)	-
<b>Total operating revenue and other income</b>		<b>10 364</b>	<b>(2 468)</b>	<b>7 896</b>
<b>EBITDA</b>				
Depreciation and amortisation	10, 11	(96)	(4)	<b>(100)</b>
Goodwill impairment	11	(198)	-	<b>(198)</b>
<b>EBIT</b>		<b>447</b>	<b>(116)</b>	<b>331</b>
<b>EBITDA</b>				
Adjustment for equity accounted investees <sup>3</sup>		-	50	<b>50</b>
<b>Adjusted EBITDA</b>		<b>741</b>	<b>(61)</b>	<b>680</b>
<b>Assets</b>				
Current operating assets		1 461	(35)	<b>1 427</b>
Non-current operating assets		1 482	(16)	<b>1 466</b>
<b>Operating assets</b>		<b>2 943</b>	<b>(50)</b>	<b>2 893</b>
Investments in associates and jointly controlled entities				<b>35</b>
Investments in other companies				<b>4</b>
Cash and cash equivalents				<b>3 047</b>
Retained assets of business sold				<b>1</b>
<b>Total assets</b>				<b>5 980</b>

Amounts in NOK million	Note	Field Development	Other/ Eliminations <sup>1</sup>	Total
<b>Liabilities</b>				
Current operating liabilities		3 259	(298)	<b>2 961</b>
Non-current operating liabilities		191	13	<b>205</b>
<b>Operating liabilities</b>		<b>3 450</b>	<b>(285)</b>	<b>3 165</b>
Tax-related liabilities				<b>108</b>
Retained liabilities of business sold				<b>51</b>
<b>Total liabilities</b>				<b>3 324</b>
Net current operating assets		(1 797)	263	<b>(1 534)</b>
<b>Cash flow</b>				
Cash flow from operating activities		1 444	274	<b>1 718</b>
Acquisition of property, plant and equipment <sup>4</sup>	10	200	-	<b>200</b>
Order intake (unaudited)		2 938	-	<b>2 938</b>
Order backlog (unaudited)		6 459	-	<b>6 459</b>
Own employees (unaudited)		2 629	34	<b>2 663</b>

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

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

3 Impact of embedded derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities

4 Compared to capital expenditure in the cash flow statement, acquisition of property, plant and equipment excludes NOK 3 million for intangible assets

**Major customers**

For the group, revenue and other income from the three largest customers represented NOK 6.1 billion, or 93 percent, of total revenue of NOK 6.5 billion (2016: NOK 7.4 billion and 94 percent). Of this, one customer represented 59 percent (2016: 56 percent), the second represented 32 percent (2016: 36 percent) and the third represented two percent (2016: two percent) of the total revenue of the Kvaerner group.

For the Field Development segment, revenue and other income from the three largest customers represented NOK 7.1 billion, or 93 percent, of the segment's total revenue of NOK 7.6 billion (2016: NOK 10 billion and 97 percent). Of this, one customer represented 57 percent (2016: 43 percent), the second represented 27 percent (2016: 36 percent) and the third represented nine percent (2016: 18 percent) of the total revenue of the Field Development segment.

**Geographical information**

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

Amounts in NOK million	Total revenue and other income		Non-current segment assets	
	2017	2016	2017	2016
Norway	<b>6 291</b>	7 483	<b>1 465</b>	1 481
Europe	<b>67</b>	58	<b>1</b>	1
Canada	<b>146</b>	305	-	0
Rest of the world	<b>32</b>	50	<b>0</b>	1
<b>Total</b>	<b>6 536</b>	7 896	<b>1 466</b>	1 482

## Note 5 Employee benefit expenses

### Financial reporting principles

Employee benefits comprise all types of remuneration to personnel employed by the group and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid as a result of past service provided by the employee.

Under the variable pay programme some executives are entitled to a matching element paid in Kvaerner shares after three years. The monetary amount earned is converted into a number of shares based on the market value of the shares on 30 April the year after the grant date of the programme. Expected future dividends over the vesting period are considered when determining the grant date fair value per share. The grant date fair value of the shares is expensed over the vesting period until the shares are allocated. The shares are allocated to the executive conditional upon continued employment. The executive does not receive any dividends until the shares are allocated.

### Employee benefit expenses

Amounts in NOK million	Note	2017	2016
Salaries and wages including holiday allowance		1 802	1 760
Social security tax/national insurance contribution		256	260
Pension costs including social security tax	15	149	157
Other employee costs		74	92
<b>Salaries, wages and social security costs</b>		<b>2 282</b>	<b>2 269</b>

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

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

#### General

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

#### Benefits

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

#### Variable pay programme

The company has a deliberate policy of offering limited fixed benefits, and rather securing market competitiveness by offering participation in an annual executive variable pay programme. The objective of the programme is to recognise and reward the achievement of financial and

operational results as well as personal performance. The earnings under the programme are dependent on annual achievement of financial targets, the company's key performance indicators and personal performance rating.

Executive management and some senior managers are entitled to a matching element under the programme paid in Kvaerner shares after three years. In 2017 the company awarded 212 866 shares under the 2016 programme which will be delivered to executive management in 2019, if still employed. Expected dividends per annum at grant date has been reflected in determining the grant date fair value per share of NOK 11.40. The total expense in 2017 related to the matching element was NOK 3.2 million (NOK 2.9 million in 2016) for executive management.

#### Employee share purchase programme

In 2017 a share purchase programme was offered to all Norwegian employees. A total of 750 591 Kvaerner ASA shares were distributed to the employees on 5 December 2017 at a price of NOK 15.39 per share. No share purchase programme was offered in 2016.

#### Share options programme

The company does not offer share options programmes to any managers or employees or other share based payment compensation programmes, except for the share based variable pay programme described above.

#### Severance pay

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

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

## Remuneration to members of the executive management team

### 2017

Amounts in NOK		Base salary <sup>1</sup>	Variable pay <sup>2</sup>	Other benefits <sup>3</sup>	Pension benefit <sup>4</sup>	Total remuneration
Jan Arve Haugan	01.01.2017-31.12.2017	4 466 437	4 406 515	13 619	94 733	8 981 304
Steinar Røgenes	01.01.2017-31.12.2017	2 222 572	1 657 528	15 900	168 727	4 064 727
Sturla Magnus	01.03.2017-31.12.2017	1 808 154	1 131 566	61 612	85 195	3 086 527
Elly Bjercknes	01.01.2017-31.12.2017	2 171 077	1 514 370	17 345	201 586	3 904 378
Hans Petter Mølmen	01.01.2017-31.12.2017	2 069 846	1 458 824	17 835	154 646	3 701 151
Idar Eikrem	01.01.2017-31.12.2017	2 429 538	1 668 329	10 429	151 021	4 259 318
Arnt Knudsen	01.01.2017-31.12.2017	2 123 342	1 632 397	23 252	379 042	4 158 033
Ellen Grete Andersen	01.01.2017-31.12.2017	1 931 282	1 305 895	18 166	241 104	3 496 447
Henrik Inadomi	01.01.2017-31.12.2017	2 116 735	1 728 752	18 757	105 176	3 969 420
Terje Johansen	01.01.2017-28.02.2017	280 000	143 394	2 732	21 689	447 814
Knut Johan Malvik	01.01.2017-28.02.2017	419 100	255 986	1 732	32 411	709 229
Ole Petter Bjartnes	01.01.2017-28.02.2017	354 659	136 258	1 732	15 871	508 520
		<b>22 392 744</b>	<b>17 039 813</b>	<b>203 109</b>	<b>1 651 201</b>	<b>41 286 868</b>

1 Base salary represents salary expensed while holding an executive position, and includes holiday pay. For Jan Arve Haugan, base salary reflects a 15 percent voluntary reduction for nine months

2 Variable pay reported is based on expensed, rather than paid benefits, and includes holiday pay. For Jan Arve Haugan, NOK 1.2 million is related to 2016 performance. The amount was not accrued for in the 2016 accounts and is therefore expensed in the 2017 accounts and reflected in the variable pay amount for 2017

3 Other benefits include telephone, insurance agreements etc.

4 Pension benefits include the standard employee and management pension scheme and a disability pension scheme

## 2016

Amounts in NOK		Base salary <sup>1</sup>	Variable pay <sup>2</sup>	Other benefits <sup>3</sup>	Pension benefit <sup>4</sup>	Total remuneration
Jan Arve Haugan	01.01.2016-31.12.2016	4 872 323	2 392 000	16 784	100 219	7 381 326
Steinar Røgenes	01.01.2016-31.12.2016	2 222 572	1 046 387	17 860	145 341	3 432 160
Sverre Myklebust	01.01.2016-31.12.2016	2 165 809	1 197 204	107 321	319 758	3 790 091
Elly Bjerknes	01.01.2016-31.12.2016	1 923 385	725 364	12 120	171 568	2 832 436
Hans Petter Mølmen	01.01.2016-31.12.2016	1 822 154	690 260	11 510	172 351	2 696 274
Terje Johansen	01.01.2016-31.12.2016	1 495 846	554 571	18 844	74 639	2 143 900
Eiliv Gjesdal <sup>5</sup>	01.01.2016-31.03.2016	614 818	2 066 377	2 616	59 437	2 743 248
Idar Eikrem	04.04.2016-31.12.2016	1 735 138	1 525 127	7 054	59 441	3 326 760
Arnt Knudsen	01.01.2016-31.12.2016	2 080 615	963 675	17 938	300 777	3 363 005
Ellen Grete Andersen	01.01.2016-31.12.2016	1 717 542	509 609	15 074	193 646	2 435 870
Henrik Inadomi	01.01.2016-31.12.2016	2 116 735	1 120 916	15 405	110 494	3 363 551
Knut Johan Malvik	01.01.2016-31.12.2016	2 224 454	958 474	12 689	211 747	3 407 364
		<b>24 991 392</b>	<b>13 749 962</b>	<b>255 214</b>	<b>1 919 418</b>	<b>40 915 985</b>

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

2 Variable pay reported is based on expensed, rather than paid benefits, and includes holiday pay

3 Other benefits include telephone, insurance agreements etc.

4 Pension benefits include the standard employee and management pension scheme and a disability pension scheme

5 For the period 01.04.2016-30.06.2016 consultative tasks were performed, hence remuneration in this period has not been included in the above table. Variable pay reflects severance pay at the end of employment including the expensing of cash and shares elements of the variable pay programme as a result of acceleration of vesting conditions. Share element expensed in 2016 was NOK 281 000

## Remuneration to the Board of Directors

### 2017

Amounts in NOK	Board fees <sup>1</sup>	Audit Committee fees <sup>1</sup>	Remuneration Committee fees <sup>1</sup>
Leif-Arne Langøy	602 000	-	31 500
Tore Torvund <sup>2</sup>	547 300	-	31 500
Kjell Inge Røkke <sup>3</sup>	328 000	-	-
Thorhild Widvey	328 000	84 000	31 500
Lone Fønss Schrøder	328 000	163 000	-
Rune Rafdal <sup>4</sup>	164 000	84 000	-
Ståle Knoff Johansen <sup>4</sup>	164 000	-	-
Bernt Harald Kilnes <sup>4</sup>	164 000	-	-

- 1 Fees listed in the table are earned remuneration for work performed in 2017 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by the Annual General Meeting April 2017
- 2 Directors resident outside Scandinavia are granted additional compensation of NOK 12 700 per physical Board meeting
- 3 Fees paid directly to company The Resource Group TRG AS
- 4 Directors appointed by and from employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives. Employee elected Directors have in addition received ordinary salaries from the companies in which they are employed

## Remuneration to the Board of Directors

### 2016

Amounts in NOK	Board fees <sup>1</sup>	Audit Committee fees <sup>1</sup>	Remuneration Committee fees <sup>1</sup>
Leif-Arne Langøy	602 000	48 989	31 500
Tore Torvund <sup>2</sup>	521 900	-	31 500
Kjell Inge Røkke <sup>3</sup>	328 000	-	-
Vibeke Hammer Madsen <sup>4</sup>	98 579	-	9 467
Thorhild Widvey <sup>5</sup>	229 421	58 754	22 033
Lone Fønss Schrøder <sup>5</sup>	229 421	114 011	-
Rune Rafdal <sup>6</sup>	164 000	84 000	-
Ståle Knoff Johansen <sup>6</sup>	164 000	-	-
Bernt Harald Kilnes <sup>6</sup>	164 000	-	-

- 1 Fees listed in table are earned remuneration for work performed in 2016 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by the Annual General Meeting April 2016
- 2 Directors resident outside Scandinavia are granted additional compensation of NOK 12 700 per physical Board meeting.
- 3 Fees paid directly to company The Resource Group TRG AS
- 4 The Director Vibeke Hammer Madsen left the Board April 2016
- 5 Directors appointed at the Annual General Meeting April 2016
- 6 Directors appointed by and from the employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives. Employee elected Directors have in addition received ordinary salaries from the companies in which they are employed

### Nomination Committee

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

The current members of the Nomination Committee are:

Arild S. Frick (Chair), Georg F. Rabl and Walter Qvam. Kvaerner's General Meeting has adopted guidelines governing the duties of the Nomination Committee.

### Audit Committee

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

Lone Fønss Schrøder (Chair), Thorhild Widvey and Rune Rafdal.

### Remuneration Committee

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

Leif-Arne Langøy (Chair), Tore Torvund and Thorhild Widvey.

Fees to members of the Audit and Remuneration committees are subject to approval by the Annual General Meeting, 23 March 2018.

**Directors' and members of executive management team's shareholding**

		Direct shareholding <sup>2</sup>	Shares allocated as part of 2016 variable pay programme <sup>3</sup>	Shares allocated as part of 2015 variable pay programme <sup>3</sup>
Jan Arve Haugan <sup>1</sup>	President & CEO	194 843	-	-
Steinar Røgenes	EVP EPCI	79 605	29 715	90 504
Sturla Magnus	EVP Structural Solutions	27 191	-	-
Elly Bjerknes	EVP Process Solutions	45 734	25 715	31 654
Hans Petter Mølmen	EVP Concrete & New Solutions	57 800	24 835	28 677
Idar Eikrem	EVP & CFO	3 899	52 632	-
Arnt Knudsen	SVP Business Development	77 940	28 422	86 565
Ellen Grete Andersen	SVP Staff	14 824	19 808	22 713
Henrik Inadomi	SVP Corporate Support	117 433	31 739	89 672
Ståle Johansen	Director	10 381	-	-
Rune Rafdal	Director	6 329	-	-
Bernt Harald Kilnes	Director	23 164	-	-

1 Jan Arve Haugan and related parties

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

- Chairman Leif-Arne Langøy holdings of 44 827 shares through a privately owned company
- Director Kjell Inge Røkke's indirect ownership in Aker ASA through The Resource Group TRG AS and subsidiaries

3 Allocated shares related to 2015 variable pay programme will be transferred in 2018, and allocated shares related to 2016 variable pay programme will be transferred in 2019, if still employed at applicable future dates

## Note 6 Other operating expenses

### Financial reporting principles

Materials, goods and services costs reflect costs that relate directly to the specific contracts and costs that are attributable to contract activity. Costs that cannot be allocated to contract activity are expensed as incurred and are classified as other operating expenses.

### Other operating expenses

Amounts in NOK million	2017	2016
Rental cost for buildings and other office and premises cost <sup>1</sup>	98	32
Other operating expenses related to office and equipment	19	15
Hired services and external consultants including audit fees	78	81
Travel expenses	17	20
Insurance, guarantee and other service cost <sup>2</sup>	5	(5)
Maintenance buildings and equipment	33	20
Other <sup>3</sup>	23	84
<b>Total</b>	<b>272</b>	<b>247</b>

1 Rental cost for buildings and other office and premises cost of NOK 98 million in 2017 includes Onerous lease cost of NOK 53 million. Please refer to [Note 18](#) Provisions and contingent liabilities

2 Insurance, guarantees and other service cost of NOK 5 million in 2017 and negative NOK 5 million in 2016 mainly due to positive impact from project warranty releases. Please refer to [Note 18](#) Provisions and contingent liabilities

3 Other expenses mainly include electricity, gas, tools, welding material and miscellaneous maintenance and personnel costs

### Fees to auditor

KPMG is group auditor. The table below presents audit fee expense in the year.

Amounts in NOK million	2017	2016
Audit	3	4
Other assurance services	0	1
Other services <sup>1</sup>	1	1
<b>Total fees to KPMG</b>	<b>4</b>	<b>6</b>
Total audit fees - other auditor	0	0
<b>Total continuing operations</b>	<b>4</b>	<b>6</b>
Total discontinued operations	0	0
<b>Total</b>	<b>4</b>	<b>6</b>

1 Other services include NOK 0.9 million for 2017 and NOK 0.8 million for 2016 in assistance on tax advisory services and compliance related matters

## Note 7 Finance income and expenses

### Financial reporting principles

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

Foreign exchange translation differences are recognised in profit or loss, except for differences arising from translation of qualifying cash flow hedges (to the extent that the hedge is effective), which are recognised in other comprehensive income. Translation impacts of monetary assets and liabilities related to operating activities are recognised within operating results. Embedded derivatives will under certain circumstances be separated and recognised at fair value in the balance sheet and the changes recognised in the income statement.

### Finance income and expenses

Amounts in NOK million	2017	2016
Interest income on bank deposits	22	16
Net foreign exchange gain	6	1
Other finance income <sup>1</sup>	3	25
<b>Finance income</b>	<b>31</b>	<b>42</b>
Interest expense on financial liabilities measured at amortised cost	(20)	(20)
Net finance cost pension	(5)	(4)
Other finance cost	(1)	(6)
Foreign exchange movement embedded derivatives	(2)	(128)
<b>Finance expenses</b>	<b>(27)</b>	<b>(159)</b>
<b>Net finance expenses recognised in profit and loss</b>	<b>4</b>	<b>(117)</b>

1 For 2016 NOK 22 million relates to gain on foreign currency contracts

See [Note 21](#) Derivative financial instruments and [Note 22](#) Financial instruments for information on the finance income and expense generating items.

## Note 8 Income taxes

### Financial reporting principles

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

### Current tax

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

### Deferred tax

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against amounts that can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Accounting estimates and judgments

Kvaerner is subject to income taxes in several jurisdictions. Significant judgment is required to determine the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Provisions are based on estimates of eventual additional taxes. Income tax expense is calculated based on reported income in the different legal entities. Deferred income tax expense is calculated based on the differences between the assets' carrying value for financial reporting purposes and their respective tax basis that are considered temporary in nature.

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

### Income tax expense

Amounts in NOK million	2017	2016
Current tax expense	17	33
Prior year adjustment	0	26
<b>Total current tax expense</b>	<b>17</b>	<b>58</b>
Current year's deferred tax expense	149	74
Prior year deferred tax adjustment	20	-
<b>Total deferred tax expense/(income)</b>	<b>168</b>	<b>74</b>
<b>Total tax expense</b>	<b>186</b>	<b>132</b>

### Effective tax rate reconciliation

Amounts in NOK million	2017	2016
<b>Profit before tax</b>	<b>697</b>	<b>214</b>
Expected income taxes (2017: 24 percent, 2016: 25 percent) of profit before tax	167	53
<b>Tax effects of:</b>		
Prior year adjustments (current and deferred tax)	20	26
Permanent differences <sup>1</sup>	(4)	42
Effect of unrecognised timing differences and tax losses <sup>2</sup>	2	3
Change in tax rates <sup>3</sup>	(9)	(3)
Differences in tax rates from 24 percent (2016: 25 percent)	4	5
Other <sup>4</sup>	7	6
<b>Total tax expense</b>	<b>186</b>	<b>132</b>
Effective tax rate	<b>27%</b>	62%
Tax effect of differences	<b>18</b>	77

1 Permanent differences in 2017 were mainly due to impacts from other comprehensive income pension. In 2016, permanent differences were mainly related to goodwill impairment not being tax deductible

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

3 Impact of change in Norwegian nominal tax rate from 24 to 23 percent as from 2018

4 Other items are mainly related to tax on items recognised directly through equity

**Recognised deferred tax assets and liabilities**

Amounts in NOK million	2017	2016
Property, plant and equipment	19	24
Pensions	45	45
Projects under construction	(425)	(1 870)
Tax losses carried forward	103	1 713
Provisions	21	26
Financial instruments	(10)	(10)
Other	20	9
<b>Total deferred tax asset/(liability)</b>	<b>(225)</b>	<b>(62)</b>

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

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Balance as of 31 December
Property, plant and equipment	24	(5)	-	19
Net pensions	45	(0)	-	45
Projects under construction	(1 870)	1 446	-	(425)
Tax loss carry-forwards	1 713	(1 610)	0	103
Provisions	26	(5)	-	21
Financial instruments	(10)	1	-	(10)
Other	9	6	5	20
<b>Total</b>	<b>(62)</b>	<b>(168)</b>	<b>5</b>	<b>(225)</b>

**2016**

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Balance as of 31 December
Property, plant and equipment	30	(11)	5	24
Net pensions	40	7	(2)	45
Projects under construction	(1 286)	(592)	8	(1 870)
Tax loss carry-forwards	1 194	517	2	1 713
Provisions	40	(11)	(2)	26
Financial instruments	(28)	26	(8)	(10)
Other	12	(10)	8	9
<b>Total</b>	<b>1</b>	<b>(74)</b>	<b>11</b>	<b>(62)</b>

**Tax loss carry-forwards**

Amounts in NOK million	2017	2016
Recognised tax losses carried forward	369	7 090
Recognised denied interest carried forward	79	49
Unrecognised tax losses carried forward	90	77
<b>Total tax losses carried forward - continuing operations</b>	<b>538</b>	<b>7 216</b>

Recognised tax losses and denied interest carried forward are related to the Norwegian operations. Denied interest carried forward expires after six to ten years. Remaining recognised tax losses have indefinite expiry dates. Unrecognised tax losses are related to international offices of which NOK 27 million expire after five years and the remaining have indefinite expiry dates.

In addition to the tax losses above for continuing operations, unrecognised tax losses in the group's discontinued operations in North America amounted to NOK 633 million at year-end 2017 (2016: NOK 665 million).

The group has no current tax liabilities at year-end 2017 (2016: NOK 46 million).

## Note 9 Earnings per share

### Financial reporting principles

The basic and diluted earnings per share are calculated as the ratio of the profit for the year that is due to the shareholders divided by the weighted average number of ordinary shares outstanding. Treasury shares are not included in the weighted average number of ordinary shares. Kvaerner currently has no share-based compensation that results in a dilutive effect on earnings per share.

### Earnings per share

	2017	2016
<b>Profit/(loss) attributable to ordinary shares (NOK million):</b>		
Net profit/(loss) - continuing operations	511	82
Net profit/(loss) - discontinued operations	31	345
<b>Net profit/(loss) - total operations</b>	<b>542</b>	<b>426</b>
Weighted average number of shares outstanding	266 215 316	265 937 761
<b>Earnings per share (NOK):</b>		
Basic and diluted EPS - continuing operations	1.92	0.31
Basic and diluted EPS - discontinued operations	0.12	1.30
<b>Basic and diluted EPS - total operations</b>	<b>2.04</b>	<b>1.60</b>

## Note 10 Property, plant and equipment

### Financial reporting principles

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

Assets are mainly depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

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

Estimates for residual values are reviewed annually.

Amounts in NOK million	Buildings and sites	Machinery, equipment and software	Under construction	Total
Historical cost as of 1 January 2016	1 054	737	0	<b>1 791</b>
Additions	6	173	20	<b>200</b>
Disposals	-	(0)	-	<b>(0)</b>
Scrapping	(4)	(1)	-	<b>(4)</b>
Transfers	-	0	-	<b>0</b>
Currency translation differences	(0)	0	(0)	<b>(0)</b>
<b>Historical cost as of 31 December 2016</b>	<b>1 057</b>	<b>909</b>	<b>20</b>	<b>1 986</b>
Accumulated depreciation as of 1 January 2016	(521)	(583)	-	<b>(1 104)</b>
Depreciation for the year	(39)	(49)	-	<b>(89)</b>
Disposals	-	0	-	<b>0</b>
Scrapping	4	1	-	<b>4</b>
Transfers	-	0	-	<b>0</b>
Currency translation differences	0	(0)	-	<b>0</b>
<b>Accumulated depreciation as of 31 December 2016</b>	<b>(557)</b>	<b>(631)</b>	<b>-</b>	<b>(1 188)</b>
<b>Book value as of 31 December 2016</b>	<b>500</b>	<b>278</b>	<b>20</b>	<b>798</b>

Amounts in NOK million	Buildings and sites	Machinery, equipment and software	Under construction	Total
Historical cost as of 1 January 2017	1 057	909	20	<b>1 986</b>
Additions	17	40	23	<b>81</b>
Disposals	-	(2)	-	<b>(2)</b>
Scrapping	-	-	(0)	<b>(0)</b>
Transfers	(158)	171	(14)	<b>(0)</b>
Currency translation differences	(0)	0	(0)	<b>0</b>
<b>Historical cost as of 31 December 2017</b>	<b>916</b>	<b>1 118</b>	<b>30</b>	<b>2 063</b>
Accumulated depreciation as of 1 January 2017	(557)	(631)	-	<b>(1 188)</b>
Depreciation for the year <sup>1</sup>	(25)	(53)	-	<b>(78)</b>
Disposals	-	2	-	<b>2</b>
Scrapping	-	-	-	<b>-</b>
Transfers	125	(125)	-	<b>(0)</b>
Currency translation differences	0	(0)	-	<b>0</b>
<b>Accumulated depreciation as of 31 December 2017</b>	<b>(457)</b>	<b>(806)</b>	<b>-</b>	<b>(1 263)</b>
<b>Book value as of 31 December 2017</b>	<b>459</b>	<b>311</b>	<b>30</b>	<b>800</b>

1 Depreciation for the year includes reversal of NOK 14 million related to excess depreciation in previous years reversed in 2017. It has been determined that the impact was immaterial for any previous year

Kvaerner has not entered into any financial lease contracts as of 31 December 2017. At year-end 2017, Kvaerner has contractual commitments for acquisition of property, plant and equipment amounting to NOK 10 million, mainly relating to investments at the yards at Stord and Verdal.

## Note 11 Intangible assets

### Financial reporting principles

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets. Where fair value of net assets acquired exceeds consideration paid, the resulting gain arising on an acquisition is recognised directly in the income statement. Goodwill recognised on acquisitions of subsidiaries is presented within intangible assets. Acquisitions of equity accounted investees do not result in goodwill as the full cost of acquisition is included in the carrying value of the investment. Goodwill is carried at cost less accumulated impairment losses.

#### Government grants

Government grants are recognised when it is reasonably certain that the company will meet the conditions stipulated for the grants and that the grants will be received. Operating grants are recognised systematically during the grant period. Grants are deducted from the cost which the grant is meant to cover. Investment grants are recognised as a deduction of the asset's carrying amount.

#### Research and development

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

#### Amortisation

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

#### Impairment

Goodwill is tested for impairment annually or more frequent if impairment indicators are identified. An impairment loss is recognised if the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount.

#### Recoverable amount

The recoverable amount of an asset or a CGU is the greater of their net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows independently of other assets or CGUs. Subject to the operating segment limit, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed, reflects the

lowest level at which goodwill is monitored for internal reporting purposes. Goodwill is allocated to groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

#### Impairment loss recognition

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then, to reduce the carrying amount of the other non-financial assets in the CGU (or group of CGUs) on a pro rata basis. An impairment loss on goodwill is not reversed.

### Accounting estimates and judgments

#### Goodwill

Management's determination of the recoverable amounts of the cash generating units includes assumptions regarding future project wins, their profitability and terminal values. The recoverable amounts of CGUs have been determined based on value-in-use calculations, which require the use of estimates and judgments. Feedback from customers indicates that the decline in new field developments since 2014 is levelling out. Several oil companies are currently reviewing some possible investment projects. Kvaerner sees more prospects to bid for, compared to one year ago. Tendering activity is high and Kvaerner is currently positioning for prospects both in Norway and selected international regions. Even further ahead, it is anticipated that oil companies will start a number of additional prospects well fit for Kvaerner, for example in the Barents Sea region. Project awards to Kvaerner over the last 12 months prove competitiveness, but competition remains fierce. These industry trends are reflected in the group's annual impairment test.

### Intangible assets

Amounts in NOK million	Intangible assets excl. goodwill	Goodwill	Total
Balance as of 1 January 2016	68	805	<b>873</b>
Amortisation	(12)	-	<b>(12)</b>
Impairment	-	(198)	<b>(198)</b>
Additions	3	-	<b>3</b>
<b>Balance as of 31 December 2016</b>	<b>59</b>	<b>607</b>	<b>666</b>
Amortisation	(12)	-	<b>(12)</b>
Impairment	(15)	-	<b>(15)</b>
Additions	10	-	<b>10</b>
Transfers	0	-	<b>0</b>
<b>Balance as of 31 December 2017</b>	<b>42</b>	<b>607</b>	<b>649</b>

### Research and development costs

For the year ended 31 December 2017, the group capitalised development costs of NOK 10 million (2016: NOK 3 million) related to IT systems for Structural Solutions and development of mobile application platform and intranet for the group. In 2017 NOK 35 million (2016: NOK 15 million) has been expensed for research and development as the criteria for capitalisation were

not met. Research and development costs paid by customers amounted to NOK 2 million in the period (2016: nil).

Impairment of intangible assets in 2017 of NOK 15 million is related to capitalised development of concepts and systems in previous years.

#### Goodwill-allocation by operating segment

Amounts in NOK million	2017	2016
Process Solutions	421	421
Structural Solutions	186	186
<b>Total Field Development</b>	<b>607</b>	<b>607</b>

#### Impairment testing of goodwill

Goodwill originates from a number of historic acquisitions. Goodwill was allocated to the business areas, based on relative fair value estimates of the businesses at the time of demerger from Aker Solutions in 2011. Following changes in the composition of the cash generating units in 2016, goodwill was then reallocated to the new operational areas.

In 2016, goodwill of NOK 198 million related to Concrete Solutions was fully impaired as a result of assessment of the uncertainty of the amounts and timing of new projects within the operational area and was not reflecting Kvaerner's view on the long term prospects within the Concrete business.

#### 2017 Impairment test

##### Key assumptions

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

- Assumed project awards is an essential element in the impairment testing. The group's business development organisation reviews and considers market prospects and selects target projects
- Target projects are included based on a probability weighting assessed by business development, i.e. probability that projects will go ahead and probability that Kvaerner will be selected as supplier and estimated revenues and margins based on the scope of work and Kvaerner's experience and judgment from other projects
- Cash flow projections for ongoing projects are based on budget and forecast
- Explicit period for estimated cash flows are fourth quarter 2017-2021
- Terminal values reflecting long term, steady state revenue and margin levels are estimated based on a combination of historic levels and judgment
- An annual growth rate of one percent is used in calculating the terminal value for Process Solutions and Structural Solutions
- The pre-tax discount rate, based on a weighted average cost of capital assessment, used is calculated based on the post-tax rate using an iterative process that gives the same net present value of cash flows pre- and post-tax. The post-tax discount rate applied in the testing is 8.7

percent, and pre-tax discount rates are 11.3 percent for Process Solutions and 11.4 percent for Structural Solutions

For operational areas Process Solutions and Structural Solutions recoverable amount for recognised goodwill exceeds the related carrying values, and consequently the analysis indicates that no impairment is required. There is considerable headroom compared to the carrying amount for these operating areas.

#### Sensitivities

The following adverse changes could occur simultaneously before any impairment is required; for Process Solutions, revenue reduction of 15 percent, EBITDA margin reduction of 0.95 percentage points and increase in pre-tax discount rate of 2.1 percentage points. For Structural Solutions, revenue reduction of 15 percent, EBITDA margin reduction of one percentage point and increase in pre-tax discount rate of 2.1 percentage points.

## Note 12 Trade and other current assets

#### Financial reporting principles

Trade and other receivables are recognised at the original invoiced amount, less an allowance for doubtful receivables. The invoiced amount is considered to be approximately equal to the value which would be derived under the amortised cost method.

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

#### Trade receivables and other current assets

Amounts in NOK million	Note	2017	2016
Trade receivables		775	802
Provision for impairment of receivables		(31)	(28)
<b>Trade receivables, net</b>		<b>744</b>	<b>774</b>
Advances to suppliers		2	2
Work in progress	3	88	68
Accrued operating revenue		457	353
Other receivables		221	200
Derivative financial instruments	21	7	9
<b>Total trade and other receivables</b>		<b>1 519</b>	<b>1 407</b>
Other		5	6
<b>Total trade and other current assets</b>		<b>1 524</b>	<b>1 413</b>

Impairment losses in 2017 were nil (2016: nil).

Amounts in NOK million	2017	2016
Current	471	689
Past due 0-30 days	242	53
Past due 31-90 days	15	9
Past due 91 days to one year	47	52
<b>Total</b>	<b>775</b>	<b>802</b>

### Note 13 Cash and cash equivalents

#### Financial reporting principles

Cash and cash equivalents include cash on hand, demand deposits held with banks and other short-term highly liquid investments with original maturity of three months or less.

Amounts in NOK million	2017	2016
Restricted cash	1	1
Cash pool	527	443
Interest-bearing deposits	2 280	2 602
Non interest-bearing deposits	5	-
<b>Total</b>	<b>2 812</b>	<b>3 047</b>

### Note 14 Equity

#### Share capital

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

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

In 2017 and 2016 there have been no payments of dividends.

#### Treasury shares

The group purchases its own shares to meet the obligations under the matching element of the variable pay programme. Purchase of own shares is recognised at cost as a reduction in equity and is classified as treasury shares. No gain or loss is recognised in the income statement when treasury shares are sold.

Amounts in NOK million	Number of shares	Consideration
Treasury shares as of 31 December 2016	3 674 061	25
Purchase	-	-
Sale	(1 517 021)	(9)
<b>Treasury shares as of 31 December 2017</b>	<b>2 157 040</b>	<b>15</b>

#### Hedging reserve

The hedging reserve relates to cash flow hedges of future revenues and expenses against exchange rate fluctuations. The income statement effects of such instruments are recognised in accordance with the progress of the underlying construction contract as part of revenues or expenses as appropriate. The hedging reserve represents the value of such hedging instruments that are not yet recognised in the income statement. The underlying nature of a hedge is that a positive value on a hedging instrument exists to cover a negative value on the hedged position, see [Note 21](#) Derivative financial instruments.

#### Pension reserve

The defined benefit plan actuarial gains and losses reserve includes remeasurement of the net defined benefit liability, which comprise actuarial gains and losses on the return of plan assets (excluding interest).

#### Currency translation reserve

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

### Note 15 Pension obligations

#### Financial reporting principles

##### Defined contribution plans

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

##### Defined benefit plans

The group's net obligation for defined benefit pension plans is calculated as net present value of future benefits the employees have earned in the current and prior periods reduced with fair value of plan assets. The plans are calculated separately. When the actuarial calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds

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

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

Remeasurements arising from defined benefit plans comprise of actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling, and are recognised immediately in other comprehensive income.

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

#### Accounting estimates and judgments

The present value of pension obligations depends on a number of assumptions regarding financial factors such as discount rate, expected salary growth, return on assets and demographical factors such as mortality, employee turnover, disability and early retirement age. During the long period of the pension obligation there will be changes in these assumptions effecting the pension obligation.

#### Pension plans in Norway

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

Norwegian employers are obliged to provide an employment pension plan, which can be organised as a defined benefit plan or a defined contribution plan.

#### Defined contribution plan

All employees at 67 years or younger are included in the defined contribution plan in Kvaerner. The annual contributions expensed for the defined contribution plan were NOK 97 million (2016: NOK 88 million). The estimated contributions expected to be paid in 2018 are NOK 95 million.

#### Defined benefit plan

Employees who were 58 years or older in 2008, when the defined benefit plan was closed, are still in this plan. This is a funded plan and represents the funded pension liability reported. Kvaerner's contributions to this plan in 2017 were NOK 17 million (2016: NOK 19 million) and the expected contributions for 2018 are NOK 18 million.

The net pension obligation is sensitive to deviations in mortality for the members versus the mortality table used for calculating the obligation. As payments of the funds are relatively close in

time, in a pension perspective, the net pension obligation is sensitive to reductions in the values of the investments.

#### Compensation plan

To ensure that the employees were treated fairly at the change from the defined benefit plan to the defined contribution plan, the company introduced a compensation plan. The employees are entitled to a compensation amount being the difference between calculated pension capital in the defined benefit plan and the value of the defined benefit plan at the age of 67 years. The compensation amount is adjusted annually in accordance with the adjustment of the employees' pensionable income and accrued interest according to market interest. The compensation plan is an unfunded plan, and the obligation is calculated by actuary on a yearly basis. The first payments to employees from this plan started in 2017.

#### AFP - early retirement arrangement

AFP is an early retirement arrangement organised by Norwegian employers, The Norwegian Confederation of Trade Unions (LO) and the Norwegian state. The AFP plan is providing additional lifelong pensions to employees that retire before the general retirement age, to compensate for the reduction in the ordinary pension entitlements. The employees are given a choice of retirement age, with lower pension at earlier retirement.

The Norwegian Accounting Standards Board has issued a comment concluding that the AFP plan is a multi-employer defined benefit plan. The AFP plan exposes the participating entities to actuarial risk associated with employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual participating entities. Sufficient information is not available to use defined benefit accounting and the AFP plan is accounted for as a defined contribution plan.

The annual contribution expensed for the AFP plan was NOK 30 million (2016: NOK 31 million). The estimated contributions expected to be paid in 2018 is NOK 31 million.

#### Pension plans outside Norway

All pension plans in Kvaerner companies outside Norway are defined contribution plans. Contributions to these plans were NOK 0.6 million in 2017 (2016: NOK 0.9 million). Estimated contributions in 2018 are NOK 0.5 million.

**Total pension cost including payroll tax**

Amounts in NOK million	2017	2016
Service cost <sup>1</sup>	17	36
Administration cost	1	1
Settlements <sup>2</sup>	(1)	-
<b>Net periodic pension cost defined benefit plans</b>	<b>17</b>	<b>38</b>
Pension cost defined contribution plans	132	120
<b>Net periodic pension cost</b>	<b>149</b>	<b>157</b>
Net interest cost/(income)	5	4
<b>Net periodic pension cost incl. net interest cost</b>	<b>154</b>	<b>161</b>

1 In 2016, the service cost was increased by NOK 17 million, following changes in the numbers of employees within AFP scheme

2 In 2017 paid up policies have been issued for disability pension benefits

**Movement in pension obligation and plan asset**

Amounts in NOK million	2017	2016
Projected benefit obligation as of 1 January	500	494
Service cost	17	36
Interest expense	12	13
Payroll tax of employer contribution assets	(5)	(3)
Benefits paid	(47)	(39)
Settlements <sup>1</sup>	(24)	-
Remeasurements loss/(gain) to other comprehensive income (OCI)	21	1
<b>Projected benefit obligation as of 31 December</b>	<b>475</b>	<b>500</b>
Plan assets at fair value as of 1 January	331	335
Interest income	8	9
Contributions paid into the plan	38	28
Benefits paid	(47)	(39)
Payroll tax of employer contribution assets	(5)	(3)
Administrative expenses paid	(1)	(1)
Settlements <sup>1</sup>	(23)	-
Remeasurements loss/(gain) to other comprehensive income	(14)	3
<b>Plan assets at fair value as of 31 December</b>	<b>287</b>	<b>331</b>
Effect of asset ceiling <sup>2</sup>	(9)	(20)
<b>Net benefit obligation as of 31 December</b>	<b>198</b>	<b>190</b>
<b>As presented in the balance sheet</b>		
Employee benefit assets	-	2
Employee benefit obligations	(198)	(191)
<b>Total</b>	<b>(198)</b>	<b>(190)</b>

1 In 2017 paid up policies have been issued for disability pension benefits

2 Asset ceiling is implemented to reduce net pension assets according to the IFRS definition of assets. The effect is booked to other comprehensive income

**Defined benefit obligation specified by funded and unfunded pension plans**

Amounts in NOK million	2017	2016
Funded	277	309
Unfunded	198	191
<b>Net employee benefit assets/(employee benefit obligations)</b>	<b>475</b>	<b>500</b>

**Included in other comprehensive income (OCI)**

Amounts in NOK million	2017	2016
Remeasurements loss/(gain) from changes in:		
Effect of changes in financial assumptions	5	(33)
Effect of changes in demographic assumptions	-	28
Effect of experience adjustments	16	6
Return on plan assets (excluding interest income)	14	(3)
Changes in asset ceiling	(11)	20
<b>OCI losses/(gains)</b>	<b>25</b>	<b>18</b>

**Analyses of assets in the defined benefit plan**

Plan assets comprise:

Amounts in NOK million	2017	2016
Equity instruments		
- Oil & Gas	4	2
- Oilfield Services & Equipment	3	6
- Renewable Energy	1	1
- Chemicals	0	2
Bonds		
- Government	3	5
- Finance	37	57
- Private and Government enterprise	64	65
- Municipalities	138	168
Fund/Private Equity	38	25
<b>Plan assets</b>	<b>287</b>	<b>331</b>

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

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

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

**Actuarial assumptions**

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

	2017	2016
Discount rate	2.40%	2.50%
Asset return	2.40%	2.50%
Salary progression	2.50%	2.25%
Pension indexation	0-4.00%	0-2.25%
G - multiplier	2.25%	2.00%
Mortality table	K2013	K2013

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

Assumptions regarding future mortality are based on the dynamic mortality table K2013. The dynamic model expects improvements in life expectancy over time, expected for Kvaerner employees as well. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	2017	2016
<b>Assumed life expectancy retiring today (member age 65)</b>		
Males	22.2	22.1
Females	25.5	25.4
<b>Assumed life expectancy retiring in 25 years (member age 40 today)</b>		
Males	24.5	24.4
Females	28.0	27.9

**Sensitivity analysis**

Calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above. An entity shall disclose a sensitivity analysis for each significant actuarial assumption.

Possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

Effects in NOK million	Defined benefit obligation	
	Increase	Decrease
Discount rate (1% movement)	(40)	49
Future salary growth (1% movement)	1	(1)
Future pension growth (1% movement)	38	(31)

## Note 16 Operating leases

### Financial reporting principles

Payments made under an operating lease are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. The group does currently not have any leases classified as finance leases.

### Lease expenses and sub-lease income

Kvaerner has entered into various operating lease contracts, mainly related to rental of buildings. In addition Kvaerner is leasing a demolition area at Stord, and various, insignificant, equipment and machinery related to operations at the Stord and Verdalen yards. The lease terms vary from short term lease contracts to lease contracts with duration up to 12 years. None of the leases include significant contingent payments. The majority of the lease contracts are renewable at the end of the lease period at market rates.

In 2013 Kvaerner signed an agreement with Fornebuporten AS for a long term lease for Kvaerner's new headquarters at Fornebu. Kvaerner moved to new offices at Fornebuporten end of June 2015. The lease contract is for approximately 8 000 square metres at market terms, representing an all-inclusive annual average lease payment of NOK 27 million for the initial lease term. The term of the agreement is 12 years with options for five plus five years. Fornebuporten AS was owned by Aker ASA, related party to Kvaerner, when the lease agreement was entered into. In November 2015 Fornebuporten AS was sold to Fornebu Gateway AS, also related party to Aker ASA and Kvaerner. Refer to [Note 18](#) for onerous lease provision recognised in the year.

Sublease payments and contingent rent recognised in the income statement for the years ended 31 December 2017 and 2016 were insignificant.

### Minimum lease payments recognised in the income statement

Amounts in NOK million	2017	2016
Buildings	57	44
Plant, equipment and machinery	36	14
<b>Total</b>	<b>93</b>	<b>59</b>

### Lease commitments

#### Total non-cancellable operating lease commitments

Amounts in NOK million	2017	2016
Amount due within one year	76	48
Amount due between one and five years	164	151
Amount due later than five years	128	154
<b>Total</b>	<b>367</b>	<b>353</b>

As from 2016, common service costs relating to leases are excluded from operating lease commitments.

The group has non-cancellable sublease contract for offices in Houston, USA. Future minimum sub-lease income at year-end 2017 is NOK 5 million.

## Note 17 Interest-bearing liabilities

### Financial reporting principles

Interest-bearing loans and borrowings are measured at amortised cost.

### Bank debt

The revolving credit facility agreement of 8 July 2015 is a revolving credit facility of NOK 2 000 million, maturing in July 2020. The facility is provided by a syndicate of high quality international banks. The revolving credit facility was undrawn during 2017 and as per 31 December 2017. The terms and conditions include restrictions which are customary for these kind of facilities, including inter alia negative pledge provisions and restrictions related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreement. There are no restrictions for dividend payments. The facility is unsecured.

The financial covenants are based on three sets of key financial ratios; an equity ratio based on consolidated total borrowings/consolidated total equity, a cash covenant calculated by

consolidated total borrowings less consolidated net current operating assets and consolidated cash and cash equivalent assets and an interest coverage ratio based on consolidated EBITDA/ consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2017 the company is in compliance with all covenants. The margin applicable to the facility is based on a margin grid determined by the gearing ratio.

## 2017 and 2016

Amounts in million	Nominal currency value	Book value	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 000	-	2.00%	-	8 July 2020	IBOR + Margin <sup>1</sup>
<b>Total non-current borrowings</b>			-				

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

## Note 18 Provisions and contingent liabilities

### Financial reporting principles

A provision is recognised in the balance sheet when the group has a present obligation as a result of a past event, it is probable that the group will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a market based pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the liability-specific risks. The unwinding of the discount is recognised as a finance cost. Onerous contracts are measured at the lower of the expected cost of terminating a contract and the expected net cost of continuing with the contract. All provisions are presented as current liabilities as they are part of the operating cycle.

### Accounting estimates and judgments

The provisions are estimated based on assumptions and in nature highly judgmental. The various provisions and the related assumptions and uncertainties are discussed below.

Amounts in NOK million	Warranties	Onerous lease	Other	Total
<b>Balance as of 1 January 2016</b>	142	-	22	<b>164</b>
Provisions made during the year	-	-	34	<b>34</b>
Provisions used during the year	(9)	-	(24)	<b>(33)</b>
Provisions reversed during the year	(29)	-	(0)	<b>(29)</b>
Currency translation differences	-	-	(1)	<b>(1)</b>
<b>Balance as of 31 December 2016</b>	103	-	31	<b>135</b>
Provisions made during the year	8	53	9	<b>70</b>
Provisions used during the year	(23)	-	(21)	<b>(43)</b>
Provisions reversed during the year	(11)	-	(0)	<b>(11)</b>
Transferred to discontinued operations	-	-	(1)	<b>(1)</b>
Currency translation differences	-	-	(0)	<b>(0)</b>
<b>Balance as of 31 December 2017</b>	78	53	18	<b>148</b>
Expected timing of payment as of 31 December 2017				
Non-current	38	45	11	<b>94</b>
Current	40	8	7	<b>55</b>
<b>Total</b>	78	53	18	<b>148</b>

### Warranties

Provisions for warranties relate to the possibility that Kvaerner, based on contractual agreements, needs to perform guarantee work related to products and services delivered to customers. A provision for expected warranty expenditures is recognised when the underlying products or services are sold. The provision is based on historical warranty data. The warranty period is normally two years. Based on experience, the provision is often set at one percent of the contract value, but can also be a higher or lower amount following a specific evaluation of the actual circumstances for each contract. The evaluations are based on experience from earlier projects. Factors that could affect the estimated warranty cost include the group's quality initiatives and project execution model.

### Onerous lease contract

The onerous lease contracts provision relates to separable parts of leased office building that have been vacated by Kvaerner. Future lease commitments and future expected sub-lease income,

in current prices, represent the net liability. The amounts are not discounted since risk adjusted real interest rate is assessed to be negative. The provision is sensitive to changes in the discount rate and sub-lease income assumptions.

#### Other

Other provisions mainly relate to severance pay to employees following capacity adjustments.

#### Contingent liabilities

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

#### Nordsee Ost project

In 2012, arbitration related to the Nordsee Ost project was filed. The last wind jackets for the project were delivered in October 2013.

In the group's view, the legacy project related to Nordsee Ost is subject to significant estimation uncertainty and the outcome could have a material impact on the consolidated financial statements. Management's assessments of the likely outcome of these proceedings, which form the basis of the recoverable amounts recognised in the financial statements, are subject to a high degree of uncertainty as the proceedings have continued for many years, are subject to complex interpretations of contractual, engineering, design and project execution issues and there are a wide range of reasonably possible outcomes. It is currently not possible to estimate when the arbitration will be finalised.

There is substantial uncertainty with respect to the final financial outcome of the Nordsee Ost project, and to avoid prejudicing Kvaerner's position, no estimate of the expected final outcome is disclosed.

## Note 19 Trade and other payables

#### Financial reporting principles

Trade and other payables are recognised at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value which would be derived under the amortised cost method.

#### Trade and other payables

Amounts in NOK million	Note	2017	2016
Trade creditors		425	671
Advances from customers		433	739
Accrued operating and financial costs		977	1 237
Derivative financial instruments	21	14	8
Sundry taxes		156	148
Other current liabilities		26	18
<b>Total trade and other payables</b>		<b>2 032</b>	<b>2 820</b>

## Note 20 Financial risk management and exposures

#### Financial risk

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

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

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

#### Currency risk

Kvaerner operates internationally and is exposed to currency risk on commercial transactions, recognised assets and liabilities. Commercial transactions and recognised assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective

functional currency of the group company. The group's exposure to currency risk is primarily related to USD, EUR, GBP, CAD, SEK, PLN, and RUB.

Kvaerner's policy requires that entities hedge their entire contractually binding currency risk exposure in any project using forward currency contracts. Treasury manages internal exposures by entering into external forward currency contracts. The group has a number of contracts involving foreign currency exposures, and the currency risk policy was established years ago.

For segment reporting purposes, each legal entity designates all currency hedge contracts with Treasury as cash flow hedges. External foreign exchange contracts are designated at group level as hedges of currency risk on a gross basis. These hedges are done back-to-back. When hedges do not qualify for hedge accounting under IFRS, an adjustment is done at group level. See [Note 21](#) Derivative financial instruments for information regarding the accounting treatment of hedging and embedded derivatives.

### The group's exposure to its main foreign currencies

#### 2017

Amounts in million	RUB	PLN	SEK	CAD	GBP	USD	EUR
Cash	(109)	0	0	6	1	11	18
<b>Balance sheet exposure</b>	<b>(109)</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>1</b>	<b>11</b>	<b>18</b>
Estimated forecast receipts from customers	4	-	1	-	-	8	67
Estimated forecast payments to vendors	(9)	-	-	-	-	(4)	(2)
<b>Cash flow exposure</b>	<b>(5)</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>65</b>
<b>Forward exchange contracts</b>	<b>5</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>(65)</b>
<b>Net exposure</b>	<b>(109)</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>1</b>	<b>11</b>	<b>18</b>

#### 2016

Amounts in million	RUB	PLN	SEK	CAD	GBP	USD	EUR
Cash	14	0	34	2	5	9	10
<b>Balance sheet exposure</b>	<b>14</b>	<b>0</b>	<b>34</b>	<b>2</b>	<b>5</b>	<b>9</b>	<b>10</b>
Estimated forecast receipts from customers	-	-	28	-	6	19	63
Estimated forecast payments to vendors	-	(25)	-	-	-	(2)	-
<b>Cash flow exposure</b>	<b>-</b>	<b>(25)</b>	<b>28</b>	<b>-</b>	<b>6</b>	<b>17</b>	<b>63</b>
<b>Forward exchange contracts</b>	<b>-</b>	<b>25</b>	<b>(28)</b>	<b>-</b>	<b>(6)</b>	<b>(17)</b>	<b>(63)</b>
<b>Net exposure</b>	<b>14</b>	<b>0</b>	<b>34</b>	<b>2</b>	<b>5</b>	<b>9</b>	<b>10</b>

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

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

Value of hedging instruments that do not qualify for hedge accounting cannot be deferred from profit and loss. Changes in profit and loss are based on changes in fair values of the hedges that do not qualify for hedge accounting and any ineffectiveness in hedges that are hedge accounted. The analysis includes only project-related items and assumes that all other variables, in particular interest rates, remain constant. Calculations are based on amounts and foreign currency exchange rates as of 31 December 2017. The analysis is performed on the same basis as it was for 2016. Changes in fair value to embedded derivatives will also have an effect directly to profit and loss.

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

Amounts in NOK million	2017		2016	
	Profit/(loss) before tax <sup>2</sup>	Equity <sup>1</sup>	Profit/(loss) before tax <sup>2</sup>	Equity <sup>1</sup>
USD - 10 percent weakening	<b>11</b>	<b>(8)</b>	2	-
EUR - 10 percent weakening	<b>28</b>	<b>(10)</b>	6	(6)
CAD - 10 percent weakening	<b>1</b>	-	-	-
GBP - 10 percent weakening	<b>6</b>	-	2	(1)
SEK - 10 percent weakening	<b>(1)</b>	<b>(0)</b>	3	(3)
PLN - 10 percent weakening	<b>0</b>	<b>1</b>	-	1
RUB - 10 percent weakening	<b>1</b>	<b>(0)</b>	-	-

<sup>1</sup> The effects to equity that follow directly from the effects to profit and loss are not included

<sup>2</sup> The effect on profit/(loss) before tax is mainly related to embedded derivatives

A ten percent strengthening of the NOK against the above currencies as of 31 December 2017 would have had the equal but opposite effect on the above amounts, on the basis that all other variables remain constant. The sensitivity analysis does not include effects on the consolidated result and equity from changed exchange rates used for consolidation of foreign subsidiaries.

#### Translation exposure

Translation exposure occurs when foreign operations are translated for consolidation in to the financial statement of the group.

Kvaerner has several investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

#### Significant exchange rates applied for group reporting and consolidation

Currency	Average rate		Closing rate	
	2017	2016	2017	2016
USD	<b>8.2426</b>	8.4458	<b>8.1860</b>	8.6065
CAD	<b>6.3476</b>	6.3594	<b>6.5185</b>	6.4062
EUR	<b>9.3109</b>	9.2973	<b>9.8210</b>	9.0826
GBP	<b>10.6342</b>	11.4596	<b>11.0610</b>	10.6500
SEK	<b>0.9670</b>	0.9854	<b>0.9997</b>	0.9521
PLN	<b>2.1870</b>	2.1342	<b>2.3468</b>	2.0611
RUB	<b>0.1409</b>	0.1258	<b>0.1420</b>	0.1407

The next table illustrates the group's exposure to translation risk. Had the Norwegian currency depreciated by ten percent during 2017, the consolidated financial statements would have been affected by the changes in the table below. The sensitivity analysis is only a translation sensitivity and does not reflect changes in competitiveness, derivatives or other effects from currency fluctuations. Sensitivity analysis per currency has been made. The total result is given in the presented table.

Amounts in NOK million	Total			10% depreciation			Change		
	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
<b>2017</b>	<b>6 536</b>	<b>799</b>	<b>3 190</b>	<b>6 567</b>	<b>796</b>	<b>3 197</b>	<b>31</b>	<b>(2)</b>	<b>7</b>
2016	7 896	629	2 656	7 921	637	2 640	25	8	(16)

#### Interest rate risk

Kvaerner's interest rate risk arises from cash balances and external loans. Kvaerner does not have any external interest bearing debt as of 31 December 2017.

An increase of 100 basis points in interest rates during 2017 would have increased equity and profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2016.

Amounts in NOK million	2017	2016
Cash and cash equivalents - 1 percent interest increase	<b>28</b>	30
<b>Cash flow sensitivity (net)</b>	<b>28</b>	30

#### Price risk

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

#### Credit risk

##### Customer credit risk

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

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

Revenues are mainly related to large and long-term projects with payments up front and thereafter in accordance with agreed milestones. Normally, lack of payment is due to

disagreements related to project deliveries and is solved together with the customer or escalated for resolution through arbitration or other mechanisms as per individual contracts.

Customers are typically large and highly reputable oil companies with a low credit risk, which reduces the credit risk significantly. However, the contractual counterparty may be a special purpose asset owning vehicle or similar entity of the customer. In these cases an evaluation of credit risk takes into account the facts and circumstances of such arrangements, and credit risk is mitigated where possible by requiring parent company guarantees, customer pre-payments, obtaining contractor liens and other such actions. The risk of counterparties not meeting their contractual obligations will normally be related to legal disputes, see [Note 18](#) Provisions and contingent liabilities.

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

#### Derivative credit risk

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

#### Liquidity risk

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

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

Management monitors rolling bi-weekly and monthly forecasts of the group's liquidity reserve on the basis of expected cash flows. For information regarding capital expenditures and net operating assets, see [Note 4](#) Operating segments.

#### Financial liabilities and the period in which they mature

##### 2017

Amounts in NOK million	Note	Book value	Total undiscounted cash flow <sup>1</sup>	6 mths and less
Trade and other payables	19	(2 032)	(2 032)	(2 032)
<b>Total</b>		(2 032)	(2 032)	(2 032)

##### 2016

Amounts in NOK million	Note	Book value	Total undiscounted cash flow <sup>1</sup>	6 mths and less
Trade and other payables	19	(2 820)	(2 820)	(2 820)
<b>Total</b>		(2 820)	(2 820)	(2 820)

1 Nominal currency value including interests

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

#### Capital management

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

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

#### Guarantee obligations

The group has provided the following guarantees on behalf of wholly owned subsidiaries as of 31 December 2017 (all obligations are per date of issue):

Amounts in NOK million	2017	2016
Parent company guarantees to group companies	45 359	47 052
Counter guarantees for bank/surety bonds	1 767	1 439
<b>Total</b>	<b>47 126</b>	<b>48 491</b>

## Note 21 Derivative financial instruments

### Financial reporting principles

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

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

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

### Foreign currency as embedded derivatives

Embedded derivatives may exist in contracts with a currency different from the functional currency of the contracting partners. Embedded derivatives will under certain circumstances be separated and recognised at fair value in the balance sheet and the changes recognised in the income statements. These entries will result in a corresponding and opposite effect compared to the hedging instrument. Kvaerner applies the following separation criteria for embedded derivatives; The embedded derivative needs to be separated if the agreed payment is in a currency different from any other major contract parties' own functional currency, or that the contract currency is not considered to be commonly used for the relevant economic environment defined as the countries involved in the cross-border transaction.

### Hedging activities

Kvaerner enters into derivative financial instruments to hedge foreign currency risks, designated as cash flow hedges.

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

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

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

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

Information regarding the group's risk management policies is available in [Note 20](#) Financial risk management and exposures.

### Forward foreign exchange contracts

The table below presents fair value of derivative financial instruments and a maturity analysis of the derivatives' undiscounted cash flows. The total notional amount of the instruments (excluding embedded derivatives) is NOK 778 million of which the major currency is EUR (NOK 616 million) (2016: NOK 889 million). The financial derivatives are related to cash flow hedges for project expenses and revenues. Given Kvaerner's hedging policy and the assumption that the projects are cash neutral, this table also indicates when the cash flows related to project expenses are expected to impact profit and loss. The majority of project revenues are recognised in accordance with International Accounting Standard 11 Construction Contracts using the percentage-of-completion method. This may result in different timing of cash flows related to project revenues and revenue recognition. Gain of NOK 0.3 million (2016: gain of NOK 22 million) related to non-qualifying hedges has been recognised in the income statement in 2017.

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

### 2017

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value	Total undiscounted cash flow <sup>1</sup>	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	3	(12)	(9)	(9)	(2)	(7)	-
Embedded derivatives	7	(1)	6	6	2	5	(1)
Not hedge accounted	4	(3)	1	1	4	(3)	-
<b>Total</b>	<b>14</b>	<b>(15)</b>	<b>(1)</b>	<b>(1)</b>	<b>3</b>	<b>(5)</b>	<b>(1)</b>

**2016**

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value	Total undiscounted cash flow <sup>1</sup>	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	8	(8)	0	0	(0)	1	-
Embedded derivatives	14	(6)	8	8	0	3	6
Not hedge accounted	1	(0)	1	1	1	1	-
<b>Total</b>	<b>24</b>	<b>(14)</b>	<b>10</b>	<b>10</b>	<b>0</b>	<b>4</b>	<b>6</b>

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

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

**Foreign exchange derivatives**

Kvaerner hedges the group's future transactions in foreign currencies against external banks, with currency exposure hedged back-to-back in order to meet the requirements for hedge accounting and to efficiently reduce currency risk. Treasury provides this service also to jointly controlled entities. Some hedges are not designated as hedges for accounting purposes and will have an effect on profit or loss. These are related to hedging of cash flows which are labelled embedded derivatives. All hedges qualifying for hedge accounting are cash flow hedges.

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

**Foreign currency embedded derivatives**

Embedded derivatives themselves are non-cash items, and their fair values will converge to zero as the underlying cash flows are realised.

The majority of project revenues and costs are recognised in accordance with International Accounting Standard 11 Construction Contracts using the percentage-of-completion method. This may result in different timing of cash flows related to project revenues and costs, and embedded derivative effects. The total notional amount of the embedded instruments is NOK 303 million (2016: NOK 842 million).

**Forward exchange contracts**

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

Amounts in NOK million	2017	2016
Fair value of all hedging instruments	<b>(10)</b>	3
Recognised in profit and loss	<b>10</b>	(2)
<b>Deferred in equity (hedging reserve)</b>	<b>0</b>	1

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

**Note 22 Financial instruments**

Financial instruments are classified into level 1, 2 and 3 in the measurement hierarchy based on how objective the measuring method is.

Level 1 indicates use of quoted prices in an active market for identical assets and liabilities. Kvaerner has limited financial instruments beyond cash and short term receivables and payables. The fair value of cash, receivables and payables are approximates to their carrying values based on their short maturities.

Level 2 implies fair value measurements based on price inputs, other than quoted prices, which are derived from observable market transactions in an active market for identical assets or liabilities. Kvaerner's financial instruments within this category are related to derivative financial instruments, where fair value is determined based on forward prices on foreign currency exchange rates, see [Note 21](#) Derivative financial instruments.

Level 3 measurements of fair value are based on unobservable inputs; fair value calculations on the basis of input and assumptions that are not from observable market transactions. Kvaerner has no such level 3 assets or liabilities.

## Note 23 Group companies as of 31 December 2017

### Financial reporting principles

Subsidiaries are entities controlled by the group. Control exists when the group is exposed to or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Company name	City	Country of incorporation	Ownership (percent) <sup>1</sup>
Kværner ASA	Oslo	Norway	
Kværner Holding AS	Oslo	Norway	100
Kværner AS	Oslo	Norway	100
Norwegian Contractors AS	Sandvika	Norway	100
Aker Solutions Contracting AS	Oslo	Norway	100
Kværner Resources AS	Oslo	Norway	100
Kvaerner Finland Oy	Ulvila	Finland	100
Kvaerner Contracting Ltd	London	UK	100
Kvaerner Resources Ltd	London	UK	100
Kvaerner Americas Holdings Inc	Canonsburg	USA	100
Kvaerner North American Construction Inc	Canonsburg	USA	100
Kvaerner Canada Ltd	St. John's	Canada	100
Kvaerner Engineering & Technology (Beijing) Co Ltd	Beijing	China	100
Kvaerner LLC	Moscow	Russia	100

1 Ownership equalling the percentage of voting shares

## Note 24 Equity-accounted investees

### Financial reporting principles

#### Investments in associates

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

The consolidated financial statements include the group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

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

#### Joint arrangements

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

#### Joint ventures

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

#### Joint operations

A joint operation is a joint arrangement whereby the parties have rights to the assets, liabilities and obligations relating to the arrangement. Joint operations are proportionately consolidated in the group financial statements.

#### Presentation of results

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

Associated companies and joint ventures are defined as related parties to Kvaerner. See [Note 25](#) Related parties, for overview of transactions and balances between Kvaerner and associated companies and joint ventures.

#### Joint Venture Agreement with Peter Kiewit Infrastructure Co

Kiewit-Kvaerner Contractors (KKC) is a partnership under Newfoundland and Labrador law, owned 50 percent by each of the partners Peter Kiewit Infrastructure Co and Kvaerner. The partnership is regulated by a partnership agreement and it follows from the partnership act and the partnership agreement that both partners are jointly and severally liable for the obligations of the partnership. The risk is limited on partner level as the partners are limited liability companies. Parent company guarantee is issued by parent company Kvaerner ASA for the contractual obligations, refer to [Note 20](#) Financial risk management and exposures. Partnership property is held in the name of the partnership. Profit is shared 50:50 by the partners.

KKC has been building the gravity base structure (GBS) for the Hebron oil platform for ExxonMobil Corporation. The work has been performed in Newfoundland and Labrador, Canada and was completed in third quarter 2017.

#### Joint Venture Agreement with Kellogg Brown & Root (Norway) AS

Kvaerner and Kellogg Brown & Root (Norway) AS (KBR) have formed a joint venture, K2JV ANS, for project execution with an ownership of 51 percent to Kvaerner and 49 percent to KBR. A Norwegian ANS entity implies that both partners are jointly and several liable for the obligations of the partnership. The risk is limited on partner level as the partners are limited liabilities companies. Parent company guarantee is issued by parent company Kvaerner ASA for the contractual obligations, refer to [Note 5](#) Financial risk management and exposures. Partnership property is held in the name of the partnership. Profit is shared 51:49 by the partners. K2JV is executing the Johan Sverdrup utility and living quarter (ULQ) platform topside EPC project for Statoil.

#### Valhall Flank West

In April 2017 Kvaerner signed a frame agreement with Aker BP, and later an alliance agreement was signed for construction and hook-up of fixed offshore platforms, including topsides and steel jacket substructures. 18 December 2017, Aker BP has awarded Kvaerner a contract for delivery of the topside and steel jacket substructure for Valhall Flank West. This is the first project in the Wellhead Platform Alliance, which was established in the spring of 2017 between Aker BP, Kvaerner, ABB and Aker Solutions. Kvaerner will account for its activities as a joint operation, and report its scope of work in the group accounts. There has been no significant activity on the project in 2017 since award.

### Investment in associated companies and joint arrangements

#### 2017

Amounts in NOK million	Book value as of 1 January	Dividend	Profit/ (loss) <sup>1</sup>	Other movements <sup>2</sup>	Currency translation differences	Book value as of 31 December
Kiewit-Kvaerner Contractors (KKC)	(1)	(71)	72	-	0	-
K2JV ANS <sup>3</sup>	18	(111)	94	(1)	-	0
Other associated companies and jointly controlled entities	18	(3)	1	-	(0)	17
<b>Total</b>	<b>35</b>	<b>(185)</b>	<b>167</b>	<b>(1)</b>	<b>(0)</b>	<b>17</b>

#### 2016

Amounts in NOK million	Book value as of 1 January	Dividend	Profit/ (loss) <sup>1</sup>	Other movements <sup>2</sup>	Currency translation differences	Book value as of 31 December
Kiewit-Kvaerner Contractors (KKC)	65	(232)	166	-	(0)	(1)
K2JV ANS <sup>3</sup>	46	(42)	21	(7)	-	18
Other associated companies and jointly controlled entities	22	(3)	(1)	(0)	0	18
<b>Total</b>	<b>134</b>	<b>(277)</b>	<b>186</b>	<b>(8)</b>	<b>(0)</b>	<b>35</b>

1 Purpose of investment decides presentation in the income statement. Results from KKC and K2JV are presented within operating revenue and other income in the income statement

2 Other movements for K2JV relates to cash flow hedges qualifying for hedge accounting

3 Profit from K2JV includes accounting effect of embedded derivatives, an income of NOK 12 million in 2017 (2016: loss of NOK 50 million)

### Summary of financial information for significant equity accounted investees (100 percent basis of project reporting)

#### 2017

Amounts in NOK million	Business office	Percentage held <sup>1</sup>	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit- Kvaerner Contractors (KKC) <sup>2</sup>	New- found- land, Canada	50.0%	93	93	-	1 350	144
K2JV ANS <sup>2</sup>	Stord, Norway	51.0%	825	824	1	2 705	185

#### 2016

Amounts in NOK million	Business office	Percentage held <sup>1</sup>	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit- Kvaerner Contractors (KKC) <sup>2</sup>	New- found- land, Canada	50.0%	99	101	(2)	3 670	331
K2JV ANS <sup>2</sup>	Stord, Norway	51.0%	566	530	36	2 517	42

<sup>1</sup> Percentage of voting rights equals percentage held

<sup>2</sup> Jointly controlled entity

### Note 25 Related parties

#### Financial reporting principles

Related parties are entities outside the Kvaerner group that are under control (directly or indirectly), joint control or significant influence by the owners of Kvaerner. All transactions with related parties have been carried out as part of ordinary operations based on arms-length terms.

#### Related parties of Kvaerner

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 through The Resource Group TRG AS and subsidiaries. All entities controlled by Aker ASA are considered related parties to Kvaerner. These entities are referred to as Aker Solutions, Akastor and other entities controlled by Aker in this note.

Kvaerner operates in an industry where it is common to establish associated companies and joint ventures to deliver large and complex projects to customers. In such arrangements two or more suppliers have responsibility for parts of a project. The group holds stakes in associated companies and joint ventures related to significant projects in the portfolio, and these meet the definition of a related party. See [Note 24](#) Equity-accounted investees.

In accordance with International Accounting Standards 24 Related Party Disclosures, all entities controlled by Aker ASA, associated companies and joint ventures of Kvaerner and certain other related parties are reported as related parties to Kvaerner.

#### Related party transactions with entities controlled by Aker Solutions and Akastor

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

#### Related party transactions with associated companies and joint ventures

Operating revenue from joint ventures is mainly sale of man-hours to joint venture projects. Operating expenses from associated entities are mainly related to rent of buildings and sale of man-hours. See further details in [Note 24](#) Equity-accounted investees on joint venture dividends and [Note 16](#) Operating leases for details on long term lease with related party Fornebuporten AS.

#### Related party transactions with other related parties

##### Aker Pensjonskasse

Aker Pensjonskasse is a pension fund, which was established by Aker ASA to manage the retirement plan for employees and retirees in Kvaerner as well as other Aker companies. Kvaerner's premiums paid to Aker Pensjonskasse amount to NOK 15 million in 2017 (2016: NOK 19 million).

##### Other

Kvaerner ASA has entered into an agreement with employee representatives that regulates use of grants to employee unions for activities related to professional updating. The grant in 2017 was NOK 492 000 (2016: NOK 492 000).

## Transactions and balances with related parties

### 2017

Amounts in NOK million	Aker Solutions	Akastor	Other entities controlled by Aker	Associated companies	Joint ventures	Total
<b>Income statement</b>						
Operating revenues	21	12	30	2	891	<b>956</b>
Operating expenses	(545)	(0)	(30)	(77)	(6)	<b>(658)</b>
<b>Balance sheet as of 31 December</b>						
Trade and other receivables	30	2	28	-	169	<b>230</b>
Trade and other payables	(88)	-	(0)	(5)	(1)	<b>(94)</b>

### 2016

Amounts in NOK million	Aker Solutions	Akastor	Other entities controlled by Aker	Associated companies	Joint ventures	Total
<b>Income statement</b>						
Operating revenues	105	7	6	1	488	<b>607</b>
Operating expenses	(471)	(179)	(1)	(68)	(5)	<b>(724)</b>
<b>Balance sheet as of 31 December</b>						
Trade and other receivables	35	3	1	-	97	<b>136</b>
Trade and other payables	(48)	(1)	-	(6)	(18)	<b>(73)</b>

## Note 26 Discontinued operations

### Financial reporting principles

Non-current assets (or disposal group) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use, are classified as held for sale.

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

The results for the discontinued business is reported separately under the heading Profit/(loss) from discontinued operations in the group's income statement.

In March 2016, settlement agreements were reached with Amec Foster Wheeler North America Corp of all claims related to the Longview Power project. Kvaerner received the settlement amount of USD 70 million in March 2016. The financial effects of the settlement were recognised in Kvaerner's 2016 accounts. The positive operating results for 2017 and 2016 reflect recognition of insurance recoveries of more than net USD 5 million in 2017 and more than USD 23 million in 2016 related to the Longview Power project. Financial income in 2016 is related to foreign exchange accounting effect on repayment of capital of NOK 261 million, with no impact on group equity.

### Summary of financial data for discontinued operations

Amounts in NOK million	2017	2016
Total revenue and other income	<b>4</b>	0
Administrative and legal expenses, net of insurance recoveries	<b>11</b>	85
<b>EBIT</b>	<b>16</b>	85
Net financial income/(expense)	<b>(1)</b>	261
<b>Profit/(loss) before tax</b>	<b>15</b>	346
Income tax expense	<b>16</b>	(1)
<b>Net profit/(loss) discontinued operations</b>	<b>31</b>	345
<hr/>		
Basic and diluted earnings/(losses) per share (NOK)	<b>0.12</b>	1.30
<b>Net assets</b>	<b>(37)</b>	(50)

**Cash flow from discontinued operations**

Amounts in NOK million	2017	2016
Cash flow from operating activities	20	735
Cash transferred (to)/from parent	(22)	(730)
Translation adjustments	(2)	(1)
<b>Net increase/(decrease) in cash and bank deposits</b>	<b>(3)</b>	<b>4</b>
Cash and cash equivalents at the beginning of the period	35	30
<b>Cash and cash equivalents at the end of the period</b>	<b>31</b>	<b>35</b>

**Note 27 Subsequent events**

There have been no subsequent events since year-end at the date of signing these accounts.

# Annual accounts Kværner ASA

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## Income statement 01.01 - 31.12

Amounts in NOK thousands	Note	2017	2016
Operating revenue	2	29 431	24 895
Operating expenses	2	(36 073)	(35 804)
<b>Operating loss</b>		<b>(6 642)</b>	(10 909)
Net financial items	3	(32 179)	(24 666)
<b>Profit/(loss) before tax</b>		<b>(38 821)</b>	(35 575)
Tax income/(expense)	4	6 792	9 629
<b>Net profit/(loss)</b>		<b>(32 029)</b>	(25 946)
Net profit/(loss) for the year are distributed as follows:			
Transferred from other equity		(32 029)	(25 946)
<b>Net profit/(loss)</b>		<b>(32 029)</b>	(25 946)

# Balance sheet as of 31 December

Amounts in NOK thousands	Note	2017	2016
<b>Assets</b>			
Deferred tax asset	4	58 080	51 288
Investments in group companies	5	6 843 335	6 843 335
Non-current interest-bearing receivables from group companies		23 290	5 889
<b>Total non-current assets</b>		<b>6 924 705</b>	6 900 512
Non interest-bearing receivables from group companies	7	7 411	-
Other current receivables from related parties	7	1 378	-
Other current receivables	9	9 269	12 975
Cash and cash equivalents	7	48 773	54 218
<b>Total current assets</b>		<b>66 831</b>	67 193
<b>Total assets</b>		<b>6 991 536</b>	6 967 705

Amounts in NOK thousands	Note	2017	2016
<b>Liabilities and shareholders' equity</b>			
Issued capital		91 460	91 460
Share premium reserve		729 027	729 027
Other equity		3 524 053	3 546 583
<b>Total equity</b>	6	<b>4 344 540</b>	4 367 070
Non-current liabilities	8	6 083	13 109
<b>Total non-current liabilities</b>		<b>6 083</b>	13 109
Interest-bearing current liabilities to group companies	7	2 503 509	2 459 567
Current liabilities to group companies	7	-	1 334
Other current liabilities to related parties	7	-	3 280
Other current liabilities	9	137 404	123 345
<b>Total current liabilities</b>		<b>2 640 913</b>	2 587 526
<b>Total liabilities and shareholders' equity</b>		<b>6 991 536</b>	6 967 705

Fornebu, 7 February 2018  
Board of Directors and President & CEO of Kværner ASA

  
Leif-Arne Langøy  
Chairman

  
Tore Torvund  
Deputy Chairman

  
Lone Fønss Schrøder  
Director

  
Thorhild Widvey  
Director

  
Kjell Inge Røkke  
Director

  
Rune Rafdal  
Director

  
Ståle Knoff Johansen  
Director

  
Bernt Harald Kilnes  
Director

  
Jan Arve Haugan  
President & CEO

## Cash flows 01.01 - 31.12

Amounts in NOK thousands	Note	2017	2016
Profit/(loss) before tax		<b>(38 821)</b>	(35 575)
Changes in accounts payable		<b>(6 341)</b>	3 471
Changes in other net operating assets		<b>(11 709)</b>	(21 586)
Non-cash effect on group hedging		<b>(13 403)</b>	37 456
Amortisation of loan costs		<b>3 724</b>	3 702
<b>Net cash from operating activities</b>		<b>(66 550)</b>	(12 532)
Increase/(decrease) in long term borrowings to group companies		<b>57 344</b>	19 018
Share purchase for the variable pay program, net of refund from subsidiaries	6, 8	<b>3 761</b>	202
<b>Net cash from financing activities</b>		<b>61 105</b>	19 220
<b>Net increase (decrease) in cash and bank deposits</b>		<b>(5 445)</b>	6 688
Cash and bank deposits at the beginning of the period		<b>54 218</b>	47 530
<b>Cash and bank deposits at the end of the period</b>		<b>48 773</b>	54 218

# Notes to the financial statements

## Note 1 Accounting principles

Kværner ASA was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Oksenøyveien 10, 1366 Lysaker, Norway. Kværner ASA is listed on Oslo Stock Exchange.

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

### Foreign currency translation

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

### Revenue recognition

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

### Tax

Tax income/expense in the income statement comprises current tax and change in deferred tax. Deferred tax is calculated at 23 percent of temporary differences between accounting and tax values as well as any tax losses carried forward. Net deferred taxes are only recognised to the extent it is probable it can be utilised against future taxable profits.

### Classification and valuation of balance sheet items

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

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

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

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

### Variable pay programme

Executives in the group receive remuneration in the form of a variable pay programme. One part of the program is a short term employee benefit and is recognised at estimated value over the period the employee must work to receive the incentive.

In addition, some executives are entitled to a matching element that is paid in the form of Kværner ASA shares. The monetary amount earned is converted to a corresponding number of shares based on the market value of the shares 30 April in the year after the award is granted. The shares are delivered to the employee three years after the grant date based upon continued employment. Kværner ASA hold the shares presented as treasury shares until they are distributed to the eligible employees.

### Investment in subsidiaries and associates

Subsidiaries and investments in associates are measured at cost in the company accounts, less any impairment losses. The investments are impaired to fair value if the impairment is not considered temporary. Impairment losses are reversed if the basis for the impairment loss is no longer present.

Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends or group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and is recognised as a reduction in carrying value of the investment.

### Cash in cash pool system

Kværner ASA has a cash pool that includes parent company's cash as well as net deposits from subsidiaries in the group cash pooling system owned by parent company.

Correspondingly, the parent company's current debt to group companies will include their net deposits in the group's cash pool system.

### Share capital

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

### Cash flow

The cash flow is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term liquid investments.

## Note 2 Operating revenue and operating expenses

Operating revenue relates to parent company guarantees recharged entities within the Kvaerner group and related parties, as recognised over the guarantee period.

There are no employees in Kvaerner ASA and hence no salary or pension related costs, and no loans or guarantees related to the executive management team. Group management and corporate staff are employed by other Kvaerner companies and costs for their services as well as other parent company costs are recharged to Kvaerner ASA.

Fees to KPMG for statutory audit of the parent company amounted to NOK 0.9 million (2016: NOK 1 million) which relates to ordinary audit fees excluding VAT.

NOK 3.1 million (2016: NOK 2.9 million) has been allocated to payable fees to the Board of Directors for 2017.

See [Note 5](#) Employee benefit expenses in the group accounts for further details regarding remuneration of the Board of Directors and President & CEO.

## Note 3 Net financial items

Amounts in NOK thousands	2017	2016
Interest income from group companies	4 159	3 804
Interest expense to group companies	(35 072)	(28 528)
<b>Net interest group companies</b>	<b>(30 913)</b>	<b>(24 724)</b>
External interest income	21 174	10 724
External interest expense <sup>1</sup>	(20 087)	(20 133)
<b>Net interest external</b>	<b>1 087</b>	<b>(9 409)</b>
Net other financial items	(2 353)	9 467
<b>Net financial items</b>	<b>(32 179)</b>	<b>(24 666)</b>

<sup>1</sup> External interest expense reflects amortised prepaid fees and commitment fee related to the credit facility

## Note 4 Tax

Amounts in NOK thousands	2017	2016
<b>Taxable income</b>		
Profit/(loss) before tax	(38 821)	(35 575)
Interest deduction limit	29 826	24 724
Permanent differences <sup>1</sup>	-	(11 489)
<b>Taxable income/(loss)</b>	<b>(8 995)</b>	<b>(22 340)</b>
<b>Temporary differences and deferred tax</b>		
Tax losses carried forward due to interest deduction limit	(69 508)	(39 682)
Tax losses carried forward	(183 013)	(174 018)
<b>Total temporary differences</b>	<b>(252 521)</b>	<b>(213 700)</b>
<b>Deferred tax asset</b>	<b>58 080</b>	<b>51 288</b>
<b>Tax income</b>		
Change in deferred tax	9 317	11 766
Effect of change in tax rate	(2 525)	(2 137)
<b>Total tax income in income statement</b>	<b>6 792</b>	<b>9 629</b>
Effective tax rate	17%	27%

<sup>1</sup> Permanent differences in 2016 relate to reversal of previous years' write-down on loans to group companies

Deferred tax asset is recognised as it is considered probable that tax losses carried forward can be utilised within the Kvaerner group's Norwegian entities.

## Note 5 Investments in group companies

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

1 Impairment test performed by 31 December supports carrying value of investment in Kværner Holding AS

### Kværner Holding AS results 2017

Amounts in NOK thousands	
Profit/(loss) for the period <sup>1</sup>	213 965
Equity as of 31 December 2017 <sup>1</sup>	6 414 433

1 Based on preliminary reporting

Investments are impaired to fair value if the impairment is not considered temporary. Impairment testing of shares in Kværner Holding AS has taken place. The impairment test is following a value in use methodology, and performed by comparing the carrying value of the investment with estimated value of equity for Kvaerner group excluding Kværner ASA based on value in use calculations.

In these calculations, management has made assumptions regarding future performance of the subsidiaries, associates and other investments of the company, which in turn requires assumptions on current and future projects.

See [Note 11](#) in the Annual accounts for the group, for further details on key assumptions used in the impairment test.

Calculated recoverable amount exceeds book value of the shares, hence no impairment is required as per year-end 2017.

The calculations are sensitive to key assumptions such as revenue and margin levels in the subsidiaries owned by Kværner Holding AS. Compared to assumptions used in the testing, a combination of 10 percent revenue reduction, 1 percentage point EBITDA margin reduction and 1 percentage point increase in post-tax discount rate would lead to a required impairment of the investment in Kværner Holding AS of approximately NOK 1 billion.

## Note 6 Shareholders' equity

Amounts in NOK thousands	Share capital	Share premium	Other equity	Total
<b>Equity as of 31 December 2015</b>	91 460	729 027	3 584 767	<b>4 405 254</b>
Treasury shares	-	-	(12 238)	<b>(12 238)</b>
- Variable pay programme	-	-	(25 946)	<b>(25 946)</b>
Profit/(loss) for the period	-	-	(25 946)	<b>(25 946)</b>
<b>Equity as of 31 December 2016</b>	91 460	729 027	3 546 583	<b>4 367 070</b>
Treasury shares	-	-	9 499	<b>9 499</b>
- Variable pay programme	-	-	(32 029)	<b>(32 029)</b>
Profit/(loss) for the period	-	-	(32 029)	<b>(32 029)</b>
<b>Equity as of 31 December 2017</b>	91 460	729 027	3 524 053	<b>4 344 540</b>

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

Treasury shares held at year-end totalled 2 157 040 shares with a nominal value of NOK 0.34.

## Note 7 Receivables and borrowings from group companies and related parties

Amounts in NOK thousands	2017	2016
Kværner ASA bank deposits	<b>47 685</b>	53 137
Restricted cash	<b>1 088</b>	1 081
<b>Total cash in cash pool system</b>	<b>48 773</b>	54 218
<b>Interest-bearing current liabilities to group companies<sup>1</sup></b>	<b>(2 503 509)</b>	(2 459 567)

1 Interest-bearing current liabilities to group companies reflect subsidiaries' net deposits in the group's cashpool system

Current receivables/liabilities to group companies and related parties is representing fair value of hedging instruments.

## Note 8 Non-current liabilities

Amounts in NOK thousands	2017	2016
Debt to Kvaerner employees for matching shares <sup>1</sup>	(6 083)	(13 109)
<b>Total non-current liabilities</b>	<b>(6 083)</b>	<b>(13 109)</b>

1 Reference is made to [Note 5](#) in the group accounts for further details related to the variable pay programme

## Note 9 Other current receivables and current liabilities

Amounts in NOK thousands	2017	2016
Other current receivables	9 269	12 975
Other current liabilities	(137 404)	(123 345)
<b>Net other current receivables and liabilities</b>	<b>(128 135)</b>	<b>(110 370)</b>

Net other current receivables and other current liabilities include unrealised forward exchange contracts with external counterparts, see also [Note 12](#) Financial risk management and exposures. Other current liabilities includes debt to Kvaerner employees for matching shares related to incentive programme.

## Note 10 Interest-bearing liabilities

This note provides information about the contractual terms of Kvaerner ASA's interest-bearing loans and borrowings which are measured at amortised cost. For more information about Kvaerner ASA's exposure to interest rates, foreign currency and liquidity risk, see [Note 12](#) Financial risk management and exposures.

### Bank debt

The revolving credit facility agreement of 8 July 2015 is a revolving credit facility of NOK 2 000 million, maturing in July 2020. The facility is provided by a syndicate of high quality international banks. The revolving credit facility was undrawn during 2017 and as per 31 December 2017. The terms and conditions include restrictions which are customary for these kind of facilities, including inter alia negative pledge provisions and restrictions related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreement. There are no restrictions for dividend payments. The facility is unsecured.

The financial covenants are based on three sets of key financial ratios; an equity ratio based on consolidated total borrowings/consolidated total equity, a cash covenant calculated by consolidated total borrowings less consolidated net current operating assets and consolidated cash and cash equivalent assets and an interest coverage ratio based on consolidated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2017 the company is in compliance with all covenants. The margin applicable to the facility is based on a margin grid determined by the gearing ratio.

See [Note 17](#) and [20](#) in the Annual accounts for the group, for further details.

## Note 11 Guarantees

Amounts in NOK million	2017	2016
Parent company guarantees to group companies	43 246	44 834
Counter guarantees for bank/surety bonds	1 767	1 439
<b>Total</b>	<b>45 013</b>	<b>46 273</b>

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

## Note 12 Financial risk management and exposures

### Foreign exchange

Kværner ASA's currency contracts with subsidiaries as of 31 December 2017 has a notional value of NOK 774 million. Hundred percent of contracts are hedged back-to-back with external banks.

Currency exposure from equity investments in foreign currencies is only hedged when specifically instructed by management.

### Currency risk and balance sheet hedging

Amounts in NOK thousands	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Fair value of forward exchange contracts with group companies	12 955	(5 543)	1 188	(2 522)
Fair value of forward exchange contracts with related parties	1 488	(110)	3 667	(6 947)
Fair value of forward exchange contracts with external counterparts	5 654	(14 442)	9 469	(4 855)
<b>Total</b>	<b>20 096</b>	<b>(20 096)</b>	<b>14 324</b>	<b>(14 324)</b>

### Interest rate risk

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

### Credit risk

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

### Liquidity risk

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

## Note 13 Shareholders

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

#### 2017

Company	Nominee	Number of shares held	Ownership percent
AKER KVÆRNER HOLDING AS		110 333 615	41.02
NORTH SEA STRATEGIC INVESTMENTS AS		42 735 434	15.89
CITIBANK, N.A.	X	4 403 550	1.64
JP MORGAN BANK LUXEMBOURG S.A	X	4 265 160	1.59
CATELLA HEDGEFOND		4 216 344	1.57
JPMORGAN CHASE BANK, N.A	X	4 063 606	1.51
FONDSFINANS NORGE		2 715 000	1.01

Source: Norwegian Central Securities Depository (VPS)

## Declaration by the Board of Directors and President & CEO

The Board of Directors and the President & CEO of Kværner ASA have today considered and approved the annual report and financial statements for the 2017 calendar year ended on 31 December 2017 for the Kvaerner group and its parent company Kværner ASA.

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

We confirm to the best of our knowledge that:

- The 2017 financial statements for the group and parent company have been prepared in accordance with all applicable accounting standards
- The information provided in the financial statements gives a true and fair view of the group's assets, liabilities, profit and overall financial position as of 31 December 2017
- The annual report provides a true and fair overview of:
  - the development, profit and financial position of the group and parent company
  - the most significant risks and uncertainties facing the group and the parent company

Fornebu, 7 February 2018

Board of Directors and President & CEO of Kværner ASA



Leif-Arne Langøy  
Chairman



Rune Rafdal  
Director



Tore Torvund  
Deputy Chairman



Ståle Knoff Johansen  
Director



Lone Fønss Schrøder  
Director



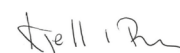
Bernt Harald Kilnes  
Director



Thorhild Widvey  
Director



Jan Arve Haugan  
President & CEO



Kjell Inge Røkke  
Director



KPMG AS  
Sørkedalstveien 6  
Postboks 7000 Majorstuen  
0306 Oslo

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

To the General Meeting of Kværner ASA

## Independent Auditor's Report

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kværner ASA. The financial statements comprise:

- The financial statements of the parent company Kværner ASA (the Company), which comprise the balance sheet as at 31 December 2017, and income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Kværner ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.  
Stattdisponerte revisorer - medlemmer av Den norske Revisorforening

#### Offices in:

Oslo	Flenrum	Mo i Rana	Stord
Ålesund	Birnesnes	Molde	Strömme
Arendal	Hamar	Skien	Trondheim
Bergen	Haugesund	Sandefjord	Trondheim
Bodo	Kjeller	Sandnessjøen	Tvedestrand
Drammen	Kristiansund	Stavanger	Ålesund



Auditor's Report - 2017  
Kværner ASA

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Contract accounting estimates

Refer to the Board of Directors' report and group financial statements Note 3 Revenue.

The key audit matter	How the matter was addressed in our audit
<p>The majority of the Group's revenues and profits are derived from long-term construction contracts.</p> <p>Accounting for such contracts involves management estimates and judgments which are often complex and involve assumptions regarding future events for which there may be little or no external corroborative evidence available. As such, these contract accounting estimates also require significant attention during the audit and are subject to a high degree of auditor judgment.</p>	<p>For financially significant contracts and any contracts with a reasonable possibility of being in a significant loss-making position, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the project performance, changes compared to previous forecasts, sensitivities and risks by reviewing management's project reporting and discussing with relevant management;</li> <li>• corroborating contractually based revenue and cost amounts included in project forecasts with reference to signed contracts and external confirmations;</li> <li>• agreeing the contractual basis of variable revenues included in project forecasts and assessed the likelihood of these being realised with reference to past and forecast performance against relevant KPIs and customer correspondence;</li> <li>• assessing the reasonableness of variable costs to complete with reference to contract terms, actual and forecast cost and schedule performance and external correspondence;</li> <li>• considering the overall consistency of information presented in the project forecasts, including the interrelationships between schedule, cost, revenues, incentives and penalty forecasts and incorporating any events or information received after the reporting date;</li> <li>• applying our cumulative knowledge of project issues, estimates and judgments to challenge the appropriateness of the contract positions reflected in the financial statements at the reporting date; and</li> <li>• evaluating the consistent application of the Group's accounting policies and the factors which resulted in significant changes in estimated contract revenues and costs during the year to consider whether they represented indications of management bias requiring further audit consideration.</li> </ul>



Auditor's Report - 2017  
Kvæerner ASA

#### Goodwill impairment

Refer to the Board of Directors' report and group financial statements Note 11 Intangible assets.

The key audit matter	How the matter was addressed in our audit
<p>Management's determination of the recoverable amounts of the cash generating units to which goodwill is allocated (being operational areas) includes assumptions regarding future project wins, profitability and terminal values.</p> <p>Significant auditor judgment is required when evaluating whether these project assumptions are reasonable and supportable, and whether the terminal value projections can be considered reliable.</p>	<p>For each operational area cash generating unit, we applied professional skepticism and critically assessed the cash flow forecasts, including:</p> <ul style="list-style-type: none"> <li>forecast results from contracted work within the existing backlog with reference to our audit work on contract accounting estimates (refer <i>Contract accounting estimates Key Audit Matter</i>);</li> <li>future contract win assumptions with reference to likely investment decisions by oil companies, the Group's historical success rates in tenders, and ongoing tendering activities by the Group;</li> <li>future contract margins with reference to historical actuals for similar projects, recent project profitability and Board approved budgets where relevant;</li> <li>terminal values with reference to the historical results of the Group; and</li> <li>the allocation of the cost of supporting functions to operational area results.</li> </ul> <p>We also verified the mathematical and methodological integrity of management's impairment models, assessed the reasonableness of the discount rate applied and considered whether the disclosures regarding key assumptions and sensitivities adequately reflected the underlying goodwill impairment assessments.</p>

#### Receivable balances subject to arbitration or legal proceedings

Refer to the Board of Directors' report and group financial statements Note 18 Provisions and contingent liabilities.

The key audit matter	How the matter was addressed in our audit
<p>The Group has outstanding claims for amounts due from certain customers which are the subject of arbitration or legal proceedings and which may also incorporate counterclaims by the customer.</p> <p>Management's assessments of the likely outcome of these proceedings, which form the basis of the recoverable amounts recognised in the financial statements, are subject to a high degree of uncertainty. Significant auditor judgment is also required when assessing whether there is sufficient evidence available to support the recoverability of these receivable balances.</p>	<p>For significant receivable balances recognised which are subject to arbitration or legal proceedings, our audit procedures included the review and discussion with management of their assessment of the proceedings, and where available:</p> <ul style="list-style-type: none"> <li>assessing reports prepared by external experts against the Group's gross claims;</li> <li>assessing interim rulings or other relevant pronouncements made by the arbitration panel / court;</li> <li>consideration of historical outcomes of previous arbitration and legal proceedings; and</li> <li>external legal opinions on the strength of the Group's claims, counterclaims made by customers, and the likely outcome of the proceedings.</li> </ul>

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Kvæerner ASA

#### Other information

Management is responsible for the other information. The other information comprises the information in the Annual report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors and the Chief Executive Officer for the Financial Statements

The Board of Directors and the Chief Executive Officer (Management) are responsible for the preparation and fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or the

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Kvæerner ASA

Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on Other Legal and Regulatory Requirements

##### Opinion on the Board of Directors' report

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

##### Opinion on Registration and Documentation

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

Oslo, 7 February 2018  
KPMG AS

Willy Hauge  
State Authorised Public Accountant

# Board of Directors



**Leif-Arne Langøy**  
**Chairman**

Leif-Arne Langøy (born 1956) is chairman of the board for Det Norske Veritas and Sparebanken Møre. Mr Langøy has gained senior executive experience from several companies, including as President & CEO of Aker Yards and Aker ASA. Mr Langøy has extensive experience as the chairman of non-executive boards from a number of different industrial companies. Mr Langøy holds M.Sc. in economics from the Norwegian School of Economics in Bergen, Norway. He holds 44 827 shares in Kværner ASA through a privately owned company, and has no stock options. Mr Langøy is a Norwegian citizen. He has been elected for the period 2017-2019.



**Tore Torvund**  
**Deputy Chairman**

Tore Torvund (born 1952) is the President & CEO of REC Silicon ASA. Mr Torvund has senior executive experience from more than twenty years in the oil and gas industry, including as executive vice president of Exploration & Production Norway at the oil company StatoilHydro, and executive vice president of Oil and Energy at Norsk Hydro. He was also the chairman of the board of Oljeindustriens Landsforening (now Norsk olje & gass) in the period 2003-2008. He has held several management positions related to drilling operations, field development and technology projects. Mr Torvund holds a M.Sc. in petroleum engineering from the Norwegian University of Science and Technology. He holds no shares in Kværner ASA, and has no stock options. Mr Torvund is a Norwegian citizen. He has been elected for the period 2017-2019.



**Kjell Inge Røkke**  
**Director**

Kjell Inge Røkke (born 1958) is an entrepreneur and industrialist, and has been a driving force in the development of Aker since the 1990's. Mr Røkke owns 68.18 percent of Aker ASA through The Resource Group TRG AS and subsidiaries. He is chairman of Aker ASA, board member of Aker Solutions ASA, Aker BP ASA and Ocean Yield ASA. He holds no shares in Kværner ASA, and has no stock options. Mr Røkke is a Norwegian citizen. He has been elected for the period 2017-2019.



**Thorhild Widvey**  
**Director**

Thorhild Widvey (born 1956) was Minister of culture from 2013 to 2015 and Minister of Petroleum and Energy from 2004 to 2005. Ms Widvey was state secretary in the Norwegian Ministry of Foreign Affairs from 2003 to 2004 and in the Norwegian Ministry of Fisheries from 2002 to 2003. Prior to this she was a Member of Parliament (Stortinget) from 1989 to 1997, representing Høyre (the Conservative Party of Norway). Ms Widvey is chair of the board in Statkraft AS; and has previously held a number of board positions both in privately and stock listed companies, including e.g. Hitec Vision AS (2006 to 2015); ENI Norway AS (2007 to 2015), Aker Drilling ASA (2005 to 2006), Oslo Havn KF (2012 to 2015) and Aker Philadelphia Shipyard AS (2011 to 2015) and Sjømannskirken (Norwegian Church Abroad) (2006 to 2015). Ms Widvey holds no shares in Kværner ASA, and has no stock options. Ms Widvey is a Norwegian citizen. She has been elected for the period 2016-2018.



### Lone Fønss Schrøder

#### Director

Lone Fønss Schrøder previously served as Director on the Board of Kværner ASA from 2011-2013. She has held several senior management positions in A.P. Møller-Maersk A/S, was CEO and president of Wallenius Lines AB, and has board experience from e.g Aker Solutions ASA, Akastor ASA, Volvo AB, Vattenfall AB, and Ikea group. She is chair of Saxo Bank, senior advisor for Credit Suisse and developer and co-owner of FinTech. She is chair of the audit committee in Akastor ASA, Volvo AB and Valmet OY. Ms Fønss Schrøder is Master in laws, LL.M. from the University of Copenhagen, and is economist from Copenhagen Business School. She holds no shares in Kværner ASA, and has no stock options. Ms Fønss Schrøder is a Danish citizen. She has been elected for the period 2016-2018.



### Bernt Harald Kilnes

#### Director

Bernt Harald Kilnes (born 1949) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Kilnes has been employed by Kvaerner since 1989 and is a group union representative for white-collar employees on a half-time basis and has served on the boards of Kværner ASA, Aker Kværner ASA and Aker Verdal AS. Mr Kilnes holds degrees within telecommunication as well as economics and business administration. He holds 23 164 shares in Kværner ASA, and has no stock options. Mr Kilnes is a Norwegian citizen. He has been elected for the period 2017-2019.



### Rune Rafdal

#### Director

Rune Rafdal (born 1963) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Rafdal has been employed by Kvaerner since 1980 and has been a local union representative for Aker Stord AS and Kværner Stord AS on a full-time basis since 1996, a group union leader since 2005 and served several periods on the boards of Aker Stord AS and Aker Kværner Stord AS during the period between 2000 and 2011. Mr Rafdal is a sheet metal worker and holds a certificate of apprenticeship in the sheet metal discipline. He holds 6 329 shares in Kværner ASA, and has no stock options. Mr Rafdal is a Norwegian citizen. He has been elected for the period 2017-2019.



### Ståle Knoff Johansen

#### Director

Ståle K. Johansen (born 1968) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Johansen has been employed by Kvaerner since 1986 and has been a local union representative for Aker Verdal AS and Kværner Verdal AS on a full-time basis since 2010 and served on the boards of Aker Verdal AS and Kvaerner Verdal AS. Mr Johansen is a welder and sheet metal worker and holds a certificate of apprenticeship in the welding discipline. He holds 10 381 shares in Kværner ASA, and has no stock options. Mr Johansen is a Norwegian citizen. He has been elected for the period 2017-2019.

# Company information

Kværner ASA  
Oksenøyveien 10,  
1366 Lysaker

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

Telephone: +47 21 08 90 00

e-mail: [ir@kvaerner.com](mailto:ir@kvaerner.com)  
Web: [www.kvaerner.com](http://www.kvaerner.com)

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**KVÆRNER**<sup>TM</sup>

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