Appendix 1.2

Annual Report 2019

Creating a Sustainable Energy Future

Content

Our Vision

A leader in forging a sustainable future for the global energy industry and the world it serves.

Key figures

		2019	2018	2017
ORDERS AND RESULTS				
Order backlog December 31	NOK million	25,403	35,148	34,581
Order intake	NOK million	19,620	25,421	23,553
Revenue	NOK million	29,263	25,232	22,461
EBITDA	NOK million	2,244	1,810	1,519
EBITDA margin	Percent	7.7	7.2	6.8
EBITDA margin excl. special items	Percent	7.9	7.2	7.4
EBIT	NOK million	705	1,049	571
EBIT margin	Percent	2.4	4.2	2.5
EBIT margin excl. special items	Percent	3.7	4.3	3.9
Net profit	NOK million	83	554	239
CASHFLOW				
Cashflow from operational activities	NOK million	319	921	587
BALANCE SHEET				
Net interest-bearing debt	NOK million	1,599	440	970
Equity ratio	Percent	27.2	36.3	35.7
Liquidity reserve	NOK million	6,298	7,473	5,728
SHARE				
Share price December 31	NOK	24.72	39.66	46.19
Basic earnings per share	NOK	0.15	1.88	0.81
EMPLOYEES				
Total employees December 31	Own employees	15,956	14,705	13,796
HSSE				
Lost time injury frequency	Per million worked hours	0.3	0.6	0.5
Total recordable injury frequency	Per million worked hours	1.3	2.0	1.4
Sick-leave rate	Percent of total working hours	2.5	2.6	2.8

Financial figures for 2019 include effects of IFRS 16, whereas previous years have not been restated.

19,620
Order intake
NOK million

29,263
Revenue
NOK million

2,244
EBITDA
NOK million

7.7
EBITDA margin
Percent

7.9
EBITDA margin excl. special items
Percent

705
EBIT
NOK million

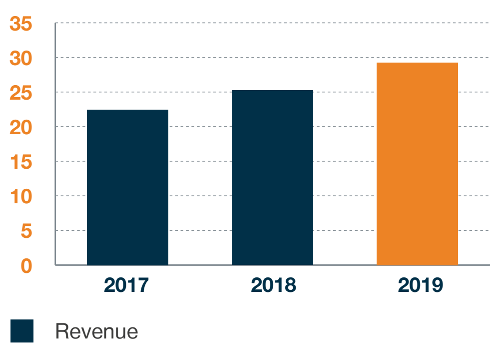
2.4
EBIT margin
Percent

3.7
EBIT margin excl. special items
Percent

Key figures

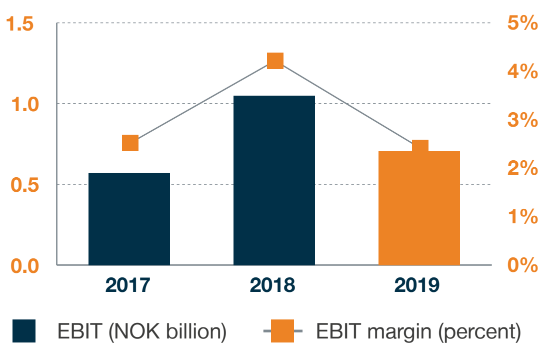
Revenue

Amounts in NOK billion



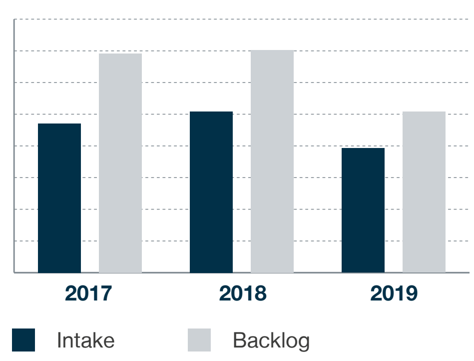
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

Amounts in NOK billion

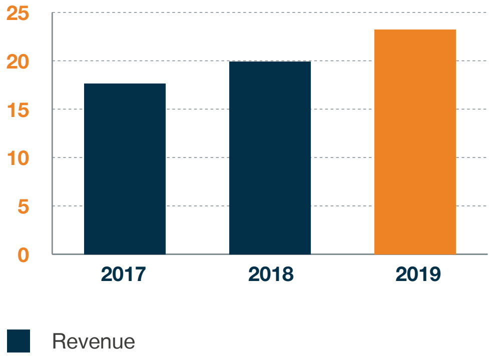


Financial figures for 2019 include effects of IFRS 16, whereas previous years have not been restated.

Projects

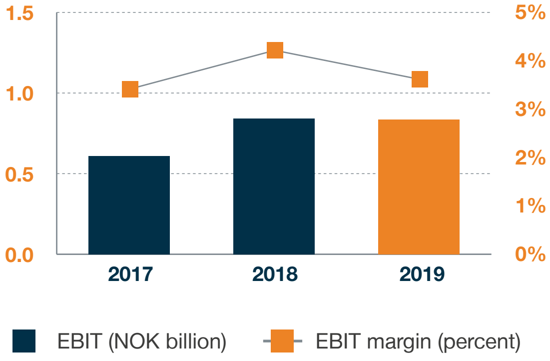
Revenue

Amounts in NOK billion



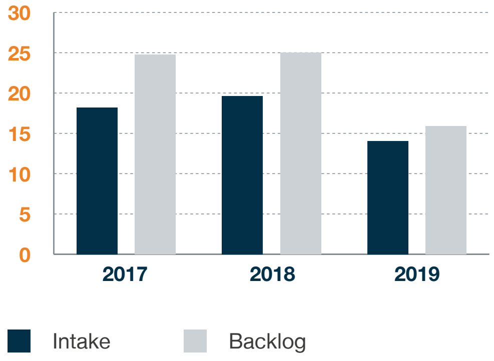
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

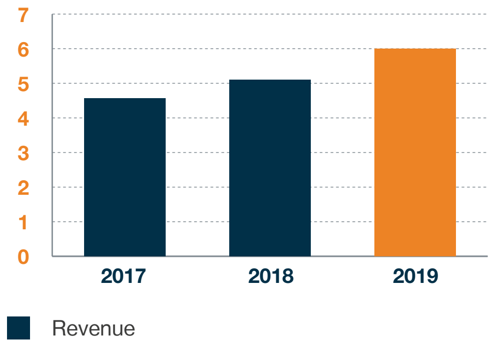
Amounts in NOK billion



Services

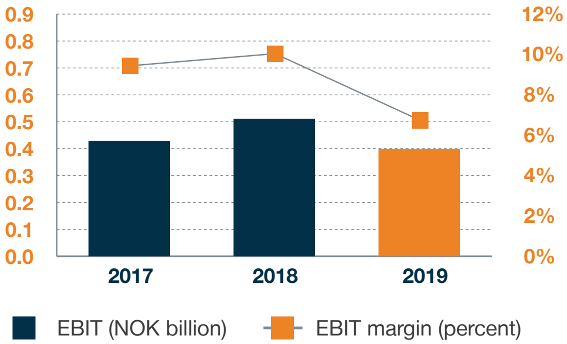
Revenue

Amounts in NOK billion



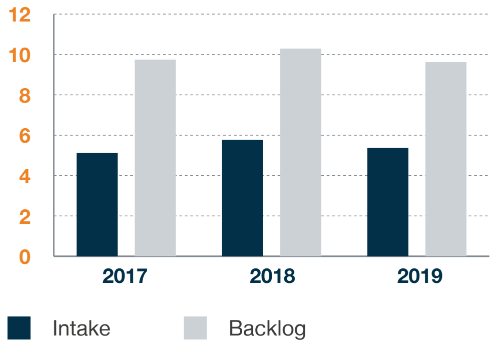
EBIT and margin

Amounts in NOK billion



Order intake and backlog

Amounts in NOK billion



Financial figures for 2019 include effects of IFRS 16, whereas previous years have not been restated.

Where we are

Operations in about 20 countries.

Highlights

HSSE

Aker Solutions has a zero HSSE mindset and is committed to no harm to people, assets or the environment. In 2019, the company implemented the International Association of Oil and Gas Producers (IOGP) Life-Saving Rules globally. This is one of the biggest HSSE initiatives rolled out in the organization during recent years. The aim is to take the organization back to the basic principles and prevent incidents from happening.

Strategy

A key priority at Aker Solutions is to pursue energy solutions that minimize the environmental footprint and promote a shift to a sustainable energy future. In 2019, the company updated its enterprise strategy, summarized as 20/25/30. The strategy states Aker Solutions' new direction of generating 20 percent of its revenues from renewables and 25 percent of its revenues from a portfolio of distinct low-carbon solutions by 2030.

Offshore Floating Wind

The market for offshore floating wind is forecast to grow exponentially in the coming decade. Aker Solutions is actively taking a position in this segment to meet the 20 percent goal described in the updated strategy. In 2019, the company increased its stake in Principle Power Inc. to 25 percent and launched a consortium to develop a 500MW wind park in South Korea.

Carbon Capture, Utilization and Storage (CCUS)

CCUS is a low-carbon solution offered at Aker Solutions. The company secured a contract to supply its modularized Just Catch plant to Twence, a waste-to-energy plant in the Netherlands, which will capture CO_2 to be utilized as fertilizer for nearby greenhouses. Together with HeidelbergCement, Aker Solutions also plans to build the first full-scale carbon capture plant in the cement industry.

Subsea Gas Compression

Subsea gas compression is another low-carbon offering. In 2019, Aker Solutions was awarded a master contract from Chevron and partners Shell and Exxon to develop the Jansz-Io field offshore Australia. The Jansz-Io project also includes an unmanned platform, which is also part of the low-carbon portfolio offered by Aker Solutions.

Digitalization

To strengthen its digital life-of-field offerings, Aker Solutions rebranded its software house as ix3. The ix3 software portfolio accelerates field development projects and uses automated engineering and machine learning to optimize asset integrity, safety and performance throughout the life of an energy asset.

Technology

The focus on digital activities continues with the opening of data analytics labs at our Technology Centers in Reading, UK and in Tranby, Norway. These labs combine live data from various subsea systems with analytics and visualization tools to provide new insight into the operations phase of a field lifecycle.

Johan Sverdrup

Aker Solutions celebrated together with Equinor on October 5, when the giant Johan Sverdrup field started production in the North Sea. This project was two months ahead of the original schedule and some NOK 40 billion below the original budget. The Johan Sverdrup field is powered from shore and has some of the lowest emissions in the industry, at 0.67 kg per barrel, compared with the industry's global average of about 18 kg.

Front-End

2019 was another year of record activity for the company's Front-End teams, as they secured 151 studies and projects. Several projects are for low-carbon developments, including CCUS, electrification and unmanned platforms.

Subsea

Aker Solutions launched its Intelligent Subsea offering designed to accelerate field development and maximize system and product performance. With Aker Solutions' intelligent subsea approach, the time it takes to generate optimal subsea field layouts can be cut by 75 percent and the cost of field development capex can be halved.

Petrobras

Aker Solutions and Petrobras celebrated the delivery of the hundredth subsea tree for the pre-salt fields, an important milestone for Aker Solutions that highlights the company's presence in Brazil and the company's commitment to developing the Brazilian energy market.

Social Responsibility

Last year was the first full year of operation of the VI Foundation (Stiftelsen VI), a foundation to address the societal problems related to living with disabilities. The foundation will be a resource center and information hub for people with disabilities. We will work with our ambassadors to ensure that people with disabilities get better living conditions, better health treatment and closer integration in society.

CEO Introduction

Looking back at 2019 I would say the year was characterized by high activity in our existing portfolio and good progress on our strategic goals. The oil and gas market remained active and our revenues rose 15 percent compared to the previous year or 30 percent over the last two years. But the market was also volatile, and the sanctioning of some key projects was delayed, which affected our overall order intake and results for the year.

Market volatility increased sharply in the beginning of 2020 and has been further exacerbated by the COVID-19 (Corona) virus outbreak. Increased production volumes from several major oil producing countries has caused a significant decline in global oil and gas prices, and in mid-March 2020 the Brent oil price fell below USD 30/bbl for the first time since 2016. The sharp decline in oil prices has increased uncertainty in an already tough market. The spread of the COVID-19 virus is causing global disruption with negative consequences both for human health and economic activity.

The scale of the economic impact on the major world economies is unprecedented. A significant amount of the expected offshore project sanctioning in 2020-21 may therefore be at risk. Aker Solutions has implemented measures in all locations to minimize the spread of the virus and minimize the risk of disruptions to its operations. It is too early to say how these events will impact client deliveries, operations and financial performance in the long-term. The challenging commodity price environment and the effects of COVID-19 virus are likely to impact the global oil and gas industry in 2020, and Aker Solutions will continue to be vigilant and evaluate the need for further measures going forward.

The health and safety of our people remains a top priority for me. In March 2019, we implemented the International Association of Oil and Gas Producers' Life-Saving Rules. The implementation of the Life-Saving Rules was the biggest HSSE initiative to be rolled out in our organization in recent years; nine important rules that aligned our organization around basic safety principles. I am happy to see that our safety record improved over the year. Our global TRIF decreased from 2.0 in 2018 to 1.3 at the end of 2019, and the number of days without an incident increased by 9 days to 297 days compared to the previous year. The launch of the Life-Saving Rules definitely played a part and helped engage people to focus on the simple rules that save lives. We look forward to continuing our journey towards an incident-free working environment, although our current focus is on securing people and operations during the COVID-19 pandemic.

Overall, our execution was strong and we reached some major achievements during the year. Together with Petrobras we celebrated the delivery of the hundredth subsea tree for the Brazilian pre-salt fields indicating our clear leadership position in that important market. A number of umbilicals were delivered including 280 km to phase 2 of the Zohr project to Petrobel, and 150 km of umbilicals for Noble Energy's Leviathan project. Through our alliances with Aker BP we secured first oil for Valhall Flanke West, ahead of schedule and under budget, and we successfully installed subsea equipment for phase 1 of the Ærfugl project. The execution on phase 1 of Ærfugl secured the acceleration of phase 2 of this project by three years.

For Equinor, we delivered products and services to their Troll, Utgard and Njord fields. October 5 was a special day for us – it marked the day that the Johan Sverdrup field started production – two months ahead of schedule and NOK 40 billion under the original budget. The Johan Sverdrup field is powered from shore and has some of the lowest emissions in the industry, at 0.67 kg per barrel, compared with the industry's global average of about 18 kg. We had 1,500 people working on Sverdrup phase 1, following the project from concept development, through FEED, fabrication, construction, engineering, installation and finally hook-up.

Energy demand continues to rise and the challenge for our industry is to provide solutions with a significantly lower carbon footprint. The industry must change, and Aker Solutions needs to be at the forefront of innovation also in terms of carbon efficiency. To take another step in this direction we updated our enterprise strategy. We set some clear long-term targets for our company, which we call 20/25/30: we aim to generate 20 percent of our revenue from renewables and 25 percent of our revenue from low carbon solutions by the year 2030.

Oil and gas will remain the basis of our business for the next decade, but the transition to renewable energy will be where we can use our existing expertise in areas such as floating structures, dynamic cables and subsea infrastructure to our competitive advantage. This is why we continue to invest in and strengthen our position in the offshore floating wind market. We have worked on Carbon Capture, Utilization and Storage solutions for many years, and in 2019, we secured our first commercial contract with Twence, a Dutch waste-to-energy company. This is one of our distinct low-carbon solutions, which has great potential.

2019 was also a year where we continued to help our customers decrease the carbon footprint from new and existing fields through projects and studies. This includes tie-ins to established infrastructure; electrification on site – replacing gas turbines with power from shore. We have also experienced an increase in utilization and interest of unmanned platforms and subsea gas compression, with the prestigious FEED award for the Janz-lo project in Australia for Chevron with Shell and Exxon as partners as a great example.

Last year, our order backlog declined as we faced delays in the sanctioning of some key projects. The start of 2020 has been disruptive and although winning more work remains a top priority, it may prove challenging in the current business environment and it will have an effect on activity level in 2020.

We continue to be vigilant about our cost base, taking necessary measures to address overcapacity, both in terms of staff reduction, increasing process efficiency and removing other cost to improve our competitive position.

I am thankful for the dedication shown by Aker Solutions employees as we continue to work hard to deliver on our strategic goals, improve competitiveness and transition into a new energy future.

Luis Araujo
Chief Executive Officer

Board of Directors' Report

The company's revenues rose last year by about 15 percent, on the back of high activity levels in its projects and services segments in 2019. At the same time, operating margins and order intake fell, in part due to delays to project sanctioning and the execution of a backlog won in a very competitive market. The market volatility increased sharply in the beginning of 2020 with the spread of the COVID-19 (corona) virus pandemic causing global disruption, increased risks and reduced activity levels and with a significant drop in both oil and share prices.

Overview

Building on nearly two centuries of technological and engineering excellence, Aker Solutions is committed to finding solutions to bring energy resources safely and cost-effectively into production, maximizing recovery, and minimizing the environmental footprint.

The company provides products, systems and services ranging from concept studies and front-end engineering to subsea production systems and services for enhancing and extending the life of a field. The main customers are international, national and independent oil and gas and energy companies.

Aker Solutions had 15,956 own employees and was present in 25 countries at the end of 2019. The main office is at Fornebu, Norway. Aker Solutions ASA is listed on the Oslo Stock Exchange.

Strategy and Organizational Development

Aker Solutions remains focused on driving a sustainable energy future for our industry and the world it serves. The company aims to play an active role in shaping the energy transition. Last year, the company introduced its long-term ambition to become the recognized leader in low-carbon offerings and sustainable solutions for the energy industry. The strategy, named 20/25/30, summarizes the ambition to generate 20 percent of revenue from renewables, and 25 percent of revenue from distinct low-carbon solutions by 2030.

The company is investing in renewable energy through offshore floating wind. Aker Solutions utilizes its knowledge of offshore floating platforms and associated technologies, combined with experience from offshore project execution to generate value in this fast-growing market. In 2019, the company increased its stake to 25 percent in Principle Power Inc., a US-based offshore wind technology company with a proven technology concept – the WindFloat – for a floating wind turbine foundation.

Aker Solutions' low-carbon portfolio includes field electrification solutions, all-electric subsea systems, unmanned facilities, subsea compression, and carbon capture, utilization and storage (CCUS) technologies. Last year, the company made progress in all these segments, securing contracts that could generate a substantial part of the company's future revenue stream. In April, the company announced the first commercial project for its modular Just Catch carbon capture unit. Aker Solutions will deliver it to the Twence waste-to-energy plant in the Netherlands, where the captured CO_2 will be transported to nearby greenhouses and utilized as a fertilizer.

In 2019, Aker Solutions announced a FEED project for the Chevron-operated Jansz-Io field offshore Australia. The contract includes a master agreement for the development of the whole project, which positions Aker Solutions to secure further work. During 2019, Aker Solutions also won awards for projects to electrify platforms, such as Equinor's Troll B and C platforms in the North Sea, and develop unmanned facilities, including a project for BP in Trinidad and Tobago.

The 20/25/30 strategy states an ambition to enter and develop new markets. The remaining 55 percent of revenue will be delivered from the company's core oil and gas offerings. Aker Solutions' strategy is aimed at strengthening its competitiveness. Aker Solutions is building on its system integrator capabilities and project management skills to excel as an independent, digital, life-of-field integrator. A continued focus on technology, field solutions, digitalization, reducing size, weight, and energy consumption, combined with decarbonization through CO_2 for enhanced oil recovery, will support oil and gas to remain a viable energy source during the energy transition.

Aker Solutions' strategy is operationalized through five strategic themes: Winning Customer Experience, Strategic Partnerships, Impactful Innovation, World Class Services and Operational Excellence.

20%

Revenue from renewables by 2030

25%

Revenue from low carbon solutions by 2030

Customers - Aker Solutions is pursuing international growth in targeted markets, while safeguarding its existing market positions. The company aims to increase the share of revenue from a group of targeted customers, and last year recorded strategically important wins from new clients such as BP, Chevron and Saudi Aramco. The company also entered new regions, with contracts for projects in countries such as China, United Arab Emirates, and Trinidad and Tobago. The company also won repeat orders from existing clients such as Equinor, Petrobras, Shell and Aker BP. For the company as a whole, order intake fell last year and the order backlog decreased. Winning more work, at profitable levels, remains a top priority.

Partnerships – Collaboration with partners such as ABB, Saipem and MAN Energy Systems on subsea compression, integrated subsea services and electrification progressed in 2019. New partnerships included FastSubsea, a joint venture to commercialize next generation subsea pumping and processing as well as a strategic shareholder position in Airborne, to develop lighter and more efficient composite materials. The subsea alliance with Aker BP and Subsea 7 and the wellhead alliance with ABB, Aker BP and Kvaerner both proved to be value enhancing on projects such as Ærfugl and Valhall. Aker Solutions also invested in developing offshore floating wind parks as a consortium development partner in the US and South Korea, as well as increasing its ownership in Principle Power Inc. to 25 percent.

Innovation – Aker Solutions launched ix3 (Integrated, Innovative Insight), which combines Aker Solutions' own developed software solutions with the company's domain expertise. When these capabilities come together, ix3 can offer digital solutions that increase efficiency, quality and safety while reducing the total cost of ownership. In 2019, Aker Solutions also launched Intelligent Subsea to market its digitally enabled, integrated field design, standardized products and services that can improve uptime, lower maintenance costs and boost production for operators. Digitalization offers efficiencies in internal processes as well as opportunities for creating more value through advanced services for customers.

Services - In 2019, Aker Solutions continued its international growth in both Production Asset Services and Subsea Lifecycle Services, securing new and extending existing contracts. The company retained a strong position in its home market, securing service and maintenance contracts for Equinor and Vår Energi in Norway, while gaining ground in countries such as Angola and Saudi Arabia. In Brazil, wholly-owned subsidiary C.S.E. now services about 45 percent of Brazil's offshore assets.

Operations - Key deliveries in 2019 included pre-salt subsea tree number 100 to Petrobras, subsea and topside deliveries to Aker BP, Equinor and Vår Energi. Aker Solutions secured final deliveries to Johan Sverdrup helping the customer start production, ahead of schedule, below budget and with the lowest CO_2 footprint in the industry. The company has been involved from the very beginning of this landmark development and played a pivotal role in its success. The projects that performed below expectations were given extra attention and improvement measures were introduced.

> **"Aker Solutions' strategy is operationalized through five strategic themes: Winning Customer Experience, Strategic Partnerships, Impactful Innovation, World Class Services and Operational Excellence.**

The company continued to pursue further cost reductions through the efficiency improvement program known as #thejourney. Smaller capacity reductions were made in the UK and Norway.

Further cost reduction under the efficiency improvement program will be central to improving the company's competitive position and results from operations. Three key focus areas will be to further reduce cost through increased use of engineering from the Mumbai office, reduce equipment and product cost through standardization and digitalization in addition to removing cost via our supply chain activities.

The company will continue to evaluate the need for further and more wide-ranging measures to reduce cost and improve efficiency.

Organization

In April, Egil Bøyum was appointed Executive Vice President of Greenfield Projects at Aker Solutions. Egil Bøyum replaced Knut Sandvik, who left the company for another role in the Aker group. Maria Peralta was appointed Executive Vice President of Products, replacing Egil Bøyum. In June, Aker Solutions appointed Ole Martin Grimsrud as Chief Financial Officer (CFO) of Aker Solutions. Grimsrud replaced Svein Oskar Stoknes, who joined Aker ASA as CFO.

Where We Operate

Aker Solutions is pursuing international growth in targeted markets, while safeguarding its existing market positions. The company is represented in major offshore oil and gas basins around the world, from the Gulf of Mexico and Brazil to the North Sea, Africa, Middle East and Southeast Asia. The company progressed with its ambition to grow internationally, with new awards in Australia, United Arab Emirates, Saudi Arabia, and Trinidad and Tobago in 2019.

Market Outlook

Aker Solutions' financial performance still depends primarily on activity in global oil and gas markets, while the business looks to diversify into a wider range of energy segments. Market volatility increased sharply during the first quarter of 2020, with the sharp decline in commodity prices being exacerbated by the COVID-19 pandemic. This has caused an unprecedented global disruption, with significant negative impacts both on the global economic activity level and on business enterprises, including Aker Solutions. As a result of this, project sanctioning in 2020 and 2021 will to a large extent be postponed or cancelled unless significant fiscal stimulations are imposed by governments. The challenging commodity price environment and the effects of the COVID-19 pandemic create unprecedented uncertainty and will have an adverse impact on both activity and financial performance of Aker Solutions. Due to the high level of uncertainties, it is still difficult to quantify more exactly the adverse effects and it is also too early to conclude on timing and path of recovery.

In 2019, the market remained active, but volatile, driven by tensions in the Middle East, the US-China trade dispute and OPEC attempted to balance the markets by increasing supply cuts. Oil price fluctuated between 55-75 USD per barrel during the year.

The company won 151 front-end orders in 2019, making it another record year, with solid international traction. This is historically a leading indicator for upcoming project activity. 29 studies turned into more detailed FEED projects last year, compared with 19 in 2018. Some of these FEEDs include options for EPC contracts, which puts the company in a good position for further work in the next phases of development.

The demand for offshore oil and gas services benefitted from increased investment in brownfield projects in 2019, as clients invested to increase production and extend the life of existing assets, in addition to adding subsea tie-backs. All of which plays to Aker Solutions' strengths, given its installed base of subsea equipment and offshore infrastructure which it has designed and delivered. The brownfield activity has, however, been impacted adversely in 2020 by demobilization due to various initiatives launched to protect people and businesses against the COVID-19 pandemic. In addition, the subsea segment is under particular pressure due to fierce competition triggered by overcapacity among suppliers, and operators are increasingly placing emphasis on pricing and risk sharing.

Several large greenfield projects faced sanctioning delays in 2019. Deepwater development costs have halved since 2014. Operators have a pipeline of resilient projects, but further delays due to increased market volatility, and the recent collapse of the oil price is likely to happen. CAPEX-cut announcements from large oil companies have already emerged and further reduction in activity is likely to happen.

Long-term, the industry needs to lower its carbon footprint. Decarbonizing oil and gas, and growth in carbon capture and renewable energy such as offshore floating wind, represents significant growth opportunities for Aker Solutions. Low-carbon solutions include all-electric systems, unmanned operations, subsea compression, and carbon capture and storage where Aker Solutions is very well positioned.

Sustainability

The company's commitment to human and labor rights is covered by the Global Framework Agreement between Aker ASA and the Norwegian and international trade unions Fellesforbundet, IndustriALL Global Union, NITO and Tekna. Aker Solutions reports and communicates on sustainability based on recommendations from the Oslo Stock Exchange. This includes reporting according to the Global Reporting Initiative (GRI), Carbon

Disclosure Project (CDP) and Task Force on Climate related Financial Disclosures (TCFD) reporting. Aker Solutions' strategy supports the UN Sustainable Development Goals. More information is available in the company's sustainability report for 2019 on www.akersolutions.com/sustainability-reports.

Corporate Governance

Good corporate governance at Aker Solutions will ensure sustainable operations and value creation over time to the benefit of shareholders and other stakeholders. Corporate governance is a framework of processes, mechanisms and responsibilities for managing the business and making sure the right objectives and strategies are set and implemented with results that can be measured and followed up. The management and the Board of Directors are responsible for ensuring the company conducts business using sound corporate governance, and sets the standards for corporate governance, ensuring these reflect the Norwegian Code of Practice for Corporate Governance. The audit committee supports the Board of Directors in the quality assurance of guidelines, policies, and other governing instruments pertaining to the company. The committee supports the Board of Directors in safeguarding that the company has sound risk management and internal controls over financial reporting. The audit committee also monitors compliance with the company's Code of Conduct as well as anti-corruption and third party representative policies.

More information is available in the corporate governance report for 2019 on www.akersolutions.com/corporate-governance.

Financial Performance

Aker Solutions presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The company implemented IFRS 16 leasing in 2019, which had a significant impact on the financial statements. Refer to further information in note 18 for the consolidated financial statements. All financial information, except those in the Parent Company Financial Statements on page 96, relate to the consolidated financial statements for the group, since the parent company has very limited operations.

Consolidated Financial Results

Aker Solutions' revenue increased to NOK 29.3 billion in 2019 from NOK 25.2 billion the prior year. The increased activity level was mainly driven by Brownfield modification and hook-up projects in the North Sea and solid international growth within Services. Earnings before interest and taxes (EBIT) decreased to NOK 705 million from NOK 1,049 million a year earlier. Earnings were impacted by restructuring costs of NOK 70 million and impairments of NOK 304 million, mainly related to real estate lease assets in addition to some fixed assets. Excluding special items EBIT increased to NOK 1,081 million from NOK 1,074 million a year earlier, which corresponds to a margin reduction to 3.7 percent compared to 4.3 percent a year earlier.

Interest income was NOK 57 million in 2019 compared with NOK 39 million the previous year. Interest expenses were NOK 508 million compared to NOK 268 million the year before. The increase in both interest income and interest expenses relates to implementation of IFRS 16 leasing in 2019. Aker Solutions hedges currency risk for all significant project exposures. More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separated embedded derivatives. Income before tax decreased to NOK 170 million in 2019 from NOK 792 million the year before. Net interest cost was negatively impacted by NOK 106 million of currency losses related to the significant devaluation of the Angolan Kwanza in October 2019. Income tax expenses were NOK 87 million, down from NOK 238 million in 2018. This corresponds to an effective tax rate of 51 percent, compared to 30 percent the year before.

Net income after tax in 2019 was NOK 83 million compared with NOK 554 million the previous year. The lower net income in 2019 was driven mainly by special items such as impairments related to real estate lease assets, restructuring charges and currency losses related to the devaluation of the Angolan Kwanza.

Earnings per share were NOK 0.15 versus NOK 1.88 in 2018. Excluding special items, the earnings per share for 2019 were NOK 1.54 versus NOK 2.01 the previous year.

The Board of Directors has proposed that no dividend payment be made for 2019. While Aker Solutions' finances were solid, with a liquidity buffer of NOK 6.3 billion at the end of the year, the board considered it still prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook.

MENU

Projects Financial Results

The Projects segment provides greenfield engineering and procurement, brownfield modifications and subsea equipment and systems.

Projects revenue increased to NOK 23.3 billion in 2019 from NOK 19.9 billion the year before, mainly related to the field design sub-segment, and in particular, brownfield modification and hook-up projects in the North Sea. The EBIT margin decreased to 3.6 percent from 4.2 percent a year earlier. Excluding special items, the EBIT margin was 4.1 percent versus 4.4 percent the year earlier, reflecting a solid progress on the new project backlog that was won in a competitive market, as well as a continued higher share of lower-margin brownfield activity.

The full-year order intake was NOK 14.0 billion in 2019, down from NOK 19.6 billion the prior year. Tender activity remains high at an estimated sales value of NOK 50 billion. The order backlog was NOK 15.9 billion at the end of 2019 versus NOK 25.0 billion a year earlier.

Services Financial Results

The Services segment provides Subsea Lifecycle Services (SLS) and Production Asset Services (PAS). The SLS part is mainly related to installation, operations and maintenance support services related to subsea equipment. The PAS part is mainly related to outsourced asset management services, maintenance of offshore infrastructure and asset integrity management services.

Services revenue increased to NOK 6.0 billion in 2019 from NOK 5.1 billion the year before, mainly related to PAS growth in Brazil and Canada. The EBIT margin decreased to 6.7 percent from 10.0 percent a year earlier. Excluding special items, the EBIT margin was 8.1 percent compared with 10.4 percent a year earlier, reflecting the higher share of lower-margin PAS activity.

The full-year order intake was NOK 5.4 billion in 2019, compared to NOK 5.8 billion the prior year. Tender activity remains very high at an estimated sales value of NOK 10 billion. The order backlog was NOK 9.6 billion at the end of 2019 versus NOK 10.3 billion a year earlier.

23.3

Projects revenue
NOK billion

6.0

Services revenue
NOK billion

	Projects		Services	
Amounts in NOK million unless otherwise noted	**2019**	**2018**	**2019**	**2018**
Revenue	**23,253**	19,920	**5,995**	5,096
EBITDA	**1,736**	1,354	**721**	678
EBITDA margin (%)	**7.5**	6.8	**12.0**	13.3
EBITDA excl. special items	**1,780**	1,371	**740**	692
EBITDA margin excl. special items (%)	**7.7**	6.9	**12.3**	13.6
EBIT	**837**	843	**399**	511
EBIT margin (%)	**3.6**	4.2	**6.7**	10.0
EBIT excl. special items	**960**	874	**486**	528
EBIT margin excl. special items (%)	**4.1**	4.4	**8.1**	10.4
NCOA (or working capital)	**-239**	-1,141	**844**	693
Order intake	**14,029**	19,642	**5,365**	5,756
Order backlog	**15,887**	25,014	**9,613**	10,294
Employees	**7,737**	7,188	**5,669**	5,473

Financial figures for 2019 include effects of IFRS 16, whereas previous years have not been restated.

Assets, Equity and Liability

Non-current assets totaled NOK 14.3 billion at the end of 2019, compared with NOK 9.6 billion the year before. Goodwill and other intangible assets amounted to NOK 5.7 billion, the same as in 2018. The company had net interest-bearing debt of NOK 1.6 billion in 2019, compared with NOK 440 million the prior year. The net interest bearing debt consists of current and non-current borrowings excluding cash and cash equivalent. The debt includes bond loans in the Norwegian market, bank loans with Nordic and international banks and local financing in Brazil. The company ended the year with a total liquidity buffer of NOK 6.3 billion. This included cash and bank deposits of NOK 1.9 billion as well as committed long-term revolving bank credit facilities of NOK 4.4 billion. Capital adequacy and liquidity were deemed solid at the end of 2019, putting the company in a good position to meet challenges and opportunities over the next few years.

The book value of equity, including non-controlling interests, was NOK 7.2 billion at the end of 2019, compared with NOK 7.6 billion a year earlier. The company's equity ratio was 27.2 percent, down from 36.3 percent a year earlier. The decrease is mainly related to implementation of IFRS 16 leasing with lease liabilities of NOK 5.5 billion included in total equity and liabilities in 2019.

Cashflow

Consolidated cashflow from operating activities depends on several factors, including progress on and delivery of projects, changes in working capital and prepayments from customers. Net cash from operating activities was NOK 319 million in 2019 compared with NOK 921 million a year earlier. Net current operating assets were NOK 781 million at the end of 2019 (including IFRS 16) compared with negative NOK 753 million a year earlier. The change in net current operating assets reflected somewhat weaker payment terms on the new project backlog and the implementation of IFRS 16. Net current operating assets may fluctuate due to the timing of large milestone payments on projects.

Aker Solutions' net cash outflow for investing activities was NOK 916 million in 2019, compared with NOK 297 million a year earlier. Investments in technology development and IT were NOK 228 million, compared with NOK 174 million a year earlier. Net cash outflow related to financing activities was NOK 14 million, down from NOK 99 million in 2018.

14.3

Non-current assets
NOK billion

5.7

Goodwill and other intangible assets
NOK billion

Investing in Research, Innovation and Technology

The company's principal focus is the development of cost-efficient concepts, technologies and products to enhance production in declining and complex fields, invest in technologies and innovative solutions to reduce customers' environmental footprint from new and producing assets, while transitioning the technology portfolio to a new energy and low-carbon future.

The total 2019 R&D expenditure was NOK 309 million, of which NOK 228 million was capitalized and NOK 81 million was expensed. More than half of all R&D investments were allocated to digital initiatives. The research and development portfolio includes six key development programs, including several technology qualification projects. At the end of the year, Aker Solutions recognized NOK 2 million in impairment losses on capitalized R&D related to technologies where the market outlook changed.

Aker Solutions launched ix3 - a software and digital services company that enables operators to accelerate field development projects and optimize asset performance. Through the proprietary digital twin platform, Integral, ix3 brings together engineering, manufacturing and test data with live streamed data. Integral monitors, assesses, maintains and optimizes energy assets from concepts to decommissioning.

The focus on digital activities continued with the opening of data analytics labs in Aker Solutions' Technology Centers in Reading, UK and in Tranby, Norway. These labs are being used to combine live data from various subsea systems with analytics and visualization to provide new insight during operations. Analytics are being developed to detect problems, reduce diagnostics time and target the correct remedial action.

As in 2018, much of Aker Solutions' innovation took place in collaboration with other companies, such as ABB, MAN Energy Solutions, and Principle Power Inc. Aker Solutions acquired shares in Airborne Oil & Gas to invest in future materials technology, in particular the Thermoplastic Composite Pipe (TCP) technology based on multiple polymer and fiber systems. Furthermore, Aker Solutions, formed a joint venture with FSubsea, called FASTSubsea, to develop the world's first 'topside-less' multiphase boosting system.

Aker Solutions has continued investing in early phases of technology development. This work has been strengthened in 2019 with the launch of the 20/25/30 strategy. Aker Solutions is developing technology to support floating offshore wind production, including floating and subsea substations and offshore power cables, energy storage and fish farming. Last year, Aker Solutions also took part in the Zero Emission Energy Distribution at Sea (ZEEDS) consortium initiated by Wartsila, aimed at developing low-emission fuel for the shipping industry.

Parent Company Financial Statements

Aker Solutions ASA, the parent company of the Aker Solutions group, owns and manages the group's subsidiaries. Aker Solutions ASA has outsourced all company functions to other companies in the group, mainly Aker Solutions AS. Assets and liabilities related to the corporate treasury function are held by Aker Solutions ASA. Aker Solutions ASA had a net profit of NOK 1,123 million in 2019 mainly consisting of a dividend from subsidiary of NOK 1,400 million, in addition to corporate costs and net interest expenses of NOK 277 million. The parent company had a net loss of NOK 266 million in 2018 mainly consisting of corporate costs and interest expenses.

The Board of Directors proposed that no dividend payment be made for 2019 as it was deemed prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. More information on the allocation of profits can be found in the income statement of the parent company on page 97 of this report.

Health, Safety, Security and Environment

Aker Solutions is committed to a goal of zero harm to people, assets and the environment. The cornerstone of this objective is a strong, structured and company wide HSSE system, setting clear standards for HSSE management and leadership. Regular audits aim to identify, isolate and help address potential shortcomings. Aker Solutions is focused on continuous improvement and learning throughout the organization, and the HSSE system is a key enabler in the quest for increasingly stringent standards. At Aker Solutions, the HSSE culture is founded on the principle that HSSE is personally responsibility for every employee. To strengthen the culture further and improve the company's HSSE performance, Aker Solutions implemented the standardized International Association of Oil & Gas Producers (IOGP) Lifesaving Rules in 2019.

2.5%

Global sick leave 2019

Health and Working Environment

Aker Solutions is committed to a goal of zero harm to its employees, not just through accident prevention, but also through safeguarding employee's physical and mental health. In 2019, a new health hazard assessment E-score tool was piloted in five countries to gain a systematic overview of health risks. This tool will be implemented globally in 2020 and the results will be monitored as a HSSE KPI.

On a global level the HSSE mindset module on "Fatigue in the Workplace" was rolled out and received good feedback from the organization. Aker Solutions' global sick leave for 2019 was 2.5 percent, which is below the target of 2.7 percent.

Safety

Aker Solutions operates with a zero harm mindset and the belief that all incidents can be prevented. The Zero Days indicator counts days without a recordable injury or serious incident across the company. In 2019, Aker Solutions delivered 297 Zero Days, compared to 288 in 2018. This represents an increase of nine days.

However, the company is committed to return to the 2017 level, setting a goal of 314 Zero Days for 2020.

Aker Solutions uses the lagging indicator Serious Incident Frequency (SIF) to focus on the trend and occurrence of high-risk incidents. These are incidents where the actual or potential consequence is deemed to be high or extreme, as defined by the company's classification matrix. The year-end result indicates a positive performance development on this KPI, with a SIF figure of 0.3 which is well below the target of 0.5. Of the nine out of 14 serious incident cases in 2019, dropped objects were still the most significant single event.

In total, 61 employees were injured with a severity higher than first aid treatment, in the company's operations globally during 2019. Out of these, there were no fatalities, but two injuries were classified as serious. A total of 14 injuries caused lost work days, and 12 caused restricted work. The remaining 35 injuries required medical treatment. The lost work day cases were mainly injured fingers and hands due to squeezing and cuts, and arm injuries caused by falling. At the end of 2019, Aker Solutions had a Lost Time Injury Frequency (LTIF) of 0.3, compared to 0.6 in 2018. The Total Recordable Injuries Frequency (TRIF) also had a positive development and decreased from 2.0 in 2018 to 1.3 in 2019.

Security

Aker Solutions' commitment towards safeguarding employees, assets and reputation is demonstrated by the core team of security professionals and the operation of a 24/7 Global Security Operations Center. The Center is now supporting all aspects of Aker Solutions' global operations as well as some of the affiliated Aker companies. The introduction of a confidentiality module in the Synergi-Life reporting tool has enabled the function to register sensitive cases while also ensuring privacy. Other improvements of the tool have enabled cases within physical, personnel and IT security to be differentiated and managed by the correct functions. This has also ensured improvements within trending and root-cause analysis. Most of the cases reported in 2019 were related to failure of technical components, personnel not adhering to security procedures and generic cyber-attacks. No serious security incidents were reported in 2019.

New locations have been onboarded to the corporate systems for access management and remote surveillance, e.g. Port Klang, Luanda and Perth. Work has commenced to also incorporate Mumbai, Al Khobar and Hainan.

Cybercrime

Cybercrime continues to be a major threat to operations. Aker Solutions continually monitors the threat landscape and takes the necessary steps to safeguard employees, systems, data and products. Phishing emails remain the most important vector for cyber attacks and further measures have been taken to secure email, improve capabilities to identify ongoing malicious activities and increase employee awareness of cyber threats. With smarter products connected to the internet, there is an increased risk to these devices and the systems they are connected to. Precautions have been taken to protect Aker Solutions and the company's clients' assets.

0.3

Lost Time Injury Frequency (LTIF)

1.3

Total Recordable Injuries Frequency (TRIF)

Emergency Preparedness and Response

The company's CERT (Corporate Emergency Response Team) was involved in two incidents in 2019 - a fire affecting our office in Nigeria and the haze situation in Malaysia. Both incidents were handled by the local organizations in cooperation with the relevant corporate functions.

The company's capabilities within crisis management were further enhanced in 2019. A dedicated resource was assigned to advise and assist country management on development of systems and structure of emergency response and business continuity.

Environment

Aker Solutions works to protect the environment by offering products, systems and services that help reduce the environmental footprint of customers' operations and by seeking to reduce

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negative climate impact of its own operations. The company's biggest effect on the environment will be through its customer offerings.

Aker Solutions' total energy consumption, based on the recorded use of oil, gas, fuels and electricity, increased from 97,434 megawatt hours (MWh) in 2018 to 110,930 MWh in 2019. This increase reflects a greater activity level. Total carbon dioxide emissions were 35,255 tonnes in 2019, compared to 34,025 tonnes in 2018. These numbers include carbon dioxide emissions from travel booked in Norway, UK and US during 2019. Additional information on travel emissions from Aker Solutions' other operational regions will be reported in 2020, which should again lead to an increase in overall figures. In 2019, Aker Solutions reported its carbon footprint to CDP and will continue this practice in 2020.

Aker Solutions is focused on waste segregation and recycling. In 2019, the company recorded total waste of 8,350 tonnes, compared with 9,034 tonnes a year earlier. In total, 69 percent of the waste was sent for recycling. This number is lower than in 2018, when the recycling factor was 71 percent. To align with industry standards, the company only includes material recycling in its recycled waste fraction, excluding hazardous waste and waste-to-energy recovery.

Safeguarding Diversity and Equal Opportunity

Aker Solutions had 15,956 employees and 5,100 contract staff at the end of 2019. Aker Solutions is strongly committed to the principles of non-discrimination and equal opportunity, regardless of gender, nationality or other factors. Men have traditionally dominated the oil and gas industry and, particularly, offshore work. This continues to be reflected in our organization, where around 17 percent of our employees are women. The number of women in leadership roles increased from 136 in 2018 to 144 in 2019.

Aker Solutions' diverse workforce represents about 83 nationalities and offers a wide range of competencies and insights, benefitting both its customers and the business. Aker Solutions seeks to promote diversity in its workforce through clear recruitment requirements and the development of individuals and programs supporting equal opportunity, in accordance with its people policy and recruitment procedures.

More information regarding the company's commitment to equality and diversity is available in the company's 2019 sustainability report www.akersolutions.com/sustainability-reports.

22%

Female Leaders

83

Nationalities

Risk Factors

Aker Solutions' global footprint, operations and exposure to energy markets and a volatile commodity price provides both opportunities and risks that may affect the company's operations, performance, finances, reputation and share price. It is evident that external risk factors such as pandemics, market risk, oil price volatility, ethical and political risks and climate related risks may have a significant adverse impact on the company, in addition to internal risk factors such as operational risks and financial risks. These risk factors are further described below.

Pandemics

During the first quarter of 2020, the spread of the COVID-19 (corona) virus caused global disruption, with negative consequences both for human health, business enterprises (including Aker Solutions) and the global economy in general. It is difficult to predict the full scale consequences of the virus outbreak at the time of this report. However, the consequences of the pandemic will be serious for Aker Solutions and for the oil and gas industry at large. Consolidations, bankruptcies and other changes are likely to happen in the supplier industry due to the current COVID-19 pandemic and parallel market turmoil. Pandemic outbreaks and other natural disasters could also occur in the future and may impact Aker Solutions in the following manner:

- Personnel may not be able to work due to illness, quarantines, travel restrictions and social distancing
- Manufacturing sites, service bases or office buildings may as a result be shut down
- Supplies from vendors and deliveries to clients may be delayed
- Clients are likely to face delays and losses and may claim reimbursement from Aker Solutions and other suppliers
- Long-term impact on the global economy may result in loss and impairment of the assets
- Available future market could decrease as clients reduce capex spenditure

Market Risk

The oil and gas market remained unpredictable over the past year. Volatility has significantly escalated in 2020 as a result of the collapse of the oil price, exacerbated by the COVID-19 pandemic. Some of the principal factors that contribute to market risk are outlined below:

- Instability in the world economy as a result of virus pandemics
- Volatile oil and gas market, changes in supply, demand and storage having an adverse impact on energy prices which is likely to impact activity levels significantly
- Uncertainty regarding future contract awards and their impact on future earnings and profitability
- Climate change and speed of the energy transition to renewables and lower carbon economy, including environmental requirements, impact upon oil company activities and the overall development of the market
- Local content requirements, legislative restrictions and/or prohibitions on oil and gas activities in countries of existing or planned operations
- Liabilities under environmental laws or regulations
- These factors will influence oil price and oil companies' exploration, development, energy transition, production, investment, modification and maintenance activity

Developments within the market will lead to capacity adjustments and changes in the valuation of company assets and liabilities. The main uncertainties include delivering on the company's international growth ambitions, entry and establishment in new growth markets, and delivering a competitive cost base. Aker Solutions is committed to an active policy of risk management and will take mitigating actions to increase flexibility in its operations, for instance by seeking to drive down costs, build a sustainable global workforce, invest in sustainable energy such as floating offshore wind and technology to capture emissions such as carbon capture and storage, and enhance standardization and simplification. The company aims to be agile in its approach to the market, effectively adapting to industry demand, Environment Social Governance (ESG) requirements, and fluctuations to deliver optimal value and rewards across the value chain. A focus on continuous improvement in productivity and sustainability is central to these efforts.

Ethical and Political Risks

Aker Solutions has established ethical policies and procedures in order to comply with applicable standards domestically and internationally. Aker Solutions could, nevertheless, potentially become involved in unethical behavior, either directly or through third parties and partners. The company has operations in countries associated with high political, corruption and human rights risks. Key tools to reduce these risks are the company's code of conduct, anti-corruption compliance program and human rights system, which are implemented at all locations globally. Risks are managed through country analyses, mandatory awareness training, compliance reviews and integrity due diligence. Aker Solutions' anti-corruption program is subject to quarterly reporting to the Audit Committee. At the end of 3Q, specific reporting on human rights was included in the quarterly reporting to the Audit Committee. Furthermore, a human rights committee was established in 3Q to ensure that the company has a sound human rights system in place and to continuously improve this system.

Aker Solutions has zero tolerance for corruption and works vigilantly to prevent such behavior. The company has control systems in place throughout the organization designed to identify and limit the effects of violations of the code of conduct. Employees violating the code face consequences ranging from a warning to dismissal for violating the code of conduct.

In 2019, the company continued to strengthen its anti-corruption compliance framework. The delivery centers' compliance officers continued to support top management on integrity related matters and awareness initiatives. In 2019, the company conducted screenings of potential projects in high risk countries and integrity due diligences of potential business partners as it pursued opportunities in high risk markets.

Climate Related Risks

Climate related risks are defined within physical, regulatory/liability, technology, market and reputational risks. These risks have been covered under the other chapters and in the sustainability report. The company may face increasing reputational challenges and declining political goodwill if talent, investors and customers only associate Aker Solutions with the oil and gas industry.

Operational Risk

Aker Solutions uses both reimbursable and fixed-price contracts. Contracts that include fixed prices for all or parts of the deliverables are subject to the risk of potential cost overruns. Aker Solutions is involved in projects that are both demanding and complex in nature, with significant design and engineering requirements, as well as extensive procurement and manufacturing of equipment, sourcing supplies and construction management. In certain situations, the projects may also require the development of innovative new technology and solutions. These can impact upon the company's ability to deliver on time and in accordance with a contract, potentially harming Aker Solutions' reputation, performance and finances. Factors that may have an adverse material effect on the business, results of operations and finances of Aker Solutions include, but are not limited to:

- The loss of business from a significant customer, the failure to deliver a significant project as agreed, or alterations to the order backlog.
- Aker Solutions' ability to compete effectively and maintain market positions and sales volumes.
- The company's capability to successfully commercialize new technology.
- Partnerships, joint ventures and other types of cooperation that expose the company to risks and uncertainties outside its control.
- Non-delivery and/or disputes with a key supplier.
- Significant delays or quality issues impacting upon project delivery or performance.
- Cybercriminals and cyber security issues leading to system downtime or significant loss of intellectual property.

Financial Risks

The objective of financial risk management is to manage exposure from financial risks to increase predictability of earnings and minimize potential adverse effects on financial performance. Financial risk management and exposures are described in detail in note 22 and capital management is described in note 23. The main financial risks are:

- **Currency risk:** Aker Solutions has international operations and is exposed to currency risk on commercial transactions, assets and liabilities when payments and revenues are denominated in a currency other than the functional currency of the respective entity. The currency risks in all major contracts are hedged with external banks in the foreign exchange market. More than 80 percent of the hedging volume either qualifies for hedge accounting or is presented separately as hedges of embedded derivatives. Aker Solutions operates in some jurisdictions where regulations and requirements limit the convertibility of local currency and restrict free flow of cash. Although mitigating actions had been taken, Aker Solutions experienced significant currency losses in Angola in 2019 as currency hedging instruments were generally not available. The significant market fluctuations in the beginning of 2020 as a result of the COVID-19 pandemic has also increased the currency exposure, as there may be disruptive financial market conditions and changes in the underlying hedged exposures due to cancellations or bankruptcies among clients and vendors. There is a risk that the contingency buffer included in tenders is insufficient to cover currency losses when market fluctuations are significant.

- **Liquidity risk:** Liquidity risk is the risk that the company is unable to meet the obligations associated with its financial liabilities. The corporate treasury department ensures financial flexibility by forecasting cashflow needs and maintaining sufficient liquidity reserves and available committed credit lines. The current market uncertainty as a result of the COVID-19 pandemic has increased the liquidity risk, as the future operating cashflows may develop negatively. The development of the debt covenants is closely monitored, and management is in close dialog with the lending banks and financial institutions to ensure continued access to liquidity. The company is also proactively in contact with governments to ensure participation in financial relief measures. The revolving credit facility and the group's cash reserve is currently assessed as sufficient, provided that there will be no draw-stop imposed on the revolving credit facility.

- **Interest rate risk:** The company's interest exposure mainly arises from external funding in bank and debt capital markets. Currently all external debt in Aker Solutions is at floating interest rates. The company's risk management strategy is that 30-50 percent of the interest exposure shall be fixed interest rate for the duration of the debt. The company uses interest rate swaps to achieve the desired fixed/floating ratio of the external debt. As the group has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates.

- **Credit risk:** Credit risk is the risk of financial losses if a customer or counterparty to financial receivables and financial instruments fails to meet contractual obligations. The credit risk related to customers' ability to pay is assessed in the bid phase and during execution of a project. The majority of the customers are highly rated oil companies, where the credit risk is considered to be limited. The credit risk is monitored closely under the current volatile market conditions, especially for lower rated companies.

- **Price risk:** Aker Solutions is exposed to fluctuations in market prices which are mitigated in the bid process to a great extent by locking in committed prices with vendors or through escalation clauses with customers.

Aker Solutions' approach to enterprise risk management, risk management and internal controls are based on the principles in ISO 31000, Project Management Institute and the Committee of Sponsoring Organizations of Treadway Commission (COSO) frameworks, however, without applying all elements of these standards. Climate related risk is also evaluated in accordance with Task Force on Climate-related Financial Disclosure (TCFD). Aker Solutions has company-wide governing documents and tools for each defined risk category on how to assess, respond to and report on risks actively and systematically. The assessment, definition, follow-up and implementation of adequate mitigating actions towards the main risk factors are all integral parts of the overall governance of the company. Aker Solutions applies a combination of risk management practices in order to effectively manage the risk to the company such as: internal controls, scenario planning, sensitivity analysis and audits.

Going Concern

During the first quarter of 2020, the sharp decline in commodity prices, exacerbated by the COVID-19 pandemic caused global disruption, with significant negative consequences both for human health, economic activity and Aker Solutions. The challenging commodity price environment together with the effects of the COVID-19 pandemic create unprecedented uncertainty and makes it challenging to firmly predict the long term effects for Aker Solutions. Aker Solutions is taking a number of measures to mitigate substantial negative impact for the company including layoffs, reduced investment plans and close collaboration with customers, banks and financial institutions, suppliers and employees. The actions are an acknowledgement of current events as well as uncertainty around the timing and path of recovery. Aker Solutions also has proactive dialogues with governments to ensure participation in financial relief measures aimed at containing economic effects of the COVID-19 (corona) virus outbreak.

The high market volatility caused by the COVID-19 pandemic in conjunction with the collapse of the oil price, increases the risk regarding the going concern assumption for most companies, and this is also the case for Aker Solutions. Although the risk has increased, the assessment is that Aker Solutions has the resources, organization, competence, assets and customer base to continue being a going concern.

Therefore, in accordance with the Norwegian Accounting Act, the Board of Directors confirms that the consolidated financial statements and parent company financial statements have been prepared based on the going-concern assumption.

Fornebu, March 24, 2020
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Audun Bråthen
Director

Luis Araujo
Chief Executive Officer

Consolidated Financial Statements

Aker Solutions Group

December 31, 2019

Declaration by the Board of Directors and Chief Executive Officer

The board and chief executive officer have today considered and approved the annual report and financial statements for the Aker Solutions group and its parent company Aker Solutions ASA for the calendar year ended on December 31, 2019.

This declaration is based on reports and statements from the chief executive officer, chief financial officer and on the results of the group's business as well as other essential information provided to the board to assess the position of the parent company and the group.

To the best of our knowledge:

- The 2019 financial statements for the parent company and the group have been prepared in accordance with all applicable accounting standards.
- The information provided in the financial statements gives a true and fair portrayal of the parent company's and the group's assets, liabilities, financial position and results taken as a whole as of December 31, 2019.
- The board of directors' report of the parent company and the group provides a true and fair overview of the development, performance and financial position of the parent company and the group taken as a whole, and the most significant risks and uncertainties facing the parent company and the group.

Fornebu, March 24, 2020
Board of Directors of Aker Solutions ASA

Øyvind Eriksen

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen

Henrik O. Madsen
Director

Atle Teigland

Atle Teigland
Director

Hilde Karlsen

Hilde Karlsen
Director

Audun Bråthen

Audun Bråthen
Director

Luis Araujo
Chief Executive Officer

Income Statement

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2019	2018
Revenue	3, 4	**29,263**	**25,232**
Materials, goods and services		**-13,447**	-10,560
Personnel expenses	5	**-10,553**	-9,534
Other operating expenses	6	**-3,020**	-3,328
Operating expenses before depreciation, amortization and impairment		**-27,019**	**-23,422**
Operating income before depreciation, amortization and impairment		**2,244**	**1,810**
Depreciation and amortization	10, 11, 18	**-1,234**	-739
Impairment	10, 11, 12, 18	**-304**	-22
Operating income		**705**	**1,049**
Interest income	7	**57**	39
Interest expenses	7	**-508**	-268
Net other financial items	7	**-84**	-28
Income before tax		**170**	**792**
Income tax	9	**-87**	-238
Net income		**83**	**554**
Net income attributable to:			
Equity holders of the parent company		**41**	511
Non-controlling interests		**41**	43
Net income		**83**	**554**
Earnings per share in NOK (basic and diluted)	8	**0.15**	**1.88**

Other Comprehensive Income (OCI)

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2019	2018
Net income		**83**	**554**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Cashflow hedges, effective portion of changes in fair value		**124**	8
Cashflow hedges, reclassified to income statement		**-98**	3
Cashflow hedges, deferred tax	9	**-7**	-2
Translation differences - foreign operations		**80**	-69
Total		**98**	**-60**
Items that will not be reclassified to profit or loss:			
Remeasurements of defined pension obligations	19	**-109**	-71
Remeasurements of defined pension obligations, deferred tax asset	9	**24**	12
Change in fair value of equity investments over OCI	25, 28	**0**	12
Total		**-85**	**-48**
Other comprehensive income (loss), net of tax		**13**	**-108**
Total comprehensive income		**96**	**446**
Total comprehensive income (loss) attributable to:			
Equity holders of the parent company		**55**	400
Non-controlling interests		**41**	47
Total comprehensive income		**96**	**446**

Balance Sheet

Consolidated statement as of December 31

Amounts in NOK million	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	10, 12	**3,065**	3,044
Intangible assets	11, 12	**5,710**	5,686
Right-of-use assets	12, 18	**3,628**	0
Deferred tax assets	9	**871**	663
Lease receivables	18	**663**	0
Other investments	22, 25, 28	**93**	79
Other non-current assets	25, 27	**268**	84
Total non-current assets		**14,298**	**9,556**
Current assets			
Current tax assets		**120**	109
Inventories	13	**369**	326
Trade receivables	3, 14, 25	**3,182**	3,236
Customer contract assets and other receivables	3, 14, 25	**4,846**	3,652
Prepayments		**1,564**	1,348
Derivative financial instruments	24, 25	**156**	218
Interest-bearing receivables	18, 25	**130**	47
Cash and cash equivalents	15, 22	**1,898**	2,473
Total current assets		**12,265**	**11,408**
Total assets		**26,563**	**20,964**

Fornebu, March 24, 2020
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Audun Bråthen
Director

Luis Araujo
Chief Executive Officer

Amounts in NOK million	Note	2019	2018
Equity and liabilities			
Equity			
Share capital	16	**294**	294
Treasury shares	16	**0**	-1
Reserves	16	**1,174**	1,161
Retained earnings		**5,666**	6,047
Total equity attributable to the parent		**7,134**	**7,502**
Non-controlling interests	26	**97**	**106**
Total equity		**7,231**	**7,608**
Non-current liabilities			
Non-current borrowings	17, 25	**3,280**	1,788
Non-current lease liabilities	18	**4,889**	0
Pension obligations	19	**663**	572
Deferred tax liabilities	9	**269**	266
Other non-current liabilities		**22**	10
Total non-current liabilities		**9,123**	**2,636**
Current liabilities			
Current tax liabilities		**81**	68
Current borrowings	17, 25	**217**	1,125
Current lease liabilities	18	**571**	0
Provisions	20	**521**	906
Trade payables	21, 25	**2,000**	1,680
Other payables	21, 25	**6,021**	6,062
Customer contract liabilities	3	**677**	709
Derivative financial instruments	24, 25	**121**	172
Total current liabilities		**10,209**	**10,721**
Total liabilities		**19,332**	**13,357**
Total equity and liabilities		**26,563**	**20,964**

Cashflow

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2019	2018
Cashflow from operating activities			
Net income		**83**	554
Adjustments for:			
Income tax	9	**87**	238
Net financial cost		**535**	218
(Profit) loss on foreign currency forward contracts	7	**0**	17
Depreciation, amortization and impairment	10, 11, 12, 18	**1,539**	761
Other (profit) loss on disposals and non-cash effects		**-99**	-73
Net income after adjustments		**2,145**	**1,715**
Changes in operating assets and liabilities		**-1,202**	-447
Cash generated from operating activities		**943**	**1,268**
Interest paid		**-572**	-313
Interest received		**132**	96
Income taxes paid		**-184**	-130
Net cash from operating activities		**319**	**921**
Cashflow from investing activities			
Acquisition of property, plant and equipment	10	**-599**	-331
Payments for capitalized development	11	**-228**	-174
Acquisition of subsidiaries, net of cash acquired		**-35**	0
Proceeds from sale of property, plant and equipment		**33**	104
Change in interest-bearing receivables		**-64**	38
Acquisition of shares and funds		**-151**	-34
Sale of shares and funds		**16**	100
Cash collection from lease receivables	18	**113**	0
Net cash used in investing activities		**-916**	**-297**

Amounts in NOK million	Note	2019	2018
Cashflow from financing activities			
Proceeds from borrowings	17	**1,784**	1,617
Repayment of borrowings	17	**-1,190**	-1,716
Payment of lease liabilities	18	**-559**	0
Net purchase of treasury shares	5	**-48**	0
Other financing activities		**-1**	0
Net cash from financing activities		**-14**	**-99**
Effect of exchange rate changes on cash and bank deposits		**36**	-30
Net increase (decrease) in cash and bank deposits		**-575**	**495**
Cash and cash equivalents at the beginning of the period		**2,473**	1,978
Cash and cash equivalents at the end of the period	15	**1,898**	**2,473**

Equity

Consolidated statement of changes in equity

Amounts in NOK million	Note	Share capital	Treasury share reserve	Retained earnings	Hedging reserve	Translation reserve	Fair value reserve	Pension reserve	Equity attributable to parent	Non-controlling interests	Total equity
Equity as of January 1, 2018		294	-1	5,529	-16	1,312	13	-12	**7,119**	42	**7,162**
Net income		0	0	511	0	0	0	0	**511**	43	**554**
Other comprehensive income		0	0	0	9	-72	12	-59	**-111**	3	**-108**
Total comprehensive income		**0**	**0**	**511**	**9**	**-72**	**12**	**-59**	**400**	**47**	**446**
Realization of equity instruments valued at FVOCI		0	0	25	0	0	-25	0	**0**	0	**0**
Sale of shares to non-controlling interest without change in control		0	0	-17	0	0	0	0	**-17**	17	**0**
Equity as of December 31, 2018		**294**	**-1**	**6,047**	**-8**	**1,240**	**0**	**-71**	**7,502**	**106**	**7,608**
Effect from implementing IFRS 16 Leasing	18	0	0	-355	0	0	0	0	**-355**	0	**-355**
Equity as of January 1, 2019		**294**	**-1**	**5,692**	**-8**	**1,240**	**0**	**-71**	**7,147**	**106**	**7,252**
Net income		0	0	41	0	0	0	0	**41**	41	**83**
Other comprehensive income		0	0	0	18	80	0	-85	**13**	0	**13**
Total comprehensive income		**0**	**0**	**41**	**18**	**80**	**0**	**-85**	**55**	**42**	**96**
Change in treasury shares	5	0	0	8	0	0	0	0	**8**	0	**8**
Employee share purchase program	5	0	0	-14	0	0	0	0	**-14**	0	**-14**
Change in non-controlling interests from dividend		0	0	0	0	0	0	0	**0**	-32	**-32**
Revaluation of tax positions in Angolan Kwanza related to prior years		0	0	-48	0	0	0	0	**-48**	-24	**-72**
Other adjustments to equity		0	0	-12	0	0	0	0	**-12**	5	**-7**
Equity as of December 31, 2019		**294**	**0**	**5,666**	**11**	**1,320**	**0**	**-156**	**7,135**	**97**	**7,231**

Notes to the Consolidated Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions is a global provider of products, systems and services to the oil and gas industry. The company had about 16,000 own employees and was present in 25 countries at the end of 2019. The main office is at Fornebu, Norway.

Aker Solutions ASA is a Norwegian limited liability company listed on the Oslo Stock Exchange under the ticker AKSO. The consolidated financial statements of Aker Solutions incorporate the financial statements of the company and its subsidiaries collectively referred to as “the group” or "the company" and separately as group companies. The parent company Aker ASA publishes consolidated financial statements. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA.

Note 2 Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union, their interpretations adopted by the International Accounting Standards Board (IASB) and the additional requirements of the Norwegian Accounting Act as of December 31, 2019.

The consolidated financial statements were approved by the Board of Directors and the chief executive officer (CEO) on March 24, 2020. The consolidated financial statements will be authorized at the Annual General Meeting on April 21, 2020. Until this date the Board of Directors has the authority to amend the financial statements.

Financial Reporting Principles

The relevant financial reporting principles are described in each note to the consolidated financial statements. Aker Solutions focuses on describing the reporting within the IFRS framework rather than repeating the actual text of the standard.

Basis of Measurement

The consolidated balance sheet has been prepared on the historical cost basis except for certain financial assets and liabilities as presented in note 25 measured at fair value on each reporting date. The financial information presented in Norwegian Kroner (NOK) has been rounded to the nearest million (NOK million), therefore the subtotals and totals in some tables may not equal the sum of the amounts shown. Certain comparative figures have been adjusted to conform to the presentation adopted in the current year, including the balance sheet, cashflow, note 4 and note 25.

Note 2 continues on next page

Note 2 Basis of Preparation cont.

Consolidation

The consolidated financial statements comprise the parent company Aker Solutions ASA and its subsidiaries. Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

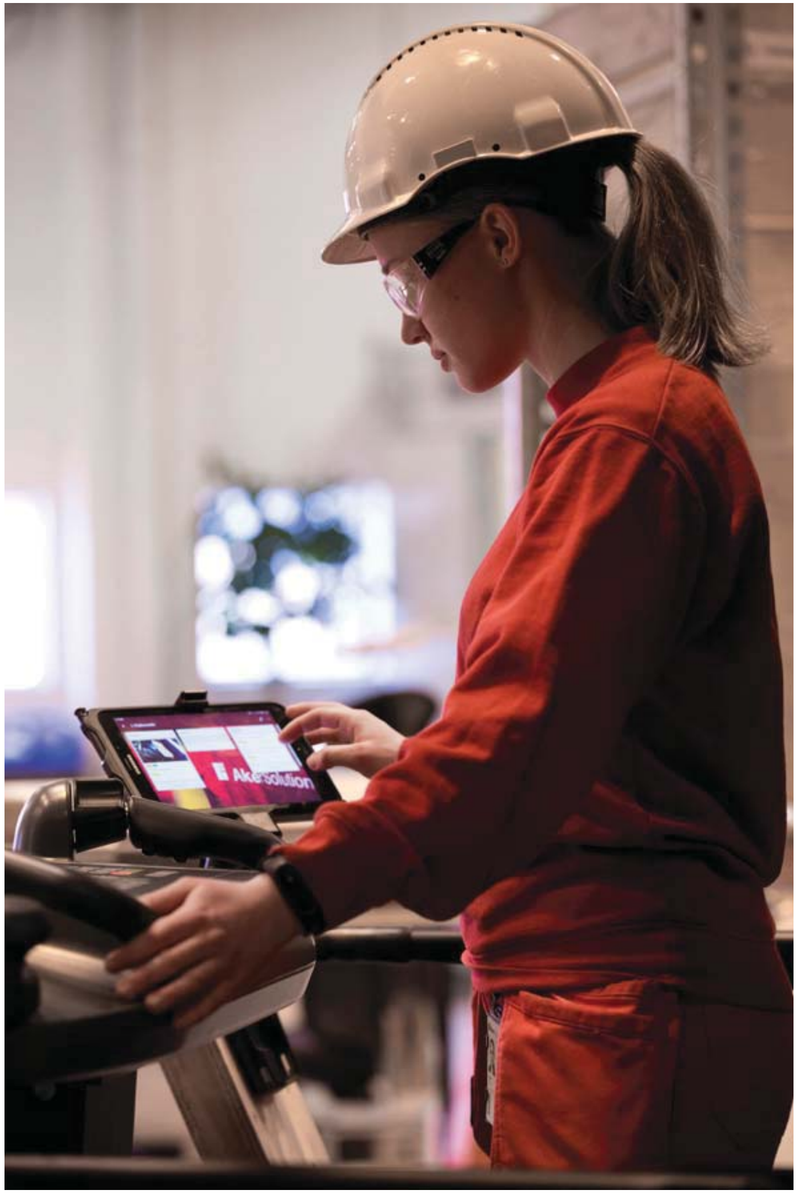
Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions each reporting period that affect the income statement and balance sheet. The accounting estimates will by definition seldom precisely match actual results. The main areas where judgements and estimates have been made are described in each of the following notes:

- Note 3 Revenue
- Note 9 Tax
- Note 10 Property, Plant and Equipment
- Note 11 Intangible Assets
- Note 12 Impairment of Assets
- Note 13 Inventories
- Note 14 Customer Contract Assets and Other Receivables
- Note 18 Leasing
- Note 19 Pension Obligations
- Note 20 Provisions and Contingent Liabilities

New Financial Reporting Principles

IFRS 16 Leasing was implemented on January 1, 2019. The financial reporting principles and the implementation effects are presented in note 18.



Note 3 Revenue

The revenue in Aker Solutions ranges from man-hour based maintenance and engineering services in the oil and gas industry, to complex construction contracts for delivery of subsea systems and modifications of oil and gas installations. Project execution is a key component of all deliveries.

Financial Reporting Principles

All customer contracts in scope of IFRS 15 are assessed using the five-step model. Only approved customer contracts with a firm commitment are basis for revenue recognition. Variation orders are included when they have been approved, either verbally, in writing or implied by customary business practice. The deliveries in the contracts are reviewed to identify distinct performance obligations, and this assessment may involve significant judgement. For the vast majority of the identified performance obligations, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognized over time using a cost based progress method, or as time and materials are delivered to the customer. The cost progress method is commonly used on lump sum contracts and reimbursable contracts when scope of work is firm. The time and materials method is more commonly used for reimbursable contract with less firm scope. These methods are used to best reflect the pattern of transfer of control of goods and services to the customer.

Variable considerations, such as incentive payments, are included in revenue when they are highly probable. Expected liquidated damages (LD) are recognized as a reduction of revenue unless it is highly probable LDs will not be incurred. The transaction price of performance obligations is adjusted for significant financing components to reflect the time value of money. Financing components may exist when the expected time period between the transfer of the promised goods and services and the payment is more than twelve months. This assessment is performed at the contract inception. Profit is not recognized until the outcome of the performance obligations can be measured reliably. Contract costs are expensed as incurred. The full loss is recognized immediately when identified on loss-making contracts. The loss is determined based on revenue less direct cost (i.e.labour, subcontractor and material cost) and an allocation of overhead that relate directly to the contract or activities required to fulfil the contract.

Judgments and Estimates

It can be challenging to estimate the expected revenue and cost in the company's customer contracts, in particular if there are operational challenges. The most significant judgments and estimates in the customer contracts are described below.

Performance Obligations

Significant management judgement is sometimes required in order to identify distinct performance obligations in customer contracts. This includes an analysis of the customer contract to determine if the goods or services are distinct deliveries or inputs to an overall promise to deliver a combined system of products and services.

Variable Consideration

Incentive payments are integral and significant parts of contract revenue on certain reimbursable contracts. They can also be present in lumpsum contracts. Incentive payments include key performance indicators, bonuses, target sum mechanisms and productivity measures and can potentially both increase and decrease revenue. Most incentives are estimated using the most likely amount. Revenue from variable consideration is included only when it is highly probable that the revenue will not be reversed. There is a risk that the actual payment of incentives may differ from the estimated amount.

Liquidated Damages (LDs)

LDs are penalties for not achieving defined milestones on time. LDs are common in construction contracts, but can also be present in service contracts. If a project does not meet the defined milestone in a contract, a provision reducing the transaction price is made unless it is highly probable that LD will not be imposed. The estimated LD provision is highly judgmental. The assessment of the LD provision is based on experience from similar LD situations in addition to client relationship, contractual position and status on negotiations.

Note 3 continues on next page

Note 3 Revenue cont.

Total Contract Cost

The estimates of total contract cost can be judgmental and sensitive to changes. The cost estimates can significantly impact revenue recognition for contracts using cost progress, particularly in lump sum construction contracts. The forecasting of total project cost depends on the ability to properly execute the engineering and design phase, availability of skilled resources, manufacturing capacity, productivity and quality factors, performance of subcontractors and sometimes also weather conditions. Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that cost estimates may change significantly.

Different Types of Customer Contracts

The revenue in Aker Solutions consists of various contracts for the engineering, procurement, construction, modification and maintenance of various oil and gas installations.

Projects - Subsea

Deliveries include stand-alone subsea equipment or complete subsea systems consisting of subsea trees, wellheads, manifolds, umbilicals, tie-in and other types of subsea equipment. Most contracts last more than one year and can be as long as five years. The contracts include engineering, procurement and construction (EPC) of subsea production equipment. Each contract is usually assessed as one performance obligation as the deliveries are combined in one output. The contracts are mainly lumpsum with penalties (LDs). Some contracts may have incentive arrangements. Payment terms are normally 30-90 days according to predefined milestones. If payment is agreed upon delivery of the equipment, a financing component will be presented if significant. Revenue is recognized over time using a cost progress method. Estimates of total contract revenue and cost may require management judgment. No profit is recognized unless the outcome can be measured reliably, usually at 10-20 percent progress. These contracts are reported in the Projects operating segment.

Projects - Field Design

The engineering contracts and the brownfield maintenance, modification and hook-up contracts for oil and gas installations are mainly reimbursable, but can also include lumpsum elements. Some contracts have incentive mechanisms including bonuses, target sum mechanisms, key performance indicators and productivity measures. Each engineering, hook-up, modification and maintenance job is usually assessed as a separate performance obligation as they represent one combined output. The contracts usually last from one to five years. Revenue is recognized over time using a cost progress method or revenue is recognized according to delivered time and materials. Payment terms are normally 30 days after time and materials are delivered. These contracts are referred to as Field Design in the revenue table below and are included in the Projects operating segment.

Services

Services include maintenance, repair, spares supply, installation and commissioning of subsea equipment and production asset through regional service bases. The contracts are mainly reimbursable, but lumpsum contracts or elements of lumpsum exist in some regions. Each service job under a frame agreement is usually assessed as a separate performance obligation as they represent one combined output. The frame agreements can run for several years, and each service job usually last for some months to as long as two years. Revenue is recognized over time using a cost progress method or according to delivered time and materials. Payment terms are normally 30 days after time and materials are delivered. These contracts are reported in the Services operating segments

The following tables show the revenue from customer contracts by type. Revenue by country is shown in note 4 (operating segments).

Amounts in NOK million	2019	2018
Projects - Subsea	**9,262**	8,162
Projects - Field Design	**14,004**	11,814
Projects - Intra-group revenue	**-13**	-57
Sum Projects	**23,253**	**19,920**
Services	**5,995**	5,096
Total revenue from customer contracts	**29,248**	**25,016**

Note 3 continues on next page

MENU

Note 3 Revenue cont.

Timing of Revenue

The performance obligations in customer contracts vary from a few months to as long as five years. The order backlog as of December 31, 2019 was NOK 25.4 billion, compared to NOK 35.1 billion the year before. The table below shows the expected timing of future revenue for ongoing and not yet started performance obligations at year-end.

Amounts in NOK billion	**2020**	**2021**	**2022**	**2023 and later**	**Total backlog**
Backlog phasing of ongoing performance obligations	13.4	3.1	1.4	0.3	**18.1**
Backlog phasing of performance obligations not yet started	1.7	2.3	1.9	1.3	**7.3**
Total backlog	**15.1**	**5.4**	**3.3**	**1.6**	**25.4**

Revenue recognized in 2019 for performance obligations delivered in prior years due to constraining the revenue was NOK 68 million, compared to NOK 199 million the year before.

Contract Balances

The company has recognized the following assets and liabilities related to contracts with customers:

Amounts in NOK million	**December 31, 2019**	**December 31, 2018**
Trade receivables	**3,182**	3,236
Customer contract assets	**4,753**	3,559
Customer contract liabilities	**-677**	-709

Customer contract assets relate to consideration for work completed, but not yet invoiced at the reporting date. The contract assets are transferred to trade receivables when the right to payment become unconditional, which usually occurs when invoices are issued to the customers. Customer contract liabilities relate to advances from customer for work not yet performed.

The change in contract assets and liabilities relates to the natural progression of the project portfolio, as well as the current project mix. The amount of NOK 709 million recognized in contract liabilities at the end of prior period has been recognized as revenue in 2019.

The bad debt provision included in receivables at December 31, 2019 was NOK 64 million, compared to NOK 84 million the year before. No impairment has been recognized on contract assets.

See note 4 for more information about revenue per segment and per country
See note 14 for more information about trade and other receivables
See note 21 for more information about trade and other payables

Note 4 Operating Segments

Aker Solutions is a global provider of equipment, systems and services to the oil and gas industry. The operations are managed through value-chain based delivery centers. Early customer engagement, engineering and project execution are reported in the Projects segment whereas life-of-field offerings are reported in Services.

Financial Reporting Principles

Operating segments are components of the group regularly reviewed by the chief operating decision maker to assess performance and be able to allocate resources. The group's CEO (chief executive officer) is the chief decision maker at Aker Solutions. The accounting principles of the operating segments are the same as described in this annual report, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiary hedges the exposure against corporate treasury. Hedge accounting is applied independently of whether the hedge qualifies for hedge accounting in accordance with IFRS. The correction of the non-qualifying hedges to secure that the consolidated financial statements are in accordance with IFRS is made as an adjustment at the corporate level and reported in the Other segment. This means that the group's segment reporting reflects all hedges as qualifying even though they may not qualify according to IFRS. Transactions between the segments are based on market prices and eliminated upon consolidation. Aker Solutions has a central finance function. Financing of the various segments does not necessarily reflect the financial strenght of the individual segments. Financial items are therefore presented only for the group as a whole.

Projects

The Projects segment provides subsea equipment and systems, engineering and procurement in addition to brownfield maintenance, modifications and hook-up. The objective of the segment is to deliver world-class project execution by building excellence in project management, engineering, fabrication and offshore construction.

Services

Services include maintenance, repair, spares supply, installation and commissioning of subsea equipment and production assets through regional service bases. The objective of the segment is to grow a focused service business and position Aker Solutions to be a key partner of choice for customers.

Other

The Other segment includes unallocated corporate costs and the effect of hedges not qualifying for hedge accounting. The Other segment also include impairments of right-of-use lease assets for certain leases (onerous lease costs in 2018), as certain lease decisions are taken by the corporate center. The number of employees in global operations and finance support functions are reported in the Other segment while the related cost is allocated to the segments.

Note 4 Operation Segments cont.

Segment Performance 2019

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
External revenue		23,106	5,991	**29,097**	166	0	**29,263**
Inter-segment revenue		147	4	**151**	9	-160	**0**
Total revenue		**23,253**	**5,995**	**29,248**	**176**	**-160**	**29,263**
Operating income before depreciation, amortization and impairment		1,736	721	**2,457**	-213	0	**2,244**
Depreciation and amortization	10, 11	-819	-254	**-1,074**	-161	0	**-1,234**
Impairment	10, 11, 12, 18	-80	-68	**-148**	-157	0	**-304**
Operating income		**837**	**399**	**1,236**	**-531**	**0**	**705**
Assets and Liabilities							
Property, plant and equipment	10	1,984	596	**2,580**	485	0	**3,065**
Intangible assets	11	3,393	2,189	**5,582**	128	0	**5,710**
Right-of-use assets	18	783	563	**1,346**	2,282	0	**3,628**
Current operating assets		5,038	3,088	**8,126**	2,145	-190	**10,081**
Operating assets		**11,199**	**6,436**	**17,635**	**5,040**	**-190**	**22,484**
Current operating assets		5,038	3,088	**8,126**	2,145	-190	**10,081**
Current operating liabilities		5,277	2,243	**7,520**	1,970	-190	**9,300**
Net current operating assets		**-239**	**844**	**606**	**176**	**0**	**781**
Cashflow							
Cashflow from operating activities		471	460	**930**	-611	0	**319**
Acquisition of property, plant and equipment	10	-308	-237	**-545**	-54	0	**-599**
Capitalized development	11	-134	-1	**-135**	-93	0	**-228**
Other key figures							
Order intake (unaudited)		14,029	5,365	**19,394**	297	-71	**19,620**
Order backlog (unaudited)		15,887	9,613	**25,500**	0	-102	**25,397**
Own employees (unaudited)		7,737	5,669	**13,406**	2,550	0	**15,956**

Note 4 continues on next page

Note 4 Operation Segments cont.

Segment Performance 2018

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
External revenue		19,842	5,095	**24,936**	296	0	**25,232**
Inter-segment revenue		78	2	**80**	2	-82	**0**
Total revenue		**19,920**	**5,096**	**25,016**	**298**	**-82**	**25,232**
Operating income before depreciation, amortization and impairment		1,354	678	**2,032**	-222	0	**1,810**
Depreciation and amortization	10, 11	-497	-164	**-661**	-78	0	**-739**
Impairment	10, 11, 12	-15	-2	**-17**	-5	0	**-22**
Operating income		**843**	**511**	**1,354**	**-305**	**0**	**1,049**
Assets and Liabilities							
Property, plant and equipment	10	1,947	546	**2,493**	550	0	**3,044**
Intangible assets	11	3,475	2,168	**5,643**	43	0	**5,686**
Current operating assets		4,703	2,438	**7,141**	1,612	-83	**8,671**
Operating assets		**10,126**	**5,152**	**15,277**	**2,206**	**-83**	**17,400**
Current operating assets		4,703	2,438	**7,141**	1,612	-83	**8,671**
Current operating liabilities		5,844	1,744	**7,589**	1,918	-83	**9,424**
Net current operating assets		**-1,141**	**693**	**-448**	**-306**	**0**	**-753**
Cashflow							
Cashflow from operating activities		1,544	463	**2,007**	-1,087	0	**921**
Acquisition of property, plant and equipment	10	-196	-103	**-299**	-32	0	**-331**
Capitalized development	11	-158	-2	**-159**	-15	0	**-174**
Other key figures							
Order intake (unaudited)		19,642	5,756	**25,398**	223	-200	**25,421**
Order backlog (unaudited)		25,014	10,294	**35,308**	0	-159	**35,148**
Own employees (unaudited)		7,188	5,473	**12,661**	2,044	0	**14,705**

Note 4 continues on next page

Note 4 Operation Segments cont.

Reconciliation of Information on Operating Segments to IFRS Measures

Amounts in NOK million	2019	2018
Assets		
Total operating segment assets	**22,484**	17,400
Deferred tax assets	**871**	663
Lease receivables	**663**	0
Other investments	**93**	79
Other non-current assets	**268**	84
Derivative financial instruments	**156**	218
Interest-bearing receivables	**130**	47
Cash and cash equivalents	**1,898**	2,473
Total assets	**26,563**	**20,964**
Liabilities		
Total operating segment liabilities	**9,300**	9,424
Non-current borrowings	**3,280**	1,788
Non-current lease liabilities	**4,889**	0
Pension obligations	**663**	572
Deferred tax liabilities	**269**	266
Other non-current liabilities	**22**	10
Current borrowings	**217**	1,125
Current lease liabilities	**571**	0
Derivative financial instruments	**121**	172
Total liabilities	**19,332**	13,357

Major Customer

One major customer represented 26.9 percent of total revenue in 2019 (2018: 24.8 percent), of which NOK 7.2 billion (2018: NOK 5.5 billion) in Projects and NOK 0.7 billion (2018: NOK 0.7 billion) in Services. Aker Solutions has long-term contracts with this customer which is a large international oil company.

Geographical Information

External revenue is presented on the basis of geographical location of the selling company. Non-current segment assets and capital expenditures are based on the geographical location of the company owning the assets.

	Revenue		Non-current operating assets		Capital expenditure fixed assets	
Amounts in NOK million	2019	2018	2019	2018	2019	2018
Norway	**17,354**	15,367	**6,497**	4,121	**101**	148
UK	**3,606**	3,695	**3,623**	2,150	**32**	26
Malaysia	**2,370**	907	**623**	396	**64**	8
Brazil	**2,070**	1,755	**1,202**	1,138	**158**	39
Angola	**1,030**	890	**154**	51	**57**	6
USA	**972**	829	**512**	454	**55**	19
Brunei	**806**	711	**2**	2	**1**	1
Canada	**579**	386	**65**	41	**6**	9
India	**240**	254	**232**	216	**13**	7
Other countries	**237**	438	**256**	199	**113**	70
Total	**29,263**	**25,232**	**13,167**	**8,767**	**599**	**331**

See note 3 for more information about revenue

Note 5 Personnel Expenses

Financial Reporting Principles

Personnel expenses include wages, salaries, social security contributions, sick leave, parental leave and other employee benefits. The benefits are recognized in the year in which the associated services are rendered by the employees.

Personnel Expenses

Amounts in NOK million	2019	2018
Salaries and wages including holiday allowance	**8,197**	7,419
Social security contribution	**1,198**	1,103
Pension cost	**535**	493
Restructuring cost related to personnel	**70**	32
Other employee benefits	**553**	487
Personnel expenses	**10,553**	**9,534**
Total number of employees as of December 31	**15,956**	14,705

Employee Share Purchase Program

Aker Solutions employees were invited to participate in a share purchaes program in 2019 where the employees could buy up to NOK 60,000 of Aker Solutions shares at a 25 percent reduction of cost price in addition to a discount up to NOK 3,000. To encourage a long-term commitment to the company, a three-year lock-up period was part of the program. The number of employees that participated in the program in 2019 was 1,387.

Loans to employees related to the share purchase program amounted to NOK 38 million as of December 31, 2019. There was no share purchase program in 2018.

See note 19 for more information about the pension cost and obligation
See note 20 for more information about restructuring provision related to downsizing of personnel

Note 6 Other Operating Expenses

Amounts in NOK million	2019	2018
Rental and other cost for land and buildings	**776**	1,310
IT and office supplies	**1,135**	985
Travel expenses	**420**	368
External consultants	**442**	296
Insurance	**143**	117
Other expenses	**104**	252
Other operating expenses	**3,020**	**3,328**

As a result of implementing IFRS 16, leasing costs are not included in operating expenses in 2019 in the table above. Leasing costs are presented in the income statement as depreciation on the right-of-use assets and interest cost of the lease liability. The remaining cost of NOK 776 million includes short-term and low-value leases not affected by IFRS 16, as well as service contracts and other costs related to land and buildings.

See note 18 for more information about leasing costs
See note 31 for more information about audit fees

Note 7 Financial Income and Expenses

Financial Reporting Principles

Interest income and expenses include effects from using the effective interest rate method where fees, interest paid, transaction costs and other premiums are deferred and amortized over the life of the instrument. Interest income from lease receivables and interest expense from lease liabilities are also included after implementing IFRS 16 Leasing from January 1, 2019.

Foreign exchange gains and losses arise upon settlement of monetary assets and liabilities that are not hedged. Translation of monetary assets and liabilities denominated in foreign currencies related to operating activities such as trade receivables and payables are presented as operating gains and losses. However, translation of operational monetary assets and liabilities in countries with hyperinflationary or non-convertible currencies are presented as financial items. Translation of assets and liabilities related to general financing of the entity are included as financial result. Foreign exchange gains and losses also include result from Corporate Treasury's trading mandate and the effects from translating monetary assets and liabilities denominated in foreign currencies at the balance sheet date. The profit on foreign exchange forward contracts include effects from derivatives that do not qualify for hedge accounting, embedded derivatives and the ineffective portion of qualifying hedges.

Financial Income and Expenses

Amounts in NOK million	2019	2018
Interest income on lease receivables	**33**	0
Other interest income	**24**	39
Interest income	**57**	**39**
Interest expense on lease liabilities	**-237**	0
Interest expense on financial liabilities measured at amortized cost	**-255**	-236
Interest expense on financial liabilities measured at fair value	**-16**	-32
Interest expense	**-508**	**-268**
Net foreign exchange gain (loss)	**-107**	-30
Profit (loss) on foreign currency forward contracts	**0**	-16
Other finance income	**42**	27
Other financial expense	**-19**	-9
Net other finance items	**-84**	**-28**
Net finance cost	**- 535**	**- 258**

See note 18 for more information about lease receivables and liabilities
See note 22 for more information about foreign exchanges losses on Angolan Kwanza in 2019
See note 24 for more information about derivative financial instruments
See note 25 for more information about financial assets and liabilities

Note 8 Earnings per Share and Dividends

Financial Reporting Principles

The calculation of basic and diluted earnings per share is based on the income attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding. Treasury shares are not included in the weighted average number of ordinary shares. Weighted average number of diluted and ordinary shares is the same, as the company does not have any dilutive instruments.

Earnings per Share (EPS)

	2019	2018
Income attributable to ordinary shares (NOK million)	**41**	511
Weighted average number of issued ordinary shares for the year adjusted for treasury shares	**271,427,124**	271,532,588
Basic and diluted earnings per share (NOK)	**0.15**	1.88

Dividends

The Board of Directors has proposed that no dividend payment be made for 2019. While Aker Solutions' finances were solid, with a liquidity buffer of NOK 6.3 billion at the end of the year, the board considered it still prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook.

See note 16 for more information about share capital and treasury shares

Note 9 Tax

Financial Reporting Principles

Income tax in the income statement consists of current tax, effect of change in deferred tax positions and withholding tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized 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 that will be paid during the next 12 months. Current tax also includes any adjustment of taxes from previous years and taxes on dividends recognized in the year.

Deferred Tax

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. Deferred tax is measured at the tax rates 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 is not recognized for goodwill identified in business combinations. 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. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences. The deferred tax asset is only recognized to the extent it is considered probable that future taxable profits will be available to utilize the credits.

Withholding Tax

Withholding tax and any related tax credits are generally recognized in the period they are incurred. Withholding tax and related tax credits directly related to construction contracts are recognized according to the progress of the construction contract, and follow the same recognition criteria as the underlying construction contract.

Note 9 continues on next page

Note 9 Tax cont.

Judgments and Estimates

The group is subject to income taxes in numerous jurisdictions, and judgment may be involved when determining the taxable amounts. Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods. In particular, management judgment is required when assessing valuation of unused losses, tax credits and other deferred tax assets. The recoverability is assessed by estimating taxable profits in future years taking into consideration also expected changes in temporary differences. The discounted amount from these profits is compared to book value of the tax assets.

The estimate of future taxable profits is sensitive to future market development for the projects and services of Aker Solutions. Forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Changes in the assumptions related to the expected prospects and services can have a significant impact on the forecasted cashflows. Economic conditions may change and lead to a different conclusion regarding recoverability, and such changes may effect future reporting periods.

Income Tax Expense

Amounts in NOK million	2019	2018
Current income tax		
Current year	**165**	159
Adjustments for prior years	**20**	3
Total current income tax	**185**	**162**
Deferred income tax		
Origination and reversal of temporary differences	**-141**	114
Write down of tax loss carry-forwards and deferred tax assets	**34**	20
Change in tax rates[1]	**4**	-22
Adjustment for prior periods	**6**	-35
Total deferred income tax	**-98**	**76**
Total income tax	**87**	**238**

1) Includes the effect of change in tax rate from 19 to 17 percent in 2020 in UK and the tax rate from 35 to 29 percent in India from April 1, 2019.

Taxes in OCI and Equity

Amounts in NOK million	2019	2018
Cashflow hedges, deferred tax	**7**	2
Remeasurement of defined benefit pension plans	**-24**	-12
Deferred tax income in OCI	**-17**	**-9**
Restatement of taxes related to prior years	**51**	0
Current tax cost in equity	**51**	**0**

Note 9 continues on next page

Note 9 Tax cont.

Effective Tax Rate

The table below reconciles the tax expense as if the Norwegian tax rate of 22 percent was applied.

Amounts in NOK million	2019		2018	
Income before tax	**170**		792	
Income tax when applying Norwegian tax rate of 22 percent (23 percent in 2018)	**37**	**22.0%**	182	23.0%
Tax effects of:				
Effect of different tax rates	**-8**	**-4.9%**	15	1.8%
Non-deductible expenses	**72**	**42.4%**	11	1.4%
Effect of withholding tax	**-55**	**-32.2%**	101	12.7%
Effect of tax incentives	**-16**	**-9.6%**	-18	-2.2%
Current tax adjustments related to prior years	**20**	**11.8%**	3	0.3%
Deferred tax adjustments related to prior years	**6**	**3.3%**	-35	-4.4%
Previously unrecognized tax losses used to reduce payable tax	**-1**	**-0.3%**	-22	-2.8%
Write down of deferred tax assets	**34**	**19.8%**	20	2.5%
Impact of change in tax rate	**4**	**2.1%**	-22	-2.8%
Other	**-5**	**-3.1%**	3	0.4%
Income tax and effective tax rate	**87**	**51.3%**	**238**	**30.0%**

Recognized Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	**29**	14	**-111**	-108	**-82**	-94
Pensions	**131**	116	**0**	0	**131**	116
Projects under construction	**5**	88	**-423**	-1,594	**-419**	-1,505
Tax loss carry-forwards	**901**	991	**0**	0	**901**	991
Intangible assets	**3**	0	**-197**	-239	**-195**	-239
Provisions	**194**	188	**-40**	-11	**154**	177
Derivatives	**0**	4	**-1**	0	**-1**	4
Tax credits and other	**235**	924	**-123**	25	**112**	949
Total before offsetting	**1,498**	**2,324**	**-897**	**-1,926**	**602**	**398**
Offsetting	**-628**	-1,661	**628**	1,661	**0**	0
Total	**871**	**663**	**-269**	**-266**	**602**	**398**

Note 9 continues on next page

Note 9 Tax cont.

Change in Net Recognized Deferred Tax Assets and Liabilities

Amounts in NOK million	Property, plant and equipment	Pensions	Projects under construction	Tax loss carry- forwards	Intangible assets	Provisions	Derivatives	Tax credits and other	Total
Balance as of December 31, 2017	-83	113	-1,643	1,073	-257	253	54	887	395
Effect of implementing IFRS 15	0	0	86	0	0	0	-54	-	32
Adjusted balance as of January 1, 2018	**-83**	**113**	**-1,557**	**1,073**	**-257**	**253**	**1**	**887**	**427**
Recognized in profit and loss	-24	-8	50	-73	15	-76	1	39	-76
Recognized in other comprehensive income (OCI)	0	12	0	0	0	0	-2	0	9
Prepaid withholding tax	0	0	0	0	0	0	0	44	44
Reclassification between categories	13	0	0	0	0	7	0	-20	0
Currency translation differences	0	0	2	-9	3	-6	5	-1	-7
Balance as of December 31, 2018	**-94**	**116**	**-1,505**	**991**	**-239**	**177**	**4**	**949**	**398**
Effect of implementing IFRS 16	0	0	0	0	0	0	0	90	90
Adjusted balance as of January 1, 2019	**-94**	**116**	**-1,505**	**991**	**-239**	**177**	**4**	**1,040**	**488**
Recognized in profit and loss	14	-9	1,103	-152	44	-23	0	-883	**96**
Recognized in other comprehensive income (OCI)	0	24	0	0	0	0	-7	0	**17**
Recognized in equity (revaluation related to prior year)	0	0	-15	0	0	0	0	-23	**-39**
Prepaid withholding tax	0	0	0	0	0	0	0	61	**61**
Reclassification between categories	0	0	0	63	0	0	0	-63	**0**
Currency translation differences	-2	0	-2	0	0	-1	1	-20	**-23**
Balance as of December 31, 2019	**-82**	**131**	**-419**	**901**	**-195**	**154**	**-1**	**112**	**601**

Tax Loss Carry-Forwards (gross amounts)

Amounts in NOK million	Expiry within 5 years	Expires within 5-20 years	Indefinite	Total
Norway	0	0	1,541	**1,541**
Europe excluding Norway	142	0	461	**603**
North America	49	784	0	**834**
South America	0	0	580	**580**
Asia Pacific	0	746	166	**913**
Total	**191**	**1,531**	**2,749**	**4,470**

Unrecognized Deferred Tax Assets (gross amounts)

Amounts in NOK million	Unrecognized tax loss carry-forwards	Unrecognized other tax assets
Norway	0	109
Europe excluding Norway	22	0
North America	0	0
South America	0	0
Asia Pacific	651	0
Total	**673**	**109**

See note 18 for more information about IFRS 16 Leasing
See note 20 for more information about contingent tax claims

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Note 10 Property, Plant and Equipment

The majority of property, plant and equipment relates to subsea manufacturing plants and service bases in Norway, Brazil, Malaysia, the US and the UK. Fixed assets also include furniture and fittings in office buildings.

Financial Reporting Principles

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses. Components of property, plant and equipment with different useful lives are accounted for separately. Assets are normally depreciated on a straight-line basis over their expected economic lives as follows:

- Machinery and equipment: 3-15 years
- Buildings: 8-30 years
- Land: No depreciation

Impairment triggers are assessed quarterly and impairment testing is performed when triggers have been identified. Borrowing costs are capitalized as part of the cost of the asset when significant. The cost of self-constructed assets includes the cost of materials, direct labor, production overheads and borrowing cost.

Judgment and Estimates

Judgment is involved when determining the depreciation period and when assessing impairment or reversal of impairment. Impairment is assessed for individual assets and for cash generating units. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

Commitments

Aker Solutions has entered into contractual commitments for the acquisition of property, plant and equipment amounting to NOK 324 million as of December 31, 2019, of which 314 expire in 2020. Contractual commitments were NOK 233 million per December 31, 2018.

See note 12 for more information about impairment testing
See note 17 for more information about PPE being held as security for borrowings
See note 18 for more information about right-of-use lease assets

Property, Plant and Equipment

Amounts in NOK million	Buildings and sites[1]	Machinery and equipment	Under construction	Total
Historical cost				
Balance as of December 31, 2017	1,851	5,548	181	7,580
Additions	6	34	291	331
Reclassifications from assets under construction	-21	179	-176	-19
Disposals and scrapping	-35	-79	0	-114
Currency translation differences	-79	43	5	-31
Balance as of December 31, 2018	**1,722**	**5,724**	**301**	**7,747**
Additions	5	71	524	**599**
Reclassifications from assets under construction	26	280	-312	**-6**
Disposals and scrapping	-18	-53	0	**-71**
Currency translation differences	-3	15	-1	**10**
Balance as of December 31, 2019	**1,731**	**6,037**	**511**	**8,279**
Accumulated depreciation and impairment				
Balance as of December 31, 2017	-436	-3,812	-15	-4,263
Depreciation for the year	-54	-417	0	-471
Impairment	-5	-2	0	-7
Disposals and scrapping	3	72	0	75
Reclassification between categories	-21	40	0	19
Currency translation differences	-3	-52	-1	-55
Balance as of December 31, 2018	**-516**	**-4,171**	**-16**	**-4,703**
Effect of implementing IFRS 16 Leasing[2]	-34	0	0	-34
Balance as of January 1, 2019	**-549**	**-4,171**	**-16**	**-4,736**
Depreciation for the year	-53	-416	0	**-469**
Impairment	-9	-37	0	**-46**
Disposals and scrapping	13	47	0	**59**
Reclassification between categories	0	0	0	**0**
Currency translation differences	-10	-12	0	**-22**
Balance as of December 31, 2019	**-608**	**-4,590**	**-16**	**-5,213**
Book value as of December 31, 2018	**1,206**	**1,553**	**285**	**3,044**
Book value as of December 31, 2019	**1,123**	**1,447**	**495**	**3,065**

1) There were no assets held for sale included in buildings and sites as of December 31, 2019 (same as in 2018).
2) The IFRS 16 adjustment relate to dilapidations that are reclassified from property, plant and equipment to ROU assets upon implementing IFRS 16.

Note 11 Intangible Assets

The research and development (R&D) programs at Aker Solutions are closely monitored in order to secure the desired technological achievements in time and at acceptable cost levels. R&D programs that meet certain criteria are capitalized and amortized over the expected useful life. The majority of the capitalized development in 2019 was related to digital development programs. Intangible assets also include goodwill and other assets identified in previous mergers and acquisitions.

Financial Reporting Principles

Capitalized Development

The technology development at Aker Solutions is graded according to a Technology Readiness Level (TRL) consisting of eight phases. Research and development costs are expensed as incurred until a program has completed the concept phase. Development cost is only capitalized if the product or process is technically and commercially feasible and the business case shows a positive net present value. Capitalized development mainly includes internal labor costs in addition to materials for the development program. Any third-party funding is presented as a reduction of the capitalized amount. The capitalized development is normally amortized over five years on a straight-line basis, but certain programs with a clear differentiating offering and a longer economic benefit may be amortized up to seven years. For development projects in progress, a full impairment test is performed annually or when impairment indicators are identified. Assets are written down to recoverable amount, if lower than book value.

Goodwill

Goodwill represents the consideration paid in excess of identifiable assets and liabilities in business combinations. Goodwill has an indefinite useful life and is tested for impairment annually, or when impairment indicators are identified.

Other

Other intangible assets include IT systems and technology development acquired through business combinations.

Judgments and Estimates

The decision to capitalize a development program involves management judgment. There are strict internal rules defining what qualifies for capitalization, and the documentation of the assessment is monitored centrally. Management makes assessment of future market opportunities, ability to successfully achieve the desired technological solution and the time and cost it takes to develop it. These factors may change over time.

Judgment is involved when determining the amortization period and when assessing impairment or reversal of impairment. Impairment indicators are assessed for individual development projects, other intangible assets and for cash generating units as a whole, including goodwill. Impairment testing is performed when impairment indicators have been identified. In addition, goodwill and capitalized development programs that have not been completed are subject to an annual impairment test. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

Note 11 continues on next page

Note 11 Intangible Assets cont.

Intangible Assets

Amounts in NOK million	Capitalized development	Goodwill	Other	Total
Historical cost				
Balance as of December 31, 2017	2,664	4,283	342	7,289
Additions from internal development[1]	174	0	0	174
Reclassifications between categories	20	0	-20	0
Assets fully written down, no longer in use	-26	0	0	-26
Currency translation differences	13	-26	-2	-15
Balance as of December 31, 2018	**2,845**	**4,258**	**319**	**7,422**
Additions from internal development[1]	228	0	0	**228**
Reclassifications between categories	31	0	-25	**6**
Assets fully written down, no longer in use	-2	0	0	**-2**
Currency translation differences	40	66	6	**112**
Balance as of December 31, 2019	**3,142**	**4,324**	**300**	**7,767**

Amounts in NOK million	Capitalized development	Goodwill	Other	Total
Accumulated amortization and impairment				
Balance as of December 31, 2017	-1,288	-3	-184	-1,475
Amortization for the year	-233	0	-35	-268
Impairment	-15	0	0	-15
Reclassifications between categories	-6	0	6	0
Assets fully written down, no longer in use	26	0	0	26
Currency translation differences	-7	3	-1	-5
Balance as of December 31, 2018	**-1,523**	**0**	**-214**	**-1,737**
Amortization for the year	-263	0	-35	**-298**
Impairment	-2	0	0	**-2**
Reclassifications between categories	-14	0	14	**0**
Assets fully written down, no longer in use	0	0	0	**0**
Currency translation differences	-16	0	-4	**-21**
Balance as of December 31, 2019	**-1,818**	**0**	**-239**	**-2,057**
Book value as of December 31, 2018	**1,323**	**4,258**	**105**	**5,685**
Book value as of December 31, 2019	**1,324**	**4,324**	**61**	**5,710**

1) Development cost funded by third-party totaled NOK 130 million in 2019 (NOK 85 million in 2018).

Research and Development Expenses

The research and development expenses amounted to NOK 81 million in 2019 compared to NOK 52 million in 2018.

See note 12 for more information about impairment testing

Note 12 Impairment of Assets

Improvement measures across the industry have lowered the break-even costs for oil and gas installations, with cashflow returning to operators. The overall market fundamentals remained supportive, however, there is higher volatility and geopolitical uncertainties compared to recent years. The assets at Aker Solutions have been assessed for impairment on an individual basis and as part of cash generating units. The impairment testing of the assets resulted in impairment losses of NOK 2 million for intangible assets, NOK 46 million for property, plant and equipment and NOK 257 million for right-of-use lease assets in 2019.

Financial Reporting Principles

Individual Assets

Each property, plant, equipment and right-of-use asset is assessed for impairment triggers every quarter to identify assets that are damaged, no longer in use or will be disposed. Capitalized development is assessed for impairment triggers every quarter to identify development programs where the technological development or commercial outlook for that specific technology no longer justify the book value. Capitalized development programs that have not been completed are subject to annual impairment testing. The impairment testing of capitalized development include update of the future expected cashflows, assessing status on technical achievements and reviewing cost incurred compared to budget in order to identify if any of the capitalized cost should be expensed. The assets are written down to recoverable amount, if lower than book value. Reversal of impairment is assessed quarterly for assets previously impaired.

Assets in a Cash Generating Unit (CGU)

Impairment indicators are assessed for all assets as part of a cash generating unit (CGU) every quarter. A CGU represents the lowest level of independent revenue generated by the assets. This is usually the lowest level where a separate external market exists for the output from the CGU. Impairment indicators are reviewed for all assets with assessment of market conditions, technological development, change in order backlog, change in discount rate and other elements that may impact the value of the assets in the CGU. Assets are usually tested using the value-in-use approach determined by discounting expected future cashflows. The impairment test has been completed without including the effects from IFRS 16, hence using the measurement principles for leasing as under IAS 17. Impairment losses are recognized for assets in CGUs where the recoverable amount is lower than book value.

Goodwill

The groups of CGUs that include goodwill are aligned with the operating segments in the company. These are tested for impairment annually or when impairment triggers have been identified. The company does not have other assets than goodwill with indefinite useful lives.

Note 12 continues on next page

Note 12 Impairment of Assets cont.

Judgments and Estimates

The impairment testing of assets is by nature highly judgmental as it includes estimates such as future market development, cashflows, determination of WACC, growth rate used for calculation of terminal value and other assumptions that may change over time. In particular, future cashflows are uncertain as they are impacted by market developments beyond Aker Solutions' control. The oil price impacts the investment levels in capex and maintenance projects by the oil companies. This in turn impacts the markets in which Aker Solutions operates.

Cashflow Assumptions

Four year cashflows in the period 2020 to 2023 projected from the forecast and strategy process, approved by management and the Board of Directors in 2019, have been used as basis for the estimates of future cashflows. The forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Management has defined the growth rate, post-tax discount rate and estimated future cashflows as the most sensitive assessment in the value-in-use calculation. The forecasted cashflows used in the impairment tests reflect organic growth only. Other parameters in the assessment are the predicted long-term oil price per barrel, mix of projects and services, level of operating expenses and capital expenditure for maintenance of the asset portfolio.

Discount and Growth Rate

Estimated future cashflows are discounted to their present value using the weighted average cost of capital (WACC), which is a post-tax discount rate. The WACC is based on a risk free interest rate, a risk premium and average beta values of peers within each market. A separate WACC has been calculated for each of the CGUs taken into consideration country specific risk premiums and long-term risk free interest rates. A growth rate has been applied to calculate terminal value after the four-year period.

Impairment Testing of Individual Assets

When reviewing the individual capitalized developments certain development programs were identified where the technology or commercial outlook no longer justified the value. In total, NOK 2 million related to capitalized development was impaired, compared to NOK 15 million in the prior year. The impairment on individual machines, furniture and fittings was NOK 46 million compared to NOK 7 million in the prior year. In addition, the impairment of right-of-use assets was NOK 257 million. The value-in-use method was used for fixed, intangible and right-of-use assets. The table below shows how the impairment was split between the different operating segments.

	Projects		Services		Other		Total	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Impairment of intangible assets	**2**	15	**0**	0	**0**	0	**2**	15
Impairment of property, plant and equipment	**25**	0	**14**	2	**7**	5	**46**	7
Impairment of right-of-use assets	**53**	0	**54**	0	**150**	0	**257**	0
Total impairment	**80**	**15**	**68**	**2**	**157**	**5**	**304**	**22**

Impairment Testing of Assets in CGUs

CGUs identified for testing fixed and intangible assets are usually a plant or a group of plants which are deemed to produce independent cash inflows. No impairment losses were recognized as a result of the impairment testing of assets in CGUs based on the value-in-use method. Various sensitivity analysis for change in future cash flows, growth rate and WACC have been performed for the CGUs with limited headroom in the impairment testing. The results from the analysis support the conclusion from the test that no impairment should be recognized. The group is continuously monitoring the market development and will perform impairment testing if further impairment triggers are identified.

One CGU with net assets of NOK 480 million is sensitive for impairment. The WACC used in the impairment testing was 11 percent and the growth rate was 5 percent. The WACC can be increased to 13.4 percent, the growth rate can be reduced to 1.5 percent and the free cashflows can be reduced by over 50 percent without triggering an impairment.

Note 12 continues on next page

Note 12 Impairment of Assets cont.

Impairment Testing of Goodwill

The groups of CGUs identified when testing goodwill represent the operating segments of Aker Solutions (Projects and Services) as this is the level where synergies are expected and goodwill is monitored. The goodwill in the two operating segments are shown in the following table.

Amounts in NOK million	**2019**	**2018**
Projects	**2,152**	2,117
Services	**2,173**	2,141
Total goodwill as of December 31	**4,324**	**4,258**

The WACC used in the impairment testing of goodwill is shown below.

	2019		**2018**	
Amounts in NOK million	**Post-tax WACC**	**Pre-tax WACC**	**Post-tax WACC**	**Pre-tax WACC**
Projects	**8.6%**	**11.0%**	9.3%	12.2%
Services	**8.8%**	**11.5%**	9.5%	14.3%

Assumptions

A post-tax value-in-use method was used, with pre-tax rates calculated using an iterative method for illustration purposes only. The forecasted cashflows are based on firm orders and an expected share of new contracts. When determining the terminal value, a growth rate of 1.5 percent has been used for both Services and Projects. The annual impairment testing of goodwill did not result in any impairment losses.

Sensitivities

The impairment testing is affected by changes in the long-term oil price as it will impact the expected order intake. The testing is also afftected by changes in the discount rate, growth rates, and the ability of Aker Solutions to secure projects as forecasted in the cashflow, product mix and cost levels. Multiple sensitivity tests have been run on the key assumptions in the value-in-use calculation to address the current uncertainty in the oil service market. In the sensitivity testing we have assessed the impact on the value-in-use calculation when applying the following changes to the key assumptions:

- Decrease in long-term growth rate to zero
- Increase in post-tax discount rate by 2 percentage points
- A 25 percent decrease in forecasted free cashflows during the four year period from 2020 to 2023, including the teminal value

See note 10 for more information about property, plant and equipment
See note 11 for more information about intangible assets
See note 18 for more information about right-of-use lease assets

Note 13 Inventories

Financial Reporting Principles

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling expenses and the estimated cost to complete the inventory. The cost of inventories is based on the weighted average cost.

Judgments and Estimates

The assessment of obsolete and slow-moving inventory in order to determine inventory write-downs is subject to management judgment. The selling price in the market has to be estimated, and there is a risk that the actual selling price may turn out to be different than the amount estimated by management.

Inventories

Amounts in NOK million	2019	2018
Raw materials and semi-finished goods	**366**	326
Finished goods	**3**	0
Total	**369**	**326**
Inventories at cost	**548**	556
Inventory write-downs to net realizable value	**-179**	-230
Total	**369**	**326**
Balance of January 1	**326**	428
Purchase of inventory	**1,460**	1,360
Recognized as expense	**-1,401**	-1,437
Write down for obsolete inventory	**-73**	-54
Reversal of write down for obsolete inventory	**57**	39
Currency translation differences	**0**	-10
Total	**369**	**326**

There are no securities pledged over inventories.

Note 14 Customer Contract Assets and Other Receivables

Financial Reporting Principles

Trade and other receivables are recognized at the original invoiced amount, less impairment losses. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used. Impairment losses are estimated based on the expected credit loss method (ECL) for trade receivables, contract assets (with or without a significant financing component) and other receivables.

Judgments and Estimates

Judgment is involved when determining the impairment losses on doubtful receivables. The impairment is based on individual assessments of each customer and default risk in the industry and the country in which the customer operates. The customers of Aker Solutions are mainly large, international oil companies with low credit risk.

Customer Contract Assets and Other Receivables

Amounts in NOK million	2019	2018
Trade receivables	2,959	2,725
Trade receivables, related parties	286	594
Less provision for impairment of receivables	-64	-84
Trade receivables, net	**3,182**	**3,236**
Customer contract assets	4,754	3,559
Other receivables	93	93
Customer contract assets and other receivables	**4,847**	**3,652**
Total	**8,028**	**6,887**

Bad Debt Provision

Amounts in NOK million	2019	2018
Balance as of January 1	-85	-94
Provisions made during the year	-12	-4
Provisions reversed during the year	32	15
Currency translation differences	0	-2
Balance as of December 31	**-64**	**-85**

Aging of Trade Receivables

Amounts in NOK million	2019	2018
Not due	2,664	2,868
Past due 0-30 days	201	265
Past due 31-90 days	118	72
Past due 91 days to one year	131	41
Past due more than one year	131	73
Total	**3,246**	**3,319**

See note 3 for more information about customer contract assets and receivables
See note 22 for more information about credit risk
See note 25 for more information about financial assets and liabilities and IFRS 9 implementation effects
See note 29 for more information about receivables to related parties

Note 15 Cash and Cash Equivalents

Financial Reporting Principles

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

Cash and Cash Equivalents

Amounts in NOK million	2019	2018
Cash pool	263	1,258
Other cash at banks	1,635	1,215
Total	**1,898**	**2,473**

Available Liquidity

Additional undrawn committed non-current bank revolving credit facilities amounted to NOK 4.4 billion, compared to NOK 5 billion in the prior period. Together with cash and cash equivalents, this gives a total liquidity buffer of NOK 6.3 billion, compared to NOK 7.5 billion in prior year.

See note 17 for more information about borrowings
See note 22 for more information about cash restrictions and the cash pool arrangement
See note 23 for more information about capital management

Note 16 Equity

Share Capital

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940 through the issuance of 272,044,389 shares. The total number of outstanding shares is 272,044,389 at par value NOK 1.08 per share as of December 31, 2019. All issued shares are fully paid. Aker Solutions 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.

Treasury Shares

Aker Solutions purchase its own shares (treasury shares) to meet the obligations under the employee share purchase program. Repurchase of share capital is recognized at cost as a reduction in equity and is classified as treasury shares. No gain or loss is recognized in the income statement upon sale of treasury shares.

Amounts in NOK million	Number of shares	Consideration
Treasury shares as of December 31, 2018	511,801	16
Purchase	2,300,000	51
Sale	-2,710,165	-64
Treasury shares as of December 31, 2019	**101,636**	**2**

Hedging Reserve

In the equity table, the hedge reserve mainly relates to effects of currency cashflow hedges that are not yet recognized in the income statement. The hedging effects are recognized in the income statement according to the progress of the underlying customer contract.

Note 16 continues on next page

Note 16 Cash and Cash Equivalents cont.

Translation Reserve

In the equity table, the currency translation reserve includes foreign exchange differences arising from the translation of the subsidiaries into the presentation currency of the consolidated financial statements.

Pension Reserve

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

See note 2 for more information about currency translation of subsidiaries
See note 19 for more information about the pension obligation
See note 24 for more information about hedging

Note 17 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has two bond loans listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The bond of NOK 1,500 million matures on July 25, 2022 and the bond of NOK 1,000 million matures on June 3, 2024. The interest rate for both bonds is three months floating interbank rate (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loans are unsecured on a negative pledge basis and includes no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.

Note 17 continues on next page

Note 17 Borrowings cont.

Bonds and Borrowings

2019

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010814213	NOK	1,500	**1,503**	1.80%	3.15%	4.95%	07/25/22	Floating, 3M+fix margin
ISIN NO 0010853286	NOK	1,000	**993**	1.84%	3.00%	4.84%	06/03/24	Floating, 3M+fix margin
Total bond[1]			**2,496**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	600	**582**	1.87%	1.10%	2.97%	03/19/23	NIBOR + Margin[3]
Brazilian Bank loans[4]	BRL	190	**415**	8.62%	0.00%	8.62%	2020-2024	Fixed, periodically
Other borrowings			**4**					
Total borrowings			**3,497**					
Current borrowings			**217**					
Non-current borrowings			**3,280**					
Total borrowings			**3,497**					

2018

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,011**	1.05%	4.20%	5.25%	10/09/19	Floating, 3M+fix margin
ISIN NO 0010814213	NOK	1,500	**1,497**	1.10%	3.15%	4.25%	07/25/22	Floating, 3M+fix margin
Total bond[1]			**2,508**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-25**	0.00%	1.10%	1.10%	03/19/23	NIBOR + Margin[3]
Brazilian Development Bank loans[4]	BRL	188	**425**	9.41%	0.00%	9.41%	2019-2024	Fixed, periodically
Other borrowings			**5**					
Total borrowings			**2,913**					
Current borrowings			**1,125**					
Non-current borrowings			**1,788**					
Total borrowings			**2,913**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million by total issue costs related to the new financing of NOK 22 million (2018: NOK 16 million). Amount includes NOK 18 million (2018: NOK 24 million) of accrued interest related to the bonds.
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.
4) Brazilian loans consist of loans with interest rates ranging from 2.6 to 8.6 percent in 2019 and 5.8 to 12.3 percent in 2018. The weighted average interest rate is used in the table and is calculated based on the contractual rates on the loans at December 31 and does not include the effect of swap agreements.

Note 17 continues on next page

Note 17 Borrowings cont.

Maturity of Bonds and Borrowings

2019

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years
ISIN NO 0010814213	1,503	**1,707**	38	38	75	1,556
ISIN NO 0010853286	993	**1,221**	25	25	49	1,123
Total bonds	**2,496**	**2,928**	**63**	**62**	**124**	**2,679**
Revolving credit facility (NOK 5,000 million)[2]	582	**659**	10	9	18	622
Brazilian development bank loans	415	**445**	96	115	203	31
Other borrowings	4	**4**	4	0	0	0
Total other borrowings	**1,001**	**1,108**	**110**	**124**	**221**	**653**
Total borrowings	**3,497**	**4,037**	**173**	**186**	**345**	**3,332**

2018

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years
ISIN NO 0010661051	1,011	**1,055**	27	1,028	0	0
ISIN NO 0010814213	1,497	**1,750**	33	34	67	1,617
Total bonds	**2,508**	**2,805**	**60**	**1,061**	**67**	**1,617**
Revolving credit facility (NOK 5,000 million)	-25	**0**	0	0	0	0
Brazilian development bank loans	425	**494**	64	62	174	194
Other borrowings	5	**5**	0	5	0	0
Total other borrowings	**405**	**499**	**64**	**67**	**174**	**194**
Total borrowings	**2,913**	**3,304**	**124**	**1,128**	**241**	**1,810**

1) The interest costs are calculated using either the last fixing rate known by year end (plus applicable margin) or the contractual fixed rate (when fixed rate debt).
2) The cashflow is based on the assumption that the nominal drawn amount will remain constant until the maturity of the revolving credit facility.

Note 17 continues on next page

Note 17 Borrowings cont.

Movement of Liabilities

	2019				2018			
Amounts in NOK million	**Bond**	**Credit Facilities**	**Other Borrowings**	**Total**	**Bond**	**Credit Facilities**	**Other Borrowings**	**Total**
Balance as of January 1	2,508	-25	430	**2,913**	1,008	1,239	868	**3,115**
Proceeds from loans and borrowings	1,000	600	184	**1,784**	1,500	0	117	**1,617**
Repayment of borrowings	-1,000	0	-190	**-1,190**	0	-1,250	-466	**-1,716**
Total changes from financial cashflows	**0**	**600**	**-6**	**594**	**1,500**	**-1,250**	**-349**	**-99**
Accrued interest	-6	1	1	**-4**	13	0	-6	**7**
Amortization of borrowing cost	-5	6	0	**1**	-13	-13	0	**-27**
Currency translation differences	0	0	-6	**-6**	0	0	-83	**-83**
Balance as of December 31	**2,496**	**582**	**419**	**3,497**	**2,508**	**-25**	**430**	**2,913**

Mortgages

The company has no mortgage liabilities in 2019 (nor 2018).

See note 23 for more information about capital management

See note 24 for more information about interest rate derivatives

See note 25 for more information about financial assets and liabilities

Note 18 Leasing

IFRS 16 Leasing implemented in 2019 has significantly changed how the company accounts for its lease contracts. The company leases a number of office buildings in addition to manufacturing and service sites. The company also leases machines and vehicles. IFRS 16 requires all contracts that contain a lease to be recognized on the balance sheet as a right-of-use asset and lease liability. Only certain short-term and low-value leases are exempt. All lease contracts were classified as operating leases under the previous (IAS 17) standard. Comparative figures for 2018 have not been restated to reflect IFRS 16.

Financial Reporting Principles

The lease liability represents the net present value of the lease payments to be made over the remaining lease period. The right-of-use asset is depreciated over the lease term and is subject to impairment testing. The lease payments previously included as operating expense in the income statement are reported as depreciation and financial expense under IFRS 16 resulting in an improvement of operating income before depreciation, amortization and impairment. The cash outflows for leases under IFRS 16 is presented as repayment of interest-bearing liabilities within financing activities in the cashflow statement. Interest paid is still classified as cash outflows within operating activities.

Several property leases contain extension options or cancellation clauses. The non-cancellable lease period is basis for the lease commitment. Periods covered by extension or termination options are included when it is reasonably certain that the lease period will be extended. When management has decided to extend the lease period is typically an event that would trigger an updated assessment of the reasonably certain criteria.

Non-lease components such as electricity, insurance and other property-related expenses paid to the landlord are excluded from the lease commitment for offices and manufacturing sites, but included when renting apartments and vehicles if included in the agreed lease amount. Future index or rate adjustments of lease payments are only included in the lease liability when a minimum adjustment has been contractually agreed and is in-substance fixed.

When a leased property has been vacated or will be vacated by Aker Solutions in the near future, the right-of-use asset is assessed for impairment. If the vacated property is a separable part of the leased building, it is tested for impairment as a separate cash-generating unit. Expected future sub-lease income is discounted to present value and compared to the value of the separable right-of-use asset. If the vacated area is not separable, the right-of-use asset it tested together with the other assets in the cash generating unit.

The company has a number of sub-leases. All sub-leases were previously classified as operating leases with lease income recognized as revenue. Under IFRS 16, some sub-leases covering the major part of the lease term in the head-lease are classified as finance sub-leases. The portion of the right-of-use asset subject to sub-lease is de-recognized and a sub-lease receivable is recognized in the balance sheet when the sub-lease commences. The sub-lease will result in interest income and lower right-of-use asset depreciation under IFRS 16, rather than lease revenue as under IAS 17.

The company has implemented the leasing standard using a modified retrospective method with the cumulative impact recognized in retained earnings on January 1, 2019. Comparative figures are not restated. IFRS 16 Leasing replaced former leasing guidance, including IAS 17 Leases and IFRIC 4, SIC 15 and SIC 27. According to the company's loan agreements, the new leasing standard will not impact the current debt covenants.

Note 18 continues on next page

Note 18 Leasing cont.

Judgments and Estimates

The company has applied significant judgment when determining impairment of the right-of-use asset. Impairment is assessed for separable parts of leased buildings that have been or will be vacated in the near future. The impairment is sensitive to changes in estimated future expected sub-lease income and sub-lease period. Further, judgment is involved when determining whether sub-lease contracts are financial or operational, as well as when determining lease term for contracts that has extension or termination options. Determination of the discount rate also include judgment.

Right-of-Use Assets (ROU) and Lease Liabilities

The movement in the right-of-use assets and lease liabilities since implementation is summarized below.

Amounts in NOK million	Land and building	Machinery and vehicles	Others	Total
Historical cost				
Balance at transition to IFRS 16 on January 1, 2019	4,660	26	6	**4,693**
Additions	196	2	3	**201**
Remeasurement	-12	0	0	**-12**
De-recognition of ROU asset due to sub-lease	-28	0	0	**-28**
Currency translation differences	50	0	0	**50**
Balance as of December 31, 2019	4,866	28	9	**4,903**
Accumulated depreciation and impairment				
Balance at transition to IFRS on January 1, 2019	-542	0	0	**-542**
Depreciation expense	-451	-12	-5	**-468**
Impairments	-257	0	0	**-257**
Currency translation difference	-8	0	0	**-8**
Balance as of December 31, 2019	-1,259	-12	-5	**-1,275**
Book value as of January 1, 2019	4,118	26	6	**4,150**
Book value as of December 31, 2019	3,608	16	4	**3,628**

Note 18 continues on next page

Note 18 Leasing cont.

The impairment of right-of-use assets for land and buildings in 2019 mainly relates to update of market value of potential sub-leases and new separable areas that are, or will be, vacated by Aker Solutions.

Amounts in NOK million	**Lease liabilities**	**Lease receivable (sub-lease)**
Movement of lease liabilities and receivables		
Balance as of January 1, 2019	5,729	846
Additions	201	28
Remeasurement	-12	0
Interest expense/sub-lease interest income	237	33
Lease payments/sub-lease payments	-796	-146
Currency translation differences	102	23
Balance as of December 31, 2019	**5,460**	**784**

Lease payments of NOK 796 million consist of lease installments of NOK 559 million and interest expense of NOK 237 million. Total cash collection from lease receivables of NOK 146 million consist of sublease installments of NOK 113 million and interest income of NOK 33 million.

Amounts Recognized in the Income Statement

The following amounts are recognized in the income statement related to leasing:

Amounts in NOK million	**2019**
Income from operational sub-leases presented as other income	125
Expenses relating to short-term leases presented as operating costs	457
Expenses relating to low-value leases presented as operating costs	39
Depreciation of ROU assets	-468
Impairments of ROU assets	-257
Interest on lease receivables presented as financial income	33
Interest on lease liabilities presented as financial expense	-237

Maturity of Lease Liabilities and Lease Receivables

December 31, 2019

Amounts in NOK million	**Lease Payments**	**Sub-lease income**
Maturity within 1 year	788	156
Maturity 1-5 years	2 836	525
Maturity 5-10 years	1 984	290
Maturity later than 10 years	1 115	15
Total	**6 723**	**986**

Recognition and Measurement Approach on Transition

The company has elected the following principles when transitioning to IFRS 16 on January 1, 2019:

- excluded short-term leases and leases of low-value items such as computers and office equipment
- excluded leases that expire in 2019
- adjusted the right-of-use asset on January 1, 2019 with the provision for onerous leases on December 31, 2018
- excluded the initial direct costs like broker fees from the measurement of right-of-use asset on implementation
- the right-of-use asset for selected leases has been measured as if IFRS 16 had always been applied (using the incremental borrowing rate per January 1, 2019)

The discount rate has been determined for each leased asset according to the incremental borrowing rate at the date of implementation (January 1, 2019). On January 1, 2019, the discount rate applied varied between 2.0 and 11.5 percent giving a weighted-average rate of 4.4 percent.

Note 18 continues on next page

Note 18 Leasing cont.

Implementation Effects

The effect of implementing IFRS 16 as of January 1, 2019 was as follows:

Amounts in NOK million	**January 1, 2019**
Assets	
Property, plant and equipment	-34
Right-of-use assets	4,150
Lease receivables (non-current)	734
Interest bearing receivables (current lease receivables)	112
Deferred tax asset	90
Current operating assets (prepaid lease)	-32
Adjustments to assets	**5,021**
Liabilities	
Current lease liabilities	546
Non-current lease liabilities	5,183
Lease liabilities	**5,729**
Current operating liabilities (provisions)	-119
Trade and other payables (rent-free period accruals)	-234
Adjustments to liabilities	**5,376**
Equity	
Retained earnings	-355
Adjustments to equity	**-355**

The implementation effect on net current operating assets as of January 1, 2019 from implementing IFRS 16 was a reduction of NOK 321 million.

Reconciliation of Lease Commitment and Lease Liability

Amounts in NOK million	**January 1, 2019**
Lease commitment as of December 31, 2018	**6,862**
Relief option for short-term leases	-172
Relief option for leases of low-value assets	-8
In-substance fixed lease payments not included in lease commitments	200
Undiscounted lease liability	**6,883**
Effect of discounting lease commitment to net present value	-1,154
Lease liability as of January 1, 2019	**5,729**

Note 18 continues on next page

Note 18 Leasing cont.

Effects on Operating Segments and Income Statement from IFRS 16

	2019			2018	2019	2018
Amounts in NOK million	As reported IFRS 16	Effect of IFRS 16	Adjusted IAS 17	As reported IAS 17	Adjusted IAS 17 excl special items[1]	Adjusted IAS 17 excl special items[1]
Projects	23,253	0	**23,253**	19,920	**23,253**	19,920
Services	5,995	0	**5,995**	5,096	**5,995**	5,096
Other and eliminations	15	135	**151**	216	**151**	160
Revenue	**29,263**	**135**	**29,399**	**25,232**	**29,399**	**25,176**
Projects	1,736	-459	**1,277**	1,354	**1,383**	1,371
Services	721	-200	**521**	678	**625**	692
Other	-213	-296	**-509**	-222	**-261**	-251
EBITDA	**2,244**	**-956**	**1,288**	**1,810**	**1,747**	**1,812**
Projects	7.5%		**5.5%**	6.8%	**5.9%**	6.9%
Services	12.0%		**8.7%**	13.3%	**10.4%**	13.6%
EBITDA margin	**7.7%**		**4.4%**	**7.2%**	**5.9%**	**7.2%**
Projects	837	-106	**731**	843	**864**	874
Services	399	-48	**351**	511	**469**	528
Other and eliminations	-531	-80	**-611**	-305	**-356**	-329
EBIT	**705**	**-234**	**471**	**1,049**	**977**	**1,074**
Projects	3.6%		**3.1%**	4.2%	**3.7%**	4.4%
Services	6.7%		**5.9%**	10.0%	**7.8%**	10.4%
EBIT margin	**2.4%**		**1.6%**	**4.2%**	**3.3%**	**4.3%**
Income before tax	**170**	**-39**	**131**	**792**	**744**	**816**
Net income	**83**	**-26**	**57**	**554**	**536**	**589**

1) See alternative performance measures for overview of special items.

See note 6 for more information about operating expenses for land and buildings
See note 12 for more information about impairment testing right-of-use assets as part of a CGU
See note 20 for more information about onerous lease provisions
See note 29 for more information about leasing contracts with related parties

Note 19 Pension Obligations

Aker Solutions operates several pension plans around the world. The most common type of plan is the defined contribution plan, where Aker Solutions makes contributions to the employee's individual pension account. Aker Solutions also has a closed defined benefit plan where the impact is gradually reduced.

Financial Reporting Principles

Defined Contribution Plans

A defined contribution plan is a type of retirement plan where the employer makes contributions on a regular basis to the employees individual pension account. The benefits received by the employee are based on the employer contributions and gains or losses from investing the capital. Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Defined Benefit Plans

A defined benefit plan is a type of pension plan where the employer promises an annual pension on retirement based on a percentage of the salary upon retirement and the employee's earnings history, years of service and age. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

The defined benefit obligation is calculated separately for each plan by discounting the estimated amount of future benefit that employees have earned in the current and prior periods and deducting the fair value of any plan assets. The change of the defined benefit obligation as a result of the change of assumptions (actuarial gains and losses) and the return on plan assets are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in the income statement. When the benefits of a plan are changed, settled or when a plan is curtailed, the change relating to past service or the gain or loss on curtailment or settlement is recognized immediately in the income statement.

Judgments and Estimates

The present value of the pension obligations depends on a number of factors determined on the basis of actuarial assumptions. These assumptions include financial factors such as the discount rate, expected salary growth, inflation and return on assets as well as demographical factors concerning mortality, employee turnover, disability and early retirement. Assumptions about all these factors are based on the situation at the time the assessment is made. However, it is reasonably certain that such factors will change over long periods for which pension calculations are made. Any changes in these assumptions will affect the calculated pension obligations with immediate recognition in other comprehensive income.

Pension Plans in Norway

The main pension arrangement in Norway is a general pension plan organized by the Norwegian state providing a basic pension entitlement to all tax payers. The additional pension plans which all Norwegian employers are obliged to provide according to current legislation, represent limited additional pension entitlements. The following pension plans exist in Norway:

Defined Contribution Plans

All employees in Norway are offered participation in a defined contribution plan. The annual contributions expensed for the Norwegian plans in 2019 were NOK 226 million, compared to NOK 207 million in 2018. The estimated contribution expected to be paid in 2020 is NOK 228 million.

Note 19 continues on next page

Note 19 Pension Obligations cont.

Defined Benefit Plans

The defined benefit plans at the Norwegian companies in Aker Solutions are split between funded and unfunded plans. The Norwegian companies at Aker Solutions closed the defined benefit plans in 2008. Employees who were 58 years or older in 2008 are still members of the closed defined benefit plan. This is a funded plan and represents the funded pension liability reported in the tables below. Aker Solutions also has various unfunded early retirement plans and executive pension plans that are partially closed for new members. The estimated contribution expected to be paid during 2020 is NOK 69 million. The liability is calculated using a projected unit credit method.

Compensation Plans

All employees in 2008 who had a calculated loss of more than NOK 1,000 per year upon transition to the defined contribution plan were offered compensation. The compensation amount will be adjusted annually in accordance with the adjustment of the employees' pensionable income, and accrued interest according to market interest. If the employee leaves the company voluntarily before the age of 67 years, the accrued compensation amount will be paid out. The compensation plan is an unfunded plan, and is included in the unfunded pension liability reported in the tables below. The liability is calculated using a earned balance method.

Tariff Based Pension Agreement (AFP)

Employees in Norway have a tariff based lifelong retirement arrangement (AFP) organized by the main labor unions and the Norwegian state. The pension can be withdrawn from the age of 62. The information required to estimate the pension obligation from this defined benefit plan is not available from the plan administrator. Aker Solutions therefore currently accounts for the plan as if it was a defined contribution plan. The company will account for it as a defined benefit plan if information becomes available from the plan administrator.

Pension Plans Outside Norway

Pension plans outside Norway are mainly defined contribution plans. The annual contributions expensed for plans outside Norway in 2019 were NOK 184 million, compared to NOK 161 million in 2018. The estimated contributions expected to be paid in 2020 is NOK 141 million to the plans outside Norway.

Total Pension Cost

Amounts in NOK million	2019	2018
Defined benefit plans	**94**	59
Defined contribution plans	**455**	434
Total	**549**	**493**

Note 19 continues on next page

Note 19 Pension Obligations cont.

Movement in Net Defined Benefit Liability

The table below shows the movement from the opening balance to the closing balance for the net defined benefit liability.

	Present value of obligation		**Fair value of plan assets**		**Impact of asset ceiling**		**Net defined benefit liability**	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Balance as of January 1	**1,644**	1,727	**-1,122**	-1,174	**50**	3	**572**	556
Current service and administration cost	**77**	44	**3**	3	**0**	0	**80**	47
Interest cost (income)	**44**	39	**-31**	-28	**1**	0	**14**	12
Included in income statement	**121**	**84**	**-28**	**-25**	**1**	**0**	**94**	**59**
Actuarial loss (gain) arising from financial assumptions	**58**	-35	**0**	0	**0**	0	**58**	-35
Return on plan assets	**0**	0	**29**	43	**0**	0	**29**	43
Changes in asset ceiling	**0**	0	**0**	0	**-47**	47	**-47**	47
Actuarial loss (gain) arising from experience adjustments	**68**	16	**0**	0	**0**	0	**68**	16
Remeasurements loss (gain) included in OCI	**126**	**-19**	**29**	**43**	**-47**	**47**	**109**	**71**
Contributions paid into the plan	**0**	0	**-79**	-76	**0**	0	**-79**	-76
Benefits paid by the plan	**-141**	-147	**109**	109	**0**	0	**-33**	-38
Other	**-141**	**-147**	**30**	**33**	**0**	**0**	**-112**	**-114**
Balance as of December 31	**1,750**	**1,644**	**-1,092**	**-1,122**	**4**	**50**	**663**	**572**

The net liability disclosed above relates to funded and unfunded plans as follows:

	Present value of obligation		**Fair value of plan assets**		**Impact of asset ceiling**		**Net defined benefit liability**	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net defined benefit liability funded plan	**1,087**	1,073	**-1,092**	-1,122	**4**	50	**0**	0
Net defined benefit liability unfunded plans	**663**	572	**0**	0	**0**	0	**663**	572
Balance as of December 31	**1,750**	**1,644**	**-1,092**	**-1,122**	**4**	**50**	**663**	**572**

Note 19 continues on next page

Note 19 Pension Obligations cont.

Assets in the Defined Benefit Plan

Amounts in NOK million	**2019**	**2018**
Bonds	**636**	812
Funds	**455**	310
Total plan assets at fair value	**1,092**	**1,122**

The majority of the bond investment is in Norwegian municipalities and is assumed to have a rating equal to AA, but there are few official ratings for these investments. The remaining bond investment is primarily in the Norwegian market within bonds assumed to be of “Investment Grade” quality. The majority of these investments do not, however, have an official rating. The fund investments consist of fixed income funds and equity funds with listed securities where the value is based on quoted prices. The equity securities are invested globally, and the value is based on quoted price at the reporting date without any deduction for estimated future selling cost.

Actuarial Assumptions

The information below relates only to Norwegian plans as these represent the majority of the plans. The following were the principal actuarial assumptions at the reporting date:

Amounts in NOK million	**2019**	**2018**
Discount rate	2.20%	2.80%
Asset return	2.20%	2.80%
Salary progression	2.25%	2.75%
Pension indexation funded plans[1]	0.00%	0.00%
Mortality table	K2013	K2013
Remaining life expectancy at age 65 for pensioners, males	22.4	22.3
Remaining life expectancy at age 65 for pensioners, females	25.7	25.6

1) Pension indexation for unfunded plans is agreed individually (0-4 percent).

The discount rate is based on government bonds or high-quality corporate bonds with maturities consistent with the terms of the obligations. The assumptions used are in line with recommendations from the Norwegian Accounting Standards Board.

Sensitivity Analysis

Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have changed the defined benefit obligation as of December 31 by the amounts shown below.

Amounts in NOK million	**2019**	**2018**
Discount rate increase by 1 percent	-95	-143
Discount rate decrease by 1 percent	123	175
Expected rate of salary increase by 1 percent	1	1
Expected rate of salary decrease by 1 percent	-1	-1
Expected rate of pension increase by 1 percent	117	139
Expected rate of pension decrease by 1 percent	-6	-117

At Aker Solutions, a one percent increase of discount rate decreases the benefit obligation by only 8 percent. This is because the benefit obligation in Aker Solutions consists mainly of pensioners and employees over 60 years of age, hence limiting the discounting effect.

See note 5 for more information about personnel expenses
See note 30 for more information about pension arrangements for the management

Note 20 Provisions and Contingent Liabilities

Financial Reporting Principles

A provision is a liability with uncertain timing and amount. Provisions are recognized when cash outflow is considered probable, the amount can be reliably estimated and the obligation is a result of a past event. All provisions are presented as short-term as they are part of the operating cycle.

A contingent liability is a possible obligation that arises from past events that typically depends on a future event outside of the company's control, for example a court decision. A provision is made when it is considered as probable that cash outflow will take place, and the obligation can be measured reliably.

Judgments and Estimates

The provisions are estimated based on a number of assumptions and are highly judgmental in nature. The various provisions with assumptions and estimation uncertainties are discussed below.

Provisions

Amounts in NOK million	Warranties	Onerous contracts	Restructuring	Other	Total
Balance as of January 1, 2019	551	237	5	113	**906**
Effect of implementing IFRS 16	0	-119	0	0	**-119**
Restated balance as of January 1, 2019	**551**	**118**	**5**	**113**	**787**
Provisions made during the year	49	145	10	27	**231**
Provisions used during the year	-90	-68	-5	-4	**-167**
Provisions reversed during the year	-341	-3	-2	-8	**-353**
Reclassifications	8	3	0	5	**15**
Currency translation differences	5	0	0	2	**8**
Balance as of December 31, 2019	**182**	**196**	**8**	**135**	**521**
Expected timing of payment as of December 31, 2019					
Due within twelve months	94	196	8	28	**326**
Due after twelve months	88	0	0	107	**195**
Total	**182**	**196**	**8**	**135**	**521**

Warranties

The provision for warranties relates to expected re-work for products and services delivered to customers. The warranty period is normally two to five years. The provision is based on the historical average warranty expense for each type of equipment and an assessment of the value of delivered products and services currently in the warranty period. The provision can also be a higher or lower amount following a specific evaluation of the actual circumstances for each contract. The final warranty cost may differ from the estimated warranty provision.

In 2019, the company updated and refined its estimate of the warranty provision. The previous calculation relied on a combination of actual cost, estimated cost for open claims and management judgements. The current estimate is based on historical actual cost in addition to specific provisions for warranty cases where there is no historical data. The current method is less complex, involves less management judgment and is meant to provide better accuracy of the provision. The updated estimate of the warranty provision resulted in a reduction of the provision. The effect has impacted the Projects operating segment.

Onerous Contracts

The provision includes onerous customer contracts with expected losses upon completion.

In 2018, the provision also included onerous lease contracts for estimated losses on separable parts of leased office buildings vacated by Aker Solutions. Upon implementing IFRS 16 on January 1, 2019 the onerous lease provision was reclassified as an impairment of the right-of-use asset.

Note 20 continues on next page

Note 20 Provisions and Contingent Liabilities cont.

Restructuring Provision

The restructuring provision relates to expected employee costs for permanent and temporary redundancies. The provision has been estimated based on assumptions of number of employees affected, salary levels, notice period, idle time assumed during notice period and severance pay. The provision is sensitive for changes in any of these assumptions.

Other

Other provisions relate to other liabilities with uncertain timing or amount. This includes provisions for claims, leasehold dilapidations and certain employee benefits.

Contingent Liabilities

Disputes with customers are normally settled during the final negotiations with the customer upon delivery and provided for in the projects accounts. However, given the scope of the group's worldwide construction and service operations there is a risk that legal claims may arise in the future for deliveries where revenue has been recognized in the past. Legal and tax claims are assessed on a regular basis.

Tax Claim in Brazil

The tax authorities in the state of Parana in Brazil claimed in 2015 Aker Solutions Brazil stating that the conditions for the export exemption from ICMS are not fulfilled. ICMS is a value added tax on sales and services related to the movement of goods. The claim amount including penalties and interest was approximately BRL 265 million (NOK 580 million) as of December 31, 2019 compared to BRL 312 million (NOK 699 million) in the prior year. The reduction in 2019 relate to a favorable decision in the administrative tax court for parts of the claim due to statute of limitations. Management has the opinion that a successful outcome in the administrative appeal system or in a judicial process is likely based on current law and practice. The claim is regarded as a contingent liability since the possible outcome will be confirmed by the occurrence of an uncertain future event (a potential court decision). No provision has been made for this contingent liability since a cash outflow is not considered probable.

See note 3 for more information about customer contracts
See note 5 for more information about restructuring costs
See note 18 for more information about leasing

Note 21 Trade and Other Payables

Financial Reporting Principles

Trade and other payables are recognized at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used. Aker Solutions has established factoring arrangements where payments are received from financial institutions prior to issuance of the customer invoice, so-called "sale of unbilled receivables". The payments from financial institutions are based on the progress of the customer contract. Some creditors have entered into factoring agreements for the sale of their receivables to Aker Solutions, so-called "reverse factoring". The amounts related to "reverse factoring" and "sale of unbilled receivables" are included in trade and other payables in the balance sheet as they relate to operational activities. The amounts are also disclosed individually below.

Trade and Other Payables

Amounts in NOK million	2019	2018
Trade creditors	1,966	1,605
Trade creditors, related parties	34	75
Trade payables	**2,000**	**1,680**
Accrued operating costs	4,398	4,539
Public duties and taxes	761	729
Other current liabilities	862	793
Other payables	**6,021**	**6,062**
Total	**8,021**	**7,741**

Trade creditors include an amount of NOK 217 million as of December 31, 2019 (NOK 238 million in 2018) subject to reverse factoring. Other payables include NOK 44 million of paymentes received from sale of unbilled receivables as of December 31, 2019 (zero in 2018). Trade creditors include NOK 10 million (NOK 7 million in 2018) due after one year.

See note 3 for more information about customer contract liabilities
See note 29 for more information about receivables to related parties

Note 22 Financial Risk Management and Exposures

The objective of financial risk management is to manage and control financial risk exposures to increase the predictability of earnings and minimize potential adverse effects on the company's financial performance. Aker Solutions uses derivatives to hedge currency risk exposures and aims to apply hedge accounting whenever possible in order to reduce the volatility resulting from the periodic market-to-market revaluation of financial instruments in the income statement. The company is also exposed to interest rate risk, credit risk, liquidity risk and price risk.

Risk Management

Risk management of financial risks is performed in every project and is the responsibility of the project manager. They cooperate with local finance managers and corporate treasury to identify, evaluate and hedge financial risks under policies approved by the Board of Directors. The company has well-established procedures for overall risk management, as well as policies for the use of derivatives and financial investments.

Currency Risk

Aker Solutions has international operations and is exposed to currency risk on commercial transactions, assets and liabilities when payments and revenues are denominated in a currency other than the functional currency of the respective entity. The company's exposure to currency risk is primarily related to USD, EUR, GBP, BRL and AOA (Angolan Kwanza). The company's primary translation risk is related to USD, EUR, GBP and BRL.

Use of Currency Derivatives

The Aker Solutions' policy requires that all entities mitigate currency exposure in all contracts. Aker Solutions manages the currency risk in the tender period by including currency clauses in the tender, by entering into currency options or by adding a contingency in the tender price to cover for potential currency fluctuations. Each entity identify and hedge their exposure with the corporate treasury department and the corporate treasury department manages the overall currency exposures by entering into currency derivative instruments in the foreign exchange market. The Aker Solutions group has a large number of contracts involving foreign currency exposures and the currency risk policy has been well established.

Each business unit designates all foreign currency hedge contracts with corporate treasury as cashflow hedges or as hedges of separate embedded derivatives. Corporate treasury enters into external foreign exchange contracts separately for revenue and cost exposure. More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separate embedded derivatives. Corporate treasury monitors hedges not qualifying for hedge accounting and disqualification effects are reported in the "other" segment. Currency exposure from investments in foreign currencies is only hedged when specifically instructed by management.

Hyperinflationary and non-convertible currencies

Aker Solutions operates in some jurisdictions where regulations and requirements may limit the convertibility of local currency and restrict free flow of cash. Although mitigating actions have been taken in order to minimize the currency exposure, Aker Solutions experienced significant exposure to currency devaluation in Angola in 2019. The exposure originated from legal requirements in Angola to convert all payments from clients to local currency and high invoicing activity at the same time as the Angolan Kwanza (AOA) devalued more than 30 percent. Aker Solutions could be exposed to similar exposure in the unlikely event that other countries where the company has operations impose similar restrictions.

Conversions to AOA are done on the official AOA month end central bank exchange rate for the month prior to invoicing. Instruments to hedge currency exposure in Angolan Kwanza are generally not available in the foreign exchange market, hence trade receivables and cash in AOA bank accounts are exposed to currency fluctuations. Mitigating actions in Angola include multilateral agreements with banks, customers and vendors on timing of payments to minimize the exposed cash balance and USD linked bank deposits. Aker Solutions will always strive to minimize cash balances and maximize cash available for treasury.

Total cash in local bank accounts in Angola amounted to NOK 444 million as of December 31, 2019 compared to NOK 270 million in the prior year. NOK 200 million of the bank deposits was placed on USD linked bank deposit and USD and EUR bank accounts, hence not exposed to AOA devaluation. Further, NOK 152 million of the bank deposits was covered through tri-party agreements with banks and customers reducing the exposure for short term currency fluctuations.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Exposure to Currency Risk

Corporate treasury is allowed to hold positions within an approved trading mandate. The net exposure as of December 31 is shown in the following table. A bank deposit in a currency different than the functional currency of the entity represent an exposure for the group. A negative amount on bank deposits represent an overdraft for entities. Estimated forecasted cashflows in the table are calculated based on the entity's hedge transactions through corporate treasury, as these are considered to be the best estimate of future revenue and cost in foreign currencies. The net exposure is closely monitored by corporate treasury and reported on a daily basis to management.

	2019				2018		
Amounts in million	**USD**	**EUR**	**GBP**	**AOA**	**USD**	**EUR**	**GBP**
Bank deposits	-22	-8	-81	13,049	-45	-13	-59
Intercompany deposits (+) and loan (-)	29	-123	-1	0	-17	-119	5
Balance sheet exposure	**7**	**-131**	**-82**	**13,049**	**-62**	**-132**	**-54**
Forecasted receipts from customers	251	48	105	10,530	461	98	167
Forecasted payments to vendors	-90	-75	-126	-293	-149	-158	-209
Cashflow exposure	**161**	**-27**	**-21**	**8,902**	**312**	**-60**	**-42**
Forward exchange contracts	-168	155	103	0	-249	187	96
Tri-party agreements	0	0	0	-8,308	0	0	0
Net exposure in currency	**0**	**-4**	**0**	**13,643**	**1**	**-5**	**0**
Net exposure in NOK	**1**	**-37**	**0**	**275**	**11**	**-46**	**1**

The euro currency exposure of negative NOK 37 million represents a future liability and was within the trading mandate as of December 31, 2019 and 2018. The currency exposure of NOK 275 million in Angolan Kwanza represent the amount that has not been possible to hedge. Angolan Kwanza and other non-convertible currencies are not included in the trading mandate.

Sensitivity Analysis - Fair Value of Financial Instruments

The impact on income and equity from a 15 percent strengthening of EUR, USD, GBP and AOA against other currencies is shown below. A 15 percent weakening would have had the equal, but opposite effect. This sensitivity analysis shows the impact on financial instruments denominated in a foreign currency per December 31 and assumes that all other variables, in particular interest rates, remain constant. The analysis does not include the effect on future transactions (not invoiced as of December 31) or any effect from translation of subsidiaries.

	2019		2018	
Amounts in NOK million	**Income (loss) before tax**	**Equity increase (decrease)**	**Income (loss) before tax**	**Equity increase (decrease)**
USD - 15 percent strengthening	**-82**	**-115**	-68	-149
EUR - 15 percent strengthening	**46**	**71**	-87	13
GBP - 15 percent strengthening	**52**	**89**	88	217
AOA - 15 percent strengthening	**40**	**40**	n/a	n/a

The competitiveness of Aker Solutions is influenced by currency exchange rate fluctuations, choices of locations, suppliers and other strategic decisions. Such effects are not systematically hedged and are not included in the sensitivity analysis.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Sensitivity Analysis - Currency Translation of Subsidiaries

A change in foreign currency rates will also impact the income and balance sheet when translating the Aker Solutions companies into the presentation currency which is NOK. The effect of change in the various currencies will impact the company accounts in the following manner:

	2019			
Amounts in NOK million	**Revenue increase (decrease)**	**EBIT increase (decrease)**	**Profit (loss) before tax**	**Equity increase (decrease)**
USD - 15 percent strengthening	607	18	-25	220
EUR - 15 percent strengthening	0	1	0	251
GBP - 15 percent strengthening	541	49	40	449
BRL - 15 percent strengthening	310	7	-3	236

Interest Rate Risk

Borrowings issued at variable rates expose the company to cashflow interest rate risk. Borrowings issued at fixed rates do not affect profit and loss when held to maturity, as these borrowings are measured at amortized cost.

The company's interest exposure mainly arises from external funding in bank and debt capital markets. Currently all external debt in Aker Solutions is at floating interest rates. The company's risk management strategy is that 30-50 percent of the interest exposure shall be fixed interest rate for the duration of the debt. The company uses interest rate swaps to achieve the desired fixed/floating ratio of the external debt.

As the company has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates. At year-end, 50 percent of NOK 2,500 million in bonds was fixed for the duration of the bonds through interest rate swaps.

An increase of 100 basis points in interest rates during 2019 would have increased (decreased) equity and profit and loss by the amounts shown on the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Interest Rates Sensitivity

	2019		2018	
Amounts in NOK million	**Income (loss) before tax**	**Equity increase (decrease)[1]**	**Income (loss) before tax**	**Equity increase (decrease)[1]**
Interest on cash and cash equivalents	**18**	**0**	25	0
Interest on borrowings	**13**	**40**	12	37
Effect of interest rate swap	**-33**	**0**	-30	0
Cashflow sensitivity (net)	**-3**	**40**	**6**	**37**

1) Not including tax effect on hedge reserve or effects to equity that follow directly from the effects to profit and loss.

A decrease of 100 basis points in interest rates during 2019 would have had the equal but opposite effect on the amounts, on the basis that all other variables remain constant.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Credit Risk

Credit risk is the risk of financial losses if a customer or counterparty to financial receivables and financial instruments fails to meet contractual obligations.

Investment Instruments and Derivatives

Investment instruments, loans, credit facilities and derivatives are only conducted with approved counterparties and governed by standard agreements (ISDA, Nordic Trustee and LMA documentation). All approved banks are participants in the Aker Solutions loan syndicate and have investment grade ratings. Credit risk related to investment securities and derivatives is therefore considered to be insignificant.

Trade Receivables and Contract Assets

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 using credit assessment tools available (e.g. Dun & Bradstreet). Revenues are mainly related to large and long-term projects closely followed up in terms of payments up front and in accordance with agreed milestones. Normally, lack of payment is due to disagreements related to project deliveries and is solved together with the customer.

Aker Solutions's major customers are highly rated oil companies where the credit risk is considered to be limited. Risk related to lower rated companies is monitored closely. The maximum exposure to credit risk at the reporting date equals the book value of each category of financial assets. The company does not hold collateral as security.

Measurement of Expected Credit Losses (ECLs)

Impairment is assessed using the expected credit loss (ECL) method for financial assets. The company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligation to the company in full. ECLs are estimated probability-weighted net present value of future expected credit losses. ECLs are discounted at the effective interest rate of the financial asset. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime ECLs. Twelve month ECLs are used for interest-bearing receivables and bank balances for which credit risk has not increased significantly since initial recognition.

At each reporting date, the company assesses whether any financial assets are credit-impaired. Evidence that a financial asset is credit-impaired includes when invoices are more than 90 days past due without agreed postponement, knowledge of significant financial difficulty of the customer or debtor or other forward-looking information. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off.

Liquidity Risk

Liquidity risk is the risk that the company is unable to meet the obligations associated with its financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity reserves to meet its liabilities when due.

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 weekly and monthly forecasts of the company’s liquidity reserve on the basis of expected cashflow. Due to the dynamic nature of the underlying businesses, corporate treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Financial Liabilities and the Period in Which They Mature

2019

Amounts in NOK million	**Book value**	**Total cashflow[1]**	**6 months and less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Borrowings	3,497	**4,037**	173	186	345	3,332	0
Net derivative financial instruments	34	**34**	32	-4	0	5	0
Trade and other payables	8,021	**8,021**	7,995	17	2	6	1
Total liabilities	**11,553**	**12,092**	**8,200**	**199**	**348**	**3,344**	**1**
Financial guarantees		**13,859**	896	1,412	1,342	2,657	7,553

2018

Amounts in NOK million	**Book value**	**Total cashflow[1]**	**6 months and less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Borrowings	2,913	**3,304**	124	1,128	241	1,810	0
Net derivative financial instruments	46	**46**	55	4	-13	0	0
Trade and other payables	7,741	**7,741**	7,490	244	0	7	0
Total liabilities	**10,700**	**11,091**	**7,669**	**1,377**	**229**	**1,817**	**0**
Financial guarantees		**14,133**	2,870	383	321	2,446	8,113

1) Nominal currency value including interest.

Cash Pool Arrangements

The company policy for the purpose of optimizing availability and flexibility of cash within the company is to operate centrally managed cash pooling arrangements. Such arrangements are either organized with a bank as a service provider, or as a part of the operation of corporate treasury. An important condition for the participants (business units) in such cash pooling arrangements is that Aker Solutions as an owner of such pools is financially viable and is able to prove its capability to service its obligations concerning repayment of any net deposits made by business units. The company policy is not applied in countries where local laws prohibit international cash pool arrangements, such as Brazil, Angola and India.

Price Risk

The company is exposed to fluctuations in market prices both in the investment portfolio and in the operating businesses related to individual contracts. The units are exposed to changes in market price for raw materials, equipment and development in wages. This is managed in the bid process by locking in committed prices from key vendors as basis for offers to customers or through escalation clauses with customers.

Guarantees

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

- Non-financial parent company guarantees related to project performance on behalf of group companies.
- Financial parent company indemnity guarantees for fulfillment of lease obligations, credits and loans were NOK 9.0 billion (NOK 7.9 billion in 2018).
- Financial guarantees including counter guarantees for bank/surety bonds and guarantees for pension obligations to employees were NOK 4.9 billion (NOK 6.2 billion in 2018).

Guarantee on Behalf of Akastor

Aker Solutions was demerged from Akastor in 2014, and parties in a demerger have joint liability according to Norwegian law. If an obligation that arose prior to the completion of the demerger is not met by either party, the other party will have secondary joint liability for such obligation. This statutory liability is unlimited in time, but is limited in amount. The remaining value of the financial guarantees where Aker Solutions has a secondary joint liability was NOK 3.1 billion per December 31, 2019 compared to NOK 3.6 billion per December 31, 2018.

See note 14 for more information about trade and other receivables
See note 15 for more information about cash and available credit facility
See note 17 for more information about borrowings
See note 18 for more information about lease liabilities
See note 21 for more information about trade and other payables
See note 24 for more information about derivatives
See note 25 for more information about financial assets and liabilities

Note 23 Capital Management

The objective of Aker Solutions' capital management policy is to optimize the capital structure to ensure sufficient and timely funding over time to finance its activities at the lowest cost, in addition to investing in projects and businesses which will increase the company's return on capital employed over time.

Investment Policy

Aker Solutions' capital management is based on a rigorous investment selection process which considers not only Aker Solutions' weighted average cost of capital and strategic orientation, but also external factors such as market expectations and extrinsic risk factors. This selection process is coupled with a centralized approval process for all capital expenditures to be incurred by the group.

Funding Policy

Liquidity Planning

Aker Solutions has a strong focus on its liquidity in order to meet its working capital needs short-term and to ensure solvency for its financial obligations long-term. The group's internal guideline is to have a minimum liquidity reserve of NOK 3 billion, including cash and undrawn committed credit facilities. As per December 31, 2019 this liquidity reserve amounted to NOK 6.3 billion and was composed of an undrawn committed credit facility and bank deposits.

Funding of Operations

Aker Solutions' funding policy states that all operating units will be funded through corporate treasury. This ensures optimal availability and transfer of cash within the group, better control of the group's overall debt as well as discounted funding for its operations. The group policy is not applied in countries where local laws prohibit international cash pool arrangements, such as Brazil, Angola and India.

Aker Solutions emphasizes financial flexibility and steers its capital structure accordingly to ensure a balance between liquidity risk and refinancing risk. In this perspective, loans and other external borrowings are to be renegotiated well in advance of their due date.

Aker Solutions aims to have diversified mix of funding sources in order to obtain an optimal cost of capital. These funding sources include:

- the use of banks based on syndicated credit facilities or bilateral agreements
- the issue of debt instruments in the Norwegian capital market
- the issue of debt instruments in foreign capital markets

Note 23 continues on next page

Note 23 Capital Management cont.

Debt Covenants

As per end of 2019, the capital structure of Aker Solutions was 29 percent (14 percent in 2018) from bank and export credit agency (ECA) debt and 71 percent (86 percent in 2018) from bonds issued in the Norwegian market. The group monitors capital on the basis of gearing and interest coverage ratios. The reported ratios are well within the requirements in the loan agreements as shown in the table below.

Aker Solutions has the following debt covenants for the revolving facility:

- The company's gearing ratio shall not exceed 3.5, calculated from the net debt to the adjusted EBITDA.
- The company's interest coverage ratio shall not be less than 3.5, calculated from the adjusted EBITDA to net finance cost.

Aker Solutions has the following debt covenants for the bonds ISIN NO 0010814213 (expire in 2022) and ISIN NO 0010853286 (expire in 2024):

- The company's gearing ratio shall not exceed 3.5, calculated from the net debt to the adjusted EBITDA.

These guidelines aim to maintain a strong financial position for Aker Solutions, which enables the company to comply with its covenants on existing debt and to maintain satisfactory external credit rating to ensure reliable access to capital over time.

Gearing and Interest Coverage Ratios at December 31

Amounts in NOK million	2019	2018
Gearing ratios		
Non-current interest-bearing borrowings	**3,280**	1,788
Current interest-bearing borrowings	**217**	1,125
Gross interest-bearing debt	**3,497**	**2,913**
Cash and cash equivalent	**-1,898**	-2,473
Net debt	**1,599**	**440**
EBITDA excl. IFRS 16[1] (Operating income before depreciation, amortization and impairment)	**1,675**	1,810
Restructuring and other special items as defined in the loan agreement	**70**	39
Adjusted EBITDA	**1,745**	**1,850**
Gross interest-bearing debt/adjusted EBITDA	**2.0**	**1.6**
Net debt/adjusted EBITDA	**0.9**	**0.2**
Interest coverage		
Adjusted EBITDA excl. IFRS 16[1]	**1,745**	1,850
Net interest expense as defined in the loan agreement	**231**	198
Adjusted EBITDA/Net finance cost	**7.6**	**9.4**

1) Excluding IFRS 16 means that leasing cost is reported as part of operating cost and included in EBITDA.

See note 17 for more information about borrowings
See note 22 for more information about financial risk management
See note 24 for more information about interest rate derivatives
See note 25 for more information about financial assets and liabilities

Note 24 Derivative Financial Instruments

The company has future cashflows to be settled in foreign currencies, and forward contracts are the most commonly used derivative to hedge such exposures. The company's risk management policy states that all foreign exchange exposure shall be hedged, of which at least 80 percent shall qualify for hedge accounting or be hedges of separated embedded derivatives. The company also has interest rate exposure from its external funding. Interest rate swaps are used to achieve the risk management strategy of having 30-50 percent at fixed interest rates.

Financial Reporting Principles

Cashflow Hedges of Foreign Currency

Forward contracts are the most commonly used derivative to hedge foreign currency exposure. In addition currency options are sometimes used to hedge uncertain exposures. In case of changes in the expected maturity dates, currencies or amounts of the hedged items corresponding derivatives are routinely adjusted (pre-matured or rolled over), usually by means of currency swaps.

The hedged transactions in foreign currency subject to cashflow hedge accounting are highly probable future transactions expected to occur at various dates during the next one to four years, depending on progress in the projects and firm commitments. The derivatives are recognized initially and subsequently at fair value in the balance sheet, and the effective portion of changes in the fair value is recognized in other comprehensive income as a hedge reserve.

The company designates the full forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. The company's policy is for the critical terms, such as currency pair, amount and timing, of the forward exchange contracts to align with the hedged item.
The company determines the existence of an economic relationship between the hedging instrument and hedged item based on matching critical terms of their respective cash flows. In addition, the company assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting changes in cash flows of the hedged item by the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- any sequential change of timing of the hedged item;
- change in the total amount of the hedge item; and
- significant change in the counterparty's and the company's own credit risk

The company does not designate any net positions in a hedging relationship. Some hedged transactions are not accounted for by applying hedge accounting, primarily because internal hedged transactions are grouped and netted before external hedge transactions are established. Changes in the fair value of derivatives will be reported as financial income or expenses. Remaining derivatives not applying hedge accounting include derivatives used by corporate treasury to hedge the residual exposure of the company as part of its risk mandate. As of December 31, 2019, these hedging instruments include currency forwards, interest swaps and foreign exchange swaps.

Hedge accounting is discontinued with immediate recognition in finance income and expenses in the income statement when the hedge no longer qualifies for hedge accounting, for example upon sale, expiration, termination or when a forecasted transaction is no longer probable.
The derivative financial instruments are classified as current assets or liabilities as they are part of the operating cycle.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Foreign Currency as Embedded Derivatives

Embedded derivatives may exist in contracts with a currency other than the currency of the contracting partners. The embedded derivative will under certain circumstances be separated and recognized at fair value in the balance sheet and changes recognized in the income statement. These entries will result in corresponding and opposite effects compared to the hedging instrument. Aker Solutions 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 of the 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.

Cashflow Hedges of Interest Rates

The company’s interest exposure mainly arises from external funding in bank and debt capital markets. Most of the external debt in Aker Solutions is at floating interest rates. The company’s risk management strategy is that 30-50 percent of the interest exposure shall be fixed interest rate for the duration of the debt. The company uses interest rate swaps to achieve the desired fixed/floating ratio of the external debt.

Hedge accounting is applied using the cashflow model for interest rate swaps which means that gains and losses from floating to fixed interest rates are recognized in the hedging reserve in equity and will be continuously released to the income statement until the bank borrowings are repaid. This is done based on the periodic market-to-market revaluation of the interest rate swaps whose fair value tends to reach zero upon maturity.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Fair Values and Maturity

The following table presents the fair value of the derivatives and a maturity analysis of the derivatives undiscounted cashflows. Given Aker Solutions hedging policy and the assumption that projects are cash neutral, this table also indicates when the cashflows related to project expenses are expected to impact profit and loss. Project revenues are recognized over time according to the progress of the project. This may result in differences between cashflow and revenue recognition.

2019

	2019					2018				
Amounts in NOK million	Instruments at fair value[1]	6 months or less	6-12 months	1-2 years	2-5 years	Instruments at fair value[1]	6 months or less	6-12 months	1-2 years	2-5 years
Assets										
Cashflow hedging instruments	91	73	10	8	0	132	80	36	13	2
Fair value adjustments to hedged instruments[2]	-46	-37	-4	-5	0	-30	-22	-4	-3	-1
Embedded derivatives in ordinary commercial contracts	31	15	5	11	0	58	39	9	7	3
Financial instruments not hedge accounted	74	72	1	1	0	58	51	4	2	2
Total forward foreign exchange contracts	**150**	**123**	**12**	**15**	**0**	**218**	**148**	**45**	**18**	**6**
Cashflow hedges interest rate assets	5	0	0	0	5	0	0	0	0	0
Total financial instrument assets	**156**	**123**	**13**	**15**	**5**	**218**	**148**	**45**	**18**	**6**
Liabilities										
Cashflow hedging instruments	-85	-59	-22	-4	0	-234	-177	-30	-26	-1
Fair value adjustments to hedged instruments	54	42	11	2	0	123	116	4	3	0
Embedded derivatives in ordinary commercial contracts	-12	-10	-1	-1	0	-8	-3	-1	-2	-2
Financial instruments not hedge accounted	-79	-63	-5	-11	0	-44	-29	-6	-7	-3
Total forward foreign exchange contracts	**-121**	**-91**	**-17**	**-15**	**0**	**-163**	**-93**	**-33**	**-32**	**-6**
Cashflow hedges interest rate instruments	0	0	0	0	0	-9	0	-8	0	-1
Total financial instrument liabilities	**-121**	**-91**	**-17**	**-15**	**0**	**-172**	**-93**	**-41**	**-32**	**-7**
Net financial instruments	**34**	**32**	**-4**	**0**	**5**	**46**	**55**	**4**	**-13**	**0**

1) Cashflows from matured derivatives are translated to NOK using the exchange rates on the balance sheet date.
2) Fair value of settled derivatives not yet booked in the income statement are recognized in balance sheet and will be reclassified to the income statement over the next years as the projects progress.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Unsettled Hedges

The table below shows the unsettled cashflow hedges' impact on profit and loss and equity (not adjusted for tax).

	2019			2018		
Amounts in NOK million	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**
Forward exchange contracts (cashflow hedges)	6	-2	9	-102	-101	-1
Interest rate swaps	5	0	5	-9	0	-9
Total	**12**	**-2**	**14**	**-112**	**-101**	**-10**

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 expenses on the underlying customer contracts are recognized in the income statement in accordance with progress. Consequently, negative NOK 2 million (NOK 101 million in 2018) of the value of the forward contracts have already impacted the income statement indirectly as revenues and expenses are recognized based on updated forecasts and progress. The NOK 9 million (negative NOK 1 million in 2018) that are currently recorded directly in the hedging reserve, will be reclassified to the income statement over the next years.

The value of the interest swaps is attributable to changes in the interest swap curve for Norwegian Kroner during the period from inception of the hedge to the balance sheet date, excluding accrued interest rates of the swaps, tax and deferred settlements related to matured instruments.

Hedge Reserve Movement

The table below shows the movement in the hedge reserve from changes in the cashflow hedges.

Amounts in NOK million	**Hedge reserve**
Balance as of January 1, 2019	-8
Forward currency contracts	118
Interest rate swaps	5
Total changes in fair value	**124**
Forward currency contracts	-95
Interest rate swaps	-3
Total amount reclassified to profit or loss	**-98**
Tax on movements on reserves during the year	-7
Balance as of December 31, 2019	**11**

Interest Rate Swaps

Aker Solutions currently has two outstanding bonds. For the bond of NOK 1,500 at floating interest rates maturing July 25, 2022, NOK 750 million has been swapped to fixed interest rate. For the bond of NOK 1,000 million at floating interest rates maturing June 3, 2024, NOK 500 million has been swapped to fixed interest rate. Floating interest rates are tied to inter-bank offered rates (NIBOR for NOK).

See note 17 for more information about borrowings
See note 25 for more information about financial assets and liabilities

Note 25 Financial Assets and Liabilities

Financial assets and liabilities in the group consist of investments in other companies, trade and other receivables, cash and cash equivalents, forward foreign exchange contracts, trade and other payables, borrowings and equity.

The Fair Value Hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

For financial instruments measured at fair value, the levels in the fair value hierarchy are:

- Level 1: Fair values are based on prices quoted in an active market for identical assets or liabilities.
- Level 2: Fair values are based on price input other than quoted prices. Such prices are derived from observable market transactions in an active market for identical assets or liabilities. Level 2 includes currency or interest derivatives and interest bonds, typically when the group uses forward prices on foreign exchange rates or interest rates as inputs to valuation models.
- Level 3: Fair values are based on unobservable input, mainly based on internal assumptions used in the absence of quoted prices from an active market or other observable price inputs.

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2019

	Carrying value							Fair value			
Amounts in NOK million	**Fair value - hedging instruments**	**Financial assets at FVTPL[1]**	**Amortized cost**	**Equity investments at FVOCI[1]**	**Financial liabilities at FVTPL[1]**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other investments[2]	0	0	0	93	0	0	**93**	0	0	93	**93**
Non-current receivables	0	0	122	0	0	0	**122**	0	0	0	**0**
Trade and other receivables	0	0	3,275	0	0	0	**3,275**	0	0	0	**0**
Forward foreign exchange contracts	151	0	0	0	0	0	**151**	0	151	0	**151**
Interest rate instruments	5	0	0	0	0	0	**5**	0	5	0	**5**
Current interest-bearing receivables	0	9	0	0	0	0	**9**	9	0	0	**9**
Cash and cash equivalents	0	0	1,898	0	0	0	**1,898**	0	0	0	**0**
Financial assets	**156**	**9**	**5,295**	**93**	**0**	**0**	**5,553**	**9**	**156**	**93**	**258**
Non-current borrowings[3]	0	0	0	0	0	-3,280	**-3,280**	-2,551	0	-784	**-3,334**
Current borrowings[3]	0	0	0	0	0	-217	**-217**	0	0	-217	**-217**
Trade and other payables[4]	0	0	0	0	0	-4,197	**-4,197**	0	0	0	**0**
Forward foreign exchange contracts	-121	0	0	0	0	0	**-121**	0	-121	0	**-121**
Financial liabilities	**-121**	**0**	**0**	**0**	**0**	**-7,694**	**-7,816**	**-2,551**	**-121**	**-1,001**	**-3,673**

1) FVTPL is short for fair value through profit and loss, FVOCI is short for fair value through other comprehensive income.
2) Investments in level 1 consist of listed shared with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Trade and other payables that are not financial liabilities at negative NOK 3,824 million in 2019 are not included.

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2018

	Carrying value							Fair value			
Amounts in NOK million	**Fair value - hedging instruments**	**Financial assets at FVTPL[1]**	**Amortized cost**	**Equity investments at FVOCI[1]**	**Financial liabilities at FVTPL[1]**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other investments[2]	0	0	0	79	0	0	**79**	0	0	79	**79**
Non-current receivables	0	0	84	0	0	0	**84**	0	0	0	**0**
Trade and other receivables	0	0	3,328	0	0	0	**3,328**	0	0	0	**0**
Forward foreign exchange contracts	218	0	0	0	0	0	**218**	0	218	0	**218**
Current interest-bearing receivables	0	25	21	0	0	0	**47**	25	0	0	**25**
Cash and cash equivalents	0	0	2,473	0	0	0	**2,473**	0	0	0	**0**
Financial assets	**218**	**25**	**5,906**	**79**	**0**	**0**	**6,228**	**25**	**218**	**79**	**322**
Non-current borrowings[3]	0	0	0	0	0	-1,788	**-1,788**	-1,515	0	-291	**-1,806**
Current borrowings[3]	0	0	0	0	0	-1,125	**-1,125**	-1,014	0	-114	**-1,128**
Deferred consideration[4]	0	0	0	0	-34	0	**-34**	0	0	-34	**-34**
Trade and other payables[5]	0	0	0	0	0	-3,913	**-3,913**	0	0	0	**0**
Forward foreign exchange contracts	-163	0	0	0	0	0	**-163**	0	-163	0	**-163**
Interest rate instruments	-9	0	0	0	0	0	**-9**	0	-9	0	**-9**
Financial liabilities	**-172**	**0**	**0**	**0**	**-34**	**-6,826**	**-7,032**	**-2,529**	**-172**	**-439**	**-3,139**

1) FVTPL is short for fair value through profit and loss, FVOCI is short for fair value through other comprehensive income.
2) Investments in level 1 consist of listed shared with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Fair value is based on net present value of estimated future profits of a subsidiary. There is no limit to the maximum potential payout.
5) Trade and other payables that are not financial liabilities at negative NOK 3,794 million in 2018 are not included.

See note 14 for more information about trade and other receivables
See note 17 for more information about borrowings
See note 21 for more information about trade and other payables
See note 22 for more information about financial risk management
See note 24 for more information about derivatives
See note 28 for more information about other investments

Note 26 Subsidiaries

Financial Reporting Principles

The consolidated statements include all entities controlled by Aker Solutions ASA. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. Non-controlling interests (NCIs) are measured on initial recognition at their portion of fair values, and yearly earnings are allocated to the NCI according to their ownership interest.

Subsidiaries

Aker Solutions has 54 subsidiaries in 25 countries at the reporting date. The group holds the majority of the shares in all subsidiaries except four, see description below. Subsidiaries fully owned or controlled by Aker Solutions as of December 31, 2019 are listed below. If not stated otherwise, ownership equals the percentage of voting shares.

Company	Location	Country	Percent
Aker Solutions Enterprises, LDA	Luanda	Angola	49
Aker Solutions Pty Ltd	Perth	Australia	100
Aker Solutions Azerbaijan LLC	Baku	Azerbaijan	100
Aker Solutions do Brasil Ltda	Curitiba	Brazil	100
C.S.E. Mecânica e Instrumentacâo Ltda	Curitiba	Brazil	100
Aker Solutions Sdn Bhd	Kuala Belait	Brunei	100
Aker Solutions Asset Integrity and Management Canada Inc.	Newfoundland	Canada	100
Aker Solutions Canada Inc	Vancouver	Canada	100
Aker Solutions (Shenzhen) Co. Ltd	Shenzhen	China	100
Aker Solutions Congo SA	Point-Noire	Congo	70
Aker Solutions Cyprus Limited	Limassol	Cyprus	100
Aker Solutions SAS	Paris	France	100
Aker Solutions Ghana Ltd	Adabraka	Ghana	90
Aker Powergas Pvt Ltd	Mumbai	India	95
Aker Powergas Subsea Pvt Ltd	Mumbai	India	95
Aker Engineering International Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Engineering Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	90
Aker Solutions APAC Sdn Bhd	Kuala Lumpur	Malaysia	48
Aker Solutions India Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Umbilical Asia Pacific Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions de Mexico	Mexico City	Mexico	100
Aker Solutions Mocambique Ltda	Maputo	Mozambique	100
Aker Solutions BV	Zoetemer	Netherlands	100
Aker Solutions Nigeria Ltd	Ikoyi-Lagos	Nigeria	100
Aker Installation FP AS	Fornebu	Norway	100
Aker Insurance Services AS	Fornebu	Norway	100
Aker Solutions AS	Fornebu	Norway	100
Aker Solutions Holding AS	Fornebu	Norway	100

Note 26 continues on next page

Note 26 Subsidiaries cont.

Company	Location	Country	Percent
Aker Solutions Middle East AS	Fornebu	Norway	100
Aker Solutions Russia AS	Fornebu	Norway	100
Benestad Solutions AS	Lierskogen	Norway	100
KBeDesign AS	Fornebu	Norway	100
Aker Solutions Gulf Services WLL	Doha	Qatar	49
Aker Process Gulf Co. Ltd	Al-Khobar	Saudi Arabia	100
Aker Solutions Saudi Arabia Co. Ltd.	Al-Khobar	Saudi Arabia	100
Aker Solutions Korea Co. Ltd	Geoje	South Korea	100
Aker Solutions Sweden AB	Gothenborg	Sweden	100
K Water AB	Örnsköldsvik	Sweden	100
Aker Solutions Tanzania Ltd	Dar es Salaam	Tanzania	100
Aker Engineering Malaysia Ltd	Leeds	UK	100
Aker Engineering and Technology Ltd	London	UK	100
Aker Offshore Partner Ltd	Aberdeen	UK	100
Aker Solutions Angola Ltd	Maidenhead	UK	100
Aker Solutions DC Trustees Ltd	London	UK	100
Aker Solutions EAME Limited	Aberdeen	UK	100
Aker Solutions Enterprises International (UK) Limited	London	UK	49
Aker Solutions Holding Limited	Aberdeen	UK	100
Aker Solutions IP Limited	Aberdeen	UK	100
Aker Solutions Ltd	Maidenhead	UK	100
Enovate Systems Limited	Aberdeen	UK	95
International Design Engineering and Services Ltd	Glasgow	UK	100
Aker Solutions Inc.	Houston	USA	100
Aker Solutions USA Corporation	Houston	USA	100

Subsidiaries where Aker Solutions does not have the Majority of Shares

Aker Solutions has less than 50 percent of the shares in four subsidiaries as shown in the table. Aker Solutions has control over relevant activities through shareholders agreements. The subsidiaries are fully consolidated and the non-controlling interest share of profit and equity is presented in the income statement and in the balance sheet.

See note 29 for more information about customer contracts organized as joint arrangements

Note 27 Equity-Accounted Investments

Financial Reporting Principles

Joint ventures are those entities where the company has joint control and rights to net assets. Associates are those entities where the company has significant influence, but not control or joint control (usually between twenty and fifty percent of the voting power). Interests in associates and joint ventures are accounted for using the equity method. The investments are initially recognized at cost (including transaction costs) and subsequently increased or decreased to recognize the share of the profit or loss. The profit or loss for the equity-accounted investees are presented as other income when the operations are closely linked to the current operations of Aker Solutions, otherwise they are presented as financial income.

Equity-accounted Investments

The company had five equity-accounted investments as of December 31, 2019. The book values included in other non-current assets were as follows:

Amounts in NOK million	2019	2018
Joint ventures	**15**	0
Associates	**130**	1
Total	**146**	**1**

Note 28 Other Investments

Financial Reporting Principles

Other investments are those entities in which the company does not have significant influence. This is usually entities were the company holds less than twenty percent of the voting power. Such investments are designated as equity securities at fair value through other comprehensive income (FVOCI) as they represent long-term strategic investments. When the investments are sold, the accumulated gain or loss in equity is not reclassified to the income statement.

Equity Securities

The company had invested NOK 93 million in unlisted shares at December 31, 2019 compared to NOK 79 million the year before. The shares are measured at cost less impairment. Cost is used when there is no quoted marked prices and there is no other information available to measure fair value.

See note 25 for more information about financial assets and liabilities

Note 29 Related Parties

Financial Reporting Principles

Related party relationships are defined to be entities outside the Aker Solutions group that are under control (either directly or indirectly), joint control or significant influence by the owners of Aker Solutions. Related parties are in a position to enter into transactions with the company that would potentially not be undertaken between unrelated parties. All transactions in the Aker Solutions group with related parties have been based on arm's length terms.

Related Parties of Aker Solutions

The largest shareholder of Aker Solutions is Aker Kværner Holding AS which is controlled by Aker ASA (70 percent). Aker ASA is controlled by The Resource Group TRG AS, a company controlled by Kjell Inge Røkke. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA. In this respect, all entities owned by Aker ASA and entities which Kjell Inge Røkke and his close family controls through The Resource Group TRG AS are considered related parties to Aker Solutions. These entities include companies like Akastor, Kvaerner and Aker BP and are referred to as Aker entities in this note. Non-controlling interests with significant influence are also considered as related parties.

Transactions and Balances with Related Parties

Amounts in NOK million	2019	2018
Income statement		
Operating revenues	**3,983**	3,360
Operating costs	**-386**	-315
Depreciation and impairment of ROU assets	**-217**	0
Net financial items	**-53**	0
Balance sheet		
Right-of-use (ROU) assets	**1,187**	0
Lease receivables, long term	**189**	0
Trade receivables	**286**	594
Non-current interest-bearing receivable	**98**	45
Lease receivables, short term	**61**	0
Non-current leasing liabilities	**-1,313**	0
Trade payables	**-34**	-75
Current interest-bearing loan	**-1**	-1
Current leasing liabilities	**-108**	0

Note 29 continues on next page

Note 29 Relate Parties cont.

The Major Related Parties Transactions

Aker Solutions has several transactions with related parties on a recurring basis as part of normal business and leases property from related parties. Below is a description of the significant related party transactions and balances in 2019.

Lease Agreements with The Resource Group TRG AS

Aker Solutions leases several of its industrial buildings in Norway including Tranby, Egersund and Ågotnes from companies owned by The Resource Group TRG AS, a company fully owned by Kjell Inge Røkke. Aker Solutions also leases office buildings from Fornebu Gateway AS, where TRG owns 40 percent of the shares. In 2019, Aker Solutions paid NOK 66 million in rent to the real estate companies owned by TRG and NOK 100 million in rent to Fornebu Gateway AS (NOK 65 million to the real estate companies owned by TRG and NOK 92 million in rent to Fornebu Gateway AS in 2018). Further, Aker Solutions has sub-lease income from other Aker companies of NOK 51 million (2018: NOK 35 million).

Commercial Contracts with Kvaerner and Aker BP

Aker Solutions both buys from and delivers services and products to Kvaerner through subcontractor agreements. Aker Solutions holds agreements for delivery of equipment and services to Aker BP for various oil fields offshore Norway.

Joint Arrangement with Kvaerner

Aker Solutions has entered into two joint arrangement with Kværner ASA for deliveries under customer contracts. One is a joint operation, as the parties are jointly and severally liable for the project performance in an arrangement without a legal structure. Aker Solutions presents its 50 percent share of revenue, cost, assets and liabilities in the financial statements. The other one is a joint venture structured in a limited company. The joint venture is accounted for using the equity method. The profit from the joint venture is not significant in 2019.

Other

Other agreements with related parties include:

- Aker Solutions contributed NOK 79 million in 2019 (NOK 76 million in 2018) to Aker Pensjonskasse, which is a fund established by Aker to manage the retirement plan for employees and retirees in Aker Solutions and other Aker companies. In addition, Aker Solutions is committed to fund up to NOK 60 million if required.
- Aker Solutions supported the group's union representative function with NOK 540,000 in 2019 (NOK 525,000 in 2018)

See note 14 for more information about customer contract assets and receivables
See note 18 for more information about leasing contracts
See note 21 for more information about trade and other payables
See note 22 for more information about guarantee commitments for Akastor
See note 26 for more information about subsidiaries
See note 27 for more information about joint arrangements and associates

Note 30 Management Remuneration

Remuneration to the Board of Directors

The current Board of Directors has been elected by the general meeting to serve for an appointment period of two years. The shareholder elected directors are serving for the period 2018-2020, while the employee elected directors are serving for the period 2019-2021. Fees to the Board of Directors are approved by the annual general meeting. The board held 10 meetings in 2019 with an average attendance rate of 90 percent. In addition, certain matters were processed by way of circulation of documents. The audit committee held 6 meetings in 2019. As of December 31, 2019 the audit committee comprised Birgit Aagaard-Svendsen (chairperson), Kristian Røkke and Atle Teigland.

The fees in the table below represent what is recognized as expenses in the income statement based on expected fees to be approved at the annual general meeting to be held in April 2020. The directors did not receive any other fees except for employee elected directors who have received salary as employees. No agreements exist which entitle the directors to any extraordinary compensation. As of December 31, 2019, two of the employee appointed directors have loans from the company related to purchase of Aker Solutions' shares under the 2019 employee share program: Hilde Karlsen has a loan of NOK 42,000 and Audun Bråthen has a loan of NOK 12,000.

		2019	2018	2019		2018	
Amounts in NOK		Number of shares owned[1]		Audit Committee fees	Board fees[2]	Audit Committee fees	Board fees[2]
Øyvind Eriksen[3]	Chairman	0	0	0	620,000	0	610,000
Koosum Kalyan		0	0	0	422,500	0	400,000
Birgit Aagaard-Svendsen		25,000	25,000	215,000	360,000	157,500	262,500
Henrik O. Madsen		0	0	0	360,000	0	262,500
Kristian Røkke[3]		0	0	125,000	360,000	90,000	262,500
Hilde Karlsen		10,925	5,363	0	180,000	0	175,000
Atle Teigland		8,751	8,751	125,000	180,000	120,000	175,000
Audun Bråthen[4]		3,973	na	0	135,000	na	na
Oddvar Hølland[5]		na	3,179	0	45,000	0	175,000
Kjell Inge Røkke [6,7]		na	0	na	na	0	87,500
Anne Drinkwater[6]		na	na	na	na	52,500	137,500
Total		**48,649**	**42,293**	**465,000**	**2,662,500**	**420,000**	**2,547,500**

1) The number of shares owned covers direct ownership of Aker Solutions ASA only and does not include Øyvind Eriksen's, Kjell Inge Røkke's and Kristian Røkke's indirect ownership.
2) Board fees include an allowance of NOK 12,500 per meeting per physical attendance for board members residing outside the Nordic countries.
3) The fee allocated to Øyvind Eriksen and Kristian Røkke will be paid to Aker ASA.
4) Audun Bråthen was elected by employees of Aker Solutions during spring of 2019. The fee is calculated for a proportionate part of the year.
5) Oddvar Hølland served as an employee elected director until spring 2019. The fee is calculated for a proportionate part of the year.
6) Board members served as directors until the general meeting held in 2018.
7) At the general meeting held in 2018, Kjell Inge Røkke was appointed deputy director.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Remuneration to the Executive Management Team

The main purpose of the executive remuneration program is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to executives consists of a fixed base salary, standard employee benefits and variable pay programs. The chief executive officer (CEO) and the executive management team participate in the standard pension and insurance schemes applicable to all employees. Pension benefits for the executives may also include other elements as outlined in footnote 3 of the table below.

Variable Pay Program

The variable pay program for the CEO is an annual program based on the annual performance of the Aker Solutions ASA's share price development above the combined average share price development of the Philadelphia Oil Service Sector Index (PHLX) and the Oslo Stock Exchange Benchmark Index (OSEBX). No payment is due to the CEO unless the Aker Solutions ASA share price development exceeds the development of these indexes. The maximum achievable payment is 66.7 percent of annual base salary.

The variable pay program for the other members of the executive management team is based on the achievement of company's financial results, achievement of the executive's individual performance objectives, behavior according to company values and conditions on continued employment. The variable pay is earned over a period of three years and can potentially be up to 80 percent of base salary. The program consists of two parts:

- The first part of the variable pay is earned during the first (current) year and is based on company's financial results and the executive's individual behavior and achievement of performance objectives. The maximum value of this part is 53.34 percent of base salary. The executive is paid 50 percent of this variable pay earning after the first year, and 50 percent is deferred until after the third year.
- The second part is conditional on the basis that the executive is still employed after three years, where the executive receives an additional 50 percent of the variable pay as earned in the first year (maximum 26.67 percent of base salary).

In addition, the executive management is from time to time granted a discretionary variable pay. There were no discretionary payments made in 2019 or 2018. The remuneration to the executive management team in 2019 was according to the guidelines of the company.

Share Based Program

Aker Solutions also has a share based program only offered to executives (excluding CEO) that started in their position before January 1, 2016. This program is based on the Aker Solutions ASA's share price development over a three-year period compared to the combined average development of the Philadelphia Oil Service Sector Index (PHLX) and the Oslo Stock Exchange Benchmark Index (OSEBX) for the same period. The maximum payment is 20 percent of annual base salary and is dependent on the executive still being employed at the date of payment. The company does not offer share option programs to executives or other employees.

Share Purchase Program for Management

Aker Solutions' share purchase program for the executive managers is based on the general program offered to all employees, but with a higher maximum amount (25 percent of base salary). Shares purchased under the management program were settled in cash by the participants.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Executive Management Remuneration 2019

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/ cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,727,614	0	388,379	**8,115,993**	102,262
Ole Martin Grimsrud	Chief Financial Officer	Aug. 1 - Dec. 31	1,143,333	213,449	15,171	**1,371,953**	59,339
Dean Watson[4]	Chief Operating Officer	Jan. 1 - Dec. 31	3,886,400	2,058,321	848,392	**6,793,113**	97,677
Mark Riding	Executive Vice President, Strategy	Jan. 1 - Jun. 30	1,688,956	1,264,461	0	**2,953,417**	192,653
Valborg Lundegaard	Executive Vice President, Customer Management	Jan. 1 - Dec. 31	2,628,565	1,275,473	34,648	**3,938,686**	263,461
Knut Nyborg	Executive Vice President, Front End	Jan. 1 - Dec. 31	2,399,600	1,172,788	22,648	**3,595,036**	223,220
Maria Peralta	Executive Vice President, Products	Jun 1 - Dec. 31	1,633,333	370,269	550,054	**2,553,656**	62,427
Egil Bøyum[5]	Executive Vice President, Greenfield Projects	Jan. 1 - Dec. 31	2,854,478	1,360,709	22,648	**4,237,834**	223,675
Linda Litlekalsøy Aase	Executive Vice President, Brownfield Projects	Jan. 1 - Dec. 31	2,283,077	550,510	22,648	**2,856,235**	168,340
Svein Stoknes	Chief Financial Officer	Jan. 1 - Jul. 31	1,951,507	1,814,197	1,048,256	**4,813,959**	102,555
Knut Sandvik	Executive Vice President, Greenfield Projects	Jan. 1 - Jun. 30	1,463,000	721,701	124,340	**2,309,041**	126,645
Total			**29,659,863**	**10,801,877**	**3,077,184**	**43,538,924**	**1,622,254**

1) Estimated variable pay earned during the year which was calculated based on the schemes described above including applicable holiday pay allowances and interest on deferred elements.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, termination benefits, and phone and broadband allowance. It also includes relocation costs such as housing, children school fees, and individual tax consultancy fees.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.
4) Dean Watson is also serving as Executive Vice President, Subsea Lifecycle Services.
5) Egil Bøyum was serving as Executive Vice President Products until May 31, 2019.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Executive Management Remuneration 2018

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/ cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,366,154	5,600,000	1,856,004	**14,822,158**	99,493
Svein Stoknes	Chief Financial Officer	Jan. 1 - Dec. 31	2,984,412	2,957,465	24,401	**5,966,279**	173,439
Dean Watson[4]	Chief Operating Officer	Jan. 1 - Dec. 31	3,621,477	2,618,225	1,151,936	**7,391,638**	94,350
Mark Riding	Executive Vice President, Strategy	Jan. 1 - Dec. 31	3,280,894	2,908,812	0	**6,189,706**	505,216
Valborg Lundegaard	Executive Vice President, Customer Management	Jan. 1 - Dec. 31	2,507,142	2,552,541	40,606	**5,100,288**	264,046
Knut Nyborg	Executive Vice President, Front End	Jan. 1 - Dec. 31	2,314,523	1,522,733	25,200	**3,862,456**	229,448
Egil Bøyum	Executive Vice President, Products	Jan. 1 - Dec. 31	2,589,609	2,662,502	20,030	**5,272,142**	252,539
Knut Sandvik	Executive Vice President, Greenfield Projects	Jan. 1 - Dec. 31	2,593,769	2,408,489	25,599	**5,027,857**	249,480
David Clark	Executive Vice President, Services	Jan. 1 - Oct. 18	2,776,159	1,212,450	1,047,126	**5,035,735**	303,890
Linda Litlekalsøy Aase	Executive Vice President, Brownfield Projects	Oct. 18 - Dec. 31	465,441	273,662	5,194	**744,297**	34,733
Total			**30,499,580**	**24,716,880**	**4,196,095**	**59,412,555**	**2,206,634**

1) Estimated variable pay earned during the year which was calculated based on the schemes described above including applicable holiday pay allowances and interest on deferred elements.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, housing, relocation costs, children school fees, phone and broadband allowance, individual tax consultancy fees for some international employments and severance payment.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.
4) Effective October 18, 2018 Dean Watson is also serving as Executive Vice President, Subsea Lifecycle Services.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Shareholding and Termination Agreements

The company practice standard employment contracts and standard terms and conditions regarding notice period and severance pay for the CEO and the members of the executive management team. The below table sets out information of notice period and severance pay as well as shareholding applicable to the current executive management team.

	Job title	Number of shares owned	Notice period	Severance pay
Luis Araujo	Chief Executive Officer	104,660	3 months	6 months
Ole Martin Grimsrud	Chief Financial Officer	14,088	3 months	6 months
Dean Watson	Chief Operating Officer	0	3 months	6 months
Mark Riding	Executive Vice President, Strategy	32,006	3 months	3 months
Valborg Lundegaard	Executive Vice President, Customer Management	5,185	3 months	6 months
Knut Nyborg	Executive Vice President, Front End	1,594	3 months	6 months
Egil Bøyum	Executive Vice President, Greenfield Projects	4,198	3 months	6 months
Linda Litlekalsøy Aase	Executive Vice President, Brownfield	23,551	3 months	6 months
Maria Peralta	Executive Vice President, Products	7,824	3 months	6 months

The following members of the executive management team had loans with the company as of December 31, 2019, in all cases related to the 2019 employee share program: Luis Araujo (NOK 42,000), Ole Martin Grimsrud (NOK 42,000) and Linda Litlekalsøy Aase (NOK 42,000).

See note 5 for more information about salaries for employees and the general share purchase program
See note 19 for more information about pension arrangements

Note 31 Audit Fees

KPMG is the auditor of the group. The table below presents expenses for audit and other services to the auditor.

	Aker Solutions ASA		Subsidiaries		Total	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Audit	**5.9**	4.9	**15.1**	9.6	**21.0**	14.5
Other assurance services	**0.0**	0.2	**0.1**	0.3	**0.1**	0.5
Tax services	**0.0**	0.0	**1.0**	0.6	**1.0**	0.6
Other non-audit services	**0.1**	0.0	**1.3**	1.0	**1.3**	1.0
Total	**6.0**	**5.1**	**17.6**	**11.5**	**23.5**	**16.6**

Note 32 Subsequent Events

COVID-19 pandemic and Market Uncertainty

During the first quarter of 2020, the spread of the COVID-19 virus caused global disruption, with negative consequences both for human health and economic activity. At the date of this report, employees in several Aker Solutions offices worked from home and the subsea manufacturing plant in Port Klang (Malaysia), Macae and Curitiba (Brazil) were temporarily shut down. Many non-Norwegian hired-ins in Egersund (Norway) have returned home to their respective countries, and offshore activities in the North Sea, both Norwegian and UK sector were reduced. The challenging commodity price environment together with the effects of the Covid-19 pandemic create unprecedented uncertainty and will have an adverse impact on both activity and financial performance of Aker Solutions. Due to the high level of uncertainties at the time this report was finalized, it is still difficult to quantify more exactly the adverse effects and it is also too early to conclude on timing and path of recovery.

From a financial reporting perspective, the COVID-19 pandemic and the market uncertainty is expected to impact the execution of deliveries to clients and the performance of the company. Further, it could impact the long-term market outlook and future assessments of recoverable amounts of Aker Solutions' assets.

Restructuring and temporary lay-offs

Aker Solutions announced in January 2020 plans to further streamline the global subsea manufacturing capacity, which includes closing down the XMT production in Tranby, Norway. Tranby will continue to serve as a technology center for research and development with manufacturing capability for subsea pumps and workover systems. Further, as a consequence of the outbreak of the COVID-19 pandemic and the associated market uncertainty, Aker Solutions issued notification of temporary lay-off to all 6,000 employees in Norway in March 2020. The notification was sent in case the company would experience disruption in production and other activities due to the pandemic outbreak. To reduce the negative impact on financial performance, the company is assessing further restructuring globally to align the capacity with the demand for products and services.

Parent Company Financial Statements

Aker Solutions Group

December 31, 2019

Income Statement

For the year ended December 31

Amounts in NOK million	Note	2019	2018
Operating revenues	2	**26**	25
Operating expenses	2	**-74**	-144
Operating loss		**-49**	**-118**
Income from subsidiaries	5	**1,400**	0
Net financial expenses	3	**-236**	-196
Earnings before tax		**1,115**	**-315**
Income tax	4	**8**	48
Net earnings		**1,123**	**-266**
Net earnings (loss) for the period distributed as follows:			
Other equity		**1,123**	-266
Net earnings		**1,123**	**-266**

Balance Sheet

Statement as of December 31

Amounts in NOK million	Note	2019	2018
Assets			
Deferred tax asset	4	**245**	235
Investments in group companies	5	**11,438**	11,438
Non-current interest-bearing receivables from group companies	8	**52**	34
Other non-current interest-bearing receivables		**2**	2
Total non-current assets		**11,737**	**11,708**
Current interest-bearing receivables from group companies	8	**622**	399
Non-interest bearing receivables from group companies	8	**81**	21
Financial instruments	9	**238**	450
Other current receivables		**0**	2
Cash and cash equivalents	8	**264**	1,258
Total current assets		**1,206**	**2,130**
Total assets		**12,943**	**13,838**

Amounts in NOK million	Note	2019	2018
Equity and liabilities			
Issued capital		**294**	294
Other equity		**3,714**	2,574
Total equity	6	**4,008**	**2,867**
Non-current borrowings	7	**3,058**	1,459
Total non-current liabilities		**3,058**	**1,459**
Current borrowings	7	**20**	1,024
Current borrowings from group companies	8	**5,531**	8,085
Non interest-bearing liabilities from group companies	8	**13**	0
Financial instruments	9	**272**	400
Other current liabilities		**41**	4
Total current liabilities		**5,877**	**9,512**
Total liabilities		**8,935**	**10,971**
Total equity and liabilities		**12,943**	**13,838**

Fornebu, March 24, 2020
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Audun Bråthen
Director

Luis Araujo
Chief Executive Officer

Cashflow

Statement for the year ended December 31

Amounts in NOK million	2019	2018
Earnings (loss) before tax	**1,115**	-315
Profit (loss) on foreign currency forward contracts	**84**	-61
Changes in other operating assets and liabilities	**594**	167
Net cash from operating activities	**1,792**	**-208**
Increase in investments in subsidiaries	**0**	0
Net cash used in investing activities	**0**	**0**
Changes in borrowings to group companies	**-241**	-109
Changes in borrowings from group companies	**-2,553**	940
Shares issued to employees through share purchase program	**59**	0
Repurchase of treasury shares	**-51**	0
Net cash from financing activities	**-2,786**	**831**
Net increase (decrease) in cash and cash equivalents	**-994**	**623**
Cash and cash equivalents at the beginning of the period	**1,258**	635
Cash and cash equivalents at the end of the period[1]	**264**	**1,258**

1) Unused credit facilities amounted to NOK 4,400 million as of December 31, 2019 (NOK 5,000 million as of December 31, 2018).

The cashflow statement has been prepared using the indirect method.

Notes to the Parent Company Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions ASA is the parent company and owner of Aker Solutions Holding AS. Aker Solutions ASA is domiciled in Norway and listed on the Oslo Stock Exchange. The financial statements of the parent company are prepared in accordance with Norwegian legislation and Norwegian Generally Accepted Accounting Principles.

Note 2 Operating Revenue and Expenses

Revenue

Operating revenue consists of NOK 26 million in income from Parent Company Guarantees (PCG). The PCGs are invoiced annually over the lifetime of the guarantee.

Expenses

There are no employees in Aker Solutions ASA and hence no personnel expenses. Executive management and corporate staff are employed by other Aker Solutions companies. Costs for their services as well as other parent company costs are recharged proportionally to Aker Solutions ASA and presented as operating expenses. Remuneration to and shareholding of managing director Luis Araujo and Board of Directors are described in note 30 Management Remuneration in the consolidated financial statements.

Audit fees to KPMG

Amounts in NOK million	2019	2018
Audit	**5.7**	4.9
Other assurance services	**0.3**	0.2
Other non-audit services	**0.1**	0.0
Total	**6.1**	**5.1**

See note 10 for more information about guarantees

Note 3 Financial Income and Expenses

Financial Reporting Principles

Foreign Currency

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to NOK at the exchange rate on that date.

Foreign Currency Derivatives

Subsidiaries have entered into internal financial derivative contracts with the parent company to hedge their currency exposure. The parent company uses foreign exchange contracts with external banks to mitigate the currency exposure from the internal derivative contracts with the subsidiaries. Aker Solutions ASA does not apply hedge accounting and financial assets and liabilities related to foreign currency contracts are measured at fair value with changes recognized in the income statement.

Interest Rate Derivatives

Aker Solutions enters into interest rate derivatives (interest rate swaps) to avoid unbalanced exposure to fluctuations in short term interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates to maintain the preferred split between fixed and floating interest rates. The swaps are classified as cashflow hedges and market values are accounted for against equity.

Financial Income and Expenses

Amounts in NOK million	2019	2018
Interest income from group companies	**68**	49
Interest expense to group companies	**-95**	-77
Net interest expenses from group companies	**-26**	-27
External interest income	**1**	5
External interest expenses	**-208**	-177
Net external interest expense	**-207**	**-173**
Loss on loans to group companies	**-4**	-5
Other financial expenses	**-2**	-2
Foreign exchange loss	**-1,235**	-1,502
Foreign exchange gain	**1,237**	1,513
Net other financial items	**-4**	**4**
Net financial expenses	**-236**	**-196**

See note 7 for more information about borrowings
See note 9 for more information about financial risk management and financial instruments

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Note 4 Tax

Financial Reporting Principles

Tax expenses in the income statement comprise current tax and changes in deferred tax. Deferred tax is calculated as 22 percent of temporary differences between accounting and tax values as well as any tax losses carried forward at the year-end. Net deferred tax assets are recognized only to the extent that it is probable they will be utilized against future taxable profits.

Deferred Tax Asset and Tax Expenses

Amounts in NOK million	2019	2018
Calculation of taxable income		
Earnings (loss) before tax	**1,115**	-315
Permanent differences	**-1,171**	28
Change in timing differences	**148**	-53
Taxable income	**91**	**-339**
Positive (and negative) temporary differences		
Unrealized gain on forward exchange contracts	**-39**	60
Interest rate swaps	**5**	-7
Impairment on internal receivables	**-48**	0
Tax loss carried forward	**-1,028**	-1,120
Basis for deferred tax	**-1,110**	**-1,066**
Deferred tax in income statement	**245**	233
Deferred tax in equity	**-1**	1
Deferred tax asset	**244**	**235**

The Company has a temporary difference related to the limitation of the deductibility of interest of NOK 233 million which is not recognized in the balance sheet.

Amounts in NOK million	2019	2018
Income tax benefit		
Origination and reversal of temporary differences	**12**	55
Witholding tax	**-4**	-7
Total tax income	**8**	48

Effective Tax Rate

Amounts in NOK million	2019	2018
Income tax 22% (23% in 2018)	**-245**	72
Tax on permanent differences	**258**	-7
Witholding tax	**-4**	-7
No change in deferred tax rate in 2019 (Change in deferred tax rate from 23% to 22% in 2018)	**0**	-11
Total tax income	**8**	48

Note 5 Investments in Group Companies

Financial Reporting Principles

Investments in subsidiaries are measured at cost. The investments are written down to fair value when the impairment is not considered to be temporary. Impairment losses are reversed if the basis for the impairment is no longer present.

Dividends and other distributions from subsidiaries are recognized in the same year as they are recognized in the financial statement of the provider[1]. If the distributed dividend in the subsidiary exceeds accumulated profits in the ownership period, the payment is treated as a reduction of the carrying value of the investment.

Investment in Group Companies

Amounts in NOK million	**Registered office**	**Share capital**	**Number of shares held**	**Ownership**	**Book value**
Aker Solutions Holding AS	Fornebu, Norway	3,600	30	100%	**11,438**
Total investments in group companies					**11,438**

1) Dividends of NOK 1,400 million is recognized in the annual account for 2019 and applies to the financial statement for 2018 in the subsidiary as a result of the subsidiary's financial statements that were submitted later than the signing of the annual accounts for the parent company.

Note 6 Shareholders' Equity

Financial Reporting Principles

Repurchase of share capital is recognized at cost as a reduction in equity and is classified as treasury shares. No gain or loss is recognized in the income statement on the purchase or sale of the company's own shares.

Shareholders' Equity

Amounts in NOK million	**Share capital**	**Treasury shares**	**Hedging reserve**	**Retained earnings**	**Total**
Equity as of December 31, 2018	294	0	-5	2 579	**2 867**
Shares issued to employees through share purchase program[1]	0	0	0	59	59
Repurchase of treasury shares[2]	0	0	0	-51	-51
Earnings for the period	0	0	0	1 123	**1 123**
Cashflow hedge[3]	0	0	9	0	**9**
Equity as of December 31, 2019	**294**	**0**	**4**	**3 710**	**4 008**

1) Aker Solutions subsidiaries operate a share purchase program for employees. The subsidiaries purchase shares from Aker Solutions ASA in order to settle obligations to the employees under the program. During 2019, a total of 2,710,165 shares were sold under the program.
2) A total of 2,300,000 treasury shares were acquired in the market in 2019. The number of treasury shares held by end of 2019 was 101,636. The shares are held for the purpose of future awards under the share purchase program for employees, as settlement in future corporate acquisitions or for the purposes as decided by the Board of Directors.
3) The value of interest swap agreements changing interest from floating to fixed is recognized directly in equity and will be released to income together with the corresponding interest expenses.

The Board of Directors has proposed that no dividend payment be made for 2019 as it was deemed prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. This is the same as in the prior year.

Note 6 continues on next page

Share Capital

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940 through the issuance of 272,044,389 shares. The total number of outstanding shares is 272,044,389 at par value NOK 1.08 per share as of December 31, 2019. All issued shares are fully paid. Aker Solutions 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. The number of own shares (treasury shares) was 101,636 per December 31, 2019 (511,801 per December 31, 2018). The consideration for these shares was NOK 2 million.

See note 3 and 9 for more information about the hedging reserve for interest rate swap agreements

Note 7 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has two bonds amounting to NOK 2,500 million listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The interest rate for both bonds is three months floating interbank rates (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loans are unsecured on a negative pledge basis and include no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.

Note 7 continues on next page

Note 7 Borrowings cont.

Bonds and Borrowings

2019

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010814213	NOK	1,500	**1,503**	1.80%	3.15%	4.95%	07/25/22	Floating, 3M+fix margin
ISIN NO 0010853286	NOK	1,000	**993**	1.84%	3.00%	4.84%	06/03/24	Floating, 3M+fix margin
Total bond[1]			**2,496**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	600	**582**	1.87%	1.10%	2.97%	03/19/23	NIBOR + Margin[3]
Total borrowings			**3,078**					
Current borrowings			**20**					
Non-current borrowings			**3,058**					
Total borrowings			**3,078**					

2018

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,011**	1.05%	4.20%	5.25%	10/09/19	Floating, 3M+fix margin
ISIN NO 0010814213	NOK	1,500	**1,497**	1.10%	3.15%	4.25%	07/25/22	Floating, 3M+fix margin
Total bond[1]			**2,508**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-25**	0.00%	1.10%	1.10%	03/19/23	NIBOR + Margin[3]
Total borrowings			**2,483**					
Current borrowings			**1,024**					
Non-current borrowings			**1,459**					
Total borrowings			**2,483**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million (NOK 2,500 million in 2018) by total issue costs related to the new financing of NOK 22 million (NOK 16 million in 2018). Amount includes NOK 18 million of accrued interest related to the bonds (NOK 24 million in 2018).
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.

Note 7 continues on next page

Note 7 Borrowings cont.

Maturity of Bonds and Borrowings

2019

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years
ISIN NO 0010814213	1,503	**1,707**	38	38	75	1,556
ISIN NO 0010853286	993	**1,222**	25	25	49	1,123
Total	**2,496**	**2,929**	**63**	**63**	**124**	**2,679**
Revolving credit facility (NOK 5,000 million)[2]	582	**659**	**10**	9	18	622
Total borrowings	**3,078**	**3,588**	**73**	**72**	**142**	**3,301**

2018

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years
ISIN NO 0010661051	1,011	**1,055**	27	1,028	0	0
ISIN NO 0010814213	1,497	**1,751**	33	34	67	1,617
Total	**2,508**	**2,806**	**60**	**1,062**	**67**	**1,617**
Revolving credit facility (NOK 5,000 million)	-25	**0**	**0**	0	0	0
Total borrowings	**2,483**	**2,806**	**60**	**1,062**	**67**	**1,617**

1) The interest costs are calculated using either the last fixing rate known by year-end (plus applicable margin) or the contractual fixed rate (when fixed rate debt)
2) The cashflow is based on the assumption that the nominal drawn amount will remain constant until the maturity of the revolving credit facility.

See note 3 for more information about financial income and expenses
See note 9 for more information about the company's exposure to interest rates and liquidity risk

Note 8 Receivables and Borrowings from Group Companies

Financial Reporting Principles

Assets and liabilities are presented as current when they are due within one year or they are part of the operating cycle. Other assets and liabilities are classified as non-current. Current assets are valued at the lowest of cost and fair value. Current liabilities are valued at nominal value at the time of recognition.

Non-current receivables are measured at cost less impairment losses that are not considered to be temporary. Non-current liabilities are initially valued at transaction value less attributable transaction cost. Subsequent to initial recognition, interest-bearing non-current borrowings are measured at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowing on an effective interest basis.

Trade and other receivables are recognized at the original invoiced amount less allowances for expected losses. Provision for expected losses is considered on an individual basis.

Receivables and Borrowings with Group Companies

Amounts in NOK million	2019	2018
Group companies interest-bearing deposits in the cash pool system	3,575	5,779
Aker Solutions ASAs net borrowings in the cash pool system	-3,311	-4,521
Cash in cash pool system	264	1,258
Current interest-bearing receivables from group companies	622	399
Non-current interest-bearing receivables from group companies	52	34
Current interest-bearing borrowings from group companies	-5,531	-8,085
Net interest-bearing borrowings from group companies	-4,857	**-7,652**
Current non interest-bearing receivables from group companies	81	21
Current non interest-bearing borrowings from group companies	13	0
Net non interest-bearing receivables from group companies	94	21
Total net borrowings from group companies	-4,499	**-6,373**

All current receivables and borrowings are due within one year.

Aker Solutions ASA has two centralized cash concentration arrangements (cash pools) with DNB and Nordea where balances are consolidated and netted across legal entities and countries. The participants in the cash pools are joint and severally liable and it is therefore important that Aker Solutions as a group is financially viable. In addition cash management arrangements are set up with local banks in Malaysia, Brazil and India where cash concentration is prohibited. The cash pools and cash management arrangements cover a majority of the group's geographical footprint and ensure control of and access to the majority of the group's cash. Participation in the cash pool is vested in the group policy and decided by each company's board of directors and confirmed by a statement of participation.

The cash pool systems were showing a net balance of NOK 264 million per December 31, 2019. This amount is reported in Aker Solutions ASAs accounts as short-term borrowings from group companies and as cash in the cash pool system.

Aker Solutions ASA is the group’s central treasury function and enters into borrowings and deposit agreements with group companies. Deposits and borrowings are agreed at market terms and are dependent on the group companies’ credit quality, country risk and the duration of the borrowings.

Note 9 Financial Risk Management and Financial Instruments

Currency Risk

As of December 31, 2019 Aker Solutions ASA has outstanding foreign exchange contracts with other entities in the group with a gross total value of approximately NOK 6.1 billion. Large contracts are hedged back-to-back with external banks, while minor contracts are hedged based on internal matching principles. Contracts hedged back to back with external banks represent about 80 percent of the total group exposure. Aker Solutions ASA does not apply hedge accounting to any of the currency derivatives. All financial assets and liabilities related to foreign exchange contracts are revalued at fair value in respect to exchange rate movements each period.

The treasury function within Aker Solutions ASA also has a mandate to hold limited positions in the currency and interest markets. The mandate has limits that are strictly defined and is operated under a strict stop-loss regime. Open positions are continuously monitored on a mark to market basis.

The fair value of foreign exchange forward contracts and options is presented in the table below.

	2019		2018	
Amounts in NOK million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts with group companies	**145**	**-89**	272	-138
Forward exchange contracts with external counterparts	**88**	**-182**	178	-252
Total	**233**	**-271**	**450**	**-390**

All instruments are booked at fair value as per December 31.

Note 9 continues on next page

Note 9 Financial Risk Management and Financial Instruments cont.

Interest Rate Risk

Interest rate swaps are applied to achieve the internal policy that 30-50 percent of the company's gross external borrowing shall be at fixed interest rates, with duration matching the remaining duration of the borrowing. At year-end, approximately 50 percent of NOK 2,500 million in bonds was fixed for the duration of the bonds through interest rate swaps. The company has drawn NOK 600 million on the revolving credit facility at year end with floating interest.

40 percent of the total external loan of NOK 3,100 million was at fixed interest rates per December 31, 2019. 50 percent of the total external loan of NOK 2,500 million was at fixed interest rates per December 31, 2018.

Hedge accounting is applied using the cashflow hedge accounting model. That means gains and losses on interest rate swaps from floating to fixed interest rates are recognized in the hedging reserve in equity. As of December 31, 2019 a net profit of NOK 4 million (NOK 5 million before tax) is recognized in equity and will be continuously released to the income statement until the repayment of the borrowings via the mark to market revaluation process.

The fair value of interest rate swaps is presented in the table below.

	2019		2018	
Amounts in NOK million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps - cashflow hedge (against equity)	**5**	**0**	0	-7
Total	**5**	**0**	**0**	**-7**

Credit Risk

Credit risk relates to loans to subsidiaries, overdraft in the group cash pool, hedging contracts, guarantees to subsidiaries and deposits with external banks. Loans to subsidiaries are subject to loan applications approved by the relevant SVP. Loss provisions are made in situations where the company is not expected to be able to fulfil its loan obligations from future earnings. External deposits and forward contracts are placed with reputable relationship banks, primarily where the company also has a borrowing relation. The existence of netting agreements between Aker Solutions ASA and the relationship banks reduces the credit risk.

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. The development in the group's and thereby Aker Solutions ASA's available liquidity is continuously monitored through weekly and monthly cash forecasts, financial strategy plans and long-term business forecast.

See note 3 for more information about financial income and expenses
See note 7 for more information about borrowings

Note 10 Guarantees

Amounts in NOK million	2019	2018
Parent company guarantees to group companies	58,421	61,020
Counter guarantees for bank/surety bonds	4,973	6,212
Total guarantee liabilities	**63,394**	**67,232**

Parent company guarantees are issued on behalf of subsidiaries in contractual obligations towards customers. The amounts disclosed above represent the total contractual value of the customer contracts.

Bank guarantees and surety bonds are issued on behalf of Aker Solutions subsidiaries, and counter indemnified by Aker Solutions ASA.

See note 2 for more information about revenue from guarantees

Note 11 Related Parties

Transactions with subsidiaries and related parties are described on a line by line basis in the following notes:

Operating Revenue and Expenses	Note 2
Financial items	Note 3
Investments	Note 5
Cash pool	Note 8
Receivables and borrowings	Note 8
Foreign exchange contracts	Note 9
Guarantees	Note 10

All transactions with related parties have been based on arm's length terms.

Note 12 Shareholders

Shareholders with more than 1 percent shareholding per December 31 are listed below.

2019

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Aker ASA		17,331,762	6.37%
Verdipapirfondet DNB Norge		12,669,915	4.66%
Goldman Sachs & Co. LLC	NOM	12,197,394	4.48%
Folketrygdfondet		10,950,677	4.03%
JP Morgan Chase Bank, N.A. London	NOM	4,706,482	1.73%
Ferd AS		4,300,000	1.58%
BNP Paribas Arbitrage SNC. Meglerkonto		3,747,884	1.38%
Euroclear Bank S.A/N.V.	NOM	3,374,092	1.24%
The Bank of New York Mellon SA/NV	NOM	3,088,089	1.14%
Storebrand Norge I Verdipapirfond		3,063,978	1.13%

2018

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Folketrygdfondet		19,341,121	7.11%
Aker ASA		17,331,762	6.37%
Verdipapirfondet DNB		5,994,762	2.20%
JPMorgan Chase Bank, N.A., London		5,371,116	1.97%
Ferd AS		4,300,000	1.58%
J.P. Morgan Bank Luxembourg S.A.	NOM	3,298,494	1.21%
Goldman Sachs & Co. LLC	NOM	2,870,834	1.06%
Verdipapirfondet Alfred Berg Gambank		2,832,488	1.04%
JP Morgan Securities PLC		2,813,626	1.03%
Storebrand Norge I Verdipapirfond		2,780,346	1.02%
Morgan Stanley & Co. LLC	NOM	2,778,206	1.02%
J.P. Morgan Bank Luxembourg S.A.	NOM	2,771,303	1.02%

Note 13 Subsequent events

Market Uncertainty

During the first quarter of 2020, the spread of the COVID-19 (corona) virus caused global disruption, with negative consequences both for human health and economic activity. The COVID-19 situation created significant uncertainty in the global oil market. This uncertainty was further amplified in March by signals of increased production volumes from several major oil producing countries, which caused a significant decline in global oil prices. The long-term impact from these events on the global economy and the oil market was unclear at the time this report was finalized. From a financial reporting perspective, the market uncertainty could impact the future fair value of Aker Solutions ASA's investments in subsidiaries and other assets.

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Independent auditor's report

To the Annual Shareholders' Meeting of Aker Solutions ASA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Aker Solutions ASA, which comprise:

- The financial statements of the parent company Aker Solutions ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cashflow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Aker Solutions ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement and the statement of other comprehensive income, statement of changes in equity and statement of cashflow 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 2019, 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 2019, 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.

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 of 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.

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Assessment of the carrying value of property, plant and equipment and intangible assets

Refer to note 10 Property, Plant and Equipment, note 11 Intangible Assets and note 12 Impairment of Assets.

The key audit matter

The Group's operations are sensitive to certain factors including oil prices which in turn impact the timing and nature of future capital expenditure on existing and new oil fields and installations.

The economic environment, current long-term assumptions and the Group's business plans indicate that impairment is a risk related to specific cash generating units.

As of 31 December 2019, the Group has property, plant and equipment of NOK 3 065 million, and intangible assets of NOK 5 710 million. The Group has recognized an impairment charge in 2019 associated with their property, plant and equipment and other intangible assets of NOK 46 million and NOK 2 million respectively.

How the matter was addressed in our audit

Our audit procedures in this area included:

- Assessing management's process and results for identification, consistent treatment and classification of cash generating units to ensure they were appropriate and in accordance with IAS 36;
- Evaluating and challenging management's assessment of impairment indicators;
- Where impairment triggers were not identified, assess the reasonableness of the evaluation to ensure no cash generating unit has been excluded from the impairment testing;
- Where impairment indicators were identified assessing if the models used to calculate value in use are appropriate and mathematically accurate;
- Assessing the discount rates utilized in cash flow forecasts with reference to available market data for selected cash generating units tested;
- Challenging management on the timing of the cash flows;
- Evaluating the historical accuracy of management's budgets and forecasts in order to challenge management on the current year cash flow forecasts;
- Evaluating and challenging management on the growth assumptions in the cash flow forecasts, forecast margins and order intake by assessing a range of outcomes based on varying assumptions independently determined;
- Assessing the calculations and rationale supporting the impairment of the cash generating units by performing our own independent sensitivity analysis of managements models; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to the carrying value of intangible assets and property, plant and equipment and the assumptions applied to the impairment testing.

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Revenue and cost estimates related to customer contract type Projects

Refer to note 3 Revenue and note 4 Operating Segments

The key audit matter

The majority of the Group's revenues and profits are derived from long-term construction contracts.

In IFRS 15 Revenue from contracts with customers there is a high degree of judgement in determining the number of performance obligations which can impact the timing and amount of revenue recognition for certain contracts.

Accounting for long term projects is considered to be a risk area due to the significant judgement and estimation applied by management as well as the degree of complexity of the contracts currently in the portfolio.

The key judgements and estimates applied by management include their assessment of the stage of project completion as well as assessing the estimated future contract revenue and cost outcomes. Revenue and cost outcomes factored in management's forecasts include:

- incentive payments;
- key performance indicators;
- liquidated damages; and
- expected fulfilment cost.

For the year ended 31 December 2019, the Group has recognized revenue of NOK 23 253 million related to customer contract type Projects.

How the matter was addressed in our audit

For financially significant contracts and any contracts with a reasonable possibility of being in a significant loss-making position, we applied professional skepticism and critically assessed the accounting estimates and judgments against the requirements of IFRS 15. Our audit procedures in this area included:

- Challenging management's assumptions in determining if certain contracts contain single or multiple performance obligations by obtaining, reading, and critically assessing the terms and conditions of relevant contractual documents;
- Assessing contractual revenue forecasts including corroborating those forecasts with reference to signed contracts and variation orders to assess the contractual basis of estimated future revenues;
- Assessing variable considerations estimates included in forecasted revenue in accordance with IFRS 15;
- Obtained and read the terms and conditions of significant contracts and comparing these to management's assessment of the contract forecasts;
- Evaluating management's process for assessing the stage of completion and the method applied in accordance with IFRS 15;
- Challenging management on estimated recovery of incentive payments, incentives linked to key performance indicators and recognition of liquidated damages by reference to contractual terms and conditions and assessing probability of managements forecasts in accordance with IFRS 15;
- Reading and discussing project reports and other assessments with management and comparing current forecasts to historical outcomes where relevant;
- Challenging management on the estimate of cost to complete and the risk assessment related to fulfilment cost; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to revenue from construction contracts.

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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including 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 consolidated 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 scepticism 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.

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- 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 and the 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 and 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 and the going concern assumption and the proposed allocation of the result 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, 26 March 2020
KPMG AS

Roland Fredriksen
State Authorised Public Accountant

Alternative Performance Measures

Aker Solutions discloses alternative performance measures in addition to those normally required by IFRS as such performance measures are frequently used by securities analysts, investors and other interested parties. Alternative performance measures are meant to provide an enhanced insight into the operations, financing and future prospects of the company. Figures for 2019 include the effects of IFRS 16, whereas comparative figures for 2018 do not.

Profit Measures

EBITDA and EBIT terms are presented as they are used by financial analysts and investors. Special items are excluded from EBITDA and EBIT as alternative measures to provide enhanced insight into the financial development of the business operations and to improve comparability between different periods.

EBITDA is short for earnings before interest, taxes, depreciation and amortization. EBITDA corresponds to the operating income before depreciation, amortization and impairment in the consolidated income statement in the annual report.

EBIT is short for earnings before interest and taxes. EBIT corresponds to operating income in the consolidated income statement in the annual report.

Margins such as EBITDA margin and EBIT margin are used to compare relative profit between periods. EBITDA margin and EBIT margin are calculated as EBITDA or EBIT divided by revenue.

Special items may not be indicative of the ongoing operating result of cash flows of the company. Profit measures excluding special items are presented as alternative measures to improve comparability of the underlying business performance between the periods.

	Projects		**Services**		**Other/ eliminations**		**Aker Solutions**	
Amounts in NOK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	23,253	19,920	5,995	5,096	15	216	**29,263**	25,232
Non-qualifying hedges	0	0	0	0	-2	-6	**-2**	-6
(Gain) loss sale of PPE	0	0	0	0	0	-50	**0**	-50
Sum of special items excl. from revenue	0	0	0	0	-2	-56	**-2**	-56
Revenue excl. special items	**23,253**	**19,920**	**5,995**	**5,096**	**14**	**160**	**29,262**	**25,176**
EBITDA	1,736	1,354	721	678	-213	-222	**2,244**	1,810
Restructuring cost	44	10	18	10	8	19	**70**	39
Onerous lease cost	0	3	0	4	0	8	**0**	15
Non-qualifying hedges	0	0	0	0	0	-11	**0**	-11
(Gain) loss sale of PPE	0	0	0	0	0	-50	**0**	-50
Other special items	0	4	0	0	1	4	**1**	8
Sum of special items excl. from EBITDA	44	17	18	14	9	-29	**72**	2
EBITDA excl. special items	**1,780**	**1,371**	**740**	**692**	**-204**	**-251**	**2,316**	**1,812**
EBITDA margin	7.5%	6.8%	12.0%	13.3%			**7.7%**	7.2%
EBITDA margin excl. special items	7.7%	6.9%	12.3%	13.6%			**7.9%**	7.2%
EBIT	837	843	399	511	-531	-305	**705**	1,049
Sum of special items excl. from EBITDA	44	17	18	14	9	-29	**72**	2
Impairments	80	15	68	2	157	5	**304**	22
Sum of special items excl. from EBIT	123	32	86	17	166	-24	**376**	24
EBIT excl. special items	**960**	**874**	**486**	**528**	**-365**	**-329**	**1,081**	**1,074**
EBIT margin	3.6%	4.2%	6.7%	10.0%			**2.4%**	4.2%
EBIT margin excl. special items	4.1%	4.4%	8.1%	10.4%			**3.7%**	4.3%

Order Intake Measures

Order intake and order backlog are presented as alternative performance measures. They are indicators of the company's revenues and operations in the future.

Order intake includes new signed contracts in the period in addition to expansion of existing contracts. For construction contracts, the order intake is based on the signed contract value excluding potential options and change orders. For service contracts, the order intake is based on the estimated value of firm periods in the contracts.

Order backlog represents the estimated value of remaining work on signed contracts. The order backlog does not include parts of the Services segment, which is short-cycled or book-and-turn in nature, or potential growth or options on existing contracts.

Financing Measures

Alternative financing and equity measures are presented as they are indicators of the company's ability to obtain financing and service its debt.

Liquidity Buffer is a measure of available cash and is calculated by adding together the cash and cash equivalents and the unused credit facility.

Amounts in NOK million	December 31, 2019	December 31, 2018
Cash and cash equivalents	**1,898**	2,473
Credit facility (unused)	**4,400**	5,000
Liquidity buffer	**6,298**	**7,473**

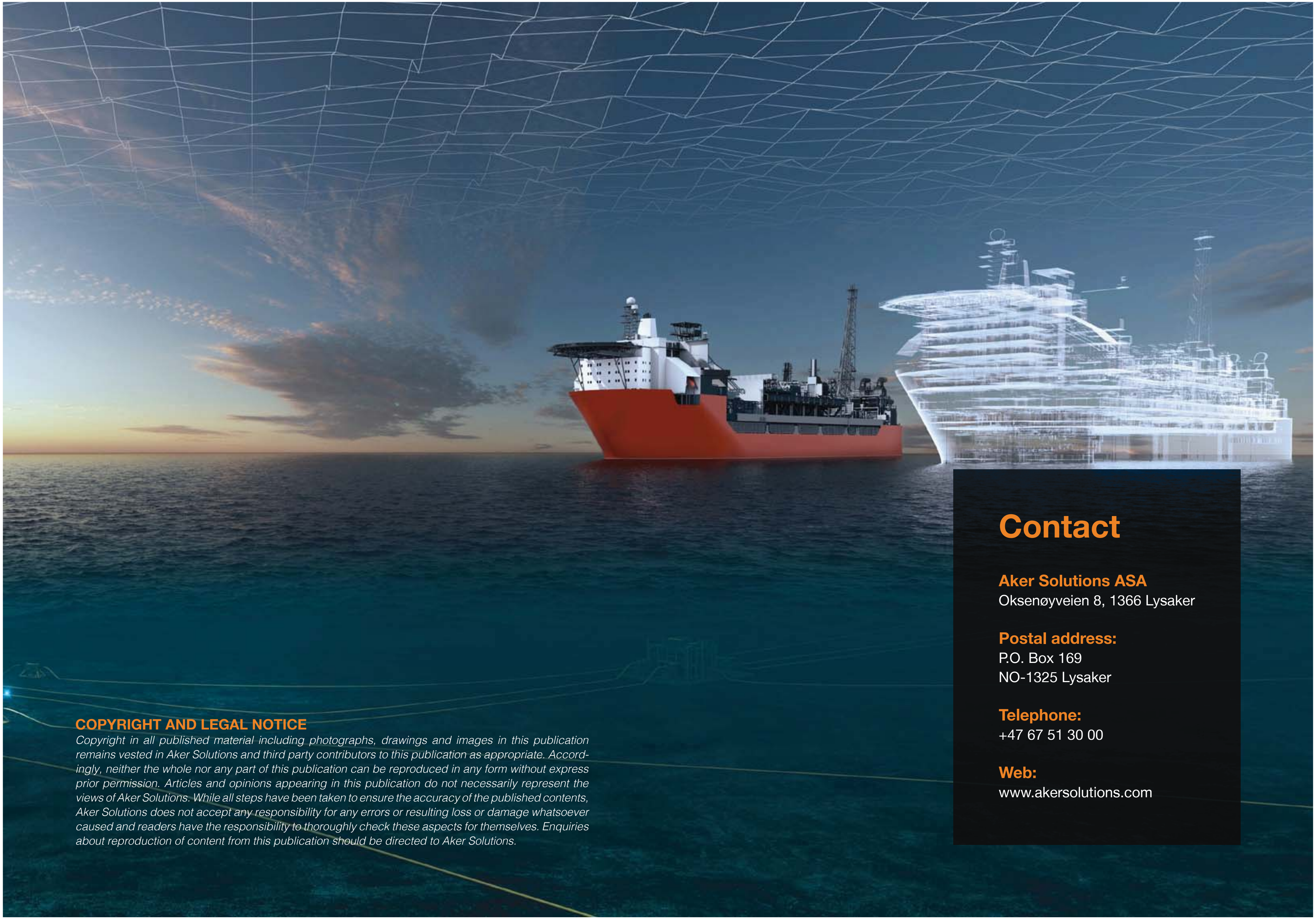
Net current operating assets (NCOA) or working capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

Amounts in NOK million	December 31, 2019	December 31, 2018
Current tax assets	**120**	109
Inventory	**369**	326
Customer contract assets	**4,846**	3,652
Trade receivables	**3,182**	3,236
Prepayments	**1,564**	1,348
Current tax liabilities	**-81**	-68
Provisions	**-521**	-906
Trade payables	**-2,000**	-1,680
Other payables	**-6,021**	-6,062
Customer contract liabilities	**-677**	-709
Net current operating assets (NCOA)	**781**	**-753**
Effects from IFRS 16[1]	**-663**	0
Net current operating assets (NCOA) ex. IFRS 16	**119**	**-753**

1) Relate to reclassification of onerous lease provisions and lease accruals for rent-free periods previously reported as part of NCOA. Starting from January 1, 2019 these amounts are reported as part of ROU asset under IFRS 16.

Net Interest Bearing Debt is a measure that shows the overall debt situation. Net interest bearing debt is calculated by netting the value of a company's liabilities and debts with its cash and cash equivalents.

Amounts in NOK million	December 31, 2019	December 31, 2018
Non-current borrowings	**3,280**	1,788
Current borrowings	**217**	1,125
Cash and cash equivalents	**(1,898)**	(2,473)
Net interest-bearing debt	**1,599**	**440**



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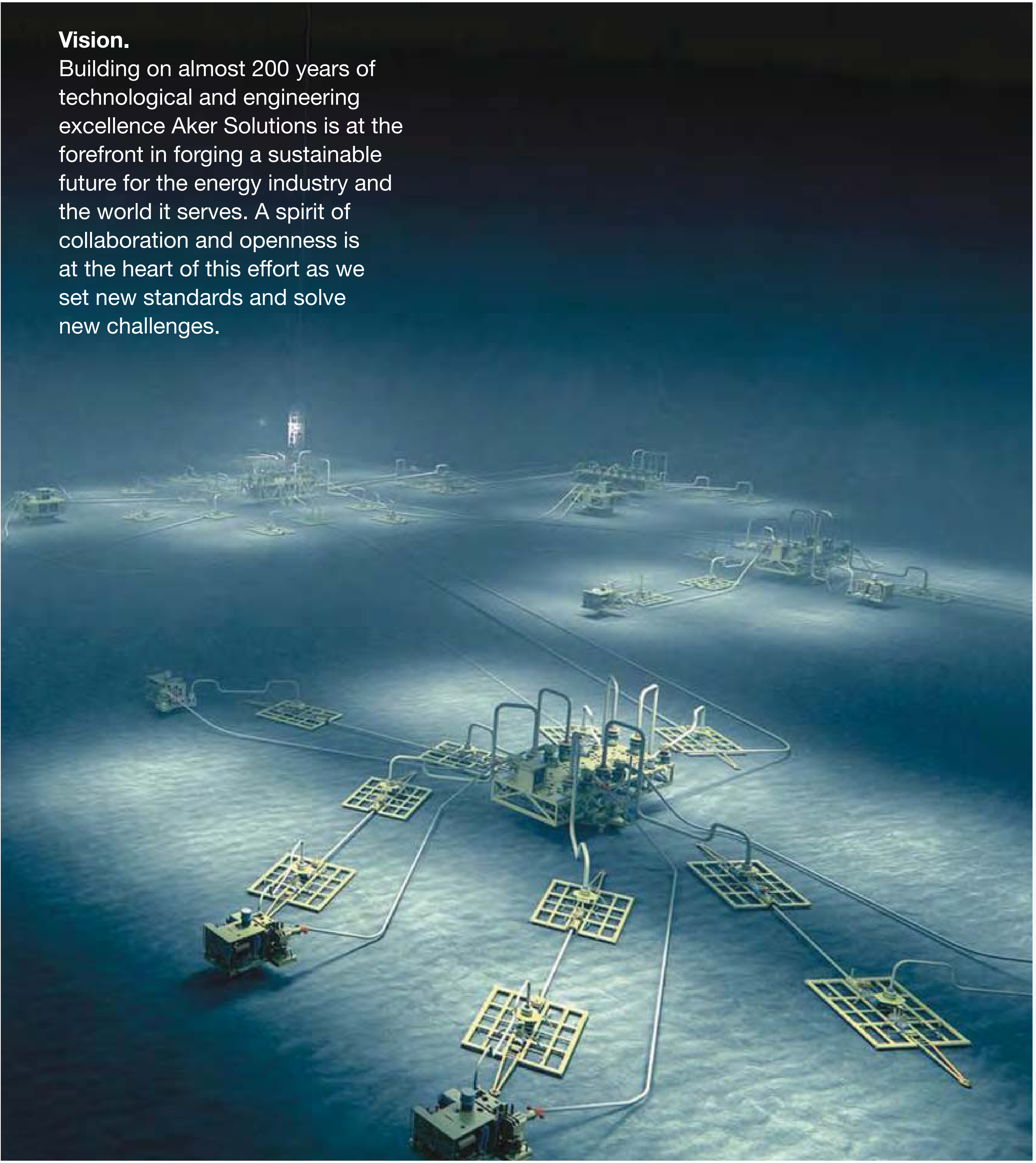
We create solutions
to unlock energy
safely and sustainably
for future generations.

ANNUAL REPORT 2018

Aker Solutions

Vision.
Building on almost 200 years of technological and engineering excellence Aker Solutions is at the forefront in forging a sustainable future for the energy industry and the world it serves. A spirit of collaboration and openness is at the heart of this effort as we set new standards and solve new challenges.



Content

Key Figures

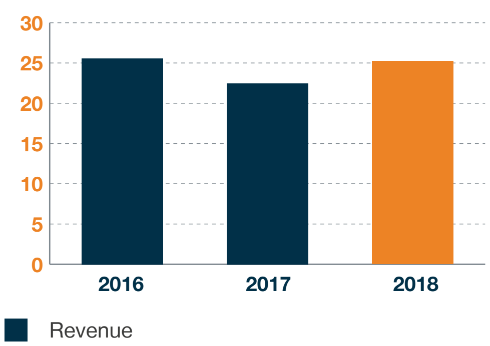
Amounts in NOK million unless otherwise stated		2018	2017	2016
ORDERS AND RESULTS				
Order backlog December 31	NOK mill	35,148	34,581	31,188
Order intake	NOK mill	25,421	23,553	17,004
Revenue	NOK mill	25,232	22,461	25,557
EBITDA	NOK mill	1,810	1,519	1,929
EBITDA margin	Percent	7.2	6.8	7.5
EBITDA margin ex. special items[1]	Percent	7.2	7.4	8.3
EBIT	NOK mill	1,049	571	687
EBIT margin	Percent	4.2	2.5	2.7
EBIT margin ex. special items[1]	Percent	4.3	3.9	5.3
Net profit	NOK mill	554	239	152
CASHFLOW				
Cashflow from operational activities	NOK mill	921	587	312
BALANCE SHEET				
Net interest-bearing debt	NOK mill	347	970	1,002
Equity ratio	Percent	36.3	35.7	29.8
Liquidity reserve	NOK mill	7,473	5,728	7,480
SHARE				
Share price December 31	NOK	39.66	46.19	41.37
Basic earnings per share (NOK)	NOK	1.88	0.81	0.21
EMPLOYEES				
Total employees December 31	Own employees	14,705	13,796	14,385
HSE				
Lost time injury frequency	Per million worked hours	0.55	0.47	0.30
Total recordable injury frequency	Per million worked hours	1.97	1.35	1.30
Sick-leave rate	Percentage of total working hours	2.6	2.8	2.8

1) See page 119 for description and details about special items

Key Figures

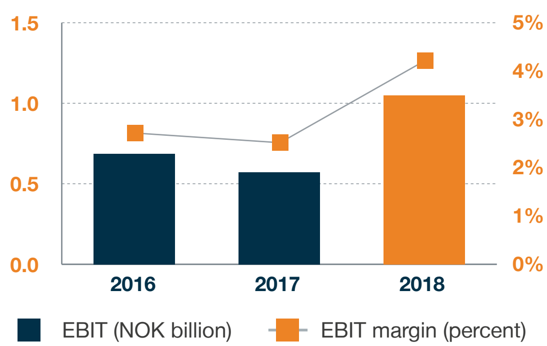
Revenue

Amounts in NOK billion



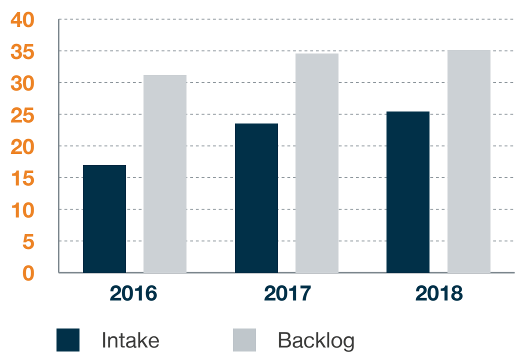
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

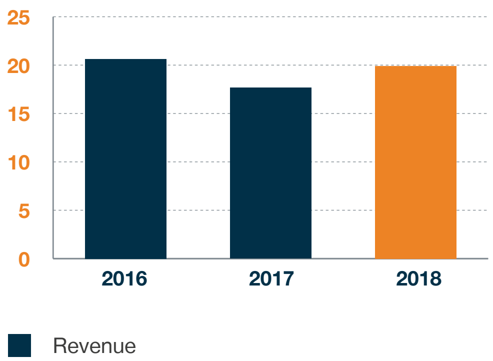
Amounts in NOK billion



Projects

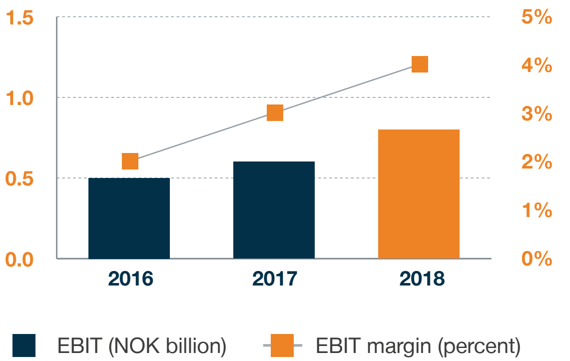
Revenue

Amounts in NOK billion



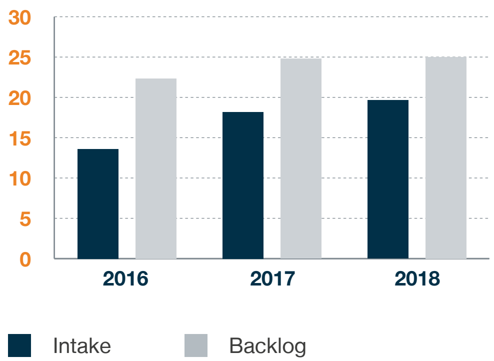
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

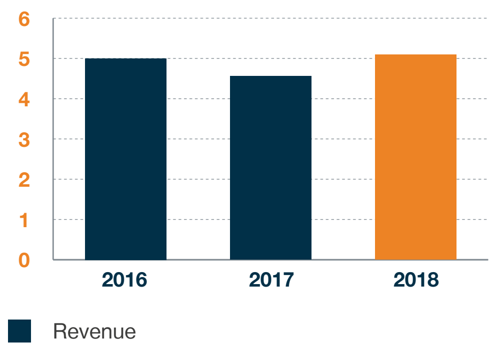
Amounts in NOK billion



Services

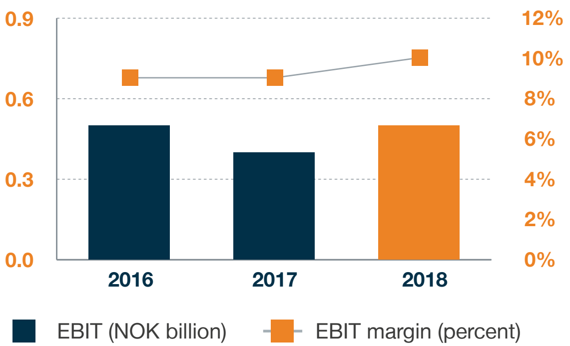
Revenue

Amounts in NOK billion



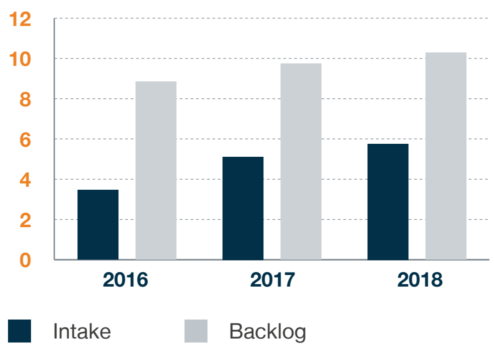
EBIT and margin

Amounts in NOK billion



Order intake and backlog

Amounts in NOK billion



Where we are.

Operations in more than 20 countries.

Highlights

Johan Sverdrup

In collaboration with Kvaerner, Aker Solutions secured additional hook-up and commissioning work for Equinor's Johan Sverdrup field offshore Norway. Aker Solutions, Kvaerner and Equinor also celebrated the start of fabrication for the second phase of the Johan Sverdrup development. This is Norway's biggest industrial project in three decades.

Petrobras

In Brazil, Aker Solutions was awarded a contract to deliver a subsea production system for the first phase of Libra's Mero field for Petrobras. Valued at NOK 1 billion the contract is evidence of Aker Solutions' consistent, high-quality delivery capability in the country. The company also secured two major contracts to provide maintenance, modifications and operation services for twelve Petrobras-operated platforms, a result made possible through the 2016 acquisition of the Brazilian brownfield service provider C.S.E.

CNOOC

In China, Aker Solutions announced a contract to deliver power umbilical systems to CNOOC's Liuhua oil fields in the South China Sea off Hong Kong. The contract is valued at NOK 350 million and will see the company's global integrated team deliver more than 115 kilometres of dynamic and static power umbilicals. Aker Solutions also secured the contract to deliver the subsea production system and umbilicals for CNOOC's Lingshui gas field development in China, strengthening the scope of capabilities in the Asia Pacific market.

Kaombo

Aker Solutions worked closely with operator Total to achieve first oil at the Kaombo field in July. At the end of the year, the company had installed 31 trees and all the manifolds. Kaombo is the world's largest subsea development, located approximately 150 kilometres offshore Angola. Aker Solutions' scope on the project is to provide 19 subsea manifolds and 65 vertical subsea trees, as well as associated equipment.

Greenfield and Brownfield Projects

Aker Solutions adjusted its organizational structure in October to strengthen focus on brownfield business and leverage the company's full global capabilities in this area. This change is expected to further strengthen the international expansion and growth of the company. The Company signed a contract with BP for brownfield services in Angola.

Corporate Responsibility

Corporate responsibility is about creating sustainable communities and leaving a positive impact wherever Aker Solutions does business. In 2018, the company revised and renewed the corporate responsibility strategy to reinforce its commitment to providing a sustainable future and in alignment with the United Nations Sustainability Development Goals.

Digitalization

To accelerate digital life-of-field offerings, Aker Solutions created a "Software House". The "Software House" will be a hub for innovation at Aker Solutions, and attract new competency and talents needed to continue the digital transformation. In addition the company entered into key partnerships, progressing on the development of digital twins, and leveraging our customers' data to drive value.

Offshore Floating Wind

A key priority at Aker Solutions is to pursue energy solutions that minimize environmental footprint and promote the shift to a low-carbon energy future. The company is actively engaging to shape an emerging floating wind industry, using five decades of technology and experience from floating facilities, power, and cable systems. At the end of 2018 Aker Solutions holds a 11.8 percent stake in the offshore wind company Principle Power. The company also entered into a consortium to develop a wind farm off the coast of Northern California, a potential flagship floating wind project for the US, which makes it well positioned to capture a significant market share in a growing segment.

Front End

Aker Solutions in 2018, secured a record total of 150 front-end orders and more than doubled the number of studies for international markets from a year earlier. The early-phase studies and FEEDS awarded are for larger and more complex projects than previous years. Several are for offshore fields in Africa, Asia Pacific and North America.

Carbon Capture

Aker Solutions offers Carbon Capture, Utilization, and Storage (CCUS) for industrial applications. The company secured Norcem CCS FEED and a contract on Northern Lights, a CO2 storage project initiated by Equinor with partners Shell and Total. The company also introduced Just CatchTM, a standardized and modular capture plant which offers several advantages in the market. Aker Solutions is the only company offering services, products and solutions throughout the entire CCUS chain, from capture to transport to utilization and permanent storage.

Continuous Improvement

Standardization, simplification and industrialization of products and services are key to helping Aker Solutions achieve its goal of continuous improvement. The company consistently pursues operational excellence through simplifying its methods, standardizing products and services, and increasing efficiency through digital technologies.

Alliances

Teaming with the right players is an essential element in the success of Aker Solutions. In 2018, good progress was made on expanding the alliance portfolio to include digitalization and offshore floating wind. Aker Solutions has been successful in securing projects with its customer alliance partner Aker BP. The company will continue to mature its alliances by developing stronger value propositions, commercializing jointly developed technologies, and securing combined projects.

Securing the Future

Demand for energy will increase globally.
Aker Solutions will continue adapting to new market situations to secure our position as a market leader in our industry.

MENU

The oil and gas market remains volatile and competitive, but in 2018 we saw the global market recovery gather strength. The consistent and steady order intake, combined with a solid order backlog, confirms our position in the market. We see that more projects are being sanctioned, and we see an increased interest in our early-phase capabilities, with larger, more complex projects and new clients. In fact we had a record 150 study awards in 2018, and we more than doubled the number of studies for international markets.

In 2018 we delivered a year of solid performance, with our major projects progressing as planned. Last summer we helped Total achieve first oil at Kaombo, the world's largest subsea development. For Equinor, in Norway, we completed solid deliveries on the Johan Sverdrup and Johan Castberg developments, and recently began fabrication on the second phase of the Johan Sverdrup project. We are also receiving repeat orders from clients such as Total, Petrobras, Equinor, Aker BP and BP

We are well placed in key regions globally and in 2018 we improved the geographical balance of our order backlog. Our portfolio of clients outside the Norwegian Continental Shelf grew and we secured orders from CNOOC, Chevron and BP to name a few.

The evidence of strong execution on customer deliveries and winning new and repeat clients can be found in the improved top and bottom lines for 2018. The order intake was solid and our tendering activity remains high in our key markets.

Significant progress was made in 2018 towards the strategic objectives as established in our current enterprise strategy. We continue to make progress on the five pillars of the strategy, centered on customers, partnerships, innovation, operational excellence and services.

We also have seen important developments in our digitalization efforts. To accelerate our digital life-of-field offerings, we created a "Software House". The "Software House" will be called iX3, representing the three words starting with an "i" that outline its core offering – integrated insight through innovation. iX3 will be a hub for innovation at Aker Solutions, and attract new competency and talents needed to continue the digital transformation. In addition we entered into key partnerships, progressing on the development of digital twins, and leveraging our customers' data to drive value.

While oil and gas are still the basis of our business, we are also pursuing energy solutions that minimize the environmental footprint, and promote the shift to a new energy future. This is good business that makes sense to secure future revenue streams. Our position in the offshore floating wind market was strengthened, as we increased our stake in Principle Power. This gives us access to more technology, more competent people and increased knowledge in this fast-developing market. Wind is an increasingly important factor in renewable energy and fits well with our competencies within project management, industrialization of floating structures, dynamic power cables and anchoring systems.

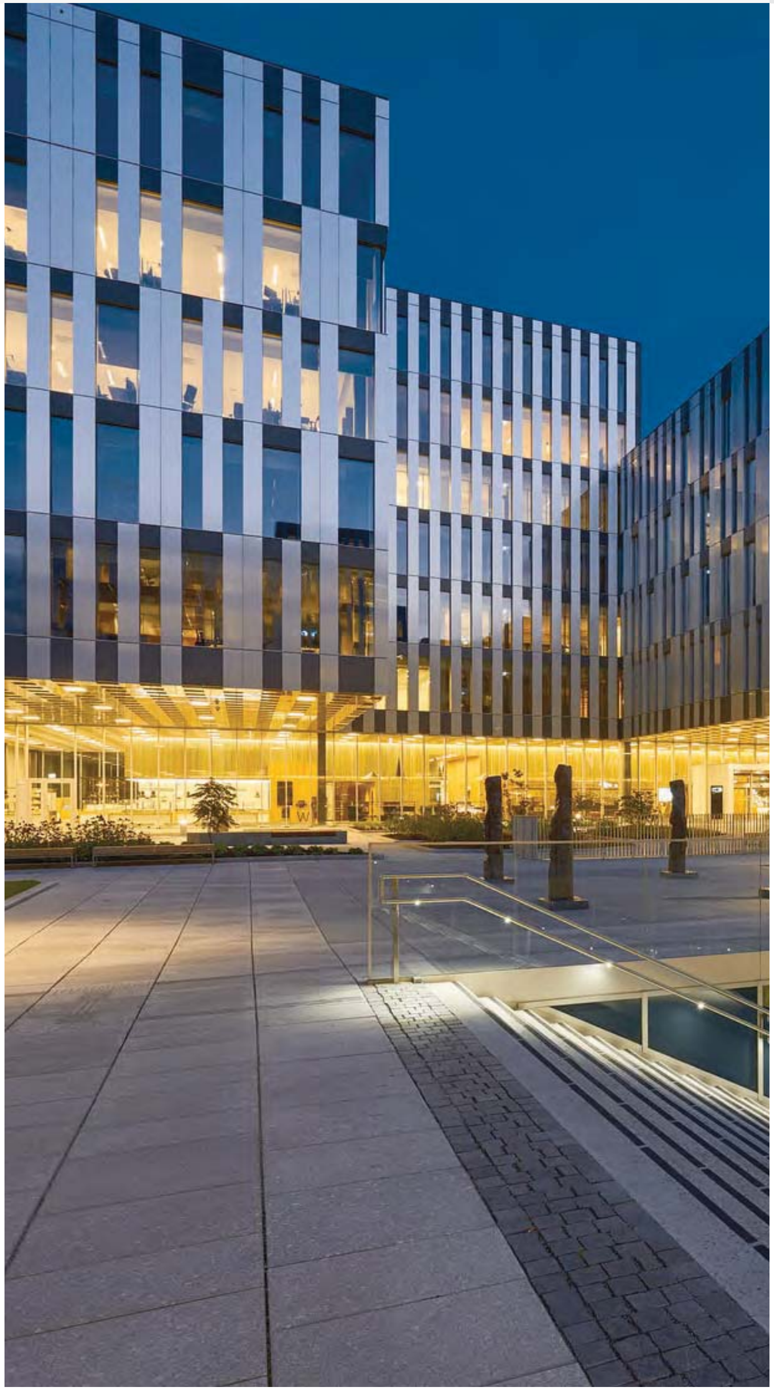
We are committed to the principles of the UN Global Compact and to responsible and sustainable business practices. In 2018 we also updated our corporate responsibility strategy, focusing on the areas where we believe we can truly contribute to making a difference. Our updated strategy will be implemented in 2019.

"We continue to make progress on the five pillars of the strategy, centered on customers, partnerships, innovation, operational excellence and services.

The health and safety of our employees remains our first priority. In 2018 we had 288 zero days, i.e days without a recordable injury, work-related illness, environmental spill or near miss across the company. At Aker Solutions we believe a goal of zero incidents is achievable and will continue our effort to reach this ambition.

As our vision states, Aker Solutions seeks to be a leader in forging a sustainable future for our industry and the world it serves. I am thankful for the dedication shown by Aker Solutions employees as we continue to adapt to perform in an evolving market.

Luis Araujo
Chief Executive Officer



Board of Directors’ Report

Aker Solutions took steps in 2018 to further strengthen its international growth and position.

The company delivered strong execution on customer deliveries and attracted new customers internationally through its innovation and commitment to quality.

Overview

Building on nearly two centuries of technological and engineering excellence, Aker Solutions is committed to finding solutions to bring energy resources safely and cost-effectively into production, maximizing recovery, and minimizing the environmental footprint.

The company provides products, systems and services ranging from concept studies and front-end engineering to subsea production systems and services for enhancing and extending the life of a field. The main customers are international, national and independent oil and gas and energy companies.

Aker Solutions had 14,705 own employees and was present in 25 countries at the end of 2018. The main office is at Fornebu, Norway. Aker Solutions ASA is listed on the Oslo Stock Exchange.

Strategy and Organizational Development

Aker Solutions responded to the downturn well by maintaining its competitiveness. In 2018 the company continued to deliver on its cost efficiency program, while it secured important contracts in a competitive market.

After achieving the target of 30 percent cost reduction in 2017, the company last year extended its ambition. A new target of a 5 percent year-on-year improvement was set to reach an additional 20 percent cost reduction by 2021. The main drivers will be continuous improvement efforts and a push to develop and deploy new and existing digital technologies and offerings.

Aker Solutions' strategy is aimed at further strengthening its competitiveness and ability to serve customers. The strategy has five main priorities: customers, partnerships, innovation, operational excellence and services.

New contract awards in international markets combined with repeat orders from major oil companies are evidence of strong customer relationships. The number of early phase studies in international markets more than doubled last year, accounting for more than a third of the 150 studies in total. The total number was up from 124 in 2017.

Progress was made on expanding the company's portfolio of alliances to include digitalization and offshore floating wind. In 2018 the company entered a collaboration agreement with Siemens, to complement the established collaboration with Cognite. Together, Aker Solutions and Siemens aim to create software applications and joint service offerings, including the development of industrial digital twins, to drive efficiency throughout the entire lifecycle of the field.

"Aker Solutions' strategy is aimed at further strengthening its competitiveness and ability to serve customers. The strategy has five main priorities: customers, partnerships, innovation, operational excellence and services.

Aker Solutions is aiming for a position as the leading digital life-of-field integrator based on its digital transformation program, digital twins, and related offerings. The company is executing on its plan to connect products, assets and workers to the digital ecosystem. Digitalization also enables internal cost savings and there are more than 100 ongoing initiatives. In 2018 the company established a "Software House" to accelerate and commercialize Aker Solutions' own software solutions.

Aker Solutions continued to strengthen its focus on sustainable solutions in the energy value chain. Responding to the ongoing energy transformation, the company made targeted investments in areas where it’s expertise and capability can make a difference. This includes low carbon field development solutions, decarbonization solutions, electrification solutions and technologies.

Investing in Principle Power secured a position in the growing renewable energy market by partnering with a leading offshore floating wind power supplier. The two companies last year took steps to realize a potential floating wind project offshore the U.S. west coast.

Aker Solutions has strengthened its value proposition as a life-of-field integrator in the oil and gas sector, as well as in adjacent sectors such as CCUS (Carbon Capture, Utilization and Storage). In this segment, Aker Solutions secured its first contract on Northern Lights, a project initiated by Equinor with partners Shell and Total to develop the world's first storage facility capable of receiving CO2 from various industrial sources. In parallel, the company will continue to develop sustainable energy and low carbon solutions for traditional oil and gas developments. Solutions to decarbonize the oil and gas sector include subsea gas compression, all-electric systems, unmanned platforms.

Organization

Aker Solutions made some structural changes to the organization by separating the Projects Delivery Center into two delivery centers, one for Brownfield Projects and one for Greenfield Projects to better distribute the span of control. To lead the new Brownfield Projects Delivery Center, Linda Litlekalsøy Aase was appointed as the new executive vice president. She is also responsible for Production Asset Services. The new organizational set-up is a better reflection of the workflows, from early engagement with customers to project execution, and on through life-of-asset services and decommissioning.

Customer Focus

Aker Solutions maintains its ambition to collaborate with customers and suppliers to improve overall economics and performance of key offshore oil and gas developments. By engaging in the earliest phases of an energy project, the company is able to promote an integrated approach to finding effective solutions across the full development and operational lifecycle.

In 2018 Aker Solutions signed a strategic, global collaboration agreement with Equinor to ensure mutual and continuous improvement on current and future subsea projects within the domains of safety, quality, technology, execution and cost. New contract awards from customers like Petrobras in Brazil, BP in Angola, CNOOC in China and Aker BP in Norway also spoke to strong client relations.

Where We Operate

Aker Solutions is pursuing international growth in targeted markets while safeguarding its existing market positions. The company is represented in all major offshore oil and gas basins around the world, from the Gulf of Mexico and Brazil to the North Sea, Africa, Middle East and Southeast Asia. The company progressed in the ambition of growing international markets, with significant awards in Brazil, UK, Africa and Asia.

Market Outlook

Aker Solutions’ financial performance depends primarily on activity in global oil and gas markets.

Markets remained competitive in 2018, and the sharp drop in the price of oil in December 2018 indicates continued volatile and unpredictable market conditions. However, operational activity increased last year, particularly in offshore Norway, Brazil, Africa and Asia. Aker Solutions experienced high demand for front-end engineering and secured key brownfield and greenfield contracts, including subsea projects in international markets.

Improvement measures across the industry are lowering break-even costs and more projects are being sanctioned. Aker Solutions’ tendering activity in main markets is high, particularly in the subsea area, key projects are anticipated to be awarded in 2019.

Longer term, the outlook remains positive. Declining reserves and lower oil and gas production in many parts of the world are expected to generate investments in new developments and increased recovery from existing fields. Demand for gas, especially in Asia, is expected to rise. Additional investments in liquefied natural gas will likely be required to ensure a long-term balance in the oil and gas segment. Aker Solutions is well positioned in key regions to provide the capabilities and technology to lower development costs, improve recovery rates, and reduce the industry's environmental footprint. Renewables continue to grow in scope and importance, but commercial opportunities for Aker Solutions in this segment are more likely to be realized later in the strategy period.

Corporate Responsibility

The company's commitment to human and labour rights is covered by the Global Framework Agreement between Aker ASA and the Norwegian and international trade unions Fellesforbundet, IndustriALL Global Union, NITO and Tekna. Aker Solutions reports and communicates on corporate responsibility based on recommendations from the Global Reporting Initiative. More information is available in the company's corporate responsibility report for 2018 on www.akersolutions.com/cr-reports.

Corporate Governance

Corporate governance is a framework of values, responsibilities and work processes to control the business and promote a sustainable value creation for shareholders and other stakeholders. The board of directors is responsible for ensuring sound governance at Aker Solutions. The audit committee supports the board in ensuring the company has internal procedures and systems in place for effective processes based on the principles set out in the Norwegian Code of Practice for Corporate Governance.

More information is available in the corporate governance report for 2018 on www.akersolutions.com/corporate-governance.

Ethical and Political Risks

Aker Solutions could potentially become involved in unethical behavior, either directly or through third parties and partners. The company has operations in countries associated with high political, reputational and corruption risks. Key tools to reduce these risks are the company's code of conduct and anti-corruption compliance program, which are implemented at all locations globally. Risks are managed through country analyses, mandatory awareness training, compliance reviews and integrity due diligence.
Aker Solutions' anti-corruption program is subject to quarterly reporting to the Audit Committee.

Aker Solutions has zero tolerance for corruption and works vigilantly to prevent such behavior. The company has control systems in place throughout the organization that are designed to identify and limit the effects of violations of the code of conduct. In general, employees face consequences spanning from a warning to dismissal for violating the code of conduct.

The company last year continued to strengthen its anti-corruption compliance framework. The delivery centers' compliance officers continued to support top management on integrity related matters and awareness initiatives. In 2018, the company conducted an increased number of project screenings and integrity due diligences of potential business partners as it pursued more opportunities in high risk markets. Furthermore, a systematic process for follow up and reporting on high risk business partners was implemented. All integrity training material was updated.

Financial Performance

Aker Solutions presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. All amounts except those in the Parent Company Financial Statements on page 96 relate to the consolidated financial statements for the group, since the parent company has very limited operations.

Consolidated Financial Results

Aker Solutions' revenue increased to NOK 25.2 billion in 2018 from NOK 22.5 billion the prior year. Earnings before interest and taxes (EBIT) increased to NOK 1.0 billion from NOK 0.6 billion a year earlier. Earnings were impacted by a gain from the sale of property plant and equipment (PPE) of NOK 50 million, restructuring costs of NOK 39 million, NOK 15 million for lease costs on vacated office space in addition to other special items. Aker Solutions booked NOK 22 million in impairment charges on capitalized research and development programs and machinery and equipment. Excluding these special items EBIT increased to NOK 1.1 billion from NOK 0.9 billion a year earlier.

Interest income was NOK 39 million in 2018 compared with NOK 55 million the previous year. Interest expenses fell to NOK 268 million from NOK 305 million in 2017 because of a decrease in borrowings. Aker Solutions hedges currency risk for all significant project exposures. More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separated embedded derivatives. Income before tax increased to NOK 792 million in 2018 from NOK 399 million the year before. Income tax expenses were NOK 238 million, up from NOK 160 million in 2017. This corresponds to an effective tax rate of 30 percent, down from 40 percent the year before. Net income after tax in 2018 was NOK 554 million compared with NOK 239 million the previous year. Earnings per share were NOK 1.88 versus NOK 0.81 in 2017.

The board of directors has proposed that no dividend payment be made for 2018. While Aker Solutions' finances were solid, with a liquidity buffer of NOK 7.5 billion at the end of the year, the board considered it still prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. The company maintains its policy of paying a dividend of between 30 and 50 percent of net profit over time.

Projects Financial Results

The projects segment provides greenfield engineering and procurement, brownfield modifications, hook-up and subsea equipment and systems.

The projects segment is externally reported in two sub-segments: subsea and field design. Projects revenue increased to NOK 19.9 billion in 2018 from NOK 17.7 billion the year before, mainly related to the field design sub-segment, partially offset by slightly lower revenue in the subsea sub-segment. The EBIT margin increased to 4.2 percent from 3.4 percent a year earlier. Excluding special items, the EBIT margin was 4.4 percent, same as a year earlier.

The full-year order intake was NOK 19.6 billion in 2018, up from NOK 18.2 billion the prior year. The order backlog was NOK 25.0 billion at the end of 2018 versus NOK 24.8 billion a year earlier.

Services Financial Results

The services segment provides subsea lifecycle services (SLS) and production asset services (PAS). The SLS part is mainly related to installation, operations and maintenance support services related to subsea equipment. The PAS part is mainly related to outsourced asset management services, maintenance of offshore infrastructure and asset integrity management services

Services revenue increased to NOK 5.1 billion in 2018 from NOK 4.6 billion the year before, mainly related to the production asset services area, partially offset by slightly lower revenue in the subsea lifecycle services area. The EBIT margin increased to 10.0 percent from 9.4 percent a year earlier. Excluding special items, the EBIT margin was 10.4 percent compared with 9.5 percent a year earlier.

The full-year order intake was NOK 5.8 billion in 2018, up from NOK 5.1 billion the prior year. The order backlog was NOK 10.3 billion at the end of 2018 versus NOK 9.7 billion a year earlier.

	Projects		Services	
Amounts in NOK million unless otherwise noted	**2018**	**2017**	**2018**	**2017**
Operating revenue	**19,920**	17,660	**5,096**	4,560
EBITDA	**1,354**	1,217	**678**	605
EBITDA margin (%)	**6.8**	6.9	**13.3**	13.3
EBITDA ex. special items	**1,371**	1,292	**692**	607
EBITDA margin ex. special items (%)	**6.9**	7.3	**13.6**	13.3
EBIT	**843**	608	**511**	429
EBIT margin (%)	**4.2**	3.4	**10.0**	9.4
EBIT ex. special items	**874**	773	**528**	432
EBIT margin ex. special items (%)	**4.4**	4.4	**10.4**	9.5
NCOA (or working capital)	**-1,141**	-712	**693**	511
Net capital employed	**3,262**	3,873	**1,867**	1,792
Order intake	**19,642**	18,177	**5,756**	5,116
Order backlog	**25,014**	24,807	**10,294**	9,743
Employees	**7,188**	6,980	**5,473**	5,036

Cashflow

Consolidated cashflow from operating activities depends on a number of factors, including progress on and delivery of projects, changes in working capital and prepayments from customers. Net cash from operating activities was NOK 921 million in 2018 compared with NOK 587 million a year earlier. Net current operating assets were negative NOK 753 million at the end of 2018 compared with negative NOK 844 million a year earlier.

Working capital may fluctuate considerably due to large milestone payments on projects. Aker Solutions' net cash outflow for investing activities was NOK 297 million in 2018, compared with NOK 308 million a year earlier. Investments in technology development and IT were NOK 174 million, compared with NOK 149 million a year earlier. Net cash outflow related to financing activities was NOK 99 million, down from NOK 835 million in 2017.

Financial Position

Assets, Equity and Liability

Non-current assets totalled NOK 9.6 billion at the end of 2018, compared with NOK 10 billion the year before. Goodwill and other intangible assets amounted to NOK 5.7 billion, down from NOK 5.8 billion in 2017. The company had net interest bearing debt of NOK 347 million in 2018, compared with NOK 970 million the prior year. The net interest bearing debt consists of current and non-current borrowings excluding cash and interest-bearing receivables. The debt includes bond loans in the Norwegian market, bank loans with Nordic and international banks, local financing in Brazil and some smaller loan facilities between group subsidiaries and local banks. The financial position was solid at the end of the year with a total liquidity buffer at NOK 7.5 billion. This included cash and bank deposits of NOK 2.5 billion as well as undrawn and committed long-term revolving bank credit facilities of NOK 5.0 billion. Capital adequacy and liquidity were generally deemed solid at the end of 2018, putting the company in a good position to meet challenges and opportunities over the next few years.

The book value of equity including non-controlling interests was NOK 7.6 billion at the end of 2018, compared with NOK 7.0 billion a year earlier. The company's equity ratio was 36.2 percent of the total balance sheet, up from 35.7 percent a year earlier.

Parent Company Financial Statements

Aker Solutions ASA, the parent company of the Aker Solutions group, owns and manages the group's subsidiaries. Aker Solutions ASA has outsourced all company functions to other companies in the group, mainly Aker Solutions AS. Assets and liabilities related to the corporate treasury function are held by Aker Solutions ASA. Aker Solutions ASA had a net loss of NOK 266 million in 2018 compared with a net loss of NOK 187 million in 2017 mainly consisting of corporate costs and interest expenses. The parent company's dividend policy is to pay shareholders 30 percent to 50 percent of net profit as an annual dividend over time.

The dividend will be paid in cash or share buybacks or a combination of both. The board of directors proposed that no dividend payment be made for 2018 as it was deemed prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. More information on the allocation of profits can be found in the income statement of the parent company on page 97 of this report.

Going Concern

In accordance with the Norwegian Accounting Act, the board confirms that the consolidated financial statements and parent company financial statements have been prepared on the basis of the going-concern assumption.

Research, Innovation and Technology

The company's principal focus is the development of new cost-efficient concepts, technologies and products as customers face declining production rates, and increasingly complex reservoirs at greenfield projects as well as transitioning to a new energy and low carbon future.

The research and development portfolio in 2018 involved more than 15 key projects. Total R&D expenditure was NOK 226 million, of which NOK 174 million was capitalized and NOK 52 million was expensed. The company was awarded funding totaling NOK 85 million in third party funding, with NOK 9 million from the Norwegian Research Council for one of its research projects.

Aker Solutions recognized NOK 15 million in impairment losses on capitalized research and development. This was mainly related to technologies where the market outlook changed as a result of the market slowdown.

More than half of all R&D investments were allocated to digital initiatives last year, up from the year before, and the company expects this share to increase going forward.

The company is developing software and associated offerings to improve how the industry works from concept through field development, operations and decommissioning. This is represented by the company's PUSH program.

As in 2017, much of Aker Solutions' innovation took place in collaboration with other companies, such as ABB, MAN Diesel & Turbo, and Principle Power. Aker Solutions works with these and other companies to develop technologies and products to lower costs, increase recovery and minimize environmental footprints.

Aker Solutions has also continued investing in early phases of technology development, This work has been strengthened in 2018 with new employments to drive these processes. The company engages with university researchers to develop competence and create new technologies. In 2018 Aker Solutions, together with Multiconsult and Digitread, began sponsoring a five-year Professorship at NTNU, focused on research on digital transformation.

Health, Safety, Security and Environment

Aker Solutions is committed to a goal of zero harm to people, assets and the environment. The cornerstone of this objective is a strong, structured and company-wide HSSE system, setting clear standards for HSSE management and leadership. Regular audits aim to identify, isolate and help address potential shortcomings. Aker Solutions is focused on continuous improvement and learning throughout the organization, and the HSSE system is a key enabler in the quest for ever more stringent standards. At Aker Solutions the HSSE culture is founded on the principle that HSSE is the personal responsibility of every employee. To strengthen the culture further and improve the company's HSSE performance, Aker Solutions will from 2019 adopt and implement the new standardized International Association of Oil & Gas Producers (IOGP) Lifesaving Rules.

Safety

Aker Solutions operates with a zero incident mindset and the belief that all incidents can be prevented. Sadly, 75 employees were injured at work last year, 21 of these injuries resulted in lost time, and in three cases the injuries were serious.

The Lost Time Injuries were mainly injured legs, feet and wrists due to slips and trips, cuts and minor burns on fingers and hands and muscle strains after either bumping into or being struck by objects. As of year-end, Aker Solutions' had a lost time injury frequency (LTIF) of 0.6, compared to 0.5 for 2017. The total recordable injuries frequency (TRIF) indicator increased to 2.0, compared to 1.4 in 2017.

The Zero Days indicator counts days without a recordable injury, work-related illness, environmental spill or near miss across the company. In 2018, Aker Solutions had 288 zero incident days compared with 314 in 2017. This represents a decrease of 26 days. The company is now committed to return to the 2017 level, setting a goal of 314 Zero Days for 2019.

Aker Solutions also in 2017 adopted the serious incident frequency (SIF) KPI to focus on the occurrence of high-risk incidents. These are incidents where the actual or potential consequence is deemed to be high or extreme, as defined within the company's risk matrix. The year end result thus indicated a positive performance, with a SIF figure of 0.4 which well below the target.

Overall the HSSE performance of the company were negative and Aker Solutions management has taken actions to reverse these trends. The board of directors will monitor the development in 2019.

Health and Working Environment

Aker Solutions is committed to a goal of zero harm to people, assets and the environment. The cornerstone of this objective is a strong, structured and company-wide HSSE system, setting clear standards for HSSE management and leadership. Regular audits aim to identify, isolate and help address potential shortcomings. The HSSE system is a key enabler in the quest for even more stringent standards. At Aker Solutions the HSSE culture is founded on the principle that HSSE is the personal responsibility of every employee.

More detailed information is available in the company's corporate responsibility report for 2018 on www.akersolutions.com/cr-reports.

Security

Aker Solutions' commitment towards safeguarding employees, assets and reputation has been further enhanced by strengthening the Global Security Operations Center (GSOC). GSOC can remotely monitor and provide security assistance to company locations such as Brazil, Malaysia, Angola, UK and Norway. The center also includes a dedicated resource to monitor incidents around the world, ensuring early identification of situations potentially affecting Aker Solutions' sites or employees. It also offers support and assistance for all employees on business travels, and maintains an overview of the travelling population within the company. No serious security incidents were reported in 2018.

The corporate visitor management system was replaced in 2018, in line with GDPR requirements, and provides an improved user interface. Physical security requirements have been updated and will be communicated globally to ensure the same minimum standards across the company regardless of geographical location.

Aker Solutions is committed to utilizing a fleet of on-site vehicles that conforms with the highest safety standards. In line with the IOGP expectation of providing 5-star NCAP rated vehicles only, the company is conducting an ongoing fleet renewal program.

Cybercrime

The threats from Cyber Criminals is increasing and the most used attack vector is so-called phishing emails. Aker Solutions has taken steps to harden the protection of email, improve capabilities to identify ongoing malicious activities and increase employee awareness of cyber threats. With more smartness in all products there is also an increasing threat to devices connected to the internet. Necessary precautions have been taken to protect Aker Solutions and the company's clients assets.

Emergency Preparedness and Response

There have been no major incidents in 2018 involving the company's corporate emergency response team (CERT). To ensure a robust and resilient response in the event of an incident, procedures have been updated and training initiatives have been undertaken at all levels. The last year has also seen improvements made to the company's specialized response software, while notification lines to the GSOC have been strengthened and centralized.

Environment

Aker Solutions works to protect the environment by offering products, systems and services that help reduce the environmental footprint of customers' operations and by seeking to reduce negative climate impact of own operations.

Aker Solutions' total energy consumption, based on the recorded use of oil, gas, fuels and electricity, increased from 90,709 megawatt hours (MWh) in 2017 to 97,434 MWh in 2018. Total carbon dioxide emissions were 34,025 tonnes in 2018. The 2017 figure was 18,383 tonnes, but a comparison between the two is misleading as in 2018 the company included carbon dioxide emissions from travels booked in Norway, UK and US for the first time. Work is now underway to include travel emissions from Aker Solutions' other operational regions in 2019, which should again lead to an increase in overall figures. In 2019 Aker Solutions intends to report its carbon footprint to CDP.

Aker Solutions is focused on waste segregation and recycling. In 2018 the company recorded total waste of 9,034 tonnes, compared with 6,410 tonnes a year earlier. In total 71 percent of the waste was sent for recycling. This number is lower than in 2017, when the recycling factor was 87 percent. The reason for this significant decline was a change in the reporting of waste numbers. To align with industry standards, the company now only includes material recycling in its recycled waste fraction, excluding hazardous waste and waste to energy recovery. As a result a year-on-year comparison cannot be made.

Aker Solutions is committed to increasing efficiency and decreasing energy consumption. The 2018 figures reflect greater activity levels. Moving forward, the company is focusing on meeting production objectives with lower energy use and less waste.

Safeguarding Diversity and Equal Opportunity

Aker Solutions had 14,705 employees and 4,737 contract staff as of year-end 2018. Aker Solutions is strongly committed to the principles of non-discrimination and equal opportunity, regardless of gender, nationality or other factors. Men have traditionally dominated the oil and gas industry and, particularly, offshore work. This continues to be reflected in our organization, where around 17 percent of our employees are women. The number of women in leadership roles increased from 124 to 136 in 2018.

Aker Solutions' diverse workforce represents about 79 nationalities and offers a wide range of competencies and insights, benefitting both its customers and the business. Aker Solutions seeks to promote diversity in its workforce through clear recruitment requirements and the development of individuals and programs supporting equal opportunity, in accordance with its people policy and recruitment procedures.

More information regarding the company's commitment to equality and diversity is available in the company's 2018 corporate responsibility report.

Risk Factors

Aker Solutions' global footprint, operations and exposure to energy markets provide both opportunities and risks that may affect the company's operations, performance, finances, reputation and share price.

Overall company performance is affected by both external and internal factors. External factors include issues such as fluctuations in energy prices, customer behaviour and market developments, while internal factors may encompass matters such as project execution and service delivery. The inherent complexity of Aker Solutions internal operations and the costs across a broad-based value chain also impact upon results. Principal cost drivers include the cost of suppliers' direct and indirect material, sub-contractor costs and the company's own man-hours, and fluctuations in oil and gas prices. Through its business, Aker Solutions is exposed to legal, regulatory and political risks, such as tax changes, decisions on environmental regulation, and international sanctions that impact supply and demand, as well as risks associated with unethical and criminal behaviour. The company is also exposed to financial market risks, including changes in currency rates, interest rates, credit and counterparty risks, as well as risks associated with access to and terms of financing.

Market Risk

Compared to recent years, the market situation and current outlook for the oil-services industry is improving. Nevertheless, significant challenges remain. Some of the principal factors that contribute to market risk are outlined below:

- Changes in global demand, energy prices and environmental requirements impact upon oil company activities and the overall development of the market.
- Local content requirements, legislative restrictions and/or prohibitions on oil and gas activities in countries of existing or planned operations.
- Liabilities under environmental laws or regulations.
- Uncertainty regarding future contract awards and their impact on future earnings and profitability.

These factors will influence oil price and oil companies' exploration, development, production, investment, modification and maintenance activity.

Developments within the market will lead to capacity adjustments and changes in the valuation of company assets and liabilities. The main uncertainties include delivering on the company's international growth ambitions, entry and establishment in new growth markets, and delivering a competitive cost base. Aker Solutions is committed to an active policy of risk management and will take mitigating actions to increase flexibility in its operations, for instance by seeking to drive down costs, build a sustainable global workforce and enhance standardization and simplification. The company aims to be agile in its approach to the market, effectively adapting to industry demand and fluctuations to deliver optimal value and rewards across the value chain. A focus on continuous improvement in productivity and sustainability is central to these efforts.

Operational Risk

Aker Solutions utilizes both reimbursable and fixed-price contracts. Contracts that include fixed prices for all or parts of the deliverables are subject to the risk of potential cost overruns. Aker Solutions is involved in projects that are both demanding and complex in nature, with significant design and engineering requirements, as well as extensive procurement and manufacturing of equipment, sourcing supplies and construction management. In certain situations the projects may also require the development of innovative new technology and solutions. These can impact upon the company's ability to deliver on time and in accordance with a contract, potentially harming Aker Solutions' reputation, performance and finances. Factors that may have an adverse material effect on the business, results of operations and finances of Aker Solutions include, but are not limited to:

- The loss of business from a significant customer, the failure to deliver a significant project as agreed, or alterations to the order backlog
- Aker Solutions' ability to compete effectively and maintain market positions and sales volumes
- The company's capability to successfully commercialize new technology
- Partnerships, joint ventures and other types of cooperation that expose the company to risks and uncertainties outside its control
- Non-delivery and/or disputes with a key supplier
- Significant delays or quality issues impacting upon project delivery or performance
- Cybercrime leading to system downtime or significant loss of intellectual property

Financial Risks

The objective of financial risk management is to manage exposure from financial risks to increase predictability of earnings and minimize potential adverse effects on financial performance. Financial risk management and exposures are described in detail in note 22 and capital management is described in note 23. The main financial risks are:

- **Currency risk:** Aker Solutions has international operations and is exposed to currency risk on commercial transactions, assets and liabilities when payments and revenues are denominated in a currency other than the functional currency of the respective entity. The currency risks in all major contracts are hedged with external banks in the foreign exchange market. More than 80 percent of the hedging volume either qualifies for hedge accounting or is presented separately as hedges of embedded derivatives. Some jurisdictions may have currency restrictions and / or restrictions on repatriation of funds, in which case the company takes mitigating actions to minimize the currency exposure. These actions include non-deliverable forwards, multilateral or bilateral agreements with banks, customers and vendors regarding conversion of currencies, and timing of invoicing and payments.
- **Liquidity risk:** The corporate treasury department ensures financial flexibility by ensuring sufficient liquidity reserves and available committed credit lines. The company monitors rolling 12 weeks and 12 months cash forecasts of the company's future liquidity reserve, based on committed and expected cashflow in all business entities.
- **Interest rate risk:** The company's interest exposure mainly arises from external funding in bank and debt capital markets. Currently all external debt in Aker Solutions is at floating interest rates. The company's risk management strategy is that 30-50% of the interest exposure shall be fixed interest rate for the duration of the debt. The company uses interest rate swaps to achieve the desired fixed / floating ratio of the external debt. As the group has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates.
- **Credit risk:** The credit risk related to customers' ability to pay is assessed in the bid phase and during execution of a project. The majority of the customers are highly rated oil companies where the credit risk is considered to be limited. Risk related to lower rated companies is monitored closely.
- **Price risk:** Aker Solutions is exposed to fluctuations in market prices which are mitigated in the bid process to a great extent by locking in committed prices with vendors or through escalation clauses with customers.

More information on financial risk factors is available in note 22. Aker Solutions has company-wide policies, procedures and tools that identify, evaluate and respond to risks actively and systematically. The assessment, definition, follow-up and implementation of adequate mitigating actions towards the main risk factors are all integral parts of the overall governance of the company. Aker Solutions applies a combination of risk management practices in order to effectively manage the risk to the company such as: internal controls, scenario planning, sensitivity analysis and audit management.

Fornebu, March 7, 2019
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

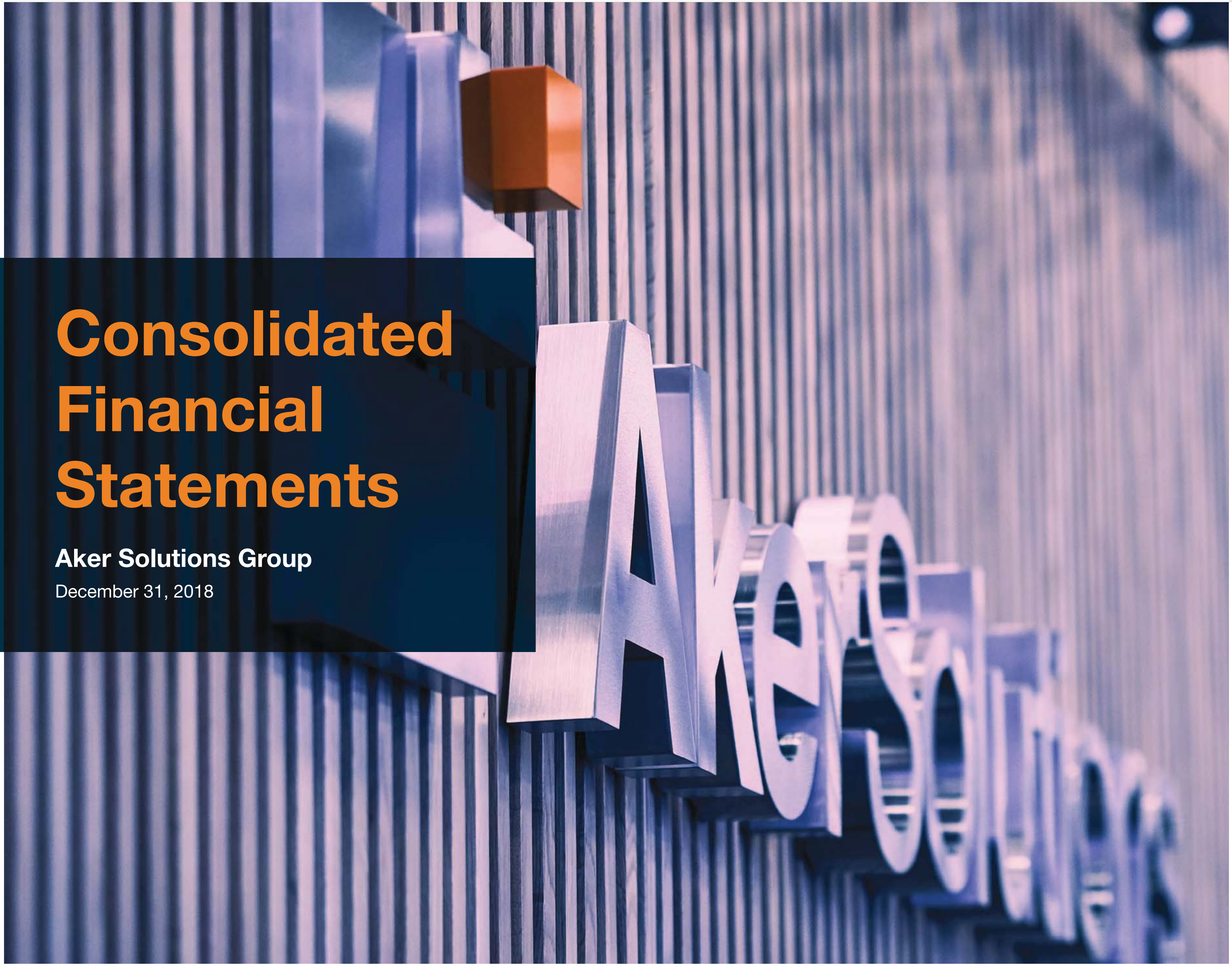
Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer



Consolidated Financial Statements

Aker Solutions Group

December 31, 2018

Declaration by the Board of Directors and Chief Executive Officer

The board and chief executive officer have today considered and approved the annual report and financial statements for the Aker Solutions group and its parent company Aker Solutions ASA for the 2018 calendar year ended on December 31, 2018.

This declaration is based on reports and statements from the chief executive officer, chief financial officer and on the results of the group's business as well as other essential information provided to the board to assess the position of the parent company and the group.

To the best of our knowledge:

- The 2018 financial statements for the parent company and the group have been prepared in accordance with all applicable accounting standards.
- The information provided in the financial statements gives a true and fair portrayal of the parent company's and the group's assets, liabilities, financial position and results taken as a whole as of December 31, 2018.
- The board of directors' report for the parent company and the group provides a true and fair overview of the development, performance and financial position of the parent company and the group taken as a whole, and the most significant risks and uncertainties facing the parent company and the group.

Fornebu, March 7, 2019
Board of Directors of Aker Solutions ASA

Øyvind Eriksen

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen

Henrik O. Madsen
Director

Atle Teigland

Atle Teigland
Director

Hilde Karlsen

Hilde Karlsen
Director

Oddvar Holland

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Income Statement

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2018	2017
Revenue	3, 4	**25,232**	**22,461**
Materials, goods and services		**-10,560**	-8,359
Personnel expenses	5	**-9,534**	-9,290
Other operating expenses	6	**-3,328**	-3,292
Operating expenses before depreciation, amortization and impairment		**-23,422**	**-20,941**
Operating income before depreciation, amortization and impairment		**1,810**	**1,519**
Depreciation and amortization	10, 11	**-739**	-792
Impairment	10, 11, 12	**-22**	-156
Operating income		**1,049**	**571**
Interest income	7	**39**	55
Interest expenses	7	**-268**	-305
Net other financial items	7	**-28**	78
Income before tax		**792**	**399**
Income tax	9	**-238**	-160
Net income		**554**	**239**
Net income attributable to:			
Equity holders of the parent company		**511**	221
Non-controlling interests		**43**	18
Net income		**554**	**239**
Earnings per share in NOK (basic and diluted)	8	**1.88**	**0.81**

Other Comprehensive Income (OCI)

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2018	2017
Net income		**554**	**239**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Cashflow hedges, effective portion of changes in fair value		**8**	348
Cashflow hedges, reclassified to income statement		**3**	233
Cashflow hedges, deferred tax	9	**-2**	-147
Translation differences - foreign operations		**-69**	112
Total		**-60**	**546**
Items that will not be reclassified to profit or loss:			
Remeasurements of defined pension obligations	18	**-71**	-60
Remeasurements of defined pension obligations, deferred tax asset	9	**12**	10
Change in fair value of equity investments over OCI	25, 27	**12**	-17
Total		**-48**	**-67**
Other comprehensive income (loss), net of tax		**-108**	**479**
Total comprehensive income		**446**	**718**
Total comprehensive income (loss) attributable to:			
Equity holders of the parent company		**400**	701
Non-controlling interests		**47**	17
Total comprehensive income		**446**	**718**

Balance Sheet

Consolidated statement as of December 31

Amounts in NOK million	Note	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	10,12	**3,044**	3,316
Intangible assets	11,12	**5,686**	5,814
Deferred tax assets	9	**663**	633
Other investments	22, 25, 27	**79**	91
Other non-current assets	25	**84**	106
Total non-current assets		**9,556**	**9,960**
Current assets			
Current tax assets		**109**	174
Inventories	13	**326**	428
Customer contract assets and receivables	3, 14, 25	**6,887**	5,246
Prepayments		**1,348**	1,597
Derivative financial instruments	24, 25	**218**	226
Interest-bearing receivables	25	**47**	128
Cash and cash equivalents	15, 25	**2,473**	1,978
Total current assets		**11,408**	**9,775**
Total assets		**20,964**	**19,736**

Amounts in NOK million	Note	2018	2017
Equity and liabilities			
Equity			
Share capital	16	**294**	294
Treasury shares	16	**-1**	-1
Reserves	16	**1,161**	1,115
Retained earnings		**6,047**	5,572
Total equity attributable to the parent		**7,502**	**6,981**
Non-controlling interests	26	**106**	**67**
Total equity		**7,608**	**7,047**
Non-current liabilities			
Non-current borrowings	17, 25	**1,788**	2,576
Pension obligations	18	**572**	556
Deferred tax liabilities	9	**266**	238
Other non-current liabilities		**10**	83
Total non-current liabilities		**2,636**	**3,453**
Current liabilities			
Current tax liabilities		**68**	43
Current borrowings	17, 25	**1,125**	539
Provisions	20	**906**	942
Trade and other payables	21, 25, 28	**7,741**	7,304
Customer contract liabilities	3	**709**	0
Derivative financial instruments	24, 25	**172**	408
Total current liabilities		**10,721**	**9,236**
Total liabilities		**13,357**	**12,688**
Total equity and liabilities		**20,964**	**19,736**

Fornebu, March 7, 2019
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Cashflow

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2018	2017
Cashflow from operating activities			
Net income		**554**	**239**
Adjustments for:			
Income tax	9	**238**	160
Net interest cost		**218**	213
(Profit) loss on foreign currency forward contracts	7	**17**	-41
Depreciation, amortization and impairment	10, 11, 12	**761**	948
Other (profit) loss on disposals and non-cash effects		**-73**	70
Net income after adjustments		**1,715**	**1,589**
Changes in operating assets and liabilities		**-447**	-482
Cash generated from operating activities		**1,268**	1,107
Interest paid		**-313**	-327
Interest received		**96**	91
Income taxes paid		**-130**	-283
Net cash from operating activities		**921**	**587**
Cashflow from investing activities			
Acquisition of property, plant and equipment	10	**-331**	-211
Payments for capitalized development	11	**-174**	-149
Business combinations, net of cash acquired		**0**	-221
Proceeds from sale of property, plant and equipment		**104**	26
Interest-bearing loan to third party		**62**	264
Acquisition/sale of shares and funds		**66**	5
Other investing activities		**-23**	-21
Net cash used in investing activities		**-297**	**-308**

Amounts in NOK million	Note	2018	2017
Cashflow from financing activities			
Proceeds from borrowings	17	**1,617**	1,317
Repayment of borrowings	17	**-1,716**	-2,078
Paid dividends including tax	8	**0**	-27
Acquisition of non-controlling interests		**0**	-47
Net cash from financing activities		**-99**	**-835**
Effect of exchange rate changes on cash and bank deposits		**-30**	54
Net increase (decrease) in cash and bank deposits		**495**	**-502**
Cash and cash equivalents at the beginning of the period		**1,978**	2,480
Cash and cash equivalents at the end of the period	15	**2,473**	**1,978**

Equity

Consolidated statement of changes in equity

Amounts in NOK million	Note	Share capital	Treasury share reserve	Retained earnings	Hedging reserve	Translation reserve	Fair value reserve	Pension reserve	Equity attributable to parent	Non-controlling interests	Total equity
Equity as of January 1, 2017		294	-1	5,350	-618	1,187	28	38	**6,278**	138	**6,415**
Net income		0	0	221	0	0	0	0	**221**	18	**239**
Other comprehensive income		0	0	0	434	114	-17	-50	**480**	-2	**479**
Total comprehensive income		0	0	**221**	**434**	**114**	**-17**	**-50**	701	**17**	718
Change in non-controlling interests from acquisition of shares		0	0	2	0	0	0	0	**2**	-50	**-48**
Taxes on internal dividends		0	0	0	0	0	0	0	**0**	-38	**-38**
Equity as of December 31, 2017		**294**	**-1**	**5,572**	**-184**	**1,301**	**10**	**-12**	**6,981**	**67**	**7,047**
Effect from implementing IFRS 9 Financial Instruments	25	0	0	0	168	11	3	0	**181**	0	**181**
Effect from implementing IFRS 15 Revenue from Customer Contracts	3	0	0	-43	0	0	0	0	**-43**	-24	**-67**
Equity as of January 1, 2018		**294**	**-1**	**5,529**	**-16**	**1,312**	**13**	**-12**	**7,119**	**43**	**7,162**
Net income		0	0	511	0	0	0	0	**511**	43	**554**
Other comprehensive income		0	0	0	9	72	12	-59	**-111**	3	**-108**
Total comprehensive income		**0**	**0**	**511**	**9**	**-72**	**12**	**-59**	**400**	**47**	**446**
Realization of equity instruments valued at FVOCI		0	0	25	0	0	-25	0	**0**	0	**0**
Sale of shares to non-controlling interest without change in control		0	0	-17	0	0	0	0	**-17**	17	**0**
Equity as of December 31, 2018		**294**	**-1**	**6,047**	**-8**	**1,240**	**0**	**-71**	**7,502**	**106**	**7,608**

Notes to the Consolidated Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions is a global provider of products, systems and services to the oil and gas industry. The company had 14,705 own employees and was present in 25 countries at the end of 2018. The main office is at Fornebu, Norway.

Aker Solutions ASA is a Norwegian limited liability company listed on the Oslo Stock Exchange under the ticker AKSO. The consolidated financial statements of Aker Solutions incorporate the financial statements of the company and its subsidiaries collectively referred to as “the group” or "the company" and separately as group companies. The parent company Aker ASA publishes consolidated financial statements. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA.

Note 2 Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union, their interpretations adopted by the International Accounting Standards Board (IASB) and the additional requirements of the Norwegian Accounting Act as of December 31, 2018.

The consolidated financial statements were approved by the Board of Directors and the chief executive officer (CEO) on March 7, 2019. The consolidated financial statements will be authorized at the Annual General Meeting on April 10, 2019. Until this date the Board of Directors has the authority to amend the financial statements.

Financial Reporting Principles

The relevant financial reporting principles are described in each note to the consolidated financial statements. Aker Solutions focuses on describing the reporting within the IFRS framework rather than repeating the actual text of the standard.

Basis of Measurement

The consolidated balance sheet has been prepared on the historical cost basis except for certain financial assets and liabilities as presented in note 25 measured at fair value on each reporting date. The financial information presented in Norwegian Kroner (NOK) has been rounded to the nearest million (NOK million), therefore the subtotals and totals in some tables may not equal the sum of the amounts shown. Certain comparative figures have been adjusted to conform to the presentation adopted in the current year, including note 13, 14, 18, 19, 21 and 25.

Note 2 continues on next page

Note 2 Basis of Preparation cont.

Consolidation

The consolidated financial statements comprise the parent company Aker Solutions ASA and its subsidiaries. Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions each reporting period that affect the income statement and balance sheet. The accounting estimates will by definition seldom precisely match actual results. The main areas where judgements and estimates have been made are described in each of the following notes:

- Note 3 Revenue
- Note 9 Tax
- Note 10 Property, Plant and Equipment
- Note 11 Intangible Assets
- Note 12 Impairment of Assets
- Note 13 Inventories
- Note 14 Customer Contract Assets and Receivables
- Note 18 Pension Obligations
- Note 20 Provisions and Contingent Liabilities

New Financial Reporting Principles

IFRS 15 Revenue from Customer Contracts has been implemented per January 1, 2018, and implementation effects are presented in note 3. IFRS 9 Financial Instruments was also implemented per January 1, 2018. Implementation effects are presented in note 3 and 25.

IFRS 16 Leasing will be implemented on January 1, 2019. Expected implementation effects impacting the balance sheet and expected impact on future income statements are described in note 32.

Note 3 Revenue

The revenue in Aker Solutions ranges from man-hour based maintenance and engineering services in the oil and gas industry, to complex construction contracts for delivery of subsea systems and modifications of oil and gas installations. Project execution is a key component of all deliveries.

Financial Reporting Principles

IFRS 15 Revenue from Contracts with Customers was adopted on January 1, 2018. The company has applied a modified retrospective implementation method, with cumulative impact recognized in retained earnings and no restatement of 2017 figures. The standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue. The transition effects are explained below.

IFRS 15 introduces a new five-step model that applies to all customer contracts. Under the new standard, only approved customer contracts with a firm commitment is basis for revenue recognition. Variation orders are included when they have been approved, either verbally, in writing or implied by customary business practice. The deliveries in the contracts are reviewed to identify distinct performance obligations, and this assessment may involve significant judgement. For the majority of the identified performance obligations, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognized over time using a cost based progress method, or revenue is recognized as time and materials are delivered to the customer. These methods are assessed to best reflect the pattern of transfer of control of goods and services to the customer.

Variable considerations, such as incentive payments, are included in revenue when they are highly probable. Expected liquidated damages (LD) are recognized as a reduction of the transaction price unless it is highly probable LDs will not be incurred. The transaction price of performance obligations is adjusted for significant financing components to reflect the time value of money. Financing components may exist when the expected time period between the transfer of the promised goods and services and the payment is more than twelve months. This assessment is performed at the contract inception. Profit is not recognized until the outcome of the performance obligations can be measured reliably. Contract costs are expensed as incurred. The full loss is recognized immediately when identified on loss-making contracts. The loss is determined based on revenue less direct cost (i.e.labour, subcontractor and material cost) and an allocation of overhead that relate directly to the contract or activities required to fulfil the contract.

Judgments and Estimates

It can be challenging to estimate the expected revenue and cost in the company's customer contracts, in particular if there are operational challenges. The most significant judgments and estimates in the customer contracts are described below.

Variable Consideration

Incentive payments are integral and significant parts of contract revenue on certain reimbursable contracts. They can also be present in lumpsum contracts. Incentive payments include key performance indicators, bonuses, target sum mechanisms and productivity measures and can potentially both increase and decrease revenue. Most incentives are estimated using the most likely amount. Revenue from variable consideration is included only when it is highly probable that the revenue will not be reversed. There is a risk that the actual payment of incentives may differ from the estimated amount.

Liquidated Damages (LDs)

LDs are penalties for not achieving defined milestones on time. LDs are common in construction contracts, but can also be present in service contracts. If a project does not meet the defined milestone in a contract, a provision reducing the transaction price is made unless it is highly probable that LD will not be imposed. The estimated LD provision is highly judgmental and based on experience from similar LD situations and negotiations with customers in addition to an assessment of client relationship and economic impact.

Total Contract Cost

The estimates of total contract cost can be judgmental and sensitive to changes. The cost estimates can significantly impact revenue recognition for contracts using cost progress, particularly in lump sum construction contracts. The forecasting of total project cost depends on the ability to properly execute the engineering and design phase, availability of skilled resources, manufacturing capacity, productivity and quality factors,

Note 3 continues on next page

Note 3 Revenue cont.

performance of subcontractors and sometimes also weather conditions. Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that cost estimates may change significantly.

Performance Obligations

Significant management judgement is sometimes required in order to identify distinct performance obligations in customer contracts. This includes an analysis of the customer contract to determine if the goods or services are distinct deliveries or inputs to an overall promise to deliver a combined item.

Different Types of Customer Contracts

The revenue in Aker Solutions consists of various contracts for the engineering, procurement, construction, modification and maintenance of various oil and gas installations.

Projects - Subsea

Deliveries include stand-alone subsea equipment or complete subsea systems consisting of subsea trees, wellheads, manifolds, umbilicals, tie-in and other types of subsea equipment. Most contracts last more than one year and can be as long as five years. The contracts include engineering, procurement and construction (EPC) of subsea production equipment. Each contract is usually assessed as one performance obligation as the deliveries are combined in one output. The contracts are mainly lumpsum with penalties (LDs). Some contracts may have incentive arrangements. Payment terms are normally 30-90 days according to predefined milestones. If payment is agreed upon delivery of the equipment, a financing component will be presented if significant. Revenue is recognized over time using a cost progress method. Estimates of total contract revenue and cost may require management judgment. No profit is recognized unless the outcome can be measured reliably, usually at 10-20 percent progress. These contracts are reported in the "projects" operating segment.

Projects - Field Design

The engineering contracts and the brownfield maintenance, modification and hook-up contracts for oil and gas installations are mainly reimbursable, but can also include lumpsum elements. Some contracts have incentive mechanisms including bonuses, target sum mechanisms, key performance indicators and productivity measures. Each engineering, hook-up, modification and maintenance job is usually assessed as a separate performance obligation. The contracts usually last from one to five years. Revenue is recognized over time using a cost progress method or revenue is recognized according to delivered time and materials. Payment terms are normally 30 days after time and materials are delivered. These contracts are referred to as "Field Design" in the revenue table below and are included in the "projects" operating segment.

Services

Services include maintenance, repair, spares supply, installation and commissioning of subsea equipment and production asset through regional service bases. The contracts are mainly reimbursable, but lumpsum contracts or elements of lumpsum exist in some regions. Each service job under a frame agreement is usually assessed as a separate performance obligation. The frame agreements can run for several years, and each service job usually last for some months to as long as two years. Revenue is normally recognized according to delivered time and materials. Contracts with a significant lumpsum element usually use a cost progress method to determine progress and recognize revenue. Payment terms are normally 30 days after time and materials are delivered. These contracts are reported in the "Services" operating segment.

The following tables show the revenue from customer contracts by type. Revenue by country is shown in note 4 (operating segments).

Amounts in NOK million	**2018**	**2017**
Projects - Subsea	**8,162**	8,336
Projects - Field Design	**11,814**	9,402
Projects - Intra-group revenue	**-57**	-78
Sum Projects	**19,920**	**17,660**
Services	**5,096**	4,560
Total revenue from customer contracts (in scope of IFRS 15)	**25,016**	**22,220**

Note 3 continues on next page

Note 3 Revenue cont.

Timing of Revenue

The performance obligations in customer contracts vary from a few months to as long as five years. The order backlog as of December 31, 2018, was NOK 35.1 billion. The table below shows the expected timing of future revenue for ongoing and not yet started performance obligations at year-end.

Amounts in NOK billion	2019	2020	2021	2022 and later	Total backlog
Backlog phasing of ongoing performance obligations	18.7	6.0	2.7	1.5	28.9
Backlog phasing of performance obligations not yet started	1.9	1.4	1.0	1.9	6.3
Total backlog	**20.7**	**7.4**	**3.7**	**3.4**	**35.1**

Revenue recognized in 2018 for performance obligations delivered in prior years due to constraining the revenue was NOK 199 million.

Contract Balances

The company has recognized the following assets and liabilities related to contracts with customers.

Amounts in NOK million	December 31, 2018	January 1, 2018
Trade receivables	**3,236**	2,876
Customer contract assets	**3,559**	4,015
Customer contract liabilities	**709**	749

Contract assets relate to consideration for work completed, but not yet invoiced at the reporting date. The contract assets are transferred to customer receivables when the right to payment become unconditional, which usually occurs when invoices are issued to the customers. Contract liabilities relate to advances from customer for work not yet performed.

The change in contract assets and liabilities relates to the natural progression of the project portfolio, as well as the current project mix. The amount of NOK 749 million recognized in contract liabilities at the beginning of the period has been recognized as revenue in 2018.

The bad debt provision included in receivables at December 31, 2018 was NOK 84 million, compared to NOK 93 million the year before. No impairment has been recognized on contract assets.

Effect of Transitioning to IFRS 15

The company has applied a modified restrospective implementation method, with the cumulative impact recognized in retained earnings as of January 1, 2018. Comparative figures for 2017 are not restated. The main changes are described below.

- Subsea contracts previously using a technical progress method changed to a cost progress method under IFRS 15. The progress on some contracts was reduced, whereas others were accelerated. The net impact resulted in a decrease of equity of NOK 106 million before tax and an increase of order backlog of NOK 247 million as of January 1, 2018.
- Tender costs previously capitalized when award was probable are fully expensed under IFRS 15. The effect of removing capitalized tender cost in the balance sheet upon transition as of January 1, 2018 was a reduction of equity of NOK 48 million before tax.
- Waste cost will not be included when determining cost progress. No waste costs were identified upon transition.
- IFRS 15 introduces a higher threshold for including revenue from variable consideration and modifications. No transitioning effects were identified.
- Revenue accruals are presented separately as contract asset or liabilities under IFRS 15, not netted with cost accruals and presented as work in progress (WIP) as under IAS 11/18.

Net of tax, the total effect from implementing IFRS 15 was presented as a reduction of equity of NOK 67 million as of January 1, 2018.

Note 3 continues on next page

Note 3 Revenue cont.

Amounts in NOK million	**January 1, 2018**
Change of progress method	-106
Removal of capitalized tender cost	-48
Tax effects	86
Total IFRS 15 impact on equity	**-67**

The tables below show the impact of IFRS 15 for 2018 and the reporting if IAS 11/18 would have been applied.

IFRS 15 Impact on Income Statement

Amounts in NOK million	**Reported 2018 IFRS 15**	**Impact of IFRS 15**	**Adjusted 2018 IAS 11/18**	**Reported 2017 IAS 11/18**
Revenue	25,232	42	**25,274**	22,461
Operating expenses	-23,422	55	**-23,367**	-20,941
Operating income before depreciation, amortization and impairment	**1,810**	**96**	**1,906**	**1,519**
Depreciation, amortization and impairment	-761	0	**-761**	-948
Operating income	**1,049**	**96**	**1,145**	**571**
Net financial items	-258	0	**-258**	-172
Income before tax	**792**	**96**	**887**	**399**
Income tax	-238	-29	**-267**	-160
Net income	**554**	**68**	**621**	**239**
Order backlog	35,148	-42	**35,106**	34,581

IFRS 15 Impact on Balance Sheet

Amounts in NOK million	Reported 2018 IFRS 15	Impact of IFRS 15	Adjusted 2018 IAS 11/18	Reported 2017 IAS 11/18
Property, plant and equipment	3,044	0	**3,044**	3,316
Intangible assets	5,686	0	**5,686**	5,814
Deferred tax asset	663	0	**663**	633
Other Investments	79	0	**79**	91
Other non-current assets	84	0	**84**	106
Total non-current assets	**9,556**	**0**	9,556	**9,960**
Current tax assets	109	0	**109**	174
Inventories	326	0	**326**	428
Customer contract assets and receivables	6,887	-2,501	**4,387**	5,246
Prepayments	1,348	0	**1,348**	1,597
Derivative financial instruments	218	0	**218**	226
Interest-bearing receivables	47	0	**47**	128
Cash and cash equivalents	2,473	0	**2,473**	1,978
Total current assets	**11,408**	**-2,501**	8,908	**9,775**
Total assets	**20,964**	**-2,501**	18,464	**19,736**

Amounts in NOK million	Reported 2018 IFRS 15	Impact of IFRS 15	Adjusted 2018 IAS 11/18	Reported 2017 IAS 11/18
Total equity attributable to the parent	7,502	146	**7,648**	6,981
Non-controlling interests	106	-23	**83**	67
Total equity	**7,608**	**123**	7,731	**7,047**
Non-current borrowings	1,788	0	**1,788**	2,576
Pension obligations	572	0	**572**	556
Deferred tax liabilities	266	0	**266**	238
Other non-current liabilities	10	0	**10**	83
Total non-current liabilities	**2,636**	**0**	2,636	**3,453**
Current tax liabilities	68	117	**185**	43
Current borrowings	1,125	0	**1,125**	539
Provisions	906	-181	**725**	942
Trade and other payables	7,741	-1,852	**5,890**	7,304
Customer contract liabilities	709	-709	**0**	0
Derivative financial instruments	172	0	**172**	408
Total current liabilities	**10,721**	**-2,625**	8,097	**9,236**
Total liabilities and equity	**20,964**	**-2,501**	18,464	**19,736**

See note 4 for more information about revenue per segment and per country
See note 14 for more information about customer contract assets and receivables
See note 21 for more information about other payables

Note 4 Operating Segments

Aker Solutions is a global provider of equipment, systems and services to the oil and gas industry. The operations are managed through value-chain based delivery centers. Early customer engagement, engineering and project execution are reported in the "Projects" segment whereas life-of-field offerings are reported in "Services".

Financial Reporting Principles

Operating segments are components of the group regularly reviewed by the chief operating decision maker to assess performance and be able to allocate resources. The group's CEO (chief executive officer) is the chief decision maker at Aker Solutions. The accounting principles of the operating segments are the same as described in this annual report, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiary hedges the exposure against corporate treasury. Hedge accounting is applied independently of whether the hedge qualifies for hedge accounting in accordance with IFRS. The correction of the non-qualifying hedges to secure that the consolidated financial statements are in accordance with IFRS is made as an adjustment at the corporate level and reported in the "other" segment. This means that the group's segment reporting reflects all hedges as qualifying even though they may not qualify according to IFRS. Transactions between the segments are based on market prices and eliminated upon consolidation. Aker Solutions has a central finance function. Financing of the various segments does not necessarily reflect the financial strenght of the individual segments. Financial items are therefore presented only for the group as a whole.

Projects

The Projects segment provides subsea equipment and systems, engineering and procurement in addition to brownfield maintenance, modifications and hook-up. The objective of the segment is to deliver world-class project execution by building excellence in project management, engineering, fabrication and offshore construction.

Services

Services include maintenance, repair, spares supply, installation and commissioning of subsea equipment and production asset through regional service bases. The objective of the segment is to grow a focused service business and position Aker Solutions the a key partner of choice for customers.

Other

The "other" segment includes unallocated corporate costs, onerous lease cost and the effect of hedges not qualifying for hedge accounting. Lease decisions are taken by the corporate center and onerous lease cost has for that reason been reported in the "other" segment. After the restructuring in 2017, the number of employees in the operations and finance support functions are reported in the "other" segment while the related cost is allocated to the segments.

Note 4 Operation Segments cont.

Segment Performance 2018

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
External revenue		19,842	5,095	**24,936**	296	0	**25,232**
Inter-segment revenue		78	2	**80**	2	-82	**0**
Total revenue		**19,920**	**5,096**	**25,016**	**298**	**-82**	**25,232**
Operating income before depreciation, amortization and impairment		1,354	678	**2,032**	-222	0	**1,810**
Depreciation and amortization	10, 11	-497	-164	**-661**	-78	0	**-739**
Impairment	10, 11, 12	-15	-2	**-17**	-5	0	**-22**
Operating income		**843**	**511**	**1,354**	**-305**	**0**	**1,049**
Assets							
Current operating assets		4,703	2,438	**7,141**	1,612	-83	**8,671**
Non-current operating assets		5,433	2,714	**8,147**	621	0	**8,767**
Derivative financial instruments		0	0	**0**	217	0	**217**
Operating assets		**10,137**	**5,151**	**15,288**	**2,450**	**-83**	**17,655**
Liabilities							
Current operating liabilities		5,844	1,744	**7,589**	1,918	-83	**9,424**
Non-current operating liabilities		0	0	**0**	572	0	**572**
Derivative financial instruments		-37	2	**-35**	207	0	**172**
Operating liabilities		**5,807**	**1,746**	**7,554**	**2,697**	**-83**	**10,168**
Net current operating assets		-1,141	693	**-448**	-306	0	**-753**
Net capital employed		3,262	1,867	**5,129**	2,780	0	**7,909**
Cashflow							
Cashflow from operating activities		1,544	463	**2,007**	-1,087	0	**921**
Acquisition of property, plant and equipment	10	-196	-103	**-299**	-32	0	**-331**
Capitalized development	11	-158	-2	**-159**	-15	0	**-174**
Other key figures							
Order intake (unaudited)		19,642	5,756	**25,398**	223	-200	**25,421**
Order backlog (unaudited)		25,014	10,294	**35,308**	0	-159	**35,148**
Own employees (unaudited)		7,188	5,473	**12,661**	2,044		**14,705**

Note 4 continues on next page

Note 4 Operation Segments cont.

Segment Performance 2017

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
Construction revenue		12,107	0	**12,107**	40	0	**12,147**
Services revenue		5,422	4,554	**9,976**	1	0	**9,977**
Products revenue		113	0	**113**	0	0	**113**
Other revenue		0	1	**1**	222	0	**223**
Total external revenue		**17,643**	**4,555**	**22,197**	**263**	**0**	**22,461**
Inter-segment revenue		18	5	**23**	1	-24	**0**
Total revenue		**17,660**	**4,560**	**22,220**	**264**	**-24**	**22,461**
Operating income before depreciation, amortization and impairment		1,217	605	**1,822**	-303	0	**1,519**
Depreciation and amortization	10, 11	-519	-178	**-697**	-95	0	**-792**
Impairment	10, 11, 12	-90	2	**-88**	-68	0	**-156**
Operating income		**608**	**429**	**1,037**	**-466**	**0**	**571**
Assets							
Current operating assets		4,669	2,127	**6,796**	714	-65	**7,444**
Non-current operating assets		5,650	2,825	**8,475**	722	0	**9,197**
Derivative financial instruments		0	0	**0**	226	0	**226**
Operating assets		**10,319**	**4,952**	**15,271**	**1,661**	**-65**	**16,866**
Liabilities							
Current operating liabilities		5,381	1,616	**6,997**	1,357	-65	**8,289**
Non-current operating liabilities		5	0	**5**	551	0	**556**
Derivative financial instruments		-37	0	**-37**	445	0	**408**
Operating liabilities		**5,350**	**1,616**	**6,966**	**2,353**	**-65**	**9,253**
Net current operating assets		-712	511	**-201**	-643	0	**-844**
Net capital employed		3,873	1,792	**5,665**	2,535	0	**8,199**
Cashflow							
Cashflow from operating activities		281	816	**1,097**	-511	0	**587**
Acquisition of property, plant and equipment	10	-110	-87	**-196**	-15	0	**-211**
Capitalized development	11	-143	-3	**-146**	-4	0	**-149**
Other key figures							
Order intake (unaudited)		18,177	5,116	**23,293**	381	-121	**23,553**
Order backlog (unaudited)		24,807	9,743	**34,550**	135	-103	**34,581**
Own employees (unaudited)		6,980	5,036	**12,016**	1,780		**13,796**

Note 4 continues on next page

Note 4 Operation Segments cont.

Reconciliation of Information on Operating Segments to IFRS Measures

Amounts in NOK million	2018	2017
Assets		
Total operating segment assets	**17,655**	16,866
Deferred tax assets	**663**	633
Other investments	**79**	91
Current interest-bearing receivables	**47**	128
Cash and cash equivalents	**2,473**	1,978
Other	**46**	39
Total assets	**20,964**	**19,736**
Liabilities		
Total operating segment liabilities	**10,168**	9,253
Tax-related liabilities	**266**	238
Net interest-bearing borrowings	**2,913**	3,114
Other non-current liabilities	**10**	83
Total liabilities	**13,357**	**12,688**

Major Customer

One major customer represented 24.8 percent of total revenue in 2018, of which NOK 5.5 billion (2017: NOK 5.0 billion) in Projects and NOK 0.7 billion (2017: NOK 0.6 billion) in Services. Aker Solutions has long-term contracts with this customer which is a large international oil company.

Geographical Information

External revenue is presented on the basis of geographical location of the selling company. Non-current segment assets and capital expenditures are based on the geographical location of the company owning the assets.

	Revenue		Non-current operating assets		Capital expenditure fixed assets	
Amounts in NOK million	2018	2017	2018	2017	2018	2017
Norway	**15,367**	12,984	**4,121**	4,129	**148**	70
UK	**3,695**	2,411	**2,150**	2,265	**26**	51
Brazil	**1,755**	2,068	**1,138**	1,335	**39**	20
Malaysia	**907**	546	**396**	430	**8**	17
Angola	**890**	1,095	**51**	64	**6**	28
USA	**829**	1,506	**454**	484	**19**	2
Brunei	**711**	732	**2**	3	**1**	1
Congo	**225**	364	**10**	14	**0**	0
Other countries	**853**	754	**446**	474	**85**	24
Total	**25,232**	**22,461**	**8,767**	**9,197**	**331**	**211**

See note 3 for more information about revenue

Note 5 Personnel Expenses

Financial Reporting Principles

Personnel expenses include wages, salaries, social security contributions, sick leave, parental leave and other employee benefits. The benefits are recognized in the year in which the associated services are rendered by the employees.

Personnel Expenses

Amounts in NOK million	2018	2017
Salaries and wages including holiday allowance	**7,419**	7,244
Social security contribution	**1,103**	951
Pension cost	**493**	466
Restructuring cost related to personnel	**32**	92
Other employee benefits	**487**	538
Personnel expenses	**9,534**	**9,290**
Total number of employees as of December 31	**14,705**	13,796

Loans to Employees

There were no loans to employees per December 31, 2018, same as in the previous year.

See note 18 for more information about the pension cost and obligation
See note 20 for more information about restructuring provision related to downsizing of personnel

Note 6 Other Operating Expenses

Amounts in NOK million	2018	2017
Rental and other cost for land and buildings	**1,310**	1,391
IT and office supplies	**985**	818
Travel expenses	**368**	348
External consultants	**296**	339
Insurance	**117**	123
Other expenses	**252**	274
Other operating expenses	**3,328**	**3,292**

See note 19 for more information about operating leases
See note 30 for more information about audit fees

Note 7 Finance Income and Expenses

Financial Reporting Principles

Interest income and expenses include effects from using the effective interest rate method where fees, interest paid, transaction costs and other premiums are deferred and amortized over the life of the instrument. Effects from net present value calculations of assets and liabilities are also included.

Foreign exchange gains and losses arise upon settlement of monetary assets and liabilities that are not hedged. Foreign exchange gains and losses also include result from Corporate Treasury's trading mandate and the effects from translating monetary assets and liabilities denominated in foreign currencies at the balance sheet date. The profit on foreign exchange forward contracts include effects from derivatives that do not qualify for hedge accounting, embedded derivatives and the ineffective portion of qualifying hedges.

Financial Income and Expenses

Amounts in NOK million	2018	2017
Interest income	**39**	**55**
Interest expense on financial liabilities measured at amortized cost	**-236**	-273
Interest expense on financial liabilities measured at fair value	**-32**	-33
Interest expense	**-268**	**-305**
Net foreign exchange gain (loss)	**-30**	27
Profit (loss) on foreign currency forward contracts	**-16**	41
Other finance income	**27**	25
Other financial expense	**-9**	-15
Net other finance items	**-28**	**78**
Net finance cost	**- 258**	**-172**

See note 24 for more information about derivative financial instruments
See note 25 for more information about financial assets and liabilities

Note 8 Earnings per Share and Dividends

Financial Reporting Principles

The calculation of basic and diluted earnings per share is based on the income attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding. Treasury shares are not included in the weighted average number of ordinary shares. Weighted average number of diluted and ordinary shares is the same, as the company does not have any dilutive instruments.

Earnings per Share (EPS)

	2018	2017
Income attributable to ordinary shares (NOK million)	**511**	221
Weighted average number of issued ordinary shares for the year adjusted for treasury shares	**271,532,588**	271,532,588
Basic and diluted earnings per share (NOK)	**1.88**	0.81

Dividends

The board of directors has proposed that no dividend payment be made for 2018. While Aker Solutions' finances were solid, with a liquidity buffer of NOK 7.5 billion at the end of the year, the board considered it still prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook.

See note 16 for more information about share capital and treasury shares

Note 9 Tax

Financial Reporting Principles

Income tax in the income statement consists of current tax, effect of change in deferred tax positions and withholding tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized 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 that will be paid during the next 12 months. Current tax also includes any adjustment of taxes from previous years and taxes on dividends recognized in the year.

Deferred Tax

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for goodwill identified in business combinations. 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. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences. The deferred tax asset is only recognized to the extent it is considered probable that future taxable profits will be available to utilize the credits.

Withholding Tax

Withholding tax and any related tax credits are generally recognized in the period they are incurred. Withholding tax and related tax credits directly related to construction contracts are recognized according to the progress of the construction contract, and follow the same recognition criteria as the underlying construction contract.

Judgments and Estimates

The group is subject to income taxes in numerous jurisdictions, and judgment may be involved when determining the taxable amounts. Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods. In particular, management judgment is required when assessing valuation of unused losses, tax credits and other deferred tax assets. The recoverability is assessed by estimating taxable profits in future years taking into consideration also expected changes in temporary differences. The discounted amount from these profits is compared to book value of the tax assets.

The estimate of future taxable profits is sensitive to future market development for the projects and services of Aker Solutions. Forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Changes in the assumptions related to the expected prospects and services can have a significant impact on the forecasted cashflows. Economic conditions may change and lead to a different conclusion regarding recoverability, and such changes may effect future reporting periods.

Note 9 continues on next page

Note 9 Tax cont.

Income Tax Expense

Amounts in NOK million	2018	2017
Current income tax		
Current year	159	303
Adjustments for prior years	3	-9
Total current income tax	**162**	**293**
Deferred income tax		
Origination and reversal of temporary differences	114	-181
Write down of tax loss carry-forwards and deferred tax assets	20	23
Change in tax rates[1]	-22	43
Adjustment for prior periods	-35	-19
Total deferred income tax	**76**	**-133**
Total income tax	**238**	**160**

1) Includes the effect of change in Norwegian tax rate from 23 to 22 percent in 2019 and the UK tax rate from 19 to 17 percent in 2020.

Taxes in OCI and Equity

Amounts in NOK million	2018	2017
Cashflow hedges, deferred tax	-2	-147
Remeasurement of defined benefit pension plans	12	10
Deferred tax charged to OCI	**9**	**-136**
Taxes on acquisition of non-controlling interests	0	-7
Current tax charged to equity	**0**	**-7**

Note 9 continues on next page

Note 9 Tax cont.

Effective Tax Rate

The table below reconciles the tax expense as if the Norwegian tax rate of 23 percent was applied.

Amounts in NOK million	2018		2017	
Income before tax	**792**		399	
Income tax when applying Norwegian tax rate of 23 percent (24 percent in 2017)	**182**	**23.0%**	96	24.0%
Tax effects of:				
Effect of different tax rates	**15**	**1.8 %**	-30	-7.5 %
Non-deductible expenses	**11**	**1.4 %**	20	5.1 %
Effect of withholding tax	**101**	**12.7 %**	75	18.9 %
Effect of tax incentives	**-18**	**-2.2 %**	-23	-5.8 %
Current tax adjustments related to prior years	**3**	**0.3 %**	-9	-2.3 %
Deferred tax adjustments related to prior years	**-35**	**-4.4 %**	-19	-4.7 %
Previously unrecognized tax losses used to reduce payable tax	**-22**	**-2.8 %**	-11	-2.7 %
Write down of deferred tax assets	**20**	**2.5 %**	23	5.9 %
Impact of change in tax rate	**-22**	**-2.8 %**	43	10.8 %
Other	**3**	**0.4 %**	-6	-1.5 %
Income tax and effective tax rate	**238**	**30.0 %**	**160**	**40.2 %**

Recognized Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
Amounts in NOK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment	**14**	4	**-108**	-87	**-94**	-83
Pensions	**116**	113	**0**	0	**116**	113
Projects under construction	**88**	0	**-1,594**	-1,643	**-1,505**	-1,643
Tax loss carry-forwards	**991**	1,073	**0**	0	**991**	1,073
Intangible assets	**0**	0	**-239**	-257	**-239**	-257
Provisions	**188**	258	**-11**	-5	**177**	253
Derivatives	**4**	54	**0**	0	**4**	54
Tax credits and other	**924**	884	**25**	3	**949**	887
Total before offsetting	**2,324**	**2,384**	**-1,926**	**-1,989**	**398**	**395**
Offsetting	**-1,661**	-1,751	**1,661**	1,751	**0**	0
Total	**663**	**633**	**-266**	**-238**	**398**	**395**

Note 9 continues on next page

Note 9 Tax cont.

Change in Net Recognized Deferred Tax Assets and Liabilities

Amounts in NOK million	Property, plant and equipment	Pensions	Projects under construction	Tax loss carry-forwards	Intangible assets	Provisions	Derivatives	Other	Total
Balance as of January 1, 2017	-89	112	-1,444	745	-252	258	209	797	335
Recognized in profit and loss	9	-10	-199	366	10	-8	-8	-27	133
Recognized in other comprehensive income (OCI)	0	10	0	0	0	0	-147	15	-121
Tax losses offset against indirect taxes	0	0	0	-28	0	0	0	0	-28
Prepaid withholding tax	0	0	0	0	0	0	0	94	94
Reclassification between categories	0	0	0	0	-9	9	0	0	0
Currency translation differences	-4	0	0	-11	-6	-7	0	9	-18
Balance as of December 31, 2017	**-83**	**113**	**-1,643**	**1,073**	**-257**	**253**	**54**	**887**	**395**
Effect of implementing IFRS 9 and 15	0	0	86	0	0	0	-54	0	32
Adjusted balance as of January 1, 2018	**-83**	**113**	**-1,557**	**1,073**	**-257**	**253**	**1**	**887**	**427**
Recognized in profit and loss	-24	-8	50	-73	15	-76	1	39	-76
Recognized in other comprehensive income (OCI)	0	12	0	0	0	0	-2	0	9
Prepaid withholding tax	0	0	0	0	0	0	0	44	44
Reclassification between categories	13	0	0	0	0	7	0	-20	0
Currency translation differences	0	0	2	-9	3	-6	5	-1	-7
Balance as of December 31, 2018	**-94**	**116**	**-1,505**	**991**	**-239**	**177**	**4**	**949**	**398**

Tax Loss Carry-Forwards (gross amounts)

Amounts in NOK million	Expiry within 5 years	Expires within 5-20 years	Indefinite	Total
Norway	0	0	3,151	3,151
Europe excluding Norway	143	0	517	660
North America	83	495	0	577
South America	0	0	433	433
Asia Pacific	2	397	134	533
Middle East and Africa	145	0	0	145
Total	**372**	**892**	**4,235**	**5,499**

Unrecognized Deferred Tax Assets (gross amounts)

Amounts in NOK million	Unrecognized tax loss carry-forwards	Unrecognized other tax assets
Norway	0	58
Europe excluding Norway	22	0
North America	34	0
South America	0	0
Asia Pacific	533	2
Middle East and Africa	0	0
Total	**588**	**60**

See note 20 for information about contingent tax claims

Note 10 Property, Plant and Equipment

The majority of property, plant and equipment relates to subsea manufacturing plants and service bases in Norway, Brazil, Malaysia, the US and the UK. Fixed assets also include furniture and fittings in office buildings.

Financial Reporting Principles

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses. Components of property, plant and equipment with different useful lives are accounted for separately. Assets are normally depreciated on a straight-line basis over their expected economic lives as follows:

- Machinery and equipment: 3-15 years
- Buildings: 8-30 years
- Land: No depreciation

Impairment triggers are assessed quarterly and impairment testing is performed when triggers have been identified. Borrowing costs are capitalized as part of the cost of the asset when significant. The cost of self-constructed assets includes the cost of materials, direct labor, production overheads and borrowing cost.

Judgment and Estimates

Judgment is involved when determining the depreciation period and when assessing impairment or reversal of impairment. Impairment is assessed for individual assets and for cash generating units. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

Commitments

Aker Solutions has entered into contractual commitments for the acquisition of property, plant and equipment amounting to NOK 233 million as of December 31, 2018 which will expire in 2019. Contractual commitments were NOK 281 million per December 31, 2017.

See note 12 for information about impairment testing
See note 17 for information about PPE being held as security for borrowings
See note 26 for information about acquisition of subsidiaries

Property, Plant and Equipment

Amounts in NOK million	Buildings and sites[1]	Machinery and equipment	Under construction	Total
Historical cost				
Balance as of January 1, 2017	2,102	5,138	216	7,456
Additions	5	40	161	206
Reclassifications and transfer from assets under construction	-190	387	-197	0
Additions through acquisition of subsidiaries	0	5	0	5
Disposals and scrapping	-15	-18	0	-33
Currency translation differences	-51	-5	3	-54
Balance as of December 31, 2017	**1,851**	**5,548**	**181**	**7,580**
Additions	6	34	291	**331**
Reclassifications and transfer from assets under construction	-21	179	-176	**-19**
Disposals and scrapping	-35	-79	0	**-114**
Currency translation differences	-79	43	5	**-31**
Balance as of December 31, 2018	**1,722**	**5,724**	**301**	**7,747**
Accumulated depreciation and impairment				
Balance as of January 1, 2017	-469	-3,164	-16	-3,648
Depreciation for the year	-66	-471	0	-537
Impairment	-58	-26	0	-84
Disposals and scrapping	13	11	0	24
Reclassification between categories	143	-143	0	0
Currency translation differences	1	-19	0	-18
Balance as of December 31, 2017	**-436**	**-3,812**	**-15**	**-4,264**
Depreciation for the year	-54	-417	0	**-471**
Impairment	-5	-2	0	**-7**
Disposals and scrapping	3	72	0	**75**
Reclassification between categories	-21	40	0	**19**
Currency translation differences	-3	-52	-1	**-55**
Balance as of December 31, 2018	**-516**	**-4,171**	**-16**	**-4,703**
Book value as of December 31, 2017	**1,415**	**1,735**	**166**	**3,316**
Book value as of December 31, 2018	**1,206**	**1,553**	**285**	**3,044**

1) There were no assets held for sale included in buildings and sites as of December 31, 2018 (NOK 38 million in 2017).

Note 11 Intangible Assets

The research and development (R&D) programs at Aker Solutions are closely monitored in order to secure the desired technological achievements in time and at acceptable cost levels. R&D programs that meet certain criteria are capitalized and amortized over the expected useful life. Digital development is high on Aker Solutions' agenda, and more than half of the capitalized development in 2018 was related to digital development programs. Intangible assets also include goodwill and other assets identified in previous mergers and acquisitions.

Financial Reporting Principles

Capitalized Development

The technology development at Aker Solutions is graded according to a Technology Readiness Level (TRL) consisting of eight phases. Research and development costs are expensed as incurred until a program has completed the concept phase. Development cost is only capitalized if the product or process is technically and commercially feasible and the business case shows a positive net present value. Capitalized development mainly includes internal labor costs in addition to materials for the development program. Any third-party funding is presented as a reduction of the capitalized amount. The capitalized development is normally amortized over five years on a straight-line basis, but certain programs with a clear differentiating offering and a longer economic benefit may be amortized up to seven years. For development projects in progress, a full impairment test is performed annually or when impairment indicators are identified. The asset is written down to recoverable amount, if lower than book value.

Goodwill

Goodwill represents the consideration paid in excess of identifiable assets and liabilities in business combinations. Goodwill has an indefinite useful life and is tested for impairment annually, or when impairment indicators are identified.

Other

Other intangible assets include IT systems and technology development acquired through business combinations.

Judgments and Estimates

The decision to capitalize a development program involves management judgment. There are strict internal rules defining what qualifies for capitalization, and the documentation of the assessment is monitored centrally. Management makes assessment of future market opportunities, ability to successfully achieve the desired technological solution and the time and cost it takes to develop it. These factors may change over time.

Judgment is involved when determining the amortization period and when assessing impairment or reversal of impairment. Impairment indicators are assessed for individual development projects, other intangible assets and for cash generating units as a whole, including goodwill. Impairment testing is performed when impairment indicators have been identified. In addition, goodwill and capitalized development programs that have not been completed are subject to an annual impairment test. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

Note 11 continues on next page

Note 11 Intangible Assets cont.

Intangible Assets

Amounts in NOK million	Capitalized development	Goodwill	Other	Total
Historical cost				
Balance as of January 1, 2017	2,472	3,976	381	6,829
Additions from internal development[1]	149	0	0	149
Additions through business combinations	45	239	0	284
Disposals	-7	0	-44	-50
Currency translation differences	5	68	4	78
Balance as of December 31, 2017	**2,664**	**4,283**	**342**	**7,289**
Additions from internal development[1]	174	0	0	**174**
Reclassifications between categories	20	0	-20	**0**
Assets fully written down, no longer in use	-26	0	0	**-26**
Currency translation differences	13	-26	-2	**-15**
Balance as of December 31, 2018	**2,845**	**4,258**	**319**	**7,422**
Accumulated amortization and impairment				
Balance as of January 1, 2017	-1,007	6	-182	-1,182
Amortization for the year	-211	0	-44	-255
Impairment	-72	0	0	-72
Assets fully written down, no longer in use	7	0	44	51
Currency translation differences	-6	-9	-2	-17
Balance as of December 31, 2017	**-1,288**	**-3**	**-184**	**-1,475**
Amortization for the year	-233	0	-35	**-268**
Impairment	-15	0	0	**-15**
Reclassifications between categories	-6	0	6	0
Assets fully written down, no longer in use	26	0	0	**26**
Currency translation differences	-7	3	-1	**-5**
Balance as of December 31, 2018	**-1,523**	**0**	**-214**	**-1,737**
Book value as of December 31, 2017	**1,375**	**4,281**	**158**	**5,814**
Book value as of December 31, 2018	**1,323**	**4,258**	**105**	**5,686**

1) Development cost funded by third-party totaled NOK 85 million in 2018 (NOK 52 million in 2017)

Research and Development Expenses

The research and development expenses amounted to NOK 52 million in 2018 compared to NOK 41 million in 2017.

See note 12 for more information about impairment testing
See note 26 for more information about acquisition of subsidiaries

Note 12 Impairment of Assets

There are continued signs of a recovery in the global market, and improvement measures across the industry are lowering break-even costs and more projects are being sanctioned. The assets at Aker Solutions have been assessed for impairment on an individual basis and as part of cash generating units. The impairment testing of the assets resulted in impairment losses of NOK 15 million for intangible assets and NOK 7 million for property, plant and equipment in 2018.

Financial Reporting Principles

Individual Assets

Each property, plant and equipment is assessed for impairment triggers every quarter to identify assets that are damaged, no longer in use or will be disposed. Capitalized development is assessed for impairment triggers every quarter to identify development programs where the technological development or commercial outlook for that specific technology no longer justify the book value. Capitalized development programs that have not been completed are subject to annual impairment testing. The impairment testing of capitalized development include update of the future expected cashflows, assessing status on technical achievements and reviewing cost incurred compared to budget in order to identify if any of the capitalized cost should be expensed. The assets are written down to recoverable amount, if lower than book value. Reversal of impairment is assessed quarterly for assets previously impaired.

Assets in a Cash Generating Unit (CGU)

Impairment indicators are assessed for all assets as part of a cash generating unit (CGU) every quarter. A CGU represents the lowest level of independent revenue generated by the assets. This is usually the lowest level where a separate external market exists for the output from the CGU. Impairment indicators are reviewed for all assets with assessment of market conditions, technological development, change in order backlog, change in discount rate and other elements that may impact the value of the assets in the CGU. Assets are usually tested using the value-in-use approach determined by discounting expected future cashflows. Impairment losses are recognized for assets in CGUs where the recoverable amount is lower than book value.

Goodwill

The groups of CGUs that include goodwill are aligned with the operating segments in the company. These are tested for impairment annually or when impairment triggers have been identified. The company does not have other assets than goodwill with indefinite useful lives.

Judgments and Estimates

The impairment testing of assets is by nature highly judgmental as it includes estimates such as future market development, cashflows, determination of WACC, growth rate used for calculation of terminal value and other assumptions that may change over time. In particular, future cashflows are uncertain as they are impacted by market developments beyond Aker Solutions' control. The oil price impacts the investment levels in capex and maintenance projects by the oil companies. This in turn impacts the markets in which Aker Solutions operates.

Cashflow Assumptions

Expectations about the long-term oil prices are important when assessing the future market development for the projects and services of Aker Solutions. After several years with a challenging oil services market, the market recovery has continued in 2018. The long-term oil price per barrel has been assumed to gradually increase to USD 70 in the terminal year. This assumption is particularly sensitive in the current market conditions. Four year cashflows in the period 2019 to 2022 projected from the forecast and strategy process, approved by management and the Board of Directors in 2018, have been used as basis for the estimates of future cashflows. The forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Changes in the assumptions related to the expected prospects can have a significant impact on the forecasted cashflows. The forecasted cashflows used in the impairment tests reflect organic growth only. Other parameters in the assessment are the mix of projects and services, level of operating expenses and capital expenditure for maintenance of the asset portfolio.

Note 12 continues on next page

Note 12 Impairment of Assets cont.

Discount and Growth Rate

Estimated future cashflows are discounted to their present value using the weighted average cost of capital (WACC), which is a post-tax discount rate. The WACC is based on a risk free interest rate, a risk premium and average beta values of peers within each market. A separate WACC has been calculated for each of the CGUs taken into consideration country specific risk premiums and long-term risk free interest rates. A growth rate has been applied to calculate terminal value after the four-year period.

Impairment Testing of Individual Assets

When reviewing the individual capitalized development certain development programs were identified where the technology or commercial outlook no longer justified the value. In total, NOK 15 million related to capitalized development in the "projects" operating segment was impaired, compared to NOK 72 million in the prior year. In addition, the impairment on individual machines, furniture and fittings was NOK 7 million compared to NOK 84 million in the prior year. The value-in-use method was used for both fixed and intangible assets.

Impairment Testing of Assets in CGUs

CGUs identified for testing fixed and intangible assets is usually a plant or a group of plants which are deemed to produce independent cash inflows. No impairment losses were recognized as a result of the impairment testing of assets in CGUs based on the value-in-use method. Various sensitivity analysis for change in future cash flows, growth rate and WACC have been performed for the CGUs with limited headroom in the impairment testing. The results from the analysis support the conclusion from the test that no impairment should be recognized. The group is continuously monitoring the market development and will perform impairment testing if further impairment triggers are identified.

One CGU with net assets of NOK 613 million is sensitive for impairment. The WACC used in the impairment testing was 8.8 percent and the growth rate was 1.5 percent. The WACC can be increased to 9.4 percent, the growth rate can be reduced to 0.7 percent and the free cashflows can be reduced by 13 percent withouth triggering an impairment.

Note 12 continues on next page

Note 12 Impairment of Assets cont.

Impairment Testing of Goodwill

The groups of CGUs identified when testing goodwill represent the operating segments of Aker Solutions (Projects and Services) as this is the level where synergies are expected and goodwill is monitored. The goodwill in the two operating segments are shown in the following table.

Amounts in NOK million	2018	2017
Projects	**2,117**	2 123
Services	**2,141**	2 157
Total goodwill as of December 31	**4,258**	**4 281**

The WACC used in the impairment testing of goodwill is shown below.

	Post-tax WACC	Pre-tax WACC
Projects	**9.3%**	**12.2 %**
Services	**9.5%**	**14.3%**

Assumptions

A post-tax value in-use method was used, with pre-tax rates calculated using an iterative method for illustration purposes only. The calculated annual average growth rate for revenue in the cashflow used for impairment testing is 21.5 percent for Services and 8.0 percent for Projects. Management has forecasted that cashflows will continue to recover from the decline in the oil services sector, as proven by more projects being sanctioned and several contracts awarded to Aker Solutions in 2018. The forecasted cashflows are based on firm orders and an expected share of new contracts. When determining the terminal value, a growth rate of 1.5 percent has been used for both Services and Projects. The annual impairment testing of goodwill did not result in any impairment losses.

Sensitivities

The impairment testing is affected by changes in the long-term oil price as it will impact the expected order intake. The testing is also affected by changes in the discount rate, growth rates, and the ability of Aker Solutions to secure projects as estimated in the cashflow, product mix and cost levels. Multiple sensitivity tests have been run to address the current uncertainty in the oil service market. Sensitivity testing of goodwill includes changing various assumptions to consider other potential alternative market conditions. This includes changing the discount rate and growth rate in addition to reducing the expected cashflows in the future. The headroom was comfortable in all scenarios in the goodwill impairment testing.

See note 10 for more information about property, plant and equipment
See note 11 for more information about intangible assets

Note 13 Inventories

Financial Reporting Principles

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling expenses and the estimated cost to complete the inventory. The cost of inventories is based on the weighted average cost.

Judgments and Estimates

The assessment of obsolete and slow-moving inventory in order to determine inventory write-downs is subject to management judgment. The selling price in the market has to be estimated, and there is a risk that the actual selling price may turn out to be different than the amount estimated by management.

Inventories

Amounts in NOK million	**2018**	**2017**
Raw materials and semi-finished goods	**326**	404
Finished goods	**0**	24
Total	**326**	**428**
Inventories at cost	**556**	716
Inventory write-downs to net realizable value	**-230**	-288
Total	**326**	**428**
Balance of January 1	**428**	575
Purchase of inventory	**1,360**	1,313
Recognized as expense	**-1,437**	-1,382
Write down for obsolete inventory	**-54**	-160
Reversal of write down for obsolete inventory	**39**	87
Currency translation differences	**-10**	-4
Total	**326**	**428**

There are no securities pledged over inventories.

Note 14 Customer Contract Assets and Receivables

Financial Reporting Principles

Trade and other receivables are recognized at the original invoiced amount, less impairment losses. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

The new impairment model in IFRS 9 implemented on January 1, 2018 requires the recognition of impairment provisions based on expected credit losses (ECL) rather than incurred credit losses as was the case under IAS 39. The company has applied the lifetime ECL for trade receivables, contract assets with or without a significant financing component and operational lease receivables. This resulted in a small increase of the loss allowance for trade receivables and contract assets of approximately NOK 1 million on January 1, 2018.

Judgments and Estimates

Judgment is involved when determining the impairment losses on doubtful receivables. The impairment is based on individual assessments of each customer and default risk in the industry and the country in which the customer operates. The customers of Aker Solutions are mainly large, international oil companies with low credit risk.

Customer Contract Assets and Receivables

Amounts in NOK million	2018	2017
Trade receivables	2,725	2,664
Trade receivables, related parties	594	305
Less provision for impairment of receivables	-84	-93
Trade receivables, net	**3,236**	**2,876**
Customer contract assets	3,559	0
Amounts due from customers for construction work	0	883
Accrued operating revenue from service contracts	0	1,298
Other receivables	93	189
Total	**6,887**	**5,246**

The presentation of customer contract assets has changed as a result of implementing IFRS 15 on January 1, 2018. The standard requires separate presentation of revenue and cost accruals, and not netted per project as amounts due to/from customers as under IAS 11/18.

Bad Debt Provision

Amounts in NOK million	2018	2017
Balance as of January 1 under IAS 39	-93	-170
Adjustment on initial application of IFRS 9	-1	0
Balance as of January 1 under IFRS 9	**-94**	**-170**
Provisions made during the year	-4	-1
Provisions used during the year	0	39
Provisions reversed during the year	15	37
Currency translation differences	-2	3
Balance as of December 31	**-84**	**-93**

Aging of Trade Receivables

Amounts in NOK million	2018	2017
Not due	2,868	2,425
Past due 0-30 days	265	267
Past due 31-90 days	72	106
Past due 91 days to one year	41	61
Past due more than one year	73	110
Total	**3,319**	**2,969**

See note 3 for more information about customer contract assets and receivables
See note 22 for more information about credit risk
See note 25 for more information about financial assets and liabilities
See note 28 for more information about receivables to related parties

Note 15 Cash and Cash Equivalents

Financial Reporting Principles

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

Cash and Cash Equivalents

Amounts in NOK million	2018	2017
Cash pool	**1,258**	635
Other cash at banks	**1,215**	1,343
Total	**2,473**	**1,978**

Available Liquidity

Additional undrawn committed non-current bank revolving credit facilities amounted to NOK 5 billion, compared to NOK 3.75 billion in the prior period. Together with cash and cash equivalents, this gives a total liquidity buffer of NOK 7.5 billion, compared to NOK 5.7 billion in prior year.

See note 17 for more information about borrowings
See note 22 for more information about currency risk and the cash pool arrangement
See note 23 for more information about capital management

Note 16 Equity

Share Capital

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940 through the issuance of 272,044,389 shares. The total number of outstanding shares is 272,044,389 at par value NOK 1.08 per share as of December 31, 2018. All issued shares are fully paid. Aker Solutions 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. The number of own shares (treasury shares) was 511,801 per December 31, 2018, which is the same as last year. The consideration for these shares was NOK 16 million.

Hedging Reserve

In the equity table, the hedge reserve mainly relates to effects of currency cashflow hedges that are not yet recognized in the income statement. The hedging effects are recognized in the income statement according to the progress of the underlying customer contract.

Translation Reserve

In the equity table, the currency translation reserve includes foreign exchange differences arising from the translation of the subsidiaries into the presentation currency of the consolidated financial statements.

Pension Reserve

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

See note 2 for more information about currency translation of subsidiaries
See note 18 for more information about the pension obligation
See note 24 for more information about hedging

Note 17 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has two bond loans listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The bond of NOK 1,000 million matures on October 9, 2019 and the bond of NOK 1,500 million matures on July 25, 2022. The interest rate for both loans is three months floating interbank rate (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loans are unsecured on a negative pledge basis and includes no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.

Note 17 continues on next page

Note 17 Borrowings cont.

Bonds and Borrowings 2018

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,011**	1.05%	4.20%	5.25%	10/09/19	Floating, 3M+fix margin
ISIN NO 0010814213	NOK	1,500	**1,497**	1.10%	3.15%	4.25%	07/25/22	Floating, 3M+fix margin
Total bond[1]			**2,508**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-25**	0.00%	1.10%	1.10%	03/19/23	NIBOR + Margin[3]
Total credit facility			**-25**					
Brazilian Development Bank loans[4]	BRL	188	**425**	9.41%	0.00%	9.41%	2019-2024	Fixed, periodically
Brazilian Development Bank loans			**425**					
Other borrowings			**5**					
Total borrowings			**2,913**					
Current borrowings			**1,125**					
Non-current borrowings			**1,788**					
Total borrowings			**2,913**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million by total issue costs related to the new financing of NOK 16 million. Amount includes NOK 24 million of accrued interest related to the bonds.
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.
4) Brazilian loans consist of loans with interest rates ranging from 5.8 percent to 12.3 percent in 2018. The weighted average interest rate is used in the table and is calculated based on the contractual rates on the loans at December 31 and does not include the effect of swap agreements.

Note 17 continues on next page

Note 17 Borrowings cont.

Bonds and Borrowings 2017

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,008**	0.79%	4.20%	4.99%	10/09/19	Floating, 3M+fix margin
Total bond[1]			**1,008**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	1,250	**1,239**	0.89%	1.10%	1.99%	07/03/19	NIBOR + Margin[3]
Total credit facility			**1,239**					
Brazilian Development Bank loans[4]	BRL	345	**858**	11.10%	0.00%	11.10%	2018-2024	Fixed, periodically
Brazilian Development Bank loans			**858**					
Other borrowings			**10**					
Total borrowings			**3,114**					
Current borrowings			**539**					
Non-current borrowings			**2,576**					
Total borrowings			**3,114**					

1) The carrying amount is calculated by reducing the nominal value of NOK 1,000 million by total issue costs related to the new financing of NOK 3 million. Amount includes NOK 12 million of accrued interest related to the bonds.
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.
4) Brazilian loans consist of loans with interest rates ranging from 5.8 percent to 12.4 percent in 2017. The weighted average interest rate is used in the table and is calculated based on the contractual rates on the loans at December 31 and does not include the effect of swap agreements.

Note 17 continues on next page

Note 17 Borrowings cont.

Maturity of Bonds and Borrowings

2018

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,011	**1,055**	27	1,028	0	0	0
ISIN NO 0010814213	1,497	**1,750**	33	34	67	1,617	0
Total bonds	**2,508**	**2,805**	**60**	**1,061**	**67**	**1,617**	**0**
Revolving credit facility (NOK 5,000 million)	-25	**0**	0	0	0	0	0
Brazilian development bank loans	425	**494**	64	62	174	194	0
Other loans	5	**5**	0	5	0	0	0
Total other loans	**405**	**499**	**64**	**67**	**174**	**194**	**0**
Total borrowings	**2,913**	**3,304**	**124**	**1,128**	**241**	**1,810**	**0**

2017

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,008	**1,101**	25	25	1,051	0	0
Total bonds	**1,008**	**1,101**	**25**	**25**	**1,051**	**0**	**0**
Revolving credit facility (NOK 5,000 million)[2]	1,239	**1,286**	12	12	1,262	0	0
Brazilian development bank loans	858	**979**	126	449	131	272	1
Other loans	10	**10**	10	0	0	0	0
Total other loans	**2,106**	**2,275**	**148**	**461**	**1,393**	**272**	**1**
Total borrowings	**3,114**	**3,376**	**173**	**486**	**2,444**	**272**	**1**

1) The interest costs are calculated using either the last fixing rate known by year end (plus applicable margin) or the contractual fixed rate (when fixed rate debt).
2) The cashflow is based on the assumption that the nominal currency value will remain on NOK 1,250 million until the maturity of the revolving credit facility.

Note 17 continues on next page

Note 17 Borrowings cont.

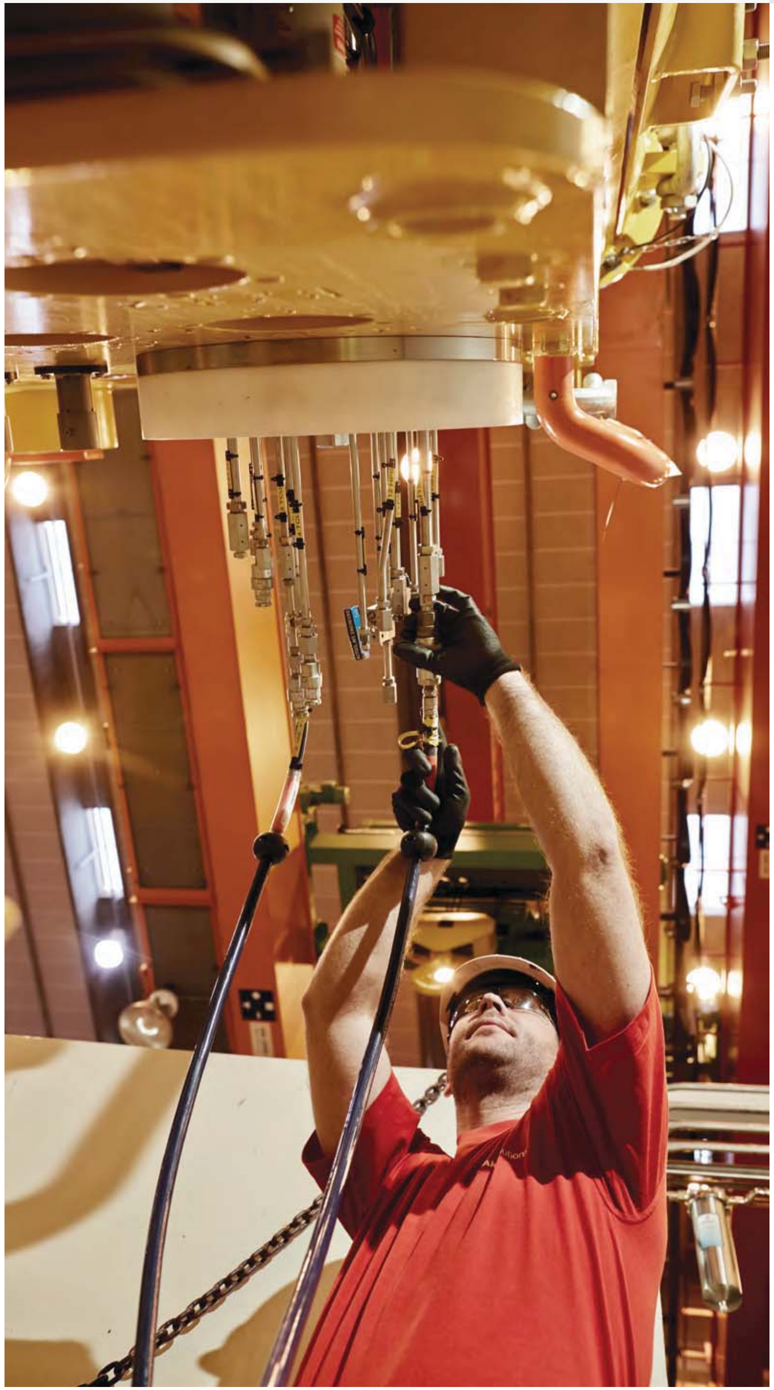
Movement of Liabilities

Amounts in NOK million	Bond	Credit Facilities	Other Borrowings	Total
Balance as of January 1, 2018	1,008	1,239	868	**3,115**
Proceeds from loans and borrowings	1,500	0	117	**1,617**
Repayment of borrowings	0	-1,250	-466	**-1,716**
Total changes from financial cashflows	1,500	-1,250	-349	**-99**
Accrued interest	13	0	-6	**7**
Amortization of borrowing cost	-13	-13	0	**-27**
Currency translation differences	0	0	-83	**-83**
Balance as of December 31, 2018	**2,508**	**-25**	**430**	**2,913**

Mortgages

The company has no mortgage liabilities in 2018.

See note 23 for more information about capital management
See note 24 for more information about interest rate derivatives
See note 25 for more information about financial assets and liabilities



Note 18 Pension Obligations

Aker Solutions operates several pension plans around the world. The most common type of plan is the defined contribution plan, where Aker Solutions makes contributions to the employee's individual pension account. Aker Solutions has a closed defined benefit plan where the impact is gradually reduced.

Financial Reporting Principles

Defined Contribution Plans

A defined contribution plan is a type of retirement plan where the employer makes contributions on a regular basis to the employees individual pension account. The benefits received by the employee are based on the employer contributions and gains or losses from investing the capital. Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Defined Benefit Plans

A defined benefit plan is a type of pension plan where the employer promises an annual pension on retirement based on a percentage of the salary upon retirement and the employee's earnings history, years of service and age. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

The defined benefit obligation is calculated separately for each plan by discounting the estimated amount of future benefit that employees have earned in the current and prior periods and deducting the fair value of any plan assets. The change of the defined benefit obligation as a result of the change of assumptions (actuarial gains and losses) and the return on plan assets are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in the income statement. When the benefits of a plan are changed, settled or when a plan is curtailed, the change relating to past service or the gain or loss on curtailment or settlement is recognized immediately in the income statement.

Judgments and Estimates

The present value of the pension obligations depends on a number of factors determined on the basis of actuarial assumptions. These assumptions include financial factors such as the discount rate, expected salary growth, inflation and return on assets as well as demographical factors concerning mortality, employee turnover, disability and early retirement. Assumptions about all these factors are based on the situation at the time the assessment is made. However, it is reasonably certain that such factors will change over long periods for which pension calculations are made. Any changes in these assumptions will affect the calculated pension obligations with immediate recognition in other comprehensive income.

Pension Plans in Norway

The main pension arrangement in Norway is a general pension plan organized by the Norwegian state providing a basic pension entitlement to all tax payers. The additional pension plans which all Norwegian employers are obliged to provide according to current legislation, represent limited additional pension entitlements. The following pension plans exist in Norway:

Defined Contribution Plans

All employees in Norway are offered participation in a defined contribution plan. The annual contributions expensed for the Norwegian plans in 2018 were NOK 207 million. The estimated contribution expected to be paid in 2019 is NOK 239 million.

Defined Benefit Plans

The defined benefit plans in the Norwegian companies at Aker Solutions are split between funded and unfunded plans.The Norwegian companies at Aker Solutions closed the defined benefit plans in 2008. Employees who were 58 years or older in 2008 are still members of the closed defined benefit plan. This is a funded plan and represents the funded pension liability reported in the tables below. In addition to the closed defined benefit plan, Aker Solutions also has a defined benefit plan for top management. The defined benefit plan for top management is an unfunded plan, and is included in the unfunded pension liability in the tables below. The estimated contribution expected to be paid during 2019 is NOK 67 million.

Note 18 continues on next page

Note 18 Pension Obligations cont.

Compensation Plans

All employees in 2008 who had a calculated loss of more than NOK 1,000 per year upon transition to the defined contribution plan were offered compensation. The compensation amount will be adjusted annually in accordance with the adjustment of the employees' pensionable income, and accrued interest according to market interest. If the employee leaves the company voluntarily before the age of 67 years, the accrued compensation amount will be paid out. The compensation plan is an unfunded plan, and is included in the unfunded pension liability reported in the tables below.

Tariff Based Pension Agreement (AFP)

Employees in Norway have a tariff based lifelong retirement arrangement (AFP) organized by the main labor unions and the Norwegian state. The pension plan can be withdrawn from the age of 62. The information required to estimate the pension obligation from this defined benefit plan is not available from the plan administrator. Aker Solutions therefore currently accounts for the plan as if it was a defined contribution plan. The company will account for it as a defined benefit plan if information becomes available from the plan administrator.

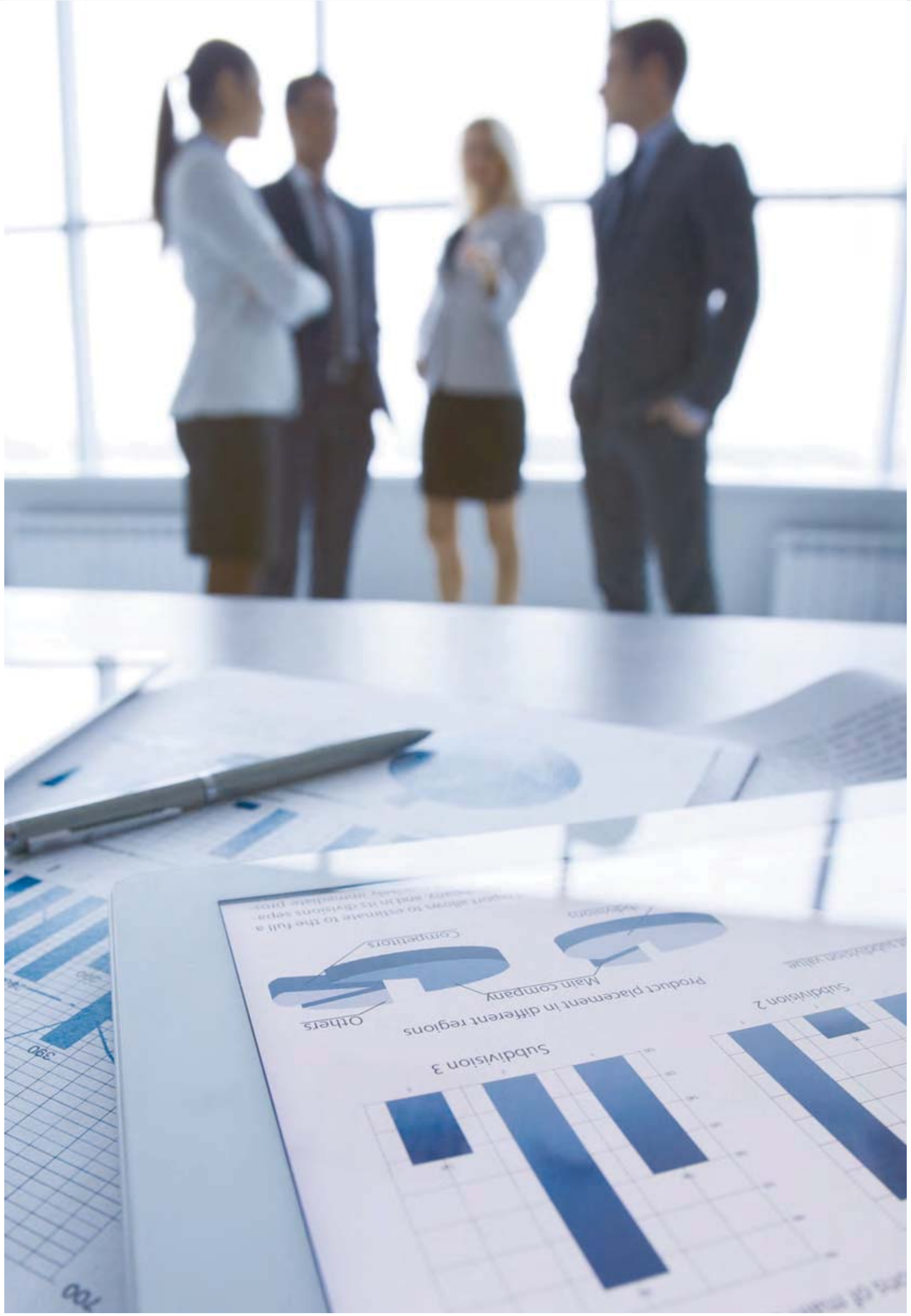
Pension Plans outside Norway

Pension plans outside Norway are mainly defined contribution plans. The annual contributions expensed for plans outside Norway in 2018 were NOK 161 million. The estimated contributions expected to be paid in 2019 is NOK 166 million to the plans outside Norway.

Total Pension Cost

Amounts in NOK million	**2018**	**2017**
Defined benefit plans	**59**	66
Defined contribution plans	**434**	400
Total	**493**	**466**

Note 18 continues on next page



Note 18 Pension Obligations cont.

Movement in Net Defined Benefit (Asset) Liability

The table below shows the movement from the opening balance to the closing balance for the defined benefit asset and liability.

	Present value of obligation		Fair value of plan assets		Impact of asset ceiling		Net defined benefit liability	
Amounts in NOK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Balance as of January 1	**1,727**	1,789	**-1,174**	-1,249	**3**	0	**556**	540
Current service and administration cost	**44**	52	**3**	3	**0**	0	**47**	55
Interest cost (income)	**39**	42	**-28**	-31	**0**	0	**12**	12
Included in income statement	**84**	**94**	**-25**	**-28**	**0**	**0**	**59**	**66**
Actuarial loss (gain) arising from financial assumptions	**-35**	15	**0**	0	**0**	0	**-35**	15
Return on plan assets	**0**	0	**43**	14	**0**	0	**43**	14
Changes in asset ceiling	**0**	0	**0**	0	**47**	3	**47**	3
Actuarial loss (gain) arising from experience adjustments	**16**	28	**0**	0	**0**	0	**16**	28
Re measurements loss (gain) included in OCI	**-19**	**43**	**43**	**14**	**47**	**3**	**71**	**60**
Contributions paid into the plan	**0**	0	**-76**	-73	**0**	0	**-76**	-73
Benefits paid by the plan	**-147**	-199	**109**	162	**0**	0	**-38**	-38
Other	**-147**	**-199**	**33**	**89**	**0**	**0**	**-114**	**-110**
Balance as of December 31	**1,644**	**1,727**	**-1,122**	**-1,174**	**50**	**3**	**572**	**556**

The net liability disclosed above relates to funded and unfunded plans as follows:

	Present value of obligation		Fair value of plan assets		Asset ceiling		Net defined benefit liability	
Amounts in NOK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net defined benefit liability funded plan	**1,073**	1,171	**-1,122**	-1,174	**50**	3	**0**	0
Net defined benefit liability unfunded plans	**572**	556	**0**	0	**0**	0	**572**	556
Balance as of December 31	**1,644**	**1,727**	**-1,122**	**-1,174**	**50**	**3**	**572**	**556**

Note 18 Pension Obligations cont.

Assets in the Defined Benefit Plan

Amounts in NOK million	2018	2017
Bonds	**812**	990
Funds	**310**	153
Equity securities	**0**	31
Total plan assets at fair value	**1,122**	**1,173**

The majority of the bond investment is in Norwegian municipalities and is assumed to have a rating equal to AA, but there are few official ratings for these investments. The remaining bond investment is primarily in the Norwegian market within bonds assumed to be of "Investment Grade" quality. The majority of these investments do not, however, have an official rating. The fund investments consist of fixed income funds and equity funds with listed securities where the value is based on quoted prices. The equity securities are invested globally, and the value is based on quoted price at the reporting date without any deduction for estimated future selling cost.

Actuarial Assumptions

The information below relates only to Norwegian plans as these represent the majority of the plans. The following were the principal actuarial assumptions at the reporting date:

	2018	2017
Discount rate	**2.80%**	2.40%
Asset return	**2.80%**	2.40%
Salary progression	**2.75%**	2.50%
Pension indexation funded plans[1]	**0.00%**	0.00%
Mortality table	**K2013**	K2013
Remaining life expectancy at age 65 for pensioners, males	**22.3**	22.2
Remaining life expectancy at age 65 for pensioners, females	**25.6**	25.5

1) Pension indexation for unfunded plans is agreed individually (0-8 percent).

The discount rate is based on government bonds or high-quality corporate bonds with maturities consistent with the terms of the obligations. The assumptions used are in line with recommendations from the Norwegian Accounting Standards Board.

Sensitivity Analysis

Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have changed the defined benefit obligation as of December 31 by the amounts shown below.

	Change net liability increase (+)/decrease (-)	
Amounts in NOK million	**2018**	**2017**
Discount rate increase by 1 percent	**-143**	-154
Discount rate decrease by 1 percent	**175**	198
Expected rate of salary increase by 1 percent	**1**	1
Expected rate of salary decrease by 1 percent	**-1**	-1
Expected rate of pension increase by 1 percent	**139**	163
Expected rate of pension decrease by 1 percent	**-117**	-128

At Aker Solutions, a one percent increase of discount rate decreases the benefit obligation by only 9 percent. This is because the benefit obligation in Aker Solutions consists mainly of pensioners and employees over 60 years of age.

See note 5 for more information about personnel expenses

See note 29 for more information about pension arrangements for the management

Note 19 Operating Leases

Aker Solutions leases office buildings and sites for manufacturing and service that account for the significant part of the lease commitment. The company also leases machines and vehicles. All leases are currently accounted for as operating leases. The new IFRS 16 Leasing standard effective from January 1, 2019 will significantly change the accounting for leases, as an on-balance sheet model similar to the current financial lease accounting will be applied to nearly all lease contracts in the company. Refer to note 32 for further description.

Financial Reporting Principles

Operating lease expenses are recognized in the income statement on a straight-line basis over the term of the lease. Rent free periods and other lease incentives received are recognized as an integral part of the total lease expense over the term of the lease. The group does not have any financial leases. Sub-lease income is recognized as operating revenue. The minimum lease payment includes the annual rental as defined in the lease agreement. The effect of onerous lease provisions is not included in the table below.

Lease Expense and Sub-Lease Income

Aker Solutions leases a number of production sites and office buildings worldwide. The leases typically run for a period of 10-15 years, with an option to renew the lease at market rates. Other leasing contracts mainly relate to machinery and vehicles with a lease period between three to five years.

2018

Amounts in NOK million	Buildings, plants and sites	Other	Total
Minimum lease expense	798	39	**837**
Contingent lease expense	0	0	**0**
Minimum lease income	-11	0	**-11**
Sub-lease income	-223	0	**-223**
Total	564	39	**604**

2017

Amounts in NOK million	Buildings, plants and sites	Other	Total
Minimum lease expense	852	12	**864**
Contingent lease expense	2	0	**2**
Minimum lease income	-12	0	**-12**
Sub-lease income	-148	0	**-148**
Total	694	12	**706**

Lease Commitments

Future minimum lease payments for non-cancellable operating leases are shown in the table below.

Amounts in NOK million	2018	2017
Less than one year	**830**	810
Between one and five years	**2,786**	2,857
More than five years	**3,246**	3,760
Total	**6,862**	**7,428**

Minimum sub-lease payments to be received in the future are shown in the table below and relate mainly to sub-lease of office buildings.

Amounts in NOK million	2018	2017[1]
Less than one year	**-167**	-167
Between one and five years	**-523**	-505
More than five years	**-385**	-548
Total	**-1,075**	**-1,220**

1) The 2017 minimum sub-lease payments to be received in the future have been increased by NOK 620 million compared to the 2017 annual report as a result of correcting an error.

See note 6 for more information about operating expenses for land and buildings
See note 20 for more information about onerous lease provisions
See note 28 for more information about leasing contracts with related parties
See note 32 for more information about the new IFRS 16 leasing standard

Note 20 Provisions and Contingent Liabilities

Financial Reporting Principles

A provision is a liability with uncertain timing and amount. Provisions are recognized when cash outflow is considered probable, the amount can be reliably estimated and the obligation is a result of a past event. All provisions are presented as short-term as they are part of the operating cycle.

A contingent liability is a possible obligation that arises from past events that typically depends on a future event outside of the company's control, for example a court decision. A provision is made when it is considered as probable that cash outflow will take place, and the obligation can be measured reliably.

Judgments and Estimates

The provisions are estimated based on a number of assumptions and are highly judgmental in nature. The various provisions with assumptions and estimation uncertainties are discussed below.

Provisions

Amounts in NOK million	Warranties	Onerous contracts	Restructuring	Other	Total
Balance as of January 1, 2018	532	210	75	125	942
Effect of implementing IFRS 15	155	123	0	0	277
Adjusted balance as of January 1, 2018	**686**	**333**	**75**	**125**	**1,219**
Provisions made during the year	96	59	31	101	287
Provisions used during the year	-116	-110	-86	-109	-421
Provisions reversed during the year	-104	-55	-13	-37	-209
Unwinding of discounting effect	0	8	0	0	8
Reclassifications	-11	0	0	34	23
Currency translation differences	0	2	-2	-1	-2
Balance as of December 31, 2018	**551**	**237**	**5**	**113**	**906**
Expected timing of payment as of December 31, 2018					
Due within twelve months	126	147	5	28	**306**
Due after twelve months	424	90	0	85	**600**
Total	**551**	**237**	**5**	**113**	**906**

Warranties

The provision for warranties relates to expected re-work and improvements for products and services delivered to customers. The warranty period is normally two to five years. The provision is based on the historical average warranty expenses for each type of equipment and an assessment of the value of delivered products and services currently in the warranty period. The provision can also be a higher or lower amount following a specific evaluation of the actual circumstances for each contract. The final warranty cost may differ from the estimated warranty provision. The warranty provision for ongoing projects previously reported as part of amounts due to/from customers has been reclassified to provisions as a result of implementing IFRS 15 on January 1, 2018.

Onerous Contracts

The provision includes onerous lease contracts and onerous customer contracts. The onerous lease provision relates to estimated losses on separable parts of leased office buildings that have been vacated or will be vacated in the near future by Aker Solutions. Future lease commitments and future expected sub-lease income have been discounted to present value using a market rate of 5.73 percent. The provision is sensitive to changes in the discount rate and assumptions relating to the sub-lease period and the sub-lease revenue. The onerous customer contracts provision relates to total estimated losses on customer contracts upon completion. The estimated losses previously reported as part of amounts due to/from customers have been reclassified to provisions as a result of implementing IFRS 15 on January 1, 2018.

Restructuring Provision

The restructuring provision relates to expected employee costs for permanent and temporary redundancies for 2019. The provision has been estimated based on assumptions of number of employees affected, salary levels, notice period, idle time assumed during notice period and severance pay. The provision is sensitive for changes in any of these assumptions.

Note 20 continues on next page

Note 20 Provisions and Contingent Liabilities cont.

Other

Other provisions relate to other liabilities with uncertain timing or amount. This includes provisions for claims, leasehold dilapidations and certain employee benefits.

Contingent Liabilities

Disputes with customers are normally settled during the final negotiations with the customer upon delivery and provided for in the projects accounts. However, given the scope of the group's worldwide construction and service operations there is a risk that legal claims may arise in the future for deliveries where revenue has been recognized in the past. Legal and tax claims are assessed on a regular basis.

Tax Claim in Brazil

The tax authorities in the state of Parana in Brazil has claimed the Aker Solutions company in Brazil for approximately BRL 312 million (NOK 699 million) including penalties and interests, stating that the conditions for the export exemption from ICMS are not fulfilled. ICMS is a value added tax on sales and services related to the movement of goods. Management has the opinion that a successful outcome in the administrative appeal system or in a judicial process likely based on current law and practice. The claim is regarded as a contingent liability since the possible outcome will be confirmed by the occurrence of an uncertain future event (a potential court decision). No provision has been made for this contingent liability since a cash outflow is not considered probable, nor is it possible to establish a reliable estimate.

See note 5 for more information about restructuring costs
See note 19 for more information about operating leases

Note 21 Trade and Other Payables

Financial Reporting Principles

Trade and other payables are recognized at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

Trade and Other Payables

Amounts in NOK million	2018	2017
Trade creditors[1]	**1,605**	1,807
Trade creditors, related parties	**75**	58
Amount due to customers for construction work	**0**	833
Advances received from customers	**0**	372
Deferred revenue for service contracts	**0**	196
Accrued operating costs	**4,539**	2,237
Public duties and taxes	**729**	627
Other current liabilities	**793**	1,174
Total	**7,741**	**7,304**

1) Trade creditors includes an amount of NOK 238 million (NOK 824 million in 2017) subject to reverse factoring. Trade creditors include NOK 7 million (NOK 2 million in 2017) due after one year.

The presentation of customer contract assets and liabilities has changed as a result of implementing IFRS 15 on January 1, 2018. The standard requires separate presentation for revenue and cost accruals, and does not allow netting and presentation as "amounts to/from customers for construction work" as under IAS 11/18.

See note 3 for more information about customer contract liabilities
See note 28 for more information about receivables to related parties

Note 22 Financial Risk Management and Exposures

The objective of financial risk management is to manage and control financial risk exposures to increase the predictability of earnings and minimize potential adverse effects on the company's financial performance. Aker Solutions uses derivatives to hedge currency risk exposures and aims to apply hedge accounting whenever possible in order to reduce the volatility resulting from the periodic market-to-market revaluation of financial instruments in the income statement. The company is also exposed to interest rate risk, credit risk, liquidity risk and price risk.

Risk Management

Risk management of financial risks is performed in every project and is the responsibility of the project manager. They cooperate with local finance managers and corporate treasury to identify, evaluate and hedge financial risks under policies approved by the board of directors. The company has well-established procedures for overall risk management, as well as policies for the use of derivatives and financial investments.

Currency Risk

Aker Solutions operates internationally and is exposed to currency risk on commercial transactions, assets and liabilities and net investments in foreign operations. Commercial transactions and assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective functional currency of the subsidiary. The company's exposure to currency risk is primarily related to USD, EUR, GBP and BRL. The company's primary translation risk is related to USD, EUR, GBP and BRL.

Use of Currency Derivatives

The Aker Solutions' policy requires business units to mitigate currency exposure in all projects. Corporate treasury manages internal exposures by entering into forward contracts or currency options with the financial market place. The Aker Solutions group has a large number of contracts involving foreign currency exposures and the currency risk policy has been well established.

Each business unit designates all foreign currency hedge contracts with corporate treasury as cashflow hedges or as hedges of separated embedded derivatives. Corporate treasury enters into external foreign exchange contracts separately for revenue and cost exposure.

More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separated embedded derivatives. Corporate treasury monitors hedges not qualifying for hedge accounting and disqualification effects are reported in the "other" segment. Currency exposure from investments in foreign currencies is only hedged when specifically instructed by management.

Exposure to Currency Risk

Corporate treasury is allowed to hold positions within an approved trading mandate. The net exposure as of December 31 is shown in the following table. Estimated forecasted cashflows in the table are calculated based on the company's hedge transactions through corporate treasury, as these are considered to be the best estimate of the currency exposure. The net exposure is closely monitored by corporate treasury and reported on a daily basis to management.

	2018			2017		
Amounts in NOK million	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
Bank deposits	-45	-13	-59	-56	-19	-41
Intercompany loans	-17	-119	5	-45	-107	4
Balance sheet exposure	**-62**	**-132**	**-54**	**-101**	**-126**	**-37**
Forecasted receipts from customers	461	98	167	641	76	96
Forecasted payments to vendors	-149	-158	-209	-196	-201	-138
Cashflow exposure	**312**	**-60**	**-42**	**445**	**-125**	**-42**
Forward exchange contracts	**-249**	**187**	**96**	**-342**	**249**	**79**
Net exposure	**1**	**-5**	**0**	**1**	**-1**	**0**

The currency exposure was within the trading mandate as of December 31, 2018 and 2017.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Sensitivity Analysis - Fair Value of Financial Instruments

The impact on income and equity from a 15 percent strengthening of EUR, USD and GBP against other currencies is shown below. A 15 percent weakening would have had the equal, but opposite effect. This sensitivity analysis shows the impact on financial instruments denominated in a foreign currency per December 31 and assumes that all other variables, in particular interest rates, remain constant. The analysis does not include the effect on future transactions (not invoiced as of December 31) or any effect from translation of subsidiaries.

	2018		2017	
Amounts in NOK million	Profit (loss) before tax	Equity increase (decrease)	Profit (loss) before tax	Equity increase (decrease)
USD - 15 percent strengthening	**-68**	**-149**	-285	-535
EUR - 15 percent strengthening	**-87**	**13**	-115	23
GBP - 15 percent strengthening	**88**	**217**	-17	65

The competitiveness of Aker Solutions is influenced by currency exchange rate fluctuations, choices of locations, suppliers and other strategic decisions. Such effects are not systematically hedged and are not included in the sensitivity analysis.

Sensitivity Analysis - Currency Translation of Subsidiaries

A change in foreign currency rates will also impact the income and balance sheet when translating the Aker Solutions companies into the presentation currency which is NOK. The effect of change in the various currencies will impact the company accounts in the following manner:

	2018			
Amounts in NOK million	Revenue increase (decrease)	EBIT increase (decrease)	Profit (loss) before tax	Equity increase (decrease)
USD - 15 percent strengthening	304	32	18	253
EUR - 15 percent strengthening	0	-5	-3	238
GBP - 15 percent strengthening	554	-10	-9	417
BRL - 15 percent strengthening	263	13	6	213

Regulatory Restrictions

Different regulatory rules may put restrictions on free flow of cash in some jurisdictions, including (but not limited to) Angola and Nigeria. Although the currency in these countries may not be fully convertible with other currencies, mitigating actions have been taken in order to minimize the currency exposure. These include multilateral agreements with banks, customers and vendors on timing of payments to minimize the exposed cash balance. Aker Solutions will always strive to minimize cash balances and maximize cash available for treasury. The cash in these countries amounted to NOK 280 million as of December 31, 2018 compared to NOK 237 million in the prior year.

Interest Rate Risk

Borrowings issued at variable rates expose the company to cashflow interest rate risk. Borrowings issued at fixed rates do not affect profit and loss when held to maturity, as these borrowings are measured at amortized cost.

As the company has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates. At year-end, 50 percent of NOK 2,500 million in bonds was fixed for the duration of the bonds through interest rate swaps.

An increase of 100 basis points in interest rates during 2018 would have increased (decreased) equity and profit and loss by the amounts shown on the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Interest Rates Sensitivity

	2018		2017	
Amounts in NOK million	**Income (loss) before tax**	**Equity increase (decrease)[1]**	**Income (loss) before tax**	**Equity increase (decrease)[1]**
Interest on cash and cash equivalents	**25**	**0**	18	0
Interest on borrowings	**12**	**37**	-35	0
Effect of interest rate swap	**-30**	**0**	14	9
Cashflow sensitivity (net)	**6**	**37**	**-2**	**9**

1) Not including tax effect on hedge reserve or effects to equity that follow directly from the effects to profit and loss.

A decrease of 100 basis points in interest rates during 2018 would have had the equal but opposite effect on the amounts, on the basis that all other variables remain constant.

Credit Risk

Credit risk is the risk of financial losses if a customer or counterparty to financial receivables and financial instruments fails to meet contractual obligations.

Investment Securities and Derivatives

Investment securities and derivatives are only traded against approved banks and governed by standard agreements (ISDA). All approved banks are participants in the Aker Solutions loan syndicate and have investment grade ratings. Credit risk related to investment securities and derivatives is therefore considered to be insignificant.

Trade Receivables and Contract Assets

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 using credit assessment tools available (e.g. Dun & Bradstreet). Revenues are mainly related to large and long-term projects closely followed up in terms of payments up front and in accordance with agreed milestones. Normally, lack of payment is due to disagreements related to project deliveries and is solved together with the customer.

Aker Solutions's major customers are highly rated oil companies where the credit risk is considered to be limited. Risk related to lower rated companies is monitored closely. The maximum exposure to credit risk at the reporting date equals the book value of each category of financial assets. The company does not hold collateral as security.

Measurement of Expected Credit Losses (ECLs)

IFRS 9 implemented on January 1, 2018 introduced the expected credit loss (ECL) method for financial assets. The company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligation to the company in full. ECLs are estimated probability-weighted net present value of future expected credit losses. ECLs are discounted at the effective interest rate of the financial asset. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime ECLs. Twelve month ECLs are used for interest-bearing receivables and bank balances for which credit risk has not increased significantly since initial recognition.

At each reporting date, the company assesses whether any financial assets are credit-impaired. Evidence that a financial asset is credit-impaired includes when invoiced are more than 90 days past due without agreed postponement, knowledge of significant financial difficulty of the customer or debtor or other forward-looking information. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off.

Liquidity Risk

Liquidity risk is the risk that the company is unable to meet the obligations associated with its financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity reserves to meet its liabilities when due.

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 weekly and monthly forecasts of the company’s liquidity reserve on the basis of expected cashflow. Due to the dynamic nature of the underlying businesses, corporate treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Financial Liabilities and the Period in Which They Mature

2018

Amounts in NOK million	Book value	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	2,913	**3,304**	124	1,128	241	1,810	0
Net derivative financial instruments	46	**46**	55	4	-13	0	0
Trade and other payables	7,741	**7,741**	7,490	244	0	7	0
Total liabilities	**10,700**	**11,091**	**7,669**	**1,377**	**229**	**1,817**	**0**
Financial guarantees		**14,133**	2,870	383	321	2,446	8,113

2017

Amounts in NOK million	Book value	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	3,114	**3,376**	173	486	2,444	272	1
Net derivative financial instruments	183	**183**	163	2	18	0	0
Trade and other payables	7,304	**7,304**	7,302	0	2	0	0
Total liabilities	**10,601**	**10,863**	**7,638**	**488**	**2,464**	**272**	**1**
Financial guarantees		**11,476**	1,523	1,327	1,809	616	6,202

1) Nominal currency value including interest.

Cash Pool Arrangements

The company policy for the purpose of optimizing availability and flexibility of cash within the company is to operate centrally managed cash pooling arrangements. Such arrangements are either organized with a bank as a service provider, or as a part of the operation of corporate treasury. An important condition for the participants (business units) in such cash pooling arrangements is that Aker Solutions as an owner of such pools is financially viable and is able to prove its capability to service its obligations concerning repayment of any net deposits made by business units. The company policy is not applied in countries where local laws prohibit international cash pool arrangements, such as Brazil, Angola and India.

Price Risk

The company is exposed to fluctuations in market prices both in the investment portfolio and in the operating businesses related to individual contracts. The units are exposed to changes in market price for raw materials, equipment and development in wages. This is managed in the bid process by locking in committed prices from key vendors as basis for offers to customers or through escalation clauses with customers.

Guarantees

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

- Non-financial parent company guarantees related to project performance on behalf of group companies
- Financial parent company indemnity guarantees for fulfillment of lease obligations, credits and loans were NOK 7.9 billion (NOK 6.2 billion in 2017)
- Financial guarantees including counter guarantees for bank/surety bonds and guarantees for pension obligations to employees were NOK 6.2 billion (NOK 5.3 billion in 2017)

Guarantee on Behalf of Akastor

Aker Solutions was demerged from Akastor in 2014, and parties in a demerger have joint liability according to Norwegian law. If an obligation that arose prior to the completion of the demerger is not met by either party, the other party will have secondary joint liability for such obligation. This statutory liability is unlimited in time, but is limited in amount. The remaining value of the financial guarantees where Aker Solutions has a secondary joint liability was NOK 3.6 billion per December 31, 2018 compared to NOK 4.1 billion per December 31, 2017.

See note 14 for more information about trade and other receivables
See note 15 for more information about cash and available credit facility
See note 17 for more information about borrowings
See note 21 for more information about trade and other payables
See note 24 for more information about derivatives
See note 25 for more information about financial assets and liabilities

Note 23 Capital Management

The objective of Aker Solutions' capital management policy is to optimize the capital structure to ensure sufficient and timely funding over time to finance its activities at the lowest cost, in addition to investing in projects and businesses which will increase the company's return on capital employed over time.

Investment Policy

Aker Solutions' capital management is based on a rigorous investment selection process which considers not only Aker Solutions' weighted average cost of capital and strategic orientation, but also external factors such as market expectations and extrinsic risk factors. This selection process is coupled with a centralized approval process for all capital expenditures to be incurred by the group.

Funding Policy

Liquidity Planning

Aker Solutions has a strong focus on its liquidity in order to meet its working capital needs short-term and to ensure solvency for its financial obligations long-term. The group's internal guideline is to have a minimum liquidity reserve of NOK 3 billion, including cash and undrawn committed credit facilities. As per December 31, 2018 this liquidity reserve amounted to NOK 7.5 billion and was composed of an undrawn committed credit facility and bank deposits.

Funding of Operations

Aker Solutions' group funding policy states that all operating units will be funded through corporate treasury. This ensures optimal availability and transfer of cash within the group, better control of the group's overall debt as well as discounted funding for its operations. The group policy is not applied in countries where local laws prohibit international cash pool arrangements, such as Brazil, Angola and India.

Aker Solutions emphasizes financial flexibility and steers its capital structure accordingly to ensure a balance between liquidity risk and refinancing risk. In this perspective, loans and other external borrowings are to be renegotiated well in advance of their due date.

Aker Solutions aims to have diversified mix of funding sources in order to obtain an optimal cost of capital. These funding sources include:

- the use of banks based on syndicated credit facilities or bilateral agreements
- the issue of debt instruments in the Norwegian capital market
- the issue of debt instruments in foreign capital markets

Debt Covenants

As per end of 2018, the capital structure of Aker Solutions was 14 percent from bank and export credit agency (ECA) debt and 86 percent from bonds issued in the Norwegian market. The group monitors capital on the basis of gearing and interest coverage ratios. The reported ratios are well within the requirements in the loan agreements as shown in the table below.

Aker Solutions has the following debt covenants for the revolving facility:

- The company's gearing ratio shall not exceed 3.5, calculated from the net debt to the adjusted EBITDA.
- The company's interest coverage ratio shall not be less than 3.5, calculated from the adjusted EBITDA to net finance cost.

Aker Solutions has the following debt covenants for the bonds:

- 2019 NOK bond loan: the company's gearing ratio shall not exceed 4.0, calculated from the gross interest bearing debt to the adjusted EBITDA.
- 2022 NOK bond loan: the company's interest coverage ratio shall not be less than 3.5 calculated from the adjusted EBITDA to net finance cost.

These guidelines aim to maintain a strong financial position for Aker Solutions, which enables the company to comply with its covenants on existing debt and to maintain satisfactory external credit rating to ensure reliable access to capital over time.

Note 23 continues on next page

Note 23 Capital Management cont.

Gearing and Interest Coverage Ratios at December 31

Amounts in NOK million	2018	2017
Gearing ratios		
Non-current interest-bearing debt	**1,788**	2,576
Current interest-bearing debt	**1,125**	539
Gross interest-bearing debt	**2,913**	**3,114**
Cash and cash equivalent	**-2,473**	-1,978
Net debt	**440**	**1,137**
EBITDA (Operating income before depreciation, amortization and impairment)	**1,810**	1,519
Restructuring and other special items as defined in the loan agreement	**39**	88
Adjusted EBITDA	**1,850**	**1,607**
Gross interest-bearing debt/adjusted EBITDA	**1.6**	**1.9**
Net debt/adjusted EBITDA	**0.2**	**0.7**
Interest coverage		
Adjusted EBITDA	**1,850**	1,607
Net interest expense as defined in the loan agreement	**198**	218
Adjusted EBITDA/Net finance cost	**9.4**	**7.4**

See note 17 for more information about borrowings
See note 22 for more information about financial risk management
See note 24 for more information about interest rate derivatives
See note 25 for more information about financial assets and liabilities

Note 24 Derivative Financial Instruments

The company has future cashflows to be settled in foreign currencies, and forward contracts are the most commonly used derivative to hedge such exposures. The company's risk management policy states that all foreign exchange exposure shall be hedged, of which at least 80 percent shall qualify for hedge accounting or be hedges of separated embedded derivatives. The company also has interest rate exposure from its external funding. Interest rate swaps are used to achieve the risk management strategy of having 30-50 percent at fixed interest rates.

Financial Reporting Principles

Cashflow Hedges of Foreign Currency

Forward contracts are the most commonly used derivative to hedge foreign currency exposure. In addition currency options are sometimes used to hedge uncertain exposures. In case of changes in the expected maturity dates, currencies or amounts of the hedged items corresponding derivatives are routinely adjusted (pre-matured or rolled over), usually by means of currency swaps.

The hedged transactions in foreign currency subject to cashflow hedge accounting are highly probable future transactions expected to occur at various dates during the next one to four years, depending on progress in the projects and firm commitments. The derivatives are recognized initially and subsequently at fair value in the balance sheet, and the effective portion of changes in the fair value is recognized in other comprehensive income as a hedge reserve.

The company designates the full forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. The company's policy is for the critical terms, such as currency pair, amount and timing, of the forward exchange contracts to align with the hedged item.
The company determines the existence of an economic relationship between the hedging instrument and hedged item based on matching critical terms of their respective cash flows. In addition, the company assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting changes in cash flows of the hedged item by the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

- any sequential change of timing of the hedged item;
- change in the total amount of the hedge item; and
- significant change in the counterparty's and the company's own credit risk

The company does not designate any net positions in a hedging relationship. Some hedged transactions are not accounted for by applying hedge accounting, primarily because internal hedged transactions are grouped and netted before external hedge transactions are established. Changes in the fair value of derivatives will be reported as financial income or expenses. Remaining derivatives not applying hedge accounting include derivatives used by corporate treasury to hedge the residual exposure of the company as part of its risk mandate. As of December 31, 2018, these hedging instruments only include currency forwards, currency options, interest swaps and foreign exchange swaps.

Hedge accounting is discontinued with immediate recognition in finance income and expenses in the income statement when the hedge no longer qualifies for hedge accounting, for example upon sale, expiration, termination or when a forecasted transaction is no longer probable.
The derivative financial instruments are classified as current assets or liabilities as they are part of the operating cycle.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Foreign Currency as Embedded Derivatives

Embedded derivatives may exist in contracts with a currency other than the currency of the contracting partners. The embedded derivative will under certain circumstances be separated and recognized at fair value in the balance sheet and changes recognized in the income statement. These entries will result in corresponding and opposite effects compared to the hedging instrument. Aker Solutions 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 of the 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.

Cashflow Hedges of Interest Rates

The company's interest exposure mainly arises from external funding in bank and debt capital markets. Most of the external debt in Aker Solutions is at floating interest rates. The company's risk management strategy is that 30-50% of the interest exposure shall be fixed interest rate for the duration of the debt. The company uses interest rate swaps to achieve the desired fixed/floating ratio of the external debt.

Hedge accounting is applied using the cashflow model for interest rate swaps which means that gains and losses from floating to fixed interest rates as of December 31, 2018 are recognized in the hedging reserve in equity and will be continuously released to the income statement until the bank borrowings are repaid. This is done based on the periodic market-to-market revaluation of the interest rate swaps whose fair value tends to reach zero upon maturity.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Fair Values and Maturity

The following table presents the fair value of the derivatives and a maturity analysis of the derivatives undiscounted cashflows. Given Aker Solutions hedging policy and the assumption that projects are cash neutral, this table also indicates when the cashflows related to project expenses are expected to impact profit and loss. The majority of project revenues are recognized over time according to the progress of the project. This may result in differences between cashflow and revenue recognition.

2018

Amounts in NOK million	Instruments at fair value[1]	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Assets						
Cashflow hedging instruments	132	80	36	13	2	0
Fair value adjustments to hedged instruments	-30	-22	-4	-3	-1	0
Embedded derivatives in ordinary commercial contracts	58	39	9	7	3	0
Financial instruments not hedge accounted	58	51	4	2	2	0
Total financial instrument assets	**218**	**148**	**45**	**18**	**6**	**0**
Liabilities						
Cashflow hedging instruments	-234	-177	-30	-26	-1	0
Fair value adjustments to hedged instruments[2]	123	116	4	3	0	0
Embedded derivatives in ordinary commercial contracts	-8	-3	-1	-2	-2	0
Financial instruments not hedge accounted	-44	-29	-6	-7	-3	0
Total forward foreign exchange contracts	**-163**	**-93**	**-33**	**-32**	**-6**	**0**
Cashflow hedges interest rate instruments	-9	0	-8	0	-1	0
Total financial instrument liabilities	**-172**	**-93**	**-41**	**-32**	**-7**	**0**
Net financial instruments	**46**	**55**	**4**	**-13**	**0**	**0**

1) Cashflows from matured derivatives are translated to NOK using the exchange rates on the balance sheet date.
2) Fair value of settled derivatives not yet booked in the income statement are recognized in balance sheet and will be reclassified to the income statement over the next years as the projects progress.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

2017

Amounts in NOK million	Instruments at fair value	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Assets						
Cashflow hedges	182	171	5	6	0	0
Fair value adjustments to hedged assets[2]	-17	-20	5	-2	0	0
Embedded derivatives in ordinary commercial contracts	0	0	0	0	0	0
Financial instruments not hedge accounted	60	52	5	2	0	0
Total financial instrument assets	**226**	**203**	**15**	**6**	**0**	**0**
Liabilities						
Cashflow hedges	-145	-126	-13	-5	-1	0
Fair value adjustments to hedged liabilities[2]	-20	-24	2	2	0	0
Embedded derivatives in ordinary commercial contracts	-179	-172	-1	-5	0	0
Financial instruments not hedge accounted	-49	-44	-5	0	0	0
Total forward foreign exchange contracts	**-393**	**-366**	**-17**	**-9**	**-1**	**0**
Cashflow hedges interest rate instruments	-16	0	0	-16	0	0
Total financial instrument liabilities	**-408**	**-366**	**-17**	**-24**	**-1**	**0**
Net financial instruments	**-183**	**-163**	**-2**	**-18**	**0**	**0**

1) Cashflows from matured derivatives are translated to NOK using the exchange rates on the balance sheet date.
2) Fair value of settled derivatives not yet booked in the income statement are recognized in balance sheet and will be reclassified to the income statement over the next years as the projects progress.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Unsettled Hedges

The table below shows the unsettled cashflow hedges' impact on profit and loss and equity (not adjusted for tax).

	2018			2017		
Amounts in NOK million	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**
Forward exchange contracts (cashflow hedges)	**-102**	-101	-1	**38**	39	**-2**
Interest rate swaps	**-9**	0	-9	**-16**	0	**-16**
Total	**-112**	**-101**	**-10**	**22**	**39**	**-17**

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 expenses on the underlying customer contracts are recognized in the income statement in accordance with progress. Consequently, negative NOK 101 million (NOK 39 million in 2017) of the value of the forward contracts have already impacted the income statement indirectly as revenues and expenses are recognized based on updated forecasts and progress. The negative NOK 1 million (negative NOK 2 million in 2017) that are currently recorded directly in the hedging reserve, will be reclassified to the income statement over the next years.

The value of the interest swaps is attributable to changes in the interest swap curve for Norwegian Kroner during the period from inception of the hedge to the balance sheet date, excluding accrued interest rates of the swaps, tax and deferred settlements related to matured instruments.

Hedge Reserve Movement

The table below shows the movement in the hedge reserve from changes in the cashflow hedges.

Amounts in NOK million	**Hedge reserve**
Balance as of January 1, 2018 under IAS 39	-184
Adjustment on initial application of IFRS 9	168
Balance as of January 1, 2018 under IFRS 9	**-16**
Changes in fair value:	
Forward currency contracts	-132
Interest rate swaps	6
Amount reclassified to profit or loss:	
Forward currency contracts	134
Interest rate swaps	3
Tax on movements on reserves during the year	-2
Balance at December 31, 2018	**-8**

Interest Rate Swaps

Aker Solutions currently has two outstanding bonds. For the bond of NOK 1,000 million at floating interest rates maturing October 9, 2019, NOK 500 million has been swapped to fixed interest rate. For the bond of NOK 1,500 at floating interest rates maturing July 25, 2022, NOK 750 million has been swapped to fixed interest rate. Floating interest rates are tied to inter-bank offered rates (NIBOR for NOK).

See note 17 for more information about borrowings
See note 25 for more information about financial assets and liabilities

Note 25 Financial Assets and Liabilities

Financial assets and liabilities in the group consist of investments in other companies, trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and equity. The new accounting standard for financial instruments (IFRS 9) was implemented as of January 1, 2018. The new standard includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements.

Financial Reporting Principles

IFRS 9 Financial Instruments implemented on January 1, 2018 replaced IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, the standard contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cashflow characteristics. The following financial reporting policies apply to initial and subsequent measurement from January 1, 2018:

Financial assets at amortized cost	These financial assets are initially recognized at fair value plus attributable transaction costs, except for trade and other receivables that are measured at the transaction price. The assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange effects and gains or losses from derecognition is recognized in the income statement.
Financial assets at FVTPL (fair value through profit and loss)	These financial assets are initially and subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Equity investments at FVOCI (fair value over other comprehen-sive income)	These financial assets are initially and subsequently measured at fair value. Dividends are recognized as income in the income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Classification and Measurement of Financial Assets and Financial Liabilities

The table below shows the financial assets in the group and how they are classified under IAS 39 and IFRS 9 at the date of transition (January 1, 2018):

Amounts in NOK million	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Other investments	Available for sale	Equity investments at FVOCI	91	95
Non-current receivables	Loans and receivables	Financial assets at amortized cost	106	106
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	3,052	3,051
Forward foreign exchange contract	Fair value - hedging instruments	Fair value - hedg-ing instruments	226	458
Current interest-bearing receivables	Financial assts at FVTPL	Financial assets at FVTPL	69	69
Current interest-bearing receivables	Loans and receivables	Financial assets at amortized cost	59	59
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	1,978	1,978
Total			**5,581**	**5,816**

Note 25 continues on next page

Hedge Accounting

The foreign currency exchange contracts and interest rate swaps in place as of December 31, 2018 qualified as cashflow hedges under IFRS 9. The company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

Cashflow hedges associated with forecast transactions that subsequently results in recognition of a non-financial asset or liability is treated differently under IFRS 9 and IAS 39. Under IAS 39, the amounts accumulated in the cashflow hedge reserve in equity are reclassified to the income statement in the same period as the hedged transaction is settled. Under IFRS 9, it is required to adjust the initial cost or other carrying amount of the non-financial asset or the non-financial liability. On the date of transition to IFRS 9, the company has moved the amount accumulated in the cashflow hedge reserve for those hedges to the carrying amount of the corresponding non-financial asset or non-financial liability.

The Fair Value Hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

For financial instruments measured at fair value, the levels in the fair value hierarchy are:

- Level 1: Fair values are based on prices quoted in an active market for identical assets or liabilities.
- Level 2: Fair values are based on price input other than quoted prices. Such prices are derived from observable market transactions in an active market for identical assets or liabilities. Level 2 includes currency or interest derivatives and interest bonds, typically when the group uses forward prices on foreign exchange rates or interest rates as inputs to valuation models.
- Level 3: Fair values are based on unobservable input, mainly based on internal assumptions used in the absence of quoted prices from an active market or other observable price inputs.

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2018

	Carrying value							Fair value			
Amounts in NOK million	Fair value - hedging instruments	Financial assets at FVTPL[1]	Amortized cost	Equity investments at FVOCI[1]	Financial liabilities at FVTPL[1]	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Other investments[2]	0	0	0	79	0	0	**79**			79	**79**
Non-current receivables	0	0	84	0	0	0	**84**				
Trade and other receivables	0	0	3,328	0	0	0	**3,328**				
Forward foreign exchange contracts	218	0	0	0	0	0	**218**		218		**218**
Current interest-bearing receivables	0	25	21	0	0	0	**47**	25			**25**
Cash and cash equivalents	0	0	2,473	0	0	0	**2,473**				
Financial assets	**218**	**25**	**5,906**	**79**	**0**	**0**	**6,228**	**25**	**218**	**79**	**322**
Non-current borrowings[3]	0	0	0	0	0	-1,788	**-1,788**	-1,515		-291	**-1,806**
Other non-current liabilities	0	0	0	0	0	-10	**-10**			-10	**-10**
Current borrowings[3]	0	0	0	0	0	-1,125	**-1,125**	-1,014		-114	**-1,128**
Deferred consideration[4]	0	0	0	0	-34	0	**-34**			-34	**-34**
Trade and other payables[5]	0	0	0	0	0	-3,913	**-3,913**				
Forward foreign exchange contracts	-163	0	0	0	0	0	**-163**		-163		**-163**
Interest rate instruments	-9	0	0	0	0	0	**-9**		-9		**-9**
Financial liabilities	**-172**	**0**	**0**	**0**	**-34**	**-6,836**	**-7,042**	**-2,529**	**-172**	**-449**	**-3,150**

1) FVTPL is short for fair value through profit and loss, FVOCI is short for fair value through other comprehensive income.
2) Investments in level 1 consist of listed shared with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Fair value is based on net present value of estimated future profits of a subsidiary. There is no limit to the maximum potential payout.
5) Trade and other payables that are not financial liabilities at negative NOK 3,794 million in 2018 are not included.

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2017

	Carrying value							Fair value			
Amounts in NOK million	**Fair value - hedging instruments**	**Financial assets at FVTPL[1]**	**Loans and receivables**	**Available for sale**	**Financial liabilities at FVTPL[1]**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other investments[2]	0	0	0	91	0	0	**91**	43		48	**91**
Non-current receivables	0	0	106	0	0	0	**106**				
Trade and other receivables	0	0	3,052	0	0	0	**3,052**				
Forward foreign exchange contract	226	0	0	0	0	0	**226**		226		**226**
Current interest-bearing receivables	0	69	59	0	0	0	**128**	69			**69**
Cash and cash equivalents	0	0	1,978	0	0	0	**1,978**				
Financial assets	**226**	**69**	**5,194**	**91**	**0**	**0**	**5,579**	**112**	**226**	**48**	**385**
Non-current borrowings[3]	0	0	0	0	0	-2,576	**-2,576**	-1,040		-1,568	**-2,608**
Other non-current liabilities	0	0	0	0	0	-9	**-9**			-9	**-9**
Current borrowings[3]	0	0	0	0	0	-539	**-539**			-539	**-539**
Deferred consideration[4]	0	0	0	0	-74	0	**-74**			-74	**-74**
Trade and other payables[5]	0	0	0	0	0	-4,951	**-4,951**				
Forward foreign exchange contracts	-393	0	0	0	0	0	**-393**		-393		**-393**
Interest rate instruments	-16	0	0	0	0	0	**-16**		-16		**-16**
Financial liabilities	**-408**	**0**	**0**	**0**	**-74**	**-8,074**	**-8,557**	**-1,040**	**-408**	**-2,189**	**-3,637**

1) FVTPL is short for fair value through profit and loss.
2) All available for sale investments are designated as such upon initial recognition. Investments in level 1 consist of listed shared with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Fair value is based on net present value of estimated future profits of a subsidiary. There is no limit to the maximum potential payout.
5) Trade and other payables that are not financial liabilities at negative NOK 2,353 million in 2017 are not included.

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Effect of Transitioning to IFRS 9

The company has applied a modified restrospective implementation method, with the cumulative impact recognized in retained earnings as of January 1, 2018. Comparative figures for 2017 are not restated. The impact of transition to IFRS 9 on the group's retained earnings as of January 1, 2018 is summarized below.

IFRS 9 Financial Instruments was adopted on January 1, 2018. The standard supersedes IAS 39 Financial Instruments: Recognition and Measurement and addresses classification and measurements of financial instruments, impairment of financial assets and hedge accounting. The company has implemented the standard with the cumulative impact recognized in retained earnings as of January 1, 2018 and no restatement of comparative figures. The main changes are described below.

- The group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and all hedge relationships at December 31, 2017 are therefore continued. For cashflow hedges associated with forecasted transactions that subsequently result in recognition of contract asset or liability, the gains and losses previously recognized in OCI are included in the carrying amount of the contract asset or liability. This resulted in an increase of derivative financial instruments (assets) and an increase of equity of NOK 232 million excluding tax.
- Equity investments of NOK 91 million previously classified as available-for-sale were reclassified to fair value through other comprehensive income (FVOCI) as of January 1, 2018. Equity securities in unlisted companies previously measured at cost were re-valued at fair value, resulting in an increase of value and equity of NOK 4 million upon transition.
- The company applies the expected credit loss (ECL) method for its trade receivables and contracts assets, which resulted in an increase of loss allowance (with corresponding decrease of equity) of NOK 1 million upon transition.

Net of tax, the effect from implementing IFRS 9 was an increase of equity of NOK 181 million as of January 1, 2018.

Amounts in NOK million	**January 1, 2018**
Reclassification of hedge reserve	232
Other investments re-measured at fair value	4
Increased impairment losses on receivables	-1
Tax effects	-54
Total effect from implementing IFRS 9 on equity	**181**

See note 14 for more information about trade and other receivables
See note 17 for more information about borrowings
See note 21 for more information about trade and other payables
See note 22 for more information about financial risk management
See note 24 for more information about derivatives
See note 27 for more information about other investments

Note 26 Subsidiaries

Financial Reporting Principles

The consolidated statements include all entities controlled by Aker Solutions ASA. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. Non-controlling interests (NCIs) are measured on initial recognition at their portion of fair values, and yearly earnings are allocated to the NCI according to their ownership interest.

Subsidiaries

Aker Solutions has 55 subsidiaries in 25 countries at the reporting date. Aker Solutions AS in Norway and Aker Offshore Partner Ltd in the UK are material subsidiaries with revenue of more than 10 percent of consolidated revenue. The group holds the majority of the shares in all subsidiaries except four, see description below. Subsidiaries fully owned or controlled by Aker Solutions as of December 31, 2018 are listed below. If not stated otherwise, ownership equals the percentage of voting shares.

Company	Location	Country	Percent
Aker Solutions Enterprises, LDA	Luanda	Angola	49
Aker Solutions Pty Ltd	Perth	Australia	100
Aker Solutions Azerbaijan LLC	Baku	Azerbaijan	100
Aker Solutions do Brasil Ltda	Curitiba	Brazil	100
C.S.E. Mecânica e Instrumentacâo Ltda	Curitiba	Brazil	70
Aker Solutions Sdn Bhd	Kuala Belait	Brunei	100
Aker Solutions Asset Integrity and Management Canada Inc.	Newfoundland	Canada	100
Aker Solutions Canada Inc	Vancouver	Canada	100
Aker Solutions (Shenzhen) Co. Ltd	Shenzhen	China	100
Aker Solutions Congo SA	Point-Noire	Congo	70
Aker Solutions Cyprus Limited	Limassol	Cyprus	100
Aker Solutions SAS	Paris	France	100
Aker Solutions Ghana Ltd	Adabraka	Ghana	90
Aker Powergas Pvt Ltd	Mumbai	India	95
Aker Powergas Subsea Pvt Ltd	Mumbai	India	95
Aker Engineering International Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Engineering Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	90
Aker Solutions APAC Sdn Bhd	Kuala Lumpur	Malaysia	48
Aker Solutions India Operations Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions India Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions India Services Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Umbilical Asia Pacific Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions de Mexico	Mexico City	Mexico	100
Aker Solutions Mocambique Ltda	Maputo	Mozambique	100
Aker Solutions BV	Zoetemer	Netherlands	100
Aker Solutions Nigeria Ltd	Ikoyi-Lagos	Nigeria	100
Aker Installation FP AS	Fornebu	Norway	100
Aker Insurance Services AS	Fornebu	Norway	100

Note 26 continues on next page

Note 26 Subsidiaries cont.

Company	Location	Country	Percent
Aker Solutions AS	Fornebu	Norway	100
Aker Solutions Holding AS	Fornebu	Norway	100
Aker Solutions Middle East AS	Fornebu	Norway	100
Aker Solutions Russia AS	Fornebu	Norway	100
Benestad Solutions AS	Lierskogen	Norway	100
KBeDesign AS	Fornebu	Norway	100
Aker Solutions Gulf Services WLL	Doha	Qatar	49
Aker Process Gulf Co. Ltd	Al-Khobar	Saudi Arabia	100
Aker Solutions Saudi Arabia Limited	Dhahran	Saudi Arabia	100
Aker Solutions Korea Co. Ltd	Geoje	South Korea	100
K Water AB	Örnsköldsvik	Sweden	100
Aker Solutions Tanzania Ltd	Dar es Salaam	Tanzania	100
Aker Engineering Malaysia Ltd	Leeds	UK	100
Aker Engineering and Technology Ltd	London	UK	100
Aker Offshore Partner Ltd	Aberdeen	UK	100
Aker Solutions Angola Ltd	Maidenhead	UK	100
Aker Solutions DC Trustees Ltd	London	UK	100
Aker Solutions Enterprises International (UK) Limited	London	UK	49
Aker Solutions EAME Limited	Aberdeen	UK	100
Aker Solutions IP Limited	Aberdeen	UK	100
Aker Solutions Holding Limited	Aberdeen	UK	100
Aker Solutions Ltd	Maidenhead	UK	100
Enovate Systems Limited	Aberdeen	UK	95
International Design Engineering and Services Ltd	Glasgow	UK	100
Aker Solutions Inc.	Houston	USA	100
Aker Solutions USA Corporation	Houston	USA	100

Subsidiaries where Aker Solutions does not have the Majority of Shares

Aker Solutions has less than 50 percent of the shares in four subsidiaries as shown in the table. Aker Solutions has control over relevant activities through shareholders agreements. The subsidiaries are fully consolidated and the non-controlling interest share of profit and equity is presented in the income statement and in the balance sheet.

See note 28 for more information about customer contracts organized as joint arrangements
See note 31 for more information about subsequent event related to C.S.E.

Note 27 Other Investments

Financial Reporting Principles

Other investments are those entities in which the company does not have significant influence. This is usually entities were the company holds less than twenty percent of the voting power. Upon implementing IFRS 9 on January 1, 2018, the company designated the investments shown below as equity securities at fair value through other comprehensive income (FVOCI) as they represent long-term strategic investments. When the investments are sold, the accumulated gain or loss in equity is not reclassified to the income statement.

Under IAS 39, these investments were classified as available-for-sale investments. The fair value changes (other than impairment losses) were recognized in other comprehensive income (OCI) in equity. When the investments were sold, the accumulated gain or loss in equity was reclassified to the income statement.

Equity Securities

Amounts in NOK million	2018	2017
Equity securities in unlisted companies	**79**	15
Equity securities in listed companies	**0**	76
Equity securities	**79**	**91**

Investment in unlisted shares are measured at cost less impairment. Cost is used when there is no quoted marked prices and there is no other information available to measure fair value.

See note 25 for more information about financial assets and liabilities

Note 28 Related Parties

Financial Reporting Principles

Related party relationships are defined to be entities outside the Aker Solutions group that are under control (either directly or indirectly), joint control or significant influence by the owners of Aker Solutions. Related parties are in a position to enter into transactions with the company that would potentially not be undertaken between unrelated parties. All transactions in the Aker Solutions group with related parties have been based on arm's length terms.

Related Parties of Aker Solutions

The largest shareholder of Aker Solutions is Aker Kværner Holding AS which is controlled by Aker ASA (70 percent). Aker ASA is controlled by The Resource Group TRG AS, a company controlled by Kjell Inge Røkke. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA. In this respect, all entities owned by Aker ASA and entities which Kjell Inge Røkke and his close family controls through The Resource Group TRG AS are considered related parties to Aker Solutions. These entities include companies like Akastor, Kvaerner and Aker BP and are referred to as Aker entities in this note. Non-controlling interests with significant influence are also considered as related parties.

Note 28 continues on next page

Note 28 Related Parties cont.

Transactions and Balances with Related Parties

Amounts in NOK million	2018	2017
Income statement		
Operating revenues	**3,360**	1,902
Operating costs	**-315**	-286
Balance sheet		
Trade receivables	**594**	305
Non-current interest-bearing receivable	**45**	18
Trade payables	**-75**	-58
Current interest-bearing loan	**-1**	-1

The Major Related Parties Transactions

Aker Solutions has several transactions with related parties on a recurring basis as part of normal business and leases property from related parties. Below is a description of the significant related party transactions and balances in 2018.

Lease Agreements with The Resource Group TRG AS

Aker Solutions leases several of its industrial buildings in Norway including Tranby, Egersund and Ågotnes from companies owned by The Resource Group TRG AS, a company fully owned by Kjell Inge Røkke. The rent recognized in 2018 was NOK 157 million (2017: NOK 154 million). Further, Aker Solutions sub-leased offices in Stavanger, Norway to Aker BP in 2018 for NOK 35 million (2017: NOK 30 million).

Commercial Contracts with Kvaerner and Aker BP

Aker Solutions both buys from and delivers services and products to Kvaerner through subcontractor agreements. Aker Solutions holds agreements for delivery of equipment and services to Aker BP for various oil fields offshore Norway including a new six-year framework agreement for engineering and procurement services signed in 2017. The framework agreement may be extended by four years.

Joint Arrangement with Kvaerner

Aker Solutions has entered into two joint arrangement with Kværner ASA for deliveries under customer contracts. One is a joint operation, as the parties are jointly and severally liable for the project performance in an arrangement without a legal structure. Aker Solutions presents its 50 percent share of revenue, cost, assets and liabilities in the financial statements. The other one is a joint venture structured in a limited company. The joint venture is accounted for using the equity method. The profit from the joint venture is not significant in 2018.

Other

Other agreements with related parties include:

- Aker Solutions entered into an agreement in February 2018 to purchase digital services from Cognite, a subsidiary of Aker ASA. The services include development of and access to Cognite’s advanced industrial data platform to analyze large volumes of data from offshore energy installations.
- Aker Solutions contributed NOK 76 million in 2018 (NOK 70 million in 2017) to Aker Pensjonskasse, which is a fund established by Aker to manage the retirement plan for employees and retirees in Aker Solutions and other Aker companies
- Aker Solutions supported the group's union representative function with NOK 525,000 in 2018 (NOK 510,000 in 2017)

See note 14 for more information about customer contract assets and receivables
See note 19 for more information about operating leases
See note 21 for more information about trade and other payables
See note 22 for more information about guarantee commitments for Akastor
See note 26 for more information about subsidiaries

Note 29 Management Remuneration

Remuneration to the Board of Directors

The current board of directors has been elected by the general meeting to serve for an appointment period of two years. The shareholder elected directors are serving for the period 2018-2020, while the employee elected directors are serving for the period 2017-2019. Fees to the board of directors are approved by the annual general meeting. The board held 13 meetings in 2018 with an average attendance rate of 86 percent. In addition, certain matters were processed by way of circulation of documents. The audit committee held six meetings in 2018. As of December 31, 2018 the audit committee comprised Birgit Aagaard-Svendsen (chairperson), Kristian Røkke and Atle Teigland.

The fees in the table below represent what is recognized as expenses in the income statement based on expected fees to be approved at the annual general meeting to be held in April 2019. The directors did not receive any other fees except for employee elected directors who have received salary as employees. No agreements exist which entitle the directors to any extraordinary compensation and no board members have loans in the company.

		December 31, 2018	December 31, 2017	2018		2017	
Amounts in NOK		Number of shares owned[1]		Audit Committee fees	Board fees[2]	Audit Committee fees	Board fees[2]
Øyvind Eriksen[3]	Chairman	0	0	0	610,000	0	600,000
Koosum Kalyan		0	0	0	400,000	0	390,000
Birgit Aagaard-Svendsen[5]		25,000	na	157,500	262,500	na	na
Henrik O. Madsen[5]		0	na	0	262,500	na	na
Kristian Røkke[3, 5]		0	na	90,000	262,500	na	na
Hilde Karlsen		5,363	5,363	0	175,000	0	170,000
Atle Teigland		8,751	8,751	120,000	175,000	115,000	170,000
Oddvar Hølland		3,179	16,179	0	175,000	0	85,000
Kjell Inge Røkke[3]		0	0	0	87,500	0	340,000
Anne Drinkwater		na	3,500	52,500	137,500	205,000	490,000
Stuart Ferguson[6]		na	0	na	na	57,500	195,000
Åsmund Knutsen[6]		na	9,028	na	na	0	85,000
Total		**42,293**	**42,821**	**420,000**	**2,547,500**	**377,500**	**2,525,000**

1) The number of shares owned covers direct ownership of Aker Solutions ASA only and does not include Øyvind Eriksen's and Kjell Inge Røkke's indirect ownership.
2) Board fees include an allowance of NOK 12,500 per meeting per physical attendance for board members residing outside the Nordic countries.
3) The fee allocated to Øyvind Eriksen and Kristian Røkke will be paid to Aker ASA and the fee allocated to Kjell Inge Røkke will be paid to The Resource Group TRG AS.
4) Anne Drinkwater and Kjell Inge Røkke were replaced as directors at the annual general meeting held in 2018. Fees are calculated for a proportionate part of the year.
5) Birgit Aagaard-Svendsen, Henrik O. Madsen and Kristian Røkke were elected as directors at the annual general meeting held in 2018. Fees are calculated for a proportionate part of the year.
6) Board members served as directors until the annual general meeting held in 2017.

Note 29 continues on next page

Note 29 Management Remuneration cont.

Remuneration to the Executive Management Team

The main purpose of the executive remuneration program is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to executives consists of a fixed base salary, standard employee benefits and variable pay programs. The chief executive officer (CEO) and the executive management team participate in the standard pension and insurance schemes applicable to all employees. Pension benefits for the executives may also include other elements as outlined in footnote 3 of the table below.

Variable Pay Program

The variable pay program for the CEO is an annual program based on the annual performance of the Aker Solutions ASA share price development above the combined average share price development of the Philadelphia Oil Service Sector Index (PHLX) and the Oslo Stock Exchange Benchmark Index (OSEBX). No payment is due to the CEO unless the Aker Solutions ASA share price development exceeds the development of these indexes. The maximum achievable payment is 66.7 percent of annual base salary

The variable pay program for the other members of the executive management team is based on the achievement of company's financial results, achievement of the executive's individual performance objectives, behavior according to company values and conditions on continued employment. The variable pay is earned over a period of three years and can potentially be up to 80 percent of base salary. The program consists of two parts:

- The first part of the variable pay is earned during the first (current) year and is based on company's financial results and the executive's individual behavior and achievement of performance objectives. The maximum value of this part is 53.34 percent of base salary. The executive is paid 50 percent of this variable pay after the first year, and 50 percent is deferred until after the third year.
- The second part is conditional on the basis that the executive is still employed after three years, where the executive receives an additional 50 percent of the variable pay as earned in the first year (maximum 26.67 percent of base salary).

In addition, the executive management is from time to time granted a discretionary variable pay. There were no discretionary payments made in 2018 or 2017. The remuneration to the executive management team in 2018 was according to the guidelines of the company.

Share Based Program

Aker Solutions also has a share based program only offered to executives (excluding CEO) that started in their position before January 1, 2016. This program is based on the Aker Solutions ASA's share price development over a three-year period compared to the combined average development of the Philadelphia Oil Service Sector Index (PHLX) and the Oslo Stock Exchange Benchmark Index (OSEBX) for the same period. The maximum payment is 20 percent of annual base salary and is dependent on the executive still being employed at the date of payment. The first payments from this program will take place in May 2019. The company does not offer share option programs to executives or other employees.

Note 29 continues on next page

Note 29 Management Remuneration cont.

Executive Management Remuneration 2018

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,366,154	5,600,000	1,856,004	**14,822,158**	99,493
Svein Stoknes	Chief Financial Officer	Jan. 1 - Dec. 31	2,984,412	2,957,465	24,401	**5,966,279**	173,439
Dean Watson	Chief Operating Officer	Jan. 1 - Dec. 31	3,621,477	2,618,225	1,151,936	**7,391,638**	94,350
Mark Riding	Executive Vice President Strategy	Jan. 1 - Dec. 31	3,280,894	2,908,812	0	**6,189,706**	505,216
Valborg Lundegaard	Executive Vice President Customer Management	Jan. 1 - Dec. 31	2,507,142	2,552,541	40,606	**5,100,288**	264,046
Knut Nyborg	Executive Vice President Front End	Jan. 1 - Dec. 31	2,314,523	1,522,733	25,200	**3,862,456**	229,448
Egil Bøyum	Executive Vice President Products	Jan. 1 - Dec. 31	2,589,609	2,662,502	20,030	**5,272,142**	252,539
Knut Sandvik	Executive Vice President Greenfield Projects	Jan. 1 - Dec. 31	2,593,769	2,408,489	25,599	**5,027,857**	249,480
David Clark	Executive Vice President Services	Jan. 1 - Oct. 18	2,776,159	1,212,450	1,047,126	**5,035,735**	303,890
Linda Litlekalsøy Aase	Executive Vice President Brownfield Projects	Oct. 18 - Dec. 31	465,441	273,662	5,194	**744,297**	34,733
Total			**30,499,580**	**24,716,880**	**4,196,095**	**59,412,555**	**2,206,634**

1) Estimated variable pay earned during the year which was calculated based on the schemes described above including applicable holiday pay allowances and interest on deferred elements.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, housing, relocation costs, children school fees, phone and broadband allowance, individual tax consultancy fees for some international employments and severance payment.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.
4) Effective October 18, 2018 Dean Watson is also serving as Executive Vice President, Subsea Lifecycle Services.

Note 29 continues on next page

Note 29 Management Remuneration cont.

Executive Management Remuneration 2017

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,086,154	1,884,179	863,169	**9,833,502**	99,086
Svein Stoknes	Chief Financial Officer	Jan. 1 - Dec. 31	2,935,692	2,180,352	24,494	**5,140,538**	154,220
Dean Watson	Chief Operating Officer	Jan. 1 - Dec. 31	3,543,077	2,166,833	2,270,129	**7,980,038**	91,940
Mark Riding	Executive Vice President Strategy	Jan. 1 - Dec. 31	3,211,708	2,130,021	0	**5,341,729**	583,295
Valborg Lundegaard	Executive Vice President Customer Management	Jan. 1 - Dec. 31	2,439,662	1,874,672	36,818	**4,351,152**	243,253
Knut Nyborg	Executive Vice President Front End	May 1 - Dec. 31	1,286,349	796,544	26,215	**2,109,108**	129,379
Svenn Ivar Fure	Executive Vice President Front End	Jan. 1 - Apr. 21	759,733	0	3,093	**762,827**	42,994
Egil Bøyum	Executive Vice President Products	Jan. 1 - Dec. 31	2,638,735	1,852,151	21,781	**4,512,668**	220,300
Knut Sandvik	Executive Vice President Greenfield Projects	Jan. 1 - Dec. 31	2,499,036	1,631,280	25,678	**4,155,994**	221,289
David Clark	Executive Vice President Services	Jan. 1 - Dec. 31	2,625,419	1,550,198	458,371	**4,633,988**	404,730
Total			**29,025,565**	**16,066,231**	**3,729,748**	**48,821,543**	**2,190,485**

1) Estimated variable pay earned during the year which was calculated based on the schemes described above including applicable holiday pay allowances and interest on deferred elements.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, housing, relocation costs, children schooling fees, phone and broadband allowance, sign-on amounts and individual tax consultancy fees for some international employments.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.

Note 29 continues on next page

Note 29 Management Remuneration cont.

Shareholding and Termination Agreements

The company practice standard employment contracts and standard terms and conditions regarding notice period and severance pay for the CEO and the members of the executive management team. The below table sets out information of notice period and severance pay as well as shareholding applicable to the current executive management team. There was no share purchase program in 2018.

	Job title	Number of shares owned	Notice period	Severance pay
Luis Araujo	Chief Executive Officer	76,898	3 months	6 months
Svein Stoknes	Chief Financial Officer	26,444	3 months	6 months
Dean Watson	Chief Operating Officer	0	3 months	6 months
Mark Riding	Executive Vice President Strategy	32,006	3 months	3 months
Valborg Lundegaard	Executive Vice President Customer Management	5,185	3 months	6 months
Knut Nyborg	Executive Vice President Front End	1,594	3 months	6 months
Egil Bøyum	Executive Vice President Products	4,198	3 months	6 months
Knut Sandvik	Executive Vice President Projects	3,036	3 months	6 months
Linda Litlekalsøy Aase	Executive Vice President Brownfield Projects	2,978	3 months	6 months

No members of the executive management team had loans with the company as of December 31, 2018.

See note 5 for more information about salaries for employees
See note 18 for more information about pension arrangements

Note 30 Audit Fees

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

	Aker Solutions ASA		Subsidiaries		Total	
Amounts in NOK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Audit	**4.9**	5.6	**9.6**	13.3	**14.5**	18.9
Other assurance services	**0.2**	0.0	**0.3**	0.3	**0.5**	0.3
Tax services	**0.0**	0.0	**0.6**	0.4	**0.6**	0.4
Other non-audit services	**0.0**	0.5	**1.0**	0.5	**1.0**	1.1
Total	**5.1**	**6.1**	**11.5**	**14.6**	**16.6**	**20.7**

Note 31 Subsequent Events

In January 2019, Aker Solutions acquired the remaining 30 percent of Brazilian C.S.E. Mecânica e Instrumentação Ltda, having bought the first ownership stake of 70 percent in 2016. The acquisition further strengthens the company's position in Brazil's growing market for mature field services. C.S.E. will continue to operate as an independent legal entity. The compensation was in line with the deferred consideration provision as of December 31, 2018.

Note 32 New IFRS 16 Leasing Standard (2019)

The new IFRS 16 Leasing standard is effective from January 1, 2019. The standard will significantly change how the company accounts for its lease contracts for land, buildings and vehicles currently accounted for as operating leases. An on-balance sheet model similar to the current financial leases accounting will be applied to all contracts that contain a lease. This note summarizes the expected impact on the financial reporting of Aker Solutions from implementing the new standard. The new leasing standard will not impact debt covenants according to the company's existing loan agreements.

The Lease Contracts

The company has a number of leases for office buildings and sites for manufacturing and service that account for the significant part of the lease liability. The company also leases machines and vehicles. A lease liability and right-of-use (ROU) asset will be presented for these contracts which previously were reported as operating leases. Sub-leases covering the major part of the period in the head-lease are classified as financial. According to the company's loan agreements existing per December 31, 2018, the new lease accounting will not impact the debt covenants.

Recognition and Measurement Approach on Transition

The company has elected to use the recognition exemptions in the standard for short-term leases and leases of low value items such as computers and office equipment. The company will also apply the recognition exemption for leases that expire in 2019. The company will adjust the right-of-use asset on January 1, 2019 by the provision for onerous leases on December 31, 2018. The company has elected to exclude the initial direct costs from the measurement of right-of-use asset on implementation. The right-of-use asset for selected leases has been measured as if IFRS 16 had always been applied (using the incremental borrowing rate per January 1, 2019).

The discount rate has been determined for each asset according to the incremental borrowing rate at the date of implementation (January 1, 2019). The weighted-average rate applied on January 1, 2019 was 4.4 percent. The non-cancellable lease period is basis for the lease commitment. Periods covered by extension or termination options are included when it is reasonably certain that the lease period will be extended. Non-lease components such as electricity, insurance and other property-related expenses paid to the landlord are excluded from the lease commitment for offices and manufacturing sites, but included when renting apartments and vehicles if included in the agreed lease amount. An assessment is made for all sub-leases to determine if they are financial or operational.

IFRS 16 Leases replaces existing leases guidance, including IAS 17 Leases and IFRIC 4, SIC-15 and SIC 27. The company will use a modified retrospective implementation approach with cumulative effect recognized as an adjustment to the opening balance of retained earnings on January 1, 2019. Comparative figures will not be restated.

Implementation Effect

Impact on Equity

The net effect on equity as of January 1, 2019 is presented below.

Amounts in NOK million	
Equity per December 31, 2018	7,608
Effect from retrospective calculation of ROU for selected lease contracts	-542
Effect from classifying sub-leases as financial leases	108
Other adjustment	-11
Tax effects	90
Equity per January 1, 2019	**7,252**

Note 32 continues on next page

Note 32 New IFRS 16 Leasing Standard (2019) cont.

Reconciliation of Lease Commitment and Lease Liability

A reconciliation between the lease commitment as reported under current IAS 17 and the expected lease liability when implementing IFRS 16 is presented below.

Amounts in NOK million	
Operating lease commitment as of December 31, 2018	6,862
Relief option for short-term leases	-172
Relief option for leases of low-value assets	-8
Undiscounted lease liability	**6,683**
Effect of discounting lease commitment to net present value	-1,151
Lease liability as of January 1, 2019	**5,532**

On transition to IFRS 16, the company will recognize a ROU asset of NOK 4,990 million related to its lease contracts. Recognizing a lease receivable for operating sub-leases becoming finance leases under IFRS 16, reclassifying onerous lease provision and some other adjustments will reduce the ROU asset to NOK 3,953 million upon implementation.

Expected Future Impact on the Income and Cashflow Statement

IFRS 16 Leasing will have a significant impact on the income statement when implemented in 2019. The estimated reduction of annual lease expense (and lease revenue for sub-leases) gives an improvement of EBITDA in the range of NOK 600-800 million. Annual depreciation expense of leased assets will increase in the range of NOK 500-700 million. Annual net interest expense will increase in the range of NOK 150-300 million. In the cashflow statement, operating cash flows will increase and financing cash flows will decrease as the lease payments will be classified as financial rather than operational. It is expected that IFRS 16 will be implemented in the reporting from the operating segments. The actual impact upon implementation may change as a result of changed interest rates, signing of new lease contracts, re-assessment of renewal options and re-assessment of onerous leases. The impact may also change if new information and guidance becomes known before the group presents its first consolidated financial statements using the new standard.

See note 19 for more information about operating lease commitments under current IAS 17

Parent Company Financial Statements

Aker Solutions ASA

December 31, 2018

Income Statement

For the year ended December 31

Amounts in NOK million	Note	2018	2017
Operating revenues	2	**25**	17
Operating expenses	2	**-144**	-90
Operating loss		**-118**	**-74**
Net financial expenses	3	**-196**	-162
Loss before tax		**-315**	**-236**
Income tax	4	**48**	49
Net loss		**-266**	**-187**
Net loss for the period distributed as follows:			
Other equity		**-266**	-187
Net loss		**-266**	**-187**

Balance Sheet

Statement as of December 31

Amounts in NOK million	Note	2018	2017
Assets			
Deferred tax asset	4	**235**	181
Investments in group companies	5	**11,438**	11,438
Non-current interest-bearing receivables from group companies	8	**34**	301
Other non-current interest-bearing receivables		**2**	2
Total non-current assets		**11,708**	**11,923**
Current interest-bearing receivables from group companies	8	**399**	23
Non-interest bearing receivables from group companies	8	**21**	9
Financial instruments	9	**450**	353
Other current receivables		**2**	0
Cash and cash equivalents	8	**1,258**	635
Total current assets		**2,130**	**1,020**
Total assets		**13,838**	**12,943**

Amounts in NOK million	Note	2018	2017
Equity and liabilities			
Issued capital		**294**	294
Other equity		**2,574**	2,833
Total equity	6	**2,867**	**3,127**
Non-current borrowings	7	**1,459**	2,235
Total non-current liabilities		**1,459**	**2,235**
Current borrowings	7	**1,024**	12
Current borrowings from group companies	8	**8,085**	7,145
Non interest-bearing liabilities from group companies	8	**0**	30
Financial instruments	9	**400**	363
Other current liabilities		**4**	30
Total current liabilities		**9,512**	**7,581**
Total liabilities		**10,971**	**9,816**
Total equity and liabilities		**13,838**	**12,943**

Fornebu, March 7, 2019
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Koosum Kalyan
Director

Kristian Røkke
Director

Birgit Aagaard-Svendsen
Director

Henrik O. Madsen
Director

Atle Teigland
Director

Hilde Karlsen
Director

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Cashflow

Statement for the year ended December 31

Amounts in NOK million	2018	2017
Loss before tax	**-315**	-236
(Profit) loss on foreign currency forward contracts	**-61**	31
Changes in other operating assets and liabilities	**167**	-209
Net cash from operating activities	**-208**	**-414**
Increase in investments in subsidiaries	**0**	-420
Net cash used in investing activities	**0**	**-420**
Changes in borrowings to group companies	**-109**	20
Changes in borrowings from group companies	**940**	-12
Net cash from financing activities	**831**	**8**
Net increase (decrease) in cash and cash equivalents	**623**	**-825**
Cash and cash equivalents at the beginning of the period	**635**	1,461
Cash and cash equivalents at the end of the period[1]	**1,258**	**635**

1) Unused credit facilities amounted to NOK 5,000 million as of December 31, 2018 (NOK 3,750 as of December 31, 2017)

The cashflow statement has been prepared using the indirect method.

Notes to the Parent Company Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions ASA is the parent company and owner of Aker Solutions Holding AS. Aker Solutions ASA is domiciled in Norway and listed on the Oslo Stock Exchange. The financial statements of the parent company are prepared in accordance with Norwegian legislation and Norwegian Generally Accepted Accounting Principles.

Note 2 Operating Revenue and Expenses

Revenue

Operating revenue consists of NOK 25 million in income from Parent Company Guarantees (PCG). The PCGs are invoiced annually over the lifetime of the guarantee.

Expenses

There are no employees in Aker Solutions ASA and hence no personnel expenses. Executive management and corporate staff are employed by other Aker Solutions companies. Costs for their services as well as other parent company costs are recharged proportionally to Aker Solutions ASA and presented as operating expenses. Remuneration to and shareholding of managing director Luis Araujo is described in note 29 Management Remuneration in the consolidated financial statements.

Audit fees to KPMG

Amounts in NOK million	**2018**	**2017**
Audit fee	**4.9**	5.6
Other assurance services	**0.2**	0.0
Other non-audit services	**0.0**	0.5
Total	**5.1**	**6.1**

See note 10 for more information about guarantees

Note 3 Financial Income and Expenses

Financial Reporting Principles

Foreign Currency

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate on that date.

Foreign Currency Derivatives

Subsidiaries have entered into internal financial derivative contracts with the parent company to hedge their currency exposure. The parent company uses foreign exchange contracts with external banks to mitigate the currency exposure from the internal derivative contracts with the subsidiaries. Aker Solutions ASA does not apply hedge accounting and financial assets and liabilities related to foreign currency contracts are measured at fair value with changes recognized in the income statement.

Interest Rate Derivatives

Aker Solutions enters into interest rate derivatives (interest rate swaps) to avoid unbalanced exposure to fluctuations in short term interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates to maintain the wanted split between fixed and floating interest rates. The swaps are classified as cashflow hedges and market values are accounted for against equity.

Financial Income and Expenses

Amounts in NOK million	**2018**	**2017**
Interest income from group companies	**49**	27
Interest expense to group companies	**-77**	-15
Net interest income from group companies	**-27**	**12**
External interest income	**5**	17
External interest expenses	**-177**	-197
Net external interest expense	**-173**	**-180**
Loss on loans to group companies	**-5**	0
Other financial expenses	**-2**	-12
Foreign exchange loss	**-1,502**	-3,342
Foreign exchange gain	**1,513**	3,359
Net other financial items	**4**	**5**
Net financial expense	**-196**	**-162**

See note 7 for more information about borrowings

See note 9 for more information about financial risk management and financial instruments

Note 4 Tax

Financial Reporting Principles

Tax expenses in the income statement comprise current tax and changes in deferred tax. Deferred tax is calculated as 22 percent of temporary differences between accounting and tax values as well as any tax losses carried forward at the year-end. Net deferred tax assets are recognized only to the extent that it is probable they will be utilized against future taxable profits.

Deferred Tax Asset and Tax Expenses

Amounts in NOK million	2018	2017
Calculation of taxable income		
Loss before tax	-315	-236
Permanent differences	28	0
Change in timing differences	-53	54
Taxable income	**-339**	**-182**
Positive and (negative) temporary differences		
Unrealized gain on forward exchange contracts	60	8
Interest rate swaps	-7	-16
Tax loss carried forward	-1,120	-781
Basis for deferred tax	**-1,066**	**-788**
Deferred tax in income statement	233	178
Deferred tax in equity	1	4
Deferred tax asset	**235**	**181**

The Company has temporary difference related to the limitation of the deductibility of interest paid to related parties of NOK 35 million is not recognized in the balance sheet.

Amounts in NOK million	2018	2017
Income tax benefit		
Origination and reversal of temporary differences	55	49
Withholding tax	-7	0
Total tax income	**48**	**49**

Effective Tax Rate

Amounts in NOK million	2018	2017
Income tax 23% (24 % in 2017)	72	57
Tax on permanent differences	-7	0
Withholding tax	-7	0
Change in tax rate from 23% to 22% (24% to 23% in 2017)	-11	8
Total tax income	**48**	**49**

Note 5 Investments in Group Companies

Financial Reporting Principles

Investments in subsidiaries are measured at cost. The investments are written down to fair value when the impairment is not considered to be temporary. Impairment losses are reversed if the basis for the impairment is no longer present.

Dividends and other distributions are recognized as income the same year as they are appropriated in the subsidiary. If the distributed dividend in the subsidiary exceeds accumulated profits in the ownership period, the payment is treated as a reduction of the carrying value of the investment.

Investment in Group Companies

Amounts in NOK million	Registered office	Share capital	Number of shares held	Percentage owner- / voting share	Book value
Aker Solutions Holding AS	Fornebu, Norway	3,600	30	100%	**11,438**
Total investments in group companies					**11,438**

Note 6 Shareholders' Equity

Financial Reporting Principles

Repurchase of share capital is recognized at cost as a reduction in equity and is classified as treasury shares. No gain or loss is recognized in the income statement on the purchase or sale of the company's own shares.

Shareholders' Equity

Amounts in NOK million	Share capital	Treasury shares	Hedging reserve	Retained earnings	Total
Equity as of December 31, 2017	294	0	-12	2,845	**3,127**
Loss for the period	0	0	0	-266	**-266**
Cashflow hedge[1]	0	0	7	0	**7**
Equity as of December 31, 2018	**294**	**0**	**-5**	**2,579**	**2,867**

1) The value of interest swap agreements changing interest from floating to fixed is recognized directly in equity and will be released to income together with the corresponding interest expenses.

The board of directors has proposed that no dividend payment be made for 2018 as it was deemed prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. This is the same as in the prior year.

Note 6 continues on next page

Share Capital

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940 through the issuance of 272,044,389 shares. The total number of outstanding shares is 272,044,389 at par value NOK 1.08 per share as of December 31, 2018. All issued shares are fully paid. Aker Solutions 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. The number of own shares (treasury shares) was 511,801 per December 31, 2018, which is the same as last year. The consideration for these shares was NOK 16 million.

See note 3 and 9 for more information about the hedging reserve for interest rate swap agreements

Note 7 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has two bonds amounting to NOK 2,500 million listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The interest rate for both bonds is three months floating interbank rates (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loans are unsecured on a negative pledge basis and include no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.

Note 7 continues on next page

Note 7 Borrowings cont.

Bonds and Borrowings 2018

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,011**	1.05%	4.20%	5.25%	10/09/19	Floating, 3M+fix margin
ISIN NO 0010814213	NOK	1,500	**1,497**	1.10%	3.15%	4.25%	07/25/22	Floating, 3M+fix margin
Total bonds[1]			**2,508**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-25**	0.00%	1.10%	1.10%	03/19/23	NIBOR + Margin[3]
Total credit facility			**-25**					
Total borrowings			**2,483**					
Current borrowings			**1,024**					
Non-current borrowings			**1,459**					
Total			**2,483**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million (NOK 1,000 million in 2017) by total issue costs related to the new financing of NOK 16 million (NOK 4 million in 2017). Amount includes NOK 24 million of accrued interest related to the bonds (NOK 12 million in 2017).
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.

Note 7 continues on next page

Note 7 Borrowings cont.

Bonds and Borrowings 2017

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,008**	0.79%	4.20%	4.99%	10/09/19	Floating, 3M+fix margin
Total bonds[1]			**1,008**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	1,250	**1,239**	0.89%	1.10%	1.99%	07/03/19	NIBOR + Margin[3]
Total credit facility			**1,239**					
Total borrowings			**2,247**					
Current borrowings			**12**					
Non-current borrowings			**2,235**					
Total			**2,247**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million (NOK 1,000 million in 2017) by total issue costs related to the new financing of NOK 16 million (NOK 4 million in 2017). Amount includes NOK 24 million of accrued interest related to the bonds (NOK 12 million in 2017).
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.

Note 7 continues on next page

Note 7 Borrowings cont.

Maturity of Bonds and Borrowings

2018

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,011	**1,055**	27	1,028	0	0	0
ISIN NO 0010814213	1,497	**1,751**	33	34	67	1,617	0
Total	**2,508**	**2,806**	**60**	**1,062**	**67**	**1,617**	**0**
Revolving credit facility (NOK 5,000 million)	-25	**0**	**0**	0	0	0	0
Total borrowings	**2,483**	**2,806**	**60**	**1,062**	**67**	**1,617**	**0**

2017

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,008	**1,101**	25	25	1,051	0	0
Total	**1,008**	**1,101**	**25**	**25**	**1,051**	**0**	**0**
Revolving credit facility (NOK 5,000 million)[2]	1,239	**1,286**	12	12	1,262	0	0
Total borrowings	**2,247**	**2,387**	**37**	**37**	**2,313**	**0**	**0**

1) The interest costs are calculated using either the last fixing rate known by year-end (plus applicable margin) or the contractual fixed rate (when fixed rate debt).
2) The cashflow is based on the assumption that the nominal currency value will remain on NOK 1,250 million until the maturity of the revolving credit facility.

See note 3 for more information about financial income and expenses
See note 9 for more information about the company's exposure to interest rates and liquidity risk

Note 8 Receivables and Borrowings from Group Companies

Financial Reporting Principles

Assets and liabilities are presented as current when they are due within one year or they are part of the operating cycle. Other assets and liabilities are classified as non-current. Current assets are valued at the lowest of cost and fair value. Current liabilities are valued at nominal value at the time of recognition.

Non-current receivables are measured at cost less impairment losses that are not considered to be temporary. Non-current liabilities are initially valued at transaction value less attributable transaction cost. Subsequent to initial recognition, interest-bearing non-current borrowings are measured at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowing on an effective interest basis.

Trade and other receivables are recognized at the original invoiced amount less allowances for expected losses. Provision for expected losses is considered on an individual basis.

Receivables and Borrowings with Group Companies

Amounts in NOK million	2018	2017
Group companies interest-bearing deposits in the cash pool system	**5,779**	4,792
Aker Solutions ASAs net borrowings in the cash pool system	**-4,521**	-4,157
Cash in cash pool system	**1,258**	**635**
Current interest-bearing receivables from group companies	**399**	23
Non-current interest-bearing receivables from group companies	**34**	301
Current interest-bearing borrowings from group companies	**-8,085**	-7,145
Net interest-bearing borrowings from group companies	**-7,652**	**-6,821**
Current non interest-bearing receivables from group companies	**21**	9
Current non interest-bearing borrowings from group companies	**0**	0
Net non interest-bearing receivables from group companies	**21**	9
Total net borrowings from group companies	**-6,373**	**-6,176**

All current receivables and borrowings are due within one year.

Aker Solutions ASA has two centralized cash pool arrangements with DNB and Nordea. In addition centralized cash management arrangements are set up locally in Malaysia, Brazil and India. The cash pools and cash management arrangements cover a majority of the group's geographical footprint and ensure control of and access to the group's cash. Participation in the cash pool is vested in the group policy and decided by each company's board of directors and confirmed by a statement of participation. Certain entities do not participate in the cash pool arrangements due to local restrictions such as Brazil, Angola and India. The participants in the cash pool system are joint and severally liable and it is therefore important that Aker Solutions as a group is financially viable. Any debit balance on a sub-account can be offset against any credit balance in the cash pool. Hence a debit balance on a sub-account represents a liability for Aker Solutions ASA and a credit balance on a sub-account a receivable for Aker Solutions ASA.

The cash pool systems were showing a net balance of NOK 1,258 million per December 31, 2018. This amount is reported in Aker Solutions ASAs accounts as short-term borrowings from group companies and as cash in the cash pool system.

Aker Solutions ASA is the group's central treasury function and enters into borrowings and deposit agreements with group companies. Deposits and borrowings are agreed at market terms and are dependent on the group companies' credit quality, country risk and the duration of the borrowings.

Note 9 Financial Risk Management and Financial Instruments

Currency Risk

As of December 31, 2018 Aker Solutions ASA has outstanding foreign exchange contracts with other entities in the group with a gross total value of approximately NOK 11.1 billion. Large contracts are hedged back-to-back with external banks, while minor contracts are hedged based on internal matching principles. Contracts hedged back to back with external banks represent about 80 percent of the total group exposure, but are limited to a small number of transactions. Aker Solutions ASA does not apply hedge accounting to any of the currency derivatives. All financial assets and liabilities related to foreign exchange contracts are revalued at fair value in respect to exchange rate movements each period.

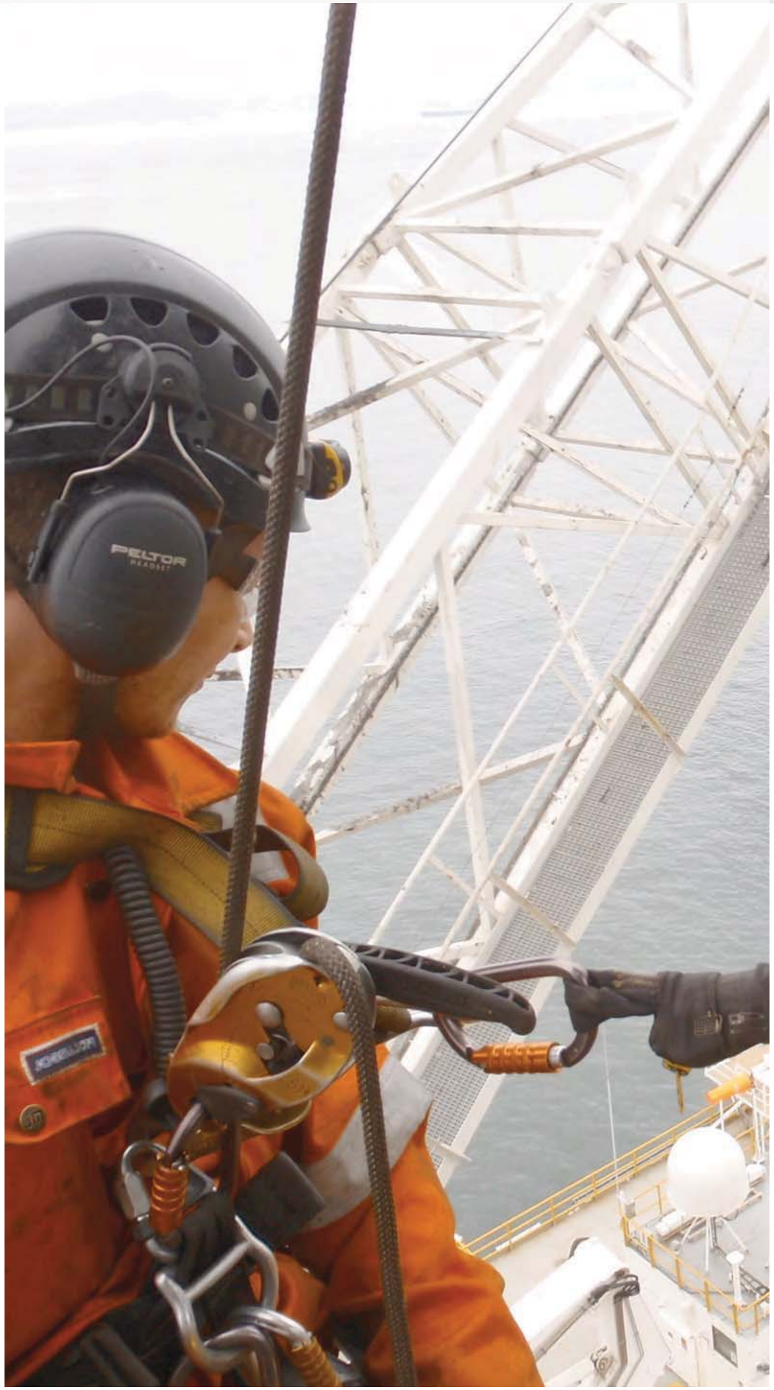
The treasury function within Aker Solutions ASA also has a mandate to hold limited positions in the currency and interest markets. The mandate has limits that are strictly defined and is operated under a strict stop-loss regime. Open positions are continuously monitored on a mark to market basis.

The fair value of foreign exchange forward contracts and options is presented in the table below.

	2018		2017	
Amounts in NOK million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts with group companies	**272**	**-138**	150	-220
Forward exchange contracts with external counterparts	**178**	**-252**	203	-126
Forward exchange options with external counterparts	**0**	**0**	0	0
Total	**450**	**-390**	**353**	**-346**

All instruments are booked at fair value as per December 31.

Note 9 continues on next page



Note 9 Financial Risk Management and Financial Instruments cont.

Interest Rate Risk

Interest rate swaps are applied to achieve the internal policy that 30-50 percent of the company's gross external borrowing shall be at fixed interest rates, with duration matching the remaining duration of the borrowing. At year-end, approximately 50 percent of NOK 2,500 million in bonds was fixed for the duration of the bonds through interest rate swaps. The revolving credit facility was undrawn at the year-end.

50 percent of the total external loan of NOK 2,500 million was at fixed interest rates per December 31, 2018. 22 percent of the total external loan of NOK 2,250 million was at fixed interest rates per December 31, 2017.

Hedge accounting is applied using the cashflow hedge accounting model. That means gains and losses on interest rate swaps from floating to fixed interest rates are recognized in the hedging reserve in equity. As of December 31, 2018 a net loss of NOK 5 million (NOK 7 million before tax) is recognized in equity and will be continuously released to the income statement until the repayment of the borrowings via the mark to market revaluation process.

The fair value of interest rate swaps is presented in the table below.

	2018		2017	
Amounts in NOK million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps - cashflow hedge (against equity)	**0**	**-7**	0	-16
Total	**0**	**-7**	**0**	**-16**

Credit Risk

Credit risk relates to loans to subsidiaries, overdraft in the group cash pool, hedging contracts, guarantees to subsidiaries and deposits with external banks. Loans to subsidiaries are subject to loan applications approved by the relevant SVP. Loss provisions are made in situations where the company is not expected to be able to fulfil its loan obligations from future earnings. External deposits and forward contracts are placed with reputable relationship banks, primarily where the company also has a borrowing relation. The existence of netting agreements between Aker Solutions ASA and the relationship banks reduces the credit risk.

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. The development in the group's and thereby Aker Solutions ASA's available liquidity is continuously monitored through weekly and monthly cash forecasts, financial strategy plans and long-term business forecast.

See note 3 for more information about financial income and expenses
See note 7 for more information about borrowings

Note 10 Guarantees

Amounts in NOK million	2018	2017
Parent company guarantees to group companies	**61,020**	57,034
Counter guarantees for bank/surety bonds	**6,212**	5,281
Total guarantee liabilities	**67,232**	**62,315**

Parent company guarantees are issued on behalf of subsidiaries in contractual obligations towards customers. The amounts disclosed above represent the total contractual value of the customer contracts.

Bank guarantees and surety bonds are issued on behalf of Aker Solutions subsidiaries, and counter indemnified by Aker Solutions ASA.

See note 2 for more information about revenue from guarantees

Note 11 Related Parties

Transactions with subsidiaries and related parties are described on a line by line basis in the following notes:

Other services	Note 2
Financial items	Note 3
Investments	Note 5
Cash pool	Note 8
Receivables and borrowings	Note 8
Foreign exchange contracts	Note 9
Guarantees	Note 10

All transactions with related parties have been based on arm's length terms.

Note 12 Shareholders

Shareholders with more than 1 percent shareholding per December 31 are listed below.

2018

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Folketrygdfondet		19,341,121	7.11%
Aker ASA		17,331,762	6.37%
Verdipapirfondet DNB		5,994,762	2.20%
JPMorgan Chase Bank, N.A., London		5,371,116	1.97%
Ferd AS		4,300,000	1.58%
J.P. Morgan Bank Luxembourg S.A.	NOM	3,298,494	1.21%
Goldman Sachs & Co. LLC	NOM	2,870,834	1.06%
Verdipapirfondet Alfred Berg Gambank		2,832,488	1.04%
JP Morgan Securities PLC		2,813,626	1.03%
Storebrand Norge I Verdipapirfond		2,780,346	1.02%
Morgan Stanley & Co. LLC	NOM	2,778,206	1.02%
J.P. Morgan Bank Luxembourg S.A.	NOM	2,771,303	1.02%

2017

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Folketrygdfondet		17,455,559	6.42%
Aker ASA		17,331,762	6.37%
Verdipapirfondet DNB		5,831,553	2.14%
Ferd AS		5,500,000	2.02%
JPMorgan Chase Bank, JPMCB RE HB SWED FUN	NOM	3,235,281	1.19%
JPMorgan Chase Bank, S/A escrow account	NOM	3,060,628	1.13%
Verdipapirfondet PAR		3,005,000	1.10%
JPMorgan Chase Bank, S/A non-treaty lend	NOM	2,989,991	1.10%

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Independent auditor's report

To the Annual Shareholders' Meeting of Aker Solutions ASA

Report on the Audit of the Financial Statements

Opinion

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

- The financial statements of the parent company Aker Solutions ASA (the "Company"), which comprise the balance sheet as at 31 December 2018, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Aker Solutions ASA and its subsidiaries (the "Group"), which comprise the balance sheet at 31 December 2018, the income statement and the statement of other comprehensive income, statement of changes in equity, cash flow 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 of 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.

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 of 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.

KPMG

Assessment of the carrying value of property, plant and equipment and intangible assets

Refer to note 10 Property, Plant and Equipment, note 11 Intangible Assets and note 12 Impairment of Assets

The key audit matter

The Group's operations are sensitive to certain factors including oil prices which in turn impact the timing and nature of future capital expenditure on existing and new oil fields and installations.

The economic environment, current long-term assumptions and the Group's business plans indicate that impairment is a risk related to specific assets, cash generating units and can also impact the assessment of impairment of goodwill.

As of 31 December 2018, the Group has property, plant and equipment of NOK 3 044 million, goodwill of NOK 4 258 million and other intangible assets of NOK 1 428 million. The Group has recognized an impairment charge in 2018 associated with their property, plant and equipment and other intangible assets of NOK 7 million and NOK 15 million respectively.

How the matter was addressed in our audit

Our audit procedures in this area included:

- Assessing management's process and results for identification, consistent treatment and classification of cash generating units to ensure they were appropriate and in accordance with IAS 36;
- Evaluating management's assessment of impairment indicators;
- Where impairment indicators were identified or where impairment testing was required, assessing if the models used to calculate value in use are appropriate and mathematically accurate;
- Assessing the discount rates utilized in cash flow forecasts with reference to available market data for selected assets tested;
- Challenging management on the timing of the cash flows;
- Evaluating the historical accuracy of management’s budgets and forecasts in order to challenge management on the current year cash flow forecasts;
- Evaluating and challenging management on the growth assumptions in the cash flow forecasts, forecast margins and order intake by assessing a range of outcomes based on varying assumptions independently determined;
- Assessing the calculations and rationale supporting the impairment of tangible and intangible assets by performing our own independent sensitivity analysis of managements models; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to the carrying value of intangible assets and property, plant and equipment and the assumptions applied to the impairment testing.

KPMG

Revenue and cost estimates related to construction contracts & service revenue

Refer to note 3 Revenue and note 4 Operating Segments

The key audit matter

The majority of the Group's revenues and profits are derived from long-term construction and service contracts.

IFRS 15 Revenue from contracts with customers ('IFRS 15') was implemented by the Group on 1 January 2018. This new accounting standard introduces a 'five step model' for revenue recognition and new requirements and guidance relevant to project accounting estimates and judgements.

IFRS 15 has introduced a higher degree of judgement in determining the number of performance obligations which can impact the timing and amount of revenue recognition for certain contracts.

Accounting for long term projects and service contracts is considered to be a risk area due to the significant judgement and estimation applied by management as well as the degree of complexity of the contracts currently in the portfolio.

The key judgements and estimates applied by management include their assessment of the stage of project completion as well as assessing the estimated future contract revenue and cost outcomes. Revenue and cost outcomes factored in management's forecasts include:

- incentive payments;
- key performance indicators;
- liquidated damages; and
- expected fulfilment cost.

Additionally management exercises judgement in their assessment of the recoverability of revenue accruals related to service contracts.

For the year ended 31 December 2018, the Group has recognized project revenue of NOK 19 920 million and service revenue of NOK 5 096 million.

How the matter was addressed in our audit

For financially significant contracts and any contracts with a reasonable possibility of being in a significant loss-making position, we applied professional skepticism and critically assessed the accounting estimates and judgments against the requirements of IFRS 15. Our audit procedures in this area included:

- Assessing the implementation of IFRS 15, including the Group's updated accounting policies, transition impact assessment, application to construction and service contract accounting and disclosures;
- Challenging management's assumptions in determining if certain contracts contain single or multiple performance obligations by obtaining, reading, and critically assessing the terms and conditions of relevant contractual documents;
- Assessing contractual revenue forecasts including corroborating those forecasts with reference to signed contracts and variation orders to assess the contractual basis of estimated future revenues;
- Assessing variable considerations estimates included in forecasted revenue in accordance with IFRS 15;
- Obtained and read the terms and conditions of significant contracts and comparing these to management's assessment of the contract forecasts;
- Evaluating management's process for assessing the stage of completion and the method applied in accordance with IFRS 15;
- Challenging management on estimated recovery of incentive payments, incentives linked to key performance indicators and recognition of liquidated damages by reference to contractual terms and conditions and assessing probability of managements forecasts in accordance with IFRS 15;
- Reading and discussing project reports and other assessments with management and comparing current forecasts to historical outcomes where relevant;
- Assessing the ability to recover amounts accrued under service contracts compared to historical recovery rates and the assessments made by management over the current balance;
- Challenging management on the estimate of cost to complete and the risk assessment related to fulfilment cost; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to IFRS transition effects, revenue from construction contracts and service contracts.

KPMG

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, with the exception of the financial statements and the Independent 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, with the exception of our report on Other Legal and Regulatory Requirements below.

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 in accordance with laws and regulations including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards practices generally accepted in Norway, and for the preparation and fair presentation of the 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 scepticism 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 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 to cease to continue as a going concern.

KPMG

- 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, including the statements on corporate governance and corporate social responsibility, concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that 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 March 2019
KPMG AS

Roland Fredriksen
State Authorised Public Accountant

Alternative Performance Measures

Aker Solutions discloses alternative performance measures in addition to those normally required by IFRS as such performance measures are frequently used by securities analysts, investors and other interested parties. Alternative performance measures are meant to provide an enhanced insight into the operations, financing and future prospects of the company.

Profit Measures

EBITDA and EBIT terms are presented as they are used by financial analysts and investors. Special items are excluded from EBITDA and EBIT as alternative measures to provide enhanced insight into the financial development of the business operations and to improve comparability between different periods.

EBITDA is short for earnings before interest, taxes, depreciation and amortization. EBITDA corresponds to the "operating income before depreciation, amortization and impairment" in the consolidated income statement in the annual report.

EBIT is short for earnings before interest and taxes. EBIT corresponds to "operating income" in the consolidated income statement in the annual report.

Margins such as EBITDA margin and EBIT margin is used to compare relative profit between periods. EBITDA margin and EBIT margin are calculated as EBITDA or EBIT divided by revenue.

Special items may not be indicative of the ongoing operating result or cash flows of the company. Profit measure excluding special items is presented as an alternative measures to improve comparability of the underlying business performance between the periods.

	Projects		Services		Other/ eliminations		Aker Solutions	
Amounts in NOK million	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	19,920	17,660	5,096	4,560	216	240	**25,232**	22,461
Gain/loss sale of PPE	0	0	0	0	-50	0	**-50**	0
Non-qualifying hedges	0	0	0	0	-6	-24	**-6**	-24
Sum of special items excluded from revenue	0	0	0	0	-56	-24	**-56**	-24
Revenue ex. special items	**19,920**	**17,660**	**5,096**	**4,560**	**160**	**216**	**25,176**	**22,436**
EBITDA	1,354	1,217	678	605	-222	-303	**1,810**	1,519
Gain/loss sale of PPE	0	0	0	0	-50	0	**-50**	0
Restructuring cost	10	78	10	3	19	6	**39**	86
Onerous lease cost	3	-3	4	0	8	42	**15**	40
Non-qualifying hedges	0	0	0	0	-11	10	**-11**	10
Transaction costs and other	4	0	0	0	4	10	**8**	10
Sum of special items excluded from EBITDA	17	75	14	3	-29	68	**2**	146
EBITDA ex. special items	**1,371**	**1,292**	**692**	**607**	**-251**	**-234**	**1,812**	**1,665**
EBITDA margin	6.8%	6.9%	13.3%	13.3%			**7.2%**	6.8%
EBITDA margin ex. special items	6.9%	7.3%	13.6%	13.3%			**7.2%**	7.4%
EBIT	843	608	511	429	-305	-466	**1,049**	571
Sum of special items excluded from EBITDA	17	75	14	3	-29	68	**2**	146
Impairments	15	90	2	0	5	66	**22**	156
Sum of special items excluded from EBIT	32	165	17	3	-24	135	**24**	302
EBIT ex. special items	**874**	**773**	**528**	**432**	**-329**	**-331**	**1,074**	**874**
EBIT margin	4.2%	3.4%	10.0%	9.4%			**4.2%**	2.5%
EBIT margin ex. special items	4.4%	4.4%	10.4%	9.5%			**4.3%**	3.9%

Order Intake Measures

Order intake and order backlog are presented as alternative performance measures, as they are indicators of the company's revenues and operations in the future.

Order intake includes new signed contracts in the period in addition to expansion of existing contracts. For construction contracts, the order intake is based on the signed contract value excluding potential options and change orders. For service contracts, the order intake is based on the estimated value of firm periods in the contracts.

Order backlog represents the estimated value of remaining work on signed contracts.

Financing Measures

Alternative financing and equity measures are presented as they are indicators of the company's ability to obtain financing and service its debts.

Liquidity Buffer is a measure of available cash and is calculated by adding together the cash and cash equivalents and the unused credit facility.

Amounts in NOK million	2018	2017
Cash and cash equivalents	**2,473**	1,978
Credit facility (unused)	**5,000**	3,750
Liquidity buffer	**7,473**	**5,728**

Gross and Net Interest-Bearing Debt is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

Amounts in NOK million	2018	2017
Current borrowings	**1,125**	539
Non-current borrowings	**1,788**	2,576
Gross interest-bearing debt	**2,913**	3,114
Current interest-bearing receivables	**-47**	-128
Non-current interest-bearing receivables1	**-46**	-39
Cash and cash equivalents	**-2,473**	-1,978
Net interest-bearing debt	**347**	**970**

1) Non-current interest-bearing receivables are included in Other non-current assets in consolidated balance sheet.

Net Current Operating Assets (NCOA) or Working Capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

Amounts in NOK million	2018	2017
Inventory	**326**	428
Trade and other receivables	**8,236**	6,843
Current tax assets	**109**	174
Trade and other payables	**-8,450**	-7,304
Provisions	**-906**	-942
Current tax liabilities	**-68**	-43
Net current operating assets (NCOA)	**-753**	**-844**

Contact Information

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AkerSolutions

Annual Report **2017**

We create solutions to unlock energy **safely and sustainably** for future generations.

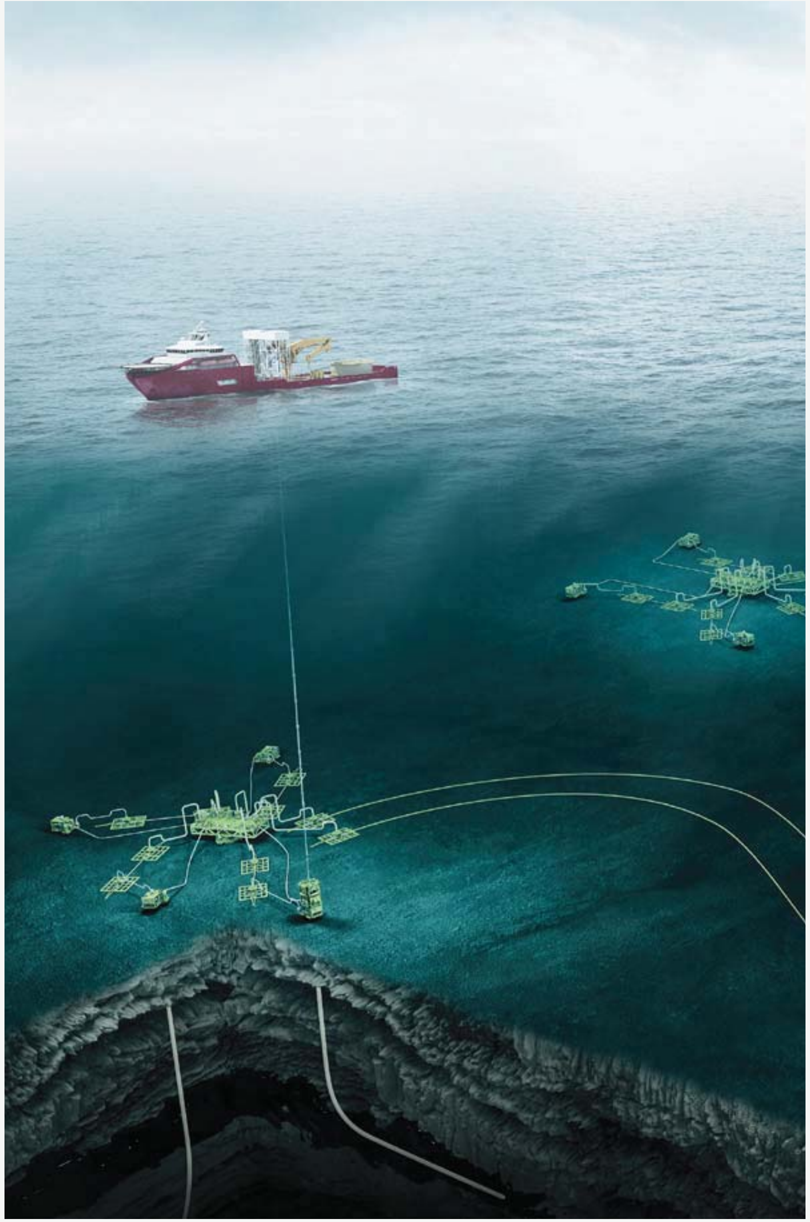
AkerSolutions


Vision. Building on almost 200 years of technological and engineering excellence Aker Solutions is at the forefront in forging a sustainable future for the energy industry and the world it serves. A spirit of collaboration and openness is at the heart of this effort as we set new standards and solve new challenges.

Content

Key Figures

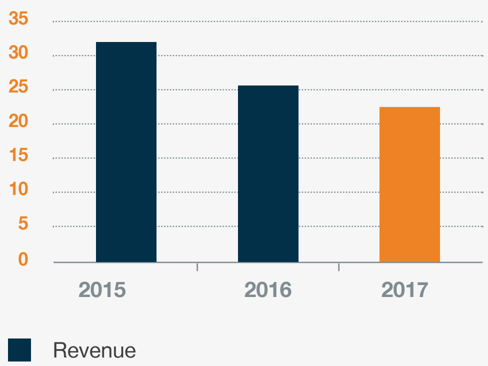
Amounts in NOK million unless otherwise stated		2017	2016
ORDERS AND RESULTS			
Order backlog December 31		34,581	31,188
Order intake		23,553	17,004
Revenue		22,461	25,557
EBITDA		1,519	1,929
EBITDA margin (%)		6.8	7.5
EBITDA margin ex. special items (%)		7.4	8.3
EBIT		571	687
EBIT margin (%)		2.5	2.7
EBIT margin ex. special items (%)		3.9	5.3
Net profit		239	152
CASHFLOW			
Cashflow from operational activities		587	312
BALANCE SHEET			
Net interest-bearing debt		970	1,002
Equity ratio (%)		35.7	29.8
Liquidity reserve		5,728	7,480
SHARE			
Share price December 31 (NOK)		46.19	41.37
Basic earnings per share (NOK)		0.81	0.21
EMPLOYEES			
Total employees December 31	Own employees	13,796	14,385
HSE			
Lost time incident frequency	Per million worked hours	0.47	0.30
Total recordable incident frequency	Per million worked hours	1.35	1.30
Sick-leave rate	Percentage of total working hours	2.80	2.75



Key Figures

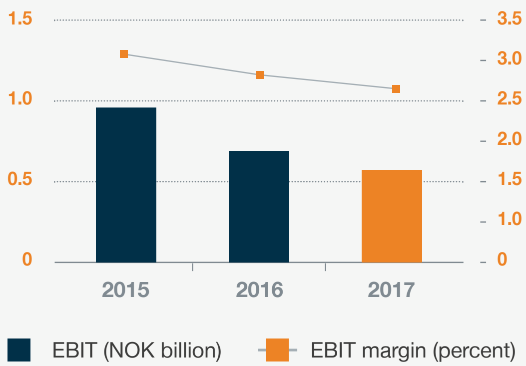
Revenue

Amounts in NOK billion



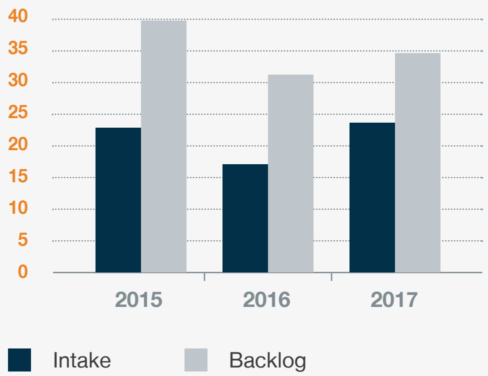
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

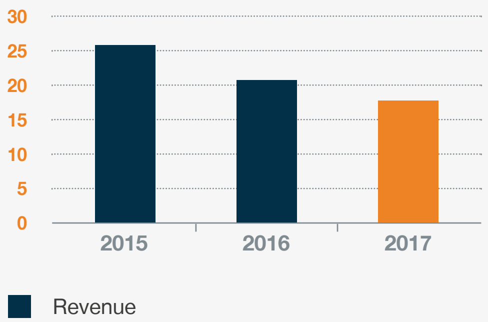
Amounts in NOK billion



Projects

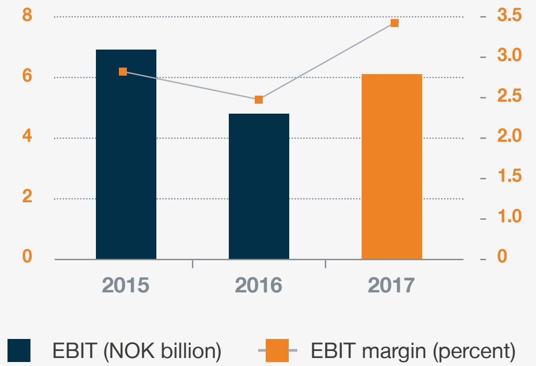
Revenue

Amounts in NOK billion



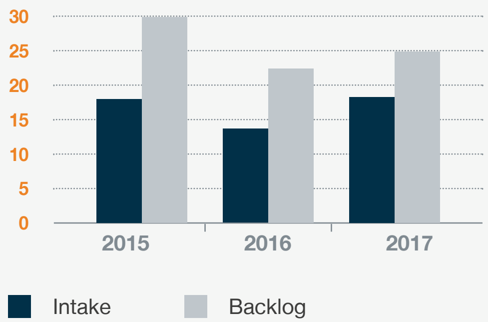
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

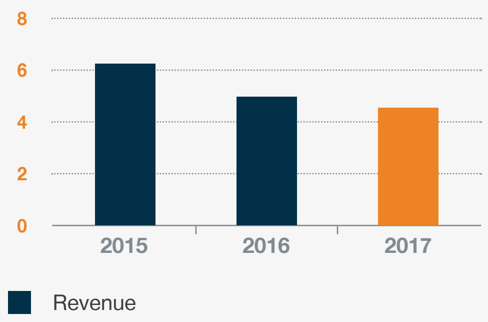
Amounts in NOK billion



Services

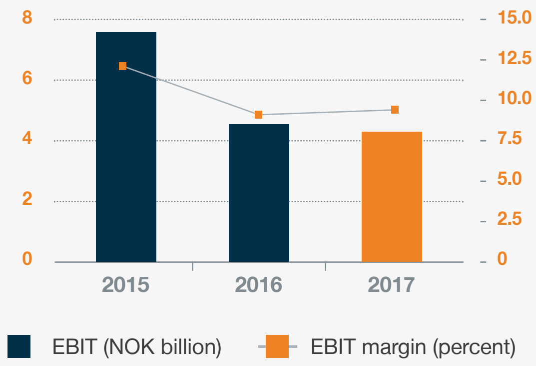
Revenue

Amounts in NOK billion



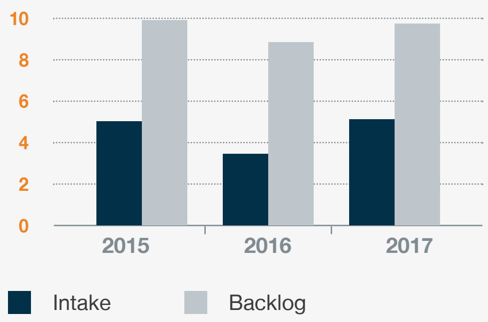
EBIT and margin

Amounts in NOK billion and percent



Order intake and backlog

Amounts in NOK billion



Worldwide. Operations in about 20 countries.

Highlights

Strategy

Aker Solutions' new strategy aims to strengthen the company's competitiveness and ability to serve customers. It has five main priorities: customers, partnerships, innovation, operational excellence and services.

Digitalization

Aker Solutions accelerates efforts to drive digital solutions that improve the efficiency of energy developments, including the PUSH program and development of data structures to build and maintain digital twins for energy assets.

#thejourney

Aker Solutions meets its target to improve cost efficiency across the business by at least 30 percent by the end of 2017. The company now aims for an additional cost-efficiency improvement of at least 5 percent per year by the end of 2021.

Johan Castberg

The company in December secures several key orders for this landmark Arctic development, including for the subsea production system and topside design of the floating production, storage and offloading facility. Aker Solutions has since the earliest project phases worked closely with the customer Statoil to help reduce costs and enable the development to move forward.

Aker BP

Aker Solutions in April secures a framework agreement with Aker BP to provide engineering and procurement services for new offshore field installations for as many as 10 years.

Natural Gas

Aker Solutions bolsters its capabilities in natural gas, an area with great potential. The company aims to use its capabilities in gas compression, subsea and floating facility design to integrate offshore gas developments to help unlock value.

Front End

Aker Solutions sees a surge in demand for front-end engineering, winning 124 awards for such work. Early involvement in a development enables the company to significantly optimize the overall project. It also puts it in a strong position to secure work in the next project phases.

Services

Aker Solutions takes steps to expand its services business internationally. These include the acquisition of Reinertsen, the third-largest maintenance and modifications supplier offshore Norway, and the successful integration of C.S.E. Mecânica e Instrumentação Ltda in Brazil following Aker Solutions' acquisition of a majority stake in the company in December 2016.

Strong Execution

Aker Solutions delivers consistently strong execution on major offshore energy projects, including Zohr in Egypt, Moho in Congo-Brazzaville, Kaombo in Angola, Gina Krog in Norway and Kraken in the UK.

Low Carbon

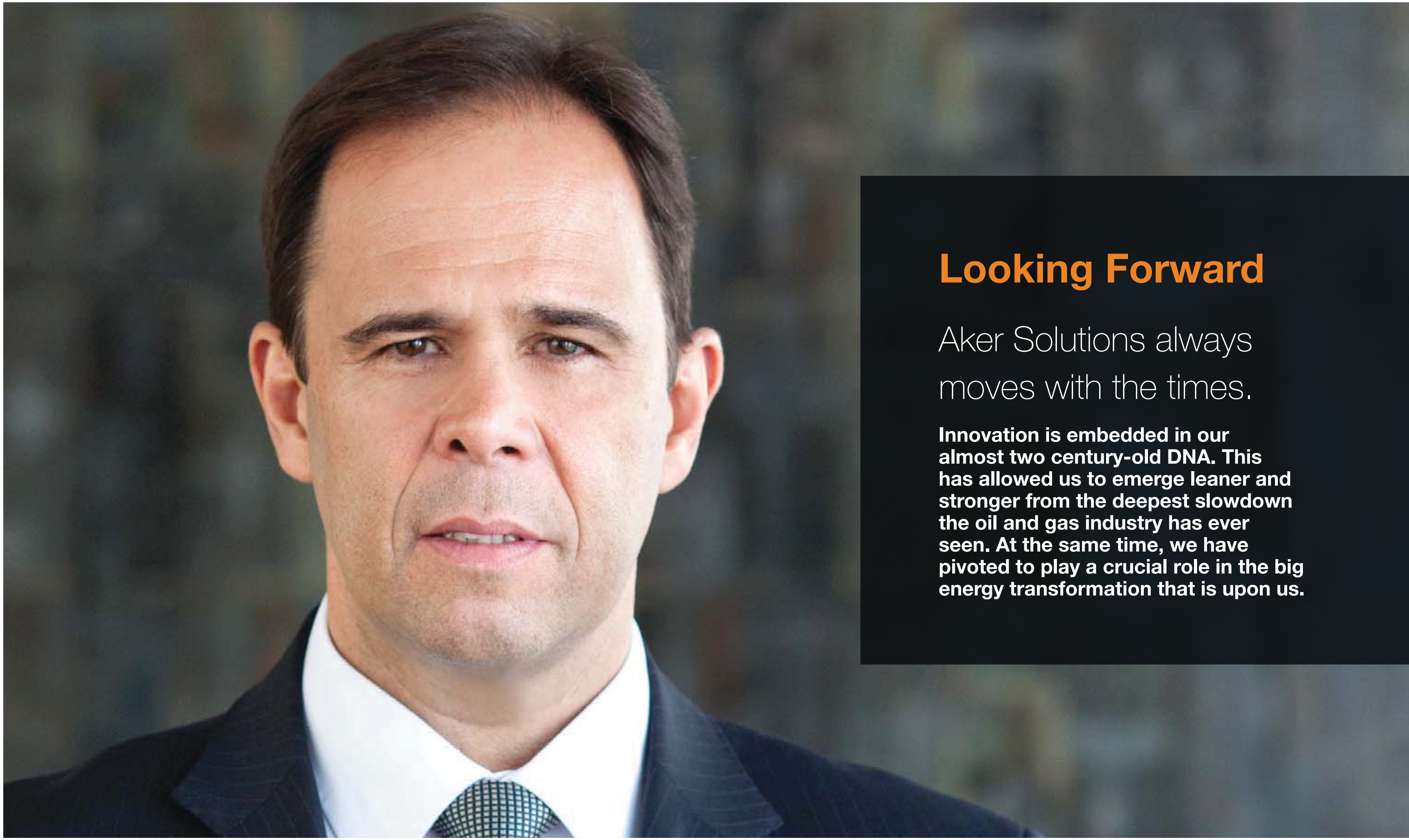
Aker Solutions in December invests in floating offshore wind technology company Principle Power Inc. The two companies form an alliance that will utilize Aker Solutions' offshore expertise, particularly in floating facilities, to bring Principle Power's technology to a broader market. Aker Solutions also strengthens its carbon capture technologies with a standardized modular unit that helps lower costs.

Sustainability

Aker Solutions steps up efforts to promote industry sustainability, including working for The International Association of Oil & Gas Producers to help drive greater standardization across the sector.

HSSE

The safety of Aker Solutions' employees is always the top priority. Aker Solutions has 313 days without a recordable injury, illness, spill or incident in 2017, compared with 296 days the prior year. Aker Solutions has nine serious incidents in 2017, compared with 34 in 2016.



Looking Forward

Aker Solutions always moves with the times.

Innovation is embedded in our almost two century-old DNA. This has allowed us to emerge leaner and stronger from the deepest slowdown the oil and gas industry has ever seen. At the same time, we have pivoted to play a crucial role in the big energy transformation that is upon us.

Oil and gas remain central to our business. We have played a key role in bringing down costs in the industry, enabling more projects to move ahead. We rounded off 2017 with a strong order intake. Solid execution on major projects globally and significant efficiency improvements are supporting margins amid increasing signs of a market recovery.

But we are at heart a technology and engineering company. With those skills you can be anywhere and solve any problem. The world will always need more energy – in whatever form – especially as we transition to a low-carbon society. That is why we are focused on sustainable solutions. Subsea is already playing a major role, but we are also branching out to put our expertise harder to work on gas developments, carbon capture and offshore wind.

We see ourselves as a key partner in helping provide the sustainable energy solutions the world needs – it's both the right thing to do and also good business.

Internally, we continued to make significant adjustments in 2017. A new strategy centered on customers, partnerships, innovation, operational excellence and services was brought to life. Our new organizational structure became fully operational with five delivery centers: Customer Management, Front End, Products, Projects and Services. These reflect our business workflow from early engagement to project execution and through to services and decommissioning.

This setup is driving leaner workflows and standardization, and helped us achieve a target to improve cost efficiency across the business by at least 30 percent by the end of 2017.

Digitalization underpins the strategy and the business. It is changing the way we work and what we offer customers. Last year, about half of our research and development investments went to digital initiatives. This includes the PUSH program, which was started in 2016 to develop software that cuts costs, improves schedules for energy developments and strengthens operations.

All of this is helping us to be on the offensive. We last year bought Reinertsen, the third-largest maintenance and modifications supplier offshore Norway, boosting our market presence as we position for a recovery.

We won contracts across the business and deepened our relationships with major customers. This included framework agreements with Aker BP for as many as 10 years and for Statoil-operated fields offshore Norway. We secured several orders for the landmark Johan Castberg development, where we have worked closely with Statoil since the beginning to significantly lower costs.

We see ourselves as a key partner in helping provide the sustainable energy solutions the world needs – it's both **the right thing to do** and also good business.

Those orders highlight the value of our front-end engineering capabilities, a key tool in winning more work. We saw a surge in demand last year, securing 124 front-end orders. Twenty-six of our concept studies led to FEEDs and twelve FEEDs led to fully-fledged projects.

Our partnerships also paid off. Our subsea alliance with Aker BP and Subsea 7 completed its first project faster and cheaper than planned, highlighting the potential from standardizing processes and solutions.

All of this work is not going unnoticed. Last year, the International Association of Oil & Gas Producers, which produces about 40 percent of the world's petroleum, selected Aker Solutions to help drive greater standardization across the sector.

The cost-efficiency drive and strong project execution helped maintain stable underlying margins. We had a solid financial position with a liquidity buffer of NOK 5.7 billion at the end of the year.

As always, the safety and health of our employees remains our first priority. In 2017, we had 313 days without a recordable injury, illness, spill or incident, up from 296 days in the previous year. We had nine serious incidents compared with 34 in 2016. This indicates the business is improving.

We are committed to the principles of the UN Global Compact and to responsible and sustainable business practices. We continue to strengthen our anti-corruption efforts and prioritize good corporate governance. We are also continuing to promote diversity in our workforce through clear requirements in our recruitment, people development and programs supporting equal opportunity.

In summary, it was an eventful and successful year and I am proud of the strong dedication shown by Aker Solutions' employees. I am also encouraged by the positive market signs and where our hard work has positioned us.

Luis Araujo
Chief Executive Officer

Board of Directors' Report

Aker Solutions in 2017 took steps to further streamline and strengthen the business in a challenging market.

The company introduced a strategy aimed at boosting its competitiveness and accelerated a push to drive digital transformation. It achieved a companywide cost-efficiency target, deepened collaborations and entered new markets.

Overview

Building on nearly two centuries of technological and engineering excellence, Aker Solutions is committed to finding solutions to bring energy resources safely and cost-effectively into production, maximize recovery and minimize the environmental footprint.

The company provides products, systems and services ranging from concept studies and front-end engineering to subsea production systems and services for enhancing and extending the life of a field. The main customers are international, national and independent energy companies.

Aker Solutions had 13,796 own employees and was present in 24 countries at the end of 2017. The main office is in Fornebu, Norway. Aker Solutions ASA is listed on the Oslo Stock Exchange.

Strategy and Organizational Development

Aker Solutions' strategy builds on its vision to be a leader in forging a sustainable future for the global energy industry and the world it serves. The company provides solutions to safely and sustainably develop, operate and retire customers' energy assets. These efforts are reinforced through alliances with other businesses that aim to deliver innovative and cost-effective solutions. Aker Solutions also develops solutions to decarbonize the industry, including carbon capture and offshore electrification.

Aker Solutions in 2017 introduced a new strategy aimed at further strengthening its competitiveness and ability to serve customers. The strategy has five main priorities: customers, partnerships, innovation, operational excellence and services. It is underpinned by the company's continuous improvement efforts and push to develop and deploy new and existing digital technologies.

A key strategic objective is to drive digital transformation at Aker Solutions. The company last year allocated about half of all research and development (R&D) investments to digital initiatives. It accelerated efforts to develop digital solutions that improve the efficiency of energy developments. This includes the PUSH program, which was initiated in 2016 to develop software that adds value, cuts costs and improves schedules for field developments and operations. The program has already developed applications that develop front-end concepts more efficiently and accurately, optimizing the return on investment and reducing risk in field development. Aker Solutions also develops data structures to build and maintain digital twins for energy assets.

Aker Solutions' strategy builds on its vision of being a leader in forging a **sustainable future** for the global energy industry and the world it serves.

Building on these efforts, the company in 2018 formed a long-term strategic collaboration with software company Cognite. Aker Solutions will use Cognite's industrial data platform to collect and analyze large volumes of data from offshore energy installations, providing solutions that will enable customers to make informed decisions about an energy asset at any stage of its lifetime.

Aker Solutions in 2017 fully implemented a reorganization that streamlined the business structure to better reflect its workflow from early engagement with customers to project execution and through to life-of-asset services and decommissioning. It replaced the business-area structure with the following delivery centers: Customer Management, Front End, Products, Projects and Services.

The company concluded the first phase of its global cost-efficiency improvement program, #thejourney. The program, initiated in 2016, is now entering a second phase emphasizing continuous improvement. Aker Solutions has been simplifying its work methods, organizational setup and geographic footprint to drive improvements across the business. The company is also standardizing its products and services and boosting efficiency through innovation and digital technologies.

Aker Solutions deepened its collaboration within the industry, including by working for the International Association of Oil & Gas Producers (IOGP) to help drive greater standardization across the sector. The company continued to work with partners that are leaders in their fields of expertise, such as ABB, MAN Diesel & Turbo, Saipem, NOV, Alcatel and SBM Offshore. These collaborations span the offshore value chain and work to develop solutions that will reduce costs, improve productivity and enhance the environmental performance of energy developments.

The company last year also invested in offshore floating wind power technology company Principle Power Inc., marking its entry into a growing renewable energy market. The two companies formed a partnership that will utilize Aker Solutions' offshore expertise, especially in floating facilities, to bring Principle Power's technology to a broader market.

Aker Solutions operates in a fast-paced and competitive landscape characterized by recent structural changes. The company will continue to monitor this landscape and opportunistically consider new strategic partnerships and acquisitions that will strengthen its competitiveness.

Customer Focus

Aker Solutions aims to provide the best experience in the industry for its customers, which include major integrated oil and gas companies, national oil companies and independent exploration and production companies. The company in 2017 sharpened its focus on delivering value to clients by further strengthening its global customer management team.

Aker Solutions' collaboration with customers has helped improve the overall economics and performance of key offshore oil and gas developments. Working closely with customers, particularly from the earliest phases of an energy project, enables a more integrated and holistic approach to finding effective solutions across the full development and production lifecycle.

Building on this approach, Aker Solutions in 2017 deepened its collaboration with Aker BP and Subsea 7 through an alliance of all three companies formed the prior year. The collaboration is based on a business model where risks and rewards are shared by all parties and the operator and suppliers work as one integrated team over several projects to find and reuse the most cost-efficient solutions. Aker Solutions will continue to pursue opportunities to engage and collaborate with its customers.

Where We Operate

Aker Solutions is pursuing international growth while safeguarding its existing market positions. The company is represented in all major offshore oil and gas basins around the world from the Gulf of Mexico and Brazil to the North Sea, Africa, Middle East and Southeast Asia. The ongoing market slowdown in 2017 posed challenges for the global oil and gas industry. Aker Solutions took additional steps to streamline its global footprint while safeguarding the capabilities required to take advantage of future opportunities.

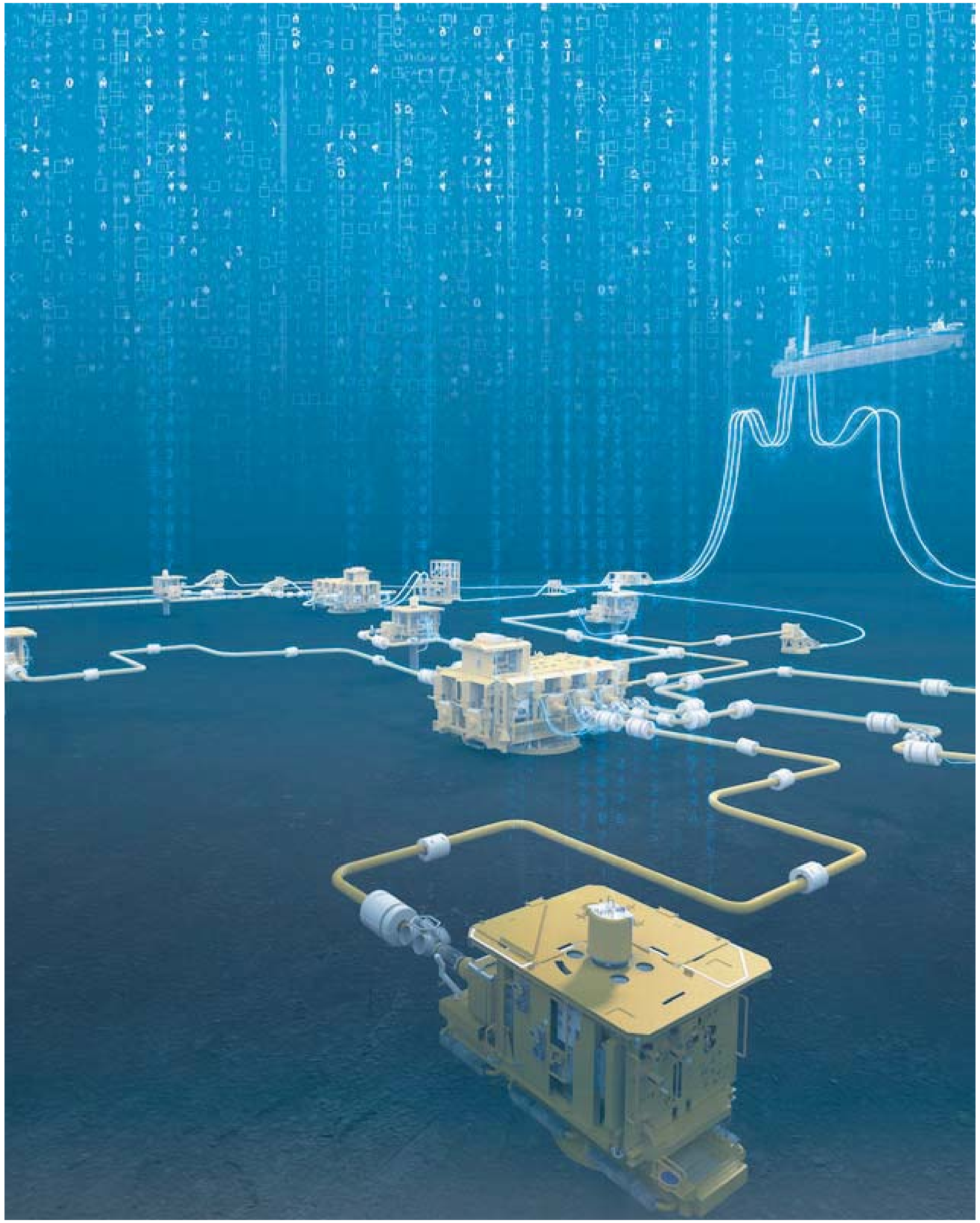
Market Outlook

Aker Solutions' financial performance primarily depends on activity in global oil and gas markets.

While markets remained challenging in 2017, there was a gradual pickup in activity during the year, particularly offshore Norway. Most notably, Aker Solutions saw high demand for front-end engineering and secured key brownfield and greenfield contracts, including for subsea projects in Norway.

There are increasing signs of a recovery because of higher oil prices and declining development costs. Natural gas prices are more stable due to the market's improving ability to match supply and demand. Increased demand for gas, especially in Asia, is expected to continue. Additional investments in liquefied natural gas are seen to be needed to ensure a long-term balance.

Lower break-even prices, simpler field architecture and more effective collaboration are spurring new developments. Several large oil and gas projects were sanctioned last year at costs as much as 50 percent lower than seen two to three years ago. The company expects to see more projects being sanctioned in 2018 amid continued fierce competition. Aker Solutions margins were



last year helped by improved operations and cost reductions. These efforts are expected to continue supporting margins in 2018.

Longer term, the outlook remains positive. Declining reserves and lower oil and gas production in many parts of the world are expected to generate investments in new developments and increased recovery from existing fields. Aker Solutions is well placed in key regions to provide the capabilities and technology to lower development costs, improve recovery rates and reduce the industry's environmental footprint.

Corporate Responsibility

Corporate responsibility is about making good and sustainable decisions that add value to the company, its stakeholders and society. The company works to integrate corporate responsibility considerations into internal processes and operations, seeking to ensure sustainability, integrity and responsibility in its business.

The company is a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative, and is committed to its 10 principles. Aker Solutions is a member of Trace International, an international organization promoting transparency and compliance with anti-corruption rules, and participates in informal compliance forums with other Norwegian companies.

The company's commitment to human and labor rights is covered by the Global Framework Agreement between Aker ASA and the Norwegian and international trade unions Fellesforbundet, IndustriALL Global Union, NITO and Tekna. Aker Solutions reports and communicates on corporate responsibility based on recommendations from the Global Reporting Initiative. More information is available in the company's corporate responsibility report for 2017 on www.akersolutions.com/cr-reports.

Corporate Governance

Corporate governance is a framework of values, responsibilities and work processes to control the business and promote a sustainable value creation for shareholders and other stakeholders. The board of directors is responsible for ensuring sound governance at Aker Solutions. The audit committee supports the board in ensuring the company has internal procedures and systems in place for effective processes based on the principles set out in the Norwegian Code of Practice for Corporate Governance.

Aker ASA holds 34.8 percent of Aker Solutions, making it the company's largest indirect shareholder. The board of directors and executive management team of Aker Solutions are conscious of all relations with Aker ASA, its subsidiaries and other entities in which Aker ASA has significant ownership interests, including Aker BP, Kvaerner, Akastor and Cognite. Aker Solutions has adopted related-party transaction procedures to ensure that all transactions and other relations with such entities shall be premised on commercial terms and structured in line with the arm's length principle.

The «Related Parties» note to the consolidated financial statements contains information on the most significant transactions between Aker Solutions and Aker ASA, its subsidiaries and other entities in which Aker ASA has significant ownership interests. More information is available in the corporate governance report for 2017 on www.akersolutions.com/corporate-governance.

Ethical and Political Risks

Aker Solutions could potentially become involved in unethical behavior, either directly or through third parties or partners. The company has operations in countries associated with high political, reputational and corruption risks. Key tools to reduce these risks are the company's code of conduct and anti-corruption compliance program, which are implemented at all locations globally. Risks are also managed through country analyses, mandatory awareness training, compliance reviews and integrity due diligence.

Aker Solutions has zero tolerance for corruption and works vigilantly to combat such behavior. The company has control systems in place throughout the organization that are designed to identify and limit the effects of violations of the code of conduct. In 2017 these internal mechanisms revealed behavior among a few employees that breached the code of conduct. While the breaches were limited in scope, the company took swift action to address them. In general, employees face consequences spanning from a warning to a dismissal for violating the code of conduct.

The company last year further strengthened its anti-corruption compliance framework. It updated several supporting documents to the company's anti-corruption compliance policy framework in areas such as gifts and hospitality, business-partner qualification processes, whistleblowing and country risk assessments. It established a group-wide compliance plan and each delivery center introduced annual risk-based compliance plans with key focus areas and annual targets. The company introduced new mandatory business ethics training, which was rolled out to all employees. The company also conducted more country risk assessments and integrity due diligence processes of potential business partners than previously as it pursued more opportunities in high-risk markets.

Financial Performance

Aker Solutions presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. All amounts except those in the Parent Company Financial Statements on page 17 relate to the consolidated financial statements for the group, since the parent company has very limited operations.

Consolidated Financial Results

Aker Solutions' revenue declined to NOK 22.5 billion in 2017 from NOK 25.6 billion the prior year amid the market slowdown. Earnings before interest and taxes (EBIT) fell to NOK 571 million from NOK 687 million a year earlier, burdened by NOK 86 million in costs for restructuring and workforce reductions, and NOK 40 million for lease costs on vacated office space. Earnings were impacted by an unrealized loss of NOK 10 million on non-qualifying hedges and other non-recurring losses of NOK 10 million. Aker Solutions booked NOK 156 million in impairment charges on capitalized research and development programs as well as machinery and equipment. Excluding these special items EBIT fell to NOK 0.9 billion from NOK 1.3 billion a year earlier.

Interest income was NOK 55 million in 2017 compared with NOK 65 million the previous year. Interest expenses fell to NOK 305 million from NOK 477 million in 2016 because of a decrease in borrowings. Aker Solutions hedges currency risk for all significant project exposures. More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separated embedded derivatives. Income before tax increased to NOK 399 million in 2017 from NOK 273 million the year before. Income tax expenses were NOK 160 million, up from NOK 121 million in 2016. This corresponds to an effective tax rate of 40 percent, down from 44 percent the year before. Net income after tax in 2017 was NOK 239 million compared with NOK 152 million the previous year. Earnings per share were NOK 0.81 versus NOK 0.21 in 2016.

The board of directors has proposed that no dividend payment be made for 2017. While Aker Solutions' finances were solid, with a liquidity buffer of NOK 5.7 billion at the end of the year, the board considered it prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook. The company maintains its policy of paying a dividend of between 30 percent and 50 percent of net profit over time.

Projects Financial Results

The projects segment provides greenfield engineering and procurement, brownfield modifications, hook-up and subsea equipment and systems. The segment aims to deliver world-class project execution by building excellence in project management, engineering, fabrication and offshore construction. The projects segment is externally reported in two sub-segments: subsea and field design.

Projects revenue declined to NOK 17.7 billion in 2017 from NOK 20.6 billion the year before, mainly related to the subsea sub-segment, partially offset by higher revenue in the field design sub-segment. The EBIT margin increased to 3.4 percent from 2.3 percent a year earlier. Excluding special items, the EBIT margin was 4.4 percent compared with 4.8 percent a year earlier.

The full-year order intake was NOK 18.2 billion in 2017, up from NOK 13.6 billion the prior year. The order backlog was NOK 24.8 billion at the end of 2017 versus NOK 22.3 billion a year earlier.

Services Financial Results

The services segment provides subsea lifecycle services (SLS) and production asset services (PAS). The SLS part is mainly related to installation, operations and maintenance support services related to subsea equipment. The PAS part is mainly related to outsourced asset management services, maintenance of offshore infrastructure and asset integrity management services. A key strategic objective of the company is to strengthen and grow its services business globally, positioning Aker Solutions as a partner of choice for customers.

Services revenue declined to NOK 4.6 billion in 2017 from NOK 5 billion the year before, mainly related to the subsea lifecycle services area, partially offset by slightly higher revenue in the production asset services area. The EBIT margin increased to 9.4 percent from 9.1 percent a year earlier. Excluding special items, the EBIT margin was 9.5 percent compared with 9.4 percent a year earlier.

The full-year order intake was NOK 5.1 billion in 2017, up from NOK 3.5 billion the prior year. The order backlog was NOK 9.7 billion at the end of 2017 versus NOK 8.8 billion a year earlier.

	Projects		Services	
Amounts in NOK million unless otherwise noted	**2017**	**2016**	**2017**	**2016**
Operating revenue	**17,660**	20,627	**4,560**	5,001
EBITDA	**1,217**	1,547	**605**	601
EBITDA margin (%)	**6.9**	7.5	**13.3**	12.0
EBITDA ex. special items	**1,292**	1,602	**607**	618
EBITDA margin ex. special items (%)	**7.3**	7.8	**13.3**	12.4
EBIT	**608**	478	**429**	454
EBIT margin (%)	**3.4**	2.3	**9.4**	9.1
EBIT ex. special items	**773**	997	**432**	471
EBIT margin ex. special items (%)	**4.4**	4.8	**9.5**	9.4
NCOA (or working capital)	**-712**	-1,297	**511**	921
Net capital employed	**3,873**	4,442	**1,792**	1,587
Order intake	**18,177**	13,607	**5,116**	3,461
Order backlog	**24,807**	22,327	**9,743**	8,849
Employees	**6,980**	9,623	**5,036**	4,448

Cashflow
Consolidated cashflow from operating activities depends on a number of factors, including progress on and delivery of projects, changes in working capital and prepayments from customers. Net cash from operating activities was NOK 587 million in 2017 compared with NOK 312 million a year earlier. Net current operating assets were negative NOK 844 million at the end of 2017 compared with negative NOK 904 million a year earlier.

Working capital may fluctuate considerably due to large milestone payments on projects. Aker Solutions' net cash outflow for investing activities was NOK 308 million in 2017, compared with NOK 1.2 billion a year earlier. This included the acquisition of Reinertsen's Norwegian oil and gas services business. Investments in technology development and IT were NOK 149 million, compared with NOK 297 million a year earlier. Net cash outflow related to financing activities was NOK 835 million, up from NOK 213 million in 2016. The company redeemed a NOK 1.5 billion bond in June 2017, utilizing the revolving credit facility.

Financial Position
Assets, Equity and Liability
Non-current assets totaled NOK 9.9 billion at the end of 2017, compared with NOK 10.3 billion the year before. Goodwill and other intangible assets amounted to NOK 5.8 billion, up from NOK 5.6 billion in 2016. The company had net interest bearing debt of NOK 970 million in 2017, compared with NOK 1 billion the prior year. The net interest bearing debt consists of current and non-current borrowings excluding cash and interest-bearing receivables. The debt includes bond loans in the Norwegian market, bank loans with Nordic and international banks, local financing in Brazil and some smaller loan facilities between group subsidiaries and local banks. The financial position was solid at the end of the year with a total liquidity buffer at NOK 5.7 billion. This included cash and bank deposits of NOK 1.9 billion as well as undrawn and committed long-term revolving bank credit facilities of NOK 3.75 billion. Capital adequacy and liquidity were generally deemed solid at the end of 2017, putting the company in a good position to meet challenges and opportunities over the next few years.

The book value of equity including non-controlling interests was NOK 7 billion at the end of 2017, compared with NOK 6.4 billion a year earlier. The company's equity ratio was 35.7 percent of the total balance sheet, up from 29.8 percent a year earlier.

Parent Company Financial Statements
Aker Solutions ASA, the parent company of the Aker Solutions group, owns and manages the group's subsidiaries. Aker Solutions ASA has outsourced all company functions to other companies in the group, mainly Aker Solutions AS. Assets and liabilities related to the corporate treasury function are held by Aker Solutions ASA. Aker Solutions ASA had a net loss of NOK 187 million in 2017 compared with a net loss of NOK 199 million in 2016 mainly consisting of corporate costs and interest expenses. The parent company's dividend policy is to pay shareholders 30 percent to 50 percent of net profit as an annual dividend over time.

The dividend will be paid in cash or share buybacks or a combination of both. The board of directors proposed that no dividend payment be made for 2017 as it was deemed prudent to exercise caution amid continued uncertainty about the market outlook. More information on the allocation of profits can be found in the income statement of the parent company on page 90 of this report.

Going Concern

In accordance with the Norwegian Accounting Act, the board confirms that the consolidated financial statements and parent company financial statements have been prepared on the basis of the going-concern assumption.

Research, Innovation and Technology

Aker Solutions seeks to build on its strengths in key markets through investments in innovation, research and development. The focus is on developing new cost-efficient concepts, technologies and products that address the challenges customers face as the offshore petroleum industry moves into an era of declining production at maturing fields and increasingly complex reservoirs at greenfield projects.

The research and development portfolio in 2017 involved more than 10 key projects. Total R&D expenditure was NOK 190 million, of which NOK 149 million was capitalized and NOK 41 million was expensed. Aker Solutions recognized NOK 72 million in impairment losses on capitalized research and development. This was mainly related to technologies where the market outlook changed as a result of the market slowdown.

Aker Solutions in 2017 rolled out and made strong progress on a strategy to drive digital transformation at the company. About half of all R&D investments were allocated to digital initiatives last year. The company expects this share to increase going forward.

The company is developing software and associated offerings to improve how the industry works from concept through field development, operations and decommissioning. This is represented by the company's PUSH program.

The company in 2017 targeted three key areas for its subsea products:

- Subsea production system products
- Next-generation controls, instruments, sensors and automation systems
- Software solutions supporting data acquisition and analytics, improved operational efficiency and an improved customer experience

A substantial part of Aker Solutions' innovation takes place in collaboration with other companies, such as ABB and MAN Diesel & Turbo. Aker Solutions works with these and other businesses to develop technologies and products to lower costs, increase recovery and minimize the environmental footprint.

Aker Solutions last year also continued investing in early phases of technology development, encouraging employees to come up with ideas and concepts to ensure a steady stream of innovation for the technology and qualification pipeline. The company engages with university researchers to develop competence and create new technologies.

Health, Safety, Security and Environment

Aker Solutions promotes safe, reliable and sustainable operations to achieve its goal of zero harm to people, assets and the environment through a company-wide system that sets the standard for HSSE management and leadership. Regular audits aim to uncover possible shortcomings so that measures can be identified and initiated. The HSSE system works as a framework for cross-organizational sharing and learning. The company's Just Care concept represents Aker Solutions' HSSE culture. It is underpinned by the principle that HSSE is the personal responsibility of every employee. Just Care will be further developed in 2018 to ensure that HSSE remains a top priority.

Safety

The company introduced new key performance indicators (KPI) after the 2016 reorganization of the HSSE function. A new indicator for serious incidents focuses on high-potential incidents and conditions (known as black and red incidents). It replaced the previous definition of the serious incidents KPI. According to this new definition, the company had nine serious incidents in 2017 compared with 34 in 2016. One involved an express kidnap incident in Congo-Brazzaville, which was resolved quickly and without injury. Two incidents involved bone fractures and the remaining six were classified as high potential incidents involving lifting operations and dropped objects where no injuries were sustained. The company investigates all such incidents, near misses and observations to learn and improve.

The total recordable injury frequency (TRIF) per million working hours was 1.35 in 2017, up from 1.3 in 2016. The lost-time injury frequency (LTIF) per million working hours was 0.47 in 2017, compared with 0.3 in 2016. For 2018, the company is targeting a TRIF and LTIF of below 1.17 and 0.27, respectively. The figures include subcontractors.

Health and Working Environment

Sick leave amounted to 2.8 percent of total working hours in 2017, unchanged from 2016. Variations in national laws and reporting practices make it difficult to directly compare sick leave rates between countries. Rates for Aker Solutions' staff in Norway were low by national standards, but generally higher than for employees in other countries. The company works continuously to reduce sick leave. In Norway, many of these efforts are led by Aker Care, a health initiative that was introduced in 2014.

Aker Care provides employees at major locations in Norway easy access to a variety of in-house services from health personnel. The Aker Active initiative also helped motivate staff to participate in physical activity and training. In 2017 the company implemented a new health hazard assessment tool, which is yielding valuable benchmark data to aid improvements going forward.

Security

Aker Solutions is increasingly exploring international opportunities making it a major priority to ensure robust and resilient systems to maintain the safety and security of personnel, assets and information. The company has streamlined security measures and implemented a global approach. Aker Solutions continued to strengthen the global security operations center (GSOC), which it established in 2016. The GSOC is staffed by competent and experienced personnel. Aker Solutions has improved the process for travel safety. This ensures that the company maintains its duty of care to all its employees. In 2017, the company increased the number of sites connected to the preferred corporate technical security and monitoring system. This enabled a reduction in manual security measures, such as the use of security personnel and call-out services. The security department continues to cooperate closely with the International Association of Oil & Gas Producers to harmonize requirements and align with customer expectations.

The express kidnap attempt and personnel tampering with machinery with intent to cause harm were the most serious security incidents of 2017. Several other international incidents triggered security responses and preventive measures.

Emergency Preparedness and Response

Aker Solutions in 2017 restructured its emergency preparedness setup to reflect the company's new organizational structure. The reorganization presented an opportunity to centralize and streamline the approach to emergency response. As a result, the company is rolling out global requirements for emergency response across the business. Previously, processes could differ between business units.

Environment

Aker Solutions works to protect the environment in two ways: first, by offering products, systems and services that help reduce the environmental footprint of customers' operations, and second, by seeking to reduce its own direct impact.

Aker Solutions' total energy consumption, based on recorded use of oil, gas, fuels and electricity, decreased to 90,709 megawatt hours (MWh) in 2017 from 109,122 MWh in 2016. Total carbon dioxide emissions were 18,383 tons in 2017, down from 22,133 tons the year before.

Aker Solutions also focuses on waste reduction, which is highly project dependent. The company in 2017 recorded total waste of 6,410 tons, compared with 7,690 tons a year earlier. A total 87 percent of the waste was sent for recycling. This mainly consisted of metal waste from the company's production. The decrease in energy use and waste were mainly due to lower activity, but Aker Solutions is also becoming more efficient and can meet its production goals with lower energy consumption and less waste.

Safeguarding Diversity and Equal Opportunity

Aker Solutions had 13,796 own employees and 2,379 contract staff at the end of 2017. Men comprised 83 percent of own employees partly because offshore work continues to attract more men than women. The percentage of men increased from the prior year because of the acquisition in December 2016 of C.S.E. Mecânica e Instrumentação Ltda in Brazil. At Aker Solutions, men hold 77 percent of management positions and women hold 23 percent.

Aker Solutions' workforce represents about 80 nationalities and a wide range of competencies and insights that benefit customers and the business. Aker Solutions seeks to promote diversity in its workforce through clear requirements for diversity in recruitment, development of individuals and programs supporting equal opportunity, in accordance with its people policy and recruitment procedures.

The company is committed to equal opportunity and enabling local staff to move into management positions. This is mandatory in some places under rules for local content and job creation for nationals. Local management teams actively seek to attract, develop and retain local talent, ensuring legal compliance and securing long-term operations. More information on diversity and equal opportunity is available in the company's 2017 corporate responsibility report.

Risk Factors

Aker Solutions' global footprint, operations and exposure to energy markets provide both opportunities and risks that may affect the company's operations, performance, finances, reputation and share price.

The overall company performance is affected by external factors such as customers' behavior and market developments, including fluctuations in energy prices and internal factors such as project execution and service delivery. Results are also impacted by costs across the value chain and its inherent complexity. The main cost drivers include the cost of suppliers' direct and indirect material, sub-contractor costs and own man-hours and fluctuations in oil and gas prices. Through its business, Aker Solutions is exposed to legal, regulatory and political risks, such as tax changes, decisions on environmental regulation and international sanctions that impact supply and demand, as well as risks associated with unethical and criminal behavior. The company is exposed to a range of cyber-security threats with so-called phishing the most prominent type. Attacks of this nature could lead to loss of intellectual property, loss of data integrity or system unavailability and risks are mitigated through awareness campaigns and utilization of various protection technologies. The company is also exposed to financial market risks, including changes in currency rates, interest rates, credit and counterparty risks, as well as risks associated with access to and terms of financing.

Market Risk

The market situation and current outlook for the oil-services industry is improving compared with the past few years, however challenges still remain. The main factors that contribute to market risk include, but are not limited to:

- Oil companies' exploration, development, production, investment, modification and maintenance activity. This is affected by changes in global demand, energy prices and environmental requirements.
- Local content requirements in countries of existing or planned operations, legislative restrictions or prohibitions on oil and gas activities.
- Liabilities under environmental laws or regulations.
- Uncertainty about future contract awards and their impact on future earnings and profitability.

Changes in market developments may lead to further capacity adjustments and changes in the valuation of the company's assets and liabilities. The main uncertainties include delivering on the company's reorganization targets, restructuring obligations, onerous leases, impairments and increased credit risk impacting the valuation of trade receivables. Aker Solutions may take mitigating actions to increase flexibility in its operations, for instance by driving down costs, adjusting capacity and driving standardization and simplification. The company is focused on improving agility, productivity and sustainability across the business to enable the business to effectively adapt to industry changes, particularly in how value is created and rewarded across the value chain.

Operational Risk

Aker Solutions uses both reimbursable and fixed-price contracts. Contracts that include fixed prices for all or parts of the deliverables are exposed to potential cost overruns. The projects often involve complex design and engineering as well as significant procurement and manufacturing of equipment, supplies and construction management. They may also require development of new technology and solutions. There is, at any project phase, a risk of delays that may hamper the company's ability to deliver on time and in accordance with a contract and potentially harm Aker Solutions' reputation, performance and finances. Factors that may have a material adverse effect on the business, results of operations and finances of Aker Solutions include, but are not limited to:

- Loss of business from a significant customer or failure to deliver a significant project as agreed
- Changes to the order backlog, which includes contracts that may be adjusted, canceled or suspended and consequently do not necessarily represent future revenue
- Aker Solutions' ability to compete effectively and maintain market positions and sales volumes
- Aker Solutions' ability to effectively commercialize new technology
- Technology or intellectual property disputes involving the company, its suppliers or sub-suppliers which could increase or hamper Aker Solutions' ability to deliver products and services or limit its operational freedom
- Partnerships, joint ventures and other types of cooperation that expose the company to risks and uncertainties outside its control
- Significant delays or quality issues impacting project delivery or performance
- Non-delivery and/or disputes with a key sub-supplier

Financial Risks

The objective of financial risk management is to manage exposure to risk to increase predictability of earnings and minimize potential adverse effects on financial performance. Financial risk management and exposure are described in detail in note 22 and capital management is described in note 23. The main financial risks are:

- **Currency risk:** Aker Solutions has international operations and is exposed to currency risk on commercial transactions, assets and liabilities when payments and revenues are denominated in a currency other than the respective functional currency of the subsidiary. The currency risk on all major contracts is hedged in the external market. More than 80 percent of this either qualifies for hedge accounting or is presented separately as embedded derivative hedges. Some jurisdictions may also have restrictions on conversion to other currencies and transfer of cash out of the country. The company takes mitigating actions to minimize the currency exposure. These include multilateral agreements with banks, customers and vendors on timing of payments to minimize the exposed cash balance.
- **Liquidity risk:** The corporate treasury department ensures sufficient flexibility in funding by maintaining availability under committed credit lines. The company monitors rolling weekly and monthly forecasts of the company's liquidity reserve based on expected cashflow.
- **Interest rate risk:** Aker Solutions' interest rate risk stems from external borrowing issued at variable rates. In order to reduce the interest rate risk related to external borrowings, Aker Solutions enters into interest swap agreements. As the group has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates.
- **Credit risk:** The credit risk related to customers' ability to pay is assessed in the bid phase and during execution of a project. The majority of the customers are highly rated oil companies where the credit risk is considered to be limited. Risk related to lower rated companies is monitored closely.
- **Price risk:** Aker Solutions is exposed to fluctuations in market prices which are mitigated in the bid process by locking in committed prices with vendors or through escalation clauses with customers.

More information on financial risk factors is available in note 22. Aker Solutions has company-wide policies, procedures and tools that identify, evaluate and respond to risks actively and systematically. The assessment, definition, follow-up and implementation of adequate mitigating actions towards the main risk factors are all integral parts of the overall governance of the company. Aker Solutions applies a combination of risk management practices in order to effectively manage the risk to the company such as: internal controls, scenario planning, sensitivity analysis and audit management.

Fornebu, March 21, 2018
Board of Directors of Aker Solutions ASA

Øyvind Eriksen Chairman	**Anne Drinkwater** Deputy Chairman	**Kjell Inge Røkke** Director
Koosum Kalyan Director	**Atle Teigland** Director	**Hilde Karlsen** Director
Oddvar Hølland Director	**Luis Araujo** Chief Executive Officer	

Consolidated Financial Statements

Aker Solutions Group

December 31, 2017

Declaration by the Board of Directors and Chief Executive Officer

The board and chief executive officer have today considered and approved the annual report and financial statements for the Aker Solutions group and its parent company Aker Solutions ASA for the 2017 calendar year ended on December 31, 2017.

This declaration is based on reports and statements from the chief executive officer, chief financial officer and on the results of the group's business as well as other essential information provided to the board to assess the position of the parent company and group.

To the best of our knowledge:

- the 2017 financial statements for the parent company and the group have been prepared in accordance with all applicable accounting standards
- the information provided in the financial statements gives a true and fair portrayal of the parent company's and the group's assets, liabilities, financial position and results taken as a whole as of December 31, 2017
- the board of directors' report for the parent company and the group provides a true and fair overview of: the development, performance and financial position of the parent company and the group taken as a whole, and the most significant risks and uncertainties facing the parent company and the group

Fornebu, March 21, 2018
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Anne Drinkwater
Deputy Chairman

Kjell Inge Røkke
Director

Koosum Kalyan
Director

Atle Teigland
Director

Hilde Karlsen
Director

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Income Statement

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2017	2016
Revenue	3, 4	**22,461**	**25,557**
Materials, goods and services		**-8,359**	-10,369
Personnel expenses	5	**-9,290**	-9,475
Other operating expenses	6	**-3,292**	-3,784
Operating expenses before depreciation, amortization and impairment		**-20,941**	**-23,628**
Operating income before depreciation, amortization and impairment		**1,519**	**1,929**
Depreciation and amortization	10, 11	**-792**	-778
Impairment	10, 11, 12	**-156**	-464
Operating income		**571**	**687**
Interest income	7	**55**	65
Interest expenses	7	**-305**	-477
Net other financial items	7	**78**	-1
Income before tax		**399**	**273**
Income tax	9	**-160**	-121
Net income		**239**	**152**
Net income attributable to:			
Equity holders of the parent company		**221**	57
Non-controlling interests		**18**	95
Net income		**239**	**152**
Earnings per share in NOK (basic and diluted)	8	**0.81**	**0.21**

Other Comprehensive Income (OCI)

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2017	2016
Net income		**239**	**152**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Cashflow hedges, effective portion of changes in fair value		**348**	-81
Cashflow hedges, reclassification to income statement		**233**	982
Cashflow hedges, deferred tax	9	**-147**	-232
Translation differences - foreign operations		**112**	-852
Total		**546**	**-183**
Items that will not be reclassified to profit or loss:			
Remeasurements of defined pension obligations	18	**-60**	42
Remeasurements of defined pension obligations, deferred tax asset	9	**10**	-13
Available-for-sale financial assets - net change in fair value	28	**-17**	28
Other changes		**0**	14
Total		**-67**	**70**
Other comprehensive income (loss), net of tax		**479**	**-113**
Total comprehensive income		**718**	**38**
Total comprehensive income (loss) attributable to:			
Equity holders of the parent company		**701**	-46
Non-controlling interests		**17**	84
Total comprehensive income		**718**	**38**

Balance Sheet

Consolidated statement as of December 31

Amounts in NOK million	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	10,12	**3,316**	3,808
Intangible assets	11,12	**5,814**	5,647
Deferred tax assets	9	**633**	666
Other investments	22, 25, 28	**91**	75
Other non-current assets	25	**106**	90
Total non-current assets		**9,960**	**10,287**
Current assets			
Current tax assets		**174**	242
Inventories	13	**428**	575
Trade and other receivables	14, 25	**6,843**	7,398
Derivative financial instruments	24, 25	**226**	93
Interest-bearing receivables	25	**128**	437
Cash and cash equivalents	15, 25	**1,978**	2,480
Total current assets		**9,775**	**11,226**
Total assets		**19,736**	**21,512**

Amounts in NOK million	Note	2017	2016
Equity and liabilities			
Equity			
Share capital	16	**294**	294
Treasury shares	16	**-1**	-1
Reserves	16	**1,115**	635
Retained earnings		**5,572**	5,350
Total equity attributable to the parent		**6,981**	**6,278**
Non-controlling interests	27	**67**	**138**
Total equity		**7,047**	**6,415**
Non-current liabilities			
Non-current borrowings	17, 25	**2,576**	1,844
Pension obligations	18	**556**	540
Deferred tax liabilities	9	**238**	331
Other non-current liabilities		**83**	84
Total non-current liabilities		**3,453**	**2,800**
Current liabilities			
Current tax liabilities		**43**	30
Current borrowings	17, 25	**539**	2,110
Provisions	20	**942**	1,087
Trade and other payables	21, 25, 29	**7,304**	8,002
Derivative financial instruments	24, 25	**408**	1,069
Total current liabilities		**9,236**	**12,297**
Total liabilities		**12,688**	**15,097**
Total equity and liabilities		**19,736**	**21,512**

Fornebu, March 21, 2018
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Øyvind Eriksen
Chairman

Anne Drinkwater
Deputy Chairman

Kjell Inge Røkke
Director

Koosum Kalyan
Director

Atle Teigland
Director

Hilde Karlsen
Hilde Karlsen
Director

Oddvar Hølland
Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Cashflow

Consolidated statement for the year ended December 31

Amounts in NOK million	Note	2017	2016
Cashflow from operating activities			
Net income		**239**	**152**
Adjustments for:			
Income tax	9	**160**	121
Net interest cost		**213**	346
(Profit) loss on foreign currency forward contracts	7	**-41**	67
Depreciation, amortization and impairment	10, 11, 12	**948**	1,242
Other (profit) loss on disposals and non-cash effects		**70**	-130
Net income after adjustments		**1,589**	**1,799**
Changes in operating assets and liabilities		**-482**	-483
Cash generated from operating activities		**1,107**	1,315
Interest paid		**-327**	-517
Interest received		**91**	103
Income taxes paid		**-283**	-590
Net cash from operating activities		**587**	**312**
Cashflow from investing activities			
Acquisition of property, plant and equipment	10	**-211**	-329
Payments for capitalized development	11	**-149**	-297
Business combinations, net of cash acquired	26	**-221**	-210
Proceeds from sale of property, plant and equipment		**26**	17
Payment of interest-bearing loan from (to) third party		**264**	-351
Other investing activities		**-16**	-16
Net cash used in investing activities		**-308**	**-1,186**

Amounts in NOK million	Note	2017	2016
Cashflow from financing activities			
Proceeds from borrowings	17	**1,317**	1,095
Repayment of borrowings	17	**-2,078**	-1,065
Paid dividends including tax	8	**-27**	-34
Acquisition of non-controlling interests		**-47**	-207
Other financial activities		**0**	-2
Net cash from financing activities		**-835**	**-213**
Effect of exchange rate changes on cash and bank deposits		**54**	-294
Net increase (decrease) in cash and bank deposits		**-502**	**-1,382**
Cash and cash equivalents at the beginning of the period		**2,480**	3,862
Cash and cash equivalents at the end of the period	15	**1,978**	**2,480**

Equity

Consolidated statement of changes in equity

Amounts in NOK million	Note	Share capital	Treasury share reserve	Retained earnings	Hedging reserve	Translation reserve	Fair value reserve	Pension reserve	Equity attributable to parent	Non-controlling interests	Total equity
Equity as of January 1, 2016		294	-1	5,382	-1,287	1,998	0	10	**6,397**	234	**6,630**
Net income		0	0	57	0	0	0	0	**57**	95	**152**
Other comprehensive income		0	0	-17	669	-811	28	28	**-103**	-11	**-114**
Total comprehensive income		0	0	**40**	**669**	**-811**	**28**	**28**	**-46**	**84**	**38**
Treasury shares		0	0	10	0	0	0	0	**10**	0	**10**
Employee share purchase program		0	0	-10	0	0	0	0	**-10**	0	**-10**
Change in non-controlling interests from dividend payments, incl tax		0	0	0	0	0	0	0	**0**	-34	**-34**
Change in non-controlling interests from acquisition of shares		0	0	-57	0	0	0	0	**-57**	-146	**-204**
Taxes on internal dividends		0	0	-15	0	0	0	0	**-15**	0	**-15**
Equity as of December 31, 2016		**294**	**-1**	**5,350**	**-618**	**1,187**	**28**	**38**	**6,278**	**138**	**6,415**
Net income		0	0	221	0	0	0	0	**221**	18	**239**
Other comprehensive income		0	0	0	434	114	-17	-50	**480**	-2	**479**
Total comprehensive income		0	0	**221**	**434**	**114**	**-17**	**-50**	**701**	**17**	**718**
Change in non-controlling interests from acquisition of shares	27	0	0	2	0	0	0	0	**2**	-50	**-48**
Dividends to non-controlling interests	27	0	0	0	0	0	0	0	**0**	-38	**-38**
Equity as of December 31, 2017		**294**	**-1**	**5,572**	**-184**	**1,301**	**10**	**-12**	**6,981**	**67**	**7,047**

Notes to the Consolidated Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions is a global provider of products, systems and services to the oil and gas industry. The group employs about 13,800 people with operations in 24 countries across the world, with head office based in Fornebu, Norway.

Aker Solutions ASA is a Norwegian limited liability company listed on the Oslo Stock Exchange under the ticker AKSO. The consolidated financial statements of Aker Solutions incorporate the financial statements of the company and its subsidiaries collectively referred to as “the group” or "the company" and separately as group companies. The parent company Aker ASA publishes consolidated financial statements. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA.

Note 2 Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved by the Board of Directors and the chief executive officer (CEO). The consolidated financial statements will be authorized at the Annual General Meeting on April 18, 2018. Until this date the Board of Directors has the authority to amend the financial statements.

Financial Reporting Principles

The relevant financial reporting principles are described in each note to the consolidated financial statements. Aker Solutions focuses on describing the reporting within the IFRS framework rather than repeating the actual text of the standard.

Basis of Measurement

The consolidated balance sheet has been prepared on the historical cost basis except for certain financial assets and liabilities as presented in note 25 measured at fair value on each reporting date. The financial information presented in Norwegian Kroner (NOK) has been rounded to the nearest million (NOK million), therefore the subtotals and totals in some tables may not equal the sum of the amounts shown. Certain of the comparative figures have been adjusted to conform to the presentation adopted in the current year, including notes 22, 24, 25 and 29.

Note 2 continues on next page

Note 2 Basis of Preparation cont.

Consolidation

The consolidated financial statements comprise the parent company Aker Solutions ASA and its subsidiaries. Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Judgments and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions each reporting period that affect the income statement and balance sheet. The accounting estimates will by definition seldom precisely match actual results. The main areas where judgments and estimates have been made are described in each of the following notes:

- Note 3 Revenue
- Note 9 Tax
- Note 10 Property, Plant and Equipment
- Note 11 Intangible Assets
- Note 12 Impairment of Assets
- Note 13 Inventories
- Note 14 Trade and Other Receivables
- Note 18 Pension Obligations
- Note 20 Provisions and Contingent Liabilities
- Note 26 Business Combinations

Note 3 Revenue

Construction contracts for the sale of subsea production equipment and modifications of oil and gas installations account for more than half of the revenue in Aker Solutions. These contracts typically last more than one year and can be as long as five years. The total estimated contract revenue and cost in construction contracts are critical financial reporting estimates that may require significant management judgment. Aker Solutions also has engineering contracts and service contract for maintenance of oil and gas installations. These contracts are usually reimbursable with lower risk, but can include lump sum elements and various incentive schemes with bonus and penalty arrangements where management judgment is required. A limited portion of the revenue relates to product sales and other revenue.

Financial Reporting Principles

Construction Contracts

The construction contracts consist of engineering, procurement and construction (EPC) contracts for manufacturing or modification of assets. Revenue and cost for construction contracts are recognized using the stage of completion method. The stage of completion method is determined by the method that best reflects the work performed. Depending on the nature of the contract, the following two main methods are used in order to determine progress:

- Technical completion
- Cost incurred of total cost

The compensation format in the construction contracts is lump sum, reimbursable or a mix. The following principles are used:

- Options for additional scope of work are recognized when exercised by the buyer
- Variation orders for changes in the scope of work are recognized when they are probable and can be measured reliably
- Incentive payments based on various key performance indicators are included in contract revenue when the contract is sufficiently advanced so it is probable that the specified performance targets will be met, and the amounts can be measured reliably
- Disputed amounts and claims are only recognized when negotiations have reached an advanced stage, customer acceptance is probable and the amounts can be measured reliably
- When considered probable that liquidated damages (LD) will be imposed, a corresponding reduction in project revenue is recognized

Contract cost includes the cost relating directly to the specific contract and allocated cost that is attributable to general contract activity. Tender cost is capitalized when it is probable that the company will obtain the contract. The project management team uses their experience from similar projects and develops a detailed cost estimate based on the drawings and specifications in the contract and assumptions made in the tender phase. The specific risks associated with the contract are estimated and a risk contingency is included in the cost forecast based on a probability weighting of possible outcomes.

The estimation uncertainty during the early stages of a construction contract is mitigated by a principle of not recognizing profit before the contract reaches 20 percent completion. However, management can on a project-by-project basis give approval of earlier profit recognition if cost estimates are considered reliable due to repeat projects, proven technology, proven execution model or high level of committed cost.

During execution, total forecasted revenue and cost in addition to the stage of completion are updated each reporting date. The full loss is recognized immediately when identified on loss-making contracts.

Service Contracts

Service contracts consists mainly of engineering services, subsea aftersales services and maintenance framework agreements for oil and gas installations. The compensation format is mainly reimbursable with incentive schemes and can include target sums and lump sum elements. Service revenue is recognized in the period in which the services are rendered or by using the stage of completion method. The stage of completion is normally assessed based on the proportion of cost incurred for work performed to date compared to the estimated total contract cost. Service revenue is only recognized to the extent it is probable and the revenue, cost and the progress can be measured reliably.

Product Sales

Product revenue is recognized when significant risks and rewards have been transferred to the buyer, usually upon delivery.

Note 3 continues on next page

Note 3 Revenue cont.

Other Income

Other income relates to rental income, gains and losses from sale of fixed assets and gains and losses from sale of shares that are operational in their nature.

Judgments and Estimates

It can be challenging to estimate the expected revenue and cost in construction and service contracts, in particular if the project is experiencing operational challenges. The most significant judgments and estimates in construction and service contracts are described below.

Estimate of Total Contract Cost

The total contract cost can be judgmental and sensitive to changes, particularly in lump sum construction contracts. Remaining project cost depends on the ability to properly execute the engineering and design phase, availability of skilled resources, manufacturing capacity, productivity and quality factors, performance of subcontractors and sometimes also weather conditions. Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that cost estimates may change significantly.

Liquidated Damages (LD)

LDs are penalties for not achieving defined milestones on time. LDs are common in construction contracts, but can also be present in service contracts. If a project does not meet the defined milestone in a contract, a provision reducing project revenue is made when it is considered probable that an LD will be imposed. The estimated LD provision is highly judgmental and based on experience from similar LD situations and negotiations with customers.

Change of Scope (Variation Orders)

The construction and service contracts may have significant changes in scope of work and variation orders are normally agreed upfront. However, unapproved variation orders may be included in the project revenue where recovery is assessed as probable and the amount of revenue can be measured reliably.

Incentive Payments

Incentive payments are integral and significant parts of contract revenue on many service contracts and may also exist on construction contracts. Incentive payments include key performance indicators, bonuses, target sum mechanisms and productivity measures and can potentially both increase and decrease revenue. Incentive payments are generally included when there is a high level of probability that the milestones or key performance indicators will be met. There is a risk that the actual payment of incentives may differ from the estimated amount.

Amounts in the Balance Sheet Relating to Construction and Service Revenue

Work in Progress (WIP) on Construction Contracts

Work in progress (WIP) on construction contracts is presented in the balance sheet as amounts due to or from customers. The presentation of WIP as an asset or liability depends on the financial status of the individual projects. All projects with a net asset position are summarized and presented as amounts due from customer. All projects with a net liability position are summarized and presented as amounts due to customer. Advances are presented separately as a liability as such advances represent payments from customers in excess of the work performed.

Amounts in NOK million	2017	2016
Amounts due from customers for construction work	**883**	1,103
Amounts due to customers for construction work	**-833**	-98
Advances received from customers	**-372**	-2,411
Construction contracts in progress, net position	**-323**	**-1,406**
Cost incurred and recognized profits (less losses) from project start to period end	36,393	38,509

Accrued and Deferred Revenue on Service Contracts

Service contracts where performed work exceeds invoiced amounts are presented as trade and other receivables in the balance sheet. Service contracts where invoiced amounts exceed work performed are presented as a trade and other payables in the balance sheet.

Amounts in NOK million	2017	2016
Accrued operating revenue from service contracts	**1,298**	1,337
Deferred revenue for service contracts	**-196**	-190
Service contracts in progress, net position	**1,103**	**1,147**

See note 4 for more information about revenue per segment
See note 14 for more information about other receivables
See note 21 for more information about other payables

Note 4 Operating Segments

The company has been through a major restructuring in 2017 which changed how the business is organized. The previous operating segments reflected the markets of Subsea and Field Design, whereas the new segments reflect the company's value chain. Early customer engagement and project execution is reported in the segment called "Projects" whereas life-of-field offerings are reported in "Services". Comparative information for prior year has been restated.

Financial Reporting Principles

Operating segments are components of the group regularly reviewed by the chief operating decision maker to assess performance and be able to allocate resources. The group's CEO (chief executive officer) is the chief decision maker in Aker Solutions. The accounting principles of the operating segments are the same as described in this annual report, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiary hedges the exposure against corporate treasury. Hedge accounting is applied independently of whether the hedge qualifies for hedge accounting in accordance with IFRS. The correction of the non-qualifying hedges to secure that the consolidated financial statements are in accordance with IFRS is made as an adjustment at the corporate level and reported in the "other" segment. This means that the group's segment reporting reflects all hedges as qualifying even though they may not qualify according to IFRS.

Projects

The Projects segment provides subsea equipment and systems, engineering and procurement in addition to brownfield maintenance, modifications and hook-up. The objective of the segment is to deliver world-class project execution by building excellence in project management, engineering, fabrication and offshore construction.

Services

The Services segment provides subsea lifecycle services (SLS) and production asset services (PAS). The objective of the segment is to grow a focused service business and position Aker Solutions as a key partner of choice for customers.

Other

The "other" segment includes unallocated corporate costs, onerous lease cost and the effect of hedges not qualifying for hedge accounting. Lease decisions are taken by the corporate center and onerous lease cost has for that reason been reported in the "other" segment. After the restructuring in 2017, the number of employees in the operations and finance support functions are reported in the "other" segment while the related cost is allocated to the segments.

Note 4 continues on next page

Note 4 Operation Segments cont.

Segment Performance

2017

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
Construction revenue		12,107	0	**12,107**	40		**12,147**
Services revenue		5,422	4,554	**9,976**	1		**9,977**
Products revenue		113	0	**113**	0		**113**
Other revenue		0	1	**1**	222		**223**
Total external revenue		**17,643**	**4,555**	**22,197**	**263**		**22,461**
Inter-segment revenue		18	5	**23**	1	-24	**0**
Total revenue		**17,660**	**4,560**	**22,220**	**264**	**-24**	**22,461**
Operating income before depreciation, amortization and impairment		1,217	605	**1,822**	-303		**1,519**
Depreciation and amortization	10, 11	-519	-178	**-697**	-95		**-792**
Impairment	10, 11, 12	-90	2	**-88**	-68		**-156**
Operating income		**608**	**429**	**1,037**	**-466**		**571**
Assets							
Current operating assets		4,669	2,127	**6,796**	714	-65	**7,444**
Non-current operating assets		5,650	2,825	**8,475**	722		**9,197**
Derivative financial instruments				**0**	226		**226**
Operating assets		**10,319**	**4,952**	**15,271**	**1,661**	**-65**	**16,866**
Liabilities							
Current operating liabilities		5,381	1,616	**6,997**	1,357	-65	**8,289**
Non-current operating liabilities		5	0	**5**	551		**556**
Derivative financial instruments		-37	0	**-37**	445		**408**
Operating liabilities		**5,350**	**1,616**	**6,966**	**2,353**	**-65**	**9,253**
Net current operating assets		-712	511	**-201**	-643		**-844**
Net capital employed		3,873	1,792	**5,665**	2,535		**8,199**
Cashflow							
Cashflow from operating activities		281	816	**1,097**	-511		**587**
Acquisition of property, plant and equipment	10	-110	-87	**-196**	-15		**-211**
Capitalized development	11	-143	-3	**-146**	-4		**-149**
Other key figures							
Order intake (unaudited)		18,177	5,116	**23,293**	381	-121	**23,553**
Order backlog (unaudited)		24,807	9,743	**34,550**	135	-103	**34,581**
Own employees (unaudited)		6,980	5,036	**12,016**	1,780		**13,796**

Note 4 continues on next page

Note 4 Operation Segments cont.

Segment Performance

2016

Amounts in NOK million	Note	Projects	Services	Total operating segments	Other	Intra-group elimination	Total
Income statement							
Construction revenue		13,159	0	**13,159**	-26		**13,133**
Services revenue		7,130	4,974	**12,104**	0		**12,104**
Products revenue		167	0	**167**	0		**167**
Other revenue		135	8	**143**	10		**153**
Total external revenue		**20,591**	**4,982**	**25,573**	**-16**		**25,557**
Inter-segment revenue		36	20	**55**	104	-159	**0**
Total revenue		**20,627**	**5,001**	**25,628**	**88**	**-159**	**25,557**
Operating income before depreciation, amortization and impairment		1,547	601	**2,148**	-219		**1,929**
Depreciation and amortization	10, 11	-605	-147	**-753**	-26		**-778**
Impairment	10, 11, 12	-464	0	**-464**	0		**-464**
Operating income		**478**	**454**	**931**	**-245**		**687**
Assets							
Current operating assets		7,643	2,557	**10,200**	204	-2,189	**8,215**
Non-current operating assets		6,978	2,351	**9,329**	181		**9,510**
Derivative financial instruments		730	0	**730**	-637		**93**
Operating assets		**15,351**	**4,908**	**20,259**	**-252**	**-2,189**	**17,819**
Liabilities							
Current operating liabilities		8,940	1,636	**10,575**	732	-2,189	**9,119**
Non-current operating liabilities		509	0	**509**	31		**540**
Derivative financial instruments		1,146	4	**1,150**	-81		**1,069**
Operating liabilities		**10,595**	**1,640**	**12,235**	**682**	**-2,189**	**10,728**
Net current operating assets		-1,297	921	**-376**	-528		**-904**
Net capital employed		4,442	1,587	**6,029**	2,364		**8,393**
Cashflow							
Cashflow from operating activities		-191	648	**456**	-145		**312**
Acquisition of property, plant and equipment	10	-270	-41	**-311**	-18		**-329**
Capitalized development	11	-288	0	**-288**	-8		**-297**
Other key figures							
Order intake (unaudited)		13,607	3,461	**17,068**	86	-150	**17,004**
Order backlog (unaudited)		22,327	8,849	**31,176**	0	12	**31,188**
Own employees (unaudited)		9,623	4,448	**14,071**	314		**14,385**

Note 4 continues on next page

Note 4 Operation Segments cont.

Reconciliation of Information on Operating Segments to IFRS Measures

Amounts in NOK million	2017	2016
Assets		
Total operating segment assets	**16,866**	17,819
Deferred tax assets	**633**	666
Other investments	**91**	75
Current interest-bearing receivables	**128**	437
Cash and cash equivalents	**1,978**	2,480
Other	**39**	35
Total assets	**19,736**	**21,512**
Liabilities		
Total operating segment liabilities	**9,253**	10,728
Tax-related liabilities	**238**	331
Net interest-bearing borrowings	**3,114**	3,954
Other non-current liabilities	**83**	84
Total equity and liabilities	**12,688**	**15,097**

Geographical Information

External revenue is presented on the basis of geographical location of the selling company. Non-current segment assets and capital expenditures are based on the geographical location of the company owning the assets.

	Revenue		Non-current operating assets		Capital expendi-ture fixed assets	
Amounts in NOK million	2017	2016	2017	2016	2017	2016
Norway	**12,984**	13,626	**4,129**	4,033	**70**	34
UK	**2,411**	4,157	**2,265**	2,265	**51**	111
Brazil	**2,068**	1,679	**1,335**	1,480	**20**	83
USA	**1,506**	929	**484**	643	**2**	31
Angola	**1,095**	1,983	**64**	38	**28**	25
Brunei	**732**	956	**3**	4	**1**	1
Malaysia	**546**	601	**430**	516	**17**	26
Congo	**364**	707	**14**	17	**0**	1
Other countries	**754**	918	**474**	516	**24**	17
Total	**22,461**	**25,557**	**9,197**	**9,510**	**211**	**329**

Major Customers

One major customer represented 24.8 percent of total revenue in 2017, of which NOK 5.0 billion (2016: NOK 5.4 billion) in Projects and NOK 0.6 billion (2016: NOK 0.7 billion) in Services. Another major customer represented 17.1 percent of total revenue in 2017, of which NOK 2.6 billion (2016: NOK 6.9 billion) in Projects and NOK 1.2 billion (2016: NOK 1.0 billion) in Services. Aker Solutions has long-term contracts with these two customers. Both customers are large international oil companies.

Note 5 Personnel Expenses

Financial Reporting Principles

Personnel expenses include wages, salaries, social security contributions, sick leave, parental leave, price reduction in employee share purchase program and other employee benefits. The benefits are recognized in the year in which the associated services are rendered by the employees.

Personnel Expenses

Amounts in NOK million	2017	2016
Salaries and wages including holiday allowance	**7,244**	7,478
Social security contribution	**951**	945
Pension cost	**466**	542
Restructuring cost related to personnel	**92**	112
Other employee benefits	**538**	399
Personnel expenses	**9,290**	**9,475**

Loans to Employees

There were no loans to employees per December 31, 2017 as there was no share purchase program in 2017. Loans to employees related to the share purchase program for 2016 amounted to NOK 25 million per December 31, 2016.

See note 18 for more information about the pension cost and obligation

See note 20 for more information about restructuring provision related to downsizing of personnel

Note 6 Other Operating Expenses

Amounts in NOK million	2017	2016
Rental and other cost for land and buildings	**1,391**	1,389
Office supplies	**818**	981
External consultants	**339**	311
Travel expenses	**348**	411
Insurance	**123**	111
Other expenses	**274**	581
Other operating expenses	**3,292**	**3,784**

See note 19 for more information about operating leases

See note 31 for more information about audit fees

Note 7 Finance Income and Expenses

Financial Reporting Principles

Interest income and expenses include effects from using the effective interest rate method where fees, interest paid, transaction costs and other premiums are deferred and amortized over the life of the instrument. Effects from net present value calculations of assets and liabilities are also included.

Foreign exchange gains and losses arise upon settlement of monetary assets and liabilities that are not hedged. Foreign exchange gains and losses also include result from Corporate Treasury's trading mandate and the effects from translating monetary assets and liabilities denominated in foreign currencies at the balance sheet date. The profit on foreign exchange forward contracts include effects from derivatives that do not qualify for hedge accounting, embedded derivatives and the ineffective portion of qualifying hedges.

Financial Income and Expenses

Amounts in NOK million	2017	2016
Interest income	**55**	**65**
Interest expense on financial liabilities measured at amortized cost	**-273**	-452
Interest expense on financial liabilities measured at fair value	**-33**	-26
Interest expense	**-305**	**-477**
Capitalized interest cost	**0**	24
Net foreign exchange gain (loss)	**27**	26
Profit (loss) on foreign currency forward contracts	**41**	-67
Other finance income	**25**	25
Other financial expense	**-15**	-9
Net other finance items	**78**	**-1**
Net finance cost	**- 172**	**- 414**

See note 24 for more information about derivative financial instruments
See note 25 for more information about financial assets and liabilities

Note 8 Earnings per Share and Dividends

Financial Reporting Principles

The calculation of basic and diluted earnings per share is based on the income attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding. Treasury shares are not included in the weighted average number of ordinary shares. Weighted average number of diluted and ordinary shares is the same, as the company does not have any diluted shares.

Earnings per Share (EPS)

	2017	2016
Income attributable to ordinary shares (NOK million)	**221**	57
Weighted average number of issued ordinary shares for the year adjusted for treasury shares	**271,532,588**	270,916,252
Basic and diluted earnings per share (NOK)	**0.81**	0.21

Dividends

The board of directors has proposed that no dividend should be declared for 2017 as it is deemed prudent to exercise caution under the current market uncertainty in the oil and gas industry. This is the same as in the prior year.

See note 16 for more information about share capital and treasury shares

Note 9 Tax

Financial Reporting Principles

Income tax in the income statement consists of current tax, effect of change in deferred tax positions and withholding tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized 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 that will be paid during the next 12 months. Current tax also includes any adjustment of taxes from previous years and taxes on dividends recognized in the year.

Deferred Tax

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for goodwill identified in acquisitions. 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. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences. The deferred tax asset is only recognized to the extent it is considered probable that future taxable profits will be available to utilize the credits.

Withholding Tax

Withholding tax and any related tax credits are generally recognized in the period they are incurred. Withholding tax and related tax credits directly related to construction contracts are recognized according to the progress of the construction contract, and follow the same recognition criteria as the underlying construction contract.

Judgments and Estimates

The group is subject to income taxes in numerous jurisdictions, and judgment may be involved when determining the taxable amounts. Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods. In particular, management judgment is required when assessing complex valuation of unused losses, tax credits and other deferred tax assets. The recoverability is assessed by estimating taxable profits in future years taking into consideration also expected changes in temporary differences. The discounted amount from these profits is compared to book value of the tax assets.

The estimate of future taxable profits is sensitive to future market development for the projects and services of Aker Solutions. Forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Changes in the assumptions related to the expected prospects and services can have a significant impact on the forecasted cashflows. Economic conditions may change and lead to a different conclusion regarding recoverability, and such changes may affect future reporting periods.

Note 9 continues on next page

Note 9 Tax cont.

Income Tax

Amounts in NOK million	2017	2016
Current income tax		
Current year	**303**	358
Adjustments for prior years	**-9**	-2
Total current income tax	**293**	**356**
Deferred income tax		
Origination and reversal of temporary differences	**-181**	-228
Write down of tax loss carry-forwards and deferred tax assets	**23**	46
Change in tax rates[1]	**43**	-52
Adjustment for prior periods	**-19**	0
Total deferred income tax	**-133**	**-235**
Total income tax	**160**	**121**

1) Includes the effect of change in Norwegian tax rate from 24 to 23 percent, the US tax rate from 35 to 21 percent and the UK tax rate from 19 to 17 percent.

Taxes in OCI and Equity

Amounts in NOK million	2017	2016
Cashflow hedges, deferred tax	**-147**	-232
Remeasurement of defined benefit pension plans	**10**	-13
Changes in fair values of acquisition of subsidiaries (OCI)	**15**	0
Deferred tax charged to OCI	**-121**	**-245**
Taxes on dividends	**0**	-15
Taxes on acquisition of NCI	**-7**	-34
Current tax charged to equity	**-7**	**-49**

Note 9 continues on next page

Note 9 Tax cont.

Effective Tax Rate

The table below reconciles the tax expense as if the Norwegian tax rate of 24 percent was applied.

Amounts in NOK million	2017		2016	
Income before tax	**399**		273	
Income tax when applying Norwegian tax rate of 24 percent (25 percent in 2016)	**96**	**24.0%**	68	25.0%
Tax effects of:				
Effect of different tax rates	**-30**	**-7.5%**	-31	-11.2%
Non-deductible expenses	**20**	**5.1%**	5	1.9%
Effect of withholding tax	**75**	**18.9%**	109	40.0%
Current year effect of tax incentives	**-23**	**-5.8%**	-23	-8.5%
Adjustments in respect of prior years (current tax)	**-9**	**-2.3%**	-2	-0.7%
Adjustments in respect of prior years (deferred tax)	**-19**	**-4.7%**	0	0
Previously unrecognized tax losses used to reduce payable tax	**-11**	**-2.7%**	0	0
Write down (or reversal) of deferred tax assets	**23**	**5.8%**	46	16.7%
Impact of change in tax rates	**43**	**10.8%**	-52	-19.1%
Other	**-6**	**-1.5%**	1	0.3%
Income tax and effective tax rate	**160**	**40.2%**	**121**	**44.2%**

Recognized Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
Amounts in NOK million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	**4**	18	**-87**	-107	**-83**	-89
Pensions	**113**	112	**0**	0	**113**	112
Projects under construction	**0**	7	**-1,643**	-1,451	**-1,643**	-1,444
Tax loss carry-forwards	**1,073**	745	**0**	0	**1,073**	745
Intangible assets	**0**	6	**-257**	-258	**-257**	-252
Provisions	**258**	266	**-5**	-8	**253**	258
Derivatives	**54**	209	**0**	0	**54**	209
Other	**884**	855	**3**	-58	**887**	797
Total before offsetting	**2,384**	**2,218**	**-1,989**	**-1,882**	**395**	**335**
Offsetting	**-1,751**	-1,552	**1,751**	1,552	**0**	0
Total	**633**	**666**	**-238**	**-331**	**395**	**335**

Note 9 continues on next page

Note 9 Tax cont.

Change in Net Recognized Deferred Tax Assets and Liabilities

Amounts in NOK million	Property, plant and equipment	Pensions	Projects under construction	Tax loss carry-forwards	Intangible assets	Provisions	Derivatives	Other	Total
Balance as of January 1, 2016	-92	136	-1,559	571	-286	305	440	534	49
Recognized in profit and loss	15	-9	91	169	24	-107	3	62	248
Recognized in other comprehensive income (OCI)	0	-13	0	0	0	0	-232	0	-245
Prepaid withholding tax	0	0	0	0	0	0	0	252	252
Additions through acquisition of subsidiaries	-9	0	0	0	-12	0	0	-2	-23
Reclassification between categories	0	0	0	0	0	48	0	-48	0
Currency translation differences	-3	-2	24	5	22	11	-2	-1	54
Balance as of December 31, 2016	**-89**	**112**	**-1,444**	**745**	**-252**	**258**	**209**	**797**	**335**
Recognized in profit and loss	9	-10	-199	366	10	-8	-8	-27	133
Recognized in other comprehensive income (OCI)	0	10	0	0	0	0	-147	15	-121
Tax losses offset against indirect taxes	0	0	0	-28	0	0	0	0	-28
Prepaid withholding tax	0	0	0	0	0	0	0	94	94
Reclassification between categories	0	0	0	0	-9	9	0	0	0
Currency translation differences	-4	0	0	-11	-6	-7	0	9	-19
Balance as of December 31, 2017	**-83**	**113**	**-1,643**	**1,073**	**-257**	**253**	**54**	**887**	**395**

Tax Loss Carry-Forwards and Unrecognized Deferred Tax Assets

Amounts in NOK million	Expiry within 5 years	Expires within 5-20 years	Indefinite	Total	Unrecognized tax loss carry-forwards	Unrecognized other tax assets
Norway	0	0	3,419	3,419	0	0
Europe excluding Norway	475	31	334	840	492	5
North America	14	493	0	507	32	0
South America	0	0	342	342	0	0
Asia Pacific	1	41	262	304	264	3
Middle East and Africa	104	0	14	118	118	0
Total	**594**	**564**	**4,372**	**5,530**	**906**	**8**

See note 20 for information about contingent tax claims

Note 10 Property, Plant and Equipment

The majority of property, plant and equipment relate to subsea manufacturing plants and service bases in Norway, Brazil, Malaysia, the US and the UK. Fixed assets also include furniture and fittings in office buildings.

Financial Reporting Principles

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses. Components of property, plant and equipment with different useful lives are accounted for separately. Assets are mainly depreciated on a straight-line basis over their expected economic lives as follows:

- Machinery and equipment: 3-15 years
- Buildings: 8-30 years
- Land: No depreciation

Borrowing costs are capitalized as part of the cost of the asset when significant. The cost of self-constructed assets includes the cost of materials, direct labor, production overheads and borrowing cost.

Judgment and Estimates

Judgment is involved when determining the depreciation period and when assessing impairment. Impairment is assessed for individual assets and for cash generating units. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

Commitments

Aker Solutions has entered into contractual commitments for the acquisition of property, plant and equipment amounting to NOK 281 million as of December 31, 2017, of which NOK 221 million will expire in 2018. Contractual commitments were NOK 52 million per December 31, 2016.

See note 12 for information about impairment testing
See note 17 for information about PPE being held as security for borrowings
See note 26 for information about acquisition of subsidiaries

Property, Plant and Equipment

Amounts in NOK million	Buildings and sites[1]	Machinery and equipment	Under construction	Total
Historical cost				
Balance as of January 1, 2016	1,436	4,970	813	7,219
Additions	48	60	292	399
Transfer from assets under construction	635	294	-929	0
Additions through acquisition of subsidiaries	23	54	0	77
Disposal of subsidiaries	0	-10	0	-10
Disposals and scrapping	-60	-152	0	-211
Currency translation differences	19	-77	40	-18
Balance as of December 31, 2016	**2,102**	**5,138**	**216**	**7,456**
Additions	5	40	161	**206**
Reclassifications and transfer from assets under construction	-190	387	-197	**0**
Additions through acquisition of subsidiaries	0	5	0	**5**
Disposals and scrapping	-15	-18	0	**-33**
Currency translation differences	-51	-5	3	**-54**
Balance as of December 31, 2017	**1,851**	**5,548**	**181**	**7,580**
Accumulated depreciation and impairment				
Balance as of January 1, 2016	-431	-2,810	-16	-3,257
Depreciation for the year	-83	-483	0	-567
Impairment	0	-78	0	-79
Disposal of subsidiaries	0	7	0	7
Disposals and scrapping	36	147	0	183
Currency translation differences	10	53	0	62
Balance as of December 31, 2016	**-469**	**-3,164**	**-16**	**-3,648**
Depreciation for the year	-66	-471	0	**-537**
Impairment	-58	-26	0	**-84**
Disposals and scrapping	13	11	0	**24**
Reclassification between categories	143	-143	0	**0**
Currency translation differences	1	-19	0	**-18**
Balance as of December 31, 2017	**-436**	**-3,812**	**-15**	**-4,264**
Book value as of December 31, 2016	**1,633**	**1,974**	**200**	**3,808**
Book value as of December 31, 2017	**1,415**	**1,735**	**166**	**3,316**

1) Assets held for sale included in Buildings and sites amounted to NOK 38 million as of December 31, 2017.

Note 11 Intangible Assets

The research and development (R&D) programs in Aker Solutions are closely monitored in order to secure the desired technological achievements in time and at acceptable cost levels. R&D programs that meet certain criteria are capitalized and amortized over the expected useful life. Intangible assets also include goodwill and other assets identified in mergers and acquisitions in addition to IT systems.

Financial Reporting Principles

Capitalized Development

The technology development in Aker Solutions is graded according to a Technology Readiness Level (TRL) consisting of eight phases. Research and development costs are expensed as incurred until a program has completed the concept phase. Development cost is only capitalized if the product or process is technically and commercially feasible and the business case shows a positive net present value. Capitalized development mainly includes internal labor costs in addition to materials for the development program. The capitalized development is normally amortized over five years on a straight-line basis, but certain programs with a clear differentiating offering and a longer economic benefit may be amortized up to seven years. For development projects in progress, a full impairment test is performed annually or when impairment indicators are identified.

Goodwill

Goodwill represents the consideration paid in excess of identifiable assets and liabilities in business combinations. Goodwill has an indefinite useful life and is tested for impairment annually, or when impairment indicators are identified.

Other

Other intangible assets include IT systems and technology development acquired through business combinations.

Judgments and Estimates

The decision to capitalize a development program involves management judgment. There are strict internal rules defining what qualifies for capitalization, and the documentation of the assessment is monitored centrally. Management makes assessment of future market opportunities, ability to successfully achieve the desired technological solution and the time and cost it takes to develop it. These factors may change over time.

Impairment indicators are assessed for individual development projects, other intangible assets and for cash generating units as a whole, including goodwill. Impairment testing is performed when impairment indicators have been identified. In addition, capitalized development programs that have not been completed are subject to an annual impairment test. The impairment test includes update of the business case, assessing status on technical achievements and reviewing cost incurred compared to budget in order to identify if any of the capitalized cost should be expensed. The asset is written down to recoverable amount, if lower than book value. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of WACC, growth rate used for calculation of terminal value and other assumptions that may change over time.

Note 11 continues on next page

Note 11 Intangible Assets cont.

Intangible Assets

Amounts in NOK million	Capitalized development	Goodwill	Other	Total
Historical cost				
Balance as of January 1, 2016	2,310	4,166	359	6,836
Additions from internal development	278	0	19	297
Additions through business combinations	0	117	37	154
Disposals	0	-2	0	-2
Currency translation differences	-116	-305	-34	-455
Balance as of December 31, 2016	**2,472**	**3,976**	**381**	**6,829**
Additions from internal development	149	0	0	**149**
Additions through business combinations	45	239	0	**284**
Assets fully written down, no longer in use	-7	0	-44	**-50**
Currency translation differences	5	68	4	**78**
Balance as of December 31, 2017	**2,664**	**4,283**	**342**	**7,289**
Accumulated amortization and impairment				
Balance as of January 1, 2016	-470	4	-164	-629
Amortization for the year	-178	0	-34	-212
Impairment	-386	0	0	-386
Currency translation differences	26	2	16	44
Balance as of December 31, 2016	**-1,007**	**6**	**-182**	**-1,182**
Amortization for the year	-211	0	-44	**-255**
Impairment	-72	0	0	**-72**
Assets fully written down, no longer in use	7	0	44	**51**
Currency translation differences	-6	-9	-2	**-17**
Balance as of December 31, 2017	**-1,288**	**-3**	**-184**	**-1,475**
Book value as of December 31, 2016	**1,465**	**3,983**	**199**	**5,647**
Book value as of December 31, 2017	**1,375**	**4,281**	**158**	**5,814**

Research and Development Expenses

The research and development expenses amounted to NOK 41 million in 2017 compared to NOK 125 million in 2016.

See note 12 for more information about impairment testing
See note 26 for more information about acquisition of subsidiaries

Note 12 Impairment of Assets

After some challenging years in the oil services market, there are signs of recovery with an increase in the oil price. More projects are being sanctioned and there is generally a more optimistic view on the future across the oil services market. Assets have been assessed for impairment on an individual basis and as part of cash generating units. The impairment testing of the assets resulted in impairment losses of NOK 72 million for intangible assets and NOK 84 million for property, plant and equipment in 2017.

Financial Reporting Principles

Individual Assets

Individual intangible and fixed assets are assessed for impairment triggers every quarter to identify assets that are damaged, no longer in use or will be disposed. Capitalized development is assessed for impairment triggers every quarter to identify development programs where the technological development or commercial outlook for that specific technology no longer justifies the book value. Capitalized development programs that have not been completed are subject to annual impairment test with updates of the business case, assessing status on technical achievements and reviewing cost incurred compared to budget in order to identify if any of the capitalized cost should be expensed. The asset is written down to recoverable amount, if lower than book value.

Assets in a Cash Generating Unit (CGU)

Impairment indicators are assessed for all assets as part of a cash generating unit (CGU). A CGU represents the lowest level of independent revenue generated by the assets. This is usually the lowest level where a separate external market exists for the output from the CGU. Impairment indicators are reviewed for all assets with assessment of market conditions, technological development, change in order backlog, change in discount rate and other elements that may impact the value of the assets in the CGU. Assets are usually tested using the value-in-use approach determined by discounting expected future cashflows. Impairment losses are recognized for assets in CGUs where the recoverable amount is lower than book value.

Goodwill

The groups of CGUs that include goodwill are tested for impairment annually or when impairment triggers have been identified. The company does not have other assets than goodwill with indefinite useful lives.

Judgments and Estimates

The impairment testing of assets is by nature highly judgmental as it includes estimates such as future expected cashflows, discount rate and growth rate. In particular, future cashflows are uncertain as they are impacted by market developments beyond Aker Solutions' control. The oil price impacts the investment levels in capex and maintenance projects by the oil companies. This in turn impacts the markets in which Aker Solutions operates.

Cashflow Assumptions

Expectations about the long-term oil prices are important when assessing the future market development for the projects and services of Aker Solutions. After several years with a challenging market there have been some signs of recovery in 2017. The long-term oil price per barrel has been assumed to gradually increase to USD 68 in the terminal year. This assumption is particularly sensitive in the current market conditions. Four year cashflows in the period 2018 to 2021 projected from the forecast and strategy process, approved by management in 2017, have been used as basis for the estimates of future cashflows. The forecasts are based on firm orders in the backlog and identified prospects in addition to expected service revenue. Changes in the assumptions related to the expected prospects can have a significant impact on the forecasted cashflows. The forecasted cashflows used in the impairment tests reflect organic growth only. Other parameters in the assessment are the mix of projects and services, level of operating expenses and capital expenditure for maintenance of the asset portfolio.

Discount and Growth Rate

Estimated future cashflows are discounted to their present value using the weighted average cost of capital (WACC), which is a post-tax discount rate. The WACC is based on a risk free interest rate, a risk premium and average beta values of peers within each market. A separate WACC has been calculated for each of the CGUs taken into consideration country specific risk premiums and long-term risk free interest rates. A growth rate has been applied to calculate terminal value after the five-year period.

Note 12 continues on next page

Note 12 Impairment of Assets cont.

Impairment Testing of Individual Assets

When reviewing the individual capitalized development certain development programs were identified where the technology or commercial outlook no longer justified the value. This was mainly as a result of the downturn in the oil service sector. In total, NOK 72 million was impaired. The impairments were mainly related to development projects in Norway, USA and Malaysia. In addition, the impairment on individual machines, furniture and fittings was NOK 84 million, which mainly related to assets in Norway and UK. The value-in use method was used for both fixed and intangible assets.

Impairment Testing of Assets in CGUs

CGUs identified for testing fixed and intangible assets is usually a plant or a group of plants which are deemed to produce independent cash inflows. No impairment losses were recognized as a result of the impairment testing of assets in CGUs based on the value-in-use method. Various sensitivity analysis for change in future cashflows, growth rate and WACC have been performed for the CGUs with limited headroom in the impairment testing. The results from the analysis support the conclusion from the test that no impairment should be recognized. The group is continuously monitoring the market development and will perform impairment testing if further impairment triggers are identified.

Impairment Testing of Goodwill

The groups of CGUs identified when testing goodwill represent the operating segments of Aker Solutions (Projects and Services) as this is the level where synergies are expected and goodwill is monitored. The goodwill in the two operating segments are shown in the following table.

Amounts in NOK million	2017	2016
Projects	**2,123**	2,015
Services	**2,157**	1,968
Total goodwill as of December 31	**4,281**	**3,983**

The WACC used in the impairment testing of goodwill is shown below.

	Post-tax WACC	Pre-tax WACC
Projects	**8.4%**	**10.2%**
Services	**8.7%**	**11.6%**

A post-tax value in-use method was used, with pre-tax rates calculated using an iterative method for illustration purposes only. The calculated annual average growth rate for revenue in the cashflow used for impairment testing is 25.9 percent for Services and 7.5 percent for Projects. Management has forecasted that cashflows will gradually recover from the low activity level in 2017, which was a year heavily impacted by the decline in the oil services sector. There are indications of market recovery, proven by more projects being sanctioned and several contracts awarded to Aker Solutions late 2017. The forecasted cash flows are based on firm orders and an expected share of new contracts. When determining the terminal value, a growth rate of 1.5 percent has been used for both Services and Projects. The annual impairment testing of goodwill did not result in any impairment losses.

Multiple sensitivity tests have been run to address the current uncertainty in the oil service market. The impairment testing is sensitive to changes in the long-term oil price as it will impact the expected order intake. The testing is also sensitive to changes in the discount rate, growth rates, and the ability of Aker Solutions to secure projects as estimated in the cashflow, product mix and cost levels. Sensitivity testing of goodwill includes changing various assumptions to consider other potential alternative market conditions. This includes changing the discount rate and growth rate in addition to reducing the expected cashflows in the future. The recoverable amounts exceeded book value for all scenarios for all the CGUs in the goodwill impairment testing.

See note 10 for more information about property, plant and equipment
See note 11 for more information about intangible assets

Note 13 Inventories

Financial Reporting Principles

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling expenses and the estimated cost to complete the inventory. The cost of inventories is based on the weighted average cost.

Judgments and Estimates

The assessment of obsolete and slow-moving inventory in order to determine inventory write-downs is subject to management judgment. The selling price in the market has to be estimated, and there is a risk that the actual selling price turns out to be different than the amount estimated by management.

Inventories

Amounts in NOK million	2017	2016
Stock of raw materials	356	514
Goods under production	72	2
Finished goods	0	59
Total	428	575
Total inventories at cost	716	818
Inventory write-downs to net realizable value	-288	-244
Total	428	575
Inventory write-down expense in the period	160	129

There are no securities pledged over inventories.

Note 14 Trade and Other Receivables

Financial Reporting Principles

Trade and other receivables are recognized at the original invoiced amount, less an allowance for doubtful receivables. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

Judgments and Estimates

Judgment is involved when determining the allowance for doubtful receivables. The allowance is based on individual assessments of each customer and default risk in the industry and the country in which the customer operates. The customers of Aker Solutions are mainly large, international oil companies.

Trade and Other Receivables

Amounts in NOK million	2017	2016
Trade receivables	**2,692**	3,600
Trade receivables, related parties	**305**	111
Less provision for impairment of receivables	**-121**	-170
Trade receivables, net	**2,876**	**3,541**
Advances to suppliers	**954**	156
Amounts due from customers for construction work	**883**	1,103
Accrued operating revenue from service contracts	**1,298**	1,337
Other receivables	**832**	1,260
Total	**6,843**	**7,398**

Bad Debt Provision

Amounts in NOK million	2017	2016
Balance as of January 1	**-170**	-143
Provisions made during the year	**-29**	-79
Provisions used during the year	**39**	8
Provisions reversed during the year	**37**	23
Currency translation differences	**3**	21
Balance as of December 31	**-121**	**-170**

Aging of Trade Receivables

Amounts in NOK million	2017	2016
Not overdue	**2,452**	2,599
Past due 0-30 days	**267**	611
Past due 31-90 days	**106**	136
Past due 91 days to one year	**61**	110
Past due more than one year	**110**	256
Total	**2,997**	**3,711**

See note 3 for more information about amounts due from customers for construction and service contracts
See note 22 for more information about credit risk
See note 29 for more information about receivables to related parties

Note 15 Cash and Cash Equivalents

Financial Reporting Principles

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

Cash and Cash Equivalents

Amounts in NOK million	2017	2016
Cash pool	**635**	1,461
Other cash at banks	**1,343**	1,019
Total	**1,978**	**2,480**

Available Liquidity

Additional undrawn committed non-current bank revolving credit facilities amounted to NOK 3.75 billion, compared to NOK 5.0 billion in the prior period. Together with cash and cash equivalents, this gives a total liquidity buffer of NOK 5.7 billion, compared to NOK 7.5 billion in prior year.

See note 17 for more information about borrowings
See note 22 for more information about currency risk and the cash pool arrangement
See note 23 for more information about capital management

Note 16 Equity

Share Capital

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940 through the issuance of 272,044,389 shares. The total number of outstanding shares is 272,044,389 at par value NOK 1.08 per share as of December 31, 2017. All issued shares are fully paid. Aker Solutions 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. The number of own shares (treasury shares) was 511,801 per December 31, 2017, which is the same as last year. The consideration for these shares was NOK 16 million.

Hedging Reserve

The hedge reserve mainly relates to effects of currency cashflow hedges that are not yet recognized in the income statement. The hedging effects are recognized in the income statement according to the progress of the underlying construction contract.

Translation Reserve

The currency translation reserve includes foreign exchange differences arising from the translation of the subsidiaries into the presentation currency of the consolidated statements.

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 and the return on plan assets (excluding interest).

See note 2 for more information about currency translation of subsidiaries
See note 18 for more information about the pension obligation
See note 24 for more information about hedging

Note 17 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has a NOK 1,000 million bond loan listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The interest rate is three months floating interbank rates (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loan is unsecured on a negative pledge basis and includes no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.

Note 17 continues on next page

Note 17 Borrowings cont.

Bonds and Borrowings

2017

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,008**	0.79%	4.20%	4.99%	10/09/19	Floating, 3M+fix margin
Total bond[1]			**1,008**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	1,250	**1,239**	0.89%	1.10%	1.99%	07/03/19	NIBOR + Margin[3]
Total credit facility			**1,239**					
Brazilian Development Bank loans[4]	BRL	345	**858**	11.10%	0.00%	11.10%	2018-2024	Fixed, periodically
Brazilian Development Bank loans			**858**					
Other borrowings			**10**					
Total borrowings			**3,114**					
Current borrowings			**539**					
Non-current borrowings			**2,576**					
Total borrowings			**3,114**					

1) The carrying amount is calculated by reducing the nominal value of NOK 1,000 million (NOK 2,500 million in 2016) by total issue costs related to the new financing of NOK 3 million (NOK 7 million in 2016). Amount includes NOK 12 million of accrued interest related to the bonds (NOK 18 million in 2016).
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.
4) Brazilian loans consist of loans with interest rates ranging from 5.8 percent to 12.4 percent in 2017 (3.5 percent to 19 percent in 2016). The weighted average interest rate is used in the table and is calculated based on the contractual rates on the loans at December 31 and does not include the effect of swap agreements.

Note 17 continues on next page

Note 17 Borrowings cont.

Bonds and Borrowings

2016

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010647431	NOK	1,500	**1,505**	1.14%	4.25%	5.39%	06/06/17	Floating, 3M+fix margin
ISIN NO 0010661051	NOK	1,000	**1,007**	1.13%	4.20%	5.33%	10/09/19	Floating, 3M+fix margin
Total bonds[1]			**2,512**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-20**	1.05%	0.85%	1.90%	07/03/19	NIBOR + Margin[3]
Total credit facility			**-20**					
Brazilian Development Bank loans[4]	BRL	548	**1,451**	11.96%	0.00%	11.96%	2017-2022	Fixed, periodically
Brazilian Development Bank loans			**1,451**					
Other borrowings			**10**					
Total borrowings			**3,954**					
Current borrowings			**2,110**					
Non-current borrowings			**1,844**					
Total borrowings			**3,954**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million by total issue costs related to the new financing of NOK 7 million. Amount includes NOK 18 million of accrued interest related to the bonds.
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.
4) Brazilian loans consist of loans with interest rates ranging from 3.5 percent to 19 percent. The weighted average interest rate is used in the table and is calculated based on the contractual rates on the loans at December 31 and does not include the effect of swap agreements.

Note 17 continues on next page

Note 17 Borrowings cont.

Maturity of Bonds and Borrowings

2017

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,008	**1,101**	25	25	1,051	0	0
Total bonds	**1,008**	**1,101**	**25**	**25**	**1,051**	**0**	**0**
Revolving credit facility (NOK 5,000 million)	1,239	**1,286**	12	12	1,262	0	0
Brazilian development bank loans	858	**979**	126	449	131	272	1
Other loans	10	**10**	10	0	0	0	0
Total other loans	**2,106**	**2,275**	**148**	**461**	**1,393**	**272**	**1**
Total borrowings	**3,114**	**3,376**	**173**	**486**	**2,444**	**272**	**1**

2016

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010647431	1,505	**1,539**	1,539	0	0	0	0
ISIN NO 0010661051	1,007	**1,155**	26	27	53	1,049	0
Total bonds	**2,512**	**2,694**	**1,565**	**27**	**53**	**1,049**	**0**
Revolving credit facility (NOK 5,000 million)[2]	-20	**0**	0	0	0	0	0
Brazilian Development Bank loans	1,451	**1,801**	86	658	499	113	445
Other loans	10	**11**	0	11	0	0	0
Total other loans	**1,442**	**1,812**	**86**	**668**	**500**	**113**	**445**
Total borrowings	**3,954**	**4,506**	**1,651**	**695**	**553**	**1,162**	**445**

1) The interest costs are calculated using either the last fixing rate known by year end (plus applicable margin) or the contractual fixed rate (when fixed rate debt).
2) The cashflow is based on the assumption that the nominal currency value will remain on NOK 1,250 million until the maturity of the revolving credit facility.

Note 17 continues on next page

Note 17 Borrowings cont.

Movement of liabilities

Amounts in NOK million	Bond	Credit Facilities	Other Borrowings	Total
Balance as of January 1, 2017	2,512	-20	1,461	**3,954**
Proceeds from loans and borrowings	-	1,250	67	**1,317**
Repayment of borrowings	-1,500	0	-578	**-2,078**
Total changes from financial cashflows	-1,500	1,250	-512	**-762**
Accrued interest	-6	0	-12	**-18**
Amortization of borrowing cost	3	8	0	**11**
Currency translation differences	0	0	-70	**-70**
Balance as of December 31, 2017	**1,008**	**1,239**	**868**	**3,114**

Mortgages

The company has no mortgage liabilities in 2017.

See note 23 for more information about capital management
See note 24 for more information about interest rate derivatives
See note 25 for more information about financial assets and liabilities
See note 33 for more information about borrowings entered into subsequent to year end

Note 18 Pension Obligations

Aker Solutions operates several pension plans around the world. The most common type of plan is the defined contribution plan, where Aker Solutions makes contributions to the employee's individual pension account. Aker Solutions still has some closed defined benefit plans and impacts of these are gradually reduced.

Financial Reporting Principles

Defined Contribution Plans

A defined contribution plan is a type of retirement plan where the employer makes contributions on a regular basis to the employees individual pension account. The benefits received by the employee are based on the employer contributions and gains or losses from investing the capital. Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Defined Benefit Plans

A defined benefit plan is a type of pension plan where the employer promises an annual pension on retirement based on a percentage of the salary upon retirement and the employee's earnings history, years of service and age. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

The defined benefit obligation is calculated separately for each plan by discounting the estimated amount of future benefit that employees have earned in the current and prior periods and deducting the fair value of any plan assets. The change of the defined benefit obligation as a result of the change of assumptions (actuarial gains and losses) and the return on plan assets are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in the income statement. When the benefits of a plan are changed, settled or when a plan is curtailed, the change relating to past service or the gain or loss on curtailment or settlement is recognized immediately in the income statement.

Judgments and Estimates

The present value of the pension obligations depends on a number of factors determined on the basis of actuarial assumptions. These assumptions include financial factors such as the discount rate, expected salary growth, inflation and return on assets as well as demographical factors concerning mortality, employee turnover, disability and early retirement. Assumptions about all these factors are based on the situation at the time the assessment is made. However, it is reasonably certain that such factors will change over long periods for which pension calculations are made. Any changes in these assumptions will affect the calculated pension obligations with immediate recognition in other comprehensive income.

Pension Plans in Norway

The main pension arrangement in Norway is a general pension plan organized by the Norwegian state providing a basic pension entitlement to all tax payers. The additional pension plans which all Norwegian employers are obliged to provide, represent limited additional pension entitlements. The following pension plans exist in Norway:

Defined Contribution Plans

All employees in Norway are offered participation in a defined contribution plan. The annual contributions expensed for the Norwegian plans in 2017 were NOK 206 million. The estimated contribution expected to be paid in 2018 is NOK 196 million.

Defined Benefit Plans

The Norwegian companies in Aker Solutions closed the defined benefit plans in 2008. Employees who were 58 years or older in 2008 are still members of the defined benefit plan. This is a funded plan and represents most of the funded pension liability reported in the tables below. The estimated contribution expected to be paid during 2018 is NOK 73 million.

Compensation Plans

All employees in 2008 who had a calculated loss of more than NOK 1,000 per year upon transition to the defined contribution plan were offered compensation. The compensation amount will be adjusted annually in accordance with the adjustment of the employees' pensionable income, and accrued interest according to market interest. If the employee leaves the company voluntarily before the age of 67 years, the accrued compensation amount will be paid out. This unfunded plan is classified and accounted for as a defined benefit plan.

Note 18 continues on next page

Note 18 Pension Obligations cont.

Tariff Based Pension Agreement (AFP)

Employees in Norway have a tariff based lifelong retirement arrangement (AFP) that can be withdrawn from the age of 62 organized by the main labor unions and the Norwegian state. The information required to estimate the pension obligation from this defined benefit plan is not available from the plan administrator. Aker Solutions therefore accounts for the plan as if it was a defined contribution plan.

Termination Benefits

Certain pension arrangements up until retirement has been given as part of restructuring programs to achieve reduction of personnel. The cost in 2017 was NOK 7 million.

Pension Plans outside Norway

Pension plans outside Norway are predominately defined contribution plans. The annual contributions expensed for plans outside Norway in 2017 were NOK 163 million. The estimated contributions expected to be paid in 2018 is NOK 231 million to the plans outside Norway.

Total Pension Cost

Amounts in NOK million	2017	2016
Defined benefit plans	66	85
Defined contribution plans	400	457
Total	**466**	**542**

Movement in Pension Obligations

Tables below relate to the movement in the pension obligation for defined benefit plans. It is mainly the Norwegian entities that have defined benefit plans; other defined benefit plans are insignificant.

Amounts in NOK million	2017	2016
Balance as of January 1	540	572
Current service and administration cost	55	71
Interest cost (income)	12	14
Included in income statement	**66**	**85**
Actuarial loss (gain) arising from demographic assumptions	0	116
Actuarial loss (gain) arising from financial assumptions	15	-126
Return on plan assets	14	-7
Changes in asset ceiling	3	0
Actuarial loss (gain) arising from experience adjustments	28	-25
Remeasurements loss (gain) included in OCI	**60**	**-42**
Contributions paid into the plan	-73	-70
Benefits paid by the plan	-38	-34
Reclassification from restructuring provision	0	28
Other movements	0	1
Other	**-111**	**-75**
Balance as of December 31	**556**	**540**
Represented by:		
Net funded liability	0	13
Net unfunded liability	556	527
Balance as of December 31	**556**	**540**

Note 18 continues on next page

Note 18 Pension Obligations cont.

Assets in the Defined Benefit Plan

Amounts in NOK million	2017	2016
Equity securities	**31**	40
Bonds	**990**	1,114
Funds	**153**	94
Total plan assets at fair value	**1,173**	**1,248**

The equity securities are invested globally, and the value is based on quoted price at the reporting date without any deduction for estimated future selling cost. The majority of the bond investment is in Norwegian municipalities and is assumed to have a rating equal to AA, but there are very few official ratings for these investments. The remaining bond investment is primarily in the Norwegian market within bonds assumed to be of "Investment Grade" quality. The majority of these investments do not, however, have an official rating. The investments consist of fixed income funds and equity funds with listed securities where the value is based on quoted prices.

Actuarial Assumptions

The information below relates only to Norwegian plans as these represent the majority of the plans. The following were 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 funded plans[1]	**0.00%**	0.00%
Mortality table	**K2013**	K2013
Life expectancy at age 65 for pensioners, males	**22.2**	22.4
Life expectancy at age 65 for pensioners, females	**25.5**	25.4

1) Pension indexation for unfunded plans is agreed individually (0-8 percent).

The discount rate is based on government bonds or high-quality corporate bonds with maturities consistent with the terms of the obligations. The assumptions used are in line with recommendations from the Norwegian Accounting Standards Board.

Sensitivity Analysis

Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have changed the defined benefit obligation as of December 31 by the amounts shown below.

	Change net liability increase (+)/decrease (-)	
Amounts in NOK million	2017	2016
Discount rate increase by 1 percent	**-154**	-162
Discount rate decrease by 1 percent	**198**	205
Expected rate of salary increase by 1 percent	**1**	35
Expected rate of salary decrease by 1 percent	**-1**	-31
Expected rate of pension increase by 1 percent	**163**	171
Expected rate of pension decrease by 1 percent	**-128**	-137

In Aker Solutions, a one percent increase of discount rate decreases the benefit obligation by only 9 percent. This is because the benefit obligation in Aker Solutions consists mainly of pensioners and employees over 60 years of age.

See note 5 for more information about personnel expenses
See note 30 for more information about pension arrangements for the management

Note 19 Operating Leases

Financial Reporting Principles

Operating lease expense are recognized in the income statement on a straight-line basis over the term of the lease. Rent free periods and other lease incentives received are recognized as an integral part of the total lease expense over the term of the lease. The group does not have any financial leases. Sub-lease income is recognized as operating revenue. The minimum lease payment includes the annual rental as defined in the lease agreement. The effect of onerous lease provisions is not included in the table below.

Lease Expense and Sub-Lease Income

Aker Solutions leases a number of production sites and office buildings worldwide. The leases typically run for a period of 10-15 years, with an option to renew the lease at market rates. Other leasing contracts relate to IT and office equipment with an average life of 3-5 years with no renewal option included in the contracts.

2017

Amounts in NOK million	Buildings, plants and sites	Other	Total
Minimum lease expense	852	12	**864**
Contingent lease expense	2	0	**2**
Minimum lease income	-12	0	**-12**
Sub-lease income	-148	0	**-148**
Total	694	12	**706**

2016

Amounts in NOK million	Buildings, plants and sites	Other	Total
Minimum lease expense	844	10	**854**
Sub-lease income	-125	0	**-125**
Total	719	10	**729**

Lease Commitments

Future minimum lease payments for non-cancellable operating leases are shown in the table below.

Amounts in NOK million	2017	2016
Less than one year	**810**	820
Between one and five years	**2,857**	2,801
More than five years	**3,760**	4,357
Total	**7,428**	**7,978**

Minimum sub-lease payments to be received in the future are shown in the table below and relate mainly to sub-lease of office buildings.

Amounts in NOK million	2017	2016
Less than one year	**-152**	-140
Between one and five years	**-355**	-607
More than five years	**-94**	-514
Total	**-600**	**-1,261**

See note 6 for more information about operating expenses for land and buildings
See note 20 for more information about onerous lease provisions
See note 29 for more information about leasing contracts with related parties

Note 20 Provisions and Contingent Liabilities

Financial Reporting Principles

A provision is a liability with uncertain timing and amount. Provisions are recognized when a cash outflow is considered probable, the amount can be reliably estimated and the obligation is a result of a past event. All provisions are presented as short-term as they are part of the operating cycle.

A contingent liability is a possible obligation that arises from past events that typically depends on a future event outside of the company's control, for example a court decision. A provision is made when it is considered as probable that a cash outflow will take place, and the obligation can be measured reliably.

Judgments and Estimates

The provisions are estimated based on a number of assumptions and are in nature highly judgmental. The various provisions with assumptions and estimation uncertainties are discussed below.

Provisions

Amounts in NOK million	Warranties	Onerous contracts	Restructuring	Other	Total
Balance as of January 1, 2017	573	267	112	135	**1,087**
Provisions made during the year	152	72	92	119	**435**
Provisions used during the year	-106	-107	-93	-120	**-425**
Provisions reversed during the year	-87	-34	-36	-9	**-167**
Unwinding of discounting effect	0	13	0	1	**14**
Reclassification to pension obligations	0	0	0	-2	**-2**
Currency translation differences	-1	0	-1	2	**0**
Balance as of December 31, 2017	**532**	**210**	**75**	**125**	**942**
Expected timing of payment as of December 31, 2017					
Due within twelve months	114	49	69	31	**263**
Due after twelve months	418	161	6	94	**679**
Total	**532**	**210**	**75**	**125**	**942**

Warranties

The provision for warranties relates to expected re-work and improvements for products and services delivered to customers. The warranty period is normally two to five years. The provision is based on the historical average warranty expenses for each type of contract and an assessment of the value of delivered products and services currently in the warranty period. The provision can also be a higher or lower amount following a specific evaluation of the actual circumstances for each contract. The final warranty cost may differ from the estimated warranty provision.

Onerous Contracts

The onerous contracts provision relates to separable parts of leased office buildings that have been vacated or will be vacated in the near future by Aker Solutions. Future lease commitments and future expected sub-lease income have been discounted to present value using a market rate of 4.7 percent. The provision is sensitive to changes in the discount rate and assumptions relating to the sub-lease period and the sub-lease revenue.

Restructuring Provision

The restructuring provision relates to capacity adjustments as a result of the downturn in the oil services sector. Significant decline in oil prices and current market conditions have resulted in lower order intake, pressure on cost and necessary workforce reductions. The restructuring provision relates to expected employee costs for permanent and temporary redundancies for 2018. The provision has been estimated based on assumptions of number of employees affected, salary levels, notice period, idle time assumed during notice period and severance pay. The provision is sensitive for changes in any of these assumptions.

Other

Other provisions relate to other liabilities with uncertain timing or amount. This includes provisions for leasehold dilapidations and US medical reserve.

Note 20 continues on next page

Note 20 Provisions and Contingent Liabilities cont.

Contingent Liabilities

Disputes with customers are normally settled during the final negotiations with the customer upon delivery and provided for in the projects accounts. However, given the scope of the group's worldwide construction and service operations there is a risk that legal claims may arise in the future for deliveries where revenue has been recognized in the past. Legal and tax claims are assessed on a regular basis.

Tax Claim in Brazil

The tax authorities in the state of Parana in Brazil has claimed the Aker Solutions company in Brazil for approximately NOK 744 million (including penalties and interests), stating that the conditions for the export exemption from ICMS are not fulfilled. ICMS is a value added tax on sales and services related to the movement of goods. Management has the opinion that a successful outcome in the administrative appeal system or in a judicial process is regarded as likely based on current law and practice. The claim is regarded as a contingent liability since the possible outcome will be confirmed by the occurrence of an uncertain future event (a potential court decision). No provision has been made for this contingent liability since a cash outflow is not considered probable, nor is it possible to establish a reliable estimate.

See note 5 for more information about restructuring costs
See note 19 for more information about operating leases

Note 21 Trade and Other Payables

Financial Reporting Principles

Trade and other payables are recognized at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

Trade and Other Payables

Amounts in NOK million	2017	2016
Trade creditors[1]	**1,807**	964
Trade creditors, related parties	**58**	67
Amount due to customers for construction work	**833**	98
Advances received from customers	**372**	2,411
Accrued operating and financial costs	**2,237**	2,183
Deferred revenue for service contracts	**196**	190
Public duties and taxes	**627**	710
Other current liabilities	**1,174**	1,380
Total	**7,304**	**8,002**

1) Trade creditors includes an amount of NOK 824 million (zero in 2016) subject to reverse factoring. Trade creditors include NOK 2 million (NOK 2 million in 2016) due after one year.

See note 3 for more information about advances and amounts due to customers for construction and service contracts
See note 29 for more information about receivables to related parties

Note 22 Financial Risk Management and Exposures

The objective of financial risk management is to manage and control financial risk exposures to increase the predictability of earnings and minimize potential adverse effects on the group's financial performance. Aker Solutions uses derivatives to hedge currency risk exposures and aims to apply hedge accounting whenever possible in order to reduce the volatility resulting from the periodic market-to-market revaluation of financial instruments in the income statement. The company is also exposed to credit risk, liquidity risk and price risk.

Risk management of financial risks is performed in every project and is the responsibility of the project manager. They cooperate with local finance managers and corporate treasury to identify, evaluate and hedge financial risks under policies approved by the board of directors. The group has well-established procedures for overall risk management, as well as policies for the use of derivatives and financial investments. There have not been any changes in these policies during the year.

Currency Risk

The group operates internationally and is exposed to currency risk on commercial transactions, assets and liabilities and net investments in foreign operations. Commercial transactions and assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective functional currency of the subsidiary. The group's exposure to currency risk is primarily related to USD, EUR and GBP. The group's primary translation risk is related to USD, EUR, GBP and BRL.

Use of Currency Derivatives

The Aker Solutions' policy requires business units to mitigate currency exposure in all projects. Corporate treasury manages internal exposures by entering into forward contracts or currency options with the financial market place. The Aker Solutions group has a large number of contracts involving foreign currency exposures and the currency risk policy has been well established.

Each business unit designates all foreign currency hedge contracts with corporate treasury as cashflow hedges or as hedges of separated embedded derivatives. Corporate treasury enters into external foreign exchange contracts separately for revenue and cost exposure. More than 80 percent of the value of the hedging instruments either qualify for hedge accounting or are hedges of separated embedded derivatives. Corporate treasury monitors hedges not qualifying for hedge accounting and disqualification effects are reported in the "other" segment. Currency exposure from investments in foreign currencies is only hedged when specifically instructed by management.

Exposure to Currency Risk

Corporate treasury is allowed to hold positions within an approved trading mandate. The net exposure as of December 31 is shown in the following table. Estimated forecasted cashflows in the table are calculated based on the group's hedge transactions through corporate treasury, as these are considered to be the best estimate of the currency exposure. The net exposure is closely monitored by corporate treasury and reported on a daily basis to management.

	2017			2016		
Amounts in NOK million	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
Bank deposits	-56	-19	-41	-64	-40	**-51**
Intercompany loans	-45	-107	4	-76	-104	**-1**
Balance sheet exposure	**-101**	**-126**	**-37**	**-140**	**-144**	**-52**
Forecasted receipts from customers	641	76	96	721	29	**74**
Forecasted payments to vendors	-196	-201	-138	-262	-99	**-178**
Cashflow exposure	**445**	**-125**	**-42**	**459**	**-70**	**-104**
Forward exchange contracts	**-342**	**249**	**79**	**-321**	**200**	**156**
Net exposure	**1**	**-1**	**0**	**-2**	**-14**	**0**

The currency exposure was within the trading mandate as of December 31, 2017 and 2016.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Sensitivity Analysis - Fair Value of Financial Instruments

The impact on profit and equity from a 15 percent strengthening of EUR, USD and GBP against other currencies is shown below. A 15 percent weakening would have had the equal, but opposite effect. This sensitivity analysis shows the impact on financial instruments denominated in a foreign currency per December 31 and assumes that all other variables, in particular interest rates, remain constant. The analysis does not include the effect on future transactions (not invoiced as of December 31) or any effect from translation of subsidiaries.

	2017		**2016**	
Amounts in NOK million	**Profit (loss) before tax**	**Equity increase (decrease)**	**Profit (loss) before tax**	**Equity increase (decrease)**
USD - 15 percent strengthening	**-285**	**-535**	-186	-414
EUR - 15 percent strengthening	**-115**	**23**	47	91
GBP - 15 percent strengthening	**-17**	**65**	59	132

The primary currency risk is the risk of reduced competitiveness abroad in the case of a strengthened NOK. This risk relates to future commercial contracts and is not included in the sensitivity analysis.

Sensitivity Analysis - Currency Translation of Subsidiaries

A change in foreign currency rates will also impact the income and balance sheet when translating the group companies into the presentation currency which is NOK. The effect of change in the various currencies will impact the group accounts in the following manner:

	2017			
Amounts in NOK million	**Revenue increase (decrease)**	**EBIT increase (decrease)**	**Profit (loss) before tax**	**Equity increase (decrease)**
USD - 15 percent strengthening	419	9	-7	250
EUR - 15 percent strengthening	0	1	-1	218
GBP - 15 percent strengthening	366	-34	-28	432
BRL - 15 percent strengthening	310	13	-4	237

Regulatory Restrictions

Different regulatory rules may put restrictions on free flow of cash in some jurisdictions, including Angola and Nigeria. Although the currency in these countries may not be fully convertible with other currencies, mitigating actions have been taken in order to minimize the currency exposure. These include multilateral agreements with banks, customers and vendors on timing of payments to minimize the exposed cash balance. Aker Solutions will always strive to minimize cash balances and maximize cash available for treasury. The cash in these countries amounted to NOK 237 million as of December 31, 2017 compared to NOK 94 million in the prior year.

Interest Rate Risk

Borrowings issued at variable rates expose the group to cashflow interest rate risk. Borrowings issued at fixed rates do not affect profit and loss when held to maturity, as these borrowings are measured at amortized cost.

As the group has no significant interest-bearing operating assets, operating income and operating cashflow are substantially independent of changes in market interest rates. At year-end, 50 percent of NOK 1,000 million in bonds was fixed for the duration of the bonds through interest rate swaps.

An increase of 100 basis points in interest rates during 2017 would have increased (decreased) equity and profit and loss by the amounts shown on the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Interest Rates Sensitivity

	2017		2016	
Amounts in NOK million	**Profit (loss) before tax**	**Equity increase (decrease)[1]**	**Profit (loss) before tax**	**Equity increase (decrease)[1]**
Interest on cash and cash equivalents	**18**	**0**	30	0
Interest on borrowings	**-35**	**0**	-41	0
Effect of interest rate swap	**14**	**9**	20	21
Cashflow sensitivity (net)	**-2**	**9**	**10**	**21**

1) Not including tax effect on hedge reserve or effects to equity that follow directly from the effects to profit and loss.

A decrease of 100 basis points in interest rates during 2017 would have had the equal but opposite effect on the amounts, on the basis that all other variables remain constant.

Credit Risk

Credit risk is the risk of financial losses if a customer or counterparty to financial receivables and financial instruments fails to meet contractual obligations.

Investment Securities and Derivatives

Investment securities and derivatives are only traded against approved banks and governed by standard agreements (ISDA). All approved banks are participants in the Aker Solutions loan syndicate and have investment grade ratings. Credit risk related to investment securities and derivatives is therefore considered to be insignificant.

Trade and Interest-Bearing 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 using credit assessment tools available (e.g. Dun & Bradstreet). Revenues are mainly related to large and long-term projects closely followed up in terms of payments up front and in accordance with agreed milestones. Normally, lack of payment is due to disagreements related to project deliveries and is solved together with the customer.

The credit risk has generally increased during the year due to the downturn in the market. The majority of the customers are highly rated oil companies where the credit risk is considered to be limited. Risk related to lower rated companies is monitored closely. The maximum exposure to credit risk at the reporting date equals the book value of each category of financial assets. The group does not hold collateral as security.

Liquidity Risk

Liquidity risk is the risk that the group is unable to meet the obligations associated with its financial liabilities. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity reserves to meet its liabilities when due.

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 weekly and monthly forecasts of the group's liquidity reserve on the basis of expected cashflow. Due to the dynamic nature of the underlying businesses, corporate treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Note 22 continues on next page

Note 22 Financial Risk Management and Exposures cont.

Financial Liabilities and the Period in Which They Mature

2017

Amounts in NOK million	Book value	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	3,114	**3,376**	173	486	2,444	272	1
Net derivative financial instruments	183	**183**	161	2	18	0	0
Trade and other payables	7,304	**7,304**	7,302	0	2	0	0
Total liabilities	**10,601**	**10,863**	**7,636**	**488**	**2,464**	**272**	**1**
Financial guarantees		11,476	1,523	1,327	1,809	616	6,202

2016

Amounts in NOK million	Book value	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	3,954	**4,506**	1,651	696	552	1,162	445
Net derivative financial instruments	975	**975**	871	39	38	27	0
Trade and other payables	8,002	**8,002**	7,545	313	144	0	0
Total liabilities	**12,930**	**13,483**	**10,067**	**1,048**	**734**	**1,188**	**445**
Financial guarantees		8,824	1,547	280	225	2,474	4,298

1) Nominal currency value including interest.

Cash Pool Arrangements

The group policy for the purpose of optimizing availability and flexibility of cash within the group is to operate centrally managed cash pooling arrangements. Such arrangements are either organized with a bank as a service provider, or as a part of the operation of corporate treasury. An important condition for the participants (business units) in such cash pooling arrangements is that the group as an owner of such pools is financially viable and is able to prove its capability to service its obligations concerning repayment of any net deposits made by business units. The group policy is not applied in countries where local laws prohibit international cash pool arrangements.

Price Risk

The group is exposed to fluctuations in market prices both in the investment portfolio and in the operating businesses related to individual contracts. The units are exposed to changes in market price for raw materials, equipment and development in wages. This is managed in the bid process by locking in committed prices from vendors as basis for offers to customers or through escalation clauses with customers.

Guarantees

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

- Non-financial parent company guarantees related to project performance on behalf of group companies
- Financial parent company indemnity guarantees for fulfillment of lease obligations, credits and loans were NOK 6.2 billion (NOK 4.5 billion in 2016)
- Financial guarantees including counter guarantees for bank/surety bonds and guarantees for pension obligations to employees were NOK 5.3 billion (NOK 5.3 billion in 2016)

Guarantee on Behalf of Akastor

Aker Solutions was demerged from Akastor in 2014, and parties in a demerger have joint liability according to Norwegian law. If an obligation that arose prior to the completion of the demerger is not met by either party, the other party will have secondary joint liability for such obligation. This statutory liability is unlimited in time, but is limited in amount. The remaining value of the financial guarantees where Aker Solutions has a secondary joint liability was NOK 4.1 billion per December 31, 2017 compared to NOK 4.4 billion per December 31, 2016.

See note 14 for more information about trade and other receivables
See note 15 for more information about cash and available credit facility
See note 17 for more information about borrowings
See note 21 for more information about trade and other payables
See note 24 for more information about derivatives

Note 23 Capital Management

The objective of Aker Solutions' capital management policy is to optimize the capital structure to ensure sufficient and timely funding over time to finance its activities at the lowest cost, in addition to investing in projects and businesses which will increase the company's return on capital employed over time.

Investment Policy

Aker Solutions' capital management is based on a rigorous investment selection process which considers not only Aker Solutions' weighted average cost of capital and strategic orientation but also external factors such as market expectations and extrinsic risk factors. This selection process is coupled with a centralized approval process for all capital expenditures to be incurred by the group.

Funding Policy

Liquidity Planning

Aker Solutions has a strong focus on its liquidity in order to meet its working capital needs short-term and to ensure solvency for its financial obligations long-term. The group's internal guideline is to have a minimum liquidity reserve of NOK 3 billion, including cash and undrawn committed credit facilities. As per December 31, 2017 this liquidity reserve amounted to NOK 5.7 billion and was composed of an undrawn committed credit facility and bank deposits.

Funding of Operations

Aker Solutions' group funding policy states that all operating units will be funded through corporate treasury. This ensures optimal availability and transfer of cash within the group, better control of the group's overall debt as well as discounted funding for its operations. The group policy is not applied in countries where local laws prohibit international cash pool arrangements, such as Brazil.

Aker Solutions emphasizes financial flexibility and steers its capital structure accordingly to ensure a balance between liquidity risk and refinancing risk. In this perspective, loans and other external borrowings are to be renegotiated well in advance of their due date.

Aker Solutions aims to have diversified mix of funding sources in order to obtain an optimal cost of capital. These funding sources include:

- the use of banks based on syndicated credit facilities or bilateral agreements
- the issue of debt instruments on the Norwegian capital market
- the issue of debt instruments in foreign capital markets

Debt Covenants

As per end of 2017, the capital structure of Aker Solutions was 68 percent from bank and export credit agency (ECA) debt and 32 percent from bonds issued in the Norwegian market. The group monitors capital on the basis of gearing and interest coverage ratios. The reported ratios are well within the requirements in the loan agreements as shown in the table below.

Aker Solutions has the following debt covenants for the revolving facility:

- The company's gearing ratio shall not exceed 3.5 and is calculated from the net interest-bearing debt to the adjusted EBITDA
- The company's interest coverage ratio must not be less than 3.5, calculated from the adjusted EBITDA to net finance cost

Aker Solutions has the following debt covenant for the bonds:

- The company's gearing ratio shall not exceed 4.0 and is calculated from the gross interest bearing debt to the adjusted EBITDA

These guidelines aim to maintain a strong financial position for Aker Solutions, which enables the company to comply with its covenants on existing debt and to maintain satisfactory external credit rating to ensure reliable access to capital over time.

Note 23 continues on next page

Note 23 Capital Management cont.

Gearing and Interest Coverage Ratios at December 31

Amounts in NOK million	2017	2016
Gearing ratios		
Non-current interest-bearing debt	**2,576**	1,844
Current interest-bearing debt	**539**	2,110
Gross interest-bearing debt	**3,114**	**3,954**
Cash and cash equivalent	**-1,978**	-2,480
Net interest-bearing debt	**1,137**	**1,474**
EBITDA (Operating income before depreciation, amortization and impairment)	**1,519**	1,929
Restructuring and other special items as defined in the loan agreement	**88**	180
Adjusted EBITDA	**1,607**	**2,109**
Gross interest-bearing debt/adjusted EBITDA	**1.9**	**1.9**
Net interest-bearing debt/adjusted EBITDA	**0.7**	**0.7**
Interest coverage		
Adjusted EBITDA	**1,607**	2,109
Net interest expense as defined in the loan agreement	**218**	392
Adjusted EBITDA/Net finance cost	**7.4**	**5.4**

See note 17 for more information about borrowings
See note 22 for more information about financial risk management
See note 24 for more information about interest rate derivatives
See note 25 for more information about financial assets and liabilities

Note 24 Derivative Financial Instruments

The group has future cashflows to be settled in foreign currencies, and forward contracts are the most commonly used derivative to hedge such exposures. The policy states that all foreign exchange exposure is hedged, of which at least 80 percent shall be done back-to-back and qualify for hedge accounting or be hedges of separated embedded derivatives. The group may also use currency options for cashflows that are not firm in addition to certain interest rate swaps.

Financial Reporting Principles

Cashflow Hedges of Foreign Currency

The hedged transactions in foreign currency subject to cashflow hedge accounting are highly probable future transactions expected to occur at various dates during the next one to four years, depending on progress in the projects and firm commitments. The derivatives are recognized initially and subsequently at fair value in the balance sheet, and the effective portion of changes in the fair value is recognized in other comprehensive income as a hedge reserve.

Some hedged transactions do not qualify for hedge accounting under IFRS, primarily because internal hedge transactions are grouped and netted before external hedge transactions are established. Both the derivatives and the foreign exchange effects of the hedged receivable or payable will be reported as financial income and expenses with corresponding and opposite effects. The net foreign exchange gain or loss therefore reflects the difference in timing between these two. Derivatives not qualifying for hedge accounting include derivatives used by corporate treasury to hedge the residual exposure of the group as part of its risk mandate. As of year-end 2017, these hedging instruments only include currency forwards, currency options, interest swaps and foreign exchange swaps.

Hedge accounting is discontinued with immediate recognition in finance income and expenses in the income statement when the hedge no longer qualifies for hedge accounting, for example upon sale, expiration, termination or when a forecasted transaction is no longer probable. The derivative financial instruments are classified as current assets or liabilities as they are part of the operating cycle.

Foreign Currency as Embedded Derivatives

Embedded derivatives may exist in contracts with a currency other than the currency of the contracting partners. The embedded derivative will under certain circumstances be separated and recognized at fair value in the balance sheet and changes recognized in the income statement. These entries will result in corresponding and opposite effects compared to the hedging instrument. Aker Solutions 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 of the 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.

Cashflow Hedges of Interest Rates

Hedge accounting is applied using the cashflow model for interest rate swaps which means that gains and losses from floating to fixed interest rates as of December 31, 2017 are recognized in the hedging reserve in equity and will be continuously released to the income statement until the bank borrowings are repaid. This is achieved based on the periodic market-to-market revaluation of the interest rate swaps whose fair value tends to reach zero upon maturity.

Fair Values and Maturity

The following table presents the fair value of the derivatives and a maturity analysis of the derivatives undiscounted cashflows. Given Aker Solutions hedging policy and the assumption that projects are cash neutral, this table also indicates when the cashflows related to project expenses are expected to impact profit and loss. The majority of project revenues are recognized in accordance with IAS 11 using the stage of completion method. This may result in differences between cashflow and revenue recognition.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

2017

Amounts in NOK million	Instruments at fair value	Total cashflow[1]	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Assets							
Cashflow hedges	182	182	171	5	6	0	0
Fair value adjustments to hedged assets[2]	-17	-17	-20	5	-2	0	0
Embedded derivatives in ordinary commercial contracts	0	0	0	0	0	0	0
Financial instruments not hedge accounted	60	60	52	5	2	0	0
Total financial instrument assets	**226**	**226**	**203**	**15**	**6**	**0**	**0**
Liabilities							
Cashflow hedges	-145	-145	-126	-13	-5	-1	0
Fair value adjustments to hedged liabilities[2]	-20	-20	-24	2	2	0	0
Embedded derivatives in ordinary commercial contracts	-179	-179	-172	-1	-5	0	0
Financial instruments not hedge accounted	-49	-49	-44	-5	0	0	0
Total forward foreign exchange contracts	**-393**	**-393**	**-366**	**-17**	**-9**	**-1**	**0**
Cashflow hedges interest rate instruments	-16	-16	0	0	-16	0	0
Total financial instrument liabilities	**-408**	**-408**	**-366**	**-17**	**-24**	**-1**	**0**
Net financial instruments	**-183**	**-183**	**-163**	**-2**	**-18**	**0**	**0**

1) Cashflows from matured derivatives are translated to NOK using the exchange rates on the balance sheet date.
2) Fair value of settled derivatives not yet booked in the income statement are recognized in balance sheet and will be reclassified to the income statement over the next years as the projects progress.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

2016

Amounts in NOK million	Instruments at fair value	Total cashflow[1]	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
Assets							
Cashflow hedges	106	106	74	21	11	0	0
Fair value adjustments to hedged assets[2]	-58	-58	-41	-11	-6	0	0
Embedded derivatives in ordinary commercial contracts	14	14	4	3	6	1	0
Financial instruments not hedge accounted	32	32	32	0	0	0	0
Total financial instrument assets	**94**	**94**	**70**	**13**	**11**	**1**	**0**
Liabilities							
Cashflow hedges	-957	-957	-852	-50	-49	-6	0
Fair value adjustments to hedged liabilities[2]	-63	-63	-61	-2	0	0	0
Embedded derivatives in ordinary commercial contracts	0	0	0	0	0	0	0
Financial instruments not hedge accounted	-16	-16	-16	0	0	0	0
Total forward foreign exchange contracts	**-1,036**	**-1,036**	**-929**	**-52**	**-49**	**-6**	**0**
Cashflow hedges interest rate instruments	-33	-33	-11	0	0	-21	0
Total financial instrument liabilities	**-1,069**	**-1,069**	**-941**	**-52**	**-49**	**-27**	**0**
Net financial instruments	**-975**	**-975**	**-871**	**-39**	**-38**	**-27**	**0**

1) Cashflows from matured derivatives are translated to NOK using the exchange rates on the balance sheet date.
2) Fair value of settled derivatives not yet booked in the income statement are recognized in balance sheet and will be reclassified to the income statement over the next years as the projects progress.

Note 24 continues on next page

Note 24 Derivative Financial Instruments cont.

Unsettled Hedges

The table below shows the unsettled cashflow hedges' impact on profit and loss and equity (not adjusted for tax).

	2017			2016		
Amounts in NOK million	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**	**Fair value of all hedging instruments**	**Recognized in profit and loss**	**Deferred in equity (the hedge reserve)**
Forward exchange contracts (cashflow hedges)	**38**	39	-2	**-852**	-615	**-236**
Interest rate swaps	**-16**	0	-16	**-32**	0	**-32**
Total	**22**	**39**	**-17**	**-884**	**-615**	**-268**

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 expenses on the underlying construction contracts are recognized in the income statement in accordance with progress. Consequently, NOK 39 million (negative NOK 615 million in 2016) of the value of the forward contracts have already impacted the income statement indirectly as revenues and expenses are recognized based on updated forecasts and progress. The negative NOK 2 million (negative NOK 236 million in 2016) that are currently recorded directly in the hedging reserve, will be reclassified to the income statement over the next years.

The value of the interest swaps is attributable to changes in the interest swap curve for Norwegian Kroner during the period from inception of the hedge to the balance sheet date, excluding accrued interest rates of the swaps, tax and deferred settlements related to matured instruments.

Interest Rate Swaps

Aker Solutions has one outstanding bond of NOK 1,000 million at floating interest rates out of which NOK 500 million is swapped to fixed interest. Floating interest is mainly tied to Inter-bank offered rates (NIBOR for NOK and LIBOR for other currencies).

See note 17 for more information about borrowings
See note 25 for more information about financial assets and liabilities

Note 25 Financial Assets and Liabilities

Financial Reporting Principles

Financial assets and liabilities in the group consist of investments in other companies, trade and other receivables, interest-bearing receivables, cash and cash equivalents, trade and other payables, interest-bearing borrowings and equity. Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Fair Value Hierarchy

Financial instruments measured at fair value are classified by the levels in the fair value hierarchy. All other financial instruments are classified by the main group of instruments as defined in IAS 39. Both carrying amount and fair value are shown for all financial instruments.

For financial instruments measured at fair value, the levels in the fair value hierarchy are:

- Level 1: Fair values are based on prices quoted in an active market for identical assets or liabilities
- Level 2: Fair values are based on price input other than quoted prices. Such prices are derived from observable market transactions in an active market for identical assets or liabilities. Level 2 includes currency or interest derivatives and interest bonds, typically when the group uses forward prices on foreign exchange rates or interest rates as inputs to valuation models
- Level 3: Fair values are based on unobservable input, mainly based on internal assumptions used in the absence of quoted prices from an active market or other observable price inputs

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2017

	Carrying value							Fair value			
Amounts in NOK million	**Fair value - hedging instruments**	**Financial assets at FVTPL[1]**	**Loans and receivables**	**Available for sale**	**Financial liabilities at FVTPL[1]**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other investments[2]	0	0	0	91	0	0	**91**	43	0	48	**91**
Non-current receivables	0	0	106	0	0	0	**106**	0	0	0	**0**
Trade and other receivables[5]	0	0	3,052	0	0	0	**3,052**	0	0	0	**0**
Forward foreign exchange contract	226	0	0	0	0	0	**226**	0	226	0	**226**
Current interest-bearing receivables	0	69	59	0	0	0	**128**	69	0	0	**69**
Cash and cash equivalents	0	0	1,978	0	0	0	**1,978**	0	0	0	**0**
Financial assets	**226**	**69**	**5,194**	**91**	**0**	**0**	**5,579**	**112**	**226**	**48**	**385**
Non-current borrowings[3]	0	0	0	0	0	-2,576	**-2,576**	0	-2,608	0	**-2,608**
Other non-current liabilities	0	0	0	0	0	-9	**-9**	0	0	-9	**-9**
Current borrowings[3]	0	0	0	0	0	-539	**-539**	0	0	-539	**-539**
Deferred consideration[4]	0	0	0	0	-74	0	**-74**	0	0	-74	**-74**
Trade and other payables[6]	0	0	0	0	0	-4,951	**-4,951**	0	0	0	**0**
Forward foreign exchange contracts	-393	0	0	0	0	0	**-393**	0	-393	0	**-393**
Interest rate instruments	-16	0	0	0	0	0	**-16**	0	-16	0	**-16**
Financial liabilities	**-408**	**0**	**0**	**0**	**-74**	**-8,074**	**-8,557**	**0**	**-3,016**	**-621**	**-3,637**

1) FVTPL is short for fair value through profit and loss.
2) All available for sale investments are designated as such upon initial recognition. Investments in level 1 consist of listed shares with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Fair value is based on net present value of estimated future profits of a subsidiary. There is no limit to the maximum potential payout.
5) Trade and other receivables that are not financial assests at NOK 3,791 million in 2017 (NOK 2,942 million in 2016) are not included.
6) Trade and other payables that are not financial liabilities at negative NOK 2,353 million in 2017 (negative NOK 3,845 million in 2016) are not included.

Note 25 continues on next page

Note 25 Financial Assets and Liabilities cont.

Financial Instruments as of December 31, 2016

	Carrying value							Fair value			
Amounts in NOK million	**Fair value - hedging instruments**	**Financial assets at FVTPL[1]**	**Loans and receivables**	**Available for sale**	**Financial liabilities at FVTPL[1]**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Other investments[2]	0	0	0	75	0	0	**75**	61	0	14	**75**
Non-current receivables	0	0	90	0	0	0	**90**	0	0	0	**0**
Trade and other receivables[5]	0	0	4,456	0	0	0	**4,456**	0	0	0	**0**
Forward foreign exchange contract	93	0	0	0	0	0	**93**	0	93	0	**93**
Current interest-bearing receivables	0	87	351	0	0	0	**437**	87	0	0	**87**
Cash and cash equivalents	0	0	2,480	0	0	0	**2,480**	0	0	0	**0**
Financial assets	**93**	**87**	**7,377**	**75**	**0**	**0**	**7,632**	**148**	**93**	**14**	**256**
Non-current borrowings[3]	0	0	0	0	0	-1,844	**-1,844**	0	-1,856	0	**-1,856**
Other non-current liabilities	0	0	0	0	0	-17	**-17**	0	0	-17	**-17**
Current borrowings[3]	0	0	0	0	0	-2,110	**-2,110**	0	-2,128	0	**-2,128**
Deferred consideration[4]	0	0	0	0	-76	0	**-76**	0	0	-76	**-76**
Trade and other payables[6]	0	0	0	0	0	-4,156	**-4,156**	0	0	0	**0**
Forward foreign exchange contracts	-1,036	0	0	0	0	0	**-1,036**	0	-1,036	0	**-1,036**
Interest rate instruments	-33	0	0	0	0	0	**-33**	0	-33	0	**-33**
Financial liabilities	**-1,069**	**0**	**0**	**0**	**-76**	**-8,127**	**-9,272**	**0**	**-5,053**	**-93**	**-5,146**

1) FVTPL is short for fair value through profit and loss.
2) All available for sale investments are designated as such upon initial recognition. Investments in level 1 consist of listed shares with quoted market prices, and investments in level 3 are shares where fair value cannot be measured reliably as the financial instrument is not traded in an active market. The best estimate of fair value is initial purchase price.
3) Fair value is quoted prices for the bonds noted on the Oslo Stock Exchange.
4) Fair value is based on net present value of estimated future profits of a subsidiary. There is no limit to the maximum potential payout.
5) Trade and other receivables that are not financial assests at NOK 2,942 million in 2016 are not included.
6) Trade and other payables that are not financial liabilities at negative NOK 3,845 million in 2016 are not included.

See note 14 for more information about trade and other receivables
See note 15 for more information about cash and cash equivalents
See note 17 for more information about borrowings
See note 21 for more information about trade and other payables
See note 28 for more information about other investments

Note 26 Business Combinations

Aker Solutions acquired Reinertsen's Norwegian oil and gas services business in April 7, 2017 to strengthen the position as a leading maintenance and modifications supplier offshore Norway. About 700 employees and a backlog containing key maintenance and modifications contracts with Statoil, including a framework agreement for as many as 10 years awarded in December 2015, were part of the deal.

Reinertsen

The transaction was structured as an asset deal with a purchase price of NOK 213 million. Transaction costs of NOK 3.4 million have been recognized as other operating expenses in the income statement. Goodwill resulting from the transaction is mainly attributable to the expected synergies by moving Reinertsen employees in Trondheim and Bergen to Aker Solutions offices in addition to synergies from assembled workforce.

Values at time of Acquisition for the Business Combination

Amounts in NOK million	**2017**
Property, plant and equipment	**5**
Intangible assets	**45**
Other current liabilities	**-68**
Net assets acquired at fair value	**-18**
Goodwill	**231**
Fair value acquired/net cash outflow	**213**
Operating revenue in acquired business after acquisition	**478**
Profit for the period in acquired business after acquisition (excluding integration cost)	**17**

Integration costs in Aker Solutions of NOK 64 million are not included in the profit of NOK 17 million above. As this is an asset deal, the goodwill identified in the acquisition will be tax deductible.

C.S.E Mecânica e Instrumentacâo Ltda (C.S.E.)

During 2017, certain adjustments were made to the purchase price allocation of C.S.E acquired in 2016.

Amounts in NOK million	**Preliminary**	**Final**	**Change**
Net assets acquired at fair value	172	154	-18
Goodwill	117	125	9
Purchase price	**288**	**279**	**-9**

The overall purchase price was reduced by NOK 11 million, consisting of NOK 8 million from adjusted book values and reduced contingent consideration of NOK 3 million.

See note 27 for more information about subsidiaries

Note 27 Subsidiaries

Financial Reporting Principles

The consolidated statements include all entities controlled by Aker Solutions ASA. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. Non-controlling interests (NCIs) are measured on initial recognition at their portion of fair values, and yearly earnings are allocated to the NCI according to their ownership interest.

Subsidiaries

Aker Solutions has 52 subsidiaries in 24 countries at the reporting date. Aker Solutions AS in Norway is the only company that individually accounts for more than 10 percent of the revenue in the group and is considered material. The group holds the majority of the shares in all subsidiaries except two, see description below. Subsidiaries fully owned or controlled by Aker Solutions as of December 31, 2017 are listed below. If not stated otherwise, ownership equals the percentage of voting shares.

Company	Location	Country	Percent
Aker Solutions Enterprises, LDA	Luanda	Angola	49
Aker Solutions Pty Ltd	Perth	Australia	100
Aker Solutions Azerbaijan LLC	Baku	Azerbaijan	100
Aker Solutions do Brasil Ltda	Curitiba	Brazil	100
C.S.E. Mecânica e Instrumentacâo Ltda	Curitiba	Brazil	70
Aker Solutions Sdn Bhd	Kuala Belait	Brunei	100
Aker Solutions Asset Integrity and Management Canada Inc.	Newfoundland	Canada	100
Aker Solutions Canada Inc	Vancouver	Canada	100
Aker Solutions (Shenzhen) Co. Ltd	Shenzhen	China	100
Aker Solutions Congo SA	Point-Noire	Congo	100
Aker Solutions Cyprus Limited	Limassol	Cyprus	100
Aker Solutions SAS	Paris	France	100
Aker Solutions Ghana Ltd	Adabraka	Ghana	90
Aker Powergas Pvt Ltd	Mumbai	India	95.2
Aker Powergas Subsea Pvt Ltd	Mumbai	India	95.2
Aker Engineering International Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Engineering Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	90
Aker Solutions APAC Sdn Bhd	Kuala Lumpur	Malaysia	48
Aker Solutions India Operations Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions India Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions India Services Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions Umbilical Asia Pacific Sdn Bhd	Kuala Lumpur	Malaysia	100
Aker Solutions de Mexico	Mexico City	Mexico	100
Aker Solutions Mocambique Ltda	Maputo	Mozambique	100
Aker Solutions BV	Zoetemer	Netherlands	100
Aker Solutions Nigeria Ltd	Ikoyi-Lagos	Nigeria	100
Aker Installation FP AS	Fornebu	Norway	100
Aker Insurance Services AS	Fornebu	Norway	100
Aker Operations AS	Stavanger	Norway	100

Note 27 continues on next page

Note 27 Subsidiaries cont.

Company	Location	Country	Percent
Aker Solutions AS	Fornebu	Norway	100
Aker Solutions Holding AS	Fornebu	Norway	100
Aker Solutions Middle East AS	Fornebu	Norway	100
Aker Solutions Russia AS	Fornebu	Norway	100
Benestad Solutions AS	Lierskogen	Norway	100
KBeDesign AS	Fornebu	Norway	100
Aker Process Gulf Co. Ltd	Al-Khobar	Saudi Arabia	100
Aker Solutions Saudi Arabia Limited	Dhahran	Saudi Arabia	100
Aker Solutions Korea Co. Ltd	Geoje	South Korea	100
K Water AB	Örnsköldsvik	Sweden	100
Aker Solutions Tanzania Ltd	Dar es Salaam	Tanzania	100
Aker Engineering Malaysia Ltd	Leeds	UK	100
Aker Engineering and Technology Ltd	London	UK	100
Aker Offshore Partner Ltd	Aberdeen	UK	100
Aker Solutions Angola Ltd	Maidenhead	UK	100
Aker Solutions DC Trustees Ltd	London	UK	100
Aker Solutions Enterprises International (UK) Limited	London	UK	100
Aker Solutions Ltd	Maidenhead	UK	100
Enovate Systems Limited	Aberdeen	UK	100
International Design Engineering and Services Ltd	Glasgow	UK	100
Aker Solutions Inc.	Houston	USA	100
Aker Solutions USA Corporation	Houston	USA	100

Subsidiaries where Aker Solutions does not have the Majority of Shares

Aker Solutions has 49 percent of the shares in Aker Solutions Enterprises LDA in Angola and 48 percent in Aker Solutions APAC Sdn Bhd in Malaysia. Aker Solutions has control over relevant activities through shareholders agreements. The subsidiaries are fully consolidated and the non-controlling interest share of profit and equity is presented in the income statement and in the balance sheet.

Material Non-Controlling Interests (NCIs)

The subsidiary Aker Solutions Enterprises LDA in Luanda, Angola has a significant non-controlling interest (51 percent). The table below summarizes the financial information for the company, before any intra-group elimination.

Amounts in NOK million	2017	2016
Balance sheet		
Non-current assets	**105**	67
Current assets	**200**	258
Current liabilities	**-244**	-226
Net assets	**61**	**98**
NCI's share of net assets	**31**	**50**
Income statement		
Revenue	**792**	1,766
Profit	**37**	136
NCI's share of profit	**19**	**70**
Dividends paid	**37**	0

Acquisition of NCIs

Aker Solutions increased its ownership in Aker Powergas Pvt Ltd from 88.8 percent to 95.2 percent in 2017. The transaction was accounted for as an equity transaction.

See note 26 for more information about acquisition of subsidiaries

Note 28 Other Investments

Financial Reporting Principles

Other investments are those entities in which the company does not have significant influence; usually entities were the company holds less than twenty percent of the voting power. These investments are categorized as available-for-sale investments measured at fair value with changes (other than impairment losses) recognized in other comprehensive income (OCI) in equity. When the investments are sold, the accumulated gain or loss in equity is reclassified to the income statement.

Available-for-Sale Investments

Amounts in NOK million	**2017**	**2016**
Equity securities in unlisted companies, measured at cost	**15**	14
Equity securities in listed companies, measured at fair value	**76**	61
Available-for-sale investments	**91**	75

Quoted market prices are used to value investments in listed companies. Investments in shares that do not have quoted market prices are measured at cost, as fair value cannot be measured reliably.

See note 25 for more information about financial assets and liabilities

Note 29 Related Parties

Financial Reporting Principles

Related party relationships are defined to be entities outside the Aker Solutions group that are under control (either directly or indirectly), joint control or significant influence by the owners of Aker Solutions. Related parties are in a position to enter into transactions with the company that would potentially not be undertaken between unrelated parties. All transactions in the Aker Solutions group with related parties have been based on arm's length terms.

Related Parties of Aker Solutions

The largest shareholder of Aker Solutions is Aker Kværner Holding AS which is controlled by Aker ASA (70 percent). Aker ASA is controlled by The Resource Group TRG AS, a company controlled by Kjell Inge Røkke. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA. In this respect, all entities owned by Aker ASA and entities which Kjell Inge Røkke and his close family controls through The Resource Group TRG AS are considered related parties to Aker Solutions. These entities include companies like Akastor, Kvaerner and Aker BP and are referred to as Aker entities in this note. Non-controlling interests with significant influence are also considered as related parties.

Note 29 continues on next page

Note 29 Related Parties cont.

Transactions and Balances with Related Parties

Amounts in NOK million	2017	2016
Income statement		
Operating revenues	**1,902**	770
Operating costs	**-286**	-2,688
Balance sheet		
Trade receivables	**305**	133
Non-current interest-bearing receivable	**18**	32
Trade payables	**-58**	-67
Current interest-bearing loan	**-1**	-1

The Major Related Parties Transactions

Aker Solutions has several transactions with related parties on a recurring basis as part of normal business and leases property from related parties. Below is a description of the significant related party transactions and balances in 2017.

Lease Agreements with The Resource Group TRG AS

Aker Solutions leases several of its industrial buildings in Norway including Tranby, Egersund and Ågotnes from companies owned by The Resource Group TRG AS, a company fully owned by Kjell Inge Røkke. The rent recognized in 2017 was NOK 154 million (2016: NOK 104 million). Further, Aker Solutions sub-leased offices in Stavanger, Norway to Aker BP in 2017 for NOK 30 million.

Commercial Contracts with Kvaerner and Aker BP

Aker Solutions both buys from and delivers services and products to Kvaerner through subcontractor agreements. Aker Solutions holds agreements for delivery of equipment and services to Aker BP for various oil fields offshore Norway including a new six-year framework agreement for engineering and procurement services signed in 2017. The framework agreement may be extended by four years.

Joint Arrangement with Kvaerner

Aker Solutions has entered into a joint arrangement with Kvaerner ASA for deliveries under a customer contracts. The parties are jointly and severally liable for the project performance. As the joint arrangement is not structured through a separate vehicle, it has been determined that arrangement is a joint operation. Aker Solutions presents its 50 percent share of revenue, cost, assets and liabilities in the financial statements.

Other

Other agreements with related parties include:

- Aker Solutions is a party to various agreements addressing commercial separation issues between Akastor and Aker Solutions as a result of the demerger in 2014, including secondary joint liability for obligations existing in Akastor at the time of the demerger
- Aker Solutions contributed NOK 70 million in 2017 (NOK 70 million in 2016) to Aker Pensjonskasse, which is a fund established by Aker to manage the retirement plan for employees and retirees in Aker Solutions and other Aker companies
- Aker Solutions paid NOK 3 million in leases for property and NOK 2 million in consultancy fees to the non-controlling interest in Aker Solutions Enterprises LDA in Luanda, Angola in 2017. The non-current interest-bearing loan was NOK 18 million in 2017 (NOK 32 million in 2016)
- Aker Solutions supported the group's union representative function with NOK 510,000 in 2017 (NOK 510,000 in 2016)

See note 14 for more information about trade and other receivables
See note 19 for more information about operating leases
See note 21 for more information about trade and other payables
See note 22 for more information about guarantee commitments for Akastor

Note 30 Management Remuneration

Board of Directors

The current board of directors has been elected by the general meeting to serve for an appointment period of two years. The shareholder elected directors are serving for the period 2016-2018, while the employee elected directors are for the period 2017-2019. Fees to the board of directors are approved by the annual general meeting. The board held 10 meetings in 2017 with an average attendance rate of 85 percent. In addition, certain matters were processed by way of circulation of documents.

The audit committee held 6 meetings in 2017. As of December 31, 2017 the audit committee comprised Anne Drinkwater (chairperson) and Atle Teigland.

The fees in the table below represent what is recognized as expenses in the income statement based on expected fees to be approved at the annual general meeting to be held in April 2018. The directors did not receive any other fees except for employee elected directors who have received salary as employees. No agreements exist which entitle the directors to any extraordinary compensation and no board members have loans in the company.

		December 31, 2017	December 31, 2016	2017		2016	
Amounts in NOK		Number of shares owned[1]		Audit Committee fees	Board fees[2]	Audit Committee fees	Board fees[2]
Øyvind Eriksen[3]	Chairman	0	0	0	600,000	0	600,000
Anne Drinkwater	Deputy chairperson	3,500	3,500	205,000	490,000	205,000	502,500
Kjell Inge Røkke[3]		0	0	0	340,000	0	340,000
Koosum Kalyan		0	0	0	390,000	0	402,500
Stuart Ferguson[4]		0	0	57,500	195,000	115,000	390,000
Atle Teigland		8,751	8,751	115,000	170,000	115,000	170,000
Åsmund Knutsen[5]		9,028	9,028	0	85,000	0	170,000
Hilde Karlsen		5,363	5,363	0	170,000	0	170,000
Oddvar Hølland[5]		16,179	na	0	85,000	0	0
Total		**42,821**	**26,642**	**377,500**	**2,525,000**	**435,000**	**2,745,000**

1) The number of shares owned covers direct ownership of Aker Solutions ASA only and does not include Øyvind Eriksen's and Kjell Inge Røkke's indirect ownership.
2) Board fees include an allowance of NOK 12,500 per meeting per physical attendance for board members residing outside the Nordic countries.
3) The fee allocated to Øyvind Eriksen will be paid to Aker ASA and the fee allocated to Kjell Inge Røkke will be paid to The Resource Group TRG AS.
4) Stuart Ferguson resigned from the board of directors during the year. Board fee and audit committee fee correspond to six months.
5) Oddvar Hølland was during the year appointed deputy director for Arild Håvik who at the same time was appointed new employee representative director to the board of directors to replace Åsmund Knutsen. Arild Håvik has been on leave since his appointment, and Oddvar Hølland is currently acting for him as a director. Board fees for Oddvar Hølland and Åsmund Knutsen equal six months each.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Remuneration to the Executive Management Team

The main purpose of the executive remuneration program is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to executives consists of a market based salary, standard employee benefits and variable pay programs. The chief executive officer (CEO) and the executive management team participate in the standard pension and insurance schemes applicable to all employees.

The variable pay program for the CEO is an annual program based on the annual performance of the Aker Solutions ASA share price development above the combined average share price development of the Philadelphia Oil Service Sector Index (PHLX) and the Oslo Stock Exchange Benchmark Index (OSEBX). No payment is due to the CEO unless the Aker Solutions ASA share price development exceeds the development of these indexes. The maximum achievable payment is 66.7 percent of annual base salary.

The variable pay program for the other members of the executive management team consists of two parts and is based on the achievement of company financial results, achievement of the executive's individual performance objectives, behavior according to company values and conditions on continued employment. The variable pay is earned over a period of three years and can potentially be up to 80 percent of base salary.

- The first part of the variable pay is earned during the first (current) year and is based on company's financial results and the executive's individual behavior and achievement of performance objectives. The maximum value of this part is 53.34 percent of base salary. The executive is paid 50 percent of this variable pay after the first year, and 50 percent is deferred until after the third year.
- The second part is conditional on the basis that the executive is still employed after three years, where the executive receives an additional 50 percent of the variable pay as earned in the first year (maximum 26.67 percent of base salary).

Aker Solutions also has a share based program only offered to executives (excluding CEO) that started in their position before January 1, 2016. This program is based on the Aker Solutions share price development over a three-year period starting January 1, 2016. The Aker Solutions share price development is compared with the Philadelphia Oil Service Sector Index ("PHLX") and the Oslo Stock Exchange Benchmark Index ("OSEBX") for the same period. The maximum payment is 20 percent of base salary and is dependent on the executive still being employed at that time. As of December 31, 2017 executives are still not eligible to earn variable pay amount based on this program because the three-year period is not yet completed. The company does not offer share option programs to executives or other employees.

In addition, the executive management is from time to time granted a discretionary variable pay. There were no discretionary payments made in 2017 or 2016. The remuneration to the executive management team in 2017 was according to the guidelines of the company.

Note 30 continues on next page

Note 30 Management Remuneration cont.

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

2017

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,086,154	1,884,179	863,169	**9,833,502**	99,086
Svein Stoknes	Chief Financial Officer	Jan. 1 - Dec. 31	2,935,692	2,180,352	24,494	**5,140,538**	154,220
Dean Watson	Chief Operating Officer	Jan. 1 - Dec. 31	3,543,077	2,166,833	2,270,129	**7,980,038**	91,940
Mark Riding	Executive Vice President Strategy	Jan. 1 - Dec. 31	3,211,708	2,130,021	0	**5,341,729**	583,295
Valborg Lundegaard	Executive Vice President Customer Management	Jan. 1 - Dec. 31	2,439,662	1,874,672	36,818	**4,351,152**	243,253
Knut Nyborg	Executive Vice President Front End	May 1 - Dec. 31	1,286,349	796,544	26,215	**2,109,108**	129,379
Svenn Ivar Fure	Executive Vice President Front End	Jan. 1 - Apr. 21	759,733	0	3,093	**762,827**	42,994
Egil Bøyum	Executive Vice President Products	Jan. 1 - Dec. 31	2,638,735	1,852,151	21,781	**4,512,668**	220,300
Knut Sandvik	Executive Vice President Projects	Jan. 1 - Dec. 31	2,499,036	1,631,280	25,678	**4,155,994**	221,289
David Clark	Executive Vice President Services	Jan. 1 - Dec. 31	2,625,419	1,550,198	458,371	**4,633,988**	404,730
Total			**29,025,565**	**16,066,231**	**3,729,748**	**48,821,543**	**2,190,485**

1) Based on estimated variable pay earned during the year.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, housing, relocation costs, children school fees, phone and broadband allowance, sign-on amount and individual tax consultancy fees for some international employments.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.

Note 30 continues on next page

Note 30 Management Remuneration cont.

The remuneration of the executive management team is shown in the table below. The salary figures below represent expensed remuneration rather than what is paid out in the period.

2016

Amounts in NOK	Job title	Period	Base salary	Variable pay[1]	Other benefits[2]	Total remuneration	Pension benefit earned/cost to company[3]
Luis Araujo	Chief Executive Officer	Jan. 1 - Dec. 31	7,086,154	4,821,929	183,702	**12,091,785**	93,463
Svein Stoknes	Chief Financial Officer	Jan. 1 - Dec. 31	2,632,000	996,870	24,957	**3,653,827**	157,569
Dean Watson	Chief Operating Officer	Sep. 1 - Dec. 31	1,306,667	170,738	1,221,971	**2,699,376**	30,005
Mark Riding	Executive Vice President Strategy	Jan. 1 - Dec. 31	3,441,020	1,090,485	6,530	**4,538,035**	793,793
Valborg Lundegaard	Executive Vice President Customer Management	Jan. 1 - Dec. 31	2,900,992	1,290,622	38,034	**4,229,647**	246,824
Svenn Ivar Fure	Executive Vice President Front End	Nov. 1 - Dec. 31	373,427	131,417	1,831	**506,674**	19,370
Egil Bøyum	Executive Vice President Products	Nov. 1 - Dec. 31	455,606	110,087	1,627	**567,320**	40,821
Knut Sandvik	Executive Vice President Projects	Jan. 1 - Dec. 31	2,208,985	282,509	9,965	**2,501,459**	245,066
David Clark	Executive Vice President Services	Jan. 1 - Dec. 31	2,811,522	699,854	1,369,254	**4,880,630**	946,920
Alan Brunnen	Head of Subsea	Jan. 1 - Sep. 30	4,941,975	0	3,203,889	**8,145,864**	378,689
Per Harald Kongelf	Regional Head of Norway	Jan. 1 - Sep. 4	2,429,170	0	31,339	**2,460,509**	146,862
Tore Sjursen	Head of Operational Improvements and Risk Mgt	Jan. 1 - Oct. 31	2,204,462	774,196	24,270	**3,002,928**	197,366
Total			**32,791,979**	**10,368,707**	**6,117,369**	**49,278,055**	**3,296,747**

1) Based on estimated variable pay earned during the year.
2) Other benefits include membership in the standard employee benefit scheme and an additional executive group life and disability insurance, housing, relocation costs, children schooling costs, phone and broadband allowance, sign-on fee and severance payment.
3) Pension benefits include the standard employee pension scheme, a pension compensation scheme (for transfer from benefit to contribution scheme), a disability pension scheme and a compensation related to early retirement from a management position.

Note 30 continues on next page

Note 30 Management Remuneration cont.

Shareholding and Termination Agreements

The company practice standard employment contracts and standard terms and conditions regarding notice period and severance pay for the CEO and the members of the executive management team. The below table sets out information of notice period and severance pay as well as shareholding applicable to the current executive management team. There was no share purchase program for management in 2017.

	Job title	Number of shares owned	Notice period	Severance pay
Luis Araujo	Chief Executive Officer	76,898	3 months	6 months
Svein Stoknes	Chief Financial Officer	26,444	3 months	6 months
Dean Watson	Chief Operating Officer	0	3 months	6 months
Mark Riding	Executive Vice President Strategy	32,006	3 months	3 months
Valborg Lundegaard	Executive Vice President Customer Management	5,185	3 months	6 months
Knut Nyborg	Executive Vice President Front End	1,594	3 months	6 months
Egil Bøyum	Executive Vice President Products	4,198	3 months	6 months
Knut Sandvik	Executive Vice President Projects	3,036	3 months	6 months
David Clark	Executive Vice President Services	1,434	3 months	3 months

No members of the executive management team had loans with the company as of December 31, 2017.

See note 5 for more information about salaries for employees
See note 18 for more information about pension arrangements

Note 31 Audit Fees

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

	Aker Solutions ASA		Subsidiaries		Total	
Amounts in NOK million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Audit	**5.6**	4.3	**13.3**	12.1	**18.9**	16.4
Other assurance services	**0.0**	0.4	**0.3**	0.6	**0.3**	1.0
Tax services	**0.0**	0.0	**0.4**	2.0	**0.4**	2.0
Other non-audit services	**0.5**	0.4	**0.5**	0.3	**1.1**	0.7
Total	**6.1**	**5.2**	**14.6**	**15.0**	**20.7**	**20.1**

Note 32 New Financial Reporting Standards

The company will adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. IFRS 16 Leasing will be implemented one year later, per January 1, 2019. The company will use a modified implementation method, hence the cumulative impact will be recognized in retained earnings as of January 1 and comparative figures will not be restated. This note summarizes the expected impact on the financial reporting for the company from the new standards.

IFRS 9 Financial Instruments

The standard will replace IAS 39 Financial Instruments Recognition and Measurement. The standard includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. The new financial instruments standard is not expected to significantly change how the company recognizes its financial assets and liabilities. The changes expected to impact the reported figures upon transition to IFRS 9 are summarized below.

Classification and Measurement

Based on its assessment, the company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, interest-bearing receivables and investments in equity securities that are managed on a fair value basis.

At December 31, 2017, the company had equity investments classified as available-for-sale with a value of NOK 91 million held for long-term strategic purposes. Under IFRS 9, the group has designated these investments as measured at fair value through other comprehensive income (FVOCI). Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal.

Note 32 continues on next page

Note 32 New Financial Reporting Standards cont.

At December 31, 2017, the company had investments in equity securities in unlisted companies amounting to NOK 15 million measured at cost. Under IFRS 9, these investments must be measured at fair value.

There will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The de-recognition rules in IFRS 9 are the same as those in IAS 39.

Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The company has chosen to apply the lifetime ECL for trade receivables, contract assets with a significant financing component and operational lease receivables. Based on the assessments undertaken to date, the group expects a small increase in the loss allowance for trade receivables and contract assets of approximately NOK 1 million.

Hedge Accounting

The company uses forward foreign exchange contracts to hedge the variability in cashflows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. Under IAS 39, for all cashflow hedges, the amounts accumulated in the cashflow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged transaction occurs and affects profit or loss. However, under IFRS 9, for cashflow hedges associated with forecast transaction that subsequently results in recognition of a non-financial asset or a non-financial liability, it is required to adjust the initial cost or other carrying amount of the non-financial asset or the non-financial liability. On transition to IFRS 9, the company will remove the amount accumulated in the cashflow hedge reserve for those hedges and include it in the carrying amount of the corresponding non-financial asset or non-financial liability.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting as the standard introduces a more principles-based approach. The company has concluded that its current hedge relationships will qualify as hedges upon the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The new revenue standard IFRS 15 Revenue from Contracts with Customers will supersede 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. All major customer contracts in Aker Solutions have been reviewed in order to determine the impact upon transitioning to IFRS 15. The new revenue recognition standard is not expected to significantly change how the company recognizes revenue, as revenue will still be recognized over time for both construction contracts and service revenue. The changes expected to impact the reported figures upon transition to IFRS 15 are summarized below.

Construction Contracts

The construction contracts mainly consist of engineering, procurement and construction (EPC) contracts for modifications of oil and gas installations and manufacturing of subsea systems and equipment. The modification contracts already use a cost progress method, whereas the subsea contracts are using a technical progress method under the current IAS 11 standard. The subsea contracts will change to a cost based progress method under IFRS 15. The progress on some contracts is reduced upon transition, whereas others have an accelerated progress. The net impact is a decrease of equity and an increase of order backlog as the reduction of progress is larger than the acceleration. The impact from changing the progress method is included in the table below.

Service Contracts

The service contracts mainly consist of engineering contracts, subsea lifecycle services and maintenance contracts for oil and gas installations. Service revenue is currently recognized in the period in which the services are rendered or by using a cost progress method. The current method will not change as a result of implementing IFRS 15. Any rental of tools and equipment qualifying as leasing will be presented on a separate revenue line in the income statement.

Note 32 continues on next page

Note 32 New Financial Reporting Standards cont.

Tender Cost

Tender cost in Aker Solutions will be expensed as incurred under IFRS 15. The current IAS 11 requires that tender costs are capitalized if award is considered to be probable. The impact of expensing tender cost is presented in the table below.

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 any significant impact of excluding waste cost upon transitioning to IFRS 15.

Variable Consideration and Modifications

Variable consideration (such as bonuses and incentives) and contract modifications (change of scope, variation orders and amendments) have a higher threshold for revenue recognition in the new IFRS 15 than under the current IAS 11. There has not been any significant impact from this, as the group is already practicing a high threshold for including this type of revenue.

Contract Assets and Liabilities

Contract assets and liabilities in the balance sheet will change as IFRS 15 requires separate presentation for revenue and cost accruals, and not presented as net WIP as under the current standard. Further, the warranty provision for ongoing projects will be presented separately, and not as part of WIP as under the current standard.

Estimated Impact

The estimated impact on equity and order backlog from implementing IFRS 9 and IFRS 15 per January 1, 2018 is presented below. The actual impact may change if new information and guidance becomes known before the group presents its first financial statements using the new standards.

Amounts in NOK million		
Equity as reported December 31, 2017	**7,047**	
Change of progress method	-102	-1.4%
Removal of capitalized tender cost	-48	-0.7%
Tax effects	55	0.8%
Total IFRS 15 effects on equity	-95	-1.3%
Reclassification of hedge reserve	232	3.3%
Other investments re-measured at fair value	4	0.1%
Increased impairment losses on receivables	-1	0.0%
Tax effects	-54	-0.8%
Total IFRS 9 effects on equity	181	2.6%
Net impact from IFRS 9 and 15	86	0.7%
Adjusted equity per January 1, 2018	**7,133**	
Order backlog as reported December 31, 2017	34,573	
Expected increase of order backlog from IFRS 15	247	0.7%
Adjusted order backlog per January 1, 2018	**34,820**	

Note 32 continues on next page

Note 32 New Financial Reporting Standards cont.

IFRS 16 Leasing

It is expected that the new standard for leasing will significantly change how the group accounts for its leases. Aker Solutions has a significant number of lease contracts for land and buildings that are currently accounted for under IAS 17 as operating leases. IFRS 16 eliminates the current dual accounting model when leasing assets, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lessee is required to apply a single on-balance sheet model that is similar to current financial leases accounting with practical expedients where leases for low value assets such as computers and office equipment and short term leases of 12 months and less may be exempted. The following changes are expected to impact the reported figures upon transition to IFRS 16:

- Assets and liabilities in the group are expected to increase with an amount close to the net present value of future lease payments. Depreciation of lease assets are recognized separately from interest cost on lease liabilities in the income statement.
- As a result, earnings before interest, taxes, depreciation and amortization (EBITDA) will increase as the lease payments will be presented as depreciation and finance cost rather than operating expenses.
- Operating cashflow will increase and investing and financing cashflow will decrease as the lease payments will no longer be considered as operational.

The new standard for leases was issued in January 2016 and will be effective for accounting periods starting January 1, 2019. IFRS 16 was endorsed by the EU in October 2017.

Other new and amended Standards

The group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

- Recognition of deferred tax assets for unrealized losses (amendments to IAS 12), and
- Disclosure initiative (amendments to IAS 7)

The adoption of these amendments did not have any impact on the amounts recognized in periods. Other new or revised accounting standards are not considered to have a material impact on the Aker Solutions consolidated financial statements.

See note 14 for more information about trade and other receivables
See note 19 for more information about lease commitments and lease expenses
See note 25 for more information about financial assets and liabilities

Note 33 Subsequent Events

Aker Solutions successfully completed a NOK 1,500 million unsecured bond issue with maturity in July 2022. The bonds have coupons of 3 month Nibor plus 3.15 percent per annum and are listed on the Oslo stock exchange. Settlement date was January 25, 2018.

Aker Solutions also signed a new revolving credit facility agreement on March 13, 2018 with a syndicate of twelve banks. The new credit facility of NOK 5,000 million which has the same covenants as the previous one, expires in March 2023. The credit facility of NOK 5,000 million expiring in July 2019 has been terminated.

Aker Solutions Malaysia Sdn Bhd has been informed that the tax exempt status will not be continued. Aker Solution is currently assessing whether to appeal or apply for other tax incentive programs.

Parent Company Financial Statements

Aker Solutions ASA

December 31, 2017

Income Statement

For the year ended December 31

Amounts in NOK million	Note	2017	2016
Operating revenues	2	**17**	30
Operating expenses	2	**-90**	-99
Operating loss		**-74**	**-69**
Net financial expenses	3	**-162**	-189
Loss before tax		**-236**	**-258**
Income tax	4	**49**	59
Net loss		**-187**	**-199**
Net loss for the period distributed as follows:			
Other equity		**-187**	-199
Net loss		**-187**	**-199**

Balance Sheet

Statement as of December 31

Amounts in NOK million	Note	2017	2016
Assets			
Deferred tax asset	4	**181**	137
Investments in group companies	5	**11,438**	11,018
Non-current interest-bearing receivables from group companies	8	**301**	309
Other non-current interest-bearing receivables		**2**	2
Total non-current assets		**11,923**	**11,465**
Current interest-bearing receivables from group companies	8	**23**	36
Non-interest bearing receivables from group companies	8	**9**	38
Financial instruments	9	**353**	1,038
Other current receivables		**0**	3
Cash and cash equivalents	8	**635**	1,461
Total current assets		**1,020**	**2,575**
Total assets		**12,943**	**14,041**

Amounts in NOK million	Note	2017	2016
Equity and liabilities			
Issued capital		**294**	294
Other equity		**2,833**	3,007
Total equity	6	**3,127**	**3,301**
Non-current borrowings	7	**2,235**	975
Total non-current liabilities		**2,235**	**975**
Current borrowings	7	**12**	1,517
Current borrowings from group companies	8	**7,145**	7,157
Non interest-bearing liabilities from group companies	8	**30**	61
Financial instruments	9	**363**	1,017
Other current liabilities		**30**	13
Total current liabilities		**7,581**	**9,765**
Total liabilities		**9,816**	**10,740**
Total equity and liabilities		**12,943**	**14,041**

Fornebu, March 21, 2018
Board of Directors of Aker Solutions ASA

Øyvind Eriksen
Chairman

Anne Drinkwater
Deputy Chairman

Kjell Inge Røkke
Director

Koosum Kalyan
Director

Atle Teigland
Director

Hilde Karlsen
Director

Oddvar Hølland
Director

Luis Araujo
Chief Executive Officer

Cashflow

Statement for the year ended December 31

Amounts in NOK million	2017	2016
Loss before tax	-236	-258
(Profit) loss on foreign currency forward contracts	31	44
Changes in other operating assets and liabilities	-209	78
Net cash from operating activities	**-414**	**-136**
Increase in investments in subsidiaries	-420	-342
Net cash used in investing activities	**-420**	**-342**
Payment of dividend	0	0
Changes in borrowings to group companies	20	659
Changes in borrowings from group companies	-12	-1,424
Proceeds from employees share purchase program	0	40
Repurchase of treasury shares	0	-29
Net cash from financing activities	**8**	**-754**
Net increase (decrease) in cash and cash equivalents	**-825**	**-1,232**
Cash and cash equivalents at the beginning of the period	1,461	2,693
Cash and cash equivalents at the end of the period[1]	**635**	**1,461**

1) Unused credit facilities amounted to NOK 3,750 million as of December 31, 2017.

The cashflow statement has been prepared using the indirect method.

Notes to the Parent Company Financial Statements

For the year ended December 31

Note 1 Company Information

Aker Solutions ASA is the parent company and owner of Aker Solutions Holding AS. Aker Solutions ASA is domiciled in Norway and listed on the Oslo Stock Exchange. The financial statements of the parent company are prepared in accordance with Norwegian legislation and Norwegian Generally Accepted Accounting Principles.

Note 2 Operating Revenue and Expenses

Revenue

Operating revenue comprises NOK 17 million in income from Parent Company Guarantees (PCG). The PCGs are invoiced annually over the lifetime of the guarantee.

Expenses

There are no employees in Aker Solutions ASA and hence no personnel expenses. Executive management and corporate staff are employed by other Aker Solutions companies. Costs for their services as well as other parent company costs are recharged proportionally to Aker Solutions ASA and presented as operating expenses. Remuneration to and shareholding of managing director Luis Araujo is described in note 31 Management Remuneration in the consolidated financial statements.

Audit fees to KPMG

Amounts in NOK million	2017	2016
Audit fee	**5.6**	4.3
Other assurance services	**0**	0.4
Other non-audit services	**0.5**	0.4
Total	**6.1**	5.2

See note 10 for more information about guarantees

Note 3 Financial Income and Expenses

Financial Reporting Principles

Foreign Currency

Transactions in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate on that date.

Foreign Currency Derivatives

Subsidiaries have entered into internal financial derivative contracts with the parent company to hedge their currency exposure. The parent company uses foreign exchange contracts with external banks to mitigate the currency exposure from the internal derivative contracts with the subsidiaries. Aker Solutions ASA does not apply hedge accounting and financial assets and liabilities related to foreign currency contracts which are measured at fair value with changes recognized in the income statement.

Interest Rate Derivatives

Aker Solutions enters into interest rate derivatives (interest rate swaps) to avoid unbalanced exposure to fluctuations in short term interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates to maintain the wanted split between fixed and floating interest rates. The swaps are classified as cashflow hedges and market values are accounted for against equity.

Financial Income and Expense

Amounts in NOK million	2017	2016
Interest income from group companies	27	41
Interest expense to group companies	-15	-9
Net interest income from group companies	12	31
External interest income	17	30
External interest expenses	-197	-259
Net external interest expense	-180	-229
Other financial expenses	-12	-2
Foreign exchange loss	-3,342	-5,578
Foreign exchange gain	3,359	5,589
Net other financial items	5	9
Net financial expense	-162	-189

See note 7 for more information about borrowings
See note 9 for more information about financial risk management and financial instruments

Note 4 Tax

Financial Reporting Principles

Tax expenses in the income statement comprise current tax and changes in deferred tax. Deferred tax is calculated as 23 percent of temporary differences between accounting and tax values as well as any tax losses carried forward at the year-end. Net deferred tax assets are recognized only to the extent that it is probable they will be utilized against future taxable profits.

Deferred Tax Asset and Tax Expenses

Amounts in NOK million	2017	2016
Calculation of taxable income		
Loss before tax	**-236**	-258
Change in timing differences	**0**	87
Taxable income	**-236**	-171
Positive and (negative) temporary differences		
Unrealized gain on forward exchange contracts	**8**	62
Interest rate swaps	**-16**	-32
Tax loss carried forward	**-781**	-598
Basis for deferred tax	**-788**	**-569**
Deferred tax in income statement	**178**	129
Deferred tax in equity	**4**	8
Deferred tax asset	**181**	**137**
Income tax benefit		
Origination and reversal of temporary differences	**49**	59
Total tax income	**49**	59

Effective Tax Rate

Amounts in NOK million	2017	2016
Loss before tax	**-236**	-258
Income tax 24% (25 % in 2016)	**57**	64
Change in tax rate from 24% to 23% (25% to 24% in 2016)	**-8**	-5
Total tax income	**49**	59

Note 5 Investments in Group Companies

Financial Reporting Principles

Investments in subsidiaries are measured at cost. The investments are written down to fair value when the impairment is not considered to be temporary. Impairment losses are reversed if the basis for the impairment is no longer present.

Dividends and other distributions are recognized as income the same year as they are appropriated in the subsidiary. If the distributed dividend in the subsidiary exceeds accumulated profits in the ownership period, the payment is treated as a reduction of the carrying value of the investment.

Investment in Group Companies

Amounts in NOK million	Registered office	Share capital	Number of shares held	Percentage owner- / voting share	Book value
Aker Solutions Holding AS	Fornebu, Norway	3,600	30	100%	**11,438**
Total investments in group companies					**11,438**

Note 6 Shareholders' Equity

Financial Reporting Principles

Repurchase of share capital is recognized at cost as a reduction in equity and is classified as treasury shares. No gain or loss is recognized in the income statement on the purchase or sale of the company's own shares.

Shareholders' Equity

Amounts in NOK million	Share capital	Treasury shares	Hedging reserve	Retained earnings	Total
Equity as of December 31, 2016	294	0	-25	3,032	**3,301**
Shares issued to employees through share purchase program		0		0	**0**
Share buy back		0		0	**0**
Loss for the period				-187	**-187**
Cashflow hedge[1]			13		**13**
Equity as of December 31, 2017	**294**	**0**	**-12**	**2,845**	**3,127**

1) The value of interest swap agreements changing interest from floating to fixed is recognized directly in equity and will be released to income together with the corresponding interest expenses.

The board of directors has proposed that no dividend payment be made for 2017 as it was deemed prudent to exercise caution under the current market uncertainty in the oil and gas industry. This is the same as in the prior year.

See note 3 and 9 for more information about the hedging reserve for interest rate swap agreements

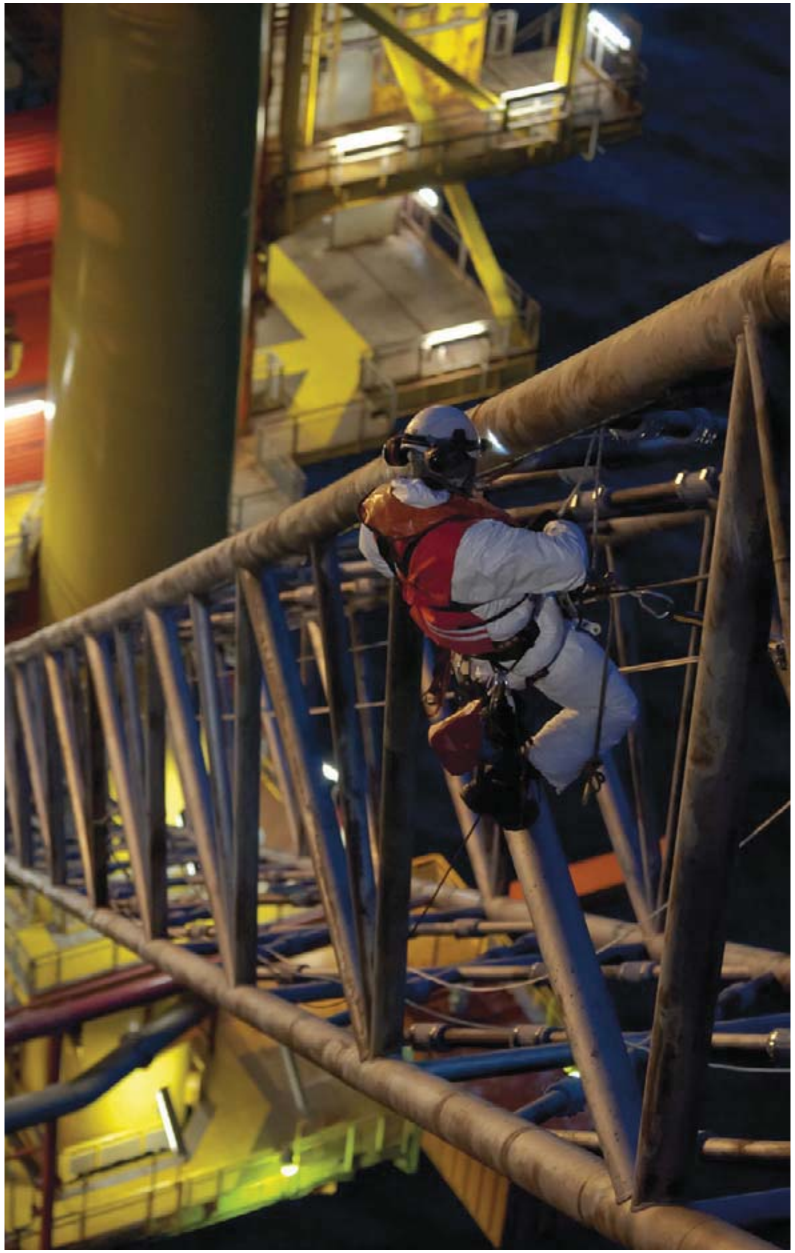
Note 7 Borrowings

Financial Reporting Principles

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Norwegian Bonds

The group has a NOK 1,000 million bond loan listed on the Oslo Stock Exchange denominated in Norwegian Kroner. The interest rate is three months floating interbank rates (NIBOR) plus a predefined margin. Trustee services are provided by Nordic Trustee and the loan documentation is based on Nordic Trustee's standard loan agreement for bond issues. The bond loan is unsecured on a negative pledge basis and includes no dividend restrictions. Aker Solutions' strategy is to have between 30-50 percent of borrowings at fixed interest rates. Parts of the external loans with floating interest rates are swapped to fixed interest rates by means of interest rate derivatives to maintain the desired split between fixed and floating interest rates.



Note 7 continues on next page

Note 7 Borrowings cont.

Bonds and Borrowings

2017

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010661051	NOK	1,000	**1,008**	0.79%	4.20%	4.99%	10/09/19	Floating, 3M+fix margin
Total bonds[1]			**1,008**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	1,250	**1,239**	0.89%	1.10%	1.99%	07/03/19	NIBOR + Margin[3]
Total credit facility			**1,239**					
Total borrowings			**2,247**					
Current borrowings			**12**					
Non-current borrowings			**2,235**					
Total			**2,247**					

1) The carrying amount is calculated by reducing the nominal value of NOK 1,000 million (NOK 2,500 million in 2016) by total issue costs related to the new financing of NOK 3.5 million (NOK 7 million in 2016). Amount includes NOK 11.6 million of accrued interest related to the bonds (NOK 18 million in 2016).
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.

Note 7 continues on next page

Note 7 Borrowings cont.

Bonds and Borrowings

2016

Amounts in NOK million	Currency	Nominal currency value	Carrying amount (NOK)	Interest rate	Fixed interest margin	Interest coupon	Maturity date (mm/dd/yy)	Interest terms
ISIN NO 0010647431	NOK	1,500	**1,505**	1.14%	4.25%	5.39%	06/06/17	Floating, 3M+fix margin
ISIN NO 0010661051	NOK	1,000	**1,007**	1.13%	4.20%	5.33%	10/09/19	Floating, 3M+fix margin
Total bonds[1]			**2,512**					
Revolving credit facility (NOK 5,000 million)[2]	NOK	0	**-20**	1.05%	0.85%	1.90%	07/03/19	NIBOR + Margin[3]
Total credit facility			**-20**					
Total borrowings			**2,492**					
Current borrowings			**1,517**					
Non-current borrowings			**975**					
Total			**2,492**					

1) The carrying amount is calculated by reducing the nominal value of NOK 2,500 million by total issue costs related to the new financing of NOK 7 million. Amount includes NOK 18 million of accrued interest related to the bonds.
2) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method.
3) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 35 percent of the margin.

Note 7 continues on next page

Note 7 Borrowings cont.

Maturity of Bonds and Borrowings

2017

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010661051	1,008	**1,101**	**25**	25	1,051	0	0
Total	**1,008**	**1,101**	**25**	**25**	**1,051**	**0**	**0**
Revolving credit facility (NOK 5,000 million)[2]	1,239	**1,286**	**12**	12	1,262	0	0
Total borrowings	**2,247**	**2,387**	**37**	**37**	**2,313**	**0**	**0**

2016

Amounts in NOK million	Carrying amount	Total cashflow[1]	6 months and less	6-12 months	1-2 years	2-5 years	More than 5 years
ISIN NO 0010647431	1,505	**1,539**	**1,539**	0	0	0	0
ISIN NO 0010661051	1,007	**1,155**	**26**	27	53	1,049	0
Total	**2,512**	**2,694**	**1,565**	**27**	**53**	**1,049**	**0**
Revolving credit facility (NOK 5,000 million)	-20	**0**	**0**	0	0	0	0
Total borrowings	**2,492**	**2,694**	**1,565**	**27**	**53**	**1,049**	**0**

1) The interest costs are calculated using either the last fixing rate known by year-end (plus applicable margin) or the contractual fixed rate (when fixed rate debt).
2) The cashflow is based on the assumption that the nominal currency value will remain on NOK 1,250 million until the maturity of the revolving credit facility.

See note 3 for more information about financial income and expenses
See note 9 for more information about the company's exposure to interest rates and liquidity risk

Note 8 Receivables and Borrowings from Group Companies

Financial Reporting Principles

Assets and liabilities are presented as current when they are due within one year or they are part of the operating cycle. Other assets and liabilities are classified as non-current. Current assets are valued at the lowest of cost and fair value. Current liabilities are valued at nominal value at the time of recognition.

Non-current receivables are measured at cost less impairment losses that are not considered to be temporary. Non-current liabilities are initially valued at transaction value less attributable transaction cost. Subsequent to initial recognition, interest-bearing non-current borrowings are measured at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowing on an effective interest basis.

Trade and other receivables are recognized at the original invoiced amount less allowances for expected losses. Provision for expected losses is considered on an individual basis.

Receivables and Borrowings with Group Companies

Amounts in NOK million	**2017**	**2016**
Group companies interest-bearing deposits in the cash pool system	**4,792**	4,556
Aker Solutions ASAs net borrowings in the cash pool system	**-4,157**	-3,094
Cash in cash pool system	**635**	1,461
Current interest-bearing receivables from group companies	**23**	36
Non-current interest-bearing receivables from group companies	**301**	309
Current interest-bearing borrowings from group companies	**-7,145**	-7,157
Net interest-bearing borrowings from group companies	**-6,821**	-6,812
Current non interest-bearing receivables from group companies	**9**	38
Current non interest-bearing borrowings from group companies	**0**	-1
Net non interest-bearing receivables from group companies	**9**	37
Total net borrowings from group companies	**-6,176**	-5,314

All current receivables and borrowings are due within one year.

Aker Solutions ASA has two centralised cash pool arrangements with DNB and Nordea. In addition centralised cash management arragemnents are set up locally in Malaysia, Brazil and India. The cash pools and cash management arrangements cover a majority of the group's geographical footprint and ensure good control and access to the group’s cash. Participation in the cash pool is vested in the group policy and decided by each company’s board of directors and confirmed by a statement of participation. Certain entities do not participate in the cash pool arrangements due to local restrictions. The participants in the cash pool system are joint and severally liable and it is therefore important that Aker Solutions as a group is financially viable. Any debit balance on a sub-account can be offset against any credit balance in the cash pool. Hence a debit balance on a sub-account represents a liability for Aker Solutions ASA and a credit balance on a sub-account a receivable for Aker Solutions ASA.

The cash pool systems were showing a net balance of NOK 1,461 million per December 31, 2017. This amount is reported in Aker Solutions ASAs accounts as short-term borrowings from group companies and as cash in the cash pool system.

Aker Solutions ASA is the group’s central treasury function and enters into borrowings and deposit agreements with group companies. Deposits and borrowings are agreed at market terms and are dependent on the group companies’ credit rating and the duration of the borrowings.

Note 9 Financial Risk Management and Financial Instruments

Currency Risk

As of December 31, 2017 Aker Solutions ASA has outstanding foreign exchange contracts with other entities in the group with a gross total value of approximately NOK 12.5 billion. Large contracts are hedged back-to-back with external banks, while minor contracts are hedged based on internal matching principles. Contracts hedged back to back with external banks represent about 80 percent of the total group exposure, but are limited to a small number of transactions. Aker Solutions ASA does not apply hedge accounting to any of the currency derivatives. All financial assets and liabilities related to foreign exchange contracts are revalued at fair value in respect to exchange rate movements each period.

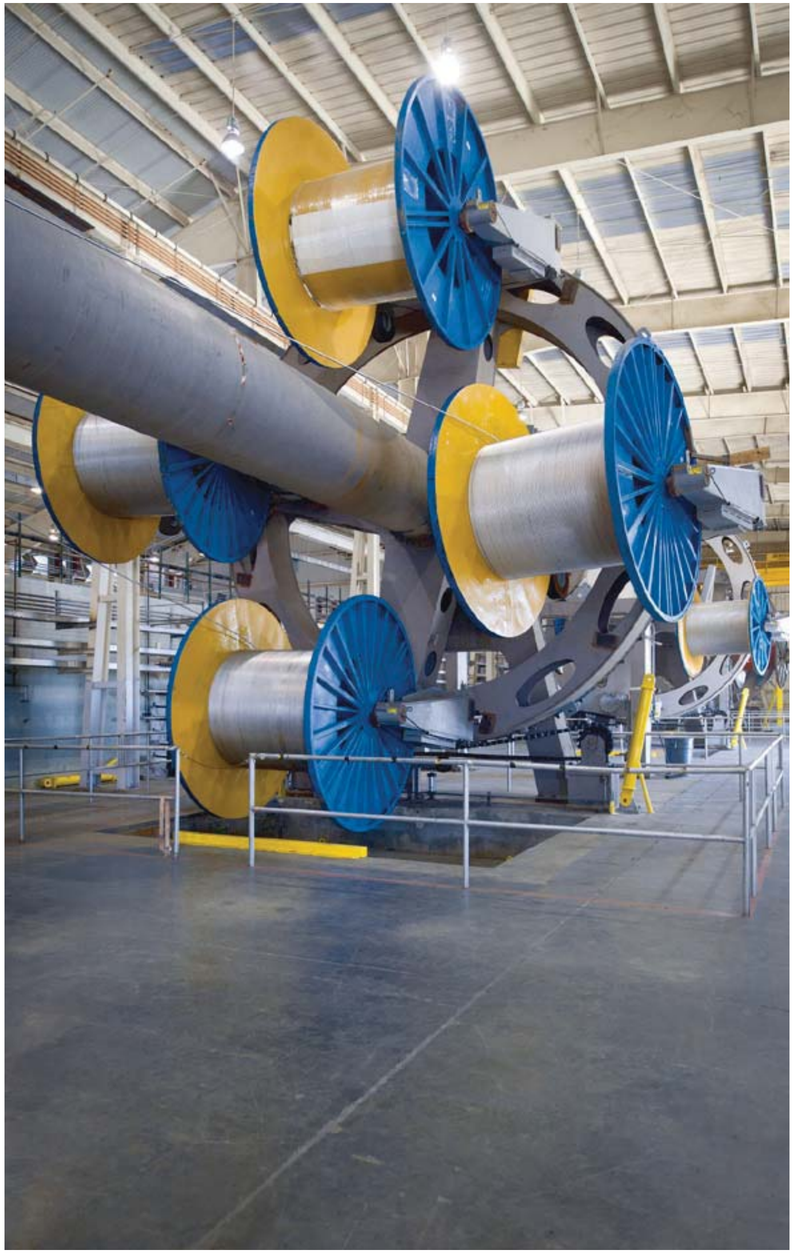
The treasury function within Aker Solutions ASA also has a mandate to hold limited positions in the currency and interest markets. The mandate has limits that are strictly defined and is operated under a strict stop-loss regime. Open positions are continuously monitored on a mark to market basis.

The fair value of foreign exchange forward contracts and options is presented in the table below.

	2017		2016	
Amounts in NOK million	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts with group companies	**150**	**-220**	924	-175
Forward exchange contracts with external counterparts	**203**	**-126**	113	-806
Forward exchange options with external counterparts	**0**	**0**	1	-36
Total	**353**	**-346**	**1,038**	**-1,017**

All instruments are booked at fair value as per December 31.

Note 9 continues on next page



Note 9 Financial Risk Management and Financial Instruments cont.

Interest Rate Risk

Interest rate swaps are applied to achieve the internal policy that 30-50 percent of the company's gross external borrowing shall be at fixed interest rates, with duration matching the remaining duration of the borrowing. Interest terms on the borrowing are described in note 7 Borrowings. At year-end, approximately 50 percent of NOK 1,000 million in bonds was fixed for the duration of the bonds through interest rate swaps. In addition there is a draw on the revolver on NOK 1,250 million with floating interest.

At year-end 22 percent of the total external loan of NOK 2,250 million is at fixed interest rates.

Hedge accounting is applied using the cashflow hedge accounting model. That means gains and losses on interest rate swaps from floating to fixed interest rates are recognized in the hedging reserve in equity. As of December 31, 2017 a net loss of NOK 12 million (NOK 16 million before tax) is recognized in equity and will be continuously released to the income statement until the repayment of the borrowings via the mark to market revaluation process.

The fair value of interest rate swaps is presented in the table below.

	2017		2016	
Amounts in NOK million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps - cashflow hedge (against equity)	**0**	**-16**	0	-32
Total	**0**	**-16**	**0**	**-32**

Credit Risk

Credit risk relates to loans to subsidiaries, overdraft in the group cash pool, hedging contracts, guarantees to subsidiaries and deposits with external banks. Loans to subsidiaries are assessed by the internal credit committee. Loss provisions are made in situations of negative equity and where the company is not expected to be able to fulfil its loan obligations from future earnings. External deposits and forward contracts are placed according to a list of approved banks and primarily with banks where the company also has a borrowing relation. The existence of netting agreements between Aker Solutions ASA and the related banks reduces the credit risk.

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. The development in the group's and thereby Aker Solutions ASA's available liquidity is continuously monitored through weekly and monthly cash forecasts, annual budgets and long-term planning.

See note 3 for more information about financial income and expenses
See note 7 for more information about borrowings

Note 10 Guarantees

Amounts in NOK million	2017	2016
Parent company guarantees to group companies[1]	**57,034**	49,579
Counter guarantees for bank/surety bonds[2]	**5,281**	5,309
Total guarantee liabilities	**62,315**	54,887

1) Parent company guarantees to support subsidiaries in contractual obligations towards customers.
2) Bank guarantees and surety bonds are issued on behalf of Aker Solutions subsidiaries, and counter indemnified by Aker Solutions ASA.

See note 2 for more information about revenue from guarantees

Note 11 Related Parties

Transactions with subsidiaries and related parties are described on a line by line basis in the following notes:

Other services	Note 2
Financial items	Note 3
Investments	Note 5
Cash pool	Note 8
Receivables and borrowings	Note 8
Foreign exchange contracts	Note 9
Guarantees	Note 10

All transactions with related parties are entered into at market rates and in accordance with the arm's length principle.

Note 12 Shareholders

Shareholders with more than 1 percent shareholding per December 31 are listed below

2017

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Folketrygdfondet		17,455,559	6.42%
Aker ASA		17,331,762	6.37%
Verdipapirfondet DNB		5,831,553	2.14%
Ferd AS		5,500,000	2.02%
JPMorgan Chase Bank, JPMCB RE HB SWED FUN	NOM	3,235,281	1.19%
JPMorgan Chase Bank, S/A ESCROW ACCOUNT	NOM	3,060,628	1.13%
VERDIPAPIRFONDET PAR		3,005,000	1.10%
JPMorgan Chase Bank, S/A NON-TREATY LENDI	NOM	2,989,991	1.10%

2016

Company	Nominee	Number of shares held	Ownership
Aker Kværner Holding AS		110,333,615	40.56%
Aker ASA		17,331,762	6.37%
Folketrygdfondet		12,331,732	4.53%
State Street Bank & Trust Company	NOM	9,784,222	3.60%
Ferd AS		5,205,203	1.91%
Morgan Stanley & Co.LLC	NOM	4,467,768	1.64%
JPMorgan Chase bank,NA London Nordea RE:NON-Traty	NOM	4,363,716	1.60%
State Street Bank & Trust Company	NOM	3,483,280	1.28%
Verdipapirfondet Alfred Berg Gamba		3,397,184	1.25%
J.P.Morgan Chase Bank N.A.London US RESIDENT NON	NOM	3,224,752	1.19%

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Independent auditor's report

To the Annual Shareholders' Meeting of Aker Solutions ASA

Report on the Audit of the Financial Statements

Opinion

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

- The financial statements of the parent company Aker Solutions ASA (the "Company"), which comprise the balance sheet as at 31 December 2017, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Aker Solutions ASA and its subsidiaries (the "Group"), which comprise the balance sheet at 31 December 2017, the income statement and the statement of other comprehensive income, statement of changes in equity, cash flow 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 of its financial performance and its cash flows for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway ("NGAAP").
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

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 of 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.

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 of 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.

KPMG

Assessment of the carrying value of property, plant and equipment and intangible assets

Refer to note 10 Property, Plant and Equipment, note 11 Intangible Assets and note 12 Impairment of Assets

The key audit matter

The Group's operations are sensitive to certain factors including oil prices which in turn impact the timing and nature of future capital expenditure on existing and new oil fields and installations.

The economic environment, current long-term assumptions and the Group's business plans indicate that impairment is a risk related to specific assets, cash generating units and can also impact the assessment of impairment of goodwill.

As of 31 December 2017, the Group has property, plant and equipment of NOK 3 316 million, goodwill of NOK 4 281 million and other intangible assets of NOK 1 533 million. The Group has recognized an impairment charge in 2017 associated with their property, plant and equipment and other intangible assets of NOK 84 million and NOK 72 million respectively.

How the matter was addressed in our audit

Our audit procedures in this area included:

- Assessing management's process and results for identification, consistent treatment and classification of CGU's to ensure they were appropriate and in accordance with IAS 36;
- Evaluating management's assessment of impairment indicators;
- Where impairment indicators were identified or where impairment testing was required, assessing, with assistance from our valuation specialists, if the models used to calculate value in use are appropriate and mathematically accurate;
- Assessing the discount rates applied for each cash flow forecast with reference to available market data;
- Challenging management on the timing of the cash flows;
- Evaluating the historical accuracy of management's budgets and forecasts and challenging management on the current year cash flow forecasts;
- Evaluating and challenging management on the growth assumptions in the cash flow forecasts, forecast margins and order intake;
- Assessing the calculations and rationale supporting the impairment of tangible and intangible assets including testing sensitivities in the models; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to the carrying value of intangible assets and property, plant and equipment and the assumptions applied to the impairment testing.

KPMG

Revenue and cost estimates related to construction contracts & service revenue

Refer to note 3 Revenue and note 4 Operating Segments

The key audit matter

Accounting for long term projects and service contracts is considered to be a risk area due to the significant judgement and estimation applied by management as well as the degree of complexity of the contracts currently in the portfolio.

The key judgements and estimates applied by management include their assessment of the stage of project completion as well as assessing the estimated future contract revenue and cost outcomes. Revenue and cost outcomes factored in management's forecasts include:

- incentive payments;
- key performance indicators;
- liquidated damages; and
- expected total cost to complete.

Additionally management exercises judgement in their assessment of the recoverability of revenue accruals related to service contracts.

For the year ended 31 December 2017, the Group has recognized construction revenue of NOK 12 147 million and service revenue of NOK 9 977 million.

How the matter was addressed in our audit

Our audit procedures in this area included:

- Corroborating the revenue forecasts with reference to signed contracts and variation orders;
- Reviewing the terms and conditions of significant contracts and comparing these to management's assessment of the contract forecasts;
- Evaluating management's process for assessing the stage of completion and the method applied;
- Challenging management on estimated recovery of incentive payments, incentives linked to key performance indicators and recognition of liquidated damages by reference to contractual terms and conditions and other correspondence with customers;
- Reviewing and discussing project reports and other assessments with management and comparing current forecasts to historical outcomes where relevant;
- Assessing the ability to recover amounts accrued under service contracts compared to historical recovery rates and the assessments made by management over the current balance;
- Challenging management on the estimate of cost to complete and the risk assessment related to forecast cost;
- Evaluating the calculation of project revenue and cost and amounts due to and from customers in relation to the stage of completion and forecasts; and
- Evaluating the adequacy and appropriateness of the disclosures in the financial statements related to revenue from construction contracts and service contracts.

KPMG

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, with the exception of the financial statements and the Independent 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, with the exception of our report on Other Legal and Regulatory Requirements below.

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 in accordance with laws and regulations including fair presentation of the financial statements of the Company in accordance with NGAAP, and for the preparation and fair presentation of the financial statements of the Group in accordance with IFRS, 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 parent 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 scepticism 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 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 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, including the statements on corporate governance and corporate social responsibility, concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

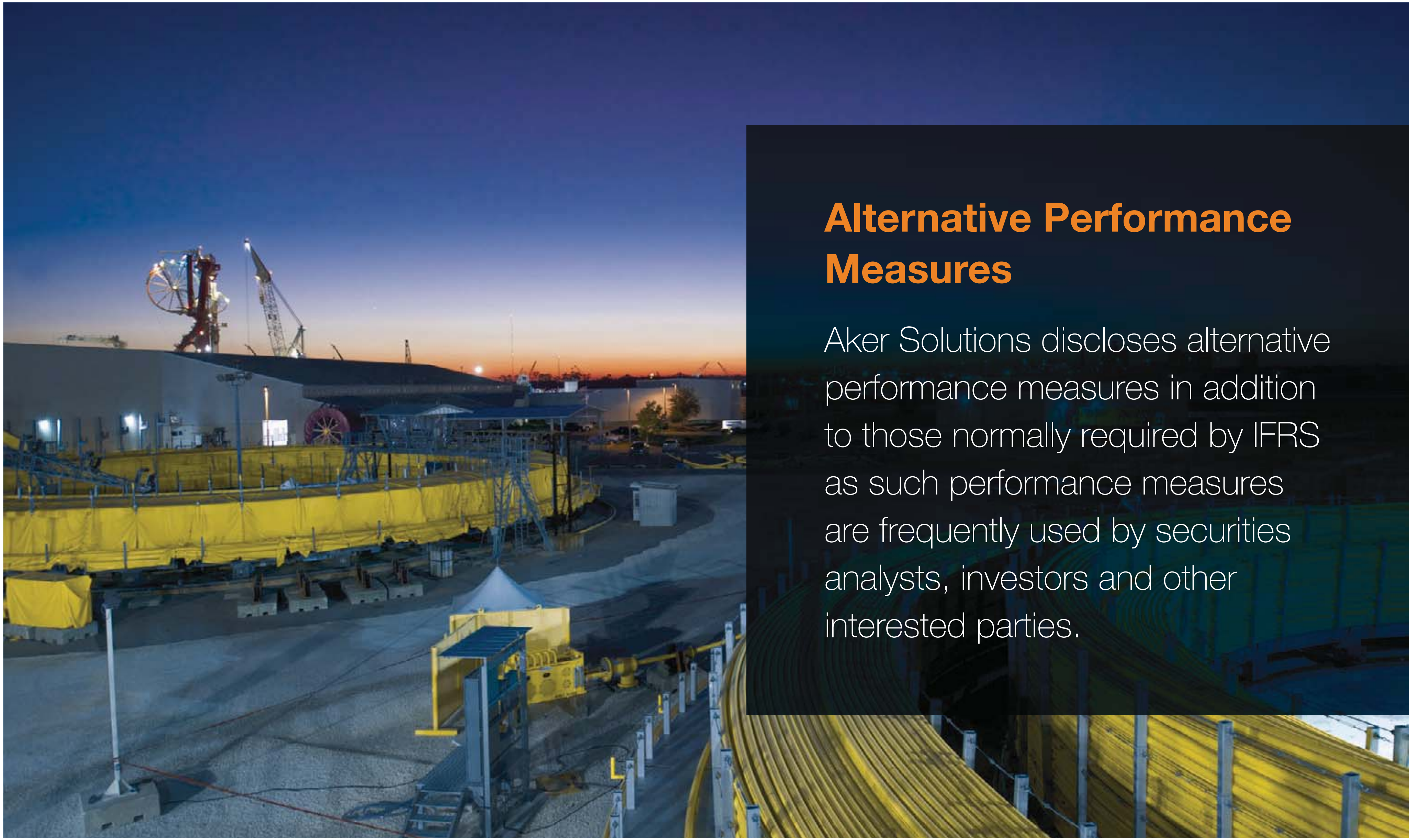
Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements 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, 21 March 2018
KPMG AS

Julie Berg

Julie Berg
State Authorised Public Accountant



Alternative Performance Measures

Aker Solutions discloses alternative performance measures in addition to those normally required by IFRS as such performance measures are frequently used by securities analysts, investors and other interested parties.

Alternative performance measures are meant to provide an enhanced insight into the operations, financing and future prospects of the company.

Profit Measures

EBITDA and EBIT terms are presented as they are used by financial analysts and investors. Special items are excluded from EBITDA and EBIT as alternative measures to provide enhanced insight into the financial development of the business operations and to improve comparability between different periods.

EBITDA is short for earnings before interest, taxes, depreciation and amortization. EBITDA corresponds to the “operating income before depreciation, amortization and impairment” in the consolidated income statement in the annual report.

EBIT is short for earnings before interest and taxes. EBIT corresponds to “operating income” in the consolidated income statement in the annual report.

Margins such as EBITDA margin and EBIT margin is used to compare relative profit between periods. EBITDA margin and EBIT margin are calculated as EBITDA or EBIT divided by revenue.

Special items may not be indicative of the ongoing operating result of cashflows of the company. Profit measure excluding special items is presented as an alternative measures to improve comparability of the underlying business performance between the periods.

	Projects		Services		Other/ eliminations		Aker Solutions	
Amounts in NOK million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue	17,660	20,627	4,560	5,001	240	-71	22,461	25,557
Non-qualifying hedges	0	0	0	0	-24	26	-24	26
Gain/loss sale of PPE	0	-36	0	0	0	0	0	-36
Other	0	13	0	0	0	0	0	13
Sum of special items excluded from revenue	0	-23	0	0	-24	26	-24	3
Revenue ex. special items	**17,660**	**20,604**	**4,560**	**5,001**	**216**	**-45**	**22,436**	**25,560**
EBITDA	1,217	1,547	605	601	-303	-219	1,519	1,929
Onerous lease cost	-3	2	0	0	42	80	40	82
Restructuring cost	78	76	3	17	6	70	86	163
Non-qualifying hedges	0	0	0	0	10	-44	10	-44
Gain/loss sale of PPE	0	-36	0	0	0	0	0	-36
Transaction costs and other	0	13	0	0	10	14	10	27
Sum of special items excluded from EBITDA	75	55	3	17	68	120	146	193
EBITDA ex. special items	**1,292**	**1,602**	**607**	**618**	**-234**	**-98**	**1,665**	**2,121**
EBITDA margin	*6.9%*	*7.5%*	*13.3%*	*12.0%*			*6.8%*	*7.5%*
EBITDA margin ex. special items	*7.3%*	*7.8%*	*13.3%*	*12.4%*			*7.4%*	*8.3%*
EBIT	608	478	429	454	-466	-245	571	687
Sum of special items excluded from EBITDA	75	55	3	17	68	120	146	193
Impairments	90	464	0	0	66	0	156	464
Sum of special items excluded from EBIT	165	519	3	17	135	120	302	657
EBIT ex. special items	**773**	**997**	**432**	**471**	**-331**	**-124**	**874**	**1,343**
EBIT margin	*3.4%*	*2.3%*	*9.4%*	*9.1%*			*2.5%*	*2.7%*
EBIT margin ex. special items	*4.4%*	*4.8%*	*9.5%*	*9.4%*			*3.9%*	*5.3%*

Order Intake Measures

Order intake, order backlog and book-to-bill ratios are presented as alternative performance measures, as they are indicators of the company's revenues and operations in the future.

Order intake includes new signed contracts in the period in addition to expansion of existing contracts. For construction contracts, the order intake is based on the signed contract value excluding potential options and change orders. For service contracts, the order intake is based on the estimated value of firm periods in the contracts.

Order backlog represents the estimated value of remaining work on signed contracts.

Financing Measures

Alternative financing and equity measures are presented as they are indicators of the company's ability to obtain financing and service its debts.

Gross Debt and Net interest-bearing debt are measures that shows the overall debt situtation. Net debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets.

Amounts in NOK million	2017	2016
Current borrowings	539	2,110
Non-current borrowings	2,576	1,844
Gross debt	**3,114**	**3,954**
Current interest-bearing receivables	-128	-437
Non-current interest-bearing receivables[1]	-39	-34
Cash and cash equivalents	-1,978	-2,480
Net debt	**970**	**1,002**

1) Non-current interest-bearing receivables are included in Other non-current assets in consolidated balance sheet.

Net current operating assets (NCOA) or working capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

Amounts in NOK million	2017	2016
Inventory	428	575
Trade and other receivables	6,843	7,398
Current tax assets	174	242
Trade and other payables	-7,304	-8,002
Provisions	-942	-1,087
Current tax liabilities	-43	-30
Net current operating assets (NCOA)	**-844**	**-904**

Contact Information

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Half-Year Results for 2020

Our Vision

A leader in forging a sustainable future for the global energy industry and the world it serves.

Key Figures

Amounts in NOK million	1H 2020	1H 2019	2019
Revenue	**11,871**	14,781	29,263
EBITDA	**381**	1,257	2,244
EBITDA margin	**3.2%**	8.5%	7.7%
EBITDA ex. special items[1]	**667**	1,266	2,316
EBITDA margin ex. special items[1]	**5.6%**	8.6%	7.9%
Depreciation, amortization and impairment	**-1,145**	-834	-1,539
EBIT	**-764**	423	705
EBIT margin	**-6.4%**	2.9%	2.4%
EBIT ex. special items[1]	**74**	655	1,081
EBIT margin ex. special items[1]	**0.6%**	4.4%	3.7%
Net financial items	**-273**	-208	-535
FX on disqualified hedging instruments	**1**	-8	-0
Income (loss) before tax	**-1,036**	206	170
Income tax	**135**	-68	-87
Net income (loss)	**-901**	137	83
Net income (loss) ex. special items[1]	**-219**	327	353
Earnings per share (NOK)	**-3.38**	0.43	0.15
Earnings per share (NOK) ex. special items[1]	**-0.87**	1.13	1.54

1) Excludes special items, including impairments, restructuring charges, gain/loss on sale of PPE and impact of currency derivatives not qualifying for hedge accounting. For more information on special items see section on alternative performance measures on page 30.

Projects

Amounts in NOK million	1H 2020	1H 2019	2019
Revenue	**9,177**	11,967	23,253
EBITDA	**406**	947	1,736
EBITDA margin	**4.4%**	7.9%	7.5%
EBITDA ex. special items[1]	**573**	953	1,780
EBITDA margin ex. special items[1]	**6.2%**	8.0%	7.7%
Order intake	**9,030**	6,343	14,029
Order backlog	**16,050**	19,311	15,887

Services

Amounts in NOK million	1H 2020	1H 2019	2019
Revenue	**2,667**	2,802	5,995
EBITDA	**148**	391	721
EBITDA margin	**5.5%**	14.0%	12.0%
EBITDA ex. special items[1]	**204**	397	740
EBITDA margin ex. special items[1]	**7.6%**	14.2%	12.3%
Order intake	**4,532**	2,877	5,365
Order backlog	**10,887**	10,275	9,613

11,871

Revenue
NOK million

381

EBITDA
NOK million

Key Developments

Key Financial Developments

Aker Solutions' revenue decreased to NOK 11.9 billion in the first half of 2020 from NOK 14.8 billion a year earlier. Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to NOK 381 million in the period from NOK 1,257 million a year earlier. The EBITDA margin decreased to 3.2 percent in the first half from 8.5 percent a year earlier. Excluding special items, EBITDA was NOK 667 million in the first half compared with NOK 1,266 million a year earlier and the EBITDA margin was 5.6 percent versus 8.6 percent. Impairment cost of NOK 551 million was recognized in the first half of 2020, compared to impairment cost of NOK 223 million a year earlier. Earnings per share (EPS) was negative NOK 3.38 in the period compared with positive NOK 0.43 a year earlier. Excluding special items, the EPS was negative NOK 0.87 in the first half compared to positive NOK 1.13 in the same period in 2019.

The company has two reporting segments: Projects and Services. Revenue in Projects decreased to NOK 9.2 billion in the first half from NOK 12 billion a year earlier amid generally lower market activity. The EBITDA margin was 4.4 percent in the period compared with 7.9 percent a year earlier. Revenue in Services decreased to NOK 2.7 billion in the first half from NOK 2.8 billion a year earlier, primarily driven by lower activity. The EBITDA margin decreased to 5.5 percent in the period from 14.0 percent a year earlier, due to restructuring costs and a change of activity mix somewhat mitigated by strong operational performance.

The company's order intake was NOK 13,6 billion in the first half, compared with NOK 9.3 billion a year earlier. This brought the order backlog to NOK 26,9 billion at the end of June against NOK 29.5 billion a year earlier. The backlog is based on the value of signed contracts and the estimated value of firm periods in framework agreements and service contracts. The estimated value of options is not included.

Aker Solutions' order intake in the first half of the year was impacted by the COVID-19 outbreak and sharp decline in oil prices, which led operators to delay sanctioning and reduce spending plans. The volume of contract awards increased towards the end of the period, in part supported by temporary measures by the Norwegian parliament to boost activity on the Norwegian Continental Shelf.

Early in the year, the company signed a five-year contract extension to provide offshore maintenance and modification services to Brunei Shell Petroleum. In January, Aker Solutions also secured the FEED for the electrification of the Troll B and C platforms in the North Sea. This is an important contract that confirms Aker Solutions' strategic ambition towards the energy transition and reducing CO2 emissions.

In March, Aker Solutions signed a 20-year exclusive agreement to provide umbilicals for Chevron-operated oil and gas fields in the Gulf of Mexico. The award includes a first call-off to deliver 44 kilometers of umbilicals to Chevron' Anchor project. In June, another umbilical award was secured from Subsea 7 for Murphy Exploration and Production Company's King's Quay development in the Gulf of Mexico.

In June, Aker Solutions received letters of intent from Equinor to deliver subsea production systems for the Askeladd and Breidablikk developments on the Norwegian Continental Shelf. Aker Solutions also signed a two-year contract extension for maintenance and modifications for Aker BP's Ula, Skarv, Valhall and Tambar fields offshore Norway.

Aker Solutions continued to experience a strong demand for its front-end engineering capabilities, winning 89 study awards in the first half for projects in Norway, the UK, the US, Australia and Malaysia. This is an increase from 74 study awards during the same period in 2019.

The company's liquidity reserves at the end of June included cash and bank deposits of NOK 2.5 billion. Undrawn and committed long-term revolving bank credit facilities were NOK 3.0 billion and the total liquidity buffer was NOK 5.5 billion. Net current operating assets were NOK 920 million at the end of June versus NOK 731 million a year earlier. The company's working capital is likely to fluctuate with large project work and is expected to continue to trend around the NOK 1.0 billion level going forward.

> **"Aker Solutions continued to experience a strong demand for its front-end engineering capabilities, winning 89 study awards in the first half.**

Key Operational Developments

The impact from the COVID-19 pandemic and a steep decline in oil demand and commodity prices, led to a significant slowdown in activity levels in the first half of 2020.

The company introduced measures to protect the health and safety of people, which included temporarily closing some sites and introducing home office solutions for thousands of employees. The measures were sufficient to keep up productivity and the company managed to complete several important deliveries during the first half of the year. Key deliveries included 11 manifolds and associated subsea equipment to Equinor's Askeladd, Troll and Johan Castberg projects, and subsea equipment and umbilicals to CNOOC's Lingshui and Liuhua developments.

The oil price decreased more than 65 percent in the first quarter of 2020 and the pandemic had significant adverse effects on the global economy. Oil companies responded by cutting investment plans by 20 to 30 percent, on average. The sanctioning of several expected projects was delayed and some cancelled.

In response to new market conditions, Aker Solutions announced in April further measures to reduce cost and protect the company's balance sheet. The measures include temporary and permanent lay-offs, removing contractors, site closures and freezing pay levels. The cost-cutting initiatives aim to reduce the fixed cost-level by about NOK 1 billion on an annualized basis. At the end of June the company had achieved about 90 percent progress on this initiative. The company also cut capex investments by 40 percent from the 2019 level, to NOK 500 million in 2020.

The focus on low carbon and renewable solutions was reinforced by a clear increase in the number of studies where CO2 reduction is either part of the scope or the main purpose of the study. A total of 20 out of the 89 studies were related to renewables and low carbon. In addition, Aker Solutions received funding from the Norwegian Research Council for development of its blue hydrogen solutions. Blue hydrogen is also the main focus of the hydrogen production unit (HPU) testing by Preem in their facility in Lysekil, Sweden where Aker Solutions participates with the mobile test unit (MTU) to capture the CO2 from the flue gas resulting from the gas reforming process of the HPU.

Aker Solutions also experienced strong interest in its carbon capture, utilization and storage (CCUS) solutions. In June, the company signed an agreement with Norcem, a subsidiary of German cement producer, HeidelbergCement, as a firm step towards the engineering, procurement and construction (EPC) delivery of a carbon capture plant at Norcem's cement plant in Brevik, Norway. The plant is part of the Norwegian carbon capture demonstration project to be funded by the Norwegian government. Parliament is expected to take the final decision to realize the full-scale project in the national budget for 2021.

Aker Solutions is a signatory member of the UN Global Compact and is committed to its 10 principles. Aker Solutions supports the UN Sustainable Development Goals and has prioritized nine goals. Additional information on Aker Solutions' sustainability and human rights initiatives is available on the company's website www.akersolutions.com/sustainability

In the first half of 2020, Aker Solutions made changes to the executive management team. Egil Bøyum was appointed Special Advisor to Chief Executive Officer, Luis Araujo. Geir Glømmi replaced Egil as Head of Greenfield Projects on an acting interim basis. On June 2, Aker Solutions announced that Chief Financial Officer, Ole Martin Grimsrud, had given notice that he would leave the company on September 1, 2020 to pursue other opportunities. Aker Solutions has initiated the process to find his successor.

Aker Solutions decreased its permanent workforce from about 16,000 at the end of June last year to about 13,000 in June 2020. At the same time the number of contractors was reduced from 5,500 to about 2,300. Maintaining a flexible workforce protects permanent employees as project requirements fluctuate.

The governments in some countries introduced measures for temporary layoffs and furlough to help companies during the COVID-10 pandemic. In Norway, the US and the UK, Aker Solutions has about 600 employees on temporary leave as of the end of June.

Health, Safety, Security and Environment

In the first half of 2020, the HSSE function focused on managing the global COVID-19 pandemic. The pandemic has impacted all of Aker Solutions' global operations. This required the mobilization of the crisis management team under the HSSE function leadership in close liaison with the individual country management teams. The crisis management team demobilized in mid-April 2020. The HSSE function is still working closely with the individual country management teams and ensuring that Aker Solutions is demonstrating the correct level of care to all employees. At the end of the first half, 127 Aker Solutions employees had at one point been infected by COVID-19, with the majority of these cases (100+) coming from Brazil.

Aker Solutions is committed to a goal of zero harm to people, assets and the environment. The cornerstone of this objective is a strong, structured and companywide HSSE system, setting clear standards for HSSE management and leadership. Regular audits aim to identify, isolate and help address potential shortcomings. Aker Solutions is focused on continuous improvement and learning throughout the organization and the HSSE system is a key enabler in the quest for ever more stringent standards. At Aker Solutions, the HSSE culture is founded on the principle that HSSE is the personal responsibility of every employee.

The company investigates all incidents at a level appropriate to the actual or potential outcome in order to learn and improve. The company had 10 recordable injuries in the first half of 2020. This is down from 33 in the same period last year. Most of the cases were related to movement, construction and manual handling aspects resulting in cuts, pinches, strains or foreign objects in the eye. The total recordable injury frequency (TRIF) reduced to 0.90 in the first half of 2020 compared to 1.95 in the same period a year earlier. During the first six months of 2020, four serious incidents occurred in operations, resulting in a serious incident frequency (SIF) of 0.23 compared to 0.57 in June last year. Dropped objects continues to be the main contributing event. Both frequencies are 12-month rolling and per million worked hours, which means the number of incidents in the second half of 2019 affects the frequency number of the first half of 2020. The numbers include subcontractors under our direct management. Sick leave increased slightly to 2.83 from 2.6 percent. Sick leave is calculated 12 months rolling.

To strengthen the culture further and improve the company's HSSE performance, Aker Solutions continues to follow the International Association of Oil and Gas Producers (IOGP) Lifesaving Rules which were introduced in March 2019.

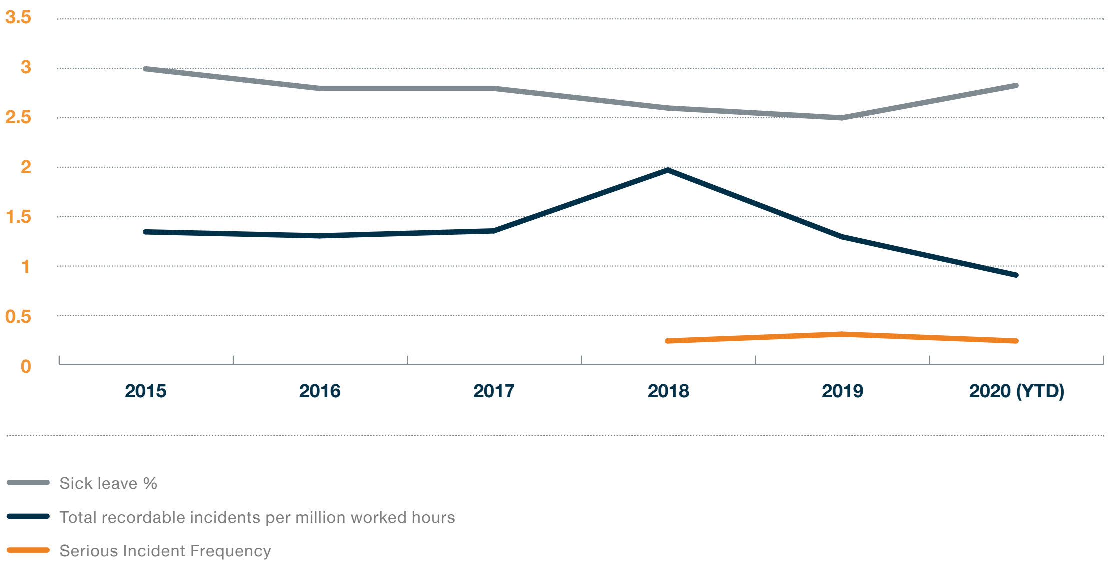
In January 2020, Aker Solutions entered into a collaboration agreement with Equinor, Kvaerner, Aibel and Rosenberg Worley with the goal of learning, collaboration and establishing a 2025 goal that will improve the industry's HSSE performance. As part of this agreement, the quarterly HSSE mindset program has been standardized with the collaboration partners in order to share a common message with all front-line staff. In the second half of the year, the focus will be on Line of Fire and Working Environment.

The company communicates on a regular basis to its global workforce HSSE information on personal zero targets and risk awareness. The company continuously works to identify, analyze and mitigate intentional security threats to personnel and assets. The company did not experience any serious security incidents in the first half of 2020.

Aker Solutions also measures the company's CO_2 emission intensity. As of end June, the key performance indicator was at 644 tonnes CO_2 per million-man hours (12 months rolling average). This is a significant reduction on the same period last year, 815 tonnes, due to vastly reduced numbers of people travelling during the COVID-19 situation.

> **“Aker Solutions is committed to a goal of zero harm to people, assets and the environment.**

HSE Performance Indicators*



** Starting from 2018, Aker Solutions has begun to use the serious incident frequency (SIF) to focus on the occurrence of high-risk incidents. These are incidents where the actual or potential consequence is high or extreme.*

2.83

Sick leave
Percent

0.9

Total Recordable Injury Frequency (TRIF)

0.23

Serious Incident Frequency (SIF)

Outlook

In 2020, oil companies responded to the unprecedented market situation and COVID-19 pandemic by cutting investment plans by 20 to 30 percent, on average. The sanctioning of several expected projects was delayed, and some cancelled. During the second quarter, several countries lifted the lock-down of societies, after containing or beating the spread of the virus. At the same time, oil markets started to rebalance following OPEC+ production cuts and some increase in demand following easing of the lock-downs. At the end of the second quarter, the outlook and discussions with customers are more constructive again, supported by oil prices that are back at USD 40 dollar levels.

Projects going ahead in international markets in the near to medium term are typically tie-back and infill projects or the most mature/advanced projects. Government relief measures are also having a positive effect on accelerating project sanctioning. This is particularly true for the home market of the Norwegian Continental Shelf (NCS), where Aker Solutions has a strong position. The measures for the oil and gas industry has already led to accelerated project sanctioning on the NCS during a critical period for the supplier industry and there is likely more to come.

The market outlook for suppliers to transition-related projects, such as carbon capture, offshore wind and projects for the decarbonization of the oil and gas industry remains encouraging and activity is increasing. These markets are less impacted by the capex cuts in the oil industry and many customers are outside oil and gas.

Aker Solutions is well positioned to enable oil and gas operators to meet their decarbonization and net zero emission targets. The majors have not included capex cuts for items in their transformation agenda, and Aker Solutions expects the transition to low-carbon and renewables to accelerate. Industry downturns are often followed by structural transformations across market segments and players, and increased industry consolidation.

As markets slowed down, so did tendering activity in the second quarter. Aker Solutions is currently bidding for contracts totaling about NOK 42 billion, compared with about NOK 55 billion a year ago. The largest portion of the tender volume remains within the subsea area. Further key projects could be awarded this year within all segments, including renewals of frame agreements for brownfield.

> **"Aker Solutions is well positioned to enable oil and gas operators to meet their decarbonization and net zero emission targets.**

Risk Factors

Aker Solutions' global footprint, operations and exposure to energy markets provide both opportunities and risks that may affect the company's operations, performance, finances, reputation and share price. Through its business, Aker Solutions is exposed to legal, regulatory and political risks, decisions on environmental regulation and international sanctions that impact supply and demand, as well as risks associated with unethical and criminal behavior such as cyber-security attacks. The annual report for 2019 provides more detailed information on inherent risks and uncertainties.

The COVID-19 pandemic and associated market turmoil during 2020 have made the following risks more predominant:

- Operational risks: The pandemic caused disruptions to the operations of Aker Solutions and threatened the health of its personnel. The manufacturing and service sites were impacted by reduced personnel or closure, and many employees were working from home. Despite challenges in own operations and in the supply chain, Aker Solutions was able to deliver on key milestones during the period. Pandemic outbreaks and other natural disasters could also occur in the future and may impact Aker Solutions.

- Market outlook: The sharp decline in oil prices, which led operators to delay sanctioning and reduce spending plans, has consequences for Aker Solutions and for the oil and gas industry at large. It may cause consolidations, bankruptcies and other changes to the supplier industry. Market developments may lead to capacity adjustments and changes in the valuation of company assets and liabilities. The main uncertainties include delivering on the company's international growth ambitions, entry and establishment in new growth markets, and delivering a competitive cost base.

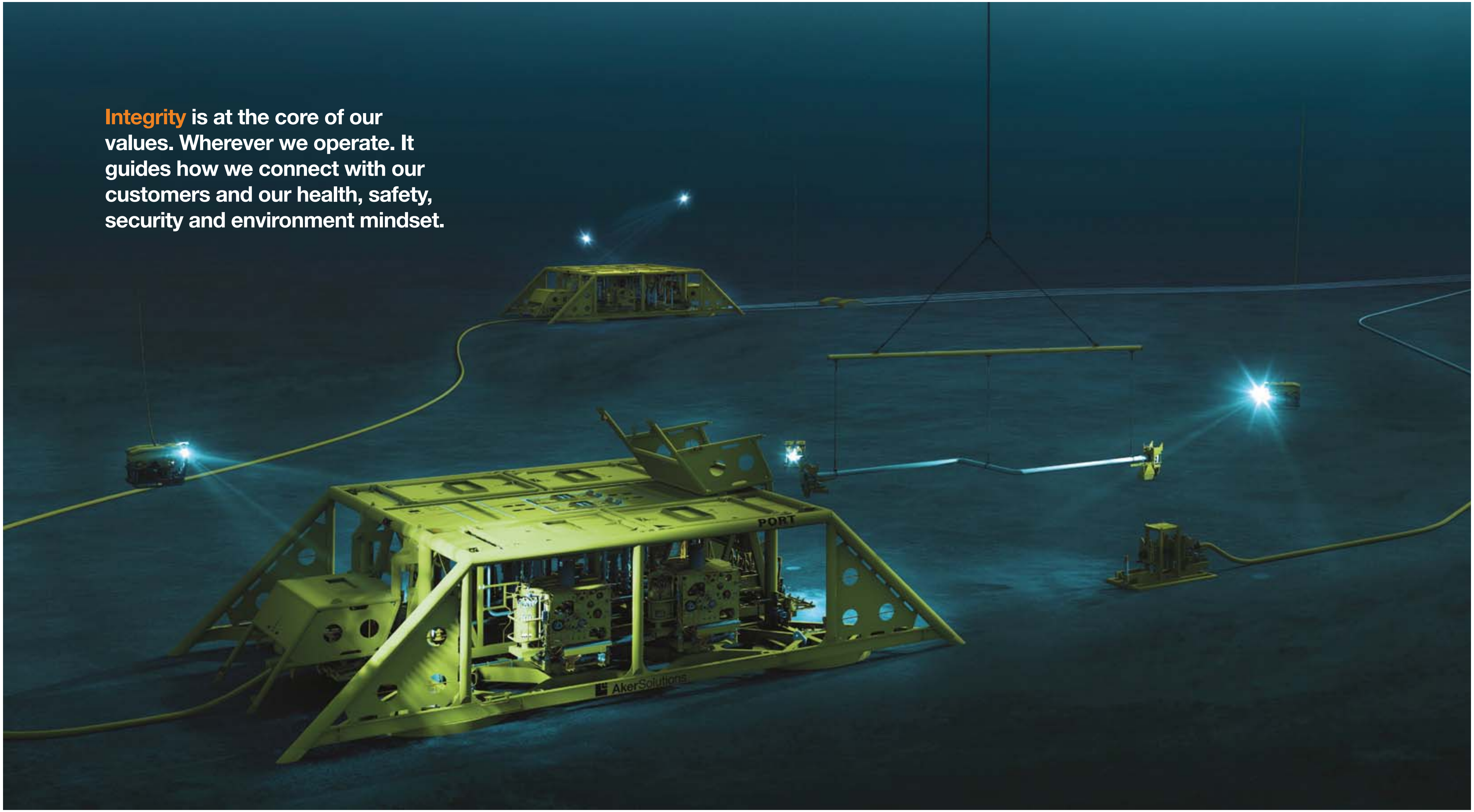
- Climate change: The company is exposed to risks and opportunities stemming from climate change and the energy transition to renewables and a lower carbon economy. This includes changes in global demand, energy prices and environmental requirements that could increase costs, reduce demand for the company's offerings, reduce revenue and limit certain growth opportunities. Risks are mitigated or turned into opportunities by investing in or transforming existing technology and services into sustainable energy such as floating offshore wind and technology to reduce emissions such as carbon capture and storage.

- Credit risk: As a result of the COVID-19 situation and general market uncertainties, credit risk has increased in most industries. The additional factors of volatile commodity prices and an increasing transition towards greener energy, credit risk has increased more in the oil and gas industry than in other industries. Due to a predominance of large international oil companies with a relatively low credit risk in its customer base, the exposure of Aker Solutions to this increased credit risk is limited.

- Liquidity risk: The current market uncertainty as a result of the COVID-19 pandemic has increased the liquidity risk, as the future operating cashflows may develop negatively. The development of the debt covenants is closely monitored, and management is in close dialog with the lending banks and financial institutions to ensure continued access to liquidity. The revolving credit facility and the group's cash reserve is currently assessed as sufficient, provided that there will be no draw-stop imposed on the revolving credit facility.

Aker Solutions is committed to an active policy of risk management and will take mitigating actions to increase flexibility in its operations by driving down costs, building a sustainable global workforce, and investing to develop as a supplier to sustainable energy solutions such as floating offshore wind and low carbon technologies. A focus on standardization, simplification and continuous improvement in productivity is central to these efforts.

Fornebu, July 14, 2020
The Board of Directors and CEO of Aker Solutions ASA



Integrity is at the core of our values. Wherever we operate. It guides how we connect with our customers and our health, safety, security and environment mindset.

Declaration by the Board of Directors and CEO

The board and CEO have today reviewed and approved the condensed, consolidated financial statements for the six months ending June 30, 2020 for Aker Solutions.

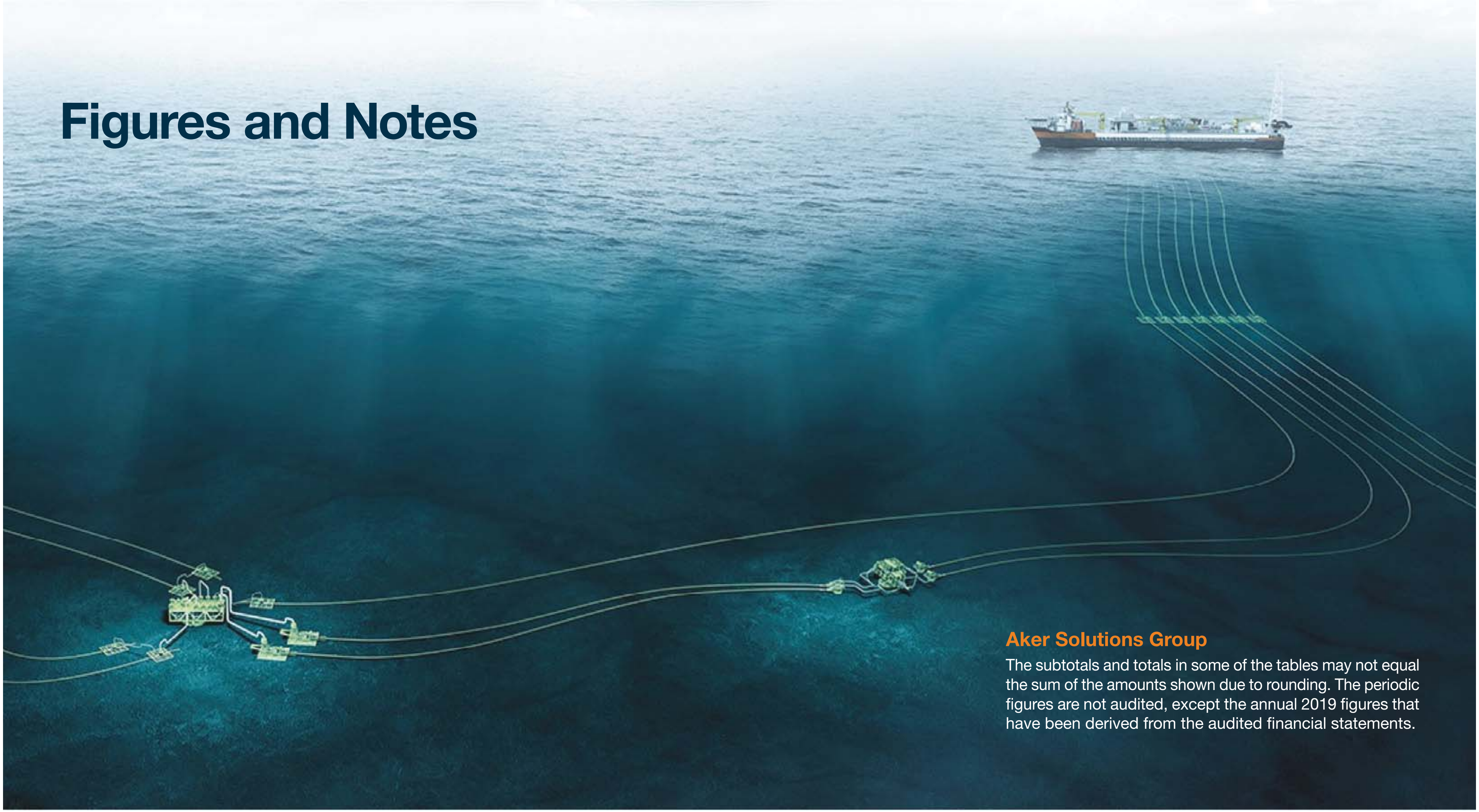
This declaration is based on information received by the Board through reports and statements from the CEO and CFO as well as other information essential to assess the company's results and financial position.

To the best of our knowledge:

- The half-year 2020 financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.
- The half-year 2020 financial statements give a true and fair view of the company's assets, liabilities and financial position in addition to the development and results of the company taken as a whole.
- The half-year 2020 financial statements give a true and fair overview of important events that have occurred during the period and their impact on the financial statements, the most significant risks and uncertainties facing the company and significant related party transactions.

Fornebu, July 14, 2020
Board of Directors and CEO of Aker Solutions ASA

Øyvind Eriksen	**Koosum Kalyan**	**Kristian Røkke**	**Birgit Aagaard-Svendsen**	**Henrik O. Madsen**	**Atle Teigland**	**Hilde Karlsen**	**Audun Bråthen**	**Luis Araujo**
Chairman	Director	Director	Director	Director	Director	Director	Director	Chief Executive Officer



Figures and Notes

Aker Solutions Group

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding. The periodic figures are not audited, except the annual 2019 figures that have been derived from the audited financial statements.

Income Statement

Condensed consolidated income statement

NOK million.	Note	1H 2020	1H 2019	2019
Revenue	3, 4	**11,871**	14,781	29,263
Operating expenses		**-11,490**	-13,524	-27,019
Operating income before depreciation, amortization and impairment	4	**381**	**1,257**	**2,244**
Depreciation and amortization	6,7	**-594**	-611	-1,234
Impairments	8	**-551**	-223	-304
Operating income	4	**-764**	**423**	**705**
Interest income	5	**51**	28	57
Interest expenses	5	**-251**	-244	-508
Net other financial items	5	**-72**	0	-84
Income before tax		**-1,036**	**206**	**170**
Income tax		**135**	-68	-87
Net income		**-901**	**137**	**83**
Net income attributable to:				
Equity holders of the parent company		**-919**	118	41
Non-controlling interests		**18**	19	41
Net income		**-901**	**137**	**83**
Earnings per share in NOK (basic and diluted)	**9**	**-3.38**	**0.43**	**0.15**

Other Comprehensive Income (OCI)

Condensed consolidated statement of other comprehensive income

NOK million.	1H 2020	1H 2019	2019
Net income	**-901**	**137**	**83**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Cashflow hedges, effective portion of changes in fair value	**-69**	58	124
Cashflow hedges, reclassification to income statement	**21**	-77	-98
Cashflow hedges, deferred tax	**11**	4	-7
Translation differences - foreign operations	**281**	-177	80
Total	**244**	**-192**	**98**
Items that will not be reclassified to profit or loss:			
Remeasurements of defined pension obligations	**0**	0	-109
Remeasurements of defined pension obligations, deferred tax asset	**0**	0	24
Total	**0**	**0**	**-85**
Total comprehensive income (loss)	**-657**	**-55**	**96**
Total comprehensive income attributable to:			
Equity holders of the parent company	**-683**	-72	55
Non-controlling interests	**26**	17	41
Total comprehensive income (loss)	**-657**	**-55**	**96**

Balance Sheet

Condensed consolidated balance sheet

NOK million.	Note	June 30, 2020	June 30, 2019	December 31, 2019
Property, plant and equipment	6	**2,905**	2,916	3,065
Intangible assets	7	**5,423**	5,578	5,710
Right-of-use assets	11	**3,494**	3,848	3,628
Deferred tax asset		**1,121**	751	871
Lease receivables	11	**755**	665	663
Other investments	15	**92**	157	93
Other non-current assets	14	**370**	168	268
Total non-current assets		**14,161**	**14,084**	**14,298**
Current tax assets		**93**	92	120
Inventories		**270**	353	369
Trade receivables		**3,617**	4,063	3,182
Customer contract assets and other receivables		**4,868**	4,147	4,846
Prepayments		**1,536**	1,918	1,564
Derivative financial instruments		**204**	86	156
Interest-bearing receivables		**140**	122	130
Cash and cash equivalents		**2,460**	2,228	1,898
Total current assets		**13,188**	**13,009**	**12,265**
Total assets		**27,349**	**27,092**	**26,563**

NOK million.	Note	June 30, 2020	June 30, 2019	December 31, 2019
Total equity attributable to the parent	9	**6,532**	7,044	7,134
Non-controlling interests	9	**78**	123	97
Total equity		**6,610**	**7,167**	**7,231**
Non-current borrowings	10	**4,580**	2,714	3,280
Non-current lease liabilities	11	**4,799**	5,029	4,889
Pension obligations		**656**	562	663
Deferred tax liabilities		**242**	211	269
Other non-current liabilities		**3**	14	22
Total non-current liabilities		**10,280**	**8,530**	**9,123**
Current tax liabilities		**221**	79	81
Current borrowings	10	**242**	865	217
Current lease liabilities	11	**608**	556	571
Provisions		**555**	582	521
Trade payables		**3,087**	2,087	2,000
Other payables		**5,084**	6,364	6,021
Customer contract liabilities		**516**	730	677
Derivative financial instruments		**144**	132	121
Total current liabilities		**10,458**	**11,396**	**10,209**
Total liabilities and equity		**27,349**	**27,092**	**26,563**

Cashflow

Condensed consolidated statement of cashflow

NOK million.	Note	1H 2020	1H 2019	2019
Cashflow from operating activities				
Net income		**-901**	137	83
Adjustments for:				
Income tax		**-135**	68	87
Net financial cost		**273**	208	535
(Profit) loss on foreign currency forward contracts		**-1**	8	0
Depreciation, amortization and impairment	6, 7, 8	**1,145**	834	1,539
Other (profit) loss on disposals and non-cash effects		**-31**	-12	-99
Net income after adjustments		**350**	**1,245**	**2,145**
Changes in operating assets and liabilities		**-364**	-1,178	-1,202
Cash generated from operating activities		**-14**	**67**	**943**
Interest paid		**-257**	-274	-572
Interest received		**71**	54	132
Income taxes paid		**-51**	-95	-184
Net cash from operating activities		**-251**	**-248**	**319**

NOK million.	Note	1H 2020	1H 2019	2019
Cashflow from investing activities				
Acquisition of property, plant and equipment	6	**-269**	-184	-599
Payments for capitalized development	7	**-119**	-79	-228
Acquisition of subsidiaries, net of cash acquired		**0**	-35	-35
Proceeds from sale of property, plant and equipment		**0**	2	33
Change in interest-bearing receivables		**-88**	-57	-64
Acquisition of shares and funds		**-4**	-76	-151
Sale of shares and funds		**0**	16	16
Cash collection from lease receivables	11	**63**	62	113
Net cash from investing activities		**-417**	**-351**	**-916**
Cashflow from financing activities				
Proceeds from borrowings	10	**1,505**	1,001	1,784
Repayment of borrowings	10	**-156**	-326	-1,190
Payment of lease liabilities	11	**-306**	-270	-559
Acquisition of non-controlling interests		**-50**	0	0
Net purchase of treasury shares and share purchase program		**19**	0	-48
Other financing activities		**0**	0	-1
Net cash from financing activities		**1,012**	**405**	**-14**
Effect of exchange rate changes on cash and bank deposits		**218**	-51	37
Net increase (decrease) in cash and bank deposits		**562**	**-245**	**-575**
Cash and cash equivalents at the beginning of the period		**1,898**	2,473	2,473
Cash and cash equivalents at the end of the period		**2,460**	**2,228**	**1,898**

Equity

Condensed consolidated statement of changes in equity

NOK million.	Share capital	Treasury share reserve	Retained earnings	Hedging reserve	Translation reserve	Pension reserve	Equity attributable to parent	Non-controlling interests	Total equity
Equity as of January 1, 2019	**294**	**-1**	**5,692**	**-8**	**1,240**	**-71**	**7,147**	**106**	**7,252**
Net income	0	0	118	0	0	0	**118**	19	**137**
Other comprehensive income	0	0	0	-16	-175	0	**-190**	-2	**-193**
Total comprehensive income	**0**	**0**	**118**	**-16**	**-175**	**0**	**-72**	**17**	**-55**
Other changes to equity	0	0	-31	0	0	0	**-31**	0	**-31**
Equity as of June 30, 2019	**294**	**-1**	**5,780**	**-23**	**1,065**	**-71**	**7,044**	**123**	**7,167**
Equity as of December 31, 2019	**294**	**0**	**5,666**	**11**	**1,320**	**-156**	**7,134**	**97**	**7,231**
Net income	0	0	-919	0	0	0	**-919**	18	**-901**
Other comprehensive income	0	0	0	-37	273	0	**236**	8	**244**
Total comprehensive income	**0**	**0**	**-919**	**-37**	**273**	**0**	**-683**	**26**	**-657**
Acquisition of non-controlling interests	0	0	-5	0	0	0	**-5**	-45	**-50**
Correction of opening balance related to IFRS 16 leases	0	0	102	0	0	0	**102**	0	**102**
Taxes on equity transactions	0	0	-16	0	0	0	**-16**	0	**-16**
Equity as of June 30, 2020	**294**	**0**	**4,828**	**-27**	**1,593**	**-156**	**6,532**	**78**	**6,610**

Notes

Note 1 General

Aker Solutions is global provider of products, systems and services to the oil and gas industry. The company has about 13,000 own employees and is present in 25 countries. The main office is at Fornebu, Norway. Aker Solutions ASA is a Norwegian limited liability company listed on the Oslo Stock Exchange under the ticker AKSO.

The consolidated financial statements of Aker Solutions ASA incorporate the financial statements of the company and its subsidiaries collectively referred to as “the group” or “the company” and separately as group companies. The parent company Aker ASA publishes consolidated financial statements. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA. The half-year financial statements are unaudited.

Note 2 Basis for Preparation

Statement of Compliance

Aker Solutions’ half-year financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and are unaudited. The accounting principles used in the half-year financial statements are consistent with those used in the 2019 Annual Report. As the half-year financial statements do not include all the information and disclosures required in the annual report, they should be read in conjunction with the 2019 Annual Report available at www.akersolutions.com.

Judgments and Estimates

The preparation of the half-year financial statements in conformity with IAS 34 Interim Financial Reporting requires management to make judgments, estimates and assumptions each reporting period that affect the income statement and balance sheet. The accounting estimates will by definition seldom precisely match actual results. The judgments and estimates are based on historical experience or other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes to accounting estimates are recognized in the period in which the estimate is revised and any subsequent periods the change relates to.

In preparing these half-year financial statements, significant judgments made by management in applying the group’s accounting policies and the key sources of uncertainty in the estimates were consistent with those described in the 2019 Annual Report available on www.akersolutions.com.

Note 3 Revenue

The following tables show the revenue from customer contracts by type and per country. Revenue figures include only external revenues. Revenue per country is based on location of the selling company.

Amounts in NOK million	**1H 2020**	**1H 2019**	**2019**
Projects - Subsea	4,204	4,730	9,151
Projects - Field Design	4,916	7,174	13,948
IFRS 15 revenue included in Projects operating segment	9,120	11,903	23,099
IFRS 15 revenue included in Services operating segment	2,663	2,800	5,986
IFRS 15 revenue included in Other segment	24	18	35
Total revenue from customer contracts (IFRS 15)	**11,807**	**14,721**	**29,120**
Operating lease revenue and other	64	60	143
Total revenue	**11,871**	**14,781**	**29,263**

Amounts in NOK million	**1H 2020**	**1H 2019**	**2019**
Norway	7,020	8,837	17,354
Malaysia	872	1,200	2,370
UK	867	1,931	3,606
Brazil	670	942	2,070
USA	517	615	972
Angola	505	457	1,030
Brunei	401	394	806
Other countries	1,017	404	1,056
Total revenue	**11,871**	**14,781**	**29,263**

Note 4 Operating Segments

Aker Solutions' operations are managed through value-chain based delivery centers. Early customer engagement and project execution are reported in the Projects segment whereas life-of-field offerings are reported in Services.

Projects

The Projects segment provides subsea equipment and systems, engineering and procurement in addition to frame agreements for brownfield maintenance, modifications and hook-up. The objective of the segment is to deliver world-class project execution by building excellence in project management, engineering, fabrication and offshore construction.

Services

The Services segment provides subsea lifecycle services (SLS) and production asset services (PAS). The objective of the segment is to grow a focused service business and position Aker Solutions as a key partner of choice for customers.

Other

The Other segment includes unallocated corporate costs, leasing of property shared across segments and the effect of hedges not qualifying for hedge accounting.

Accounting principles

The accounting principles of the operating segments are generally the same as described in the annual report. As noted in the annual report, the operating segments apply hedge accounting independently of whether the hedge qualifies for hedge accounting or not in accordance with IFRS. When contract revenues and contract costs are denominated in a foreign currency, the subsidiary hedges the exposure against corporate treasury. A correction for the non-qualifying hedges and elimination of internal transactions are made in the consolidated financial statements. This means that the group's segment report reflects both internal and external hedges before any adjustment for non-qualifying hedges and before internal transactions are eliminated in the Other segment.

Segment performance

Amounts in NOK million	1H 2020	1H 2019	2019
Income statement			
Revenue			
Projects	**9,177**	11,967	23,253
Services	**2,667**	2,802	5,995
Total operating segments	**11,844**	**14,769**	**29,248**
Other	**81**	77	176
Eliminations	**-54**	-65	-160
Total	**11,871**	**14,781**	**29,263**
Operating income before depreciation, amortization and impairment (EBITDA)			
Projects	**406**	947	1,736
Services	**148**	391	721
Total operating segments	**554**	**1,338**	**2,457**
Other	**-173**	-82	-213
Total	**381**	**1,257**	**2,244**
Operating income (EBIT)			
Projects	**-357**	469	837
Services	**-111**	242	399
Total operating segments	**-467**	**711**	**1,236**
Other	**-297**	-288	-531
Total	**-764**	**423**	**705**

Amounts in NOK million	1H 2020	1H 2019	2019
Balance Sheet			
Net current operating assets (NCOA)			
Projects	**91**	-66	-239
Services	**479**	936	844
Total operating segments	**569**	**870**	**606**
Other	**351**	-139	176
Total	**920**	**731**	**781**

Refer to alternative performance measure for further information on NCOA.

Note 5 Finance Income and Expenses

Amounts in NOK million	1H 2020	1H 2019	2019
Interest income on lease receivables	**19**	17	33
Other interest income	**32**	10	24
Interest income	**51**	**28**	**57**
Interest expense on lease liabilities	**-117**	-120	-237
Interest expense on financial liabilities measured at amortized cost	**-128**	-116	-255
Interest expense on financial liabilities measured at fair value	**-6**	-8	-16
Sum interest expense	**-251**	**-244**	**-508**
Net foreign exchange gain (loss)	**-47**	-4	-107
Profit (loss) on foreign currency forward contracts	**1**	-8	0
Other finance income	**5**	18	42
Other financial expenses	**-31**	-6	-19
Net other finance items	**-72**	**0**	**-84**
Net finance cost	**-272**	**-217**	**-535**

Note 6 Property, Plant and Equipment

Amounts in NOK million	Buildings and sites	Machinery and equipment	Under construction	Total
Balance as of December 31, 2019	1,123	1,447	495	3,065
Additions	1	15	253	269
Reclassifications from assets under construction	7	199	-206	0
Depreciation	-27	-209	0	-236
Impairment	-6	-75	0	-81
Currency translation differences	-87	-4	-21	-112
Balance as of June 30, 2020	**1,010**	**1,373**	**522**	**2,905**

Note 7 Intangible Assets

Amounts in NOK million	Goodwill	Development	Other intangible assets	Total
Balance as of December 31, 2019	4,324	1,324	61	5,710
Capitalized development	0	119	0	119
Amortization	0	-116	-15	-131
Impairment	-104	-272	0	-376
Currency translation differences	48	53	1	102
Balance as of June 30, 2020	**4,269**	**1,107**	**47**	**5,423**

Note 8 Impairment of Assets

The COVID-19 pandemic and the challenging commodity price environment in 2020 has created unprecedented uncertainty with negative impact on both activity and financial performance at Aker Solutions. These events have also impacted the long-term market outlook. The company has completed an assessment of impairment indicators and performed an impairment test for those assets and cash generating units (CGUs) where impairment indicators have been identified. Impairment of assets of NOK 551 million was recognized in the first-half of 2020.

Individual assets

Each property, plant, equipment and right-of-use asset has been assessed for impairment triggers to identify assets that are damaged or will no longer be fully used. Capitalized development is assessed for impairment triggers to identify development programs where the technological development or market outlook for that specific technology no longer justify the book value.

The testing resulted in impairment of certain assets. The market outlook for some capitalized development projects had a negative development in the period, which resulted in an impairment. Further, the company decided to close the Sandnessjøen plant and updated the assessment of potential sub-leases for emptied parts of leased buildings in the period, which resulted in impairment of right-of-use lease assets. Some fixed assets were also impaired. In total, the individual asset testing resulted in impairment of NOK 436 million.

Assets in Cash Generating Units (CGU)

Impairment indicators has been reviewed for the company's CGUs with assessment of market conditions, cost development, technological development, change in order backlog, change in discount rate and other elements that may impact the value of the assets in the CGU. The company completed impairment tests using the value-in-use approach for those CGUs where impairment triggers were identified. The testing resulted in impairment of NOK 115 million related to one CGU. The remaining book value of fixed and intangible assets of the impaired CGU was NOK 49 million.

Goodwill

Due to the global market disruption as a result of the commodity price development and the COVID-19 pandemic, the company has performed an impairment test of its goodwill. The following assumptions were used:

- Updated forecast of five-year cashflows in the period 2020-2024 based on firm orders in the backlog, identified prospects, expected service revenue and expected cost levels
- Updated post-tax WACC of 9.6 percent (8.6 percent at year-end 2019) for Projects, and 9.8 percent (8.8 percent at year-end 2019) for Services.
- A growth rate of 1.5 percent was used for both segments (same as year-end 2019)

No impairment was identified in the goodwill testing.

Note 8 continues on next page

The table below summarizes the impairments identified in the individual asset and CGU testing:

	Projects			Services			Other			Total		
Amounts in NOK million	**1H 2020**	**1H 2019**	**2019**	**1H 2020**	**1H 2019**	**2019**	**1H 2020**	**1H 2019**	**2019**	**1H 2020**	**1H 2019**	**2019**
Impairment of intangible assets	254	2	2	119	0	0	2	0	0	376	2	2
Impairment of property, plant and equipment	50	0	25	11	0	14	20	5	7	81	5	46
Impairment of right-of-use assets	59	74	53	2	19	54	34	123	150	94	216	257
Total impairments	**363**	**76**	**80**	**132**	**19**	**68**	**56**	**128**	**157**	**551**	**223**	**304**

Multiple sensitivity tests have been run on the key assumptions in the value-in-use calculations to address the current uncertainty in the oil service market. Applying the following changes in key assumptions did not result in any impairment:

- decrease the long-term growth rate to zero
- Increase post-tax WACC by 2 percentage points
- Decrease forecasted cash-flows in all years (including terminal value) by 20 percent

Future cash flows are uncertain as they are impacted by market developments beyond Aker Solutions' control. The development of the long-term oil price impacts the investment levels in capex and maintenance projects by the oil companies, which in turn impacts the order intake in Aker Solutions. Due to the high level of uncertainties at the time this report was finalized, there is significant uncertainty related to the long-term impact on the market and future cashflows of the company.

Note 9 Share Capital and Equity

Aker Solutions ASA was founded May 23, 2014 with a nominal share capital of NOK 293,807,940. The total outstanding shares are 272,044,389 shares at par value NOK 1.08 per share at June 30, 2020. All issued shares are fully paid.

Aker Solutions ASA holds 101,636 treasury shares as of June 30, 2020. Treasury shares are not included in the weighted average number of ordinary shares. Earnings per share have been calculated based on an average of 271,942,753 shares outstanding June 30, 2020.

The General Meeting on April 21, 2020 decided that no dividend payment is made for 2019 as it was deemed prudent to exercise caution and conserve cash amid continued uncertainty about the market outlook.

Note 10 Borrowings

Interest bearing borrowings are recognized initially at fair value less transaction costs and subsequent at amortized cost.

Amounts in NOK million	Maturity	June 30, 2020	June 30, 2019	Dec 31, 2019
Bond - ISIN NO 0010661051	October 2019	0	732	0
Bond - ISIN NO 0010814213	July 2022	1,501	1,500	1,503
Bond - ISIN NO 0010853286	June 2024	992	992	993
Brazilian Development Bank EXIM and capex loans	Within one year	209	114	194
Brazilian Development Bank EXIM and capex loans	More than one year	116	262	221
Revolving Credit Facility[1]	March 2023	1,994	-22	582
Other loans and amortization effects		10	2	4
Total borrowings		**4,823**	**3,579**	**3,497**
Current borrowings		242	865	217
Non-current borrowings		4,580	2,714	3,280
Total borrowings		**4,823**	**3,579**	**3,497**

1) The carrying amount includes fees for establishing the credit facility which is deferred according to the amortized cost method

Borrowings are measured at amortized cost and interest rate variations will not affect the valuation as they are held to maturity. The bonds were issued in the Norwegian bond market. The fair value of the bonds were NOK 2,164 million per June 30, 2020, compared to carrying amount of NOK 2,494 million. The fair value of the bonds per December 31, 2019 was NOK 2,551 million compared to carrying amount of NOK 2,496 million.

As of June 30, 2020 Aker Solutions is in compliance with financial covenants in all loan agreements. As a preemptive measure Aker Solutions has close dialogue with core lenders to protect the liquidity reserve and ensure continued availability of credit facilities in case the market further deteriorates.

Note 11 Leasing

The company leases a number of office buildings in addition to manufacturing and service sites. The company also leases machines and vehicles. All contracts that contain a lease are recognized on the balance sheet as a right-of-use asset and lease liability, except short-term and low-value leases. The right-of-use asset is depreciated over the lease term and is subject to impairment testing. Sub-leases covering the major part of the lease term in the head-lease are classified as finance sub-leases.

The movement in the right-of-use assets and lease liabilities during the period is summarized below.

	Right-of-use assets					
Amounts in NOK million	Land and building	Machinery and vehicles	Others	Total	Lease liabilities	Lease receivable (sub-lease)
Balance as of December 31, 2019	3,608	16	4	3,628	5,460	784
Additions	126	1	0	127	149	148
Depreciation expense	-219	-6	-3	-227	n/a	n/a
Impairments	-94	0	0	-94	n/a	n/a
Interest expense/sub-lease interest income	n/a	n/a	n/a	n/a	117	19
Lease payments/sub-lease payments	n/a	n/a	n/a	n/a	-423	-82
Currency translation differences	61	-1	0	60	105	17
Balance as of June 30, 2020	**3,482**	**10**	**2**	**3,494**	**5,407**	**886**

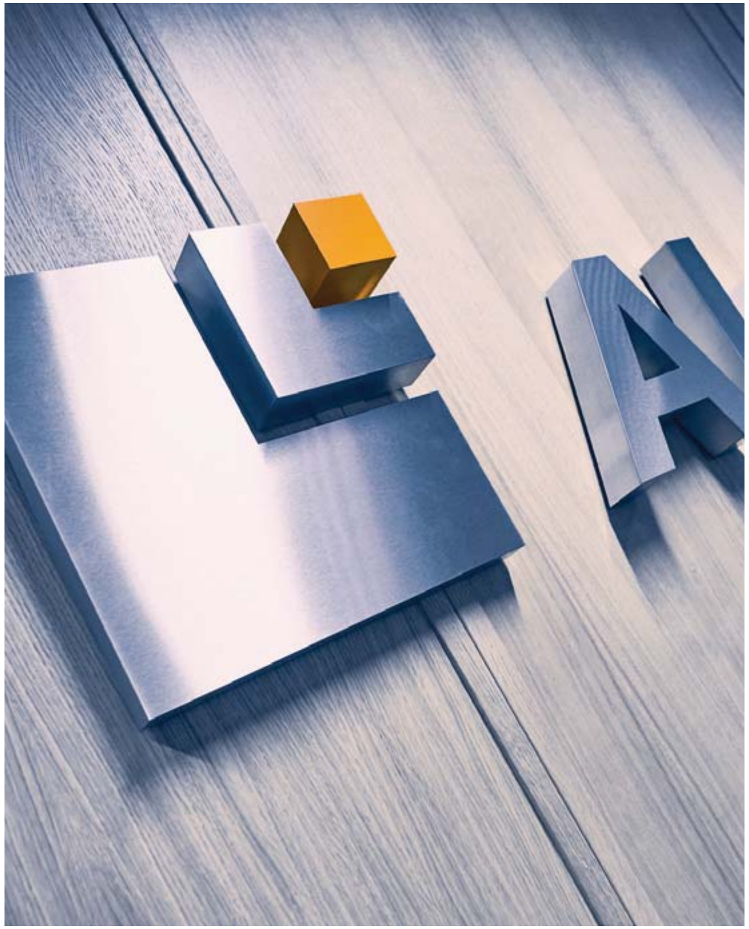
Note 12 Provisions

Amounts in NOK million	Warranties	Onerous contracts	Restructuring	Other	Total
Balance as of December 31, 2019	182	196	8	135	521
Change in the period	-26	-80	130	6	30
Currency translation	2	1	0	1	5
Balance as of June 30, 2020	**158**	**117**	**138**	**142**	**555**

The provision for warranties relates to expected re-work and improvements for products and services delivered to customers. The warranty period is normally two to five years. The provision is based on the historical average warranty expenses for each type of equipment and an assessment of the value of delivered products and services currently in the warranty period.

The onerous contracts provision includes customer contracts with expected losses upon completion. The provision is sensitive to changes in assumptions related to expected future revenue and expense on the customer contract.

The restructuring provision relates to expected employee costs for permanent and temporary redundancies as a result of the COVID-19 pandemic and the general market uncertainties. Other provisions relate to other liabilities with uncertain timing or amount, including provisions for claims, leasehold dilapidations and certain employee benefits.



Note 13 Related Parties

Related parties' relationships are defined to be entities outside the Aker Solutions group that are under control (either directly or indirectly), joint control or significant influence by the owners of Aker Solutions. Related parties are in a position to enter into transactions with the company that would potentially not be undertaken between unrelated parties. All transactions in the Aker Solutions group with related parties have been based on arm's length terms.

The largest shareholder of Aker Solutions is Aker Kværner Holding AS which is controlled by Aker ASA (70 percent). Aker ASA is controlled by The Resource Group TRG AS, a company controlled by Kjell Inge Røkke. The Resource Group TRG AS is the ultimate parent company of Aker Solutions ASA. In this respect, all entities owned by Aker ASA and entities which Kjell Inge Røkke and his close family controls through The Resource Group TRG AS are considered related parties to Aker Solutions. These entities include companies like Akastor, Kvaerner and Aker BP and are referred to as Aker entities in this note. Non-controlling interests with significant influence are also considered as related parties.

Below is a summary of transactions and balances between Aker Solutions group and its related parties.

Related Party Transactions Included in Income statement

Amounts in NOK million	**1H 2020**	**1H 2019**	**2019**
Operating revenues	**2,094**	2,202	3,983
Operating expenses	**-154**	-63	-386
Depreciation and impairment of ROU assets	**-136**	-140	-217
Net financial items	**-20**	-27	-53

Related Party Transactions Included in Balance Sheet

Amounts in NOK million	**June 30, 2020**	**June 30, 2019**	**December 31, 2019**
Right-of-use (ROU) assets	**1,075**	1,292	1,187
Lease receivable, long term	**188**	220	189
Trade receivables	**674**	584	286
Non-current interest-bearing receivables	**194**	121	98
Lease receivable, short term	**67**	60	61
Non-current leasing liabilities	**-1,280**	-1,366	-1,313
Trade payables	**-16**	-57	-34
Current interest-bearing loans	**-8**	-1	-1
Current leasing liabilities	**-109**	-121	-108

Aker Solutions has several transactions with related parties on a recurring basis as part of normal business such as commercial customer contracts, sub-supplier contracts and hire of technical and project personnel between Aker Solutions, Aker BP and Kvaerner. Aker Solutions is also leasing property from and to related parties.

Note 14 Equity-Accounted Investments

Joint ventures are those entities where the company has joint control and rights to net assets. Associates are those entities where the company has significant influence, but not control or joint control (usually between twenty and fifty percent of voting power). Interests in associates and joint ventures are accounted for using the equity method. The book value of equity-accounted investments was:

Amounts in NOK million	June 30, 2020	June 30, 2019	December 31, 2019
Joint ventures	24	3	15
Associates	125	1	130
Total	**149**	**4**	**146**

Note 15 Other Investments

Other investments include investments in entities which the company does not have significant influence, usually where the company holds less than twenty percent of the voting power. Such investments are designated as equity securities at fair value through other comprehensive income as they represent long-term strategic investments. The company had invested NOK 92 million in unlisted shares at June 30, 2020 compared to NOK 157 million at June 30, 2019 and NOK 93 million at December 31, 2019. These shares are measured at cost less impairment, as this is the best estimate of fair value. There is no quoted market prices or other information available to measure fair value.

Alternative Performance Measures

Aker Solutions discloses alternative performance measures in addition to those normally required by IFRS as such performance measures are frequently used by securities analysts, investors and other interested parties. Alternative performance measures are meant to provide an enhanced insight into the operations, financing and future prospects of the company.

Profit Measures

EBITDA and EBIT terms are presented as they are used by financial analysts and investors. Special items are excluded from EBITDA and EBIT as alternative measures to provide enhanced insight into the financial development of the business operations and to improve comparability between different periods.

EBITDA is short for earnings before interest, taxes, depreciation and amortization. EBITDA corresponds to the “operating income before depreciation, amortization and impairment” in the consolidated income statement in the annual report.

EBIT is short for earnings before interest and taxes. EBIT corresponds to “operating income” in the consolidated income statement in the annual report.

Margins such as EBITDA margin and EBIT margin are used to compare relative profit between periods. EBITDA margin and EBIT margin are calculated as EBITDA or EBIT divided by revenue.

Special items may not be indicative of the recurring operating results or cash flows of the company. Profit measures excluding special items are presented as alternative measures to improve comparability of the underlying business performance between the periods.

Amounts in NOK million	**Projects**				**Services**				**Other / eliminations**				**Aker Solutions**			
	2Q 2020	**2Q 2019**	**1H 2020**	**1H 2019**	**2Q 2020**	**2Q 2019**	**1H 2020**	**1H 2019**	**2Q 2020**	**2Q 2019**	**1H 2020**	**1H 2019**	**2Q 2020**	**2Q 2019**	**1H 2020**	**1H 2019**
Revenue	4,058	6,015	9,177	11,967	1,281	1,503	2,667	2,802	22	8	28	12	5,361	7,525	11,871	14,781
Non-qualifying hedges	0	0	0	0	0	0	0	0	2	0	-7	1	2	0	-7	1
Sum of special items excluded from revenue	0	0	0	0	0	0	0	0	2	0	-7	1	2	0	-7	1
Revenue ex. special items	**4,058**	**6,015**	**9,177**	**11,967**	**1,281**	**1,503**	**2,667**	**2,802**	**24**	**8**	**21**	**13**	**5,363**	**7,525**	**11,864**	**14,782**
EBITDA	233	470	406	947	85	205	148	391	-87	-52	-173	-82	232	623	381	1,257
Restructuring cost	35	5	167	6	41	6	56	6	41	0	50	1	117	10	272	13
Non-qualifying hedges	0	0	0	0	0	0	0	0	-8	-4	1	-6	-8	-4	1	-6
Other special items	0	0	0	-0	0	0	0	0	13	-0	13	2	13	-0	13	2
Sum of special items excluded from EBITDA	35	5	167	6	41	6	56	6	45	-4	64	-3	121	6	286	9
EBITDA ex. special items	**268**	**475**	**573**	**953**	**126**	**210**	**204**	**397**	**-41**	**-56**	**-109**	**-85**	**353**	**629**	**667**	**1,266**
EBITDA margin	5.7%	7.8%	4.4%	7.9%	6.6%	13.6%	5.5%	14.0%					4.3%	8.3%	3.2%	8.5%
EBITDA margin ex. special items	6.6%	7.9%	6.2%	8.0%	9.8%	14.0%	7.6%	14.2%					6.6%	8.4%	5.6%	8.6%
EBIT	47	189	-357	469	12	122	-111	242	-122	-213	-297	-288	-63	98	-764	423
Sum of special items excluded from EBITDA	35	5	167	6	41	6	56	6	45	-4	64	-3	121	6	286	9
Impairments	-10	76	363	76	9	19	132	19	3	126	56	128	3	221	551	223
Sum of special items excluded from EBIT	25	80	529	82	50	25	188	25	49	122	120	125	124	228	838	232
EBIT ex. special items	**72**	**270**	**173**	**550**	**63**	**147**	**77**	**267**	**-73**	**-91**	**-177**	**-163**	**62**	**325**	**74**	**655**
EBIT margin	1.1%	3.1%	-3.9%	3.9%	1.0%	8.1%	-4.2%	8.6%					-1.2%	1.3%	-6.4%	2.9%
EBIT margin ex. special items	1.8%	4.5%	1.9%	4.6%	4.9%	9.8%	2.9%	9.5%					1.1%	4.3%	0.6%	4.4%

Table continues on next page

Amounts in NOK million	Aker Solutions			
	2Q 2020	**2Q 2019**	**1H 2020**	**1H 2019**
Net income	-171	-11	-901	137
Sum of special items excluded from EBIT	124	228	838	232
Non-qualifying hedges	11	5	-1	8
Tax effects on special items	-21	-52	-154	-50
Net income ex. special items	**-56**	**169**	**-219**	**327**
Net income to non-controlling interests	-6	-18	-18	-19
Net income ex. non-controlling interests	**-63**	**151**	**-237**	**308**
Average number of shares (in 1,000)	271,943	271,533	271,943	271,533
Earnings per share[1]	-0.65	-0.11	-3.38	0.43
Earnings per share ex. special items[2]	**-0.23**	**0.56**	**-0.87**	**1.13**

1) Earnings per share is calculated using net income, adjusted for non-controlling interests, divided by average number of shares
2) Earnings per share ex. special items is calculated using net income ex. special items, adjusted for non-controlling interests, divided by average number of shares

Order Intake Measures

Order intake, order backlog and book-to-bill ratios are presented as alternative performance measures, as they are indicators of the company's revenues and operations in the future.

Order intake includes new signed customer contracts in the period in addition to expansion of existing contracts. For construction contracts, the order intake includes the value of signed contracts and options, and value of agreed change orders. It does not include potential options and change orders. For service contracts, the order intake is based on estimated customer revenue in periods that are firm in the contracts.

Order backlog represents the estimated value of remaining work on signed customer contracts. The order backlog does not include parts of the Services segment, which is short-cycled or book-and-turn in nature. The order backlog does also not include potential growth or value of options in existing contracts.

Book-to-bill ratio is calculated as order intake divided by revenue in the period. A book-to-bill ratio higher than 1 means that the company has secured more contracts in the period than what has been executed in the same period.

	2Q 2020			2Q 2019		
Amounts in NOK million	**Order intake**	**Revenue**	**Book-to-bill**	**Order intake**	**Revenue**	**Book-to-bill**
Projects - Subsea	2,967	1,895	**1.6**	1,846	2,343	0.8
Projects - Field Design	3,365	2,164	**1.6**	999	3,680	0.3
Other/eliminations	-1	-1		15	-8	
Projects	6,331	4,058	**1.6**	2,860	6,015	0.5
Services	614	1,281	**0.5**	902	1,503	0.6
Other/eliminations	26	22		60	8	
Aker Solutions	6,971	5,361	**1.3**	3,822	7,525	0.5

Financing Measures

Alternative financing and equity measures are presented as they are indicators of the company's ability to obtain financing and service its debts.

Liquidity buffer (available liquidity) is a measure of available cash and is calculated by adding together the cash and cash equivalents and the unused credit facility.

Amounts in NOK million	June 30, 2020	June 30, 2019
Cash and cash equivalents	**2,460**	2,228
Credit facility (unused)	**3,000**	5,000
Liquidity buffer	**5,460**	**7,228**

Net current operating assets (NCOA) or working capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

	Projects		Services		Aker Solutions	
Amounts in NOK million	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Current tax assets	**52**	43	**0**	1	**93**	92
Inventory	**108**	175	**160**	177	**270**	353
Customer contract assets and other receivables	**2,596**	1,952	**1,024**	1,108	**4,868**	4,147
Trade and other receivables	**2,767**	3,870	**2,763**	2,484	**3,617**	4,063
Prepayments	**416**	915	**500**	403	**1,536**	1,918
Current tax liabilities	**0**	0	**-64**	-66	**-221**	-79
Provisions	**-374**	-471	**-21**	1	**-555**	-582
Trade payables	**-1,658**	-1,910	**-2,420**	-2,015	**-3,087**	-2,087
Other payables	**-3,407**	-4,045	**-1,409**	-1,124	**-5,084**	-6,365
Customer contract liabilities	**-408**	-595	**-53**	-31	**-516**	-730
Net current operating assets (NCOA)	**91**	-66	**479**	936	**920**	731

Net interest-bearing debt to EBITDA (leverage ratio)

is a key financial measure that is used to assess the borrowing capacity of a company. The ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. The ratio is one of the debt covenants of the company.

The ratio is calculated as net interest-bearing debt (total principal debt outstanding less unrestricted cash) divided by EBITDA. If a company has more cash than debt, the ratio can be negative. The leverage ratio for Aker Solutions does not include the effects of IFRS 16 Leasing, as the debt covenants are based on frozen GAAP.

Further, the EBITDA is calculated based on the last four quarter period and it excludes certain special items as defined in the loan agreements, such as restructuring of offices (onerous leases) and other restructuring costs.

Amounts in NOK million	June 30, 2020	June 30, 2019
Non-current borrowings	4,580	2,714
Current borrowings	242	865
Cash and cash equivalents	-2,460	-2,228
Net interest-bearing debt	**2,362**	**1,351**
Trailing four quarters:		
EBITDA	1,368	2,203
IFRS 16 effects excl. onerous lease cost	567	285
EBITDA excl. IFRS 16 effects and onerous lease cost	**801**	**1,918**
Onerous lease cost (IAS 17)	0	15
Restructuring cost	330	41
Non-qualifying hedges	7	-10
Adjusted EBITDA	**1,138**	**1,963**
Net interest-bearing debt to EBITDA (leverage ratio)	**2.1**	**0.7**

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Appendix 2.2

Annual Report 2019

KVÆRNER™

Contents

Board of Directors' report 2019

Operational highlights

Order intake worth a total of NOK 6.9 billion secured, including:

- A strategic breakthrough for our Renewables area securing the contract for the Hywind Tampen offshore wind project, worth NOK 1.5 billion. The scope includes the delivery of 11 floating concrete hulls for the turbines, in addition to marine operations
- Awarded the first contract in onshore market outside oil and gas sector, worth NOK 200 million, to install new equipment for the production line B at Hydro's aluminium plant at Husnes, Norway
- Assisting Equinor with the offshore hook-up work to prepare Njord A for production start in the fourth quarter 2020
- Secured the decommissioning contract of Allseas' Gyda platform. This includes offshore preparations assistance, onshore disposal and recycling
- Awarded a marine operations contract which includes the removal of a production platform offshore Canada
- Shell UK awarded Kvaerner a contract to perform early phase design engineering of the planned Jackdaw wellhead platform on the UK continental shelf

Key project milestones and deliveries

- Johan Sverdrup utility and living quarter (ULQ) topside: Project sat a new standard for pre-completion of installation prior to sail-away, resulting platform commencing operation one month ahead of schedule. Sail- away was on schedule 15 February
- Valhall Flank West wellhead platform jacket: fabrication and jacket assembly was completed in the first quarter of 2019. Jacket was towed to the field on 27 April on schedule
- Valhall Flank West unmanned wellhead platform topside: transported from Kvaerner's yard in Verdal on schedule in mid-June, with first oil in mid-December
- Valhall decommissioning: Valhall living quarter platform and bridge arrived at Kvaerner's yard at Stord for deconstruction and recycling in the second quarter
- Njord A Upgrade: heavy lift programme completed in the first quarter, connecting all new and existing systems
- Johan Castberg FPSO: modules from Poland arrived in the third quarter. Fabrication of modules is ongoing at Kvaerner's yards at Stord and Verdal as well as Aker Solutions' yard in Egersund
- Johan Sverdrup RP module and modification: fabrication of the new module started in Poland and at Stord during the second quarter, while offshore work commenced early January 2020
- Johan Sverdrup phase 1: Kvaerner's hook-up and commissioning personnel was part of the finalisation of phase 1, enabling production start on 5 October
- Johan Sverdrup phase 2 process platform jacket: prefabrication started on 20 June. Design engineering completed end-October, while the first roll-up was completed in early January 2020
- Nord Stream 2 landfall contract: majority of mechanical work completed by the end of 2019
- West White Rose marine operations: customer decided to extend the project schedule by one year to 2022

Strategic development

The global energy mix is changing, with an increasing share of renewable energy production. Although the near term oil and gas market is robust, the longer term demand is more uncertain. Kvaerner expects that the number of large new platform projects will decline, and there is a need for large scale discoveries on the Norwegian continental shelf. New oil and gas fields will be important in order to secure the same level of Norwegian value creation, while transitioning to more sustainable production.

Moving forward, Kvaerner expects that its contract portfolio will be more diversified in terms of project sizes and types of industries. The company sees increasing interest and activity around small and medium-sized assets. For these types of projects, customers are increasingly interested in contractors who can offer industrialised concepts which will also contribute to cost reduction. Kvaerner has therefore strategically increased efforts to develop more standardised solutions and delivery models. The awards for the unmanned wellhead platform Valhall Flank West and the Johan Castberg FPSO are examples of this.

The renewables market is expected to continue to grow in the years to come. Particularly within offshore wind, which holds significant opportunities for Kvaerner. Kvaerner is currently targeting several upcoming opportunities within offshore wind turbine foundations and converter stations. In October 2019, Kvaerner was awarded the engineering, construction and installation (EPCI) contract for the largest floating wind project to date, Hywind Tampen.

The foundation of Kvaerner's competitive advantage is employees with industry leading skills and experience, together with state-of-the-art project execution models. The One Kvaerner Academy has been established 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. Furthermore, Kvaerner's delivery models are based on effective combination of own capabilities and the yard facilities at Stord and Verdal, together with strategic partners, subcontractors and suppliers.

In 2019, the company has continued to invest in upgrading its facilities, including the quayside at Stord. Kvaerner now believes that it is able to offer one of the world's best production lines for advanced FPSOs (FPSO factory), focusing on secure execution within agreed quality, time and price. In addition, Kvaerner announced a strategic partnership agreement with Samsung Heavy Industries and Aker Solutions in 2019, for joint delivery of upcoming FPSO contracts. The partners have identified several potential prospects for FPSO field developments in the coming years, especially in the northern hemisphere

In light of the continued cost focus in the industry, several improvement initiatives have been initiated and successfully completed; reducing cost levels for upcoming projects by more than 20 percent. Refinement of cost effective delivery models will be a key in the strategic development throughout 2020, and is vital for Kvaerner's competitiveness.

Business overview

Core operations

Kvaerner is a project execution specialist and a trusted advisor for our clients. We provide engineering, procurement and construction (EPC) services and deliver advanced offshore platforms, onshore plants, floating production units (i.e. FPSOs) and renewable energy solutions.

We have offices in seven countries and approximately 2 800 employees. We offer cost-effective, high quality fabrication capacity at our Norwegian yards at Stord and Verdal. In addition to operating these two facilities in Norway, Kvaerner is highly experienced in executing projects at third party yards with recent experience from Canada and Russia. Kvaerner also has solid experience in setting up fabrication sites in new locations.

Kvaerner normally acts as lead contractor on projects, subcontracting work to numerous larger and smaller suppliers.

In September 2019, Kvaerner announced its planned growth in three market areas:

- Process & Structures, serves the market for traditional oil and gas platforms, onshore facilities, decommissioning and marine operations
- Floating production units (i.e. FPSOs), was established to pursue and execute FPSO projects
- Renewables, was established to pursue and execute projects within offshore wind power, green onshore facilities and other renewable business

Over time it is expected that each of the three operational areas will contribute with approximately one third of annual revenues.

Kvaerner is one of the market leaders in delivery of complete offshore platforms and onshore plants for upstream oil and gas 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 significant number of challenging offshore projects around the world.

For deliveries of complete platform topsides, Kvaerner's capabilities include expertise to integrate systems such as oil and gas treatment, oil and gas storage, offloading and export, utility and process support systems, drilling facilities and living quarters. Within steel substructures, Kvaerner's track record includes 47 steel jackets delivered in 46 years, plus 55 smaller structures for offshore wind power. In 2019, Kvaerner delivered the topside and steel jacket substructure for the unmanned Valhall Flank West wellhead platform, and these kind of deliveries represents an interesting market opportunity. Kvaerner's expertise in concrete solutions for marine projects is also attracting new customers with plans for offshore wind energy installations based on concrete substructures. The company offers both medium-sized and major modification upgrades of existing offshore platforms; such as the ongoing Njord A platform upgrade. Kvaerner provides turnkey EPCI services, upgrading platforms to extend their field life and facilitating new satellite tie-ins with installation of new modules and functions.

Kvaerner is also one of the world's most experienced contractors for delivery of floating oil and gas installations. The company has had a key role in delivery of more than 15 of the world's most acknowledged floating platform projects. Having invested more than NOK 350 million in the quayside facilities at Stord yard in recent years, Kvaerner has one of the world's best production lines for advanced FPSOs. Kvaerner has historically completed six FPSO projects and is currently working on its sixth FPSO, Johan Castberg.

The Kvaerner marine operations team manages stand-alone projects for customers, as well as providing support to Kvaerner's in-house EPCI projects. In 2019, marine operations won a contract to remove a production platform offshore Canada.

At the end of the offshore oil and gas value chain is decommissioning and re-use/recycling of old offshore platforms. Kvaerner's facility at Eldøyane, Stord, is purpose-built for effective and environmentally friendly decommissioning and recycling of offshore platforms. Since identifying decommissioning as a new growth area in 2017, Kvaerner has successfully won a number of projects to recycle old platforms, including the Gyda platform in 2019.

In 2019, Kvaerner has reinforced the focus on the market for renewable business. Kvaerner is already an experienced player within the segment, having previously delivered around 60 units for offshore wind projects. In the past year, Kvaerner was awarded the contract to deliver the 11 floating concrete hulls for the Hywind Tampen offshore wind power project. In addition to this, the company is also currently involved in early phase work for several other customers. Within offshore wind, Kvaerner provides fixed and floating turbine foundations, in both steel and concrete for wind turbines. The company also offers converter platforms and sub-stations for offshore wind power developments.

In addition to Kvaerner's offshore heritage, the company is a leading provider of onshore receiving and processing facilities. Kvaerner has been a key contractor for seven out of the seven largest onshore oil and gas plants in Norway. Throughout 2019, Kvaerner has also been the main contractor for the North Stream 2 pig trap onshore facility in Russia.

In 2019, Kvaerner has experienced increased interest in the delivery model from the green onshore process industry, including aluminium, fertiliser, petrochemicals, minerals and metals. The first contract within this new onshore market was awarded in 2019, for Hydro's aluminium plant at Husnes, Norway.

Within onshore renewables, Kvaerner aims to apply its proven execution model for carbon capture and storage facilities, biofuels- and hydrogen plants.

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

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 within one of the three previously mentioned operational areas.

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. An example which illustrates potential synergy effects of such partnerships is the wellhead platform alliance established in 2017 with Aker BP, Kvaerner, ABB and Aker Solutions. The partnership between Kvaerner, Samsung Heavy Industries and Aker Solutions for joint delivery of upcoming FPSO contracts is another. 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 and adapted for new products and solutions by including learnings and experiences from execution of EPCI projects. The PEM™ ensures that the work progresses in a controlled manner, ensuring that projects are executed at the right time, to the right quality and at the agreed cost, thereby enabling Kvaerner to meet its business objectives. Consequently, the PEM™ contributes towards maintaining Kvaerner's record of safe and successful project execution.

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

- Quality in deliveries by proper planning; assurance and control throughout the value chain; with particular emphasis on the early phases to secure quality in all stages
- Continuous improvement of processes and products
- Lessons learned from previous projects are always considered
- Predictability in project execution and operations by using well-proven 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

Kvaerner has reorganised its corporate structure in 2019. Of the three operational areas, the new renewable area represents a stronger focus within the industry. Offshore wind is a growing market where Kvaerner is well positioned for fixed and floating wind turbine foundations, as well as for converter platforms. This can be both steel and concrete structures. The onshore green process industry is also considered part of renewables and is of interest to Kvaerner. New contracts have been secured in 2019 and more are expected in 2020.

Within the more traditional oil and gas market, Kvaerner has two operational areas: the FPSOs and Process & Structures operational area which covers all oil and gas projects offshore and onshore as well as decommissioning. Following the fall in oil price, and subsequent fall in activity level in the industry some years ago, we now see an increase in activities and project opportunities.

Within the FPSO segment we are building on current contracts and developing new complete FPSO delivery models together with partners. Focus is on northern hemisphere with FPSOs specifications that Kvaerner are familiar with. Some other FPSO opportunities are also pursued on a case by case basis.

There are limited number of large field developments within the traditional oil and gas area, such as the Johan Sverdrup field which is now in production. However, there are several smaller and medium-sized projects in the North Sea basin, including smaller platforms with modern unmanned solutions. We also see significant activity in the onshore oil and gas market. Refurbishment of existing fixed and floating platforms, are also a key market. Within decommissioning, there is expected to be a steady flow of opportunities. The number of oil and gas contractors around the North Sea basin has been reduced in the last years. Going forward some over-capacity among oil and gas yards in Northern Europe is expected, as well as strong competition from Asian yards.

Target regions

Kvaerner's traditional home market, the North Sea, is evolving as the Norwegian continental shelf is becoming more mature. As a consequence, Kvaerner is more actively pursuing projects outside the Norwegian continental shelf, particularly in regions with similar harsh environment specifications, such as Canada and Russia. This can be fixed and floating facilities as well as onshore projects.

Within renewables and offshore wind in particular, the market is very international. The UK sector for instanse is very active with a large number of installations expected in the years ahead. Kvaerner is quite selective in terms of projects pursuit, focusing on where we have a competitive edge. There are also markets outside the North Sea within offshore wind that are of interest to Kvaerner, including North America and Asia. In order to serve the North American market better, Kvaerner will establish an office in Boston in 2020.

Kvaerner has a network of offices around the world for project execution, as well as business development activities. Outside Norway, Kvaerner currently has offices in Moscow, Russia; St. John's, Canada; Beijing, China and Ulvila, Finland and during 2020, an office in Boston, USA. In Norway, Kvaerner has facilities in Verdal, Trondheim, Stord, Stavanger and Fornebu.

Market segments

Kvaerner focus areas are upstream oil and gas projects and renewables. The following is a summary of market segments, both in Norway and internationally;

Operational area: Renewables

- Offshore wind turbine foundation, both steel and concrete, fixed and floating
- Complete HVDC platforms together with an electrical equipment supplier as partner
- Onshore green processing plants, for example CO_2 capture facilities, or process facilities for hydrogen, biofuels, etc.

Operational area: Process & Structures

- 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, including separate contracts for assembly, hook-up, completion, commissioning of offshore platforms and onshore plants
- Unmanned wellhead platforms for tieback of satellite fields and reservoirs
- Major modifications and redeployments of offshore facilities
- Decommissioning of offshore installations

Operational area: FPSOs

- EPC projects for FPSO units for harsh environments

Objectives and strategic direction

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

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

Strategic direction

The energy mix is set to change. Although the near term oil and gas market seems robust, the long term demand is increasingly uncertain. New oil and gas fields need to be developed, but the cost pressure is increasing in Norway and internationally. Kvaerner has a strong track record of delivery on time and with expected quality and cost. The company will continue its focus on improving the company's delivery model and cost position in the oil and gas market.

A growing numbers of costumers together with national authorities are prioritising projects with significantly reduced environmental footprint. Kvaerner's strategy is to be a part of the solutions for these market development.

Renewable energy is expected to grow substantially in the years to come. Particularly, the offshore wind market hosts significant potential for Kvaerner going forward.

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

- Execute existing backlog in line with plans
- Continue cost and operational improvement initiatives
- Leading EPC contractor for energy and process industry projects
- Wider product offering
- Develop a strong position in the renewables industry, particularly within offshore wind
- Increased international activity
- Annual revenues >NOK 10 billion for 2023
- Shareholder value

Digitalisation

Continuing the implementation of the digitalisation roadmap established in 2017, Kvaerner has in 2019 developed and rolled out new tools and work processes to affect the required transformation of our capabilities. 2019 highlights include:

- Multiple mobile apps making up the digital work surface for operators and foremen have been developed, and deployed to approximately 400 users across Kvaerner locations. Providing functionality for operators, ranging from fully digital work orders, through material ordering and logistics, to digitally managed recheck of scaffolding, rigging and preservation
- Using advanced optimisation techniques, Kvaerner has developed software for automated design of optimal scaffolding for designated volumes directly in the 3D CAD model; with subsequent generation of material lists and work orders. Resulting in a step change in productivity and work management for indirect disciplines
- Extensive development of Kvaerner's data warehouse, providing standardised views of project state and production progress for key processes. Data are made available to relevant stakeholders through user-friendly dashboards, available across stationary and mobile devices
- Prototype development of a constructability engine which provides automated checking and verification of Kvaerner-defined constructability rules across several disciplines for any given 3D model. Providing machine-assisted quality checking for design input to fabrication engineering
- First-version development of digital twins for Kvaerner's yards at Stord and Verdal. Providing operational insight and monitoring, digital asset management, compliance information, and first-version planning capabilities for yard operations

Digitalisation investments will continue in 2020 and beyond, driven by project needs and demonstrable return on investment, in collaboration with Kvaerner's IT partners and service providers.

Continuous improvement

During 2019, Kvaerner Beyond has been rolled out to the entire company. Kvaerner Beyond is a lean-based systematic improvement programme, that includes earlier improvement initiatives and constitutes a framework for improved productivity and competitive power. Kvaerner Beyond builds on six key principles: flow, progress management, continuous improvement, empowerment, technology driven and committed partnership. It includes tools, methods and training to achieve precise work execution and improvement within, and across functions and processes. The overall ambition of Kvaerner Beyond is stated as: "We will work smarter, more predictably and deliver faster – to create value".

During 2019, more than 150 managers have received training in Kvaerner Beyond. A video training programme has been used to support training of all staff, and several units that were picked as front runners, have received dedicated support to implement Kvaerner Beyond in their units. More than 40 persons have been trained as Kvaerner Beyond champions, to support and drive improvement work in their local units, as part of their normal job.

The #RealiseImprovement programme is incorporated in Kvaerner Beyond and continues to deliver major improvements that are subject to verification of business case and end result. The front runner units that have implemented Kvaerner Beyond have mostly focussed on reduced through-put times, waste reduction and quality deliveries. Kvaerner has experienced improved productivity in these processes as a result of better flow and goal oriented leadership.

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. During 2019 Kvaerner has reorganised and combined all engineering under one leader. This will also strengthen the focus on R&D.

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.

Within the oil and gas sector the focus in 2019 has been on unmanned production facilities, both fixed and floating. Some of the development work has been done as part of larger engineering studies.

Within the renewable sector and offshore wind, Kvaerner's focus in 2019 has been on wind turbine foundation solutions and converter platforms.

For turbine foundations, Kvaerner has developed solutions within the floating foundation segment and looked into concrete gravity base foundations for wind power turbines. Special attention has been on cost effective, execution-friendly design for large volume fabrication and installation. Kvaerner aims at leveraging its EPCI expertise and experience to provide new and cost effective development solutions.

Further, within the offshore wind segment, Kvaerner has spent time on activities related to developing competitive design and execution models for HVDC (high voltage direct current) converter platforms.

Kvaerner actively participates in several joint industry research projects, with the main focus on Arctic technology and concrete technology. Kvaerner is engaged in approximately ten research projects in Norway, EU and Canada, together with national and international industry partners, universities and research organisations, with public funding through various research programmes

Report for 2019

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 (2018).

Profit and loss

Consolidated operating revenue for 2019 was NOK 9 032 million (NOK 7 220 million). Consolidated operating revenues were higher in 2019 compared to 2018 due to larger share of revenue from wholly owned projects in the year. In 2018, the group's revenue was to a larger extent impacted by activity in jointly controlled projects, where only the share of net result is reflected within group revenue.

Earnings before interest, taxes, depreciation, amortisation and impairment (EBITDA) were NOK 498 million for 2019 (NOK 437 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 25) to see how the adjusted EBITDA measure is derived from the consolidated financial statements.

Adjusted EBITDA amounted to NOK 505 million, an increase of NOK 78 million from 2018 (NOK 427 million). The adjusted EBITDA margin for 2019 was 5.6 percent (5.9 percent).

Adjusted EBITDA excludes NOK 6 million cost accounting impact from embedded foreign currency derivatives, related to equity accounted investees closely related to Kvaerner's operating activities (NOK 9 million income).

Depreciation and amortisation charges totalled NOK 193 million, an increase of NOK 83 million from 2018 (NOK 110 million) of which depreciation of right-of-use assets accounted for NOK 45 million. Consolidated earnings before interest and taxes (EBIT) were NOK 306 million (NOK 327 million). Net financial income amounted to NOK 2 million (NOK 11 million) and reflects interest expense on lease liabilities, embedded derivative losses offset by higher interest income compared to last year.

The tax expense was NOK 64 million (NOK 60 million), which corresponded to an effective tax rate of 21 percent (18 percent). Compared to the nominal Norwegian statutory tax rate in 2019 of 22 percent, the effective tax rate reflects various tax reconciling items. Profit from continuing operations amounted to NOK 244 million (NOK 278 million), and basic and diluted earnings per share from continuing operations were NOK 0.91 (NOK 1.04). Discontinued operations had a net loss of NOK 10 million for 2019 (NOK nil). The result in 2018 was positively impacted by insurance recoveries of more than USD 2 million, offsetting the associated legacy costs. Basic and diluted earnings per share for discontinued operations were negative NOK 0.04 (NOK nil).

Net profit for total operations in 2019 was NOK 233 million (NOK 278 million), with basic and diluted earnings per share of NOK 0.87 (NOK 1.04).

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 98 million in 2019 (inflow of NOK 719 million). The decrease mainly reflects deterioration of working capital position in 2019, compared to an improved position in 2018.

Net cash outflow from investing activities in 2019 was NOK 391 million (outflow of NOK 335 million) and mainly relate to capacity and maintenance investments at the facilities at Stord and in Verdal, Norway and strategic digitalisation initiatives. In 2018, Kvaerner's Board of Directors approved an investment of NOK 370 million in new quay at Stord and the upgrade is progressing in accordance with plan. For 2019, progress of the quay investment reflect a capex of NOK 173 million. A total maintenance capex for the group of approximately NOK 50 million is expected annually. Additional strategic and capacity investments at the yards such as production facilities, equipment and digitalisation tools resulted in a total capex of NOK 374 million for 2019 (NOK 334 million).

Net cash outflow from financing activities was NOK 367 million in 2019 (NOK 29 million), mainly reflecting dividend payment of NOK 268 million, lease payments and fees on credit facility.

Balance sheet and liquidity

The group's total assets were NOK 6 357 million on 31 December 2019 (NOK 6 320 million). Net current operating assets (NCOA) were negative NOK 361 million at year-end, a deterioration of NOK 588 million from the end of 2018 (negative NOK 949 million). Movements in working capital will impact cash balances and at year-end 2019, net cash excluding negative NCOA was NOK 1 963 million. Equity as of 31 December 2019 totalled NOK 3 385 million (NOK 3 439 million). The group's equity ratio was 53.2 percent at year-end 2019, compared with 54.4 percent at year-end 2018. Equity ratio is calculated as total equity divided by total assets.

The revolving credit facility agreement of NOK 2 000 million established in July 2015, originally to mature in July 2020, was cancelled and refinanced per 19 September 2019. The new credit facility agreement, a revolving credit facility of NOK 2 000 million, matures in September 2024. The facility is provided by a syndicate of high-quality international banks. The revolving credit facility was undrawn during 2019 and as per 31 December 2019. 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 parameters; 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 2019 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 2 126 million (NOK 1 753 million) as of 31 December 2019, of which goodwill amounted to NOK 607 million (NOK 607 million). Net interest-bearing deposits and loans amounted to NOK 2 344 million at the end of 2019 (NOK 3 165 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 the segment is presented as discontinued operations in the group's financial statements. Consequently, Kvaerner continues to have one reportable segment; Field Development. The Field Development segment includes results from Kvaerner's own operations and Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities.

Kvaerner has a matrix based organisational model, with operational areas and resource centres, where the projects are the main focus. As of 1 October 2019, the Field Development segment includes the following operational areas: Process & Structures serves the market for traditional oil and gas platforms, onshore facilities, decommissioning and marine operations; Floating production units (i.e. FPSOs) dedicated to pursuing such projects; Renewables, established to reinforce the focus on the market for renewable business and pursue and execute projects within offshore wind power, green onshore facilities and other renewable business.

Field Development

Operating revenues in 2019 totalled NOK 9 427 million (NOK 7 253 million). EBITDA was NOK 512 million (NOK 487 million), with an EBITDA margin of 5.4 percent, a decrease from 6.7 percent in 2018. Increased activity is mainly within the operational area FPSOs, but activity has also been high within Process & Structures. There were limited activity within the operational area Renewables.

Order intake for the year amounted to NOK 6 902 million (NOK 9 827 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 2019 is estimated to be NOK 8 200 million (NOK 10 625 million).

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 the segment has been presented as discontinued operations in the group's financial statements since the sale.

Discontinued operations had a net loss of NOK 10 million for 2019 (NOK nil). The operating result for 2018 was positively impacted by recognition of insurance recoveries of more than net USD 2 million in 2018, offsetting the associated legacy costs. Please see Note 26 Discontinued operations (page 58) for Summary of financial data for discontinued operations.

Corporate and unallocated costs

For the full year, unallocated costs pre effects from IFRS 16 leases were NOK 60 million (NOK 60 million). Net unallocated cost including effects from IFRS 16 leases were NOK 8 million for 2019. It is expected that the recurring level of net corporate costs pre effects from IFRS 16 leases 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 2019 have been prepared under this assumption.

Parent company accounts

The parent company, Kværner ASA, had a net loss of NOK 4 million for 2019 (loss of NOK 14 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 67.2 percent at year-end 2019 (66.9 percent).

Allocation of net results

Pursuant with the company's dividend policy, the Board of Directors propose to the Annual General Meeting that a dividend of NOK 0.5 per share should be paid. The Board of Directors thereby proposes the following allocation of net loss in Kværner ASA:

Proposed dividend	NOK 134.5 million
Transferred from other equity	(NOK 138.9 million)
Total allocated	(NOK 4.4 million)

Total equity in Kværner ASA after the proposed allocation of net loss amounts to NOK 3 925 million (NOK 4 064 million). The Board of Directors have considered the proposed dividend in conjunction with equity and liquidity requirements under the Norwegian Limited Company Act and based on the Board's best judgement, the proposed dividends are within these requirements.

Events after the balance sheet date

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

Dividend and dividend policy

Kvaerner's financial results are the effects of a business characterised by projects running over long period. The overall financial performance is best assessed looking at longer intervals. A solid financial platform is a key enabler for growth in new target segments and for establishing alliances with strategic partners.

Hence, the Board of Directors has decided to change from the previous dividend policy, where dividend payment has been considered two times per year, to an updated policy where dividend payment is considered once every year, after the fourth quarter accounts.
The following updated dividend policy decided by the Board of Directors is implemented with immediate effect:

- Kværner ASA's dividend policy is based on an annual evaluation of dividend distribution. Decisions as to actual dividend payments shall depend on outlook, liquidity, and considerations such as alternative use of cash and future strengthening of the company's financial structure
- Extraordinary dividends may be considered if, and when the liquidity, financial strength and financial structure of the company allows.
- The Annual General Meeting will approve the final and total annual dividend based on a proposal from the Board
- A dividend of NOK 1.00 per share was paid on 9 April 2019 based on annual accounts for 2018

After the fourth quarter 2019 the Board of Directors has in accordance with the dividend policy proposed to pay a dividend of NOK 0.5 per share in April 2020. Subject to approval by the Annual General Meeting (AGM), the dividend payment will take place on or about 3 April 2020 to shareholders of record as per the date of the AGM scheduled for 24 March 2020.

Corporate responsibility

Kvaerner is committed to conduct its business with integrity and high ethical standards and corporate responsibility is an integrated part of the management responsibility within Kvaerner anchored at the Board of Directors' level.

The company's commitment to respect human and labour rights is covered by the Global Framework Agreement between Aker ASA and the Norwegian and international trade unions Fellesforbundet, IndustriALL Global Union, NITO and Tekna. Kvaerner reports the results of the company's efforts regarding environmental, social and governance (ESG) responsibilities annually in a separate report.

More information is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

Corporate governance

Kvaerner's Code of Conduct, values and global policies and procedures provides the framework on acceptable business performance and guides decision-making processes in all parts of the company. The Board of Directors, appointed by the Annual General Meeting, is responsible to ensure sound corporate governance in Kvaerner and sets the strategic direction, the overall governance structure, values and policies in accordance with Norwegian legislation and frameworks, in particular the principles set out in the Norwegian Code of Practice for Corporate Governance. The Audit Committee supports the Board and monitors Kvaerner compliance with and implementation of sound corporate governance.

More information is available in Kvaerner's corporate governance statement for 2019 published on https://www.kvaerner.com/investors/corporate-governance/corporate-governance-statement/.

Whistelblowing

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 accessible at https://www.kvaerner.com/about-us/raising-concerns-whistleblowing/. All reports go directly to the SVP Corporate Support & General Counsel and an investigation team for follow-up of compliance issues and are treated with strict confidentiality.

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 part of the monthly reporting to Kvaerner's operational areas. Based on this reporting 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 risk reporting from operational areas, corporate staff functions, Kvaerner's projects and the strategic objectives of Kvaerner. 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 49), 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 conducts 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.

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 its 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 Life Saving Rules mind-set. HSSE is 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 has in past year established a new HSSE strategy, started a safety behaviour programme "QOMPLIT", released a new HSS handbook and started up dedicated cross industry HSS forum together with some of the key customers and contractors within the oil service field.

In 2019, there has been a positive trend in serious incidents and near misses compared to previous year, and there has been a negative trend in the total recordable injury frequency (TRIF). Kvaerner has started a number of new initiatives during 2019 to further improve within HSSE, including enforcing more visible management in field, training sessions within safety leadership, safety behaviour and risk awareness, HSSE development of subcontractors, and more.

More information about Kvaerner's HSSE programme and activities, including key performance indicators, is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

HSSE training

Competence occupies a central place in Kvaerner's HSSE programme. All personnel must 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.

Safety

2019 showed a positive development for several key HSSE indicators compared to previous years. However, there was still a number of incidents which shows that it is imperative that the HSSE efforts are further developed.

In 2019 there has been a slight increase in injury frequency and a decrease in incidents with high risk potential. Improvement actions have been implemented to address the issues. The high risk potential incident was related to a falling object. Safety culture initiatives, improved training programmes and management follow-up has been implemented. Several good initiatives have been introduced in 2019, such as learning packages for high risk operations, training programmes in risk awareness and safety leadership.

The HSSE development of subcontractors has continued in 2019. In addition, compliance and leadership, barriers and risk awareness have been key focus areas.

Digitalisation of the HSSE work has been further developed with roll-out of an improved mobile phone application for reporting of incidents and non-conformities.

There has been a positive transfer of experience between Kvaerner projects. In addition, an incentive programme contributes to local clubs and associations upon achievement of the project HSSE targets. These awards provide positive incentives and are connected to high scores in inspections, housekeeping, and reporting rates of HSSE observations.

Occupational health

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.

Kvaerner cooperates with some other companies who share a relation to Aker. 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. More information is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

Environment

Kvaerner continuously works to reduce the environmental footprint of our operations and products. From 2020 and onwards, Kvaerner will gradually adopt Task Force on Climate-related Financial Disclosures (TCFD) recommendations on climate-related financial disclosures in order to provide stakeholders will structured information about how the company managing climate-related issues that affect its business.

The Kvaerner methodology for reporting environmental impact derives from the Greenhouse Gas Protocol (GHG) and the Global Reporting Initiative (GRI). Kvaerner is certified according to the ISO 14001:2015 standard.

In a typical EPC project managed by Kvaerner, up to two-thirds of the contract value is related to procurement from subcontractors or contributions from partners. The procured materials and products therefore constitute a significant proportion of the total environmental footprint of Kvaerner's deliveries. In our supplier declaration, which all suppliers to Kvaerner must sign in order to be pre-qualified, suppliers must therefore commit to work to minimise negative impacts on the environment, taking into consideration the full life cycle of their products. Suppliers commit to work to achieve energy efficiency and minimise harmful discharge, emissions and waste production, and to comply with national environmental legislation and discharge permits.

In order to minimise the environmental impact, Kvaerner is also executing several energy efficiency initiatives within the company's own operations. In addition, Kvaerner is continuously conducting environmental monitoring of dust, water, sediments and noise from its Stord yard. As a part of the measuring programme at the Stord yard, monitoring of pollutants in blue mussels and fish has been carried out in 2019 and noise emission maps have been updated. In 2019, Kvaerner has increased its focus on waste recycling. Newly purchased cars used at the yards are electric vehicles. More information is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

Kvaerner has actively participated in clean the beach-day on Kvaerner's locations.

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.

With regards to cyber security, Kvaerner has joined the Aker group-wide security initiative, further promoting a uniform security approach across the Aker companies. Several security products have been implemented as countermeasure to the increased cyber security threat, with emphasis on phishing.

People and organisation

The organisational structure of Kvaerner was changed as of 1 October 2019. The three operational areas in Kvaerner are Process & Structures, FPSO and Renewables. Each of the areas is headed by an executive vice president. The new EPCI unit is established to contain all resources, the yards and staffing functions to support the organisation. The resource centers Business Development, Finance and Corporate Support remain unchanged. The executive management team of Kvaerner (EMT) consists of eight persons including President & CEO. A complete presentation of the EMT is available at https://www.kvaerner.com/members-category/executive-management-team/.

More information is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

Developing people and teams

Kvaerner is globally recognised for its expertise in executing large and complex oil and gas projects. Kvaerner's expertise within the fields of engineering, procurement and construction builds on multidiscipline competence from successful projects both in and outside Norway.

Kvaerner has earned this reputation due to extensive investments in organised workplace training and continuous focus on developing skills and capabilities. The company's competitive edge is more dependent on people and competence than on physical facilities. Kvaerner's ability to further develop its employees' competence in a manner that enable them to execute projects in new market segments and geographical regions is of strategic importance. Training and competence transfer to new generations of skilled employees is equally important.

Kvaerner Academy is our established learning institution providing strategic leadership courses and other development courses for strategic and critical business areas. The courses provided are constantly evaluated and adjusted in order to keep a high quality of the training programmes and to ensure that the content is updated and to keep a state-of-art level.

More information is available in Kvaerner's ESG report for 2019 published on https://www.kvaerner.com/about-us/corporate-responsibility/corporate-responsibility-reporting/.

Organisational development

Throughout 2019, Kvaerner has been working with follow-up activities after the People Survey 2018. Three major focus areas were identified as improvement areas; leadership, working environment and communication. We have been strengthening our leadership by conducting regular meetings for people leaders, encourage participation in Kvaerner Leadership Development programmes and provide general coaching and guidance in people matters. A succession management programme has also been implemented on the top levels in the organisation.

To improve and develop our working environment even further with a special attention to avoid and prevent bullying, harassment and discrimination, it is a clear focus area in Kvaerner to increase awareness around such matters. Kvaerner has a zero tolerance for any kind of bullying, harassment and discrimination, and any incident would be a breach of our code of conduct.

Diversity and inclusion

Kvaerner is emphasising diversity of gender, experience, competence, age, education, ethnicity, sexual orientation and disabilities. We cover many nationalities and the principles of equal opportunity are well established throughout the group. No differences shall exist due to nationality, religion or ethnicity. Employment conditions and compensation packages are based on responsibility, complexity of job and personal performance, irrespective of gender, religion or ethnicity.

Leadership training is an important contribution towards increasing diversity of people promoted to managerial positions. In 2019, the share of women holding senior management positions was 18 percent compared to 22 percent in 2018, whereof the share of women completing leadership training in 2019 was 29 percent. In 2019, one of the eight EMT members is a woman and two of Kvaerner's five shareholder-elected Directors are women. One of three Directors elected by and among the employees is a woman.

Remuneration and performance

Kvaerner shall provide an individual compensation level for employees and management which enables the company to attract, retain and motivate employees and leaders with the right attitudes, skills and ability to deliver strong performance in accordance with Kvaerner's values and the Code of Conduct. Kvaerner aims to reward performance, results, skills, attitude and behaviour. The total remuneration shall be internally fair, consistent, comprehensible and competitive without being market leading. Kvaerner uses regular benchmark to ensure we stay competitive. For further details, see Note 5.

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 forms basis for the remuneration triggered by the variable pay programmes.

The assessment of achieved goals and performance takes place in an annual performance dialogue, where discussion around the individual's performance and behaviour is essential. This performance dialogue further provides the opportunity for recognition of achieved results, consideration of career opportunities and competence development. Kvaerner also encourages people managers to provide regular feedback and coaching to their direct reports.

Further details about remuneration to EMT members are provided in Note 5 Employee benefit expenses (page 28) 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.

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 Kværner 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 Ministry of Trade, Industry and Fisheries owns 30 percent as of 31 December 2019. 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 Ministry of Trade, Industry and Fisheries. The company is not party to any agreement that is conditional upon offerings of take-over in the company.

Kvaerner had 8 969 shareholders (8 085) as of 31 December 2019, of which 22.3 percent (26 percent) were non-Norwegian. The share price was NOK 11.12 at year-end 2019, compared to NOK 12.06 at year-end 2018. During 2019 Kvaerner's share price decreased by 10.3 percent, the Oslo Stock Exchange benchmark index increased by 10.7 percent and the Philadelphia Oil Service Index decreased by 15.6 percent.

As of 31 December 2019, Kværner ASA held 1 093 777 treasury shares.

Outlook

In 2019, Kvaerner presented and ambition to grow annual revenues to above NOK 10 billion for the year 2023. The company expects that total income over time will be composed of approximately one third of the revenues from each of the three market areas: Process & Structures, FPSOs and Renewables.

As most of the larger new contracts are expected to be awarded in 2020 and 2021, combined with a slow market for contract awards in 2018 and 2019, the 2020 annual revenues are expected to decline to a level around NOK 6 billion for the Field Development segment. The EBITDA margin for the year 2020 is estimated to approximately three percent, reflecting temporarily declining revenues and that fixed costs are kept stable to position for upturn from 2021.

Further, Kvaerner estimates that a new normalised level for net working capital (NCOA) will be in a band between NOK 0 (nil) to negative NOK 1 billion from 2020 and onwards. Kvaerner also expects a lower investment level (capex) in 2020 and forward compared to the relatively high investment levels seen in 2018 and 2019.

Acknowledgements

During 2019, Kvaerner has continued to execute projects according to customers' plans and expectations. At year-end, all projects were on track.

World class HSSE performance is important both as a value and for competitiveness, and the Board of Directors supports the further initiatives to drive Kvaerner's HSSE improvements further.

The company's continued intense work to improve quality, cost, productivity and competitiveness is vital to put Kvaerner in a good position for upcoming prospects.

The Board of Directors extends its appreciation to the management and employees for its efforts and achievements in 2019.

Fornebu, 11 February 2020
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director	Kjell Inge Røkke Director	Lone Fønss Schrøder Director
Rune Rafdal Director	Ståle Knoff Johansen Director	Bernt Harald Kilnes Director	Karl-Petter Løken President & CEO	

Annual accounts Kvaerner group

Income statement 01.01 – 31.12

Amounts in NOK million	Note	2019	2018
Total revenue and other income	3, 4	**9 032**	7 220
Materials, goods and services		**(5 946)**	(4 372)
Salaries, wages and social security costs	5	**(2 441)**	(2 260)
Other operating expenses	6	**(147)**	(151)
Operating profit before depreciation and amortisation		**498**	437
Depreciation, amortisation and impairment	10, 11, 16	**(193)**	(110)
Operating profit/(loss)		**306**	327
Finance income	7	**49**	38
Finance expenses	7	**(47)**	(27)
Profit/(loss) before tax		**307**	338
Income tax expense	8	**(64)**	(60)
Profit/(loss) from continuing operations		**244**	278
Profit/(loss) from discontinued operations	26	**(10)**	0
Profit/(loss) for the year		**233**	278
Profit/(loss) for the period attributable to:			
Equity holders of the parent company		**233**	278
Earnings per share (NOK):			
Basic and diluted EPS continuing operations	9	**0.91**	1.04
Basic and diluted EPS discontinued operations	9	**(0.04)**	0.00
Basic and diluted EPS - total operations	9	**0.87**	1.04

The notes on pages 23 to 58 are an integral part of these consolidated financial statements.

Statement of other comprehensive income 01.01 - 31.12

Amounts in NOK million	2019	2018
Profit/(loss) for the year	**233**	278
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges, net of tax		
- Fair value adjustment recognised in equity	**0**	1
- Reclassified to profit or loss	**0**	0
Translation differences - equity-accounted investees (no tax impact)	**1**	0
Translation differences - foreign operations (no tax impact)	**5**	2
Reclassification of translation differences on discontinued operations and international branches	**(1)**	(3)
Items that may be reclassified to profit or loss in subsequent periods	**5**	0
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(losses) on defined benefit pension plans, pre tax	**(27)**	(19)
Actuarial gains/(losses) on defined benefit pension plans, tax effect	**6**	3
Actuarial gains/(losses) on defined benefit pension plans, net of tax	**(21)**	(16)
Items not to be reclassified to profit or loss in subsequent periods	**(21)**	(16)
Total other comprehensive income for the year, net of tax	**(16)**	(16)
Total comprehensive income for the year	**217**	262
Total comprehensive income attributable to:		
Equity holders of the parent company	**217**	262

The notes on pages 23 to 58 are an integral part of these consolidated financial statements.

Balance sheet as of 31 December

Amounts in NOK million	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	10	**1 164**	967
Right-of-use assets	16	**121**	-
Intangible assets	11	**740**	710
Investments in associated companies and jointly controlled entities	24	**73**	69
Interest-bearing receivables		**20**	-
Other non-current assets		**8**	7
Total non-current assets		**2 126**	1 753
Current assets			
Current tax assets	8	**1**	-
Trade and other receivables	12	**983**	947
Contract assets	3	**915**	427
Fair value embedded derivatives	21	**8**	28
Cash and cash equivalents	13	**2 324**	3 165
Retained assets of business sold	26	**0**	0
Total current assets		**4 231**	4 567
Total assets		**6 357**	6 320

Amounts in NOK million	Note	2019	2018
Equity and liabilities			
Equity			
Share capital		**91**	91
Share premium		**729**	729
Retained earnings		**2 672**	2 710
Other reserves		**(107)**	(91)
Total equity	9, 14	**3 385**	3 439
Non-current liabilities			
Non-current lease liabilities	16	**87**	-
Employee benefits obligations	15	**235**	218
Other long term liabilities		**8**	10
Deferred tax liabilities	8	**313**	265
Total non-current liabilities		**643**	494
Current liabilities			
Current lease liabilities	16	**36**	-
Current tax liabilities	8	**1**	-
Provisions	18	**170**	233
Fair value embedded derivatives	21	**1**	14
Trade and other payables	19	**2 012**	1 761
Contract liabilities	3	**84**	343
Retained liabilities of business sold	26	**26**	35
Total current liabilities		**2 330**	2 386
Total liabilities		**2 972**	2 880
Total liabilities and equity		**6 357**	6 320

The notes on pages 23 to 58 are an integral part of these consolidated financial statements.

Fornebu, 11 February 2020
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy
Chairman

Jan Arve Haugan
Director

Thorhild Widvey
Director

Kjell Inge Røkke
Director

Lone Fønss Schrøder
Director

Ståle Knoff Johansen
Director

Line Småge Breidablikk
Director

Rune Rafdal
Director

Karl-Petter Løken
President & CEO

Statement of changes in equity 01.01 – 31.12

Amounts in NOK million	Number of shares	Share capital	Share premium	Retained earnings	Hedge reserve	Currency translation reserve	Pension reserve	**Total equity**
Equity as of 31 December 2017	269 000 000	91	729	2 431	0	(6)	(69)	**3 176**
Profit/(loss) for the period		-	-	278	-	-	-	**278**
Other comprehensive income		-	-	-	1	(1)	(16)	**(16)**
Total comprehensive income		-	-	278	1	(1)	(16)	**262**
Treasury shares		-	-	3	-	-	-	**3**
Employee share purchase programme		-	-	(2)	-	-	-	**(2)**
Equity as of 31 December 2018	269 000 000	91	729	2 710	1	(7)	(85)	**3 439**
Profit/(loss) for the period		-	-	233	-	-	-	**233**
Other comprehensive income		-	-	-	0	5	(21)	**(16)**
Total comprehensive income		-	-	233	0	5	(21)	**217**
Treasury shares		-	-	(1)	-	-	-	**(1)**
Employee share purchase programme		-	-	(3)	-	-	-	**(3)**
Dividend		-	-	(268)	-	-	-	**(268)**
Equity as of 31 December 2019	269 000 000	91	729	2 672	1	(2)	(106)	**3 385**

The notes on pages 23 to 58 are an integral part of these consolidated financial statements.

Statement of cash flows 01.01 - 31.12

Amounts in NOK million	Note	2019	2018
Cash flow from operating activities			
Profit/(loss) for the period		**233**	278
Adjusted for:			
Income tax expense	8	**64**	60
Net financial items	7	**(2)**	(11)
Depreciation, amortisation and impairment	10, 11, 16	**193**	110
Difference between pension premiums paid and pension expense, defined benefit schemes		**(16)**	(3)
Difference between income and dividends received from equity accounted investees	24	**(4)**	(54)
(Gains)/losses on sale of fixed assets		**(0)**	(6)
Interest income received		**41**	27
Income taxes paid		**(14)**	(10)
Changes in other net operating assets		**(592)**	329
Net cash from operating activities		**(98)**	719
Cash flow from investing activities			
Investment in property, plant and equipment and intangible assets	10, 11	**(374)**	(334)
Other cash flow from investing activities		**(16)**	(1)
Net cash from investing activities		**(391)**	(335)
Cash flow from financing activities			
Interest expense and fees paid		**(30)**	(17)
Interest portion on lease liabilities		**(12)**	-
Principle portion on lease liabilities		**(40)**	-
Treasury shares		**(8)**	(8)
Employee share purchase programme		**(9)**	(4)
Dividend payment		**(268)**	-
Net cash from financing activities		**(367)**	(29)
Effect of exchange rate changes on cash and bank equivalents		**15**	(4)
Net increase/(decrease) in cash and bank equivalents		**(841)**	352
Cash and cash equivalents at the beginning of the period		**3 165**	2 812
Cash and cash equivalents at the end of the period	13	**2 324**	3 165

The notes on pages 23 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, onshore plants, floating production units (i.e. FPSOs) and renewable energy solutions. Kværner ASA is listed on the Oslo Stock Exchange under the ticker KVAER. Kværner ASA's registered office address is Snarøyveien 20, 1360 Fornebu, 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 2019.

The consolidated financial statements will be presented for approval 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 24 March 2020.

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. This is the first set of annual financial statements in which IFRS 16 Leases has been applied. The effects of the transition to IFRS 16 are described in Note 16.

All other 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 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 judgements

The preparation of these consolidated financial statements requires management to make judgements, 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 judgements are described in the respective note to the consolidated financial statements.

New financial reporting standards

Some 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. These standards are not expected to have a material impact on the consolidated financial statements.

Note 3 Revenue and contract balances (IFRS 15)

Financial reporting principles

IFRS 15 was adopted on 1 January 2018 and introduced a new five step model that applies to all customer contracts. The deliveries in contracts are reviewed to identify if there are distinct performance obligations. As Kvaerner's EPC contracts normally represent a single, combined output for the customers, contracts will ordinarily contain one performance obligation. For the majority of performance obligations/contracts, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognised over time using a cost progress method, best reflecting the pattern of transfer of control of goods and services to the customer.

Variation orders are included in the transaction price when they have been approved, either verbally, in writing or implied by customary business practice. Variable considerations, such as incentive payments, are included in the transaction price when they are highly probable to be realised. Potential liquidated damages (LD) are recognised as a reduction of the transaction price unless it is highly probable that they will not be incurred. Profit on projects is not recognised until the outcome of the performance obligations can be measured reliably. Contract costs are expensed as incurred. The full loss is recognised immediately if contracts are forecast to be loss making. The group's revenue is mainly derived from contracts with customers. The disaggregation of revenue is disclosed in Note 4, based on the following categories:

Construction contracts

Revenues from contracts with customers to provide engineering, procurement and construction services (EPC-contracts) for offshore installations, onshore plants, FPSOs and decommissioning projects which have no alternative use for the group. It has been assessed that these contracts ordinarily will be one performance obligation and that revenue will be recognised over time using a cost progress method. The cost progress method is based on the proportion of costs incurred to date compared to the estimated total contract costs. Time and material are normally invoiced on a monthly basis in accordance with progress and/or in line with achieved milestones, also representing progress. Payment terms on invoiced amounts are normally 30 days. Some EPC contracts include lease revenue, though these amounts are typically insignificant in context of the contract and are therefore included in Construction revenue.

Services revenue

Revenue from contracts with customers for other services is recognised over time using a cost progress method, or is recognised over time as man-hours and materials are delivered to the customer. Payment terms are on average around 45 days after time and materials are delivered. Hook-up contracts will normally be included within this category of revenue.

Revenue/share of result from joint ventures
On segment level, revenue and results from associated companies and jointly controlled operations closely related to the group's operating activities are presented gross. At group level, the net share of result from joint ventures is presented in line with the equity method as part of operating revenue and other income.

Other revenue
Other revenue relates to FEEDs, studies, sale of man-hours and other projects.

Lease revenue
Sublease arrangement for offices.

Accounting estimates and judgements

Contract accounting estimates
The majority of the group's revenues and profits are derived from long-term construction contracts which often have duration of up 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 judgements 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 risk 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 not recognising revenue in excess of costs on large projects before project forecast is considered reliable, normally around 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, bulk materials 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.

Contract balances

Amounts in NOK million	**2019**	2018
Contract assets (unbilled revenue)	**915**	427
Contract liabilities (advances from customers and deferred revenue)	**(84)**	(343)

Contract assets relate to consideration for work done, but yet not invoiced at reporting date (revenue accruals). Contract assets are presented as receivables when the right to payment becomes unconditional, typically when invoices are issued to customer for agreed amounts. Contract liabilities relate to cash advances from customers for work not yet performed. Movements in contract assets and liabilities relate to project portfolio and phasing of projects.

Revenue recognised in 2019 for performance obligations satisfied or partially satisfied in prior years was NOK 169 million. This amount includes revenue recognised in 2019 for projects that did not report margin in earlier periods as the project forecast was not considered reliable, in addition to changes in estimates of variable revenue.

Largest projects in progress at year-end and backlog phasing

Project	**Customer**	**Estimated delivery**
Field Development segment		
Njord A Future	Equinor	2020
Nord Stream 2 onshore facility	Nord Stream 2	2020
Johan Sverdrup phase 2 process platform jacket	Equinor	2021
West White Rose engineering and marine operations	Husky Energy	2022
Johan Castberg FPSO	Equinor	2022
Johan Sverdrup riser platform modification	Equinor	2022
Hywind Tampen offshore wind concrete hulls	Equinor	2022

At year-end 2019, order backlog or remaining performance obligations, including Kvaerner's scope of work of jointly controlled entities, is estimated to be NOK 8 200 million. Incentives are only included when they are regarded as highly probable and provisional sums are based on most likely estimates. Order backlog or remaining performance obligations may change as a result of change in scope of contracts and incentives. Estimated scheduling of the order backlog is approximately 64 percent for execution in 2020 and approximately 36 percent for execution in 2021 and later.

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. In September 2019, Kvaerner announced that it was building its planned growth through a focus on three market areas. As from 1 October 2019, the Field Development segment includes the following operational areas: Process & Structures, Floating production units (i.e. FPSOs) and Renewables. Process & Structures serves the market for traditional oil and gas platforms, onshore facilities, decommissioning and marine operations. FPSOs was established in 2019 as an operating area dedicated to pursuing such projects. The operating area Renewables was also established in 2019 to reinforce the focus on the market for renewable business and pursue and execute projects within offshore wind power, green onshore facilities and other renewable business.

Financial reporting principles
The accounting principles of the reportable segments 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 Kvaerner 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 8. 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 or renewable energy industry, or otherwise below the thresholds of the standard.

The operating segments Process & Structures and FPSOs are considered to have similar economic characteristics. Demand for the products and services in both 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 major 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 these operational areas are typically a combination of reimbursable elements, lump sum elements, incentives and penalties.

The operational areas Process & Structures and FPSOs are considered similar in the respects of nature of product/service, nature of production processes, the type of customer, distribution method and regulatory environment. Both areas execute large and complex EPC projects. The main customers for all projects within the operational areas Process & Structures and FPSOs are the large, international oil companies.

Within the operating segment Renewables, offshore wind is a growing market where Kvaerner is well positioned for fixed and floating wind turbine foundations as well as for converter platforms. This can be both steel and concrete structures, utilising Kvaerner's competence from the oil industry. The onshore green process industry is also considered part of renewables. Within onshore renewables, Kvaerner aims to apply its proven execution model for carbon capture and storage facilities, biofuels plants and hydrogen plants. Renewables may involve business with existing customers and new clients compared with the Process & Structures and FPSOs operating segments. Within renewables and offshore wind in particular, the market is international, with a client base similar to our existing customers.

The majority of Kvaerner employees can be used for projects within all areas, as the skills and knowledge needed are similar in the projects within the different areas.

As the two operating segments, Process & Structures and FPSOs, which represent the majority of Kvaerner's current business, have similar economic characteristics, and whilst the activity within the Renewables segment is currently limited and below the thresholds of the standard for separate segment reporting, all operating segments have been aggregated into a single reportable segment.

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 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 segment and performance relative to other entities operating within the industry. The President & CEO will normally not review financial items or total liabilities on segment level.

2019 Operating segments

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Operating revenue and other income				
Construction contracts		7 316	-	**7 316**
Services revenue		936	-	**936**
Revenue/share of result from joint ventures		867	(709)	**158**
Other revenue		293	315	**608**
Revenue from contracts with customers		9 412	(395)	**9 018**
Lease revenue		14	-	**14**
Gain on sale of assets		0	-	**0**
Inter-segment revenue		0	(0)	**-**
Total operating revenue and other income		9 427	(395)	**9 032**
EBITDA		512	(14)	**498**
Depreciation, amortisation and impairment	10, 11, 16	(147)	(45)	**(193)**
EBIT		365	(59)	**306**
EBITDA		512	(14)	**498**
Adjustment for equity accounted investees[1]		-	6	**6**
Adjusted EBITDA		512	(8)	**505**
Assets				
Current operating assets		1 897	9	**1 906**
Non-current operating assets		1 904	121	**2 024**
Operating assets		3 801	129	**3 930**
Tax-related assets				**1**
Investments in associates and jointly controlled entities				**73**
Investments in other companies				**8**
Financial receivables				**20**
Cash and cash equivalents				**2 324**
Retained assets of business sold				**0**
Total assets				**6 357**

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Liabilities				
Current operating liabilities		2 218	48	**2 267**
Non-current operating liabilities		235	8	**243**
Operating liabilities		2 454	56	**2 510**
Non-current lease liabilities				**87**
Current lease liabilities				**36**
Tax-related liabilities				**314**
Retained liabilities of business sold				**26**
Total liabilities				**2 972**
Net current operating assets		(321)	(40)	**(361)**
Cash flow				
Cash flow from operating activities		47	(145)	**(98)**
Investment in property, plant and equipment and intangible assets	10, 11	374	-	**374**
Order intake (unaudited)		6 902	-	**6 902**
Order backlog[2]		8 200	-	**8 200**
Own employees (unaudited)		2 806	27	**2 833**

1 Impact of embedded derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities.
2 Refer to Note 3 for more information.

2018 Operating segments

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Operating revenue and other income				
Construction contracts		4 811	-	**4 811**
Services revenue		1 272	-	**1 272**
Revenue/share of result from joint ventures		898	(706)	**192**
Other revenue		267	658	**925**
Revenue from contracts with customers		7 248	(48)	**7 200**
Lease revenue		-	14	**14**
Gain on sale of assets		6	-	**6**
Inter-segment revenue		0	(0)	**-**
Total operating revenue and other income		7 253	(34)	**7 220**
EBITDA		487	(51)	**437**
Depreciation and amortisation	10, 11	(110)	-	**(110)**
Goodwill impairment	11			**-**
EBIT		377	(51)	**327**
EBITDA		487	(51)	**437**
Adjustment for equity accounted investees [1]		-	(9)	**(9)**
Adjusted EBITDA		487	(60)	**427**
Assets				
Current operating assets		1 428	(26)	**1 402**
Non-current operating assets		1 677	(0)	**1 677**
Operating assets		3 105	(26)	**3 079**
Investments in associates and jointly controlled entities				**69**
Investments in other companies				**7**
Cash and cash equivalents				**3 165**
Retained assets of business sold				**0**
Total assets				**6 320**

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Liabilities				
Current operating liabilities		2 313	38	**2 351**
Non-current operating liabilities		218	10	**229**
Operating liabilities		2 531	49	**2 580**
Tax-related liabilities				**266**
Retained liabilities of business sold				**35**
Total liabilities				**2 880**
Net current operating assets		(885)	(64)	**(949)**
Cash flow				
Cash flow from operating activities		569	151	**719**
Investment in property, plant and equipment and intangible assets	10, 11	334	-	**334**
Order intake (unaudited)		9 827	-	**9 827**
Order backlog		10 625	-	**10 625**
Own employees (unaudited)		2 698	29	**2 727**

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

Major customers

For the group, revenue and other income from the three largest customers represented NOK 7.9 billion, or 87 percent, of total revenue of NOK 9 billion (2018: NOK 6.6 billion and 91 percent). Of this, one customer represented 73 percent (2018: 81 percent), the second represented nine percent (2018: eight percent) and the third represented five percent (2018: three 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 8.6 billion, or 91 percent, of the segment's total revenue of NOK 9.4 billion (2018: NOK 6.7 billion and 93 percent). Of this, one customer represented 78 percent (2018: 82 percent), the second represented nine percent (2018: eight percent) and the third represented four percent (2018: three 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.

	Total revenue and other income		Non-current segment assets	
Amounts in NOK million	**2019**	2018	**2019**	2018
Norway	**7 972**	6 698	**1 898**	1 674
Europe	**944**	432	**1**	1
Canada	**67**	78	**5**	2
Rest of the world	**50**	13	**0**	0
Total	**9 032**	7 220	**1 904**	1 677

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 programmes 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	2019	2018
Salaries and wages including holiday allowance		**1 944**	1 779
Social security tax/national insurance contribution		**282**	260
Pension costs including social security tax	15	**146**	156
Other employee costs		**69**	65
Salaries, wages and social security costs		**2 441**	2 260

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

- annual base salary
- participation in a variable pay programme
- pension and benefits

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.

Pension and 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 2019 the company awarded 187 092 shares under the 2018 programme which will be delivered to executive management in 2021, if still employed. Expected dividends per annum at grant date has been reflected in determining the grant date fair value per share of NOK 12.14. The total expense in 2019 related to the matching element was NOK 2.3 million (NOK 3.0 million in 2018) for executive management.

Employee share purchase programmes
In 2019 a share purchase programme was offered to all Norwegian employees. A total of 1 430 429 Kværner ASA shares were distributed to the employees in December 2019 at a price of NOK 12.46 per share. A share purchase programme was also offered in 2018.

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 months 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

2019

Amounts in NOK		Base salary[1]	Variable pay[2]	Other benefits[3]	Pension benefits[4]	Total remuneration
Karl-Petter Løken	01.01.2019 - 31.12.2019	5 162 769	3 009 440	11 887	99 150	8 283 247
Steinar Røgenes	01.01.2019 - 31.12.2019	2 247 162	1 634 649	14 571	174 035	4 070 417
Sturla Magnus	01.01.2019 - 31.12.2019	2 241 482	1 577 521	420 681	121 880	4 361 563
Idar Eikrem	01.01.2019 - 31.12.2019	2 456 418	1 849 730	12 324	156 561	4 475 034
Henrik Inadomi	01.01.2019 - 31.12.2019	2 140 155	2 183 614	14 689	113 368	4 451 826
Arnt Knudsen	01.01.2019 - 31.12.2019	2 146 422	1 598 496	19 526	293 706	4 058 150
Guro Høyaas Løken	01.10.2019 - 31.12.2019	596 260	301 138	2 479	39 504	939 381
Kenneth Simonsen	01.10.2019 - 31.12.2019	588 000	317 674	4 373	40 110	950 157
Elly Bjerknes	01.01.2019 - 30.09.2019	1 607 410	1 244 414	11 082	135 179	2 998 084
Hans Petter Mølmen	01.01.2019 - 30.09.2019	1 549 606	1 170 926	9 537	147 629	2 877 697
Ellen Grete Andersen	01.01.2019 - 30.09.2019	1 461 282	1 127 456	9 946	195 646	2 794 329
		22 196 966	**16 015 059**	**531 093**	**1 516 766**	**40 259 885**

1 Base salary represents salary expensed while holding an executive position, and includes holiday pay.
2 Variable pay reported is based on expensed cost, while holding an executive position, rather than paid benefits, and includes holiday pay.
3 Other benefits include telephone, insurance agreements, housing allowance etc.
4 Pension benefits include the standard employee and management pension scheme and a disability pension scheme.

2018

Amounts in NOK		Base salary[1]	Variable pay[2]	Other benefits[3]	Pension benefit[4]	Total remuneration
Jan Arve Haugan	01.01.2018 - 28.02.2018	1 247 628	-	7 675	15 751	1 271 053
Karl-Petter Løken	07.05.2018 - 31.12.2018	3 166 640	2 072 000	5 944	61 917	5 306 501
Steinar Røgenes	01.01.2018 - 31.12.2018	2 222 573	1 327 775	14 619	184 341	3 749 307
Sturla Magnus	01.01.2018 - 31.12.2018	2 216 954	1 153 239	656 791	113 236	4 140 220
Elly Bjerknes	01.01.2018 - 31.12.2018	2 224 454	1 323 811	12 149	187 370	3 747 784
Hans Petter Mølmen	01.01.2018 - 31.12.2018	2 125 846	1 209 967	12 958	212 067	3 560 839
Idar Eikrem[5]	01.01.2018 - 31.12.2018	2 991 708	2 208 048	10 521	116 364	5 326 641
Arnt Knudsen	01.01.2018 - 31.12.2018	2 123 342	1 288 791	17 520	424 698	3 854 352
Ellen Grete Andersen	01.01.2018 - 31.12.2018	2 066 192	1 183 294	12 173	294 204	3 555 864
Henrik Inadomi	01.01.2018 - 31.12.2018	2 116 735	1 412 811	11 973	111 621	3 653 141
		22 502 073	**13 179 736**	**762 324**	**1 721 568**	**38 165 701**

1 Base salary represents salary expensed while holding an executive position, and includes holiday pay.
2 Variable pay reported is based on expensed cost, while holding an executive position, rather than paid benefits, and includes holiday pay.
3 Other benefits include telephone, insurance agreements, housing allowance etc.
4 Pension benefits include the standard employee and management pension scheme and a disability pension scheme.
5 Acting President & CEO for the period 1 March 2018 until 6 May 2018.

Remuneration to the Board of Directors

2019

Amounts in NOK	Board fees[1]	Audit Committee fees[1]	Remuneration Committee fees[1]
Leif-Arne Langøy	630 000	-	34 000
Kjell Inge Røkke[2]	345 000	-	34 000
Thorhild Widvey	345 000	90 000	34 000
Lone Fønss Schrøder	345 000	170 000	-
Jan Arve Haugan[3]	-	-	-
Rune Rafdal[4]	172 500	90 000	-
Ståle Knoff Johansen[4]	172 500	-	-
Line Småge Breidablikk[4, 5]	115 000		
Bernt Harald Kilnes[4, 5]	57 500	-	-

1 Fees listed in the table are earned remuneration for work performed in 2019 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by the Annual General Meeting March 2019.
2 Fees paid directly to company The Resource Group TRG AS.
3 As CEO within the Aker ASA group, no additional remuneration paid.
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.
5 The Director Bernt Harald Kilnes left the Board in April, the Director Line Småge Breidablikk appointed to the Board in April.

Remuneration to the Board of Directors

2018

Amounts in NOK	Board fees[1]	Audit Committee fees[1]	Remuneration Committee fees[1]
Leif-Arne Langøy	615 000	-	33 000
Tore Torvund[2, 4]	122 500	-	7 000
Kjell Inge Røkke[3]	335 000	-	26 000
Thorhild Widvey	335 000	87 500	33 000
Lone Fønss Schrøder	335 000	165 000	-
Jan Arve Haugan[5]	260 000	-	-
Rune Rafdal[6]	167 500	87 500	-
Ståle Knoff Johansen[6]	167 500	-	-
Bernt Harald Kilnes[6]	167 500	-	-

1 Fees listed in the table are earned remuneration for work performed in 2018 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by the Annual General Meeting March 2018.
2 Directors resident outside Scandinavia are granted additional compensation of NOK 13 000 per physical Board meeting.
3 Fees paid directly to company The Resource Group TRG AS.
4 The Director Tore Torvund left the Board at Annual General Meeting March 2018.
5 Director appointed at Annual General Meeting March 2018.
6 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.

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), Kjell Inge Røkke and Thorhild Widvey.

Fees to members of the Audit and Remuneration committees are subject to approval by the Annual General Meeting 24 March 2020.

		Direct shareholding[1]	Shares entitlement as part of 2018 variable pay programme[2]	Shares entitlement as part of 2017 variable pay programme[2]
Karl-Petter Løken	President & CEO	50 386	-	-
Steinar Røgenes	EVP EPCI	209 622	35 590	30 646
Sturla Magnus	EVP Process & Structures	36 989	35 500	25 885
Guro Høyaas Løken	EVP FPSOs	8 715	-	-
Kenneth Simonsen	EVP Renewables	77 589	-	-
Idar Eikrem	EVP & CFO	66 329	29 734	34 041
Arnt Knudsen	SVP Business Development	151 092	34 690	28 840
Henrik Inadomi	SVP Corporate Support & General counsel	248 642	34 541	32 013
Jan Arve Haugan[3]	Director	194 843	-	-
Ståle Knoff Johansen	Director	12 872	-	-
Rune Rafdal	Director	8 737	-	-
Line Småge Breidablikk	Director	1 634	-	-

1 The overview includes only direct ownership of Kvaerner shares and does not include:
Chairman Leif-Arne Langøy holdings of 194 827 shares through a privately owned company.
Director Kjell Inge Røkke's indirect ownership in Aker ASA through The Resource Group TRG AS and subsidiaries.
EVP & CFO Idar Eikrem holdings of 115 000 shares through a privately owned company.
2 Allocated shares related to 2017 variable pay programme will be transferred in 2020, and allocated shares related to 2018 variable pay programme will be transferred in 2021, if still employed at applicable future dates.
3 Jan Arve Haugan and related parties.

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 classified as other operating expenses.

Amounts in NOK million	2019	2018
Rental cost for buildings and other office and premises cost[1]	18	22
Other operating expenses related to office and equipment	23	8
Hired services and external consultants including audit fees	80	86
Travel expenses	18	18
Insurance, guarantee and other service cost[2]	(46)	3
Maintenance buildings and equipment	13	4
Other[3]	41	10
Total	**147**	151

1 Rental cost for buildings and other office and premises cost include release of Onerous lease provision from 2017 of NOK 53 million with NOK 34 million in 2019 and NOK 12 million in 2018.
2 Reduced guarantee cost in 2019 due to net project warranty releases of NOK 63 million. See Note 18 Provisions and contingent liabilities.
3 Other expenses mainly include electricity, gas, tools and miscellaneous maintenance and personnel costs.

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

Amounts in NOK million	2019	2018
Audit	3	3
Other assurance services	0	0
Other services[1]	1	1
Total fees to KPMG	**4**	4
Total audit fees - other auditor	0	0
Total continuing operations	**4**	4
Total discontinued operations	0	0
Total	**4**	4

1 Other services include NOK 0.7 million for 2019 and NOK 0.6 million in assistance on tax advisory services and compliance related matters for 2018.

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	2019	2018
Interest income on bank deposits	41	27
Net foreign exchange gain	2	2
Other finance income	6	3
Foreign exchange movement embedded derivatives	-	7
Finance income	**49**	38
Interest expense on financial liabilities/facilities measured at amortised cost	(22)	(20)
Net finance cost pension	(6)	(5)
Other finance cost	(1)	(3)
Interest expense on lease liabilities	(12)	-
Foreign exchange movement embedded derivatives	(6)	-
Finance expenses	**(47)**	(27)
Net finance expenses recognised in profit and loss	**2**	11

See Note 21 Derivative financial instruments and Note 22 Financial instruments for information of 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 judgements

Kvaerner is subject to income taxes in several jurisdictions and judgement is required to determine the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Provisions 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	2019	2018
Current tax expense	**(11)**	(16)
Prior year adjustment	**-**	0
Total current tax expense	**(11)**	(16)
Current year's deferred tax expense	**(45)**	(45)
Prior year deferred tax adjustment	**(7)**	1
Total deferred tax expense	**(52)**	(44)
Total tax expense	**(64)**	(60)

Effective tax rate reconciliation

Amounts in NOK million	2019	2018
Profit before tax	**307**	338
Expected income taxes (2019: 22 percent, 2018: 23 percent) of profit before tax	**(68)**	(78)
Tax effects of:		
Prior year adjustments (current and deferred tax)	**(7)**	1
Permanent differences[1]	**12**	6
Effect of unrecognised timing differences and tax losses[2]	**(4)**	1
Change in tax rates[3]	**-**	12
Differences in tax rates from 22 percent (2018: 23 percent)[4]	**3**	(3)
Other	**(1)**	(0)
Total tax expense	**(64)**	(60)
Effective tax rate	**21%**	18%
Tax effect of differences	**(4)**	(18)

1 Permanent differences include impact of pension provision movements recognised in other comprehensive income.
2 Effect of non-recognised timing differences and tax losses is related to tax losses in international operations.
3 Impact of change in Norwegian Corporate tax rate from 23 to 22 percent as from 2019.
4 Effect of different tax rates in other jurisdictions.

Recognised deferred tax assets and liabilities

Amounts in NOK million	2019	2018
Property, plant and equipment	**11**	20
Pensions	**52**	48
Construction contracts in progress	**(974)**	(694)
Tax loss carry-forwards	**608**	315
Provisions	**12**	36
Financial instruments	**3**	(11)
Other	**(25)**	20
Total deferred tax asset/(liability)	**(313)**	(265)

Change in net recognised deferred tax assets and liabilities

2019

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjust-ments	Balance as of 31 December
Property, plant and equipment	20	1	(10)	**11**
Net pensions	48	4	-	**52**
Projects under construction	(694)	(280)	-	**(974)**
Tax loss carry-forwards	316	292	1	**608**
Provisions	36	(25)	-	**12**
Financial instruments	(11)	2	13	**3**
Other	20	(45)	-	**(25)**
Total	(265)	(52)	4	**(313)**

2018

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjust-ments	Balance as of 31 December
Property, plant and equipment	19	1	-	**20**
Net pensions	45	3	-	**48**
Projects under construction	(425)	(269)	-	**(694)**
Tax loss carry-forwards	103	212	-	**316**
Provisions	21	15	-	**36**
Financial instruments	(10)	(2)	-	**(11)**
Other	20	(4)	4	**20**
Total	(225)	(44)	4	**(265)**

Tax loss carry-forwards

Amounts in NOK million	2019	2018
Recognised tax losses carried forward	**2 669**	1 344
Recognised denied interest carried forward	**84**	90
Unrecognised tax losses carried forward	**87**	86
Total tax losses carried forward - continuing operations	**2 840**	1 519

Recognised tax losses and denied interest carried forward are related to the Norwegian operations. Denied interest carried forward expires after five to ten years. Remaining recognised tax losses have indefinite expiry dates. Unrecognised tax losses are related to international offices of which NOK 7 million expire within five years, NOK 4 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 640 million at year-end 2019 (2018: NOK 633 million).

The group has NOK 1 million in current tax liabilities at year-end 2019 (2018: NOK nil).

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

	2019	2018
Profit/(loss) attributable to ordinary shares (NOK million):		
Net profit/(loss) - continuing operations	**244**	278
Net profit/(loss) - discontinued operations	**(10)**	0
Net profit/(loss) - total operations	**233**	278
Weighted average number of shares outstanding	**267 825 787**	267 429 795
Earnings per share (NOK):		
Basic and diluted EPS - continuing operations	**0.91**	1.04
Basic and diluted EPS - discontinued operations	**(0.04)**	0.00
Basic and diluted EPS - total operations	**0.87**	1.04

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 and yard improvements: 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 con-struction	**Total**
Historical cost as of 1 January 2019	866	1 140	198	**2 203**
Additions[1]	83	27	192	**302**
Disposals	-	(7)	-	**(7)**
Scrapping	(7)	(7)	-	**(15)**
Transfers	1	61	(61)	**1**
Currency translation differences	0	0	(0)	**1**
Historical cost as of 31 December 2019	943	1 213	329	**2 485**
Accumulated depreciation as of 1 January 2019	(418)	(818)	-	**(1 236)**
Depreciation for the year	(39)	(66)	-	**(105)**
Impairment	(0)	(0)	-	**(0)**
Disposals	-	6	-	**6**
Scrapping	7	7	-	**15**
Currency translation differences	(0)	(0)	-	**(0)**
Accumulated depreciation as of 31 December 2019	(449)	(871)	-	**(1 321)**
Book value as of 31 December 2019	493	342	329	**1 164**

1 Additions, buildings and sites include NOK 48 million related to acquisition of Stord Industribygg Holding AS. Kvaerner has purchased buildings and land at Stord which are used in Kvaerner's production at the Stord yard.

Amounts in NOK million	Buildings and sites	Machinery, equipment and software	Under con-struction	**Total**
Historical cost as of 1 January 2018	916	1 118	30	**2 063**
Additions	13	53	194	**260**
Disposals	-	(1)	-	**(1)**
Scrapping	(77)	(47)	-	**(123)**
Transfers	13	17	(27)	**4**
Currency translation differences	0	(0)	(0)	**0**
Historical cost as of 31 December 2018	866	1 140	198	**2 203**
Accumulated depreciation as of 1 January 2018	(457)	(806)	-	**(1 263)**
Depreciation for the year	(37)	(59)	-	**(97)**
Disposals	-	1	-	**1**
Scrapping	77	47	-	**123**
Currency translation differences	(0)	0	-	**(0)**
Accumulated depreciation as of 31 December 2018	(418)	(818)	-	**(1 236)**
Book value as of 31 December 2018	448	322	198	**967**

At year-end 2019, Kvaerner has contractual commitments for acquisition of property, plant and equipment amounting to NOK 65 million, mainly relating to development of the Stord yard.

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 frequently if impairment indicators are identified. Other tangible and intangible assets are assessed for impairment if there is any indication of impairment. 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.

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 and then, to reduce the carrying amount of the other non-financial assets in the CGU on a pro rata basis. An impairment loss on goodwill is not reversed.

Accounting estimates and judgements

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 judgements. As most of the larger new contracts are expected to be awarded in 2020 and 2021, combined with a slow market for contract awards in 2018 and 2019, the 2020 annual revenues are expected to decline to a level around NOK 6 billion for the Field Development segment. The EBITDA margin for the year 2020 is estimated to approximately three percent, reflecting temporarily declining revenues and that fixed costs are kept stable to position for upturn from 2021.

Further, Kvaerner estimates that a new normalised level for net working capital (NCOA) will be in a band between NOK nil to negative NOK 1 billion from 2020 and onwards. Kvaerner also expects a lower investment level (capex) in 2020 and forward compared to the relatively high investment levels seen in 2018 and 2019.

Intangible assets

Amounts in NOK million	Intangible assets excl. goodwill	Goodwill	**Total**
Balance as of 1 January 2018	42	607	**649**
Amortisation	(13)	-	**(13)**
Additions	74	-	**74**
Balance as of 31 December 2018	102	607	**710**
Amortisation	(19)	-	**(19)**
Impairment	(23)	-	**(23)**
Additions	73	-	**73**
Transfers	(1)	-	**(1)**
Balance as of 31 December 2019	132	607	**740**

Research and development costs
For the year ended 31 December 2019, the group capitalised development costs of NOK 73 million (2018: NOK 74 million) and recognised an impairment loss of NOK 23 million related to the group's strategic digitalisation project and IT systems as the criteria for capitalisation were not met. In 2019 NOK 37 million (2018: NOK 21 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 less than NOK 1 million in 2019 (2018: NOK 1 million).

At year-end 2019, Kvaerner has contractual commitments for acquisition of services and systems amounting to NOK 11 million, mainly relating to Kvaerner's digitalisation project.

Goodwill- allocation by operating segment

Amounts in NOK million	2019	2018
Stord yard	**421**	421
Verdal yard	**186**	186
Total Field Development	**607**	607

Impairment testing of goodwill
Goodwill originates from the demerger from Aker Solutions in 2011 and was allocated to the operational areas at that time, based on their estimated relative fair values. Following changes in the composition of the cash generating units in 2016, goodwill was then reallocated to the new operational areas, and as a result of these changes and historical impairments of goodwill, the balance of NOK 607 million as at 31 December 2018 was allocated to the Process Solutions operating segment (Stord yard CGU) and Structural Solutions operating segment (Verdal yard CGU).

Following the 1 October 2019 reorganisation and establishment of the operational areas Process & Structures, FPSOs and Renewables, the goodwill balances have remained allocated to the yard CGUs and the recoverable amount of the CGUs is assessed based on the forecast cash flows to be contributed by the Stord and Verdal yard CGUs to projects across the operational areas.

An alternative treatment would have been to re-allocate the goodwill to the new operating segments based on their relative values as at the date of the reorganisation. However, such a treatment would not reflect the economic substance of Kvaerner's operations, as it could result in a future impairment of goodwill (depending on the relative performance of the operating segments), even if there was profitable utilisation of the Stord and Verdal yards, the workforce and the underlying technical and operational systems and processes which the goodwill balances represent.

2019 Impairment test
Key assumptions
Cash flows from projects, including assumed project awards, are allocated to Stord yard CGUs and Verdal yard based on which resources are used or normally would be used for project execution. 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 judgement from other projects
- Cash flow projections for on-going projects are based on budget and forecast
- Explicit period for estimated cash flows are fourth quarter 2019–2023
- Terminal values reflecting long term, steady state revenue and margin levels are estimated based on a combination of historic levels and judgement
- An annual growth rate of one percent is used in calculating the terminal value
- 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 8.9 percent, and pre-tax discount rates are 11 percent for Stord yard and 10.3 percent for Verdal yard

For the yard Stord and Verdal CGUs recoverable amount for recognised goodwill exceeds the related carrying values, and consequently the analysis indicates that no impairment is required.

Sensitivities
The following adverse changes could occur simultaneously before any impairment is required in relation to the Stord yard CGU: revenue reduction of 30 percent, EBITDA margin reduction of 1.5 percentage points and increase in pre-tax discount rate of 2.4 percentage points.

The Verdal yard CGU is more sensitive to impairment: a simultaneous revenue reduction of three percent and increase in pre-tax discount rate of 1.4 percentage points would result in an impairment.

Note 12 Trade and other receivables

Financial reporting principles
Trade and other receivables are classified at amortised cost and recognised at the original invoiced amount less an allowance for doubtful receivables. Kvaerner applies a simplified approach to provide for lifetime Expected Credit Losses in accordance with IFRS 9. The invoiced amount is considered to be approximately equal to the value which would be derived under the amortised cost method.

Amounts in NOK million	Note	2019	2018
Trade receivables[1]		**286**	370
Provision for impairment of receivables		**(21)**	(21)
Trade receivables, net		**264**	349
Advances to suppliers		**56**	56
Other receivables		**639**	531
Derivative financial instruments	21	**16**	5
Total trade and other receivables		**975**	940
Other		**9**	7
Total trade and other current assets		**983**	947

1 Trade receivables are mainly related to contracts with customers.

Impairment losses in 2019 were NOK 1 million (2018: NOK 4 million).

Aging of trade receivables

Amounts in NOK million	2019	2018
Current	**225**	198
Past due 0 – 30 days	**28**	148
Past due 31 – 90 days	**11**	2
Past due 91 days or more	**22**	22
Total	**286**	370

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	2019	2018
Restricted cash	**1**	1
Cash pool	**491**	793
Interest-bearing deposits	**1 689**	2 321
Non interest-bearing deposits	**143**	50
Total	**2 324**	3 165

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.

Dividend of NOK 1.00 per share was paid in April 2019.

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 2018	1 113 079	12
Purchase	579 817	8
Sale	(599 119)	(7)
Treasury shares as of 31 December 2019	1 093 777	13

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 foreign currency 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.

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. Remeasurements 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 judgements
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 are included in the defined contribution plan in Kvaerner. The annual contributions expensed for the defined contribution plan were NOK 99 million (2018: NOK 92 million). The estimated contributions expected to be paid in 2020 are NOK 100 million.

Defined benefit plan
The defined benefit plan is a funded plan and represents the funded pension liability reported. The plan is closed and members of the plan are retired. Kvaerner's contributions to this plan in 2019 were NOK 17 million (2018: NOK 19 million) and the expected contributions for 2020 are NOK 15 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' part of the plan 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. Until 2019 the compensation amount was adjusted annually in accordance with the adjustment of the employees' pensionable income and accrued interest according to market interest. From 2019 the calculation method for the compensation scheme has changed, meaning that the liability will be equal the actual accrued cash value.

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. The employees are given a choice of retirement age, with lower pension at earlier retirement.

During 2017 the Norwegian Accounting Standards Board 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 34 million (2018: NOK 33 million). The estimated contributions to be paid in 2020 are NOK 34 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 2019 (2018: NOK 1 million). Estimated contributions in 2020 are NOK 0.6 million.

Total pension cost including payroll tax

Amounts in NOK million	2019	2018
Service cost[1]	**16**	24
Administration cost	**1**	1
Settlements	**(3)**	-
Net periodic pension cost defined benefit plans	**14**	25
Pension cost defined contribution plans	**132**	127
Other pension cost	**-**	5
Net periodic pension cost	**146**	156
Net interest cost/(income)	**6**	5
Net periodic pension cost incl. net interest cost	**152**	160

1 In 2018, the service cost was increased by NOK 7 million following increased accruals for AFP liabilities.

Movement in pension obligation and plan asset

Amounts in NOK million	2019	2018
Projected benefit obligation as of 1 January	**468**	475
Service cost	**16**	24
Interest expense	**13**	11
Payroll tax of employer contribution assets	**(4)**	(3)
Benefits paid	**(39)**	(36)
Settlements	**(3)**	-
Remeasurements loss/(gain) to other comprehensive income (OCI)	**31**	(2)
Projected benefit obligation as of 31 December	**482**	468
Plan assets at fair value as of 1 January	**269**	287
Interest income	**7**	7
Contributions paid into the plan	**30**	28
Benefits paid	**(39)**	(36)
Payroll tax of employer contribution assets	**(4)**	(3)
Administrative expenses paid	**(1)**	(1)
Remeasurements loss/(gain) to other comprehensive income	**(8)**	(12)
Plan assets at fair value as of 31 December	**255**	269
Effect of asset ceiling[1]	**(8)**	(19)
Net benefit obligation as of 31 December	**235**	218
As presented in the balance sheet		
Employee benefit assets	**0**	0
Employee benefit obligations	**(235)**	(218)
Total	**(235)**	(218)

1 Asset ceiling is implemented to reduce net pension assets according to the IFRS definition of assets. The effect is recognised in other comprehensive income (OCI).

Defined benefit obligation specified by funded and unfunded pension plans

Amounts in NOK million	2019	2018
Funded	**247**	250
Unfunded	**235**	218
Net employee benefit assets/(employee benefit obligations)	**482**	468

Included in other comprehensive income (OCI)

Amounts in NOK million	2019	2018
Remeasurements loss/(gain) from changes in:		
Effect of changes in financial assumptions	**13**	(8)
Effect of experience adjustments	**17**	6
Return on plan assets (excluding interest income)	**8**	12
Changes in asset ceiling	**(11)**	10
OCI losses/(gains)	**27**	19

Analyses of assets in the defined benefit plan

Plan assets comprise:

Amounts in NOK million	2019	2018
Bonds		
- Government	**2**	2
- Finance	**22**	36
- Private and Government enterprise	**45**	56
- Municipalities	**79**	100
Fund/Private Equity	**106**	74
Plan assets	**255**	269

Investments in bonds are made 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:

	2019	2018
Discount rate	**2.20%**	2.80%
Asset return	**2.20%**	2.80%
Salary progression	**2.25%**	2.75%
Pension indexation	**0 - 4.00%**	0 - 4.00%
G - multiplier	**2.00%**	2.50%
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:

	2019	2018
Assumed life expectancy retiring today (member age 65)		
Males	**22.3**	22.3
Females	**25.6**	25.6
Assumed life expectancy retiring in 25 years (member age 40 today)		
Males	**24.6**	24.6
Females	**28.1**	28.1

Sensitivity analysis
Calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above. A sensitivity analysis for each significant actuarial assumption is included below. 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:

	Defined benefit obligation	
Effects in NOK million	Increase	Decrease
Discount rate (1% movement)	(24)	30
Future salary growth (1% movement)	1	(1)
Future pension growth (1% movement)	27	(3)

Note 16 Leases

Financial reporting principles
Kvaerner has adopted IFRS 16 Leases as of 1 January 2019. The new standard significantly changes how the group accounts for its leased assets (principally offices and certain operational facilities), as IFRS 16 introduces a single on-balance sheet accounting model for lessees that has some similarities to the previous accounting for financial leases. Only leases for items of low value and short-term leases may be exempt from on-balance sheet recognition based on available practical expedients. Kvaerner has chosen to apply these practical expedients. There is no impact of IFRS 16 on loan covenants as these are based on financial figures excluding impacts from IFRS 16.

Kvaerner has elected to apply the modified retrospective approach (with practical expedients) at the date of initial application; 1 January 2019, with no restatement of comparable periods. The group will measure right-of-use assets at an amount equal to the liability, adjusted for any prepaid or accrued lease payments and not choose the option to measure right-of-use assets retrospectively. There was no impact on equity as at 1 January 2019 as a result of implementing IFRS 16.

The following available practical expedients have been applied on transition to IFRS 16:

- Onerous lease assessment; rely on assessment of whether leases are onerous applying IAS 37 on 31 December 2018 as an alternative to performing an impairment review of right-of-use assets for all its leases on 1 January 2019. Kvaerner reduced the right-of-use assets at 1 January 2019 by the NOK 33 million of onerous lease provisions recognised in liabilities in the balance sheet at 31 December 2018
- Apply the short term lease practical expedient to leases ending within 2019
- Exclude initial direct costs from measurement of right-of-use assets at the date of initial application
- Use hindsight where permitted by IFRS 16, such as in determining lease term (use of option periods)

Impacts on transition to IFRS 16 Leases

Amounts in NOK million	
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	**424**
Discounted using the incremental borrowing rate at 1 January 2019	372
Recognition exemptions for:	
Short term leases	(35)
Leases of low-value assets	(57)
Extension and termination options reasonably certain to be exercised	4
Price adjustments	1
New lease contracts	10
Lease liabilities recognised at 1 January 2019	**295**
Weighted average discount rate (incremental borrowing rate)	5%
Right-of-use assets equal to liability	295
Onerous lease provision	(33)
Provision for office upgrades	(2)
Right-of-use assets adjusted by amounts of provisions at 1 January 2019	**260**

Lease expenses and sub-lease income
Kvaerner has entered into various lease contracts, mainly related to rental of buildings, land and sites for transportation, storage and decommissioning. In addition, Kvaerner is renting cranes, cars, vessels, barges and various equipment and machinery related to operations at the Stord and Verdal yards. The lease terms vary from short term lease contracts to lease contracts with duration up to 10 years. Rent of machinery and equipment is project related and typically for a short time period to cover peaks or special lifting or other operations. None of the leases include significant contingent payments. The majority of the long-term lease contracts are renewable at the end of the lease period at market rates.

At the end of September 2019 Kvaerner moved its headquarters from Fornebuporten to Snarøyveien 20 at Fornebu and recognised a gain on termination of the Fornebuporten lease of NOK 34 million, presented within operational profit. The new offices are sub-leased from Aker Solutions, related party to Aker ASA and Kvaerner. Rent period is three years, to end of September 2022, with an option for an additional 18 months.

Kvaerner subleased separate floors of its previous offices at Fornebuporten to related parties. Sublease payments for 2019 and 2018 amounted to NOK 14 million.

Right-of-use assets and lease liabilities

Amounts in NOK million	Land and buildings	Machinery and vehicles	Total right-of-use assets	Lease liabilities
Balance at 1 January 2019	**248**	**12**	**260**	**295**
Depreciation expense	(43)	(2)	(45)	
Additions	57	2	59	59
Terminations	(153)	-	(153)	(191)
Installment lease payments				(40)
Balance at 31 December 2019	**109**	**11**	**121**	**123**

Lease liabilities, maturity analysis contractual undiscounted cash flows

Amounts in NOK million	2019
Amount due within one year	**41**
Amount due between one and five years	**92**
Amount due later than five years	**0**
Total undiscounted lease liabilities	**134**

Lease liabilities included in the balance sheet

Amounts in NOK million	2019
Non-current	**87**
Current	**36**
Total lease liabilities	**123**

Cash outflow for leases

Amounts in NOK million	2019
Interest portion on lease liabilities	(12)
Principle portion on lease liabilities	(40)
Expense relating to variable lease payments not included in lease liabilities	(3)
Expense relating to short-term leases	(197)
Expense relating to leases of low value assets	(18)
Total cash outflow for leases	**(270)**

Effects on income statement

Amounts in NOK million	2019
Depreciation of right-of-use assets	(45)
Interest expense on lease liabilities	(12)
Gain on termination of lease agreements	38
Expense relating to variable lease payments not included in lease liabilities	(3)
Expense relating to short-term leases	(197)
Expense relating to leases of low value assets	(18)
Effect on profit/(loss) before tax	**(237)**

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 NOK 2 000 million established in July 2015, originally to mature in July 2020, was cancelled and refinanced per 19 September 2019. The new credit facility agreement, a revolving credit facility of NOK 2 000 million, matures in September 2024. The facility is provided by a syndicate of high quality international banks. The revolving credit facility was undrawn during 2019 and as per 31 December 2019. 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 2019 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.

2019

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	-	1.80%	-	-	19 September 2024	IBOR + Margin[1]
Total non-current borrowings			-					

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.

2018

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[1]
Total non-current borrowings			-					

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

Amounts in NOK million	Warranties	Onerous contracts	Other	Total
Balance as of 1 January 2018	78	53	18	**148**
Provisions made during the year	189	(0)	6	**195**
Provisions used during the year	(79)	(8)	(11)	**(98)**
Provisions reversed during the year	(0)	(12)	-	**(12)**
Currency translation differences	(0)	0	(0)	**(0)**
Balance as of 31 December 2018	187	33	13	**233**
Provisions made during the year	68	46	4	**118**
Provisions used during the year	(56)	-	(7)	**(64)**
Provisions reversed during the year	(84)	-	-	**(84)**
Provisions offset against right-of-use assets (IFRS 16)	-	(33)	-	**(33)**
Currency translation differences	1	-	(0)	**1**
Balance as of 31 December 2019	114	46	10	**170**
Expected timing of payment as of 31 December 2019				
Non-current	68	14	3	**85**
Current	47	32	7	**86**
Total	114	46	10	**170**

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. Such warranties are deemed to be "assurance-type warranties" and are provided for in accordance with progress during the project in question. 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 and are based on experience from previous comparable projects. Factors that could affect the estimated warranty cost include the group's quality initiatives and project execution model.

At year-end 2018 and 2019, warranty provisions related to on-going projects amounted to NOK 30 million and NOK 68 million respectively.

Onerous contracts
The provision includes onerous lease contracts and onerous customer contracts. The onerous lease contract provision from 2018 related to separable parts of leased office building that had been vacated by Kvaerner. On transition to IFRS 16 Leases, 1 January 2019, right-of-use assets were adjusted by the amounts of onerous lease provisions and provisions for required office upgrades. The onerous customers contracts provision relates to total estimated losses on customer contracts upon completion.

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 expensed as incurred.

Significant current disputes
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.

Amounts in NOK million	Note	2019	2018
Trade creditors		**508**	555
Accrued operating costs		**1 274**	956
Derivative financial instruments	21	**3**	18
Public duties and taxes		**162**	155
Other current liabilities		**66**	78
Total trade and other payables		**2 012**	1 761

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, PLN, and RUB.

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

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

2019

Amounts in million (local currency)	RUB	PLN	SEK	CAD	GBP	USD	EUR
Cash	1 260	4	-	3	1	6	6
Balance sheet exposure	**1 260**	**4**	**-**	**3**	**1**	**6**	**6**
Estimated forecast receipts from customers	-	45	-	-	1	-	45
Estimated forecast payments to vendors	-	(58)	-	-	-	(1)	(4)
Cash flow exposure	**-**	**(13)**	**-**	**-**	**1**	**(1)**	**42**
Forward exchange contracts	**-**	**13**	**-**	**-**	**(1)**	**1**	**(42)**
Net exposure	**1 260**	**4**	**-**	**3**	**1**	**6**	**6**

2018

Amounts in million (local currency)	RUB	PLN	SEK	CAD	GBP	USD	EUR
Cash	703	1	(0)	3	1	7	3
Balance sheet exposure	**703**	**1**	**(0)**	**3**	**1**	**7**	**3**
Estimated forecast receipts from customers	4	-	-	-	-	-	45
Estimated forecast payments to vendors	(11)	(70)	-	-	-	(3)	(2)
Cash flow exposure	**(6)**	**(70)**	**-**	**-**	**-**	**(3)**	**43**
Forward exchange contracts	**6**	**70**	**-**	**-**	**-**	**3**	**(43)**
Net exposure	**703**	**1**	**(0)**	**3**	**1**	**7**	**3**

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 2019. The analysis is performed on the same basis as it was for 2018. 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.

	2019		**2018**	
Amounts in million (local currency)	Profit/(loss) before tax[2]	Equity[1]	Profit/(loss) before tax[2]	Equity[1]
USD - 10 percent weakening	**1**	**0**	1	0
EUR - 10 percent weakening	**4**	**(4)**	8	(4)
CAD - 10 percent weakening	**0**	**-**	0	-
GBP - 10 percent weakening	**0**	**(0)**	0	-
SEK - 10 percent weakening	**-**	**-**	(0)	-
PLN - 10 percent weakening	**1**	**1**	5	1
RUB - 10 percent weakening	**126**	**-**	70	(0)

1 The effects to equity that follow directly from the effects to profit and loss are not included.
2 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 2019 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

	Average rate		Closing rate	
Currency	**2019**	2018	**2019**	2018
USD	**8.7879**	8.1554	**8.7667**	8.7041
CAD	**6.6190**	6.2857	**6.7454**	6.3800
EUR	**9.8410**	9.6214	**9.8444**	9.9676
GBP	**11.2171**	10.8725	**11.5944**	11.0378
SEK	**0.9318**	0.9404	**0.9409**	0.9713
PLN	**2.2878**	2.2619	**2.3143**	2.3157
RUB	**0.1357**	0.1308	**0.1412**	0.1251

The next table illustrates the group's exposure to translation risk. If the Norwegian currency depreciated by ten percent during 2019, 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 derivatives or other effects from currency fluctuations. Sensitivity analysis per currency has been made and the result is given in the presented table.

	Total			10% depreciation			Change		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
2019	**9 032**	**498**	**3 385**	**9 125**	**505**	**3 396**	**92**	**7**	**11**
2018	7 220	437	3 447	7 245	442	3 452	25	5	6

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 2019.

An increase of 100 basis points in interest rates during 2019 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 2018.

Amounts in NOK million	2019	2018
Cash and cash equivalents - 1 percent interest increase	**23**	32
Cash flow sensitivity (net)	**23**	32

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 – Bureau van Dijk). Sales to customers are settled in cash.

For trade receivables, the group applies a simplified approach to provide for expected credit losses as prescribed by IFRS 9. 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 progress and/or agreed milestones. Any lack of payment is normally 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

2019

Amounts in NOK million	Note	Book value	Total undiscounted cash flow[1]	6 mths and less
Trade and other payables	19	(2 012)	**(2 012)**	(2 012)
Total		(2 012)	**(2 012)**	(2 012)

2018

Amounts in NOK million	Note	Book value	Total undiscounted cash flow[1]	6 mths and less
Trade and other payables	19	(1 761)	**(1 761)**	(1 761)
Total		(1 761)	**(1 761)**	(1 761)

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 group's 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 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 2019 (all obligations are per date of issue):

Amounts in NOK million	2019	2018
Parent company guarantees to group companies	**40 198**	46 146
Counter guarantees for bank/surety bonds	**2 418**	2 231
Total	**42 615**	48 377

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 on-going basis according to IFRS 9, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows. 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 753 million of which the major currency is EUR (NOK 501 million) (2018: NOK 656 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. Project revenues are recognised in accordance with IFRS 15 Revenue from contracts with customers, effective from 1 January 2018 and revenue is recognised over time using a cost progress method.

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.

2019

Amounts in NOK million	Assets at fair value	Liabilities at fair value	**Net fair value**	**Total undis-counted cash flow**[1]	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	16	(3)	**13**	**13**	3	11	0
Embedded derivatives	8	(1)	**7**	**7**	3	2	2
Not hedge accounted	-	-	**-**	**-**	-	-	-
Total	24	(4)	**20**	**20**	6	13	2

2018

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value	Total undis-counted cash flow[1]	6 mths or less	6-12 mths	1-2 years
Cash flow hedges	5	(18)	(13)	(13)	-	(13)	-
Embedded derivatives	28	(14)	14	14	2	5	7
Not hedge accounted	-	-	-	-	-	-	-
Total	32	(32)	0	0	2	(8)	7

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.

Project revenues and costs are recognised in accordance with IFRS 15 Revenue from contracts with customers, effective from 1 January 2018 and revenue is recognised over time using a cost progress 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 337 million (2018: NOK 975 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	**2019**	2018
Fair value of all hedging instruments	**1**	(13)
Recognised in profit and loss	**0**	14
Deferred in equity (hedging reserve)	**1**	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

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)[1]
Kværner ASA	Fornebu	Norway	
Kværner Holding AS	Fornebu	Norway	100
Kværner AS	Fornebu	Norway	100
Kværner Ghana AS	Lysaker	Norway	100
Norwegian Contractors AS	Lysaker	Norway	100
Aker Solutions Contracting AS	Lysaker	Norway	100
Kværner Resources AS	Fornebu	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 Renewables US LLC	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 equaling 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 revenue and 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. 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) formed a joint venture in 2015, 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 Kværner 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 51:49 by the partners. K2JV has been executing the Johan Sverdrup utility and living quarter (ULQ) platform topside EPC project for Equinor and was completed in first quarter 2019.

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 accounts for its activities as a joint operation, and report its scope of work in the group accounts. The project was delivered in second quarter 2019.

Joint Venture Agreement with Aker Solutions AS

Kvaerner and Aker Solutions AS have formed a joint venture, ASK JV AS, for project execution with an ownership of 50 percent to each of the partners. A Norwegian AS entity is a limited liability company. Parent company guarantees are issued by the partners' ultimate parents for the contractual obligations, refer to Note 20 Financial risk management and exposures. Profit is shared 50:50 by the partners. ASK JV is executing modification work for the Johan Sverdrup process platform topside EPC project for Equinor. The project will be delivered in 2022.

Joint Venture Agreement with DOF Subsea AS

In 2019 Kvaerner and DOF Subsea AS formed a joint venture, KDS JV AS, for project execution with an ownership of 50 percent to each of the partners. A Norwegian AS entity is a limited liability company. Parent company guarantee is issued by Kvaerner for the contractual obligations, refer to Note 20 Financial risk management and exposures. Profit is shared 50:50 by the partners. KDS JV will execute marine operations for the Hywind Tampen offshore wind project for Equinor. Kvaerner has the contract with Equinor and the joint venture will be a sub-supplier to Kvaerner. The project will be delivered in 2022.

Investment in associated companies and joint arrangements

2019

Amounts in NOK million	Book value as of 1 January	Additions	Divi-dend	Profit/ (loss)[1]	Other move-ments[2]	Currency translation differences	**Book value as of 31 December**
Kiewit-Kvaerner Contractors (KKC)	17	-	-	-	-	1	**18**
K2JV ANS[3]	24	-	(153)	130	-	-	**1**
ASK JV AS[3]	11	-	-	26	(1)	-	**36**
KDS JV AS	-	0	-	-	-	-	**0**
Other associated companies and jointly controlled entities	16	-	(1)	2	-	-	**17**
Total	69	0	(154)	158	(1)	1	**73**

2018

Amounts in NOK million	Book value as of 1 January	Additions	Divi-dend	Profit/ (loss)[1]	Other move-ments[2]	Currency translation differences	**Book value as of 31 December**
Kiewit-Kvaerner Contractors (KKC)	-	-	(30)	47	-	0	**17**
K2JV ANS[3]	0	-	(107)	130	0	-	**24**
ASK JV AS[3]	-	0	-	10	1	-	**11**
Other associated companies and jointly controlled entities	17	-	(1)	4	(4)	0	**16**
Total	17	0	(138)	192	(3)	0	**69**

1 Purpose of investment decides presentation in the income statement. Results from associated companies and joint ventures are presented within operating revenue and other income in the income statement.
2 Other movements for K2JV and ASK JV relate to cash flow hedges qualifying for hedge accounting. For 2018, other movements for other associated companies and jointly controlled entities mainly relate to reversal of write down of receivables, recognised in profit/(loss) from equity accounted investees and against receivables in the balance sheet.
3 Profit from K2JV and ASK JV includes accounting effect of embedded derivatives.

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

2019

Amounts in NOK million	Business office	Percent-age held[1]	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit-Kvaerner Contractors (KKC)[2]	New-foundland, Canada	50.0%	43	6	37	-	-
K2JV ANS[2]	Stord, Norway	51.0%	39	37	2	364	255
ASK JV AS[2]	Stavanger, Norway	50.0%	268	196	72	1 360	51
KDS JV AS[2]	Fornebu, Norway	50.0%	0	-	0	-	-

2018

Amounts in NOK million	Business office	Percent-age held[1]	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit-Kvaerner Contractors (KKC)[2]	New-foundland, Canada	50.0%	43	8	35	-	94
K2JV ANS[2]	Stord, Norway	51.0%	332	284	48	1 527	256
ASK JV AS[2]	Stavanger, Norway	50.0%	123	101	22	231	21

1 Percentage of voting rights equals percentage held.
2 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 Kværner ASA, Aker Kværner Holding AS is owned 70 percent by Aker ASA, which in turn is owned directly and indirectly 68.2 percent by The Resource Group TRG AS, a company owned by Kjell Inge Røkke. All entities owned or controlled by Aker ASA and The Resource Group TRG AS are considered related parties to Kvaerner. Non-controlling interests with significant influence are also considered as related parties. These entities, including Aker Solutions, Akastor and Aker BP are referred to as Aker entities 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 owned or controlled by Aker ASA and The Resource Group TRG AS, 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 purchase of man-hours. See further details in Note 24 Equity-accounted investees on joint venture.

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 2019 (2018: NOK 17 million). Kvaerner has an interest-bearing receivable linked to loan granted to Aker Pensjonskasse in 2019, with an outstanding loan balance per end of year 2019 of NOK 20 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 2019 was NOK 517 500 (2018: NOK 502 500).

Kvaerner has subleased separate floors of its offices at Fornebu to related parties. See Note 16 Leases.

Transactions and balances with related parties

2019

Amounts in NOK million	Aker entities	Joint ventures and Associates	Total
Income statement			
Operating revenues	524	367	**891**
Operating expenses	(791)	(105)	**(896)**
Balance sheet as of 31 December			
Trade and other receivables	44	56	**100**
Trade and other payables	(36)	(5)	**(42)**

2018

Amounts in NOK million	Aker entities	Joint ventures and Associates	Total
Income statement			
Operating revenues	679	654	**1 333**
Operating expenses	(650)	(105)	**(755)**
Balance sheet as of 31 December			
Trade and other receivables	142	47	**189**
Trade and other payables	(127)	(3)	**(131)**

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 have been presented as discontinued operations in the group's financial statements since the sale.

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

The operating result for 2018 reflected recognition of insurance recoveries of more than net USD 2 million related to the Longview Power project.

Summary of financial data for discontinued operations

Amounts in NOK million	2019	2018
Total revenue and other income	-	-
Administrative and legal expenses, net of insurance recoveries	(11)	(1)
EBIT	(11)	(1)
Net financial income/(expense)	0	2
Profit/(loss) before tax	(10)	1
Income tax expense	-	(1)
Net profit/(loss) discontinued operations	(10)	0
Basic and diluted earnings/(losses) per share (NOK)	(0.04)	0.00
Net assets	(26)	(34)

Cash flow from discontinued operations

Amounts in NOK million	2019	2018
Cash flow from operating activities	(18)	(6)
Cash transferred (to)/from parent	12	1
Translation adjustments	0	2
Net increase/(decrease) in cash and bank deposits	(6)	(3)
Cash and cash equivalents at the beginning of the period	28	31
Cash and cash equivalents at the end of the period	22	28

Note 27 Subsequent events

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

Annual accounts Kværner ASA

Income statement 01.01 - 31.12

Amounts in NOK thousands	Note	2019	2018
Operating revenue	2	**28 491**	30 005
Operating expenses	2	**(34 715)**	(34 594)
Operating loss		**(6 224)**	(4 589)
Net financial items	3	**174**	(10 502)
Profit/(loss) before tax		**(6 050)**	(15 091)
Tax income/(expense)	4	**1 616**	625
Net profit/(loss)		**(4 434)**	(14 466)
Net profit/(loss) for the year are distributed as follows:			
Proposed dividend		**134 500**	269 000
Transferred from other equity		**(138 934)**	(283 466)
Net profit/(loss)		**(4 434)**	(14 466)

Balance sheet as of 31 December

Amounts in NOK thousands	Note	2019	2018
Assets			
Deferred tax asset	4	**60 593**	58 932
Investments in group companies	5	**4 918 771**	4 918 771
Non-current interest-bearing receivables from group companies		**1 055 528**	1 021 360
Total non-current assets		**6 034 892**	5 999 063
Non-interest bearing receivables from group companies	7	**-**	13 409
Other current receivables	9	**14 490**	5 561
Cash and cash equivalents	7	**7 005**	53 313
Total current assets		**21 495**	72 283
Total assets		**6 056 387**	6 071 346

Amounts in NOK thousands	Note	2019	2018
Liabilities and shareholders' equity			
Issued capital		**91 460**	91 460
Share premium reserve		**729 027**	729 027
Other equity		**3 104 691**	3 243 669
Total equity	6	**3 925 178**	4 064 156
Non-current liabilities	8	**7 767**	10 337
Total non-current liabilities		**7 767**	10 337
Interest-bearing current liabilities to group companies	7	**1 900 806**	1 586 447
Non-interest bearing current liabilities to group companies	7	**13 196**	-
Provision for dividend	6	**134 500**	269 000
Other current liabilities to related parties	7	**154**	1 603
Other current liabilities	9	**74 786**	139 803
Total current liabilities		**2 123 442**	1 996 853
Total liabilities and shareholders' equity		**6 056 387**	6 071 346

Fornebu, 11 February 2020
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy
Chairman

Lone Fønss Schrøder
Director

Thorhild Widvey
Director

Jan Arve Haugan
Director

Kjell Inge Røkke
Director

Rune Rafdal
Director

Ståle Knoff Johansen
Director

Line Småge Breidablikk
Director

Karl-Petter Løken
President & CEO

Cash flows 01.01–31.12

Amounts in NOK million	Note	2019	2018
Profit/(loss) before tax		**(6 050)**	(15 091)
Taxes paid		**(45)**	(227)
Changes in liabilities		**(38 914)**	7 369
Changes in other net operating assets		**(34 648)**	(1 054)
Non-cash effect on group hedging		**25 157**	(3 018)
Amortisation of loan costs		**(12 272)**	3 771
Net cash from operating activities		**(66 771)**	(8 250)
Increase/(decrease) in long term borrowings to group companies		**289 204**	10 520
Share purchase for the variable pay programme, net of refund from subsidiaries	6, 8	**(663)**	2 268
Dividends paid		**(268 077)**	-
Net cash from financing activities		**20 463**	12 788
Net increase (decrease) in cash and bank deposits		**(46 308)**	4 539
Cash and bank deposits at the beginning of the period		**53 313**	48 773
Cash and bank deposits at the end of the period		**7 005**	53 313

The notes on pages 63 to 67 are an integral part of these consolidated financial statements.

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 Snarøyveien 20, 1360 Fornebu, 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 currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Foreign currency exchange impacts are recognised in the income statement as they occur.

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

Tax
Tax income/(expense) in the income statement comprises current tax and change in deferred tax. Deferred tax is calculated at 22 percent of temporary differences between accounting and tax values as well as any tax losses carried forward. Deferred tax assets 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 programme 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 the employee is entitled to a matching element that is paid in the form of Kvaerner ASA shares. The monetary amount of the earned bonus 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. Kvaerner 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 Kværner ASA and hence no salary or pension related costs, and no loans or guarantees related to the executive management team. Group management and staff are employed by other Kvaerner companies. Parent company costs are recharged to Kværner ASA.

Fees to KPMG for statutory audit of the parent company and consolidated accounts amounted to NOK 0.8 million (2018: NOK 0.8 million) which relates to ordinary audit fees excluding VAT.

NOK 3.0 million (2018: NOK 2.9 million) has been allocated to payable fees to the Board of Directors for 2019.

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	2019	2018
Interest income from group companies	**40 255**	19 721
Interest expense to group companies	**(49 082)**	(33 131)
Net interest group companies	**(8 827)**	(13 410)
External interest income	**29 208**	22 630
External interest expense[1]	**(21 863)**	(20 079)
Net interest external	**7 345**	2 551
Net other financial items	**1 656**	357
Net financial items	**174**	(10 502)

1 External interest expense reflects amortised prepaid fees and commitment fee related to the credit facility.

Note 4 Tax

Amounts in NOK thousands	2019	2018
Taxable income		
Profit/(loss) before tax	**(6 050)**	(15 091)
Interest deduction limit	**1 482**	10 860
Permanent differences[1]	**(1 504)**	(258)
Change temporarily differences	**(8 929)**	(5 561)
Taxable income/(loss)	**(15 000)**	(10 050)
Temporary differences and deferred tax		
Other (Prepaid fees)	**14 490**	5 561
Tax losses carried forward due to interest deduction limit	**(81 850)**	(80 368)
Tax losses carried forward	**(208 063)**	(193 063)
Total temporary differences	**(275 423)**	(267 870)
Deferred tax asset	**60 593**	58 931
Tax income		
Expected Income taxes	**1 331**	3 471
Tax effect permanent differences	**331**	59
Paid witholding tax	**(45)**	(227)
Effect of change in tax rate	**-**	(2 679)
Total tax income in income statement	**1 616**	625
Effective tax rate	**27%**	4%

1 Permanent differences in 2019 relate to payment on loan previosly written down.

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	Percentage owner-/ voting share
Kværner Holding AS	Fornebu, Norway	1 010	10 000	4 918 771	100%

Kværner Holding AS results 2018

Amounts in NOK thousands	
Profit/(loss) for the period[1]	21 557
Equity as of 31 December 2019[1]	5 494 155

1 Based on preliminary reporting.

Impairment test
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 group accounts for further details on key assumptions used in the impairment test.

Calculated recoverable amount exceeds book value of the shares, hence no impairment is recorded as per year-end 2019.

The calculations are sensitive to key assumptions such as revenue and margin levels in the subsidiaries and other investments of Kværner Holding AS.
Compared to the assumptions used in the testing, a combination of 20 percent revenue reduction, 1.5 percentage points EBITDA margin reduction and 2.4 percentage points increase in post-tax discount rate could occur without need for impairment of the investment in Kværner Holding AS.

Note 6 Shareholders' equity

Amounts in NOK thousands	Share capital	Share premium	Other equity	**Total**
Equity as of 31 December 2017	91 460	729 027	3 524 053	**4 344 540**
Treasury shares - Variable pay programme	-	-	3 082	**3 082**
Profit/(loss) for the period	-	-	(14 466)	**(14 466)**
Proposed dividend	-	-	(269 000)	**(269 000)**
Equity as of 31 December 2018	91 460	729 027	3 243 669	**4 064 156**
Treasury shares - Variable pay programme	-	-	(968)	**(968)**
Profit/(loss) for the period	-	-	(4 433)	**(4 433)**
Proposed dividend	-	-	(134 500)	**(134 500)**
Undistributed and reversed dividend	-	-	923	**923**
Equity as of 31 December 2019	91 460	729 027	3 104 691	**3 925 178**

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 2019 totalled 1 093 777 shares with a nominal value of NOK 0.34.

Note 7 Receivables and borrowings from group companies and related parties

Amounts in NOK thousands	**2019**	2018
Kværner ASA bank deposits	**5 895**	52 216
Restricted cash	**1 110**	1 097
Total cash in cash pool system	**7 005**	53 313
Interest-bearing current liabilities to group companies[1]	**(1 900 806)**	(1 586 447)

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	2019	2018
Debt to Kvaerner employees for matching shares[1]	**(7 767)**	(10 337)
Total non-current liabilities	**(7 767)**	(10 337)

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	2019	2018
Other current receivables	**14 490**	5 561
Other current liabilities	**(74 785)**	(139 803)
Net other current receivables and liabilities	**(60 295)**	(134 242)

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 Kværner ASA's interest-bearing loans and borrowings which are measured at amortised cost. For more information about Kværner ASA's exposure to interest rates, foreign currency and liquidity risk, see Note 12 Financial risk management and exposures.

Bank debt

The revolving credit facility agreement of NOK 2 000 million established in July 2015, originally to mature in July 2020, was cancelled and refinanced per 19 September 2019. The new credit facility agreement, a revolving credit facility of NOK 2 000 million, matures in September 2024. The facility is provided by a syndicate of high quality international banks. The revolving credit facility was undrawn during 2019 and as per 31 December 2019. 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 2019 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.

See Note 17 and Note 20 in the group accounts for further details.

Note 11 Guarantees

Amounts in NOK million	2019	2018
Parent company guarantees to group companies	**38 098**	44 033
Counter guarantees for bank/surety bonds	**2 418**	2 231
Total	**40 516**	46 264

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

Note 12 Financial risk management and exposures

Foreign exchange
Kværner ASA's currency contracts with subsidiaries as of 31 December 2019 have a notional value of NOK 753 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

	2019		2018	
Amounts in NOK thousands	**Assets**	**Liabilities**	Assets	Liabilities
Fair value of forward exchange contracts with group companies	**1 791**	**(14 987)**	16 318	(2 908)
Fair value of forward exchange contracts with related parties	**198**	**(352)**	-	(1 603)
Fair value of forward exchange contracts with external counterparts	**15 339**	**(1 990)**	3 037	(14 843)
Total	**17 329**	**(17 329)**	19 355	(19 355)

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

2019

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
ARCTIC FUNDS PLC		5 210 845	1.94
RAIFFEISEN BANK INTERNATIONAL AG	X	4 921 770	1.83
STATE STREET BANK AND TRUST COMP	X	4 527 892	1.68
CITIBANK, N.A.	X	4 459 174	1.66
VERDIPAPIRFONDET HOLBERG NORGE		3 500 000	1.30
JPMORGAN CHASE BANK, N.A., LONDON	X	3 123 106	1.16
VERDIPAPIRFONDET FONDSFINANS NORGE		3 000 000	1.12
CLEARSTREAM BANKING S.A.	X	2 912 249	1.08

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 2019 calendar year ended on 31 December 2019 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 2019 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 2019
- 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, 11 February 2020
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director	Kjell Inge Røkke Director	Lone Fønss Schrøder Director
Ståle Knoff Johansen Director	Line Småge Breidablikk Director	Rune Rafdal Director	Karl-Petter Løken President & CEO	

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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 2019, 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 2019, and income statement, statement of other 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 2019, 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 2019, 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.

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 and contract balances*.

The key audit matter	*How the matter was addressed in our audit*
The majority of the Group's revenues and profits are derived from long-term construction contracts. 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.	For financially significant contracts subject to significant estimation uncertainty and / or with a reasonable possibility of being in a significant loss-making position, we applied professional skepticism and critically assessed the accounting estimates and judgments against the requirements of IFRS 15. Our audit procedures included: • updated our understanding of project performance, changes compared to previous forecasts, sensitivities and risks by reading contracts, management's project assessments and reporting and discussing these with relevant management; • corroborating contractually based revenue and cost amounts included in project forecasts with reference to signed contracts and external confirmations; • agreeing the contractual basis of variable revenues included in project forecasts and assessing the likelihood of these being realised with reference to past and forecast performance, relevant KPIs and customer correspondence and the requirements of IFRS 15; • assessing the reasonableness of variable costs to complete with reference to contract terms, actual and forecast cost and schedule performance and external correspondence; • 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 relevant events or information received after the reporting date; • 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; • evaluating the consistent application of the Group's accounting policies across projects 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; and • evaluating the Group's disclosures against the relevant requirements of IFRS 15.

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*
Management's determination of the recoverable amounts of the cash generating units to which goodwill is allocated includes assumptions regarding future project wins, profitability and terminal values. The potential reallocation of goodwill following the Group's reorganisation during 2019 – as described in Note 11 *Intangible assets* – requires a complex accounting evaluation and a high degree of judgment. As such, significant auditor judgment is required when evaluating the allocation of goodwill and whether the project assumptions underlying recoverable values are reasonable and supportable, and whether the terminal value projections can be considered reliable.	We involved KPMG technical accounting specialists in the assessment of goodwill allocation and considered the merits of alternative outcomes. When assessing the recoverable values of cash generating units, we applied professional skepticism and critically assessed the cash flow forecasts, including: • forecast results from contracted work within the existing backlog with reference to our audit work on contract accounting estimates (refer *Contract accounting estimates* Key Audit Matter); • future contract win assumptions with reference to likely investment decisions by the Group's customers, the Group's historical success rates in tenders, and ongoing tendering activities by the Group; • future contract margins with reference to historical actuals for similar projects, recent project profitability and Board approved budgets where relevant; • terminal values with reference to the historical results of the Group and future forecasts; and • the allocation of the cost of supporting functions to operational area results. 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.

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*
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. 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.	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: • assessing reports prepared by external experts against the Group's gross claims; • assessing interim rulings or other relevant pronouncements made by the arbitration panel / court; • consideration of historical outcomes of previous arbitration and legal proceedings; and • external legal opinions on the strength of the Group's claims, counterclaims made by customers, and the likely outcome of the proceedings.

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 scepticism 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty

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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, 11 February 2020
KPMG AS

Arve Gevoll
State Authorised Public Accountant

Board of Directors

Leif-Arne Langøy

Chairman

Leif-Arne Langøy (born 1956) is chairman of the board for DNV GL Group AS 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 194 827 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 2019-2021.

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. Through his company The Resource Group TRG AS, Mr Røkke owns 68.18 percent of Aker ASA which owns 70 percent of Aker Kværner Holding AS, which again owns 41.02 percent of Kværner ASA. He is chairman of Aker ASA and is board member of Aker BP ASA, Ocean Yield ASA and several privately held companies. 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 2019-2021.

Jan Arve Haugan

Director

Jan Arve Haugan (born 1957) started his professional career in the civil construction industry. He worked as project consultant until he joined the industrial conglomerate Norsk Hydro as chief engineer in 1991. He served in several leading positions in Hydro's oil and gas projects and operations as well as in Hydro's aluminium business. From 2009 to 2011 he was CEO of Qatalum in Qatar. Mr Haugan was President & CEO of Kvaerner ASA from 2011 to 2018. He was CEO of Aker Energy AS until the end of 2019. Mr Haugan holds a M.Sc. in construction management from University of Colorado at Boulder, USA. Mr Haugan and related parties hold 194 843 shares in Kværner ASA.
Mr. Haugan is a Norwegian citizen. He has been elected for the period 2019-2020.

Thorhild Widvey

Director

Thorhild Widvey (born 1956) was Minister of culture from 2013 to 2015 and Minster 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 previous 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 Norwegain citizen. She has been elected for the period 2018-2020.

Lone Fønss Schrøder
Director

Ms 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 global cross industrial experience from e.g. Aker Solutions ASA, Akastor ASA, Volvo AB, Vattenfall AB, and Ikea group. She is CEO of Concordium, a pubic blockchain, vice-chair of Volvo Cars, developer and co-owner of Cashworks FinTech. She is chair of the audit committee in Akastor ASA, Volvo AB and on the AC of Ikea. 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 2018-2020.

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 8 737 shares in Kværner ASA, and has no stock options. Mr Rafdal is a Norwegian citizen. He has been elected for the period 2019-2021.

Ståle K. 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 12 872 shares in Kværner ASA, and has no stock options. Mr Johansen is a Norwegian citizen. He has been elected for the period 2019-2021.

Line Småge Breidablikk
Director

Line Småge Breidablikk (born 1985) was elected by the employees of Kvaerner to the Board of Directors in May 2019. Ms Breidablikk has been employed by Kvaerner since 2012, served as local union representative at Kværner at Stord from 2013 and as local union chair since 2016. She is a group union representative for white-collar employees on a half-time basis. Ms Breidablikk holds a M.Sc. within Marine Technology from the Department of Marine Technology, Norwegian University of Science and Technology (NTNU). She holds 1 634 shares in Kværner ASA, and has no stock options. Ms Breidablikk is a Norwegian citizen. She has been elected for the period 2019-2021.

Company information

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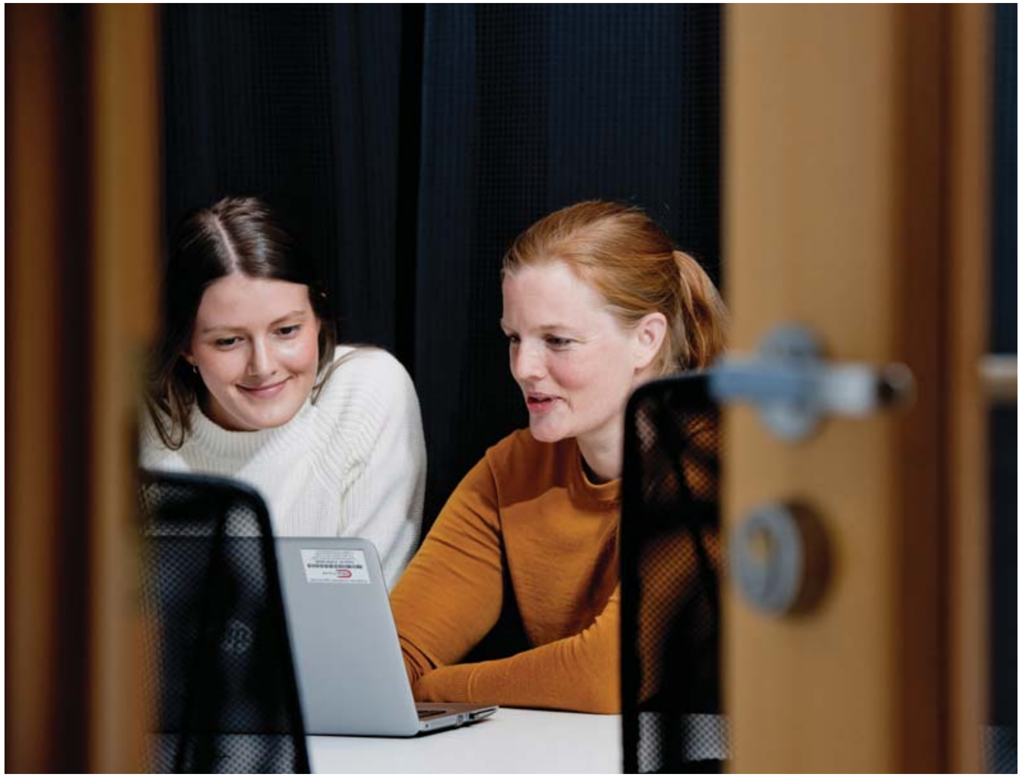
Annual Report 2018



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Board of Directors' report 2018

Operational highlights

New contracts worth a total of NOK 9.8 billion secured: Highlights

- NOK 3.8 billion contract with Equinor for delivery of the topside modules for the Johan Castberg FPSO, plus hook-up and integration to the topside modules with the hull
- Agreement with Equinor, in a 50/50 joint venture with Aker Solutions, for modifications of the riser platform and the field centre for the Johan Sverdrup development with total value of approximately NOK 3.4 billion
- NOK 900 million contract with Equinor for delivery of the steel substructure for the Johan Sverdrup phase 2 process platform
- Additional scope, estimated at NOK 500 million, at Njord A to enable Equinor's platform to receive oil from the Fenja field
- Exercise of option for hook-up and commissioning assistance of the utility and living quarters (ULQ) platform as well as offshore work connected with phase 2 modifications of the riser platform at Equinor's Johan Sverdrup field
- Decommissioning contracts:
  - With Allseas for the recycling of the topside and bridge of the Valhall QP platform
  - With Saipem UK for disposal of the Varg A installation
- Concept study for Krafla unmanned wellhead platform for Equinor
- Three front-end engineering and design (FEED) studies for the offshore wind industry, including a study for Equinor for the planned Hywind Tampen project in the North Sea

Key project milestones and deliveries

- Johan Sverdrup drilling platform jacket completed: delivered on schedule in March
- Yme New Development project: permanent caisson support structure was completed on schedule. Agreed delivery to Repsol Norge in 2019
- FEED study for P2 jacket for Johan Sverdrup phase 2: delivered to Equinor in June
- Nord Stream 2; work begun at landfall site in the second quarter
- Johan Sverdrup riser platform hook-up and modifications; achieved the critical "ready for drilling" milestone as planned in September. Offshore work to prepare the platform for production start-up has been ongoing, as planned, throughout the second half of the year
- Decommissioning; 40 000 tonnes of steel arrived at Eldøyane during the summer, recycling of Nyhamna subsea gas compression pilot completed in September
- Johan Sverdrup process platform jacket; sail-away from Verdal on schedule and delivered end-July
- Njord A upgrade; heavy lift and installation campaign started as planned in August, lasting until the spring of 2019. Project is on schedule for completion in 2020
- Johan Sverdrup utility and living quarter (ULQ) topside; reached mechanical completion 1 October, in line with plan
- Johan Castberg FPSO; first steel cut on schedule late November, as planned
- Johan Sverdrup phase 2 riser platform modifications; first steel cut, on schedule, on 13 December
- Aasta Hansteen; wells hooked-up to process system on schedule in early August, completion assistance led to production of first gas in December
- Valhall Flank West; assembly of topside and steel jacket started early-September, one month ahead of plan. Topside painted and outfitting started in November. First roll-up was completed in December; second roll-up was completed in January 2019

Strategic development

The fundamentals in the oil and gas industry have improved compared to the past few years with oil prices now at a higher level and an increasing number of final investment decisions (FIDs) for offshore projects globally.

Kvaerner's tendering activity was high during 2018 and key newbuild contracts such as the Johan Castberg FPSO and steel substructure for the Johan Sverdrup phase 2 process platform were secured. Tendering activity is expected to remain high during 2019, which should contribute to healthy activity level for Kvaerner in the medium term. However, few sizable discoveries have been made on the Norwegian continental shelf (NCS) in recent years, and it may take some time before new discoveries mature into newbuild projects. To offset the potential longer term drop in newbuilds on the NCS, Kvaerner is positioning for new segments and markets such as tie-backs with unmanned installations, larger modifications of offshore installations, niches in offshore wind, and decommissioning. This positioning has already materialised into contract wins such as Johan Sverdrup riser platform modification, additional scope at the upgrade of Njord A to enable the platform to receive oil from the Fenja field, and several decommissioning contracts.

Several improvement initiatives launched over recent years were successfully concluded in 2017 and cost levels for upcoming projects has been reduced typically by more than 20 percent. Continuous improvement has become part of normal operations. Kvaerner has throughout 2018 taken steps to reduce costs further and increase productivity and quality, including identification and implementation of several digitalisation initiatives. 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 2019, as this is vital for Kvaerner's competitive position.

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 2018, the company has continued to invest in upgrading its facilities, including the large quay development at Stord which will be completed in 2020.

In addition to organic strategic development, Kvaerner will consider selected structural measures to grow and create an even more robust company, if the right opportunities arise. As an example, Kvaerner made a small acquisition in 2018, GMC Decom, to expand the decommissioning capacity at its Eldøyane site.

The Kvaerner Academy was rolled out throughout 2018 as an umbrella covering all internal training. The key focus for Kvaerner Academy in 2018 has been leadership 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.

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, and has also delivered a number of challenging offshore projects elsewhere in the world.

For deliveries of complete platform topsides, Kvaerner's capabilities include expertise to integrate systems such as oil and gas treatment, oil and gas storage, offloading and export, utility and process support systems, drilling facilities and living quarters.

Within steel substructures, Kvaerner's track record includes 46 steel jackets delivered in 45 years. In 2019, the company will deliver the topside and steel jacket substructure for the normally unmanned Valhall Flank West wellhead platform. Steel jackets for such platforms represent an interesting future market opportunity.

For concrete substructures to field developments globally, Kvaerner is the undisputed market leader with two dozen reference projects. The company has also been a key contractor for all seven of Norway's largest onshore oil and gas plants in Norway.

Kvaerner is also one of the world's most experienced contractors for delivery of floating oil and gas installations. The company has had a key role in delivery of more than 15 of the world's most recognised floating platform projects.

In all of the above-mentioned segments, 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 and a relatively short schedule for delivery, there are few contractors world-wide who have credible expertise to complete such deliveries.

In recent years, Kvaerner has identified a number of growth segments where the company offers additional, specialised services to the oil and gas industry. These services include hook-up and completion of onshore platforms, marine operations, platform modifications and upgrades (such as the Njord A upgrade) and decommissioning services. For the latter, 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 in the decommissioning of offshore installations from both the Norwegian and UK continental shelf, with a recycling rate of more than 99 percent.

In addition, Kvaerner has identified the offshore wind power industry as an additional growth segment. Within offshore wind, the company provides fixed and floating foundations, in both steel and concrete, for wind turbines, and Kvaerner also offers converter platforms for offshore wind power developments.

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 is 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 EPC upgrade of the Njord A platform, Johan Castberg topside and FPSO integration project, and Johan Sverdrup phase 2 – riser platform modification
- **Structural Solutions:** Responsible for steel jacket substructure projects. Also responsible for Kvaerner's Subsea on a Stick® concept and the high-tech piping technology unit which is integrated in the facility at Verdal. Current projects include an EPC contract for the steel jacket substructure to the Johan Sverdrup phase 2 process platform, and the topside and steel jacket substructure for normally unmanned Valhall Flank West wellhead platform. The Verdal facility also fabricates the new flare tower for Njord A, the module for seawater handling and the main pipe rack to Johan Castberg for delivery to Kvaerner's facility at Stord, plus several smaller projects within piping technology
- **Concrete & New Solutions:** Responsible for concrete marine structure projects. Also responsible for hook-up, completion, decommissioning and business opportunities in adjacent segments. Current projects include hook-up and commissioning related to both the Aasta Hansteen platform and the Johan Sverdrup riser platform, dismantling and recycling of three North Sea platforms, marine operations for the West White Rose concrete gravity structure offshore Canada, and the Nord Stream 2 project in Russia. 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. Key examples that illustrate potential synergy effects of such partnerships are 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. 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 EPCI projects. The PEM™ ensures that the work progresses in a controlled manner, ensuring that projects are executed at the right time, to the right quality and at the agreed cost, thereby enabling Kvaerner to meet its business objectives. Consequently, the PEM™ contributes to maintaining Kvaerner's record of safe and successful project execution.

The Kvaerner PEM™ shall safeguards safety, the environment, quality and cost efficiency by constantly focusing on:

- Quality in deliveries by proper quality planning, assurance and control throughout the value chain. Significant efforts shall be invested in the early phases to secure quality in all aspects, no changes or repairs required and therefore robust safety standards during construction and operation
- 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
- Avoiding rework – making sure work is completed correctly the first time
- 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, influenced by factors such as world trade, international economic development and political direction. Over the last two years the oil price has reached levels where oil companies find it profitable to develop several new resources. That said, oil and gas prices are still volatile, hence there is significant uncertainty regarding the timing of large investments in field developments. Competition remains fierce, both from Norwegian and international companies. Compared to one year ago, tendering activity is higher. Exploration drilling on the Norwegian continental shelf is again at a high level, which is positive for the long term opportunities.

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, the company has a strong position for oil and gas projects in the North Sea, Canada and Russia. Regarding harsh environment FPSO solutions, Kvaerner has identified a number of candidates similar to the Johan Castberg FPSO, where the company is currently executing the main topside fabrication and integration contract.

In the Russian market, the geopolitical situation with trade restrictions remains unchanged since 2017. EU and US sanctions against specific companies and persons as well as general sector restrictions (offshore deep water and Arctic oil and shale oil projects) remain in place. Kvaerner remains highly vigilant to ensure 100 percent compliance with applicable trade restrictions in all our operations and within our value chain.

Renewables is a market segment where Kvaerner is now more active. Target deliveries are linked to foundations for offshore wind, steel and concrete solutions as well as HVDC (high voltage direct current) platforms linked to wind farms. There are project opportunities in Europe and North America.

Market segments
Kvaerner remains primarily focused on upstream oil and gas projects primarily, and pursues 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
- Renewables projects such as wind turbine foundations and HVDC high voltage direct current platforms as part of windfarms

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: the company 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

The fundamentals in oil and gas industry have improved compared to the past few years with oil prices now at a higher level and an increasing number of FIDs for offshore projects internationally. However, as competition remains fierce and commercial terms are under continuous pressure, Kvaerner continues its efforts to further improve competitiveness. The company has a strong track record of delivery on time and with expected quality and will continue its focus on improving its 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 2019 and beyond.

Against this background, Kvaerner's future focus is to:

- Maintain the drive towards best in class HSSE performance, and zero unwanted incidents
- 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 2018

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 (2017).

Profit and loss

Consolidated operating revenue for 2018 was NOK 7 220 million (NOK 6 536 million). Whilst overall activity levels in 2018 were comparable to 2017, consolidated operating revenues were higher in 2018 compared to 2017 due to a larger share of revenue from wholly owned projects in the year. In 2017, the group's revenues were to a larger extent impacted by activity in jointly controlled entities, where only the share of net result is reflected within group revenue.

Earnings before interest, taxes, depreciation, amortisation and impairment (EBITDA) were NOK 437 million for 2018 (NOK 799 million). 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. Refer to Note 4 Operating segments (page 28) to see how the Adjusted EBITDA measure is derived from the consolidated financial statements.

Adjusted EBITDA amounted to NOK 427 million, a significant decrease of NOK 359 million from 2017 (NOK 786 million). The adjusted EBITDA margin for 2018 was 5.9 percent (12 percent). The negative margin development reflects phasing of projects; projects in early phases not yet recognising margin, and last year was significantly impacted by close-out activities and recognition of bonuses and incentives towards the end of completed projects.

Adjusted EBITDA excludes NOK 9 million income accounting impact from embedded foreign currency derivatives, related to equity accounted investees closely related to Kvaerner's operating activities (NOK 12 million income).

Depreciation and amortisation charges totalled NOK 110 million, an increase of NOK 4 million from 2017 (NOK 106 million). Consolidated earnings before interest and taxes (EBIT) were NOK 327 million (NOK 693 million). Net financial income amounted to NOK 11 million (NOK 4 million) and reflects higher interest income and embedded derivative gains compared to last year.

The tax expense was NOK 60 million (NOK 186 million), which corresponded to an effective tax rate of 18 percent (27 percent). Compared to the nominal Norwegian statutory tax rate in 2018 of 23 percent, the effective tax rate reflects various tax reconciling items. The relatively low tax rate for the year is a result of permanent differences and change in nominal tax rate in Norway as from 2019 from 23 to 22 percent and the associated impact on deferred taxes. Profit from continuing operations amounted to NOK 278 million (NOK 511 million), and basic and diluted earnings per share from continuing operations were NOK 1.04 (NOK 1.92).

Net profit from discontinued operations was NOK nil (NOK 31 million). The result reflects net insurance recoveries of more than USD 2 million (more than USD 5 million), offsetting the associated legacy costs. Basic and diluted earnings per share for discontinued operations were NOK nil (NOK 0.12).

Net profit for total operations in 2018 was NOK 278 million (NOK 542 million), with basic and diluted earnings per share of NOK 1.04 (NOK 2.04).

Cash flow

Consolidated cash flow from operating activities depend on a number of factors, including progress on and delivery of projects, changes in working capital and pre-payments from customers. Net cash inflow from operating activities was NOK 719 million in 2018 (outflow of NOK 113 million). The increase mainly reflects improved working capital position in 2018, compared to a worsening in 2017.

Net cash outflow from investing activities in 2018 was NOK 335 million (outflow of NOK 93 million) and mainly relate to capacity and maintenance investments at the facilities at Stord and in Verdal, Norway and strategic digitalisation initiatives. Kvaerner's Board of Directors has approved an investment of NOK 370 million in a new quay at Stord and the upgrade is progressing according to plan. For 2019, progress of the quay investment will imply a capex of around NOK 200 million. A total maintenance capex for the group of approximately NOK 30–50 million is expected annually and additional strategic and capacity investments at the yards such as equipment and digitalisation tools will result in an expected capex of up to NOK 300 million for 2019.

Net cash outflow from financing activities was NOK 29 million in 2018 (NOK 27 million), reflecting fees on credit facility and transactions in own shares.

Balance sheet and liquidity

The group's total assets were NOK 6 320 million on 31 December 2018 (NOK 5 823 million). Net current operating assets (NCOA) were negative NOK 949 million at year-end, an improvement of NOK 300 million from the end of 2017 (negative NOK 650 million). Movements in working capital will impact cash balances and at year-end 2018, net cash excluding negative NCOA was NOK 2 216 million. Equity as of 31 December 2018 totalled NOK 3 439 million (NOK 3 176 million). The group's equity ratio was 54.4 percent at year-end 2018, compared with 54.5 percent at year-end 2017. The equity ratio is calculated as total equity divided by total assets.

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 during 2018 and as per 31 December 2018. 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 parameters; 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 2018 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 1 753 million (NOK 1 474 million) as of 31 December 2018, of which goodwill amounted to NOK 607 million (NOK 607 million). Net interest-bearing deposits and loans amounted to NOK 3 165 million at the end of 2018 (NOK 2 812 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 the segment is presented as discontinued operations in the group's financial statements. Consequently, Kvaerner continues to have one reportable segment; Field Development. The Field Development segment includes results from Kvaerner's own operations and Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities.

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 2018 totalled NOK 7 253 million (NOK 7 625 million). EBITDA was NOK 487 million (NOK 846 million), with an EBITDA margin of 6.7 percent, a decrease of 11.1 percent in 2017. Reduced activity is mainly within operational area Process Solutions, but activity has also been lower within Structural Solutions. Activity within Concrete & New Solutions has increased in 2018. The lower EBITDA and margin reflects phasing of projects. Projects awarded in the year are not yet recognising margin and results from projects that were delivered in 2017 were positively impacted by achieved milestone incentives and close-out activities.

Order intake for the year amounted to NOK 9 827 million (NOK 9 215 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 2018 was NOK 10 625 million (NOK 8 077 million).

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

In March 2017 Kvaerner was awarded the contract for complete upgrade of the Njord A platform. The overall progress is in line with plan. 2018 activities have mainly been related to fabrication and installation. The drilling derrick and compensator module have been reinstalled on board Njord A after upgrade and modifications. All four blisters and column top extensions have been fabricated, pre-outfitted and installed. The deck boxes/winch houses have been fabricated and pre-outfitting is ongoing. The critical lifting programme started in August 2018. Heavy lifts will continue until spring 2019 and the remaining upgrade work will continue until planned delivery in 2020.

In 2015, a joint venture between Kvaerner and KBR, was awarded a contract for the complete delivery of the utility and living quarter platform topside to the Johan Sverdrup field development. The project has progressed according to schedule, and all milestones in 2018 were achieved. The project entered commissioning phase and commencement of loop testing in March 2018. Achievement of the mechanical completion milestone was announced on 1 October 2018 and the pedestal crane was received and installed on the platform in the same month. The ULQ topside is on track to be delivered first quarter 2019.

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 2018, Kvaerner have been involved in final work and close-out activities, and in supporting Shell's project organisation in taking over the facility.

The Johan Castberg topside fabrication contract and floating production storage and offloading (FPSO) integration contracts were awarded to Kvaerner in February 2018. The first phase of the project was defined as familiarisation and procurement phase which lasted until 1 October 2018. Shop engineering was mobilised in Poland, Stord, Egersund and Verdal and started fabrication in November. All 2018 project milestones were achieved.

On 3 May 2018, Kvaerner and Aker Solutions formally signed the contract for Johan Sverdrup phase 2 riser platform modifications, through a joint venture company, ASK JV AS. The project organisation is located in Stavanger, Norway with engineering support from Mumbai, India. Structural prefabrication contracts were signed with Polish subcontractors in October and the assembly site is located at Stord.

Structural Solutions has delivered the three largest steel jacket substructures to the Johan Sverdrup phase 1 field development. Kvaerner's work with the project started in 2014 when Kvaerner and Equinor established and signed a frame agreement for delivery of steel jackets substructures to Equinor-operated fields. The giant riser platform jacket weighing 26 000 tonnes was delivered in 2017. The drilling platform jacket was completed on schedule and delivered in March 2018, and the process platform jacket sailed away from Verdal on schedule in July 2018. In October 2018 Kvaerner won the EPC contract for delivery of the steel jacket substructure for the phase 2 process platform. With this award Kvaerner will deliver four substructures for the Johan Sverdrup Field, one of the world's largest ongoing offshore projects.

In December 2017, Aker BP 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 consists of Aker BP, Kvaerner, ABB and Aker Solutions. The first steel plate for the Valhall Flank Vest platform was cut in April 2018 and marked fabrication start of the normally unmanned platform project. Prefabrication, outfitting and assembly of topside and steel jacket substructure is proceeding according to plan and the project will be delivered in early summer 2019. The caisson support for the Yme New Development project was completed in summer 2018 and will be stored at the yard in Verdal until sailaway in early 2019. The Verdal facility is to fabricate the Njord flare tower, the module for seawater handling and the main pipe rack on Johan Castberg for delivery to Kvaerner's facility at Stord.

Within Concrete & New Solutions, work continued with the completion of the cylindrical substructure (spar) for Equinor's Aasta Hansteen platform. The inshore activities in Digernessundet were successfully completed during the summer of 2018, and Kvaerner's experts subsequently contributed with preparations for production to start offshore. The platform commenced production in December 2018, and Kvaerner continues to support the Equinor crew offshore into the first part of 2019. Similarly, Kvaerner is performing hook-up and completion work on Equinor's Johan Sverdrup riser platform. This work will continue in 2019 when the hook-up and completion of the ULQ platform is added to the scope. Planned production start is scheduled for autumn 2019. In addition, Kvaerner is performing construction work on the landfall and pig trap area for the Nord Stream 2 gas pipeline project in Russia. This work will continue into 2020.

Demolition of platforms is also part of Concrete & New Solutions' portfolio. Recycling of the Nyhamna subsea compression test pilot modules was completed in September. A set of offshore oil and gas structures from the UK continental shelf and the Varg A platform have been subject for demolition and recycling since July 2018.

Within Marine operations, Kvaerner's Canada operations are currently performing engineering and preparation work for tow and installation of Husky Energy's White Rose concrete gravity structure in Newfoundland. The project is scheduled to be completed in spring 2022.

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 the segment a have been presented as discontinued operations in the group's financial statements since the sale.

Net profit from discontinued operations was NOK nil (NOK 31 million). The operating results for 2018 is reflecting recognition of insurance recoveries of more than net USD 2 million in 2018 (USD 5 million), offsetting the associated legacy costs. Please see Note 26 Discontinued operations (page 59) for Summary of financial data for discontinued operations.

Corporate and unallocated costs

For the full year, unallocated costs were NOK 60 million (NOK 60 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 2018 have been prepared under this assumption.

Parent company accounts

The parent company, Kværner ASA, had a net loss of NOK 14 million for 2018 (loss of NOK 32 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 66.9 percent at year-end 2018 (62.1 percent).

Dividend policy

The dividend policy reflects the strategy 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 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.

Allocation of net results
Pursuant with the company's dividend policy, the Board of Directors propose to the Annual General Meeting that a dividend of NOK 1.00 per share should be paid. The Board of Directors thereby proposes the following allocation of net loss in Kværner ASA:

Proposed dividend	NOK 269 million
Transferred from other equity	(NOK 283 million)
Total allocated	(NOK 14 million)

Total equity in Kværner ASA after the proposed allocation of net loss amounts to NOK 4 064 million (NOK 4 345 million). The Board of Directors have considered the proposed dividend in conjunction with equity and liquidity requirements under the Norwegian Limited Company Act and based on the Board's best judgement, the proposed dividends are within these requirements.

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

Dividend
Kvaerner has in recent years completed several significant projects with predictable performance and sound results, which has resulted in a strong financial platform. The Board of Directors has in accordance with the dividend policy proposed to pay a dividend of NOK 1.00 per share in April 2019. Subject to approval by the Annual General Meeting (AGM), the dividend payment will take place on or about 9 April 2019 to shareholders of record as per the date of the AGM scheduled for 28 March 2019. The shares will be traded exclusive dividend from and including 29 March 2019. The competitive advantage Kvaerner has of a strong balance sheet will continue to be an important part also of future dividend considerations.

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. In general, corporate governance 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 provide direction on acceptable performance and guide 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, comprising the following three 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), Kjell Inge Røkke 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 accessible at https://www.kvaerner.com/Environment--Society/whistleblowing/. All reports go directly to the SVP Corporate Support & General Counsel 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 its 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 the 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 50), for a detailed description of the group's financial risks and Note 18 Provisions and contingent liabilities (page 48) 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 performs reviews of selected projects after start-up. Internal audits are undertaken to ensure compliance with Kvaerner policies, laws and regulations as well as project specific audits.

Kvaerner works with a number of partners and hundreds of suppliers and subcontractors around the world. The company 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 raising the quality for 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 fundamental 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 first-line supervisors. HSSE is the cornerstone in all 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.

In 2018, there has been a negative trend in the total recordable injury frequency (TRIF) as well as increases in serious incidents and serious near-misses compared to the previous year. Kvaerner has started a number of new initiatives during 2018 to break this trend, including enforcing more visible management in field, training sessions within safety leadership, safety behaviour and risk awareness, a new app for reporting of incidents, HSSE development of subcontractors, revision of crane standards with an associated eLearning introduction programme, and more.

At year-end 2018, a lost time incident frequency (LTIF) of 0.5 and a total recordable injury frequency (TRIF) of 2.9 was recorded, compared to corresponding 0.5 and 2.5 for 2017. These figures include Kvaerner's subcontractors and are calculated per million man-hours worked. The company had four lost time injuries in 2018. These injuries were a bruised arm, various fractures and a cut hand.

In 2018, eleven 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 2018, the number of documented risk observations was 36 458, equivalent to 8.1 observations per man-year worked, compared to 27 118 observations in 2017, equivalent to 5.2 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.

The HSSE operating environment

HSSE is an integral 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 2018, 1.2 percent of total worked hours were invested in HSSE training, compared to 1.2 percent in 2017. Training programmes and key performance indicators have been established to promote observation, interaction and intervention in the areas of HSSE.

Safety

In 2018 there has been a slight increase in both injury frequency and incidents with high-risk potential. Improvement actions have been implemented to address these issues. The high risk potential incidents are especially related to crane operations and work at heights. Safety culture initiatives, improved training programmes and management follow-up has been implemented. Several good initiatives have been introduced in 2018, such as an updated app for the reporting of incidents, training programmes in risk awareness and safety leadership and HSSE development of subcontractors.

The HSSE development of subcontractors has continued in 2018. In addition, compliance and leadership, barriers and risk awareness have been key focus areas.

Digitalisation of the HSSE work has been further developed with roll-out of an improved mobile phone application for reporting of incidents and non-conformities. Digitalisation will be part of the improvement initiatives in 2019.

There has been a positive transfer of experience between Kvaerner projects. In addition, an incentive programme contributes to local clubs and associations upon achievement of the project HSSE targets. These awards provide positive incentives and are connected to high scores in inspections, housekeeping, and reporting rates of HSSE observations.

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

Occupational health

Total sick leave for Kvaerner in 2018 was 229 142 hours for own employees, compared to 234 471 in 2017. This constitutes 5.27 percent sick leave in 2018, compared to 5.43 percent of total man-hours in 2017. However, sick leave is still above the 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. This programme continued throughout 2018 with training of all managers, union representatives and safety delegates. The implementation of actions continues and results are improving. Reducing sick leave is important to Kvaerner and will remain a key focus area in 2019.

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.

Kvaerner cooperates with some other companies who have a relationship with Aker. 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

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

The Kvaerner methodology for reporting environmental impact derives from the Greenhouse Gas Protocol (GHG) and the Global Reporting Initiative (GRI). Kvaerner is certified according to the ISO 14001:2015 standard. In its supplier declaration, which all suppliers to Kvaerner must sign in order to be pre-qualified, suppliers commit to work to minimise negative impacts on the environment, taking into consideration the full life cycle of their products. Suppliers commit to work to achieve energy efficiency and minimise harmful discharge, emissions and waste production, and to comply with national environmental legislation and discharge permits.

HSSE leadership development initiatives, eLearning and management system all incorporate clear components that focus on the environment. Collectively, these contribute to continuous improvements in environmental awareness and attitudes among managers and employees, and support customers in making environmental improvements through executed projects.

There are several energy efficiency initiatives in progress within the company. In addition, Kvaerner is continuously conducs environmental monitoring of dust, water, sediments and noise. In September, Kvaerner reported to the Norwegian Environment Agency increased values of some PFAS substances from the decommissioning facility, but the levels since normalised without the source ever being detected. Safe handling of polluted sediments and collection of plastic from blasting activities have had a high focus in the Stord yard development project. The demolition site at Stord has been upgraded with more concrete pads with membranes for environmental purposes.

Primary energy consumption, carbon emissions and waste disposal vary according to activities at the yards. Total energy intensity was 5 295 (MWh per million worked hours) in 2018 compared to 4 578 in 2017. The energy intensity (MWh per million worked hours) has increased in 2018 due to higher activities at Kvaerner's yards compared to the previous year. CO_2 emissions (tonnes per million worked hours) were 537 in 2018 compared to 167 in 2017. This was due to higher activity at the yards. Waste recorded in connection with the business totalled 7 836 tonnes in 2018 compared to 6 321 tonnes in 2017, of which 65 percent was recycled in 2018, compared to 51 percent in 2017. The main reason for the low recycling factor in 2017 was extensive use of non-recyclable sandblasting. These masses are safely disposed.

Kvaerner has actively participated in clean the beach-day on Kvaerner's locations.

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.

With regards to cyber security, Kvaerner has joined the Aker group-wide security initiative, further promoting a uniform security approach across the Aker companies. Several security products have been implemented as countermeasure to the increased cyber security threat, with emphasis on phishing.

Corporate social responsibility (CSR)

Kvaerner is committed to conduct its business with integrity and high ethical standards. That is why CSR is an integral 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 communities 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 fundamental human and trade union rights, including a specific focus on non-discrimination. Kvaerner's CSR principles are based on the company's values as well as 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 publish 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.

People and organisation

The Kvaerner's operating structure has been the same through 2018.

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.

Executive management team (EMT)

The executive management team represents broad and strategic 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.

Karl-Petter Løken started as the new President & CEO on 7 May 2018, succeeding Jan Arve Haugan who left Kvaerner on 28 February. CFO Idar Eikrem was Interim President & CEO from 1 March until 7 May 2018. A complete presentation of the EMT is available at www.kvaerner.com/emt.

Developing people and teams

Kvaerner is globally recognised for its expertise in executing oil and gas projects. Kvaerner's expertise within the fields of engineering, procurement and construction builds on multidisciplinary competence from engineering, yards and project teams.

Kvaerner has earned this reputation due to extensive investments in organised workplace training and continuous focus on developing skills and capabilities.

Investments in employees over time are crucial for Kvaerner's ability to execute projects and develop new projects successfully.

Consequently, Kvaerner focuses on continuous training at all levels and business areas of the organisation, including professional employees, support staff, teams, project management and leaders.

All training is based on the company's six core values, Code of Conduct and leadership principles. HSSE is one of the core values and always part of all training activities and organised sessions.

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.

Organisation and recruitment

As of 31 December 2018, the overall workforce comprised 4 038 individuals which included 2 727 permanent employees and 1 311 contract staff. Corresponding figures for 2017 were 2 659 permanent employees and 841 contract staff. The gender distribution is approximately 15 percent female and 85 percent male employees. 97 percent of the permanent employees work in Norway, while the remaining three percent work in US, Finland, China, UK, Canada and Russia.

The company offers an inspiring and challenging workplace with a high degree of teamwork and good individual career and development opportunities. In 2018, Kvaerner recruited 116 new employees, of which 21 were women and 95 were men. 17 percent of the new employees were below 30 years of age, 64 percent were between 30 and 50 years old, and 19 percent were above the age of 50. The total voluntary employee turnover was four percent in 2018, and for comparison the voluntary employee turnover 2017 was three percent.

Kvaerner operates two specialised fabrication and assembly facilities in Norway; at Stord in the west of Norway and in Verdal in mid-Norway. To ensure a solid and consistent competence base in Kvaerner, it is vital to have a proper inflow of younger generations of skilled employees. Kvaerner's arrangements for apprenticeship provide an important means of recruiting operators to our yards at Stord and in Verdal, and Kvaerner will continue to have a strong focus on recruiting new apprentices. In 2018, 56 new apprentices were recruited. At year-end 2018, there were a total of 115 apprentices under applicable agreements, compared to a total of 96 apprentices at year-end 2017.

Up to September 2018, the results from Kvaerner's People Survey 2016 have been in focus, and identified key focus areas for concrete actions and improvements have been completed and finalised.

Employee engagement is important for Kvaerner, and in October 2018, Kvaerner launched a new (the third) People Survey with a response rate of more than 90 percent. In comparison the response rate in 2016 was 82 percent. The results showed that in some areas there has been a positive development compared to 2016. In addition, new improvement areas have been identified and new actions and plans will be launched in 2019.

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 when it comes to treatment of gender, nationality, religion or ethnicity. Employment conditions and compensation packages are based on responsibility, complexity of job 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.

Kvaerner has a strong focus on training of all employees to avoid any form of discrimination, harassment or bullying. Throughout 2018, Kvaerner has been cooperating with the Working Environment Specialists (Arbeidsmiljø-spesialistene) and implemented its methods and concepts for preventing unwanted behaviour in the workplace. Kvaerner has a zero tolerance policy against any form of discrimination, harassment and bullying in the workplace, and there are now well established procedures and guidelines for how to report and handle unwanted incidents.

Leadership training is an important contribution towards increasing the number of women promoted to managerial positions. In 2018 the share of women holding senior management positions was 22 percent compared to 18 percent in 2017, whereof the share of women completing leadership training in 2018 was 46 percent. In 2018, 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 performance, results, skills and attitude. 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 forms the basis for the remuneration triggered by the variable pay programmes.

The assessment of achieved goals and performance takes place in an annual performance management process, where the performance dialogue between the leader and his/her direct reports is essential. This performance dialogue provides the opportunity for recognition of achieved results, consideration of career and competence development and future actions and direction for individual performance improvements.

Further details about remuneration to EMT members are provided in Note 5 Employee benefit expenses (page 31) 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.

Digitalisation

Based on a comprehensive analysis conducted in 2017, Kvaerner has established a digitalisation roadmap with an associated business case showing significant potential for cost savings and productivity increase. Ranging from automated application portfolio setup for EPC projects, through use of mobile technology to increase operator/foreman productivity, to advanced use of machine learning and establishing a digital twin of Kvaerner's yards, the roadmap defines both the strategic direction for Kvaerner's increasing use of information technology, as well as a prioritised list of specific initiatives to be deployed across our project portfolio. Key among the current initiatives, is the Mobile Construction Workforce project, which will provide a digital work surface for operators and foremen working on Kvaerner projects. Using smartphones and tablets, elements such as work orders, fabrication drawings, progress reporting, hour capturing, team collaboration, scaffolding reservation will be available through an intuitive user interface, developed in collaboration with foremen and operators at the Kvaerner yards. Over the coming years, Kvaerner will continue to invest selectively in digitalisation, driven by specific project needs in combination with longer-term investments in capabilities needed in the future EPC landscape.

Continuous improvement

During 2018 a LEAN based systematic improvement programme has been prepared. This programme is called Kvaerner Beyond and is set to improve the quality of all work processes down to the lowest level. The programme builds on LEAN philosophy and methods and aims to increase the productivity of all work processes.

Kvaerner Beyond engages all staff in continuous improvement of their work processes by following a coherent approach to the company.

The overall ambition of Kvaerner Beyond is: "We will work smarter, more predictably and deliver faster – to create value". Experience from successful LEAN implementation in other companies has shown that taking out unnecessary activities (so-called "waste") from work processes, improve throughput time and perfect the handovers between processes, will as an end result give significantly improved overall productivity.

Kvaerner Beyond has been tested and rolled out in three fabrication units at Stord and Verdal during 2018, and full implementation will take place in 2019 and thereafter. Kvaerner Beyond is designed to perfect the way the company works at all levels. It will also provide the framework for specific improvement projects that will run according to business needs, like digitalisation projects and other major specific improvement initiatives.

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 of 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.

Offshore wind is a developing market. Kvaerner's focus in 2018 has been on turbine foundation installations and converter platforms.

For turbine foundations, Kvaerner has investigated opportunities within the floating foundation space and looked into concrete gravity base foundations for wind power turbines, both with special attention on cost-effective, execution-friendly design for large volume fabrication and installation. Kvaerner aims at leveraging its EPCI expertise and experience to provide new and cost-effective development solutions.

Further, within the offshore wind segment, Kvaerner has spent time on activities relating to developing competitive execution models for high voltage direct current (HVDC) converter platforms.

In 2018, Kvaerner has continued the development of the company's concrete floater solutions for future Barents Sea developments and ice-prone waters offshore Newfoundland, Canada. Focus has been on cost reduction through effective methods for topside hull integration.

Kvaerner actively participates in several joint industry research projects, with the main focus on Arctic technology and concrete technology. Kvaerner is engaged in approximately ten research projects in Norway, EU and Canada, together with national and international industry partners, universities and research organisations, with public funding through various research programmes. One of these research projects is the Durable Advanced Concrete Solutions (DACS) project managed by Kvaerner, which is now approaching the harvesting phase and is starting to deliver on the defined objectives. Focus areas are early phase cracking, frost resistance, ice abrasion and ductility in lightweight concrete. The project is jointly funded by Kvaerner, industry partners and the Research Council of Norway. Kvaerner also participates in several new research applications submitted in 2018, to continue to harvest knowledge and to stay in front of the development for selected key areas.

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 Kværner 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 2018. 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 8 085 shareholders (8 291) as of 31 December 2018, of which 26 percent (28 percent) were non-Norwegian. The share price was NOK 12.06 at year-end 2018, compared to NOK 15.80 at year-end 2017. During 2018 Kvaerner's share price decreased by 24 percent, the Oslo Stock Exchange benchmark index increased by two percent and the Philadelphia Oil Service Index decreased by 46 percent.

As of 31 December 2018, Kværner ASA held 1 113 079 treasury shares.

Outlook

Compared to 12 months ago, Kvaerner sees an improved market and more customers considering new projects. During 2019, it is expected that several key prospects will pass important decision gates and move further towards project sanctioning and project execution. The company anticipates that potential contract awards for near term larger contracts will mostly come in 2020 and 2021. The market in and around Norway will continue to be important, but several key prospects are also in international regions. For 2019, the full year gross revenue is expected to be above NOK 7 billion. CAPEX level for 2019 is expected to be about NOK 300 million. The working capital level is expected to increase somewhat during 2019.

Acknowledgements

During 2018, Kvaerner has continued to execute projects according to customers' plans and expectations. At year-end, all projects were on track.

World class HSSE performance is important both as a value and for competitiveness, and the Board of Directors supports the further initiatives to drive Kvaerner's HSSE improvements further.

The company's continued intense work to improve quality, cost, productivity and competitiveness is vital to put Kvaerner in a good position for upcoming prospects.

The Board of Directors extends its appreciation to the management and employees for its efforts and achievements in 2018.

Fornebu, 11 February 2019
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director	Kjell Inge Røkke Director	Lone Fønss Schrøder Director
Rune Rafdal Director	Ståle Knoff Johansen Director	Bernt Harald Kilnes Director	Karl-Petter Løken President & CEO	

Annual accounts Kvaerner group

Income statement 01.01 – 31.12

Amounts in NOK million	Note	2018	2017
Total revenue and other income	3, 4	**7 220**	6 536
Materials, goods and services		**(4 372)**	(3 184)
Salaries, wages and social security costs	5	**(2 260)**	(2 282)
Other operating expenses	6	**(151)**	(272)
Operating profit before depreciation and amortisation		**437**	799
Depreciation and amortisation	10, 11	**(110)**	(106)
Operating profit/(loss)		**327**	693
Finance income	7	**38**	31
Finance expenses	7	**(27)**	(27)
Profit/(loss) before tax		**338**	697
Income tax expense	8	**(60)**	(186)
Profit/(loss) from continuing operations		**278**	511
Profit/(loss) from discontinued operations	26	**0**	31
Profit/(loss) for the year		**278**	542
Profit/(loss) for the period attributable to:			
Equity holders of the parent company		**278**	542
Earnings per share (NOK):			
Basic and diluted EPS continuing operations	9	**1.04**	1.92
Basic and diluted EPS discontinued operations	9	**0.00**	0.12
Basic and diluted EPS - total operations	9	**1.04**	2.04

The notes on pages 23 to 59 are an integral part of these consolidated financial statements.

Other comprehensive income 01.01 - 31.12

Amounts in NOK million	2018	2017
Profit/(loss) for the year	**278**	542
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges, net of tax		
- Fair value adjustment recognised in equity	**1**	(1)
- Reclassified to profit or loss	**0**	0
Translation differences - equity-accounted investees (no tax impact)	**0**	(0)
Translation differences - foreign operations (no tax impact)	**2**	(1)
Reclassification of translation differences on discontinued operations and international branches	**(3)**	(8)
Items that may be reclassified to profit or loss in subsequent periods	**0**	(10)
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(losses) on defined benefit pension plans, pre tax	**(19)**	(25)
Actuarial gains/(losses) on defined benefit pension plans, tax effect	**3**	5
Actuarial gains/(losses) on defined benefit pension plans, net of tax	**(16)**	(20)
Items not to be reclassified to profit or loss in subsequent periods	**(16)**	(20)
Total other comprehensive income for the year, net of tax	**(16)**	(29)
Total comprehensive income for the year	**262**	513
Total comprehensive income attributable to:		
Equity holders of the parent company	**262**	513

The notes on pages 23 to 59 are an integral part of these consolidated financial statements.

Balance sheet as of 31 December

Amounts in NOK million	Note	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	10	**967**	800
Intangible assets	11	**710**	649
Investments in associated companies and jointly controlled entities	24	**69**	17
Other non-current assets		**7**	7
Total non-current assets		**1 753**	1 474
Current assets			
Current tax assets		**-**	6
Trade and other receivables	12	**947**	1 436
Contract assets	3	**427**	88
Fair value embedded derivatives	21	**28**	7
Cash and cash equivalents	13	**3 165**	2 812
Retained assets of business sold	26	**0**	0
Total current assets		**4 567**	4 350
Total assets		**6 320**	5 823

Amounts in NOK million	Note	2018	2017
Equity and liabilities			
Equity			
Share capital		**91**	91
Share premium		**729**	729
Retained earnings		**2 710**	2 431
Other reserves		**(91)**	(75)
Total equity	9, 14	**3 439**	3 176
Non-current liabilities			
Employee benefits obligations	15	**218**	198
Other long term liabilities		**10**	6
Deferred tax liabilities	8	**265**	225
Total non-current liabilities		**494**	430
Current liabilities			
Provisions	18	**233**	148
Fair value embedded derivatives	21	**14**	1
Trade and other payables	19	**1 761**	1 598
Contract liabilities	3	**343**	433
Retained liabilities of business sold	26	**35**	37
Total current liabilities		**2 386**	2 218
Total liabilities		**2 880**	2 647
Total liabilities and equity		**6 320**	5 823

The notes on pages 23 to 59 are an integral part of these consolidated financial statements.

Fornebu, 11 February 2019
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy
Chairman

Jan Arve Haugan
Director

Thorhild Widvey
Director

Kjell Inge Røkke
Director

Lone Fønss Schrøder
Director

Rune Rafdal
Director

Ståle Knoff Johansen
Director

Bernt Harald Kilnes
Director

Karl-Petter Løken
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
Equity as of 31 December 2016	269 000 000	91	729	1 881	1	2	(49)	**2 656**
Profit/(loss) for the period		-	-	542	-	-	-	**542**
Other comprehensive income		-	-	-	(1)	(9)	(20)	**(29)**
Total comprehensive income		-	-	542	(1)	(9)	(20)	**513**
Treasury shares		-	-	9	-	-	-	**9**
Employee share purchase programme		-	-	(2)	-	-	-	**(2)**
Equity as of 31 December 2017	269 000 000	91	729	2 431	(0)	(6)	(69)	**3 176**
Profit/(loss) for the period		-	-	278	-	-	-	**278**
Other comprehensive income		-	-	-	1	(1)	(16)	**(16)**
Total comprehensive income		-	-	278	1	(1)	(16)	**262**
Treasury shares		-	-	3	-	-	-	**3**
Employee share purchase programme		-	-	(2)	-	-	-	**(2)**
Equity as of 31 December 2018	269 000 000	91	729	2 710	1	(7)	(85)	**3 439**

The notes on pages 23 to 59 are an integral part of these consolidated financial statements.

Cash flows 01.01 - 31.12

Amounts in NOK million	Note	2018	2017
Cash flow from operating activities			
Profit/(loss) for the period		**278**	542
Adjusted for:			
Income tax expense	8	**60**	186
Net financial items	7	**(11)**	(4)
Depreciation, amortisation and impairment	10, 11	**110**	106
Difference between pension premiums paid and pension expense, defined benefit schemes[1]		**(3)**	(21)
Difference between income and dividends received from equity accounted investees	24	**(54)**	17
(Gains)/losses on sale of fixed assets		**(6)**	(1)
Interest income received		**27**	21
Income taxes paid		**(10)**	(65)
Changes in other net operating assets		**329**	(895)
Net cash from operating activities		**719**	(113)
Cash flow from investing activities			
Investment in property, plant and equipment and intangible assets	10, 11	**(334)**	(91)
Other cash flow from investing activities		**(1)**	(2)
Net cash from investing activities		**(335)**	(93)
Cash flow from financing activities			
Interest expense and fees paid		**(17)**	(16)
Treasury shares		**(8)**	-
Employee share purchase programme		**(4)**	(11)
Net cash from financing activities		**(29)**	(27)
Effect of exchange rate changes on cash and bank equivalents		**(4)**	(1)
Net increase/(decrease) in cash and bank equivalents		**352**	(234)
Cash and cash equivalents at the beginning of the period		**2 812**	3 047
Cash and cash equivalents at the end of the period	13	**3 165**	2 812

1 Difference between pension premiums paid and pension expense, defined benefit schemes for 2017 has been restated and effect offset against changes in other net operating assets. Refer to Note 15 for pension.

The notes on pages 23 to 59 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 2018.

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 28 March 2019.

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. This is the first set of annual financial statements in which IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments have been applied. The effects of the transition to IFRS 15 are described in Note 3. The impact of IFRS 9 has been limited and is described in the below.

IFRS 9 Financial Instruments
The group has adopted IFRS 9 as from 1 January 2018. The implementation resulted in changes to the accounting policies, but no adjustments to the consolidated financial statements.

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets; measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair value through Profit or Loss (FVPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The adoption of IFRS 9 has not had a significant effect on the group's accounting for financial liabilities.

The below table summarises reclassifications of financial instruments on adoption of IFRS 9:

	Measurement category		Carrying amount	
	Previous (IAS 39)	**New (IFRS 9)**	**Previous (IAS 39)**	**New (IFRS 9)**
Other investments	Available for sale	FVOCI	7	7
Non-current financial assets			**7**	**7**
Trade and other receivables	Loans and receivables	Amortised cost	888	888
Derivatives	Fair value - hedging	Fair value - hedging	14	14
Cash and cash equivalents	Loans and receivables	Amortised cost	2 812	2 812
Current financial assets			**3 714**	**3 714**
Derivatives	Fair value - hedging	Fair value - hedging	15	15
Trade and other payables	Other financial liabilities	Other financial liabilities	425	425
Current financial liabilties			**440**	**440**

The reclassifications of financial instruments on adoption of IFRS 9 did not result in any changes to their measurement.

Impairment of financial assets
Other than trade receivables and contract assets, the group has limited financial assets subject to IFRS 9's new expected credit loss model (ECL). For trade receivables, the group applies a simplified approach to provide for expected credit losses as prescribed by IFRS 9. The new model did not result in any changes to allowance for doubtful receivables as at 1 January 2018.

Hedge accounting
The group's existing risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. Implementation of the new standard has not resulted in any hedge accounting impacts on transition date.

All other 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 16 Leases
The new standard, effective for annual reporting periods beginning from 1 January 2019, replaces the existing requirements of IAS 17 Leases. The new standard will significantly change how the group accounts for its leased assets (principally offices and certain operational 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 from on-balance sheet recognition based on available practical expedients. The group will apply these practical expedients. There will be no impact of IFRS 16 on loan covenants as these are based on accounting standards that were effective at the time when the agreement was entered into (8 July 2015).

Kvaerner has elected to apply the modified retrospective approach (with practical expedients) at the date of initial application; 1 January 2019, with no restatement of comparable periods. The group will measure right-of-use assets at an amount equal to the liability, adjusted for any prepaid or accrued lease payments and not choose the option to measure right-of-use assets retrospectively. There will be no impact on equity as at 1 January 2019 as a result of implementing IFRS 16.

The following available practical expedients will be applied on transition to IFRS 16:
- Onerous lease assessment; rely on assessment of whether leases are onerous applying IAS 37 on 31 December 2018 as an alternative to performing an impairment review of right-of-use assets for all its leases on 1 January 2019. Kvaerner will reduce the right-of-use assets at 1 January 2019 by the NOK 33 million of onerous lease provisions recognised in liabilities in the balance sheet at 31 December 2018.
- Apply the short term lease practical expedient to leases ending within 2019.
- Exclude initial direct costs from measurement of right-of-use assets at the date of initial application..
- Use hindsight where permitted by IFRS 16, such as in determining lease term (use of option periods).

Impacts on financial statements
On transition to IFRS 16, the group will recognise NOK 248 million of right-of-use assets and NOK 283 million of lease liabilities. Right-of-use assets have been adjusted by the amounts of onerous lease provisions and provisions for required office upgrades. When measuring the lease liabilities, Kvaerner discounted lease payments using its incremental borrowing rate at 1 January 2019, adjusted for currency and length of lease terms. The weighted-average rate applied is 5 percent.

Amounts in NOK million	1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	424
Discounted using the incremental borrowing rate at 1 January 2019	372
Recognition exemptions for:	
- Short term leases	(35)
- Leases of low-value assets	(57)
Extension and termination options reasonably certain to be exercised	4
Lease liabilities recognised at 1 January 2019	**283**

Based on leases at transition date the following effects of IFRS 16 are expected for 2019:
- Earnings before interest, taxes, depreciation and amortisation (EBITDA) will increase by approximately NOK 58 million, as lease payments will be presented as depreciation and finance cost rather than operating expense
- Interest expense will increase by approximately NOK 13 million
- Depreciation will increase by approximately NOK 47 million
- Cash flow from operating activities will increase and cash flow from financing activities will decrease by approximately NOK 58 million as the interest portion paid for the lease liability and the principle portion of the lease payments will be presented within financing activities. Payments for short term leases, payments for leases of low-value assets and variable lease payments, not included in the measurement of lease liabilities, will be presented within operating activities

Refer to Note 16 for more information regarding Kvaerner's lease contracts.

Note 3 Revenue and contract balances (IFRS 15)

Financial reporting principles
IFRS 15 Revenue from contracts with customers was adopted on 1 January 2018. The new standard replaced IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. Kvaerner has applied a modified retrospective implementation method and the information for 2017 has accordingly not been restated. For presentation purposes, amounts related to contract assets and liabilities have been reclassified in the 2017 balance sheet. Upon transition to the new standard, there were immaterial impacts on equity.

IFRS 15 introduces a new five step model that applies to all customer contracts. The deliveries in contracts are reviewed to identify if there are distinct performance obligations. As Kvaerner's EPC contracts normally represent a single, combined output for the customers, contracts will ordinarily contain one performance obligation. For the majority of performance obligations/contracts, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognised over time using a cost progress method, best reflecting the pattern of transfer of control of goods and services to the customer.

Variation orders are included in the transaction price when they have been approved, either verbally, in writing or implied by customary business practice. Variable considerations, such as incentive payments, are included in the transaction price when they are highly probable to be realised. Potential liquidated damages (LD) are recognised as a reduction of the transaction price unless it is highly probable that they will not be incurred. Profit on projects is not recognised until the outcome of the performance obligations can be measured reliably. Contract costs are expensed as incurred. The full loss is recognised immediately if contracts are forecast to be loss making. The group's revenue is mainly derived from contracts with customers. The disaggregation of revenue is disclosed in Note 4, based on the following categories:

Construction contracts
Revenues from contracts with customers to provide engineering, procurement and construction services (EPC-contracts) for offshore installations or onshore plants and decommissioning which have no alternative use for the group. It has been assessed that these contracts ordinarily will be one performance obligation and that revenue will be recognised over time using a cost progress method. The cost progress method is based on the proportion of costs incurred to date compared to the estimated total contract costs. Time and material are normally invoiced on a monthly basis in accordance with progress and/or in line with achieved milestones, also representing progress. Payment terms on invoiced amounts are normally 30 days. Some EPC contracts include lease revenue, though these amounts are insignificant in context of the contract and are therefore included in Construction revenue.

Services revenue
Revenue from contracts with customers for other services is recognised over time using a cost progress method, or is recognised over time as man-hours and materials are delivered to the customer. Payment terms are on average around 45 days after time and materials are delivered. Hook-up contracts will normally be included within this category of revenue.

Revenue/share of result from joint ventures
On segment level, revenue and results from associated companies and jointly controlled operations closely related to the group's operating activities are presented gross. At group level, the net share of result from joint ventures is presented in line with the equity method as part of operating revenue and other income.

Other revenue
Other revenue relates to FEEDs, studies, sale of man hours and other projects.

Lease revenue
Sublease arrangement for offices.

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 up 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 risk 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 not recognising revenue in excess of costs on large projects before project forecast is considered reliable, normally around 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.

Contract balances

Amounts in NOK million	2018	2017[1]
Contract assets (unbilled revenue)	**427**	88
Contract liabilities (advances from customers and deferred revenue)	**(343)**	(433)

1 Amounts reclassified from 2017 accounts, refer to Note 12 and Note 19 in 2017 accounts

Contract assets relate to consideration for work done, but yet not invoiced at reporting date (revenue accruals). Contract assets are presented as receivables when the right to payment becomes unconditional, i.e. when invoices are issued to customer. Contract liabilities relate to advances from customers for work not yet performed. Movements in contract assets and liabilities relate to project portfolio and phasing of projects.

Revenue recognised in 2018 for performance obligations satisfied or partially satisfied in prior years was NOK 99 million. This amount includes revenue recognised in 2018 for projects that did not report margin in earlier periods as the project forecast was not considered reliable, in addition to changes in estimates of variable revenue.

Largest projects in progress at year-end and backlog phasing

Project	Customer	Estimated delivery
Field Development segment:		
Aasta Hansteen completion assistance	Equinor/TechnipFMC	2019
Johan Sverdrup utility and living quarter topside	Equinor	2019
Valhall Flank West	Aker BP	2019
Johan Sverdrup riser platform HUC	Equinor	2019
Njord A Future	Equinor	2020
Nord Stream 2 onshore facility	Nord Stream 2	2020
Johan Sverdrup phase 2 process platform jacket	Equinor	2021
West White Rose engineering and marine operations	Husky Energy	2021
Johan Castberg FPSO	Equinor	2022
Johan Sverdrup riser platform modification	Equinor	2022

At year-end 2018, order backlog, including Kvaerner's scope of work of jointly controlled entities, amounted to NOK 10 625 million. Estimated scheduling of the order backlog is approximately 63 percent for execution in 2019 and approximately 37 percent for execution in 2020 and later.

Effect of transition to IFRS 15

Upon transition to the new standard, there were no significant transition impacts on equity as of 1 January 2018.

The details of the new accounting policies and changes from previous accounting policies for the group's significant sources of revenue are set out below:

Type of revenue/ contracts	Nature of performance obligations	Nature of change in accounting policy
Construction contracts/ revenue	Construction contracts mainly consist of contracts for offshore installations, onshore plants for upstream oil and gas production and decommissioning, with no alternative use for the group. It has been assessed that these contracts ordinarily will be one performance obligation and that revenue will be recognised over time.	Under IFRS 15, revenue from construction contract performance obligations is recognised in accordance with the measure of progress. Kvaerner will continue to apply cost progress as the progress measure; based primarily on contract costs incurred to date compared to estimated total contract costs. Variable consideration (such as bonuses and incentives) and changes of scope (such as variation orders and amendments) generally have a higher threshold for revenue recognition under IFRS 15 than under IAS 11, whilst liquidated damages and penalties generally have a lower threshold for recognition. However, Kvaerner was previously relatively prudent in its approach to including these items in contract forecasts under IAS 11, and so these changes have not had significant impact on the recognition of variable consideration.
Service contracts/ revenue	Revenue is recognised over time as services are provided.	Revenue from service contracts are recognised in the period in which the services are rendered or by using the cost progress method. IFRS 15 did not have a significant impact on the group's accounting policies related to service revenues.

Further, following implementation of the new standard, warranty provisions related to on-going projects are now presented within the balance sheet line Provisions, previously included within Trade and other payables. Amount in question at year-end 2018 is NOK 30 million.

If the requirements of IAS 11/18 had been applied to the 2018 financial statements, revenue and profit before tax would have been NOK 11 million higher due to the higher threshold for including revenue from variable consideration under IFRS 15.

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 Kvaerner 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.

2018 Operating segments

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Operating revenue and other income				
Construction contracts		4 811	-	**4 811**
Services revenue		1 272	-	**1 272**
Revenue/share of result from joint ventures		898	(706)	**192**
Other revenue		267	658	**925**
Revenue from contracts with customers		7 248	(48)	**7 200**
Lease revenue		-	14	**14**
Gain on sale of assets		6	-	**6**
Inter-segment revenue		0	(0)	**-**
Total operating revenue and other income		7 253	(34)	**7 220**
EBITDA		487	(51)	**437**
Depreciation and amortisation	10, 11	(110)	-	**(110)**
EBIT		377	(51)	**327**
EBITDA		487	(51)	**437**
Adjustment for equity accounted investees[1]		-	(9)	**(9)**
Adjusted EBITDA		487	(60)	**427**
Assets				
Current operating assets		1 428	(26)	**1 402**
Non-current operating assets		1 677	(0)	**1 677**
Operating assets		3 105	(26)	**3 079**
Investments in associates and jointly controlled entities				**69**
Investments in other companies				**7**
Cash and cash equivalents				**3 165**
Retained assets of business sold				**0**
Total assets				**6 320**

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Liabilities				
Current operating liabilities		2 313	38	**2 351**
Non-current operating liabilities		218	10	**229**
Operating liabilities		2 531	49	**2 580**
Tax-related liabilities				**266**
Retained liabilities of business sold				**35**
Total liabilities				**2 880**
Net current operating assets		(885)	(64)	**(949)**
Cash flow				
Cash flow from operating activities		569	151	**719**
Investment in property, plant and equipment and intangible assets	10, 11	334	-	**334**
Order intake (unaudited)		9 827	-	**9 827**
Order backlog		10 625	-	**10 625**
Own employees (unaudited)		2 698	29	**2 727**

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

2017 Operating segments

Amounts in NOK million	Note	Field Development	Other/ Eliminations	Total
Operating revenue and other income				
Construction contracts		4 812	-	**4 812**
Services revenue		425	-	**425**
Revenue/share of result from joint ventures		2 055	(1 888)	**167**
Other revenue		306	825	**1 132**
External operating revenue		7 598	(1 062)	**6 536**
Inter-segment revenue		27	(27)	**-**
Total operating revenue and other income		7 625	(1 089)	**6 536**
EBITDA		846	(48)	**799**
Depreciation and amortisation	10, 11	(106)	-	**(106)**
Goodwill impairment	11	-	-	**-**
EBIT		741	(48)	**693**
EBITDA		846	(48)	**799**
Adjustment for equity accounted investees[1]		-	(12)	**(12)**
Adjusted EBITDA		846	(60)	**786**
Assets				
Current operating assets		1 632	(101)	**1 531**
Non-current operating assets		1 466	(16)	**1 450**
Operating assets		3 098	(117)	**2 981**
Tax-related assets				**6**
Investments in associates and jointly controlled entities				**17**
Investments in other companies				**7**
Cash and cash equivalents				**2 812**
Retained assets of business sold				**0**
Total assets				**5 823**

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

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

Major customers
For the group, revenue and other income from the three largest customers represented NOK 6.6 billion, or 91 percent, of total revenue of NOK 7.2 billion (2017: NOK 6.1 billion and 93 percent). Of this, one customer represented 81 percent (2017: 59 percent), the second represented 8 percent (2017: 32 percent) and the third represented 3 percent (2017: 2 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 6.7 billion, or 93 percent, of the segment's total revenue of NOK 7.3 billion (2017: NOK 7.1 billion and 93 percent). Of this, one customer represented 82 percent (2017: 57 percent), the second represented 8 percent (2017: 27 percent) and the third represented 3 percent (2017: 9 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.

	Total revenue and other income		Non-current segment assets	
Amounts in NOK million	**2018**	2017	**2018**	2017
Norway	**6 698**	6 291	**1 674**	1 465
Europe	**432**	67	**1**	1
Canada	**78**	146	**2**	-
Rest of the world	**13**	32	**0**	0
Total	**7 220**	6 536	**1 677**	1 466

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 programmes 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	**2018**	2017
Salaries and wages including holiday allowance		**1 779**	1 802
Social security tax/national insurance contribution		**260**	256
Pension costs including social security tax	15	**156**	149
Other employee costs		**65**	74
Salaries, wages and social security costs		**2 260**	2 282

Guidelines for remuneration to the President & CEO and the executive management of Kvaerner
The main purpose of the executive remuneration programmes 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 2018 the company awarded 239 363 shares under the 2017 programme which will be delivered to executive management in 2020, if still employed. Expected dividends per annum at grant date has been reflected in determining the grant date fair value per share of NOK 16.65. The total expense in 2018 related to the matching element was NOK 3.0 million (NOK 3.2 million in 2017) for executive management.

Employee share purchase programmes
In 2018 a share purchase programme was offered to all Norwegian employees. A total of 1 032 973 Kværner ASA shares were distributed to the employees in December 2018 at a price of NOK 12.04 per share. A share purchase programme was also offered in 2017.

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

2018

Amounts in NOK		Base salary[1]	Variable pay[2]	Other benefits[3]	Pension benefits[4]	Total remuneration
Jan Arve Haugan	01.01.2018 - 28.02.2018	1 247 628	-	7 675	15 751	1 271 053
Karl-Petter Løken	07.05.2018 - 31.12.2018	3 166 640	2 072 000	5 944	61 917	5 306 501
Steinar Røgenes	01.01.2018 - 31.12.2018	2 222 573	1 327 775	14 619	184 341	3 749 307
Sturla Magnus	01.01.2018 - 31.12.2018	2 216 954	1 153 239	656 791	113 236	4 140 220
Elly Bjerknes	01.01.2018 - 31.12.2018	2 224 454	1 323 811	12 149	187 370	3 747 784
Hans Petter Mølmen	01.01.2018 - 31.12.2018	2 125 846	1 209 967	12 958	212 067	3 560 839
Idar Eikrem[5]	01.01.2018 - 31.12.2018	2 991 708	2 208 048	10 521	116 364	5 326 641
Arnt Knudsen	01.01.2018 - 31.12.2018	2 123 342	1 288 791	17 520	424 698	3 854 352
Ellen Grete Andersen	01.01.2018 - 31.12.2018	2 066 192	1 183 294	12 173	294 204	3 555 864
Henrik Inadomi	01.01.2018 - 31.12.2018	2 116 735	1 412 811	11 973	111 621	3 653 141
		22 502 073	**13 179 736**	**762 324**	**1 721 568**	**38 165 701**

1 Base salary represents salary expensed while holding an executive position, and includes holiday pay
2 Variable pay reported is based on expensed cost, while holding an executive position, rather than paid benefits, and includes holiday pay
3 Other benefits include telephone, insurance agreements, housing allowance etc.
4 Pension benefits include the standard employee and management pension scheme and a disability pension scheme
5 Acting President & CEO for the period 1 March 2018 until 6 May 2018

2017

Amounts in NOK		Base salary[1]	Variable pay[2]	Other benefits[3]	Pension benefits[4]	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 Bjerknes	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
		22 392 744	**17 039 813**	**203 109**	**1 651 201**	**41 286 868**

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

Remuneration to the Board of Directors

2018

Amounts in NOK	Board fees[1]	Audit Committee fees[1]	Remuneration Committee fees[1]
Leif-Arne Langøy	615 000	-	33 000
Tore Torvund[2, 4]	122 500	-	7 000
Kjell Inge Røkke[3]	335 000	-	26 000
Thorhild Widvey	335 000	87 500	33 000
Lone Fønss Schrøder	335 000	165 000	-
Jan Arve Haugan[5]	260 000	-	-
Rune Rafdal[6]	167 500	87 500	-
Ståle Knoff Johansen[6]	167 500	-	-
Bernt Harald Kilnes[6]	167 500	-	-

1 Fees listed in the table are earned remuneration for work performed in 2018 related to Board, Audit Committee and Remuneration Committee meetings based on fees approved by the Annual General Meeting March 2018
2 Directors resident outside Scandinavia are granted additional compensation of NOK 13 000 per physical Board meeting
3 Fees paid directly to company The Resource Group TRG AS
4 The Director Tore Torvund left the Board at Annual General Meeting March 2018
5 Director appointed at Annual General Meeting March 2018
6 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

2017

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

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), Kjell Inge Røkke and Thorhild Widvey.

Fees to members of the Audit and Remuneration committees are subject to approval by the Annual General Meeting 28 March 2019.

Directors' and members of executive management team's shareholding

		Direct shareholding[2]	Shares entitlement as part of 2017 variable pay programme[3]	Shares entitlement as part of 2016 variable pay programme[3]
Karl-Petter Løken[1]	President & CEO	5 570	-	-
Steinar Røgenes	EVP EPCI	175 091	30 646	29 715
Sturla Magnus	EVP Structural Solutions	32 173	25 885	-
Elly Bjerknes	EVP Process Solutions	79 879	30 708	25 715
Hans Petter Mølmen	EVP Concrete and New Solutions	91 459	29 313	24 835
Idar Eikrem	EVP & CFO	8 881	34 041	52 632
Arnt Knudsen	SVP Business Development	118 657	28 840	28 422
Ellen Grete Andersen	SVP Staff	42 519	27 917	19 808
Henrik Inadomi	SVP Corporate Support	212 087	32 013	31 739
Jan Arve Haugan[4]	Director	194 843	-	-
Ståle Knoff Johansen	Director	12 872	-	-
Rune Rafdal	Director	6 329	-	-
Bernt Harald Kilnes	Director	28 146	-	-

1 Karl-Petter Løken President & CEO from 7 May 2018
2 The overview includes only direct ownership of Kvaerner shares and does not include:
Chairman Leif-Arne Langøy's 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 2016 variable pay programme will be transferred in 2019, and allocated shares related to 2017 variable pay programme will be transferred in 2020, if still employed at applicable future dates
4 Jan Arve Haugan and related parties

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	2018	2017
Rental cost for buildings and other office and premises cost[1]	**22**	98
Other operating expenses related to office and equipment	**8**	19
Hired services and external consultants including audit fees	**86**	78
Travel expenses	**18**	17
Insurance, guarantee and other service cost	**3**	5
Maintenance buildings and equipment[2]	**4**	33
Other[3]	**10**	23
Total	**151**	272

1 Rental cost for buildings and other office and premises cost in 2017 of NOK 98 million included Onerous lease provision of NOK 53 million. In 2018, NOK 12 million of provision has been released
2 Reduced maintenance cost in 2018 due to high activity at the yards and costs allocated directly to specific projects
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	2018	2017
Audit	**3**	3
Other assurance services	**0**	0
Other services[1]	**1**	1
Total fees to KPMG	**4**	4
Total audit fees - other auditor	**0**	0
Total continuing operations	**4**	4
Total discontinued operations	**0**	0
Total	**4**	4

1 Other services include NOK 0.6 million for 2018 and NOK 0.9 million in assistance on tax advisory services and compliance related matters for 2017

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	2018	2017
Interest income on bank deposits	**27**	22
Net foreign exchange gain	**2**	6
Other finance income	**3**	3
Foreign exchange movement embedded derivatives	**7**	-
Finance income	**38**	31
Interest expense on financial liabilities/facilities measured at amortised cost	**(20)**	(20)
Net finance cost pension	**(5)**	(5)
Other finance cost	**(3)**	(1)
Foreign exchange movement embedded derivatives	**-**	(2)
Finance expenses	**(27)**	(27)
Net finance expenses recognised in profit and loss	**11**	4

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 and 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	**2018**	2017
Current tax expense	**(16)**	(17)
Prior year adjustment	**0**	(0)
Total current tax expense	**(16)**	(17)
Current year's deferred tax expense	**(45)**	(149)
Prior year deferred tax adjustment	**1**	(20)
Total deferred tax expense	**(44)**	(168)
Total tax expense	**(60)**	(186)

Effective tax rate reconciliation

Amounts in NOK million	**2018**	2017
Profit before tax	**338**	697
Expected income taxes (2018: 23 percent, 2017: 24 percent) of profit before tax	**(78)**	(167)
Tax effects of:		
Prior year adjustments (current and deferred tax)	**1**	(20)
Permanent differences[1]	**6**	4
Effect of unrecognised timing differences and tax losses[2]	**1**	(2)
Change in tax rates[3]	**12**	9
Differences in tax rates from 23 percent (2017: 24 percent)[4]	**(3)**	(4)
Other[5]	**(0)**	(7)
Total tax expense	**(60)**	(186)
Effective tax rate	**18%**	27%
Tax effect of differences	**(18)**	18

1 Permanent differences are mainly due to impacts from other comprehensive income pension
2 Effect of non-recognised timing differences and tax losses is related to tax losses in international operations
3 Impact of change in Norwegian Corporate tax rate from 23 to 22 percent as from 2019
4 Effect of different tax rates in other jurisdictions
5 Other items in 2017 were mainly related to tax on items recognised directly through equity

Recognised deferred tax assets and liabilities

Amounts in NOK million	**2018**	2017
Property, plant and equipment	**20**	19
Pensions	**48**	45
Construction contracts in progress	**(694)**	(425)
Tax loss carry-forwards	**315**	103
Provisions	**36**	21
Financial instruments	**(11)**	(10)
Other	**20**	20
Total deferred tax asset/(liability)	**(265)**	(225)

Change in net recognised deferred tax assets and liabilities

2018

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	19	1	-	**20**
Net pensions	45	3	-	**48**
Projects under construction	(425)	(269)	-	**(694)**
Tax loss carry-forwards	103	212	-	**316**
Provisions	21	15	-	**36**
Financial instruments	(10)	(2)	-	**(11)**
Other	20	(4)	4	**20**
Total	(225)	(44)	4	**(265)**

2017

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**
Total	(62)	(168)	5	**(225)**

Tax loss carry-forwards

Amounts in NOK million	**2018**	2017
Recognised tax losses carried forward	**1 344**	369
Recognised denied interest carried forward	**90**	79
Unrecognised tax losses carried forward	**86**	90
Total tax losses carried forward - continuing operations	**1 519**	538

Recognised tax losses and denied interest carried forward are related to the Norwegian operations. Denied interest carried forward expires after five to ten years. Remaining recognised tax losses have indefinite expiry dates. Unrecognised tax losses are related to international offices of which NOK 15 million expire within five years, NOK 8 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 2018 (2017: NOK 633 million).

The group has no current tax liabilities at year-end 2018 (2017: NOK nil).

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

	2018	2017
Profit/(loss) attributable to ordinary shares (NOK million):		
Net profit/(loss) - continuing operations	**278**	511
Net profit/(loss) - discontinued operations	**0**	31
Net profit/(loss) - total operations	**278**	542
Weighted average number of shares outstanding	**267 429 795**	266 215 316
Earnings per share (NOK):		
Basic and diluted EPS - continuing operations	**1.04**	1.92
Basic and diluted EPS - discontinued operations	**0.00**	0.12
Basic and diluted EPS - total operations	**1.04**	2.04

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 2018	916	1 118	30	**2 063**
Additions	13	53	194	**260**
Disposals	-	(1)	-	**(1)**
Scrapping	(77)	(47)	-	**(123)**
Transfers	13	17	(27)	**4**
Currency translation differences	0	(0)	(0)	**0**
Historical cost as of 31 December 2018	866	1 140	198	**2 203**
Accumulated depreciation as of 1 January 2018	(457)	(806)	-	**(1 263)**
Depreciation for the year	(37)	(59)	-	**(97)**
Disposals	-	1	-	**1**
Scrapping	77	47	-	**123**
Transfers	-	-	-	**-**
Currency translation differences	(0)	0	-	**(0)**
Accumulated depreciation as of 31 December 2018	(418)	(818)	-	**(1 236)**
Book value as of 31 December 2018	448	322	198	**967**

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	**1 986**
Additions	17	40	23	**81**
Disposals	-	(2)	-	**(2)**
Scrapping	-	-	(0)	**(0)**
Transfers	(158)	171	(14)	**(0)**
Currency translation differences	(0)	0	(0)	**0**
Historical cost as of 31 December 2017	916	1 118	30	**2 063**
Accumulated depreciation as of 1 January 2017	(557)	(631)	-	**(1 188)**
Depreciation for the year[1]	(25)	(53)	-	**(78)**
Disposals	-	2	-	**2**
Scrapping	-	-	-	**-**
Transfers	125	(125)	-	**(0)**
Currency translation differences	0	(0)	-	**0**
Accumulated depreciation as of 31 December 2017	(457)	(806)	-	**(1 263)**
Book value as of 31 December 2017	459	311	30	**800**

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 2018. At year-end 2018, Kvaerner has contractual commitments for acquisition of property, plant and equipment amounting to NOK 166 million, mainly relating to development of the Stord yard.

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 frequently if impairment indicators are identified. Other tangible and intangible assets are assessed for impairment if there is any indication of impairment. 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. Compared to 12 months ago, Kvaerner sees an improved market and more customers considering new prospects. During 2019, it is expected that several key prospects will pass important decision gates and move further towards project sanctioning and project execution. The company anticipates that potential contract awards for near term larger contracts will mostly come in 2020 and 2021. The market in and around Norway will continue to be important, but several key prospects are also in international regions. 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 2017	59	607	**666**
Amortisation	(12)	-	**(12)**
Impairment	(15)	-	**(15)**
Additions	10	-	**10**
Balance as of 31 December 2017	42	607	**649**
Amortisation	(13)	-	**(13)**
Impairment	-	-	**-**
Additions	74	-	**74**
Balance as of 31 December 2018	102	607	**710**

Research and development costs

For the year ended 31 December 2018, the group capitalised development costs of NOK 74 million (2017: NOK 10 million) related to the group's strategic digitalisation project and IT systems. In 2018 NOK 21 million (2017: NOK 35 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 1 million in the period (2017: NOK 2 million).
At year-end 2018, Kvaerner has contractual commitments for acquisition of services and systems amounting to NOK 23 million, mainly relating to Kvaerner's digitalisation project.

Goodwill- allocation by operating segment

Amounts in NOK million	**2018**	2017
Process Solutions	**421**	421
Structural Solutions	**186**	186
Total Field Development	**607**	607

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.

2018 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 on-going projects are based on budget and forecast.
- Explicit period for estimated cash flows are fourth quarter 2018- 2022.
- 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 8.6 percent, and pre-tax discount rates are 10.9 percent for Process Solutions and 10.4 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.

Sensitivities
The following adverse changes could occur simultaneously before any impairment is required; for Process Solutions, revenue reduction of 25 percent, EBITDA margin reduction of 1.5 percentage points and increase in pre-tax discount rate of 2.5 percentage points. For Structural Solutions, revenue reduction of 8 percent, EBITDA margin reduction of 0.5 percentage point and increase in pre-tax discount rate of 2.2 percentage points.

Note 12 Trade and other recievables

Financial reporting principles
Trade and other receivables are classified at amortised cost and recognised at the original invoiced amount less an allowance for doubtful receivables. Kvaerner applies a simplified approach to provide for lifetime Expected Credit Losses in accordance with IFRS 9. The invoiced amount is considered to be approximately equal to the value which would be derived under the amortised cost method.

Trade receivables and other receivables

Amounts in NOK million	Note	2018	2017
Trade receivables[1]		**370**	775
Provision for impairment of receivables		**(21)**	(31)
Trade receivables, net		**349**	744
Advances to suppliers		**56**	2
Other receivables		**531**	678
Derivative financial instruments	21	**5**	7
Total trade and other receivables		**940**	1 431
Other		**7**	5
Total trade and other current assets		**947**	1 436

1 Trade receivables are mainly related to contracts with customers

2 Work in progress of NOK 88 million presented within this note in 2017 has been reclassified to balance sheet line Contract assets for presentation purposes. Refer also to Note 3

Impairment losses in 2018 were NOK 4 million (2017: nil).

Aging of trade receivables

Amounts in NOK million	2018	2017
Current	**198**	471
Past due 0 – 30 days	**148**	242
Past due 31 – 90 days	**2**	15
Past due 91 days or more	**22**	47
Total	**370**	775

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	2018	2017
Restricted cash	**1**	1
Cash pool	**793**	527
Interest-bearing deposits	**2 321**	2 280
Non interest-bearing deposits	**50**	5
Total	**3 165**	2 812

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 2018 and 2017 there have been no payments of dividends. The Board of Directors propose to the Annual General Meeting that a dividend of NOK 1.00 per share should be paid, totalling approximately NOK 269 million.

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 2017	2 157 040	15
Purchase	455 702	8
Sale	(1 499 663)	(11)
Treasury shares as of 31 December 2018	1 113 079	12

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 foreign currency 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.

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. Remeasurements 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 are included in the defined contribution plan in Kvaerner. The annual contributions expensed for the defined contribution plan were NOK 92 million (2017: NOK 97 million). The estimated contributions expected to be paid in 2019 are NOK 96 million.

Defined benefit plan
The defined benefit plan is a funded plan and represents the funded pension liability reported. The plan is closed and members of the plan are retired. Kvaerner's contributions to this plan in 2018 were NOK 19 million (2017: NOK 17 million) and the expected contributions for 2019 are NOK 17 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 part of the plan 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.

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. The employees are given a choice of retirement age, with lower pension at earlier retirement.

During 2017 the Norwegian Accounting Standards Board 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 33 million (2017: NOK 30 million). The estimated contributions to be paid in 2019 are NOK 34 million.

Pension plans outside Norway
All pension plans in Kvaerner companies outside Norway are defined contribution plans. Contributions to these plans were NOK 1.0 million in 2018 (2017: NOK 0.6 million). Estimated contributions in 2019 are NOK 1.0 million.

Total pension cost including payroll tax

Amounts in NOK million	**2018**	2017
Service cost[1]	**24**	17
Administration cost	**1**	1
Settlements	**-**	(1)
Net periodic pension cost defined benefit plans	**25**	17
Pension cost defined contribution plans	**127**	132
Other pension cost[2]	**5**	-
Net periodic pension cost	**156**	149
Net interest cost/(income)	**5**	5
Net periodic pension cost incl. net interest cost	**160**	154

1 In 2018, the service cost was increased by NOK 7 million following increased accruals for AFP liabilities
2 Other pension cost is mainly related to equity contribution made to Aker Pensjonskasse

Movement in pension obligation and plan asset

Amounts in NOK million	2018	2017
Projected benefit obligation as of 1 January	475	500
Service cost	24	17
Interest expense	11	12
Payroll tax of employer contribution assets	(3)	(5)
Benefits paid	(36)	(47)
Settlements[1]	-	(24)
Remeasurements loss/(gain) to other comprehensive income (OCI)	(2)	21
Projected benefit obligation as of 31 December	**468**	475
Plan assets at fair value as of 1 January	287	331
Interest income	7	8
Contributions paid into the plan	28	38
Benefits paid	(36)	(47)
Payroll tax of employer contribution assets	(3)	(5)
Administrative expenses paid	(1)	(1)
Settlements[1]	-	(23)
Remeasurements loss/(gain) to other comprehensive income	(12)	(14)
Plan assets at fair value as of 31 December	**269**	287
Effect of asset ceiling[2]	(19)	(9)
Net benefit obligation as of 31 December	**218**	198
As presented in the balance sheet		
Employee benefit assets	0	0
Employee benefit obligations	(218)	(198)
Total	**(218)**	(198)

1 In 2017 paid up policies were 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 recognised in other comprehensive income (OCI)

Defined benefit obligation specified by funded and unfunded pension plans

Amounts in NOK million	2018	2017
Funded	250	277
Unfunded	218	198
Net employee benefit assets/(employee benefit obligations)	**468**	475

Included in other comprehensive income (OCI)

Amounts in NOK million	2018	2017
Remeasurements loss/(gain) from changes in:		
Effect of changes in financial assumptions	(8)	5
Effect of experience adjustments	6	16
Return on plan assets (excluding interest income)	12	14
Changes in asset ceiling	10	(11)
OCI losses/(gains)	**19**	25

Analyses of assets in the defined benefit plan
Plan assets comprise:

Amounts in NOK million	2018	2017
Equity instruments		
- Oil & Gas	-	4
- Oilfield Services & Equipment	-	3
- Renewable Energy	-	1
- Chemicals	-	0
Bonds		
- Government	2	3
- Finance	36	37
- Private and Government enterprise	56	64
- Municipalities	100	138
Fund/Private Equity	74	38
Plan assets	**269**	287

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 made 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:

	2018	2017
Discount rate	**2.80%**	2.40%
Asset return	**2.80%**	2.40%
Salary progression	**2.75%**	2.50%
Pension indexation	**0–4.00%**	0–4.00%
G - multiplier	**2.50%**	2.25%
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:

	2018	2017
Assumed life expectancy retiring today (member age 65)		
Males	**22.3**	22.2
Females	**25.6**	25.5
Assumed life expectancy retiring in 25 years (member age 40 today)		
Males	**24.6**	24.5
Females	**28.1**	28.0

Sensitivity analysis
Calculation of the defined benefit obligation is sensitive to the actuarial assumptions set out above. A sensitivity analysis for each significant actuarial assumption is included below. 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:

	Defined benefit obligation	
Effects in NOK million	Increase	Decrease
Discount rate (1% movement)	(40)	48
Future salary growth (1% movement)	1	(1)
Future pension growth (1% movement)	36	(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 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, land and sites for transportation, storage and decommissioning. In addition Kvaerner is renting cranes, cars, vessels, barges and various equipment and machinery related to operations at the Stord and Verdal yards. The lease terms vary from short term lease contracts to lease contracts with duration up to 12 years. Rent of machinery and equipment is project related and typically for a short time period to cover peaks or special lifting or other operations. 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 headquarters at Fornebu and moved into the offices summer 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. The lease agreement is with Fornebu Gateway AS, related party to Aker ASA and Kvaerner. Refer to Note 18 for onerous lease provision relating to the Fornebuporten offices.

Kvaerner subleases separate floors of its offices at Fornebu to related parties. Sublease payments for 2018 amounted to NOK 14 million. Contingent rent recognised in the income statement for the years ended 31 December 2018 and 2017 were insignificant.

Minimum lease payments recognised in the income statement

Amounts in NOK million	2018	2017
Land and buildings	**78**	57
Vehicles, machinery and equipment	**162**	36
Total	**240**	93

In previous years Kvaerner has considered rent of project related assets, such as mobile cranes, vessels, tools and equipment as services and not disclosed the related costs as lease expenses. Following a thorough review and assessments in connection with transition to IFRS 16 Leases, effective from 1 January 2019, Kvaerner has from 2018 included rent for these assets as operating lease expenses.

Lease commitments

Total non-cancellable operating lease commitments

Amounts in NOK million	2018	2017
Amount due within one year	**108**	76
Amount due between one and five years	**218**	164
Amount due later than five years	**97**	128
Total	**424**	367

The group has non-cancellable sublease contracts for offices at Fornebu, Norway. Future minimum sub-lease income at year-end 2018 is NOK 18 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 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 2018 and as per 31 December 2018. 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 2018 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.

2018 and 2017

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[1]
Total non-current borrowings			-					

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**
Balance as of 1 January 2017	103	-	31	**135**
Provisions made during the year	8	53	9	**70**
Provisions used during the year	(23)	-	(21)	**(43)**
Provisions reversed during the year	(11)	-	(0)	**(11)**
Transferred to discontinued operations	-	-	(1)	**(1)**
Currency translation differences	-	-	(0)	**(0)**
Balance as of 31 December 2017	78	53	18	**148**
Provisions made during the year	189	(0)	6	**195**
Provisions used during the year	(79)	(8)	(11)	**(98)**
Provisions reversed during the year	(0)	(12)	-	**(12)**
Currency translation differences	(0)	0	(0)	**(0)**
Balance as of 31 December 2018	187	33	13	**233**
Expected timing of payment as of 31 December 2018				
Non-current	93	25	3	**120**
Current	94	8	11	**113**
Total	187	33	13	**233**

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. Such warranties are called “assurance-type warranties” and are provided for in accordance with progress during the project in question. 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.

Following implementation of IFRS 15 warranty provisions related to on-going projects are now presented within the balance sheet line Provisions, previously included within Trade and other payables. At year-end 2017 and 2018, warranty provision related to on-going projects amounted to NOK 163 million and NOK 30 million respectively.

Onerous lease contract

The onerous lease contract 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 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 expensed as incurred.

Significant current disputes

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	2018	2017[1]
Trade creditors		**555**	425
Accrued operating and financial costs		**956**	977
Derivative financial instruments	21	**18**	14
Sundry taxes		**155**	156
Other current liabilities		**78**	26
Total trade and other payables		**1 761**	1 598

1 Advances from customers of NOK 433 million presented within this note in 2017 have been reclassified to balance sheet line Contract liabilities for presentation purposes. Refer also to Note 3.

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, PLN, and RUB.

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

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

2018

Amounts in million	RUB	PLN	SEK	CAD	GBP	USD	EUR
Cash	703	1	(0)	3	1	7	3
Balance sheet exposure	**703**	**1**	**(0)**	**3**	**1**	**7**	**3**
Estimated forecast receipts from customers	4	-	-	-	-	-	45
Estimated forecast payments to vendors	(11)	(70)	-	-	-	(3)	(2)
Cash flow exposure	**(6)**	**(70)**	**-**	**-**	**-**	**(3)**	**43**
Forward exchange contracts	**6**	**70**	**-**	**-**	**-**	**3**	**(43)**
Net exposure	**703**	**1**	**(0)**	**3**	**1**	**7**	**3**

2017

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

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 2018. The analysis is performed on the same basis as it was for 2017. 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.

	2018		2017	
Amounts in NOK million	Profit/(loss) before tax[2]	Equity[1]	Profit/(loss) before tax[2]	Equity[1]
USD - 10 percent weakening	**1**	**0**	11	(8)
EUR - 10 percent weakening	**8**	**(4)**	28	(10)
CAD - 10 percent weakening	**0**	**-**	1	-
GBP - 10 percent weakening	**0**	**-**	6	-
SEK - 10 percent weakening	**(0)**	**-**	(1)	(0)
PLN - 10 percent weakening	**5**	**1**	0	1
RUB - 10 percent weakening	**70**	**(0)**	1	(0)

1 The effects to equity that follow directly from the effects to profit and loss are not included
2 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 2018 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

	Average rate		Closing rate	
Currency	**2018**	2017	**2018**	2017
USD	**8.1554**	8.2426	**8.7041**	8.1860
CAD	**6.2857**	6.3476	**6.3800**	6.5185
EUR	**9.6214**	9.3109	**9.9676**	9.8210
GBP	**10.8725**	10.6342	**11.0378**	11.0610
SEK	**0.9404**	0.9670	**0.9713**	0.9997
PLN	**2.2619**	2.1870	**2.3157**	2.3468
RUB	**0.1308**	0.1409	**0.1251**	0.1420

The next table illustrates the group's exposure to translation risk. Had the Norwegian currency depreciated by ten percent during 2018, 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, derivatives or other effects from currency fluctuations. Sensitivity analysis per currency has been made and the result is given in the presented table.

	Total			10% depreciation			Change		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
2018	**7 220**	**437**	**3 447**	**7 245**	**442**	**3 452**	**25**	**5**	**6**
2017	6 536	799	3 190	6 567	796	3 197	31	(2)	7

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 2018.

An increase of 100 basis points in interest rates during 2018 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 2017.

Amounts in NOK million	2018	2017
Cash and cash equivalents - 1 percent interest increase	32	28
Cash flow sensitivity (net)	**32**	28

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 – Bureau van Dijk). Sales to customers are settled in cash.

For trade receivables, the group applies a simplified approach to provide for expected credit losses as prescribed by IFRS 9. 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 progress and/or agreed milestones. Any lack of payment is normally 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

2018

Amounts in NOK million	Note	Book value	Total undiscounted cash flow[1]	6 mths and less
Trade and other payables	19	(1 761)	**(1 761)**	(1 761)
Total		(1 761)	**(1 761)**	(1 761)

2017

Amounts in NOK million	Note	Book value	Total undiscounted cash flow[1]	6 mths and less
Trade and other payables	19	(2 032)	**(2 032)**	(2 032)
Total		(2 032)	**(2 032)**	(2 032)

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 group's 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 2018 (all obligations are per date of issue):

Amounts in NOK million	2018	2017
Parent company guarantees to group companies	**46 146**	45 359
Counter guarantees for bank/surety bonds	**2 231**	1 767
Total	**48 377**	47 126

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 on-going basis according to IFRS 9, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows. 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 656 million of which the major currency is EUR (NOK 464 million) (2017: NOK 616 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. Project revenues are recognised in accordance with IFRS 15 Revenue from contracts with customers, effective from 1 January 2018 and revenue is recognised over time using a cost progress method. Loss of NOK 0.2 million (2017: loss of NOK 0.3 million) related to non-qualifying hedges has been recognised in the income statement in 2018.

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.

2018

Amounts in NOK million	Assets at fair value	Liabilities at fair value	**Net fair value**	**Total undiscounted cash flow**[1]	6 mths or less	6–12 mths	1–2 years
Cash flow hedges	5	(18)	**(13)**	**(13)**	-	(13)	-
Embedded derivatives	28	(14)	**14**	**14**	2	5	7
Not hedge accounted	-	-	**-**	**-**	-	-	-
Total	32	(32)	**0**	**0**	2	(8)	7

2017

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

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.

Project revenues and costs are recognised in accordance with IFRS 15 Revenue from contracts with customers, effective from 1 January 2018 and revenue is recognised over time using a cost progress 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 975 million (2017: NOK 303 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	2018	2017
Fair value of all hedging instruments	**(13)**	(10)
Recognised in profit and loss	**14**	10
Deferred in equity (hedging reserve)	**1**	0

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 2018

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)[1]
Kværner ASA	Lysaker	Norway	
Kværner Holding AS	Lysaker	Norway	100
Kværner AS	Lysaker	Norway	100
Eldøyane Lagerområde AS	Stord	Norway	100
Kværner Ghana AS	Lysaker	Norway	100
Norwegian Contractors AS	Lysaker	Norway	100
Aker Solutions Contracting AS	Lysaker	Norway	100
Kværner Resources AS	Lysaker	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 revenue and 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. 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) formed a joint venture in 2015, 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 Kværner 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 51:49 by the partners. K2JV is executing the Johan Sverdrup utility and living quarter (ULQ) platform topside EPC project for Equinor and will be completed in first quarter 2019.

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. The project will be delivered in 2019.

Joint Venture Agreement with Aker Solutions AS

Kvaerner and Aker Solutions AS have formed a joint venture, ASK JV AS, for project execution with an ownership of 50 percent to each of the partners. A Norwegian AS entity is a limited liability company. Parent company guarantees are issued by the partners' ultimate parents for the contractual obligations, refer to Note 20 Financial risk management and exposures. Profit is shared 50:50 by the partners. ASK JV is executing modification work for the Johan Sverdrup process platform topside EPC project for Equinor. The project will be delivered in 2022.

Investment in associated companies and joint arrangements

2018

Amounts in NOK million	Book value as of 1 January	Additions	Divi-dend	Profit/(loss)[1]	Other move-ments[2]	Currency translation differences	**Book value as of 31 December**
Kiewit-Kvaerner Contractors (KKC)	-	-	(30)	47	-	0	**17**
K2JV ANS[3]	0	-	(107)	130	0	-	**24**
ASK JV AS[3]	-	0	-	10	1	-	**11**
Other associated companies and jointly controlled entities	17	-	(1)	4	(4)	0	**16**
Total	17	0	(138)	192	(3)	0	**69**

2017

Amounts in NOK million	Book value as of 1 January	Additions	Divi-dend	Profit/(loss)[1]	Other move-ments[2]	Currency translation differences	**Book value as of 31 December**
Kiewit-Kvaerner Contractors (KKC)	(1)	-	(71)	72	-	0	**-**
K2JV ANS[3]	18	-	(111)	94	(1)	-	**0**
Other associated companies and jointly controlled entities	18	-	(3)	1	-	(0)	**17**
Total	35	-	(185)	167	(1)	(0)	**17**

1 Purpose of investment decides presentation in the income statement. Results from KKC, K2JV and ASK JV are presented within operating revenue and other income in the income statement
2 Other movements for K2JV and ASK JV relate to cash flow hedges qualifying for hedge accounting. For 2018, other movements for other associated companies and jointly controlled entities mainly relate to reversal of write down of receivables, recognised in profit/(loss) from equity accounted investees and against receivables in the balance sheet
3 Profit from K2JV and ASK JV includes accounting effect of embedded derivatives

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

2018

Amounts in NOK million	Business office	Percentage held[1]	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit-Kvaerner Contractors (KKC)[2]	Newfoundland, Canada	50.0%	43	8	35	-	94
K2JV ANS[2]	Stord, Norway	51.0%	332	284	48	1 527	256
ASK JV AS[2]	Stavanger, Norway	50.0%	123	101	22	231	21

2017

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

1 Percentage of voting rights equals percentage held
2 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 Kværner ASA, Aker Kværner Holding AS is owned 70 percent by Aker ASA, which in turn is owned directly and indirectly 68.2 percent by The Resource Group TRG AS, a company owned by Kjell Inge Røkke. All entities owned or controlled by Aker ASA and The Resource Group TRG AS are considered related parties to Kvaerner. Non-controlling interests with significant influence are also considered as related parties. These entities, including Aker Solutions, Akastor and Aker BP are referred to as Aker entities 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 owned or controlled by Aker ASA and The Resource Group TRG AS, 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 manhours to joint venture projects. Operating expenses from associated entities are mainly related to rent of buildings and purchase of manhours. See further details in Note 24 Equity-accounted investees on joint venture.

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 17 million in 2018 (2017: NOK 15 million). In addition, Kvaerner has paid equity contributions of NOK 2.8 million in 2018 to Aker Pensjonskasse.

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 2018 was NOK 502 500 (2017: NOK 492 000).

Kvaerner subleases separate floors of its offices at Fornebu to related parties. See Note 16 Operating leases.

Transactions and balances with related parties

2018

Amounts in NOK million	Aker entities	Joint ventures and Associates	Total
Income statement			
Operating revenues	679	654	**1 333**
Operating expenses	(650)	(105)	**(755)**
Balance sheet as of 31 December			
Trade and other receivables	142	47	**189**
Trade and other payables	(127)	(3)	**(131)**

2017

Amounts in NOK million	Aker entities	Joint ventures and Associates	Total
Income statement			
Operating revenues	64	892	**956**
Operating expenses	(576)	(82)	**(658)**
Balance sheet as of 31 December			
Trade and other receivables	60	169	**230**
Trade and other payables	(88)	(6)	**(94)**

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 have been presented as discontinued operations in the group's financial statements since the sale. All legacies have been resolved by year-end 2018.

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

The operating results for 2018 and 2017 reflect recognition of insurance recoveries of more than net USD 2 million in 2018 and more than USD 5 million in 2017 related to the Longview Power project.

Summary of financial data for discontinued operations

Amounts in NOK million	2018	2017
Total revenue and other income	-	4
Administrative and legal expenses, net of insurance recoveries	(1)	11
EBIT	**(1)**	16
Net financial income/(expense)	2	(1)
Profit/(loss) before tax	**1**	15
Income tax expense	(1)	16
Net profit/(loss) discontinued operations	**0**	31
Basic and diluted earnings/(losses) per share (NOK)	0.00	0.12
Net assets	**(34)**	(37)

Cash flow from discontinued operations

Amounts in NOK million	2018	2017
Cash flow from operating activities	(6)	20
Cash transferred (to)/from parent	1	(22)
Translation adjustments	2	(2)
Net increase/(decrease) in cash and bank deposits	**(3)**	(3)
Cash and cash equivalents at the beginning of the period	31	35
Cash and cash equivalents at the end of the period	**28**	31

Note 27 Subsequent events

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

Annual accounts Kværner ASA

Income statement 01.01 - 31.12

Amounts in NOK thousands	Note	2018	2017
Operating revenue	2	**30 005**	29 431
Operating expenses	2	**(34 594)**	(36 073)
Operating loss		**(4 589)**	(6 642)
Net financial items	3	**(10 502)**	(32 179)
Profit/(loss) before tax		**(15 091)**	(38 821)
Tax income/(expense)	4	**625**	6 792
Net profit/(loss)		**(14 466)**	(32 029)
Net profit/(loss) for the year are distributed as follows:			
Proposed dividend		**269 000**	-
Transferred from other equity		**(283 466)**	(32 029)
Net profit/(loss)		**(14 466)**	(32 029)

Balance sheet as of 31 December

Amounts in NOK thousands	Note	2018	2017
Assets			
Deferred tax asset	4	**58 932**	58 080
Investments in group companies	5	**4 918 771**	6 843 335
Non-current interest-bearing receivables from group companies		**1 021 360**	23 290
Total non-current assets		**5 999 063**	6 924 705
Non-interest bearing receivables from group companies	7	**13 409**	7 411
Other current receivables from related parties	7	**-**	1 378
Other current receivables	9	**5 561**	9 269
Cash and cash equivalents	7	**53 313**	48 773
Total current assets		**72 283**	66 831
Total assets		**6 071 346**	6 991 536

Amounts in NOK thousands	Note	2018	2017
Liabilities and shareholders' equity			
Issued capital		**91 460**	91 460
Share premium reserve		**729 027**	729 027
Other equity		**3 243 669**	3 524 053
Total equity	6	**4 064 156**	4 344 540
Non-current liabilities	8	**10 337**	6 083
Total non-current liabilities		**10 337**	6 083
Interest-bearing current liabilities to group companies	7	**1 586 447**	2 503 509
Provision for dividend	6	**269 000**	-
Other current liabilities to related parties	7	**1 603**	-
Other current liabilities	9	**139 803**	137 404
Total current liabilities		**1 727 853**	2 640 913
Total liabilities and shareholders' equity		**6 071 346**	6 991 536

Fornebu, 11 February 2019
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director	Kjell Inge Røkke Director	Lone Fønss Schrøder Director
Rune Rafdal Director	Ståle Knoff Johansen Director	Bernt Harald Kilnes Director	Karl-Petter Løken President & CEO	

Cash flows 01.01–31.12

Amounts in NOK thousands	Note	2018	2017
Profit/(loss) before tax		**(15 091)**	(38 821)
Taxes paid		**(227)**	-
Changes in liabilities		**7 369**	(6 341)
Changes in other net operating assets		**(1 054)**	(11 709)
Non-cash effect on group hedging		**(3 018)**	(13 403)
Amortisation of loan costs		**3 771**	3 724
Net cash from operating activities		**(8 250)**	(66 550)
Increase/(decrease) in long term borrowings to group companies		**10 520**	57 344
Share purchase for the variable pay program, net of refund from subsidiaries	6, 8	**2 268**	3 761
Net cash from financing activities		**12 788**	61 105
Net increase (decrease) in cash and bank deposits		**4 539**	(5 445)
Cash and bank deposits at the beginning of the period		**48 773**	54 218
Cash and bank deposits at the end of the period		**53 313**	48 773

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

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

Tax
Tax income/(expense) in the income statement comprises current tax and change in deferred tax. Deferred tax is calculated at 22 percent of temporary differences between accounting and tax values as well as any tax losses carried forward. Deferred tax assets 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 program. 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 the employee is entitled to a matching element that is paid in the form of Kvaerner ASA shares. The monetary amount of the earned bonus 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. Kvaerner 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 Kværner ASA and hence no salary or pension related costs, and no loans or guarantees related to the executive management team. Group management and staff are employed by other Kvaerner companies. Parent company costs are recharged to Kværner ASA.

Fees to KPMG for statutory audit of the parent company and consolidated accounts amounted to NOK 0.8 million (2017: NOK 0.9 million) which relates to ordinary audit fees excluding VAT.

NOK 2.9 million (2017: NOK 3.1 million) has been allocated to payable fees to the Board of Directors for 2018.

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	2018	2017
Interest income from group companies	**19 721**	4 159
Interest expense to group companies	**(33 131)**	(35 072)
Net interest group companies	**(13 410)**	(30 913)
External interest income	**22 630**	21 174
External interest expense[1]	**(20 079)**	(20 087)
Net interest external	**2 551**	1 087
Net other financial items	**357**	(2 353)
Net financial items	**(10 502)**	(32 179)

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

Note 4 Tax

Amounts in NOK thousands	2018	2017
Taxable income		
Profit/(loss) before tax	**(15 091)**	(38 821)
Interest deduction limit	**10 860**	29 826
Permanent differences[1]	**(258)**	-
Change temporarily differences	**(5 561)**	-
Taxable income/(loss)	**(10 050)**	(8 995)
Temporary differences and deferred tax		
Other (Prepaid fees)	**5 561**	-
Tax losses carried forward due to interest deduction limit	**(80 368)**	(69 508)
Tax losses carried forward	**(193 063)**	(183 013)
Total temporary differences	**(267 870)**	(252 521)
Deferred tax asset	**58 931**	58 080
Tax income		
Expected Income taxes	**3 471**	9 317
Tax effect permanent differences	**59**	-
Paid witholding tax	**(227)**	-
Effect of change in tax rate	**(2 679)**	(2 525)
Total tax income in income statement	**625**	6 792
Effective tax rate	**4%**	17%

1 Permanent differences in 2018 relate to payment on loan previously written down

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	Percentage owner-/ voting share
Kværner Holding AS	Bærum, Norway	1 010	10 000	4 918 771	100%

Kværner Holding AS results 2018

Amounts in NOK thousands	
Profit/(loss) for the period[1]	987 074
Equity as of 31 December 2018[1]	5 476 972

1 Based on preliminary reporting

Book value of the investment in Kværner Holding AS has been reduced by NOK 1 924 million in the year following dividend distribution.

Impairment test

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 group accounts for further details on key assumptions used in the impairment test.

Calculated recoverable amount exceeds book value of the shares, hence no impairment is recorded as per year-end 2018.

The calculations are sensitive to key assumptions such as revenue and margin levels in the subsidiaries and other investments of Kværner Holding AS.

Compared to assumptions used in the testing, a combination of 10 percent revenue reduction, 1 percentage point EBITDA margin reduction and 1.2 percentage points increase in post-tax discount rate could occur without need for impairment of the investment in Kværner Holding AS.

Note 6 Shareholders' equity

Amounts in NOK thousands	Share capital	Share premium	Other equity	**Total**
Equity as of 31 December 2016	91 460	729 027	3 546 583	**4 367 070**
Treasury shares - Variable pay programme	-	-	9 499	**9 499**
Profit/(loss) for the period	-	-	(32 029)	**(32 029)**
Equity as of 31 December 2017	91 460	729 027	3 524 053	**4 344 540**
Treasury shares - Variable pay programme	-	-	3 082	**3 082**
Profit/(loss) for the period	-	-	(14 466)	**(14 466)**
Proposed dividend	-	-	(269 000)	**(269 000)**
Equity as of 31 December 2018	91 460	729 027	3 243 669	**4 064 156**

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 1 113 079 shares with a nominal value of NOK 0.34.

Note 7 Receivables and borrowings from group companies and related parties

Amounts in NOK thousands	**2018**	2017
Kværner ASA bank deposits	**52 216**	47 685
Restricted cash	**1 097**	1 088
Total cash in cash pool system	**53 313**	48 773
Interest-bearing current liabilities to group companies[1]	**(1 586 447)**	(2 503 509)

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 represent fair value of hedging instruments.

Note 8 Non-current liabilities

Amounts in NOK thousands	2018	2017
Debt to Kvaerner employees for matching shares[1]	**(10 337)**	(6 083)
Total non-current liabilities	**(10 337)**	(6 083)

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	2018	2017
Other current receivables	**5 561**	9 269
Other current liabilities	**(139 803)**	(137 404)
Net other current receivables and liabilities	**(134 242)**	(128 135)

Net other current receivables and other current liabilities include unrealised forward exchange contracts with external counterparties, see also Note 12 Financial risk management and exposures. Other current liabilities include 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 Kværner ASA's interest-bearing loans and borrowings which are measured at amortised cost. For more information about Kværner ASA's exposure to interest rates, foreign currency and liquidity risk, see Note 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 2018 and as per 31 December 2018. 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 2018 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.

See Note 17 and Note 20 in the group accounts for further details.

Note 11 Guarantees

Amounts in NOK million	2018	2017
Parent company guarantees to group companies	**44 033**	43 246
Counter guarantees for bank/surety bonds	**2 231**	1 767
Total	**46 264**	45 013

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

Note 12 Financial risk management and exposures

Foreign exchange
Kværner ASA's currency contracts with subsidiaries as of 31 December 2018 have a notional value of NOK 656 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

	2018		2017	
Amounts in NOK thousands	**Assets**	**Liabilities**	Assets	Liabilities
Fair value of forward exchange contracts with group companies	**16 318**	**(2 908)**	12 955	(5 543)
Fair value of forward exchange contracts with related parties	-	**(1 603)**	1 488	(110)
Fair value of forward exchange contracts with external counterparts	**3 037**	**(14 843)**	5 654	(14 442)
Total	**19 355**	**(19 355)**	20 096	(20 096)

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

2018

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
CATELLA HEDGEFOND		5 794 016	2.15
CITIBANK, N.A.	X	4 339 693	1.61
HANDELSBANK NORDISKA SMABOLAGSFOND		4 328 270	1.61
ARCTIC FUNDS PLC		4 202 212	1.56
RAIFFEISEN BANK INTERNATIONAL AG	X	3 939 485	1.46
HOLBERG NORGE		3 812 023	1.42
JPMORGAN CHASE BANK, N.A., LONDON	X	3 405 163	1.27
JP MORGAN BANK LUXEMBOURG S.A.	X	2 930 721	1.09

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 2018 calendar year ended on 31 December 2018 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 2018 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 2018
- 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, 11 February 2019
The Board of Directors and the President & CEO of Kværner ASA

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director	Kjell Inge Røkke Director	Lone Fønss Schrøder Director
Rune Rafdal Director	Ståle Knoff Johansen Director	Bernt Harald Kilnes Director	Karl-Petter Løken President & CEO	

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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 2018, 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 2018, and income statement, statement of other 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 2018, 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 2018, 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.

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 and contract balances.

The key audit matter	*How the matter was addressed in our audit*
The majority of the Group's revenues and profits are derived from long-term construction contracts. 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. IFRS 15 *Revenue from contracts with customers* ('IFRS 15') was implemented by the Group on 1 January 2018. This new accounting standard introduces a 'five step model' for revenue recognition and new requirements and guidance relevant to project accounting estimates and judgements. As such, these contract accounting estimates also require significant attention during the audit and are subject to a high degree of auditor judgment.	For financially significant contracts and any contracts with a reasonable possibility of being in a significant loss-making position, we applied professional skepticism and critically assessed the accounting estimates and judgments against the requirements of IFRS 15. Our audit procedures included: • assessed the implementation of IFRS 15, including the Group's updated accounting policies, transition impact assessment, application to construction contract accounting and disclosures; • updated our understanding of the project performance, changes compared to previous forecasts, sensitivities and risks by reading management's project reporting and discussing with relevant management; • corroborating contractually based revenue and cost amounts included in project forecasts with reference to signed contracts and external confirmations; • 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 and the requirements of IFRS 15; • assessing the reasonableness of variable costs to complete with reference to contract terms, actual and forecast cost and schedule performance and external correspondence; • 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; • 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 • evaluating the consistent application of the Group's accounting policies across projects 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.

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*
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. 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.	For each operational area cash generating unit, we applied professional skepticism and critically assessed the cash flow forecasts, including: • forecast results from contracted work within the existing backlog with reference to our audit work on contract accounting estimates (refer *Contract accounting estimates* Key Audit Matter); • 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; • future contract margins with reference to historical actuals for similar projects, recent project profitability and Board approved budgets where relevant; • terminal values with reference to the historical results of the Group; and • the allocation of the cost of supporting functions to operational area results. 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.

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*
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. 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.	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: • assessing reports prepared by external experts against the Group's gross claims; • assessing interim rulings or other relevant pronouncements made by the arbitration panel / court; • consideration of historical outcomes of previous arbitration and legal proceedings; and • external legal opinions on the strength of the Group's claims, counterclaims made by customers, and the likely outcome of the proceedings.

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 scepticism 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 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, 11 February 2019
KPMG AS

Arve Gevoll
State Authorised Public Accountant

Board of Directors

Leif-Arne Langøy

Chairman

Leif-Arne Langøy (born 1956) is chairman of the board for DNV GL Group AS 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.

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. Through his company The Resource Group TRG AS, Mr Røkke owns 68.18 percent of Aker ASA which owns 70 percent of Aker Kværner Holding AS, which again owns 41.02 percent of Kværner ASA. He is chairman of Aker ASA and is board member of Aker BP ASA, Ocean Yield ASA and several privately held companies. 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.

Jan Arve Haugan

Director

Jan Arve Haugan (born 1957) is CEO in Aker Energy AS. Mr Haugan started his professional career in the Norwegian construction company F. Selmer (now Skanska) and worked as project consultant in Terra Mar Project Management before he joined the Norwegian industrial conglomerate Norsk Hydro as chief engineer in 1991. He served in several leading positions in Hydro's oil and gas projects and operations as well as in Hydro's aluminium business. From 2007 to 2009 he was director of Technology and Global Smelter Operations. In 2009 he became CEO of Qatar Aluminium Ltd (Qatalum), a 50/50 joint venture between Qatar Petroleum and Hydro Aluminium. Qatalum is one of the largest primary aluminium plants built in one phase. Mr Haugan was Hydro's project owner and technology provider for Qatalum in Hydro, before joining Qatalum as CEO. Mr Haugan was President & CEO of Kvaerner ASA from 2011 to 2018, when he stepped down to assume his current role as CEO of Aker Energy AS. Jan Arve Haugan holds a M.Sc. in construction management from the University of Colorado at Boulder, USA. Mr Haugan and related parties hold 194 843 shares in Kværner ASA. Mr Haugan is a Norwegian citizen. He has been elected for the period 2018–2020.

Thorhild Widvey

Director

Thorhild Widvey (born 1956) was Minister of culture from 2013 to 2015 and Minster 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 previous 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 Oct. 2013) and Aker Philadelphia Shipyard AS (2011 to Oct. 2013) and Sjømannskirken (Norwegian Church Abroad) (2006 to Oct. 2013). 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 2018–2020.

Lone Fønss Schrøder

Director

Ms 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 developper and co-ower 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 2018–2020.

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 28 146 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

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Annual Report 2017

KVÆRNER™

Contents

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 automatisation 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 technology unit 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 managemens 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 Verdal 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 Verdal, 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 a 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. 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 Nyhamna 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.

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_2 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 bands 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 commited 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.

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 winded-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.

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.

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.

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.

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 Kværner 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, Kværner 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

Income statement 01.01 - 31.12

Amounts in NOK million	Note	2017	2016
Total revenue and other income	3, 4	**6 536**	7 896
Materials, goods and services		**(3 184)**	(4 751)
Salaries, wages and social security costs	5	**(2 282)**	(2 269)
Other operating expenses	6	**(272)**	(247)
Operating profit before depreciation, amortisation and impairment		**799**	629
Depreciation and amortisation	10, 11	**(106)**	(100)
Goodwill impairment	11	**-**	(198)
Operating profit		**693**	331
Finance income	7	**31**	42
Finance expenses	7	**(27)**	(159)
Profit before tax		**697**	214
Income tax expense	8	**(186)**	(132)
Profit/(loss) from continuing operations		**511**	82
Profit/(loss) from discontinued operations	26	**31**	345
Profit/(loss) for the year		**542**	426
Profit for the period attributable to:			
Equity holders of the parent company		**542**	426
Earnings per share (NOK):			
Basic and diluted EPS – continuing operations	9	**1.92**	0.31
Basic and diluted EPS – discontinued operations	9	**0.12**	1.30
Basic and diluted EPS – total operations	9	**2.04**	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
Profit/(loss) for the year	**542**	426
Items that may be reclassified to profit or loss in subsequent periods:		
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)
Items that may be reclassified to profit or loss in subsequent periods	**(10)**	(294)
Items not to be reclassified to profit or loss in subsequent periods:		
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)
Items not to be reclassified to profit or loss in subsequent periods	**(20)**	(14)
Total other comprehensive income for the year, net of tax	**(29)**	(308)
Total comprehensive income for the year	**513**	118
Total comprehensive income attributable to:		
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
Assets			
Non-current assets			
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
Total non-current assets		**1 474**	1 505
Current assets			
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
Total current assets		**4 350**	4 474
Total assets		**5 823**	5 980

Amounts in NOK million	Note	2017	2016
Equity and liabilities			
Equity			
Share capital		**91**	91
Share premium		**729**	729
Retained earnings		**2 431**	1 881
Other reserves		**(75)**	(46)
Total equity	9, 14	**3 176**	2 656
Non-current liabilities			
Employee benefits obligations	15	**198**	191
Other long term liabilities		**6**	13
Deferred tax liabilities	8	**225**	62
Total non-current liabilities		**430**	267
Current liabilities			
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
Total current liabilities		**2 218**	3 058
Total liabilities		**2 647**	3 324
Total liabilities and equity		**5 823**	5 980

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**
Equity as of 31 December 2015	269 000 000	91	729	1 468	11	287	(36)	**2 550**
Profit/(loss) for the period		-	-	426	-	-	-	**426**
Other comprehensive income		-	-	-	(9)	(284)	(14)	**(308)**
Total comprehensive income		-	-	426	(9)	(284)	(14)	**118**
Treasury shares		-	-	(12)	-	-	-	**(12)**
Other		-	-	(1)	-	-	1	**-**
Equity as of 31 December 2016	269 000 000	91	729	1 881	1	2	(49)	**2 656**
Profit/(loss) for the period		-	-	542	-	-	-	**542**
Other comprehensive income		-	-	-	(1)	(9)	(20)	**(29)**
Total comprehensive income		-	-	542	(1)	(9)	(20)	**513**
Treasury shares		-	-	9	-	-	-	**9**
Employee share purchase programme		-	-	(2)	-	-	-	**(2)**
Equity as of 31 December 2017	269 000 000	91	729	2 431	(0)	(6)	(69)	**3 176**

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
Cash flow from operating activities			
Profit/(loss) for the period		**542**	426
Adjusted for:			
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
Net cash from operating activities		**(113)**	1 718
Cash flow from investing activities			
Investment in property, plant and equipment and intangible assets	10, 11	**(91)**	(203)
Other cash flow from financing activities		**(2)**	1
Net cash from investing activities		**(93)**	(201)
Cash flow from financing activities			
Interest expense and fees paid		**(16)**	(17)
Shares purchased in connection with employee share purchase programme		**(11)**	(13)
Net cash from financing activities		**(27)**	(30)
Effect of exchange rate changes on cash and bank equivalents		**(1)**	(1)
Net increase/(decrease) in cash and bank equivalents		**(234)**	1 486
Cash and cash equivalents at the beginning of the period		**3 047**	1 560
Cash and cash equivalents at the end of the period	13	**2 812**	3 047

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)
Construction contracts in progress, net position		**(339)**	(618)
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
Field Development segment:		
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[1]	Total
Operating revenue and other income				
Construction contracts		4 812	-	**4 812**
Services revenue		425	-	**425**
Revenue/share of result from joint ventures		2 055	(1 888)	**167**
Other income[2]		306	825	**1 132**
External operating revenue		7 598	(1 062)	**6 536**
Inter-segment revenue		27	(27)	**-**
Total operating revenue and other income		7 625	(1 089)	**6 536**
EBITDA		846	(48)	**799**
Depreciation and amortisation	10, 11	(106)	-	**(106)**
Goodwill impairment	11	-	-	**-**
EBIT		741	(48)	**693**
EBITDA		846	(48)	**799**
Adjustment for equity accounted investees[3]		-	(12)	**(12)**
Adjusted EBITDA		846	(60)	**786**
Assets				
Current operating assets		1 632	(101)	**1 531**
Non-current operating assets		1 466	(16)	**1 450**
Operating assets		3 098	(117)	**2 981**
Tax-related assets				**6**
Investments in associates and jointly controlled entities				**17**
Investments in other companies				**7**
Cash and cash equivalents				**2 812**
Retained assets of business sold				**0**
Total assets				**5 823**

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

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[1]	Total
Operating revenue and other income				
Construction contracts		7 009	13	**7 022**
Services revenue		64	-	**64**
Share of result from joint ventures		3 119	(2 933)	**186**
Other income[2]		137	486	**623**
External operating revenue		10 330	(2 434)	**7 896**
Inter-segment revenue		34	(34)	**-**
Total operating revenue and other income		10 364	(2 468)	**7 896**
EBITDA		741	(111)	**629**
Depreciation and amortisation	10, 11	(96)	(4)	**(100)**
Goodwill impairment	11	(198)	-	**(198)**
EBIT		447	(116)	**331**
EBITDA		741	(111)	**629**
Adjustment for equity accounted investees[3]		-	50	**50**
Adjusted EBITDA		741	(61)	**680**
Assets				
Current operating assets		1 461	(35)	**1 427**
Non-current operating assets		1 482	(16)	**1 466**
Operating assets		2 943	(50)	**2 893**
Investments in associates and jointly controlled entities				**35**
Investments in other companies				**4**
Cash and cash equivalents				**3 047**
Retained assets of business sold				**1**
Total assets				**5 980**

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

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.

	Total revenue and other income		Non-current segment assets	
Amounts in NOK million	**2017**	2016	**2017**	2016
Norway	**6 291**	7 483	**1 465**	1 481
Europe	**67**	58	**1**	1
Canada	**146**	305	**-**	0
Rest of the world	**32**	50	**0**	1
Total	**6 536**	7 896	**1 466**	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
Salaries, wages and social security costs		**2 282**	2 269

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 Kværner 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[1]	Variable pay[2]	Other benefits[3]	Pension benefit[4]	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 Bjerknes	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
		22 392 744	**17 039 813**	**203 109**	**1 651 201**	**41 286 868**

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 accured 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[1]	Variable pay[2]	Other benefits[3]	Pension benefit[4]	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[5]	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
		24 991 392	**13 749 962**	**255 214**	**1 919 418**	**40 915 985**

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[1]	Audit Committee fees[1]	Remuneration Committee fees[1]
Leif-Arne Langøy	602 000	-	31 500
Tore Torvund[2]	547 300	-	31 500
Kjell Inge Røkke[3]	328 000	-	-
Thorhild Widvey	328 000	84 000	31 500
Lone Fønss Schrøder	328 000	163 000	-
Rune Rafdal[4]	164 000	84 000	-
Ståle Knoff Johansen[4]	164 000	-	-
Bernt Harald Kilnes[4]	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[1]	Audit Committee fees[1]	Remuneration Committee fees[1]
Leif-Arne Langøy	602 000	48 989	31 500
Tore Torvund[2]	521 900	-	31 500
Kjell Inge Røkke[3]	328 000	-	-
Vibeke Hammer Madsen[4]	98 579	-	9 467
Thorhild Widvey[5]	229 421	58 754	22 033
Lone Fønss Schrøder[5]	229 421	114 011	-
Rune Rafdal[6]	164 000	84 000	-
Ståle Knoff Johansen[6]	164 000	-	-
Bernt Harald Kilnes[6]	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[2]	Shares allocated as part of 2016 variable pay programme[3]	Shares allocated as part of 2015 variable pay programme[3]
Jan Arve Haugan[1]	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[1]	**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[2]	**5**	(5)
Maintenance buildings and equipment	**33**	20
Other[3]	**23**	84
Total	**272**	247

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[1]	**1**	1
Total fees to KPMG	**4**	6
Total audit fees - other auditor	**0**	0
Total continuing operations	**4**	6
Total discontinued operations	**0**	0
Total	**4**	6

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[1]	**3**	25
Finance income	**31**	42
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)
Finance expenses	**(27)**	(159)
Net finance expenses recognised in profit and loss	**4**	(117)

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
Total current tax expense	**17**	58
Current year's deferred tax expense	**149**	74
Prior year deferred tax adjustment	**20**	-
Total deferred tax expense/(income)	**168**	74
Total tax expense	**186**	132

Effective tax rate reconciliation

Amounts in NOK million	2017	2016
Profit before tax	**697**	214
Expected income taxes (2017: 24 percent, 2016: 25 percent) of profit before tax	**167**	53
Tax effects of:		
Prior year adjustments (current and deferred tax)	**20**	26
Permanent differences[1]	**(4)**	42
Effect of unrecognised timing differences and tax losses[2]	**2**	3
Change in tax rates[3]	**(9)**	(3)
Differences in tax rates from 24 percent (2016: 25 percent)	**4**	5
Other[4]	**7**	6
Total tax expense	**186**	132
Effective tax rate	**27%**	62%
Tax effect of differences	**18**	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
Total deferred tax asset/(liability)	**(225)**	(62)

Change in net recognised deferred tax assets and liabilities

2017

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**
Total	(62)	(168)	5	**(225)**

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**
Total	1	(74)	11	**(62)**

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
Total tax losses carried forward - continuing operations	**538**	7 216

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

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	**1 791**
Additions	6	173	20	**200**
Disposals	-	(0)	-	**(0)**
Scrapping	(4)	(1)	-	**(4)**
Transfers	-	0	-	**0**
Currency translation differences	(0)	0	(0)	**(0)**
Historical cost as of 31 December 2016	1 057	909	20	**1 986**
Accumulated depreciation as of 1 January 2016	(521)	(583)	-	**(1 104)**
Depreciation for the year	(39)	(49)	-	**(89)**
Disposals	-	0	-	**0**
Scrapping	4	1	-	**4**
Transfers	-	0	-	**0**
Currency translation differences	0	(0)	-	**0**
Accumulated depreciation as of 31 December 2016	(557)	(631)	-	**(1 188)**
Book value as of 31 December 2016	500	278	20	**798**

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	**1 986**
Additions	17	40	23	**81**
Disposals	-	(2)	-	**(2)**
Scrapping	-	-	(0)	**(0)**
Transfers	(158)	171	(14)	**(0)**
Currency translation differences	(0)	0	(0)	**0**
Historical cost as of 31 December 2017	916	1 118	30	**2 063**
Accumulated depreciation as of 1 January 2017	(557)	(631)	-	**(1 188)**
Depreciation for the year[1]	(25)	(53)	-	**(78)**
Disposals	-	2	-	**2**
Scrapping	-	-	-	**-**
Transfers	125	(125)	-	**(0)**
Currency translation differences	0	(0)	-	**0**
Accumulated depreciation as of 31 December 2017	(457)	(806)	-	**(1 263)**
Book value as of 31 December 2017	459	311	30	**800**

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	**873**
Amortisation	(12)	-	**(12)**
Impairment	-	(198)	**(198)**
Additions	3	-	**3**
Balance as of 31 December 2016	59	607	**666**
Amortisation	(12)	-	**(12)**
Impairment	(15)	-	**(15)**
Additions	10	-	**10**
Transfers	0	-	**0**
Balance as of 31 December 2017	42	607	**649**

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
Total Field Development	**607**	607

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)
Trade receivables, net		**744**	774
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
Total trade and other receivables		**1 519**	1 407
Other		**5**	6
Total trade and other current assets		**1 524**	1 413

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
Total	**775**	802

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**	-
Total	**2 812**	3 047

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)
Treasury shares as of 31 December 2017	2 157 040	15

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[1]	17	36
Administration cost	1	1
Settlements[2]	(1)	-
Net periodic pension cost defined benefit plans	**17**	38
Pension cost defined contribution plans	132	120
Net periodic pension cost	**149**	157
Net interest cost/(income)	5	4
Net periodic pension cost incl. net interest cost	**154**	161

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[1]	(24)	-
Remeasurements loss/(gain) to other comprehensive income (OCI)	21	1
Projected benefit obligation as of 31 December	**475**	500
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[1]	(23)	-
Remeasurements loss/(gain) to other comprehensive income	(14)	3
Plan assets at fair value as of 31 December	**287**	331
Effect of asset ceiling[2]	(9)	(20)
Net benefit obligation as of 31 December	**198**	190
As presented in the balance sheet		
Employee benefit assets	-	2
Employee benefit obligations	(198)	(191)
Total	(198)	(190)

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
Net employee benefit assets/(employee benefit obligations)	**475**	500

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
OCI losses/(gains)	**25**	18

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
Plan assets	**287**	331

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
Assumed life expectancy retiring today (member age 65)		
Males	22.2	22.1
Females	25.5	25.4
Assumed life expectancy retiring in 25 years (member age 40 today)		
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:

	Defined benefit obligation	
Effects in NOK million	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 Verdal 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
Total	**93**	59

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
Total	**367**	353

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[1]
Total non-current borrowings			-					

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

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
Total trade and other payables		**2 032**	2 820

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
Balance sheet exposure	**(109)**	**0**	**0**	**6**	**1**	**11**	**18**
Estimated forecast receipts from customers	4	-	1	-	-	8	67
Estimated forecast payments to vendors	(9)	-	-	-	-	(4)	(2)
Cash flow exposure	**(5)**	**-**	**1**	**-**	**-**	**4**	**65**
Forward exchange contracts	**5**	**-**	**(1)**	**-**	**-**	**(4)**	**(65)**
Net exposure	**(109)**	**0**	**0**	**6**	**1**	**11**	**18**

2016

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

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.

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

1 The effects to equity that follow directly from the effects to profit and loss are not included
2 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

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

	Total			10% depreciation			Change		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
2017	**6 536**	**799**	**3 190**	**6 567**	**796**	**3 197**	**31**	**(2)**	**7**
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	**28**	30
Cash flow sensitivity (net)	**28**	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**[1]	6 mths and less
Trade and other payables	19	(2 032)	**(2 032)**	(2 032)
Total		(2 032)	**(2 032)**	(2 032)

2016

Amounts in NOK million	Note	Book value	**Total undiscounted cash flow**[1]	6 mths and less
Trade and other payables	19	(2 820)	**(2 820)**	(2 820)
Total		(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
Total	**47 126**	48 491

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**[1]	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)	-
Total	14	(15)	**(1)**	**(1)**	3	(5)	(1)

2016

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

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

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

Foreign exchange derivatives
Kvaerner hedges the group's future transactions in foreign currencies against external banks, with currency exposure hedged back-to-back in order to meet the requirements for hedge accounting 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	**(10)**	3
Recognised in profit and loss	**10**	(2)
Deferred in equity (hedging reserve)	**0**	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)[1]
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 Kværner 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 Kværner 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)[1]	Other movements[2]	Currency translation differences	**Book value as of 31 December**
Kiewit-Kvaerner Contractors (KKC)	(1)	(71)	72	-	0	**-**
K2JV ANS[3]	18	(111)	94	(1)	-	**0**
Other associated companies and jointly controlled entities	18	(3)	1	-	(0)	**17**
Total	35	(185)	167	(1)	(0)	**17**

2016

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

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[1]	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit-Kvaerner Contractors (KKC)[2]	Newfoundland, Canada	50.0%	93	93	-	1 350	144
K2JV ANS[2]	Stord, Norway	51.0%	825	824	1	2 705	185

2016

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

1 Percentage of voting rights equals percentage held
2 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 Kværner ASA, Aker Kværner 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 subsidaries. 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
Income statement						
Operating revenues	21	12	30	2	891	**956**
Operating expenses	(545)	(0)	(30)	(77)	(6)	**(658)**
Balance sheet as of 31 December						
Trade and other receivables	30	2	28	-	169	**230**
Trade and other payables	(88)	-	(0)	(5)	(1)	**(94)**

2016

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

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	**4**	0
Administrative and legal expenses, net of insurance recoveries	**11**	85
EBIT	**16**	85
Net financial income/(expense)	**(1)**	261
Profit/(loss) before tax	**15**	346
Income tax expense	**16**	(1)
Net profit/(loss) discontinued operations	**31**	345
Basic and diluted earnings/(losses) per share (NOK)	**0.12**	1.30
Net assets	**(37)**	(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)
Net increase/(decrease) in cash and bank deposits	**(3)**	4
Cash and cash equivalents at the beginning of the period	**35**	30
Cash and cash equivalents at the end of the period	**31**	35

Note 27 Subsequent events

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

Annual accounts Kværner ASA

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)
Operating loss		**(6 642)**	(10 909)
Net financial items	3	**(32 179)**	(24 666)
Profit/(loss) before tax		**(38 821)**	(35 575)
Tax income/(expense)	4	**6 792**	9 629
Net profit/(loss)		**(32 029)**	(25 946)
Net profit/(loss) for the year are distributed as follows:			
Transferred from other equity		**(32 029)**	(25 946)
Net profit/(loss)		**(32 029)**	(25 946)

Balance sheet as of 31 December

Amounts in NOK thousands	Note	2017	2016
Assets			
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
Total non-current assets		**6 924 705**	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
Total current assets		**66 831**	67 193
Total assets		**6 991 536**	6 967 705

Amounts in NOK thousands	Note	2017	2016
Liabilities and shareholders' equity			
Issued capital		**91 460**	91 460
Share premium reserve		**729 027**	729 027
Other equity		**3 524 053**	3 546 583
Total equity	6	**4 344 540**	4 367 070
Non-current liabilities	8	**6 083**	13 109
Total non-current liabilities		**6 083**	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
Total current liabilities		**2 640 913**	2 587 526
Total liabilities and shareholders' equity		**6 991 536**	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		**(38 821)**	(35 575)
Changes in accounts payable		**(6 341)**	3 471
Changes in other net operating assets		**(11 709)**	(21 586)
Non-cash effect on group hedging		**(13 403)**	37 456
Amortisation of loan costs		**3 724**	3 702
Net cash from operating activities		**(66 550)**	(12 532)
Increase/(decrease) in long term borrowings to group companies		**57 344**	19 018
Share purchase for the variable pay program, net of refund from subsidiaries	6, 8	**3 761**	202
Net cash from financing activities		**61 105**	19 220
Net increase (decrease) in cash and bank deposits		**(5 445)**	6 688
Cash and bank deposits at the beginning of the period		**54 218**	47 530
Cash and bank deposits at the end of the period		**48 773**	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 excecutives 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 Kværner ASA and hence no salary or pension related costs, and no loans or guarantees related to the executive management team. Group management and corporate staff are employed by other Kvaerner companies and costs for their services as well as other parent company costs are recharged to Kværner ASA.

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)
Net interest group companies	**(30 913)**	(24 724)
External interest income	**21 174**	10 724
External interest expense[1]	**(20 087)**	(20 133)
Net interest external	**1 087**	(9 409)
Net other financial items	**(2 353)**	9 467
Net financial items	**(32 179)**	(24 666)

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

Note 4 Tax

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

1 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[1]	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[1]	213 965
Equity as of 31 December 2017[1]	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**
Equity as of 31 December 2015	91 460	729 027	3 584 767	**4 405 254**
Treasury shares – Variable pay programme	-	-	(12 238)	**(12 238)**
Profit/(loss) for the period	-	-	(25 946)	**(25 946)**
Equity as of 31 December 2016	91 460	729 027	3 546 583	**4 367 070**
Treasury shares – Variable pay programme	-	-	9 499	**9 499**
Profit/(loss) for the period	-	-	(32 029)	**(32 029)**
Equity as of 31 December 2017	91 460	729 027	3 524 053	**4 344 540**

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	**47 685**	53 137
Restricted cash	**1 088**	1 081
Total cash in cash pool system	**48 773**	54 218
Interest-bearing current liabilities to group companies[1]	**(2 503 509)**	(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[1]	**(6 083)**	(13 109)
Total non-current liabilities	**(6 083)**	(13 109)

1 Reference is made to Note 5 in the group accounts for futher 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)
Net other current receivables and liabilities	**(128 135)**	(110 370)

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 Kværner ASA's interest-bearing loans and borrowings which are measured at amortised cost. For more information about Kværner ASA's exposure to interest rates, foreign currency and liquidity risk, see Note 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
Total	**45 013**	46 273

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

	2017		2016	
Amounts in NOK thousands	**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)
Total	**20 096**	**(20 096)**	14 324	(14 324)

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

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

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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.

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*
The majority of the Group's revenues and profits are derived from long-term construction contracts. 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.	For financially significant contracts and any contracts with a reasonable possibility of being in a significant loss-making position, our audit procedures included: • 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; • corroborating contractually based revenue and cost amounts included in project forecasts with reference to signed contracts and external confirmations; • 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; • assessing the reasonableness of variable costs to complete with reference to contract terms, actual and forecast cost and schedule performance and external correspondence; • 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; • 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 • 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.

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*
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. 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.	For each operational area cash generating unit, we applied professional skepticism and critically assessed the cash flow forecasts, including: • forecast results from contracted work within the existing backlog with reference to our audit work on contract accounting estimates (refer *Contract accounting estimates* Key Audit Matter); • 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; • future contract margins with reference to historical actuals for similar projects, recent project profitability and Board approved budgets where relevant; • terminal values with reference to the historical results of the Group; and • the allocation of the cost of supporting functions to operational area results. 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.

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*
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. 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.	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: • assessing reports prepared by external experts against the Group's gross claims; • assessing interim rulings or other relevant pronouncements made by the arbitration panel / court; • consideration of historical outcomes of previous arbitration and legal proceedings; and • external legal opinions on the strength of the Group's claims, counterclaims made by customers, and the likely outcome of the proceedings.

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 scepticism 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

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 Minster 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 previous 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 Norwegain 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 developper and co-ower 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

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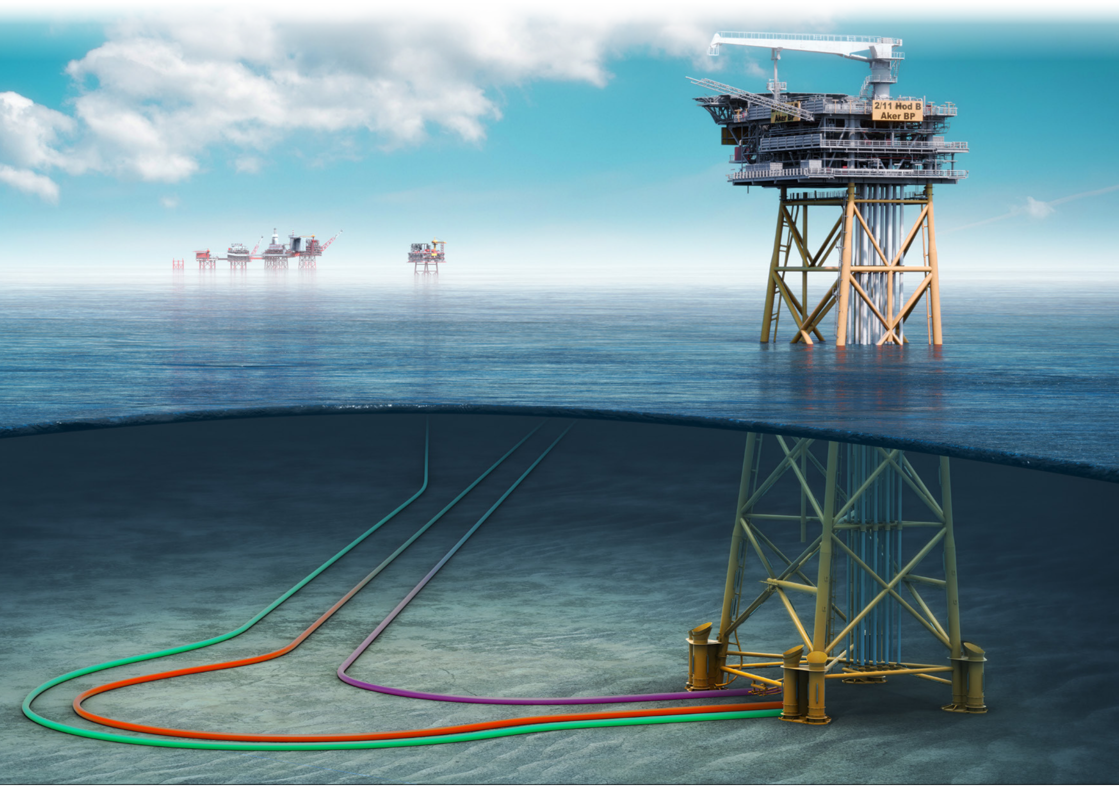
KVÆRNER™

www.kvaerner.com

Production: Bolt Communication AS **Photos:** StudioVest AS; Bård Gudim

Second quarter and half year results 2020

9 July 2020



KVÆRNER ASA – SECOND QUARTER AND HALF YEAR RESULTS 2020

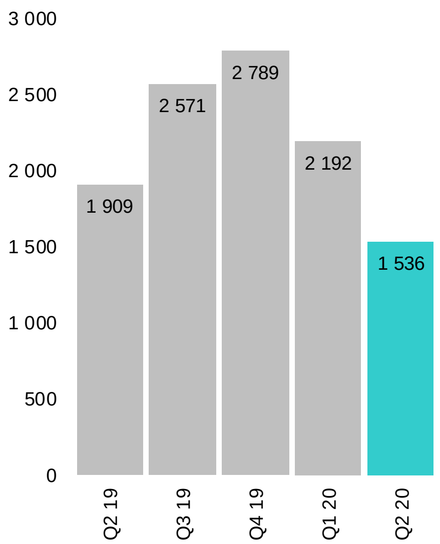
FIRST HALF YEAR HIGHLIGHTS

- **In general, high activity across the organisation prior to pandemic outbreak in 1Q**
- **Dividend proposal declined by AGM**
- **Strong focus on HSSE precautions, zero covid-19 cases in Kvaerner's production environments**
- **Re-accelerating ongoing projects from 2Q and onwards**
- **Improved outlook for full year financial results and market opportunities**
- **Strengthening position within Renewables**
  - **Strategic positioning for hydrogen**
  - **Strategic positioning for CCS and onshore process facilities**

FINANCIAL HIGHLIGHTS – FIELD DEVELOPMENT SEGMENT[1]

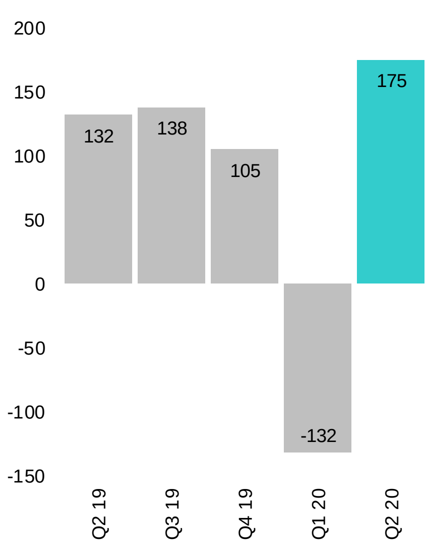
Operating revenue

NOK million



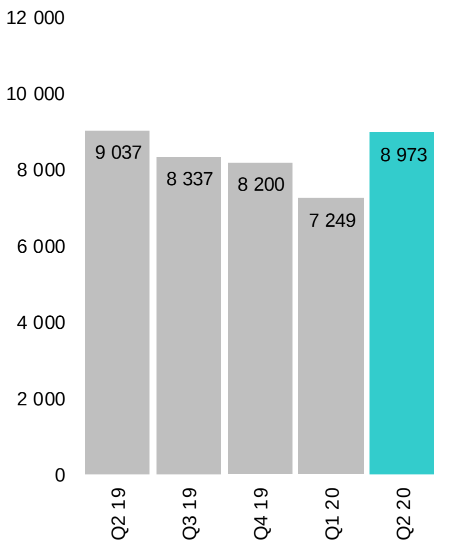
EBITDA

NOK million



Order backlog

NOK million



[1]*The main differences between the Field Development figures and group figure presented are Kvaerner's share of revenues from jointly controlled entities included in Field Development and unallocated costs deducted*

FIELD DEVELOPMENT SEGMENT[1]

FINANCIAL REVIEW

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Total revenue and other income	1 536	1 909	3 729	4 067	9 427
EBITDA [2]	175	132	43	269	512
EBITDA margin	11.4 %	6.9 %	1.2 %	6.6 %	5.4 %
Net current operating assets (NCOA)	85	(671)	85	(671)	(321)
Order intake	3 281	732	4 484	2 423	6 902
Order backlog	8 973	9 037	8 973	9 037	8 200
Employees	2 802	2 785	2 802	2 785	2 806

[1]The Field Development segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's operating activities

[2] EBITDA definition: Earnings before interest (net financial items), taxes, depreciation, amortisation and impairment

Operating revenue from the Field Development segment was NOK 1 536 million in second quarter 2020, compared to NOK 1 909 million in second quarter 2019. Due to the covid-19 precautions Kvaerner has had a reduced number of personnel working in the projects which has influenced progress and revenues in the quarter. For further details see note 2 Covid-19 impacts. EBITDA amounted to NOK 175 million, resulting in an EBITDA margin for the quarter of 11.4 percent, compared to EBITDA of NOK 132 million and 6.9 percent EBITDA margin in second quarter 2019. For the first quarter, margin recognition was temporarily reduced for some projects, and these effects have been reversed in the second quarter. YTD 2020 the EBITDA margin was 1.2 percent reflecting the covid-19 impact in the first quarter 2020.

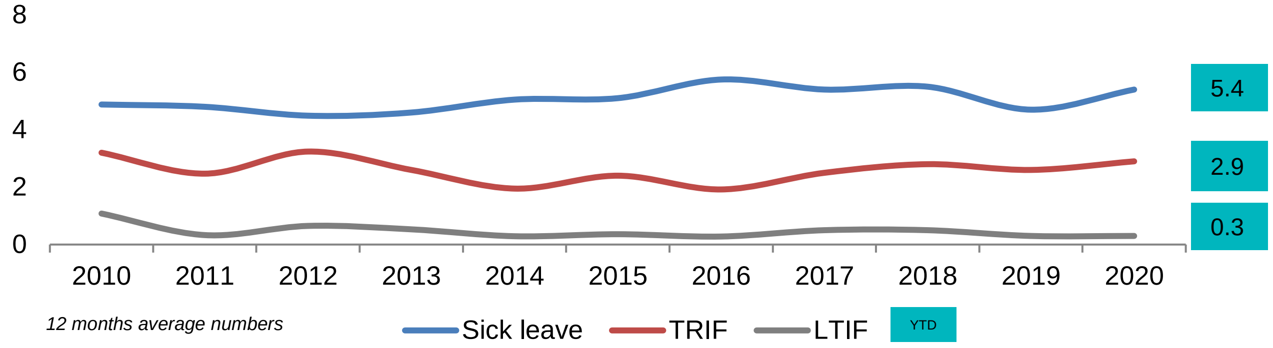
NCOA has temporarily increased during the second quarter due to cash inflow received early July. The NCOA at the end of second quarter 2020 was NOK 85 million, a deterioration of NOK 406 million year to date. The disputed Nordsee Ost project is tying up working capital until the arbitration is resolved.

Order intake and backlog

Order intake in second quarter totalled NOK 3 281 million, including Kvaerner's scope of work of jointly controlled entities, compared to NOK 732 million in the same quarter last year. Order intake includes Aker BP contract award of the Hod project, Valhall/Hod decommissioning, orders for increased scope for some projects and growth in some existing projects. As of 30 June 2020, order backlog or remaining performance obligations, including Kvaerner's scope of work of jointly controlled entities, is estimated to be NOK 8 973 million. Estimated scheduling of the order backlog is approximately 41 percent for execution in 2020, approximately 45 percent for execution in 2021 and remaining 14 percent for execution in 2022 and later.

OPERATIONAL REVIEW

Health, safety, security and environment (HSSE)



Sick leave was for the first half year 5.4 percent, versus 5.0 percent for the 12 months average numbers. This is above the company's target of 4.3 percent. The total recordable injury frequency (TRIF) and lost time injury frequency (LTIF) have seen a slight decline over the past 12 months. There were two serious incidents without harm to people in the first quarter, while there have been zero serious incidents in second quarter and the serious incident frequency (SIF) is declining over the last 12 months. The focus for the second quarter has been to implement HSSE improvement programmes and this is continuous work. With full focus on precautions against the global pandemic, Kvaerner has in the first half year had zero covid-19 cases among personnel in the production areas at the yards.

Operations

The activity level in Kvaerner was high in January and February but was significantly reduced as a consequence of the actions taken due to covid-19. We are in continuous dialogue with our customers about how we within the framework of the covid-19 precautions can keep progress in ongoing projects. The activity level has gradually increased as hired ins can return to our two yards.

At Kvaerner's Stord yard, three major projects are in the assembly and integration phase. The Njord A semisubmersible platform upgrade project is in the last phase. The Johan Sverdrup riser platform module project has received modules from subcontractors during first half of 2020, and the main focus is now assembly at Stord. In the Johan Castberg project, fabrication is currently ongoing at Stord and several other yards.

The focus in Hywind Tampen is on completion of detail design and procurement. Construction will commence early 2021.

The Johan Sverdrup P2 jacket and the modules for Johan Castberg have been the main activity at the yard in Verdal. In June 2020 Kvaerner started steel cutting at Verdal for the new Hod wellhead platform for Aker BP. Construction will continue through the autumn before assembly and delivery during the first half of 2021. The Stord demolition site has several parallel projects ongoing. Work related to the Hydro Husnes aluminium factory upgrade awarded is ongoing.

Internationally, the work for the Nord Stream 2 landfall is in the final phase. Work is ongoing at the site outside St. Petersburg and is also supported by the Kvaerner's Moscow office. In Canada, work is progressing both for the contract related to marine operations for Husky's new White Rose platform and for a platform removal contract.

Competitiveness and market

The covid-19 situation has resulted in market volatilities during the first half of 2020 including that sanctioning of several expected projects was postponed or cancelled. Equinor's Bay du Nord FPSO and Shell's Jackdaw UWHP are two examples of delayed projects which affects Kvaerner. From early summer, several customers are again considering start of new investment projects. In Norway, the government and parliament decided on temporary amendments to the petroleum tax regime as an incentive to start projects. This has a positive impact on Kvaerner's market opportunities.

The first example of project plans to be revitalised was Aker BP with their planned Hod satellite wellhead platform to the existing Valhall field on the Norwegian continental shelf. On 9 June, Kvaerner announced the start of the delivery of Hod, pending PDO approval from the Norwegian authorities. Kvaerner's scope for the Hod project has a value of approximately NOK 1 billion.

On June 12, Equinor and Aker BP announced that they plan to start the development of the NOAKA area on the Norwegian continental shelf. It is expected that this oil and gas project will include several new offshore platforms. In total, oil companies have communicated ambitions to develop more than 20 small and large projects as an effect of the Norwegian petroleum tax incentive package.

The new wet dock facility at our Stord yard is tailor made for FPSO integration work. The Johan Castberg FPSO will be the first to use the more efficient facility and we also see other upcoming opportunities.

Several customer plan to replace power generation on existing offshore platforms and onshore oil and gas plants. This will significantly reduce climate gas emissions. Kvaerner is in dialogue with customers about several such prospects.

Kvaerner is also positioning for several new prospects within renewable energy, decarbonisation and green industries. Many of the expected projects are in international markets, and customers are expected to pass key decisions during 2020 and 2021. In the offshore wind market, Kvaerner offers both fixed and floating substructures for wind turbines as well as complete converter platforms. We also see project opportunities within the carbon capture segment and for delivery of hydrogen production facilities.

GROUP

FINANCIAL REVIEW

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Total revenue and other income [1]	1 468	1 876	3 602	3 995	9 032
EBITDA	162	132	34	261	498
Adjusted EBITDA [2]	171	132	33	269	505
Adjusted EBITDA margin	11.6 %	7.0 %	0.9 %	6.7 %	5.6 %
EBIT	115	90	(62)	178	306
Net profit - continuing operations	89	71	(38)	128	244
Basic and diluted earnings per share - continuing operations	0.33	0.27	(0.14)	0.48	0.91
Order intake [3]	3 281	732	4 484	2 423	6 902
Order backlog [3]	8 973	9 037	8 973	9 037	8 200
Net current operating assets (NCOA)	147	(681)	147	(681)	(361)
Net interest bearing deposits and loans pre IFRS 16 [4]	1 774	2 734	1 774	2 734	2 344

[1] Excluding revenues for scope of work of jointly controlled entities closely related to Kvaerner's operating activities

[2] Adjusted EBITDA excludes impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities, see note 13

[3] Including Kvaerner's scope of work of jointly controlled entities closely related to Kvaerner's operating activities

[4] Net interest bearing deposits and loans pre IFRS 16 excludes the impact of IFRS 16 Leases, refer to note 13

Income statement

Operating revenues in second quarter 2020 amounted to NOK 1 468 million, compared with NOK 1 876 million for second quarter 2019. Kvaerner reported operating revenues of NOK 3 602 million for the first six months of 2020, compared with NOK 3 995 million for the same period in 2019. Due to the covid-19 precautions Kvaerner has had a reduced number of personnel working in the projects which has influenced progress and revenues in the quarter.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the quarter were NOK 162 million, compared to NOK 132 million in the same period last year. Adjusted EBITDA for the quarter were NOK 171 million, compared to NOK 132 million in the same period last year. Adjusted EBITDA for the first six months of 2020 was NOK 33 million, compared with NOK 269 million for the equivalent period in 2019.

Net financial expense for the quarter was NOK 1 million. Net financial expense for the same period in 2019 was an income of NOK 2 million. Net financial income for the first six months of 2020 was NOK 10 million, compared to an expense of NOK 11 million in 2019. The change is mainly explained by accounting effects related to embedded derivatives. Net interest income, part of net financial expense is reduced year on year due to reduced cash balances and lower interest rates.

Profit before tax for second quarter 2020 was NOK 115 million compared to NOK 92 million for the same period last year. For the first six months of 2020, loss before tax was NOK 52 million compared to a profit before tax of NOK 167 million for the same period in 2019.

Total income tax expense in the quarter was NOK 26 million compared to NOK 21 million for the same quarter previous year. First half year tax amounted to positive NOK 15 million, compared to a tax expense of NOK 39 million in 2019. The tax expense reflects an effective tax rate of 28 percent for first half year 2020 compared to 23 percent in 2019. The effective tax rate is higher than the Norwegian statutory tax rate of 22 percent due to JVs being accounted for using the equity method and deferred tax assets not recognised on losses in some jurisdictions in which the group operates.

Profit from continuing operations was NOK 89 million for the second quarter and a loss of NOK 38 million for first half year 2020, compared to a profit of NOK 71 million and NOK 128 million in equivalent periods in 2019. Basic and diluted earnings per share for continuing operations were NOK 0.33 for second quarter 2020 and negative NOK 0.14 for the first six months of 2020, compared to NOK 0.27 for second quarter 2019 and NOK 0.48 for the first six months of 2019.

Net loss from discontinued operations was NOK 5 million for second quarter 2020, compared to NOK 2 million in same period last year. First half year result from discontinued operations was a loss of NOK 2 million compared to a loss of NOK 5 million in 2019. Basic and diluted earnings per share for discontinued operations were negative NOK 0.02 for second quarter 2020 and negative NOK 0.01 for the first six months of 2020, compared to negative NOK 0.01 for second quarter 2019 and negative NOK 0.02 for the first six months of 2019.

Net profit total operations in second quarter 2020 was NOK 84 million compared to NOK 69 million in the corresponding quarter last year. Basic and diluted earnings per share for total operations for second quarter 2020 were NOK 0.31 compared to NOK 0.26 in second quarter 2019. Net loss for the first six months of 2020 was NOK 40 million compared to a net profit of NOK 123 million last year. Basic and diluted earnings per share for total operations for the first half year were negative NOK 0.15 and NOK 0.46 for 2020 and 2019 respectively.

Cash flow

Net cash outflow from operating activities was NOK 256 million in second quarter 2020 compared to cash inflow of NOK 227 million in the same period last year. Net cash outflow from operating activities in first half year 2020 was NOK 496 million, compared to cash inflow of NOK 19 million in first half of 2019.

Net cash outflow from investing activities mainly reflects capital expenditure and was in second quarter 2020 NOK 21 million compared to an outflow of NOK 101 million in the same quarter last year. Year to date cash outflow from investing activities amounted to NOK 72 million compared to NOK 171 million in 2019. Capital expenditure amounted to NOK 21 million in second quarter and NOK 52 million year to date and mainly relates to Stord yard development and digitalisation projects. The quay investment at Stord was completed in the quarter with a total cost of approximately NOK 350 million which is within the original budget. A total maintenance capex for the group of approximately NOK 30−50 million is expected annually and additional strategic and capacity investments at the yards such as equipment and digitalisation tools will result in an expected capex of around NOK 110 million for 2020.

Net cash outflow from financing activities was NOK 10 million in the quarter and NOK 19 million year to date, compared with outflows of NOK 293 million and NOK 310 million in the same periods in 2019. Outflow in 2019 was mainly related to dividend payment of NOK 268 million.

Net decrease in cash and bank deposits during the quarter amounted to NOK 286 million, resulting in cash and bank deposits at the end of the quarter of NOK 1 734 million. As of 30 June 2020, the group has not drawn on its credit facilities.

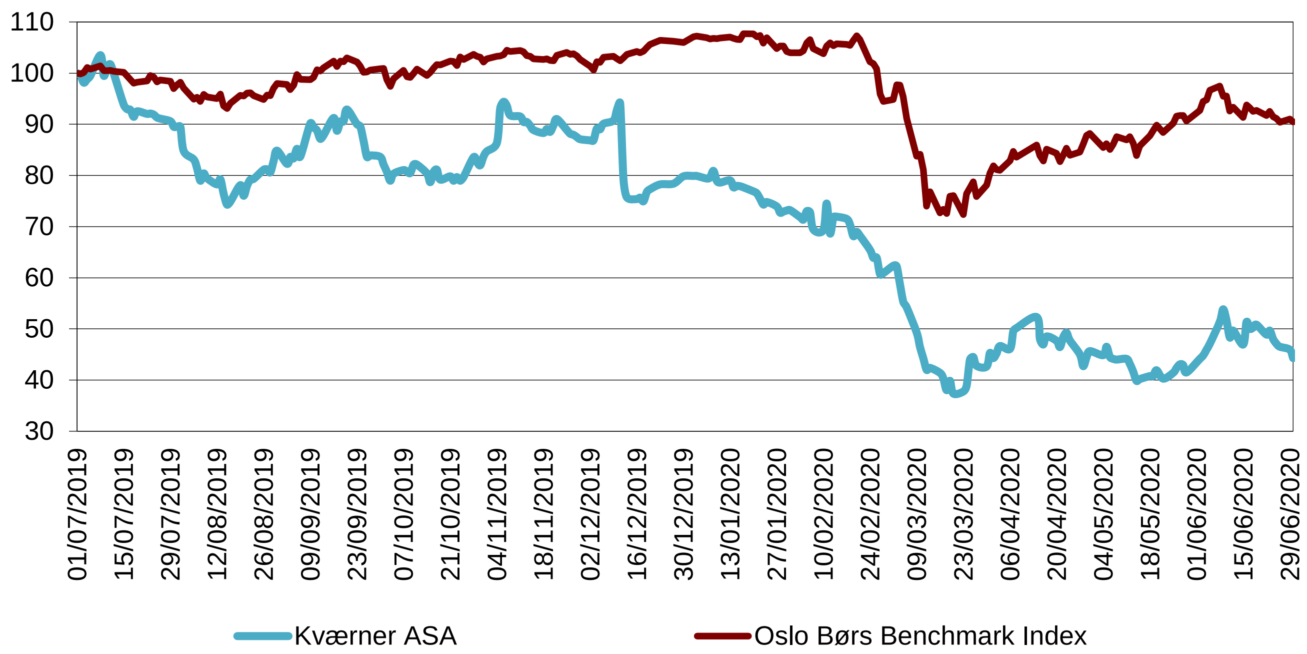
Balance sheet

Net current operating assets (NCOA) were NOK 147 million at 30 June 2020, compared to negative NOK 262 million at the end of previous quarter and negative NOK 361 million at year-end 2019. Kvaerner has previously communicated that significant fluctuations in working capital must be expected within the range of NOK nil to negative NOK 1 billion. Movements in working capital will impact cash balances and at the end of second quarter, net cash excluding NCOA was NOK 1 881 million. Equity ratio at 30 June 2020 was 58.5 percent, compared to 53.8 percent at 31 March 2020 and 53.2 percent at year-end 2019.

Transactions in treasury shares

In connection with the company's annual variable pay programme for executives, Kvaerner awarded 523 521 shares to employees in the first half year. At the end of second quarter Kvaerner owned 570 256 treasury shares, or 0.21 percent of the 269 000 000 shares issued.

The Kvaerner share - indexed share price development last 12 months



The market capitalisation was NOK 1.7 billion at the end of second quarter 2020 compared to NOK 3.7 billion at the end of second quarter 2019.

OTHER

Please refer to Note 2 Covid-19 impacts.

SUBSEQUENT EVENTS

Dividend

In order to implement precautions and minimise as much as possible any negative influence of the covid-19 situation for ongoing projects and business opportunities; a stock exchange announcement was released the

19 March where the Board of Directors in Kvaerner, in alignment with the principal shareholder Aker Kvaerner Holding and its two owners, Aker ASA and the Norwegian state, as well as in full agreement with Kvaerner's administration, requested the shareholders in Kværner ASA to not approve the previously proposed dividend NOK 0.50 per share. Based on the same principles, the Nomination Committee proposed to the General Meeting a zero increase in the compensation to the Directors of the Board. The Annual General Meeting on 24 March 2020 adopted the requests and voted against the proposed distribution of dividend.

Kværner ASA's dividend policy is based on an annual evaluation of dividend distribution. Decisions as to actual dividend payments shall depend on outlook, liquidity, and considerations such as alternative use of cash and future strengthening of the company's financial structure. The dividend payments could either be through cash dividend and/or share buyback. Extraordinary dividends may be considered if, and when the liquidity, financial strength and financial structure of the company allows. The Annual General Meeting will approve the final and total annual dividend based on a proposal from the Board.

PRINCIPAL RISKS AND UNCERTAINTIES

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. Delivering projects and equipment in accordance with contract terms and anticipated cost framework represents a substantial risk element and is the most significant factor affecting Kvaerner's financial performance. Results also depend on costs, both Kvaerner's own and those charged by suppliers, and on interest expenses, exchange rates and customers' ability to pay. For an overview of major current legal disputes, see Note 8 to the interim accounts.

Kvaerner has established guidelines and systems to manage its exposure in the financial markets. These systems cover currency, interest rate, counterparty and liquidity risks. Kvaerner works systematically with risk management in all its operations and has extensive systems and procedures in place. Other relevant risk factors are further described in the annual report for 2019.

The operational risk is the ability to deliver existing contracts at the agreed time, quality, functionality and cost. At the outbreak of the corona situation Kvaerner was exposed to a significant increase of uncertainties related to how the pandemic would impact ongoing projects and financial results as well as new market opportunities. During the second quarter Kvaerner has worked actively to reduce these uncertainties and mitigate risks. In the same period actions taken by authorities in several countries of importance to Kvaerner are also enabling increased activity, consummation of energy and borders opened for traveling. While the corona related uncertainties are still significant, Kvaerner now has a better overview of the situation and necessary mitigation.

OUTLOOK

The adjusted tax regime in Norway provides incentives to oil companies to start projects. This has a positive impact on Kvaerner's market opportunities. Simultaneously, Kvaerner is currently positioning and bidding for an even higher number of prospects within the renewables segment.

During 2020 and 2021, it is expected that several key prospects will pass important decision gates and move further towards project sanctioning and project execution. A strong competition is expected for every contract opportunity.

The market in and around Norway will continue to be important, but several key prospects are also in international regions. For 2020, the full year revenue for the Field Development segment is expected to be around NOK 7.5 billion. The corresponding underlying EBITDA margin, excluding expected covid-19 costs of about NOK 150 million for the full year, is expected to be about five percent.

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 condensed financial statements as at 30 June 2020 and for the six-month period ended 30 June 2020. The half year report has been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU and additional Norwegian regulations.

We confirm to the best of our knowledge that:

- the condensed financial statements for the six months ending 30 June 2020 have been prepared in accordance with applicable financial reporting standards
- the information provided in the financial statements gives a true and fair view of the group's assets, liabilities, financial position and result for the period
- the financial review includes a fair review of significant events during the first six months of the year and their impact on the financial statements, any major related party transactions, and a description of the principal risk and uncertainties for the remaining six months of the year

Fornebu, 8 July 2020

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

Leif-Arne Langøy Chairman	Jan Arve Haugan Director	Thorhild Widvey Director
Lone Fønss Schrøder Director	Kjell Inge Røkke Director	Rune Rafdal Director
Ståle K. Johansen. Ståle Knoff Johansen Director	Line Småge Breidablikk Director	Karl-Petter Løken President & CEO

FURTHER INFORMATION

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About Kvaerner:
Kvaerner is a project execution specialist and a trusted advisor for our customers. We provide engineering, procurement and construction (EPC) services and deliver advanced offshore and onshore installations around the world.

We have offices in seven countries and approximately 2 800 employees. Health, safety, security and environment (HSSE) has the highest priority in our work, and we aim to deliver technology and solutions in a safe and sustainable way. Our passion, experience and expertise realise values for customers and societies. Kværner ASA, through its subsidiaries and affiliates ("Kvaerner"), is an international contractor and preferred partner for operators and contractors within oil and gas, renewable energy and in the field of engineering and fabrication.

In 2019, Kvaerner's Field Development segment had consolidated annual revenues of NOK 9.4 billion and the company reported an estimated order backlog at 30 June 2020 of NOK 9 billion. Kvaerner is publicly listed with the ticker "KVAER" at the Oslo Stock Exchange. For further information, please visit www.kvaerner.com.

FINANCIAL CALENDAR 2020

Third quarter results 2020	28 October 2020

The date may be subject to change.

FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Total revenue and other income	1 468	1 876	3 602	3 995	9 032
Operating expenses	(1 306)	(1 744)	(3 568)	(3 733)	(8 534)
EBITDA	**162**	**132**	**34**	**261**	**498**
Depreciation and amortisation	(47)	(42)	(97)	(83)	(193)
Operating profit	**115**	**90**	**(62)**	**178**	**306**
Net financial income/(expense)	(1)	2	10	(11)	2
Profit/(loss) before tax	**115**	**92**	**(52)**	**167**	**307**
Income tax expense	(26)	(21)	15	(39)	(64)
Profit/(loss) from continuing operations	**89**	**71**	**(38)**	**128**	**244**
Profit/(loss) from discontinued operations	**(5)**	**(2)**	**(2)**	**(5)**	**(10)**
Net profit/(loss)	**84**	**69**	**(40)**	**123**	**233**
Attributable to:					
Equity holders of the parent company - Kværner ASA	84	69	(40)	123	233
Earnings per share (NOK)					
Basic and diluted EPS continuing operations	0.33	0.27	(0.14)	0.48	0.91
Basic and diluted EPS discontined operations	(0.02)	(0.01)	(0.01)	(0.02)	(0.04)
Basic and diluted EPS total operations	**0.31**	**0.26**	**(0.15)**	**0.46**	**0.87**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Net profit/(loss) for the period	**84**	**69**	**(40)**	**123**	**233**
Items that are or may be reclassified to profit or loss in subsequent periods:					
Cash flow hedges, net of tax					
- Fair value adjustments recognised in equity	(4)	5	0	0	0
- Reclassified to profit or loss	(1)	0	(1)	0	0
Translation differences, foreign operations	(2)	1	1	1	6
Reclassification of translation differences on discontinued operations and international branches	3	1	(2)	1	(1)
Items that are or may be reclassified to profit or loss in subsequent periods	(4)	7	(2)	2	5
Items not to be reclassified to profit or loss in subsequent periods:					
Actuarial gains/(losses) on defined benefit pension plans, net of tax	-	-	-	-	(21)
Items not to be reclassified to profit or loss in subsequent periods:	-	-	-	-	(21)
Total other comprehensive income/(loss), net of tax	**(4)**	**7**	**(2)**	**2**	**(16)**
Total comprehensive income/(loss)	**79**	**76**	**(42)**	**125**	**217**
Attributable to:					
Equity holders of the parent company - Kværner ASA	79	76	(42)	125	217

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

Amounts in NOK million	30.06.2020	30.06.2019	31.12.2019
Assets			
Non-current assets			
Property, plant and equipment	1 146	1 030	1 164
Right-of-use assets (IFRS 16)	102	237	121
Intangible assets	732	739	740
Investments in associates and jointly controlled entities	91	57	73
Interest-bearing receivables	40	20	20
Other non-current assets	8	7	8
Total non-current assets	**2 119**	**2 090**	**2 126**
Current assets			
Trade and other receivables	1 220	1 115	991
Contract assets	655	561	915
Prepaid company tax	6	-	1
Total cash and bank	1 734	2 714	2 324
Retained assets of business sold	0	0	0
Total current assets	**3 616**	**4 390**	**4 231**
Total assets	**5 735**	**6 481**	**6 357**
Equity and liabilities			
Equity			
Share capital	91	91	91
Share premium	729	729	729
Retained earnings	2 641	2 564	2 672
Other reserves	(109)	(89)	(107)
Total equity	**3 352**	**3 295**	**3 385**
Non-current liabilities			
Long term lease liabilities (IFRS 16)	69	225	87
Deferred tax liabilities	291	303	313
Employee benefit liabilities	231	224	243
Total non-current liabilities	**591**	**752**	**643**
Current liabilities			
Short term lease liabilities (IFRS 16)	36	48	36
Trade and other payables	1 286	1 801	2 013
Contract liabilities	320	414	84
Tax liabilities	1	1	1
Provisions	123	141	170
Retained liabilities of business sold	27	28	26
Total current liabilities	**1 792**	**2 433**	**2 330**
Total equity and liabilities	**5 735**	**6 481**	**6 357**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Amounts in NOK million	Total paid in capital	Retained earnings	Other reserves	Total equity
Equity as of 31 December 2018	**820**	**2 710**	**(91)**	**3 439**
Profit for the period 1 January to 30 June	-	123	-	123
Other comprehensive income	-	-	2	2
Total comprehensive income	-	123	2	125
Treasury shares	-	(1)	-	(1)
Dividend	-	(268)		(268)
Equity as of 30 June 2019	**820**	**2 564**	**(89)**	**3 295**
Profit for the period 1 July to 31 December	-	110	-	110
Other comprehensive income	-	-	(18)	(18)
Total comprehensive income	-	110	(18)	92
Treasury shares	-	(0)	-	(0)
Employee share purchase programme	-	(3)	-	(3)
Equity as of 31 December 2019	**820**	**2 672**	**(107)**	**3 385**
Profit for the period 1 January to 30 June	-	(40)	-	(40)
Other comprehensive income	-	-	(2)	(2)
Total comprehensive income	-	(40)	(2)	(42)
Treasury shares	-	9	-	9
Other	-	0	0	0
Equity as of 30 June 2020	**820**	**2 641**	**(109)**	**3 352**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Profit before tax continuing operations	115	92	(52)	167	307
Profit before tax discontinued operations	(5)	(2)	(2)	(5)	(10)
Profit/(loss) before tax total operations	**110**	**90**	**(54)**	**162**	**297**
Depreciation, amortisation and impairment	47	42	97	83	193
Taxes (paid)/refund	(12)	0	(18)	(1)	(14)
Other cash flow from operating activities	(400)	94	(520)	(225)	(574)
Cash flow from operating activities	**(256)**	**227**	**(496)**	**19**	**(98)**
Capital expenditure	(21)	(82)	(52)	(151)	(374)
Other cash flow from investing activities	-	(20)	(20)	(19)	(16)
Cash flow from investing activities	**(21)**	**(101)**	**(72)**	**(171)**	**(391)**
Interest portion on lease liabilities	(1)	(3)	(3)	(7)	(12)
Principle portion on lease liabilities	(9)	(12)	(18)	(23)	(40)
Dividends	-	(268)	0	(268)	(268)
Other cash flow from financing activities	0	(9)	0	(11)	(47)
Cash flow from financing activities	**(10)**	**(293)**	**(19)**	**(310)**	**(367)**
Translation adjustments	1	4	(3)	10	15
Net increase/(decrease) in cash and bank deposits	**(286)**	**(163)**	**(590)**	**(451)**	**(841)**
Cash at the beginning of the period	2 020	2 877	2 324	3 165	3 165
Cash at the end of the period	**1 734**	**2 714**	**1 734**	**2 714**	**2 324**

NOTES

Note 1 Reporting entity

Kværner ASA (the company) is a company domiciled in Norway. These condensed consolidated interim financial statements (“interim financial statements”) comprise the company and its subsidiaries.

Note 2 Covid-19 impacts

Immediately after the covid-19 outbreak in March several precautions were implemented to safeguard employees, suppliers and local societies against the risks of the corona virus development. A comprehensive set of actions have been implemented in line with public requirements and recommendations. All Kvaerner locations have remained in operation during the covid-19 outbreak period in the first and second quarters.

The majority of hired-in personnel working at the Stord and Verdal yards were demobilised in March, office staff were working from home and several virus precautions influenced daily work at the yards. Operations continued with reduced capacity. As a result of the covid-19 situation and market volatility, temporary lay-offs have been initiated to reduce costs. The table “Total manpower in Norway” shows how the availability and utilisation of personnel resources have developed through the pandemic period.

	Late Dec. 2019	Late Mar. 2020	Late Jun. 2020
Own employees	2 730	2 720	2 734
Hired-ins	3 630	595	896
Total manpower in Norway	**6 360**	**3 315**	**3 630**
Temporary lay-offs, own employees	-	140	277

Demobilisation of hired-in project resources at the yards had a negative cost impact as communicated in Q1 2020. During the second quarter Norwegian authorities have started to allow foreign hired-in personnel to travel to Norway. As Kvaerner’s first priority is always HSSE, a stepwise re-mobilisation of hired-ins is used to ensure control. Remobilisation of hired-in personnel started in May and will continue through the autumn. Offices are again opened for normalised operations, but some corona related precautions remain in place.

Estimated insurance recoveries were included in the covid-19 effects communicated at Q1 2020. As of Q2 2020, Kvaerner group and subsidiaries have obtained limited financial state aid in relation to covid-19. However, there is an ongoing process to review whether there are possibilities to apply for public cash relief packages.

The global covid-19 pandemic has affected the availability of personnel resources and schedule for sub-deliveries to ongoing projects. Hence, Kvaerner and our customers have agreed to adjust the execution plans for some ongoing work. For the upgrade of the Njord A platform, the platform is now scheduled for tow to the field in 2021. For the Johan Castberg FPSO, the hull will now be delivered to Kvaerner’s facility at Stord in 2021, where installation of the pre-completed topside modules will commence.

In Q1 Kvaerner communicated that the financial results were negatively influenced by costs and a provision related to corona mitigation of NOK 101 million. The Adjusted EBITDA effect for the first quarter was negative NOK 192 million which included temporary reduced margin effect for some projects.

The accumulated covid-19 effects for the first half year 2020 are estimated to NOK 107 million which includes costs incurred year to date balanced by a moderate insurance recovery and remaining provision. Temporarily reduced margin recognition for some projects have been reversed in the second quarter. There is no change to the total estimated net covid-19 costs for the full year of NOK 150 million.

Impact on outlook

The global activity level declined during the late winter and spring of 2020, and several customers around the world put expected new projects on temporary hold. From early summer, several customers are again planning investment projects. The adjusted tax regime in Norway provides incentives to oil companies to start projects. This has a positive impact on Kvaerner's market opportunities. For further details see sections Operational review, Competitiveness and market and Outlook in this Second quarter and half year 2020 report.

Impairment trigger assessment

Impairment triggers have been identified and assessed to also include the current covid-19 situation for Q2 2020. Impairment indicators include changes in market situations, changes in order backlog, changes in discount rates and other elements which might impact the assets' values. An impairment test for goodwill has been performed.

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 judgements.

Goodwill allocation by cash generating unit

Amounts in NOK million	30.06.2020	31.12.2019
Stord yard	421	421
Verdal yard	186	186
Total Kvaerner group	**607**	**607**

Q2 2020 Impairment test, key assumptions

Cash flows from projects, including assumed project awards, are allocated to CGUs Stord yard and Verdal yard based on which resources are used or normally would be used for project execution. 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 latest projections and estimated revenues and margins based on the scope of work and Kvaerner's experience and judgement from other projects
- Cash flow projections for ongoing projects are based on updated forecasts
- Explicit period for estimated cash flows are second half-year 2020 to full year 2023
- Terminal values reflecting long term, steady state revenue and margin levels are estimated based on a combination of historic levels and judgement
- An annual growth rate of one percent is used in calculating the terminal value
- 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 8.9 percent, and pre-tax discount rates are 11 percent for Stord yard and 11.2 percent for Verdal yard

For the yards Stord and Verdal CGUs recoverable amount for recognised goodwill exceeds the related carrying values, and consequently the analysis indicates that no impairment is required.

Sensitivities

The following adverse changes could occur simultaneously before any impairment is required in relation to the Stord yard CGU: revenue reduction of 15 percent, EBITDA margin reduction of one percentage point and increase in pre-tax discount rate of 0.9 percentage points.

The Verdal yard CGU is more sensitive to impairment: a simultaneous revenue reduction of five percent, EBITDA margin reduction of 0.5 percentage points and increase in pre-tax discount rate of 0.3 percentage points would result in an impairment.

Principle risks and uncertainties

Covered in section Principle risks and uncertainties in this Second quarter and half year 2020 report. There is an increased level of uncertainty around project awards due to the covid-19 situation and if project awards do not meet the current assumptions there could be an impairment of the goodwill.

Note 3 Basis of accounting

Statement of compliance

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

Accounting principles

The interim financial statements are condensed and do not include all the information required by IFRS for a complete set of financial statements and should be read in conjunction with the full year consolidated financial statements for Kværner ASA. The consolidated 2019 financial statements for Kvaerner are available at www.kvaerner.com.

The accounting polices applied in these interim financial statements are the same as those applied in the group's Annual accounts 2019.

Other

The interim financial statements have not been subject to audit. The functional currency of the entities within Kvaerner is determined based on the nature of the economic environment in which they operate. The functional currency and presentation currency of Kværner ASA is NOK. Numbers are rounded to the nearest million, unless otherwise stated. As a result of rounding differences, numbers or percentages may not add up to the total. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any subsequent interim period or annual accounts.

Note 4 Judgments, estimates and assumptions

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

In preparing these condensed consolidated interim financial statements, significant judgements made by management in applying the group's accounting policies and key sources of uncertainty in the estimates were consistent with those applied for the period ended 31 December 2019.

Note 5 Revenue and segment information

The group's operations and main revenue streams are those described in the last annual financial statements. The group's revenue is derived from contracts with customers.

Kvaerner has one reportable segment; Field Development. The segment includes the resource centres and the following operational areas: Process & Structures, FPSOs and Renewables.

The main differences between the Field Development figures and group figures presented are Kvaerner's share of revenues from jointly controlled entities included in Field Development and unallocated costs deducted.

Unallocated costs

Unallocated costs, which are net corporate costs not directly attributable to segments, amounted to NOK 15 million in second quarter 2020, same level as in first quarter 2020. It is expected that the recurring level of net corporate costs will be approximately NOK 60-70 million annually.

	Field Development		Group activities and eliminations		Consolidated	
Amounts in NOK million	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Q2 2020	Q2 2019
Construction contracts	1 243	1 489	-	-	1 243	1 489
Services revenue	92	215	(2)	9	90	225
Revenue/share of result from joint ventures	149	135	(152)	(87)	(3)	48
Other revenue	52	69	86	39	138	108
Revenue from contracts with customers	**1 536**	**1 909**	**(68)**	**(39)**	**1 468**	**1 870**
Lease revenue	-	-	-	5	-	5
Gain on sale of assets	-	0	-	-	-	0
Internal revenue	0	0	(0)	(0)	-	-
Total revenue and other income	**1 536**	**1 909**	**(68)**	**(33)**	**1 468**	**1 876**
Adjusted EBITDA [1]	**175**	**132**	**(5)**	**(0)**	**171**	**132**
EBITDA	**175**	**132**	**(13)**	**0**	**162**	**132**
Depreciation, amortisation and impairment	(37)	(30)	(9)	(12)	(47)	(42)
EBIT	**138**	**102**	**(22)**	**(12)**	**115**	**90**
Net current operating assets	85	(671)	62	(9)	147	(681)

	Field Development		Group activities and eliminations		Consolidated	
Amounts in NOK million	YTD 2020	YTD 2019	YTD 2020	YTD 2019	YTD 2020	YTD 2019
Construction contracts	3 081	3 108	-	-	3 081	3 108
Services revenue	134	494	(2)	9	132	504
Revenue/share of result from joint ventures	404	343	(387)	(251)	17	92
Other revenue	109	122	262	160	372	282
Revenue from contracts with customers	**3 728**	**4 067**	**(127)**	**(81)**	**3 602**	**3 986**
Lease revenue	-	-	-	9	-	9
Gain on sale of assets	0	0	-	-	0	0
Internal revenue	0	0	(0)	(0)	-	-
Total revenue and other income	**3 729**	**4 067**	**(127)**	**(72)**	**3 602**	**3 995**
Adjusted EBITDA [1]	**43**	**269**	**(10)**	**0**	**33**	**269**
EBITDA	**43**	**269**	**(9)**	**(7)**	**34**	**261**
Depreciation and amortisation	(78)	(59)	(19)	(24)	(97)	(83)
EBIT	**(35)**	**210**	**(28)**	**(32)**	**(62)**	**178**

Amounts in NOK million	Field Development	Group activities and eliminations	Consolidated
	FY 2019	FY 2019	FY 2019
Construction contracts	7 316	-	7 316
Services revenue	936	-	936
Revenue/share of result from joint ventures	867	(709)	158
Other revenue	293	315	608
Revenue from contracts with customers	**9 412**	**(395)**	**9 018**
Lease revenue	14	-	14
Gain on sale of assets	0	-	0
Internal revenue	0	(0)	-
Total revenue and other income	**9 427**	**(395)**	**9 032**
Adjusted EBITDA [1]	**512**	**(8)**	**505**
EBITDA	**512**	**(14)**	**498**
Depreciation and amortisation	(147)	(45)	(193)
EBIT	**365**	**(59)**	**306**
Net current operating assets	(321)	(40)	(361)

[1] *Adjusted EBITDA excludes impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities*

Note 6 Financial items

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Net interest income/(expense) pre IFRS 16	(0)	7	2	10	19
Interest expense on lease liabilities	(1)	(3)	(3)	(7)	(12)
Profit/(loss) on foreign currency contracts	1	(0)	(0)	0	0
Foreign currency embedded derivatives impact	0	0	7	(11)	(6)
Net foreign exchange gain/(loss)	(3)	(0)	2	(0)	2
Other financial items, net	3	(1)	2	(3)	(1)
Net financial income/(expense)	**(1)**	**2**	**10**	**(11)**	**2**

Result on foreign currency contracts is related to portfolio of hedging instruments not qualifying for hedge accounting.

Foreign currency embedded derivatives impact is reflecting accounting effects of multicurrency contracts, in line with requirements under IFRS.

Forward foreign currency contracts

The table below presents fair value of the group's derivative financial instruments as of 30 June 2020.

Amounts in NOK million	Assets at fair value	Liabilities at fair value	Net fair value YTD 2020
Embedded derivatives	18	(4)	14
Not hedge accounted	0	(0)	(0)
Cash flow hedges	12	(28)	(16)
Total	**30**	**(32)**	**(2)**

Note 7 Share capital and equity

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

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

Numbers in thousands	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Shares issued	269 000	269 000	269 000	269 000	269 000
Effect of own shares held	(854)	(1 066)	(974)	(1 078)	(1 174)
Average number of outstanding shares	**268 146**	**267 934**	**268 026**	**267 922**	**267 826**

Note 8 Contingent events

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

Significant, current disputes

Nordsee Ost project

In 2012, arbitration related to the Nordsee Ost project was filed. The last wind jackets for the project were delivered in October 2013. The arbitration process for the project will take time due to high complexity. It is currently difficult to estimate when the arbitration will be finalised.

There is still 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 9 Related parties

The largest shareholder of Kværner ASA, Aker Kværner Holding AS, is owned 70 percent by Aker ASA, which in turn is owned directly and indirectly 68.2 percent by The Resource Group TRG AS, a company owned by Kjell Inge Røkke. All entities owned or controlled by Aker ASA and The Resource Group TRG AS are considered related parties to Kvaerner. Non-controlling interests with significant influence are also considered as related parties.

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

Amounts in NOK million	YTD 2020	YTD 2019	FY 2019
Revenue	442	593	891
Operating expenses	(368)	(424)	(896)
Trade and other receivables	94	163	100
Trade and other payables	92	125	42

Note 10 Discontinued operations – summary of financial data

The results for the discontinued business are reported separately under the heading Result from discontinued operations in the group's income statement. Results are related to insurance recoveries and associated costs. In the balance sheet, retained assets and liabilities are presented on separate lines.

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Total revenue and other income	0	-	0	-	-
Administrative and legal expenses	(2)	(2)	(4)	(5)	(11)
EBIT	**(2)**	**(2)**	**(4)**	**(5)**	**(11)**
Net financial income/(expense)	(3)	(0)	2	(1)	0
Profit/(loss) before tax	**(5)**	**(2)**	**(2)**	**(5)**	**(10)**
Income tax income/(expense)	-	-	-	-	-
Profit/(loss) from discontinued operations	**(5)**	**(2)**	**(2)**	**(5)**	**(10)**
Basic and diluted earnings/(losses) per share (NOK)	(0.02)	(0.01)	(0.01)	(0.02)	(0.04)
Net assets	**(27)**	**(28)**	**(27)**	**(28)**	**(26)**

Cash flows from discontinued operations are as follows:

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Cash flow from operating activities	(11)	(6)	(6)	(10)	(18)
Cash transferred (to)/from parent	0	2	3	9	12
Translation adjustments	(3)	(0)	2	(0)	0
Net increase/(decrease) in cash and bank deposits	**(14)**	**(4)**	**(1)**	**(1)**	**(6)**
Cash at the beginning of the period	34	30	22	28	28
Cash at the end of the period	**21**	**26**	**21**	**26**	**22**

Note 11 IFRS 16 Leases

Kvaerner has entered into various lease contracts, mainly related to rental of buildings, land and sites for transportation, storage and decommissioning. In addition, Kvaerner is renting cranes, cars, vessels, barges and various equipment and machinery related to operations at the Stord and Verdal yards. Rent of machinery and equipment is project related and typically for a short time period to cover peaks or special lifting or other operations.

Right-of-use assets and lease liabilities

Amounts in NOK million	Land and buildings	Machinery and vehicles	Total right-of-use assets	Lease liabilities
Balance at 1 January 2020	109	11	121	123
Additions	-	1	1	1
Depreciation expense	(18)	(1)	(19)	
Installment lease payments				(18)
Balance at 30 June 2020	**91**	**11**	**102**	**106**

Lease liabilities

Amounts in NOK million	30.06.2020
Maturity analysis - contractual undiscounted cash flows	
Amount due within one year	40
Amount due between one and five years	73
Amount due later than five years	0
Total undiscounted lease liabilities	**114**
Lease liabilities included in interim condensed consolidated balance sheet	**106**
Current lease liabilities	36
Non-current lease liabilities	69

Note 12 Quarterly historical information – continuing operations

Amounts in NOK million	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Total revenue and other income	**1 468**	**2 134**	**2 588**	**2 450**	**1 876**	**2 119**
Field Development	1 536	2 192	2 789	2 571	1 909	2 158
Adjusted EBITDA	**171**	**(137)**	**100**	**135**	**132**	**137**
Field Development	175	(132)	105	138	132	137
Adjusted EBITDA margin	**11.6 %**	**-6.4 %**	**3.9 %**	**5.5 %**	**7.0 %**	**6.5 %**
Field Development	11.4 %	-6.0 %	3.8 %	5.4 %	6.9 %	6.3 %
Net profit/(loss) - continuing operations	**89**	**(127)**	**43**	**72**	**71**	**57**
Basic and diluted EPS continuing operations	**0.33**	**(0.47)**	**0.16**	**0.27**	**0.27**	**0.21**
Order intake [1]	**3 281**	**1 204**	**2 648**	**1 830**	**732**	**1 691**
Order backlog [1]	**8 973**	**7 249**	**8 200**	**8 337**	**9 037**	**10 196**
NCOA	**147**	**(262)**	**(361)**	**(414)**	**(681)**	**(649)**
Field Development	85	(248)	(321)	(362)	(671)	(724)
Net interest bearing deposits and loans pre IFRS 16	**1 774**	**2 060**	**2 344**	**2 440**	**2 734**	**2 877**
Net interest bearing deposits and loans	1 669	1 945	2 221	2 316	2 461	2 594

[1] *Including Kvaerner's scope of work of jointly controlled entities closely related to Kvaerner's operating activities.*

Note 13 Alternative performance measures

Kvaerner discloses alternative performance measures as part of its financial reporting as a supplement to the financial statements prepared in accordance with IFRS. Kvaerner believes that the alternative performance measures provide useful supplemental information to management, investors, security analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Kvaerner's business operations and to improve comparability between periods. Order intake and backlog are indicators of the company's revenues and operations in the future.

Profit measures

EBITDA is short for earnings before interest, taxes, depreciation and amortisation and is a term commonly used by analysts and investors

Adjusted EBITDA earnings before Interest, taxes, depreciation and amortisation excluding impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities

Adjusted EBITDA margin is used to compare relative profit between periods. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue

Order intake measures

Order intake represents expected revenue from contracts entered into in period or growth in existing contracts

Order backlog represents remaining expected revenue from contracts entered into as per reporting date

Financing measures

Net current operation assets (NCOA) Kvaerner's measure of net working capital, defined as trade and other receivables and contract assets less trade and other payables, contract liabilities and provisions

Net interest-bearing deposits and loans Kvaerner's measure of net interest-bearing debt, defined as interest bearing receivables and cash and bank less interest-bearing liabilities

Equity ratio is calculated as total equity divided by total assets

In the below tables it is shown how certain of the above measures are derived from the IFRS consolidated financial statements:

Amounts in NOK million	Q2 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
EBITDA	162	132	34	261	498
Adjustment for equity accounted investees [1]	8	(0)	(1)	8	6
Adjusted EBITDA	**171**	**132**	**33**	**269**	**505**

[1] *Excluding embedded derivatives' impact reported.*

Amounts in NOK million	30.06.2020	30.06.2019	31.12.2019
Trade and other receivables	1 220	1 115	991
Contract assets	655	561	915
Trade and other payables	(1 286)	(1 801)	(2 013)
Contract liabilities	(320)	(414)	(84)
Provisions	(123)	(141)	(170)
Net current operating assets (NCOA)	**147**	**(681)**	**(361)**
Total cash and bank	1 734	2 714	2 324
Interest-bearing receivables	40	20	20
Net interest bearing deposits and loans pre IFRS 16	**1 774**	**2 734**	**2 344**
Non-current lease liabilities (IFRS 16)	(69)	(225)	(87)
Current lease liabilities (IFRS 16)	(36)	(48)	(36)
Net interest bearing deposits and loans	**1 669**	**2 461**	**2 221**

Second quarter results

9 July 2020

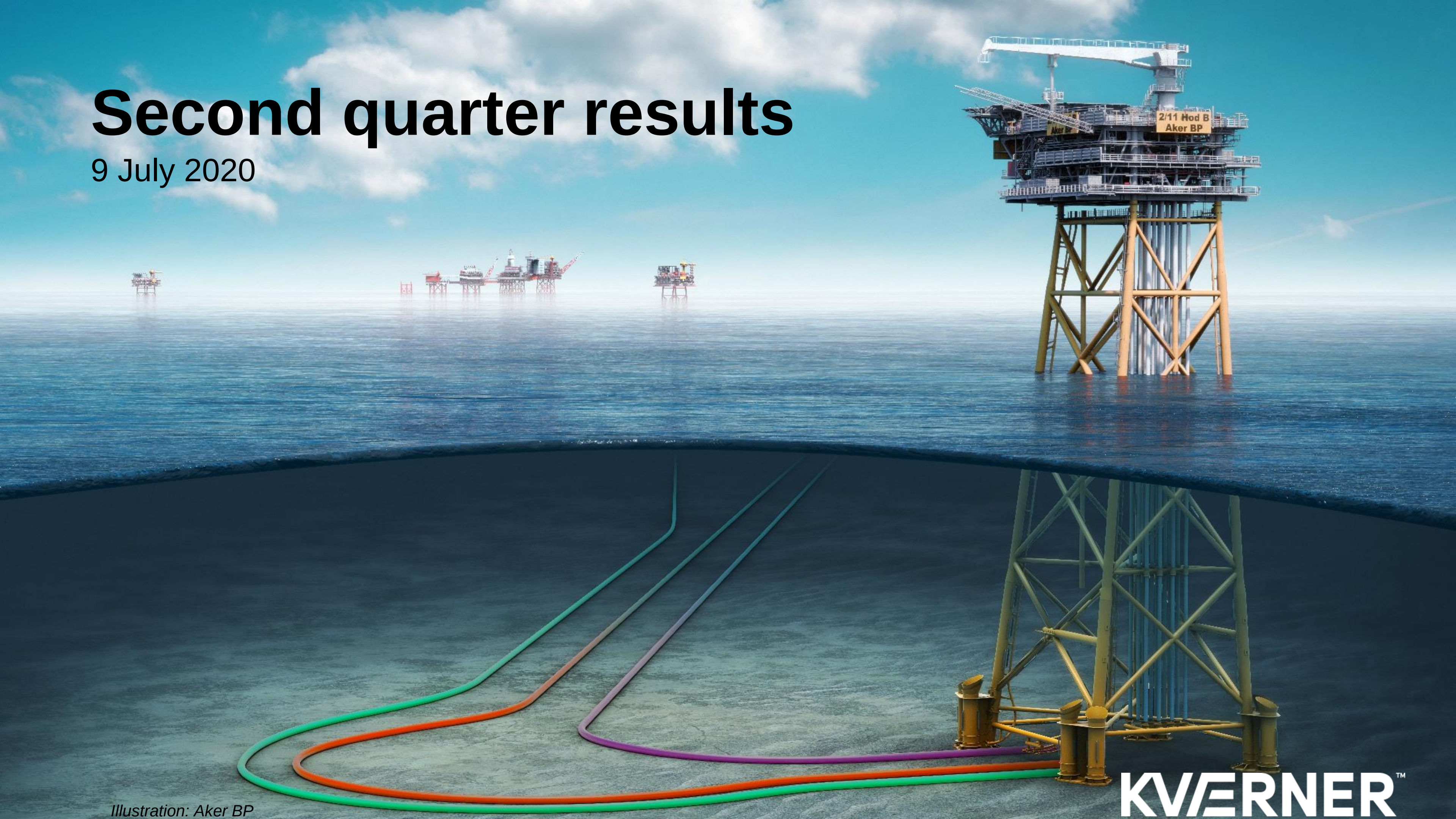

Illustration: Aker BP

Highlights, second quarter 2020

- **Gradual decline in covid-19 effects**
- **Increased forecast for 2020 revenues and profit**
- **Market with gradual growth opportunities**
  - Tax incentives for Norwegian O&G prospects
  - Drive for renewables, incl. wind power at NCS
- **Solid order intake in 2Q20**
- **Re-accelerating ongoing projects**

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HSSE more important for sustainable business than ever before

+

- High HSSE attention throughout organisation
- Joint industry campaign for safety continues
- Serious incident frequency (SIF) and Falling object frequency (FOF) within target
- Safety behaviour program ongoing
- Effective crisis management - Life and health number one priority during acute stage of covid-19
- Zero covid-19 cases in production

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- Two serious incidents
- Need to reduce minor medical treatment cases

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G

- Protect public health care capacity and local communities: Activity was reduced and resources demobilised until good control was achieved
- Support anti-virus measures in local health care with donated protection equipment and funding
- Reassure students that Kvaerner maintains apprentice opportunities also in a volatile year for all industries: Our typical level of >120 annual apprentice positions is continued for 2020 – 2021
- Drive the transition to sustainable energy: Maintain development of solutions and delivery models for renewable energy projects also through challenging period

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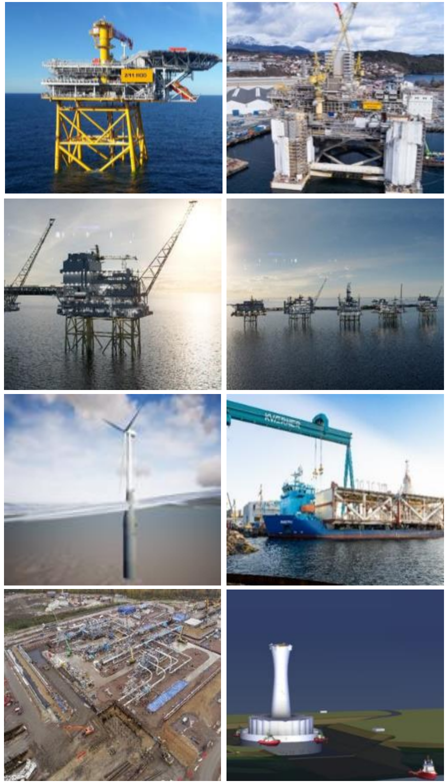
Ongoing projects

- Hod UWHP
- Johan Castberg FPSO
- Njord A upgrade
- Sverdrup P2 jacket
- Sverdrup RP module
- Hydro Husnes Aluminium
- Hywind Tampen offshore vind
- Removal of platform, Canada
- West White Rose marine ops
- Nord Stream 2 onshore facility
- Decommissioning projects

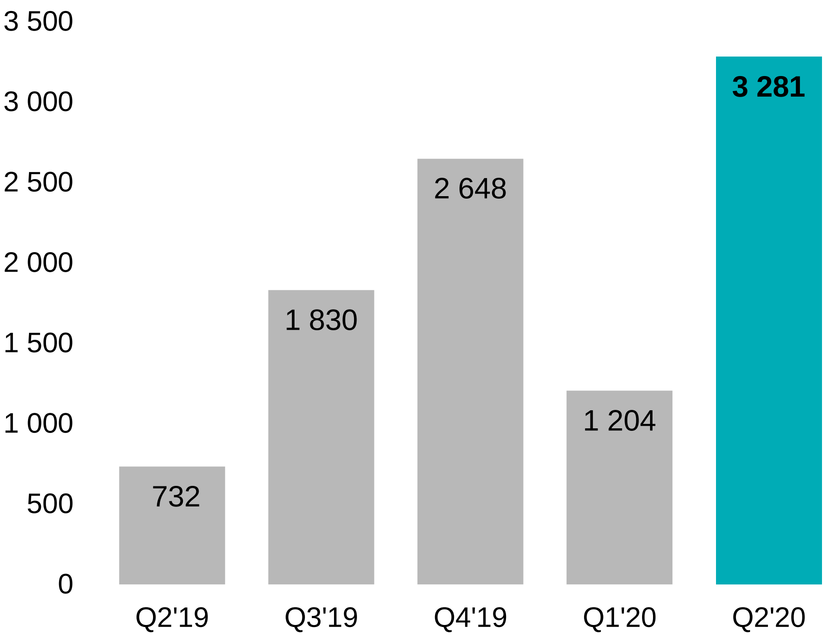


- Progress in all projects despite influence of corona situation also through 2Q 20
- Hod – scope agreed and work commenced in the same day

Order intake and backlog

Order intake

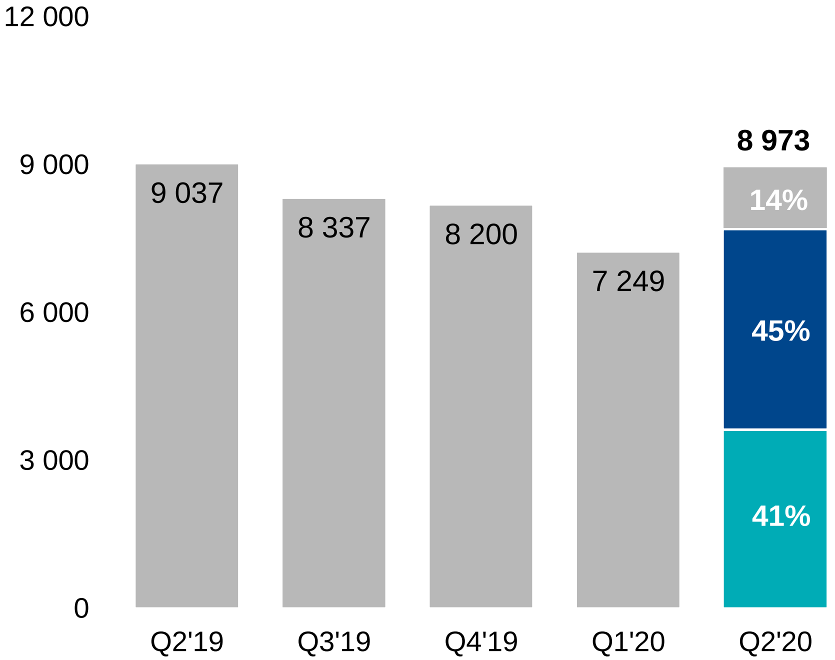
NOK million



Note: All figures include scope of work of jointly controlled entities.

Order backlog

NOK million



Estimated scheduling as of 30.06.2020:

- For execution in 2020
- For execution in 2021
- For execution in 2022+

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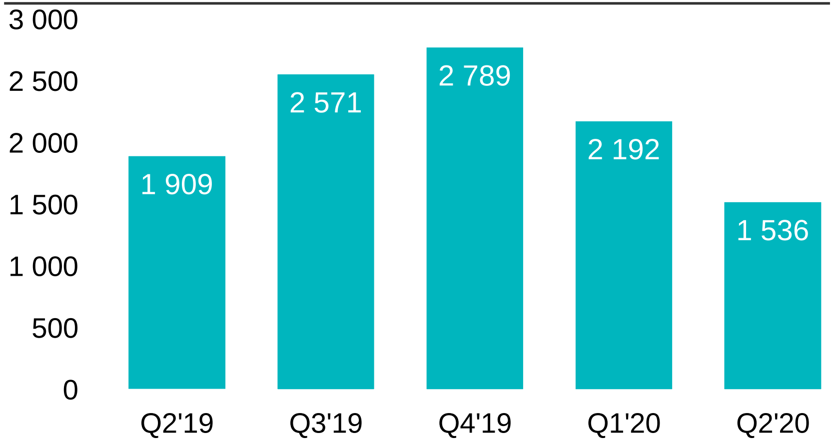
Second quarter financials

Idar Eikrem, EVP & CFO

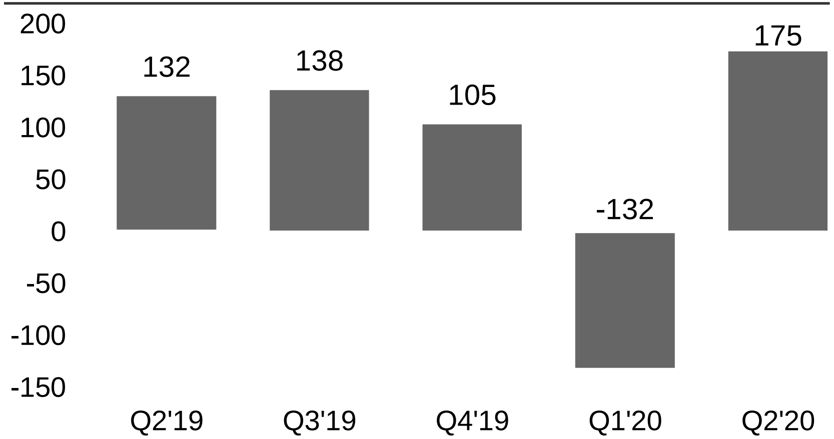
Field Development review

- EBITDA margin for second quarter 2020 was 11.4 percent

Revenues
NOK million



EBITDA
NOK million



EBITDA-%	**6.9%**	**5.4%**	**3.8%**	**-6.0%**	**11.4%**

Note: All figures include Kvaerner's scope of work of jointly controlled entities

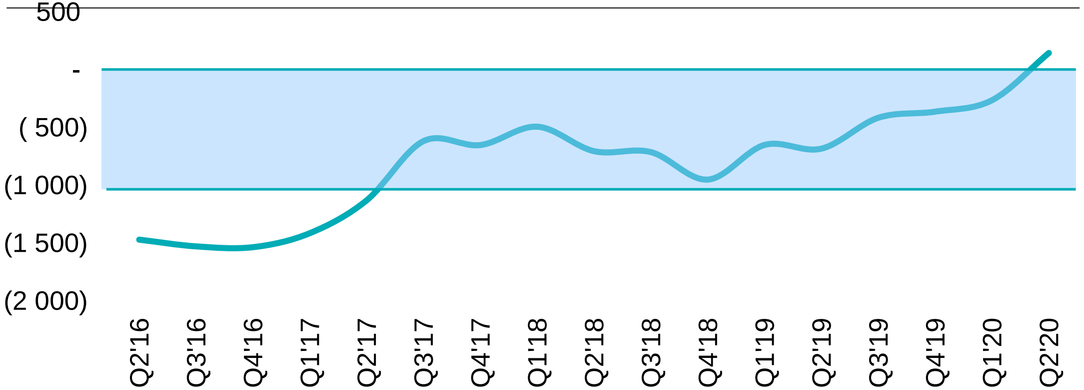
Cash flow and working capital development

CASH FLOW

Amounts in NOK million	Q2 2020	Q1 2020	Q2 2019	YTD 2020	YTD 2019	FY 2019
Cash flow from operating activities	(256)	(240)	227	(496)	19	(98)
Cash flow from investing activities	(21)	(51)	(101)	(72)	(171)	(391)
Cash flow from financing activities	(10)	(10)	(293)	(19)	(310)	(367)
Translation adjustments	1	(4)	4	(3)	10	15
Net increase/(decrease) in cash and bank deposits	**(286)**	**(304)**	**(163)**	**(590)**	**(451)**	**(841)**

- Working capital of NOK 147 million
- Temporarily increase in NCOA due to cash inflow received early July
- Fluctuations in working capital must be expected
- Capital tied up in the Nordsee Ost project

Net current operating assets (NCOA) – Continuing operations
(NOK million)



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Market opportunities and way forward

Karl-Petter Løken, President & CEO

Tax incentive package for Norwegian petroleum projects

Oil companies indicates sanctioning of +20 O&G projects before Dec 2022

Prospect	Anticipated concept	Operator
Hod redevelopment	UWHP satelite	Aker BP
Ula redevelopment	UWHP	Aker BP
Eldfisk North	UWHP or subsea satelite	ConocoPhillips
Tommeliten Alpha	UWHP or subsea satelite	ConocoPhillips
Garantiana	UWHP or subsea satelite	Equinor
NOAKA-area	4 – 5 platforms with jackets (including UWHPs) + subsea	Aker BP and Equinor
Peon	Floating UPP	Equinor
Wisting	FPSO or other platform concept	Equinor

Prospect	Anticipated concept	Operator
Electrification of Melkøya onshore gas treatment plant	Modifications to onshore facility	Equinor
Electrification of Troll and Oseberg offshore platforms	Power cable from shore	Equinor
Grevling	Modified jack-up	OKEA
Alke	Subsea satelite	Vår Energi
Breidablikk	Subsea satelite	Equinor
Grosbeak	Subsea satelite	Wellesley Petroleum
Lavrans + Kristin Q	Subsea satelite	Equinor
Kobra East Gekko	Subsea satelite	Aker BP
King Lear	Subsea satelite	Aker BP
Trine & Trell	Subsea satelite	Aker BP

Source: energi24.no

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NOAKA-area: Example of key prospects

~ NOK 50 billion estimated investments, expected to include:

- 1 large topside
- 1 medium topside
- 3 small topsides
- 5 jackets

Illustration: Aker BP

Markets

Process & Structures	FPSOs	Renewables
OIL AND GAS PLATFORM TOPSIDES; OIL AND GAS PLATFORM STEEL SUBSTRUCTURES; UNMANNED WELLHEAD PLATFORMS; CONCRETE SUBSTRUCTURES FOR OIL AND GAS PLATFORMS	FLOATING PRODUCTION STORAGE AND OFFLOADING VESSELS	OFFSHORE WIND TURBINE PLATFORMS; OFFSHORE WIND CONVERTER PLATFORMS
MARINE OPERATIONS; ONSHORE PROCESS PLANTS; UPGRADING & MODIFICATION; DECOMMISSIONING & RE-USE / RECYCLING		HYDROGEN AND BIOFUEL FACILITIES; CARBON CAPTURE FACILITIES; AQUA CULTURE

Positioning for several prospects, including within Renewables:

- Offshore wind power projects, including converter platforms
- Large aquaculture projects
- Decommissioning and re-use of old offshore installations
- Renewable prospects in pipeline with total value > NOK 25 Billion

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Summary: 2Q20 and way forward

Well positioned:

- HSSE – Best in class ambition
- Market with growth opportunities, positioning for new contracts ongoing
  - Renewable business
  - Oil & gas projects
- Hod, Tampen Hywind etc. enhance industrial execution models for future renewable contracts

Main focus 2020

- HSSE, and continue to manage covid-19 situation
- Continue to reduce costs
- Annual revenues of ~NOK 7.5 billion, with underlying EBITDA-margin ~5 percent (ex-corona costs)
- Win new contracts
- Strategic development of business

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