

## Corporate Governance Statement 2018

Kvaerner aims to ensure that the maximum possible value is created for its shareholders over time. Good corporate governance shall ensure an appropriate distribution of roles between the owners, the Board of Directors and the executive management team, and also contribute to reducing risk and ensuring sustainable value creation.

The corporate governance principles of Kvaerner are adopted by the Board of Directors of Kværner ASA (the “**Board**”). The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 (the “**Code of Practice**”), the principles set out in the Continuing Obligations of stock exchange listed companies from the Oslo Stock exchange (NO. Oslo Børs) and relevant Norwegian background law (i.e. the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act). The Code of Practice is available at [www.nues.no](http://www.nues.no) and the Continuing Obligations of stock exchange listed companies is available at <https://www.oslobors.no/>.

This statement, prepared by the Board, outlines how Kvaerner has implemented the Code of Practice and follows the same structure as the Code of Practice and covers all sections thereof. Deviations from the Code of Practice are addressed under the relevant section. The statement also outlines the company’s policies and practices for corporate governance, as per section 3–3b of the Norwegian Accounting Act.

### **Section 1: Implementation and reporting on corporate governance**

The Board is responsible for the management of Kvaerner and for safeguarding proper organisation of Kvaerner’s operations. Sound corporate governance shall ensure that appropriate goals and strategies are adopted, that the adopted strategies are implemented in practice, and that the results achieved are subject to measurement and follow-up. The principles shall also contribute to ensuring that the activities of the Kvaerner group of companies are appropriately controlled. An appropriate distribution of roles and adequate controls shall contribute to the largest possible value creation over time, for the benefit of the owners and other stakeholders.

Compliance with and implementation of sound corporate governance is regularly monitored by the Board supported by the Board’s audit committee. The Board holds exclusive authority under the company’s authorisation matrix to approve matters of significance. The Board regularly receives operational and financial reports from the President & CEO and the chief financial officer on key aspects of the business.

#### ***Policies and procedures***

Kvaerner Code of Conduct is the principal document in Kvaerner’s governing documents hierarchy, and all policies and procedures shall be consistent with the Code of Conduct. Kvaerner has a total of 21 policies which are reviewed and updated as necessary. The policies refer to specific procedures, controls and review mechanisms to ensure operations and projects are conducted in accordance with applicable internal and external regulatory framework. Within corporate responsibility the Health safety, security and environment (HSSE); Business integrity; People and quality management policies are the cornerstones.

Kvaerner encourage reporting of any breaches of law, Kvaerner’s policies and procedures or internationally recognised standards for ethical business. All report goes directly to SVP Corporate Support & General Counsel via the whistleblowing channel available at the external website [www.kvaerner.no/en/Environment--Society/whistleblowing](http://www.kvaerner.no/en/Environment--Society/whistleblowing) and through Kvaerner’s intranet. Reports are investigated with strict confidentiality in accordance with Kvaerner’s investigation procedure approved by the Board. Whistleblowing notifications can be made completely anonymously.

### **Section 2: Business**

#### ***Objectives and strategy***

The objectives of Kvaerner, defined in the Articles of Association of Kværner ASA, are “*to own or carry out industrial- and other associated businesses, management of capital and other functions for the group, and to participate in or acquire other businesses*”. The Articles of Association are available at <https://www.kvaerner.com/toolsmenu/Investors/Corporate-governance-/Articles-of-association/>.

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#### **Kværner ASA**

Visiting address: Oksenøyveien 10, 1366 Lysaker  
Postal address: PO Box 74, 1325 Lysaker  
Registered in Norway, registration no. 996 474 313 VAT

[www.kvaerner.com](http://www.kvaerner.com)

The principal strategies of the group are further presented in the Board's report on page 4 of the Annual Report for 2018. Each year, the Board evaluates the strategy, goals, guidelines and risk-profiles of Kvaerner through a designated strategy process and a strategy workshop. Information concerning the financial position and principal strategies of Kvaerner, including any changes thereto, is disclosed to the market in the context of the quarterly presentations and in designated market presentations as well as on the company's web page.

### **Basic corporate values and ethical guidelines**

Kvaerner aims at contributing to the development of society, locally, nationally or globally, creating mutually beneficial or "win-win" situations for both communities and the company's employees, shareholders and other stakeholders. Corporate responsibilities and business ethics concern the principles that guide our value creation and our daily business decisions. . As a basis for this, the Board of Kvaerner has defined a set of basic corporate values, ethical guidelines and corporate social responsibility principles available at <https://www.kvaerner.com/Environment--Society/>. The ethical guidelines and other policy documents of Kvaerner have been drafted on the basis of these basic corporate values. These policy documents express Kvaerner's position with regard to, *inter alia*, corporate responsibility, whilst at the same time providing operational guidelines that apply to individual employees enabling compliance within the various functions operated by Kvaerner. Information regarding Kvaerner's corporate social responsibility efforts is available in a separate report published on [www.kvaerner.com/csr](http://www.kvaerner.com/csr).

The Kvaerner Code of Conduct summarises the group's values and ethical standards of behaviour in all type of activities everywhere and describes what Kvaerner expect from its employees, subsidiaries, subcontractors, representatives and other partners. It covers all areas within corporate social responsibility: human rights, prevention of corruption, employee rights, health, safety, security and the working environment, discrimination and the environmental area, community-work and sponsorships. The Code of Conduct was reviewed in 2017 and the updated version was published in first quarter 2018 and is available at <https://www.kvaerner.com/Environment--Society/Kvaerner-Code-of-Conduct/>.

## **Section 3: Equity and dividends**

### **Equity**

The Board regularly monitors that the company's capital structure is at a level appropriate for its objectives, strategy and risk profile. The book equity of the group as per 31 December 2018 was NOK 3 439 million, which represents an equity ratio of 54.4 percent. The management of financial risk is further described in the annual report.

### **Dividend policy**

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

The Annual General Meeting also approves the final (and total annual) dividend based on a proposal from the Board. The Board of Directors has in accordance with the dividend policy proposed to pay a dividend of NOK 1.0 per share in April 2019.

### **Authorisations for the Board**

Proposals from the Board to perform share capital increases, share buy-backs or similar, are restricted to defined purposes, such as share- and incentive programmes for employees, transactions or deletion of shares, and shall remain in effect until the next Annual General Meeting.

In the 2018 Annual General Meeting, the Board was authorised to acquire shares in Kvæerner ASA. The purpose of such authorisation from the Annual General Meeting was to provide flexibility to the Board. The Board was authorised to acquire and pledge own shares in the company of up to 2.5 percent of the share capital of the company for use in the company's share- and incentive programmes for employees. 1 485 354 shares were acquired in 2018 for this purpose. The Board was also given an authorisation to acquire and

pledge own shares in the company of up to ten percent of the share capital for use in connection with acquisitions, mergers, de-mergers or other transactions. Finally, the Board was given an authorisation to acquire and pledge own shares in the company of up to ten percent of the share capital for the purpose of investment or for subsequent sale or deletion of such shares. No shares were acquired in 2018 under these two authorisations. There are no current provisions in the Articles of Association of the company which grants the Board the mandate to buy back or issue shares in the company.

The Board was at the 2018 Annual General Meeting authorised to approve the distribution of dividends based on the company's annual accounts for 2017. The power of attorney remains in force until the Annual General Meeting in 2019. No dividend was distributed in 2018 based on this authorisation.

#### **Share purchase programme for employees**

Kvaerner's share purchase programmes for employees were introduced and offered for the first time in 2012, then in 2013, 2015, 2017 and 2018. The Board intend to offer similar programs on an annual basis based on annual Board reviews and approvals.

In addition to the employee share purchase programme, Kvaerner offers selected executives a restricted share programme element as part of the variable pay programme. The guidelines for remuneration to the President & CEO and the executive management of Kvaerner are published in the Annual Report; in addition the statement of executive remuneration is published in connection with the Annual General Meeting.

#### **Section 4: Equal treatment of shareholders and transactions with close associates**

The company has one class of shares, and all shares carry equal rights. Existing shareholders shall have pre-emptive rights to subscribe for shares in the event of share capital increases, unless otherwise indicated by special circumstances. Should the Board propose to the Annual General Meeting that a deviation be made from the existing shareholders' pre-emption right in the event of a capital increase, such a proposal will be justified by the common interests of the company and the shareholders, and the grounds for the proposal will be presented in the notice for the Annual General Meeting. In the event of a capital increase based on an authorisation granted by the Annual General Meeting, the grounds for deviating from the pre-emption right will be set out in the stock exchange notification announcing the capital increase. Transactions in own shares are effected via Oslo Stock exchange.

In the event of any material transactions between Kvaerner and shareholders, Directors, senior executives or close associates thereof, the Board shall arrange for an independent assessment of the transaction. The same shall, generally speaking, apply to the relationship between Kvaerner and the Aker ASA group. The company will similarly arrange for a valuation by an independent third party in the event of not insignificant transactions between companies within the Kvaerner group where there are minority shareholders. Any contracts entered into in the ordinary course of the company's business with other companies in which Aker ASA holds ownership interests, will be negotiated and concluded at arm's length. Independent assessments will be conducted if the agreement is (i) not part of Kvaerner's ordinary business, and (ii) provided that the value in question is not immaterial.

#### **Principal shareholder**

Aker ASA held 70 percent of the shares of Aker Kværner Holding AS, which held 41.02 percent of the shares of Kvaerner as of 31 December 2018.

The Board is of the view that it is positive for Kvaerner that Aker ASA assumes the role of an active owner and is actively involved in matters of major importance to the group and to all shareholders. The cooperation with Aker ASA offers Kvaerner, *inter alia*, access to special know-how and resources within strategy, transactions and funding. Moreover, Aker ASA offers network and negotiation resources from which Kvaerner benefits in various contexts. This complements and strengthens Kvaerner without curtailing the autonomy of the group. It may be necessary to offer Aker ASA special access to commercial information in connection with such cooperation. Any information disclosed to Aker's representatives in such a context will be disclosed in compliance with applicable laws and regulations.

Applicable accounting standards and regulations require Aker ASA to prepare its consolidated financial statements to include accounting information of Kvaerner. In order to comply with these accounting standards, Aker ASA receives unpublished accounting information of Kvaerner. Such distribution of unpublished accounting information from Kvaerner to Aker ASA is executed under strict confidentiality and in accordance with applicable laws and regulations. All such information sharing is deemed to be justified based on such reasonable grounds as stated above, cf. the Norwegian Securities Trading Act section 5–14.

Kvaerner is not deemed, within the meaning of the Norwegian Public Limited Liability Companies Act, to be a related party (NO. *nærstående*) of Aker ASA or any company in which Aker ASA holds controlling ownership interests. The Board and executive management team of Kvaerner are nevertheless conscious that all relations with other Aker companies shall be premised on commercial terms and structured in line with the arm's length principle. Transactions are made public in accordance with the rules and regulations governing companies listed on Oslo Stock exchange. Furthermore, Kvaerner's internal "Related party guidelines" prescribe how transactions of a certain magnitude between Kvaerner and companies within the Aker ASA group shall be handled, including whether such transactions should be subject to valuation by an independent third-party.

### **Section 5: Shares and negotiability**

The shares are listed on Oslo Stock exchange and are freely transferable. No transferability restrictions are incorporated into the Articles of Association.

With respect to restrictions on owing, trading of voting for shares in the company all Directors and Kvaerner employees, as well as its advisors, shall comply with the Kvaerner policy on insider trading and applicable securities trading laws. No employees of the group or primary insiders may engage in trading in the financial instruments of the group for the purpose of taking advantage of short-time price changes in the financial instruments (day-trading or similar). The primary insiders shall not, on their own behalf or on behalf of a third party, trade in the financial instruments of the group, or incite any third party to trade in the financial instruments, without obtaining prior clearance from the Insider Trading Officer. The list of primary insiders is made public on Oslo Børs' web page [www.oslobors.no/ob\\_eng/Oslo-Boers/Trade/Market-surveillance/Primary-insider-register](http://www.oslobors.no/ob_eng/Oslo-Boers/Trade/Market-surveillance/Primary-insider-register).

### **Section 6: Annual General Meetings**

#### ***Attendance, agenda and voting***

The Board encourages shareholders to attend the Annual General Meetings. It is a priority for Kvaerner to hold the Annual General Meeting as soon as possible after year end. In 2019 the Annual General Meeting will be held 28 March. Notices convening Annual General Meetings, including comprehensive documentation pertaining to the items on the agenda, including the recommendations from the Nomination Committee, are made available on Kvaerner's website no later than 21 days prior to the Annual General Meeting. The Articles of Association of Kvaerner ASA stipulate that documents pertaining to matters to be deliberated by the general meeting shall only be made available on the company's website, and will normally not be sent physically by post to the shareholders unless required by statute. Typically matters to be decided at the Annual General Meeting follows from the articles of association and the Norwegian Public Limited Companies Act section 5–6.

The deadline for notice of participation is intended to be as close to the Annual General Meeting as possible, however, the deadline for registration may not expire earlier than five days prior to the date of the Annual General Meeting. Shareholders who are unable to attend may vote by proxy and the Board will appoint the Chairman of the Board or a person designated by him/her, to vote for shareholders as their proxy holder. Moreover, information concerning both the registration procedure and the filing of proxies is included in the notice convening the Annual General Meeting and on the registration form. The Board also aims to structure, to the extent practicable, the proxy form such as to enable the shareholders to vote on each individual item on the agenda.

**Chairman**

According to the Articles of Association of Kværner ASA the Annual General Meetings shall be chaired by the Chairman of the Board, or a person appointed by the Chairman of the Board. Pursuant to the Code of Practice, section 6, the Board should make *“arrangements to ensure an independent Chairman for the Annual General Meeting.”* The Articles of Association of Kvaerner deviate from the Code of Practice in this respect. This deviation is caused by the fact that having the Chairman of the Board, or a person appointed by him/her, chairing the Annual General Meetings, simplifies the preparations for the Annual General Meetings significantly.

**Election of Board Directors**

It is a priority for the Nomination Committee that the Board shall work in the best possible manner as a team, and that the background and competence of the Directors shall complement each other. As a consequence, the Board will propose that the shareholders are invited to vote on the full Board composition proposed by the Nomination Committee as a group, and not on each Director separately. Kvaerner deviates from the Code of Practice stipulating that one should make *“appropriate arrangements for the Annual General Meeting to vote separately on each candidate nominated for election to the company’s corporate bodies.”*

**Physical attendance, electronic voting and minutes**

Shareholders are encouraged to attend the Annual General Meeting and Kvaerner has so far not deemed it advisable to recommend the introduction of virtual attendance, i.e. arranging for Annual General Meetings to be held as physical meetings with online coverage allowing for shareholders to participate via web. It is the intention of Kvaerner that the Chairman of the Board, the President & CEO, the Chair of the Nomination Committee and Kvaerner’s auditor should attend the Annual General Meeting.

The Articles of Association of Kværner ASA allows for advance electronic voting options at Annual General Meetings. Minutes of Annual General Meetings will be published as soon as practicable on the announcement system of Oslo Stock exchange, [www.newsweb.no](http://www.newsweb.no) (ticker: KVAER), and on [www.kvaerner.com](http://www.kvaerner.com).

**Section 7: Nomination Committee**

The Articles of Association stipulate that Kvaerner 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 members of the Nomination Committee are Arild S. Frick (Chair), Georg Fredrik L. Rabl and Walter Qvam. The composition of the Nomination Committee shall reflect the interests of all shareholders. The members and the Chair of the Nomination Committee are appointed by the Annual General Meeting, which also determines the remuneration to the committee members. All of the members of the Nomination Committee are external parties, independent of the Board and executive management of the company. Kvaerner’s Annual General Meeting has adopted guidelines governing the duties of the Nomination Committee. According to these guidelines, the committee shall emphasise that candidates for the Board have the necessary experience, competence and capacity to perform their duties in a satisfactory manner. Furthermore, attention should be paid to ensuring that the Board can function effectively as a collegiate body. A reasonable representation with regard to gender and background should also be emphasised, and the Nomination Committee should present its nomination of Directors to the Board. The Nomination Committee shall justify its nominations.

The Articles of Association charge the Nomination Committee with proposing candidates for appointment as Directors and their remuneration. The Chair of the Nomination Committee has the overall responsibility for the work of the committee. In the exercise of its duties, the Nomination Committee should contact, amongst others, shareholders, the Board, the President & CEO, management and external advisors. The Nomination Committee shall also ensure that its recommendations are endorsed by the largest shareholders.

Information concerning the Nomination Committee, including guidelines and deadlines for making suggestions or proposing candidates to the Board are available on: <https://www.kvaerner.com/toolsmenu/Investors/Corporate-governance-/Board-and-nomination-committees/Nomination-committee/>.

**Section 8: Board of directors: Composition and independence**



It has been agreed with the employees that Kvaerner shall not have a corporate assembly. The Board appoints its own Chairman, pursuant to the provisions of the Norwegian Public Limited Liability Companies Act, section 6–1(2), unless the Chairman has been appointed by the Annual General Meeting. The proposal from the Nomination Committee will normally include a proposed candidate for Chairman of the Board. The Board appoints its own Deputy chairperson, but after the general meeting in 2018 the Board decided not to appoint a deputy chairperson. In accordance with the Norwegian Public Limited Liability Companies Act, the Directors are appointed for a term of up to two years at a time. The right of the employees to be represented and participate in decision making is safeguarded through employee representation on the Boards of both Kvaerner ASA and Kvaerner AS.

The Articles of Association stipulate that the Board shall comprise six to ten persons, one third of whom shall be elected by and amongst the employees of the group. In addition, up to three shareholder-appointed alternates may be appointed. The Board currently comprise eight members, five elected by the shareholders and three by and among the employees. None of the executive personnel of the company are Directors of the Board. The composition of the Board aims to enable the Board to attend to the common interests of all shareholders and to meet the company's need for expertise, capacity and diversity. Among the five shareholder elected Directors, three (Tore Torvund<sup>1</sup>, Lone Fønss Schrøder and Thorhild Widvey) are deemed independent from the company's largest indirect shareholder; Aker ASA, and also independent of the executive personnel and other material business contacts.

The reasoned proposals of the Nomination Committee for candidates to become shareholder-appointed Directors will be published on the company's website and on Oslo Stock exchange, via [www.newsweb.no](http://www.newsweb.no), prior to Annual General Meetings. The appointment of employee representatives to the Board will be conducted as prescribed by the Norwegian Public Limited Liability Companies Act and the representation regulations. The Board will appoint a designated appointment committee to support the process of appointing of such employee representatives. This committee includes representatives of the employees and of the executive management of Kvaerner.

Kvaerner encourages the Directors to own shares in the company. The shareholdings of the Directors as of 31 December 2018 are described in Note 5 – *Employee benefit expenses*, to the consolidated financial statements included in the annual report for 2018. In addition to Kjell Inge Røkke's indirect ownership of shares in the company, the Directors Jan Arve Haugan, Bernt Harald Kilnes, Rune Rafdal and Ståle Knoff Johansen are currently shareholders in Kvaerner. Leif-Arne Langøy also holds shares in Kvaerner ASA through a privately owned company.

## **Section 9: The work of the Board**

### ***Procedure***

The Board has adopted rules of procedure for the Board, which govern areas of responsibility, duties and the distribution of roles between the Board, the Chairman of the Board and the President & CEO. The rules of procedure also include provisions on convening and chairing Board meetings, on decision making, on the duty and right of the President & CEO to disclose information to the Board, on the duty of confidentiality, as well as on competence. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board is, or has been, personally involved, the Board's consideration of such matters should be chaired by the Deputy Chairman. In addition, a separate guideline for related party transactions and impartiality is integrated in the rules of procedures.

### ***Conflict of interest and impartiality***

According to the rules of procedure Directors and senior executives shall notify the Board if they have any material direct or indirect personal interest in any agreement concluded by the group. Further neither the members of the Board, the President & CEO or any other person, shall participate in the preparation, deliberation or resolution of any matters that are of such special importance to themselves, or any of their close associates, that they must be deemed to have a prominent personal or financial interest in such matters. The relevant Director(s), the President & CEO or any other person shall raise the issue of his or her competence whenever there may be cause to question it. Directors with roles in companies defined as

related parties shall also be cautious in participating in the consideration of issues where a potential conflict of interest or conflict of roles may arise, and so undermining the confidence in the decision process. Such a person may not participate in Board discussions of more than one company that is party to the same related party agreement, unless the companies have common interests.

If disqualification due to conflict of interest is concluded, the relevant Director will, as a main rule, not be granted access to any documentation prepared to the Board prior to the deliberation of the relevant matter. Kvaerner applies a strict norm as far as conflict of interest assessments are concerned. As far as the other officers and employees of Kvaerner are concerned, transactions with close associates are comprehensively addressed and regulated in the group's ethical guidelines.

### **Meetings**

The Board held nine ordinary Board meetings and two extraordinary Board meeting in 2018. The total attendance rate at Board meetings for 2018 was 89.77 percent, excluding deputy Director's attendance.

### **Matters discussed by the Board**

The President & CEO prepares matters for deliberation by the Board in consultation with the Chairman of the Board, with focus on having matters prepared and presented in such a way that the Board is provided with an adequate basis for its deliberations. The Board has overall responsibility for the management of Kvaerner and shall, through the President & CEO, ensure that its activities are organised in a sound manner. The Board shall, *inter alia*, adopt plans and budgets for the business, and keep itself informed of the financial position of, and development in, Kvaerner. This encompasses the annual planning process of Kvaerner, with the adoption of overall goals and strategic choices for the group, as well as financial plans, budgets and forecasts for the group and the various operational areas. The Board performs an annual evaluation of its work and its know-how in accordance with the rules of procedure for the Board.

The Board has established an Audit Committee and a Remuneration Committee further described below.

### **Audit Committee**

Kvaerner's Audit Committee comprises the following three Directors; Lone Fønss Schrøder (Chair), Thorhild Widvey and Rune Rafdal. The Audit Committee is independent from management. The Audit Committee held six committee meetings in 2018. The Audit Committee has adopted an annual plan for their work.

At least one of the members of the committee shall have relevant accounting or auditing qualifications. The Audit Committee has a mandate and working processes that comply with statutory requirements. The Audit Committee mandate forms an integrated part of the rules of procedures for the Board.

The Audit Committee shall perform a quality review of external financial information, including Kvaerner's half year and annual reports. It shall further oversee the work of the external auditors and review their qualifications and independence and ensure that the company has implemented policies and procedures which provide good corporate governance, effective internal controls and risk management – in particular as it relates to financial reporting. The Audit Committee shall also ensure that management has implemented procedures to handle complaints and concerns reported by employees and other stakeholders (whistle-blowers) regarding possible breaches of the company's ethical guidelines, governing policies, laws and regulations.

### **Remuneration Committee**

Kvaerner has a Remuneration Committee comprising three of the Directors. The members of the Committee are Leif-Arne Langøy (Chair), Kjell Inge Røkke and Thorhild Widvey. The Remuneration Committee is independent from the management of Kvaerner.

The Committee will prepare and recommend proposals for the Board relating to the salary and terms of the President & CEO, as well as the guidelines and principles governing the remuneration of executive personnel within the group at any given time. The Remuneration Committee will also approve, based on the recommendation of the President & CEO, the salary and terms of those who report directly to the President

& CEO. The mandate of the Remuneration Committee is further defined in a separate guideline for the Remuneration Committee, which forms an integrated part of the rules of procedures for the Board.

**Self-assessment**

The Board evaluates its performance and expertise on an annual basis.

**Section 10: Risk management and internal control**

The Board shall ensure that Kvaerner has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Internal control and the systems should also encompass the company's guidelines etc. for how it integrates considerations related to stakeholders into its creation of value.

The Audit Committee assists the Board in safeguarding that the company has internal procedures and systems that ensure good corporate governance, effective internal controls and proper risk management, particularly in relation to financial reporting.

**Risk management**

Kvaerner manages risk through an internal framework comprising guidelines, policies and procedures intended to ensure good business operations and provide unified and reliable financial reporting. Kvaerner has a separate risk management policy in place describing roles and responsibilities as well as the operating principles. Some of these are adopted already, while some are work in progress. The framework is anchored in the various group functions. The Board performs an annual risk review focusing on the company's most important areas of exposure to risk and its internal control environment.

Each group function in Kvaerner corporate management has a global responsibility for following up their respective areas of specialisation, and the frameworks associated therewith. Such responsibility includes in particular risk management and ownership to their respective policies and procedures. Individual group functions follow up on their area of responsibility through a direct dialog with the businesses, both in connection with specific projects and as part of know-how development to enhance risk management.

Kvaerner has a corporate risk committee and a corporate investment committee. The corporate risk committee is responsible for assessing risk and giving advice to the executive management team in respect of all major tenders that the group contemplates for submission. The corporate investment committee comprise selected corporate functions, such as Accounting & Tax, Legal & Compliance, Business Controlling and Treasury, and reviews all acquisitions and disposals and those investments that are required to be approved by the Board of Kværner ASA, the President & CEO or the Executive vice president & CFO pursuant to the authorisation matrix of Kvaerner. The corporate investment committee thereafter gives its joint recommendation to the President & CEO or the Executive vice president & CFO, which again, if relevant, gives their recommendations to the executive management team and/or the Board.

The overall risk management effort is primarily handled by the following staff areas (Finance, Legal & Compliance, Business Development and HSSE), in close cooperation with the operational areas (Process Solutions, Concrete & New Solutions and Structural Solutions) and resource and method area EPCI.

The project execution model (PEM™) is a key element in the operating units' operating system. The PEM™ is the methodology followed when executing projects. All risk management processes and controls shall be described according to the respective operating system of the project. In each of the project phases there are defined milestones that the project needs to pass, and between all the phases there are defined gate reviews/audits. All projects in Kvaerner have a register where identified risks and opportunities are categorised and assessed in terms of impact and probability.

In 2014, several countries, including the United States, European Union and Norway introduced restrictions on certain dealings with Russia (concerning arctic, deep water and shale oil projects) and with selected Ukrainian and Russian nationals and companies. Kvaerner is closely monitoring the list of restricted nationals and companies which is updated regularly. Kvaerner also has agreements with third parties (clients, financial services) who impose particular and additional restrictions.



It is vital for Kvaerner to be fully aware of the ultimate beneficial owners and senior managers of potential partners, clients and suppliers/subcontractors. For this purpose Kvaerner has purchased a compliance search tool (BvD Compliance catalyst) which allows for updated and verified ownership data including i.a. enforcement actions, sanction listings and adverse information. Kvaerner will also perform external integrity due diligences on a risk based basis for main partners, clients and subcontractors as appropriate.

In 2018 Kvaerner was awarded the Russian Landfall contract for Nord Stream 2. Kvaerner is closely monitoring the eventuality of international restrictions being enacted against the Nord Stream 2 project and has agreed adequate safeguards with the client to secure an orderly and transparent wind down to comply with any such restrictions if put in place.

Following the sanction relief in Iran announced in January 2016, Kvaerner initiated business development activities in Iran. These activities were fully suspended indeterminately after the US re-enactment of sanctions in May 2018.

The reporting of all operational risks and opportunities is standardised across the group and aggregated up to group level through the line organisation.

### ***Internal control***

The activities in every part of Kvaerner's businesses shall meet financial and non-financial requirements, and shall be carried out in accordance with the group's norms and values.

Each staff area and project is responsible for adherence to the internal control framework of the group and compliance with external laws and regulations at any given time.

Kvaerner's corporate internal audit function team performs audits to confirm compliance with Kvaerner's governing documentation and laws and regulations, including audits within project execution. The result of the annual risk review with the Board is the basis for the selection of the corporate internal audits. The corporate internal audits are approved on a yearly basis by the Board, after presentation for input from the executive management team and the Board's Audit Committee. The function team includes fixed members from Legal & Compliance and Finance staff areas.

In 2018 four internal audits have been conducted.

### ***The financial reporting process***

Kvaerner has a Financial reporting and Planning Policy with applicable procedures, owned by the Executive vice president & CFO, which sets out the regulations and procedures for the financial reporting. The internal control of financial reporting is a process designed under the supervision of the Executive vice president & CFO to provide reasonable assurance.

Finance staff functions are responsible for monthly financial follow-up and reporting across the group's entities. Foreign subsidiaries and joint ventures have its own finance personnel responsible for applicable reporting. This reporting is reviewed and followed up by finance staff in Norway.

The monthly financial reporting from the operating units of Kvaerner is performed through the group's reporting system, in order to ensure consistent and unified reporting throughout the organisation.

Kvaerner prepares and presents its financial statements in accordance with International financial reporting standards (IFRS), as adopted by the European Union.

### **Section 11: Remuneration of the Board of Directors**

The remuneration of the Board will reflect its responsibilities, competency and time commitment, as well as the complexity of the business. The remuneration will be proposed by the Nomination Committee, and is not performance-related or linked to options in Kvaerner. Any remuneration in addition to normal Directors' fees shall be specifically identified in the annual report and Directors resident outside Scandinavia are granted

additional compensation of NOK 12 700 per physical Board meeting. More detailed information about the proposed remuneration of the Board for 2018 is provided in Note 5 – *Employee benefit expenses*, to the consolidated financial statements for the group in the Annual Report. Neither Directors, nor companies with whom they are affiliated, shall accept specific paid duties for Kvaerner beyond their directorships, unless the Board is informed and the compensation is approved by the Board. No compensation shall be accepted from anyone other than the relevant group company in connection with such duties.

### **Section 12: Remuneration of executive personnel**

The Board has adopted guidelines for the remuneration of executive management pursuant to the provisions of Section 6–16a of the Public Limited Companies Act. The Board's statement of executive remuneration for the next financial year, containing guidelines for remuneration, will be prepared and published as a separate document together with the invitation to the Annual General Meeting to be held on 28 March 2019.

#### **General**

The executive compensation shall encourage a strong and sustainable performance culture based on the company's values in support of increasing shareholder value. The executives' total compensation consists of three main components (i) an annual base salary, (ii) standard employee benefits and (iii) participation in the company's executive variable pay programme. The company is practising standard employment contracts and standard terms and conditions in respect of notice period and severance pay for the President & CEO and the executives who are all members of the standard regional company pension and insurance plan. The executive- and senior management positions are evaluated and graded in an international compensation grading system in order to enable national and international market salary benchmarks. The compensation benchmarks are completed on annual basis and the results concerning the members of the executive management team (EMT) shall be reported to the Board's Remuneration Committee. Kvaerner aims to maintain a total compensation level which is competitive compared to the relevant market median. Severance pay, corresponding to three or six months' regular fixed salary, is applicable in case the company requests the resignation of an executive of concern for the affairs of Kvaerner or there is a mutual understanding between the company and the executive to the effect that the employment shall be terminated. Severance pay does not imply the accrual of any holiday allowance or pension entitlements.

#### **The executive variable pay programme**

Kvaerner has a deliberate policy of offering limited fixed benefits, and rather secure competitiveness by offering participation in the company's executive variable pay programme with the purpose to recognise and reward the achievement of financial- and operational results as well as personal performance maximised to 80 percent of the individual annual base salary. The earning under the programme is dependent on the annual achievement of the financial targets, the company's key performance indicators and personal performance rating. 50 percent of earned variable pay is paid-out the year following the earning, while the other 50 percent is deferred for three years and paid out together with a retention element, comprising a restricted share programme. The executive's continued employment in the company is a prerequisite for being eligible to the retention element. The maximum annual payment under the programme is limited to one annual base salary. The surplus shall be transferred and paid out the following year.

#### **Guidelines for settlement and approval of executive compensation**

The Remuneration Committee assists in the discharge of the Board's responsibilities with respect to compensation of the President & CEO and the executives. According to the Remuneration Committee's charter, the committee shall carry out annual compensation review of the President & CEO and propose changes of the compensation, if any, to the Board. Any changes are subject to final approval by the Board. The executives' wage settlement shall be recommended by the administration and be approved by the Remuneration Committee in accordance with the one-over-one principle set out in the Kvaerner people policy.

### **Section 13: Information and communications**

Kvaerner is committed to serve the financial market with precise and relevant information about the company. Kvaerner has established guidelines for the reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.

Investor relations activities aim to ensure that the information provided to the financial markets gives market participants the best possible basis to establish a precise picture of the company's financial condition and factors that may affect its future value creation. This shall take place through the correct and timely distribution of share price-sensitive information, whilst ensuring, at the same time, that Kvaerner is in compliance with applicable rules and market practices. Reference is also made to the above discussion concerning the flow of information between Kvaerner and Aker ASA in connection with their cooperation within, inter alia, strategy, transactions and funding.

All stock exchange announcements, half year reports and presentations, other public presentations and press releases are made available on the company's website [www.kvaerner.com](http://www.kvaerner.com) together with other relevant information. Stock exchange announcements are also available on [www.newsweb.no](http://www.newsweb.no). All information sent to the shareholders is posted on the company's website simultaneously. Kvaerner holds open presentations in connection with the financial reporting, and these presentations are broadcasted live via the internet. The intention is to host a capital markets day regularly, open to all interested parties. All relevant event dates are published in the financial calendar available on Kvaerner's website.

The group's investor relations function is responsible for maintaining and coordinating regular dialogue with the shareholders and other financial market stakeholders. The Board is informed about these activities on a regular basis. Furthermore, Kvaerner has prepared a designated Investor relations policy which includes guidelines for the company's contact with shareholders other than through Annual General Meetings.

#### **Section 14: Take-overs**

Aker ASA has retained the control of Aker Kværner Holding AS after the expiry of the ten years commitment period included in the 2007 shareholder agreement. The Board has not deemed it appropriate to adopt specific guidelines for takeover situations for as long as the ownership cooperation context within Aker Kværner Holding AS remains intact. This represents a deviation from the Code of Practice.

#### **Section 15: Auditors**

The auditor shall annually present its assessment of accounting risk and audit plan to the Audit Committee.

The Board has established procedures for regular contact with the external auditor through the Audit Committee. This contact includes, but is not limited to, the auditor presenting the audit plan for the coming year, contributing to meetings concerning Kvaerner's quarterly reporting and annual financial statements, presentation of audit findings, including changes in accounting principles, significant estimates and judgments reflected in the annual financial statements, any areas of disagreement with management and identified internal control process improvement opportunities, participating in an annual meeting with the Board of Directors without the President & CEO or other members of management being present and attending Annual General Meetings.

The Audit Committee oversees the work of the auditor and reviews its qualifications, performance and independence. As part of this independence oversight, the Audit Committee has implemented guidelines covering the services which may be provided by the auditor in addition to statutory audit. The Audit Committee receives an annual summary of audit and non-audit services provided globally by the auditor, which the Board presents to the Annual General Meeting for approval. Details of the external auditor's remuneration are given in Note 6 – *Other operating expenses*, in the annual report.

The external auditor has provided the Audit Committee with written confirmation of its independence.

<sup>1</sup> Tore Torvund held the position as a Director and Deputy Chairman up until the Annual General Meeting 2018, when he was replaced as Director by the new shareholder elected Director Jan Arve Haugan.