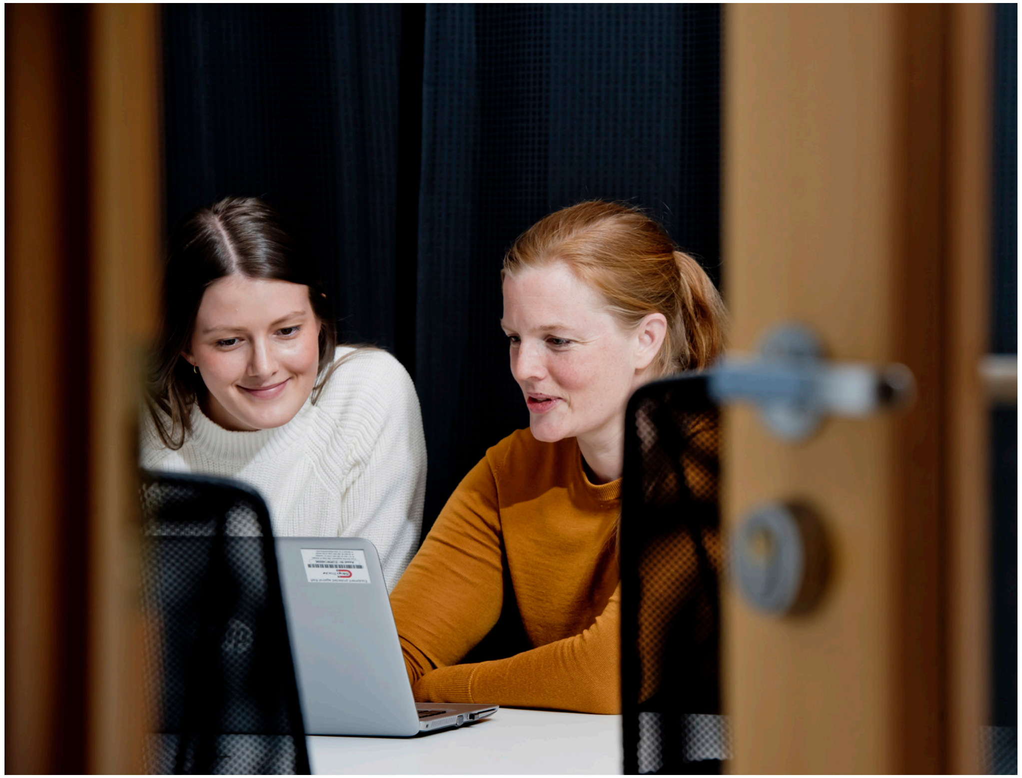
Annual Report 2018



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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]	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

2017

Amounts in NOK million	Business office	Percentage held[1]	Assets	Liabilities	Equity	Revenues	Net profit /(loss)
Kiewit-Kvaerner Contractors (KKC)[2]	New-foundland, 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	

KPMG AS
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

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

To the General Meeting of Kværner ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

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

- The financial statements of the parent company Kværner ASA (the Company), which comprise the balance sheet as at 31 December 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.

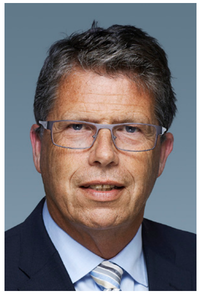
Opinion on Registration and Documentation

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

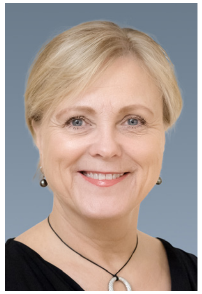
Leif-Arne Langøy (born 1956) is chairman of the board for DNV GL Group AS and Sparebanken Møre. Mr Langøy has gained senior executive experience from several companies, including as President & CEO of Aker Yards and Aker ASA. Mr Langøy has extensive experience as the chairman of non-executive boards 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.

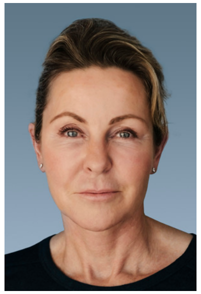
Jan Arve Haugan
Director

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

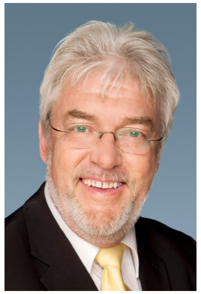
Thorhild Widvey (born 1956) was Minister of culture from 2013 to 2015 and Minster of Petroleum and Energy from 2004 to 2005. Ms Widvey was state secretary in the Norwegian Ministry of Foreign Affairs from 2003 to 2004 and in the Norwegian Ministry of Fisheries from 2002 to 2003. Prior to this she was 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

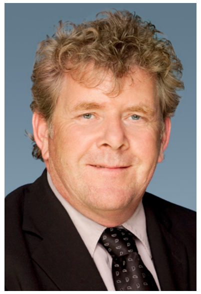
Ms Fønss Schrøder previously served as Director on the Board of Kværner ASA from 2011–2013. She has held several senior management positions in A.P. Møller-Maersk A/S, was CEO and president of Wallenius Lines AB, and has board experience from e.g Aker Solutions ASA, Akastor ASA, Volvo AB, Vattenfall 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

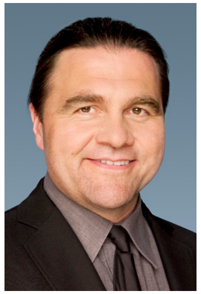
Bernt Harald Kilnes (born 1949) was elected by the employees of Kvaerner to the Board of Directors in June 2011. Mr Kilnes has been employed by Kvaerner since 1989 and is a group union representative for white-collar employees on a half-time basis and has served on the boards of Kværner ASA, Aker Kværner 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

Kværner ASA
Oksenøyveien 10,
1366 Lysaker

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

Telephone: +47 21 08 90 00

e-mail: ir@kvaerner.com
www.kvaerner.com

www.kvaerner.com

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