Annual report 2012

KVÆRNER™

User guide

This document is an interactive PDF (iPDF) file, a universal format adapted to both digital viewing and print-outs. It works as a regular PDF, but has interactive functions for navigation by clicking on buttons and contents.

Navigation

You can click on menus, buttons or the table of contents.
Click on the logo to go to the front cover.

- Left-hand arrow: flip one page backward (or use arrow keys or scroll wheel)
- Right-hand arrow: flip one page forward (or use arrow keys or scroll wheel)
- Previous view: back to previously viewed pages
- Next view: forward to previously viewed pages
- Find text: search for text in Adobe Reader/Acrobat
- Full screen view on/off

PDF readers

The document is designed for Adobe Reader/Acrobat 8 or later.
Some functions may not work in web browsers that support pdf plug-ins.
If you experience problems viewing in your web browser, please save/download and reopen the PDF in Adobe Reader.

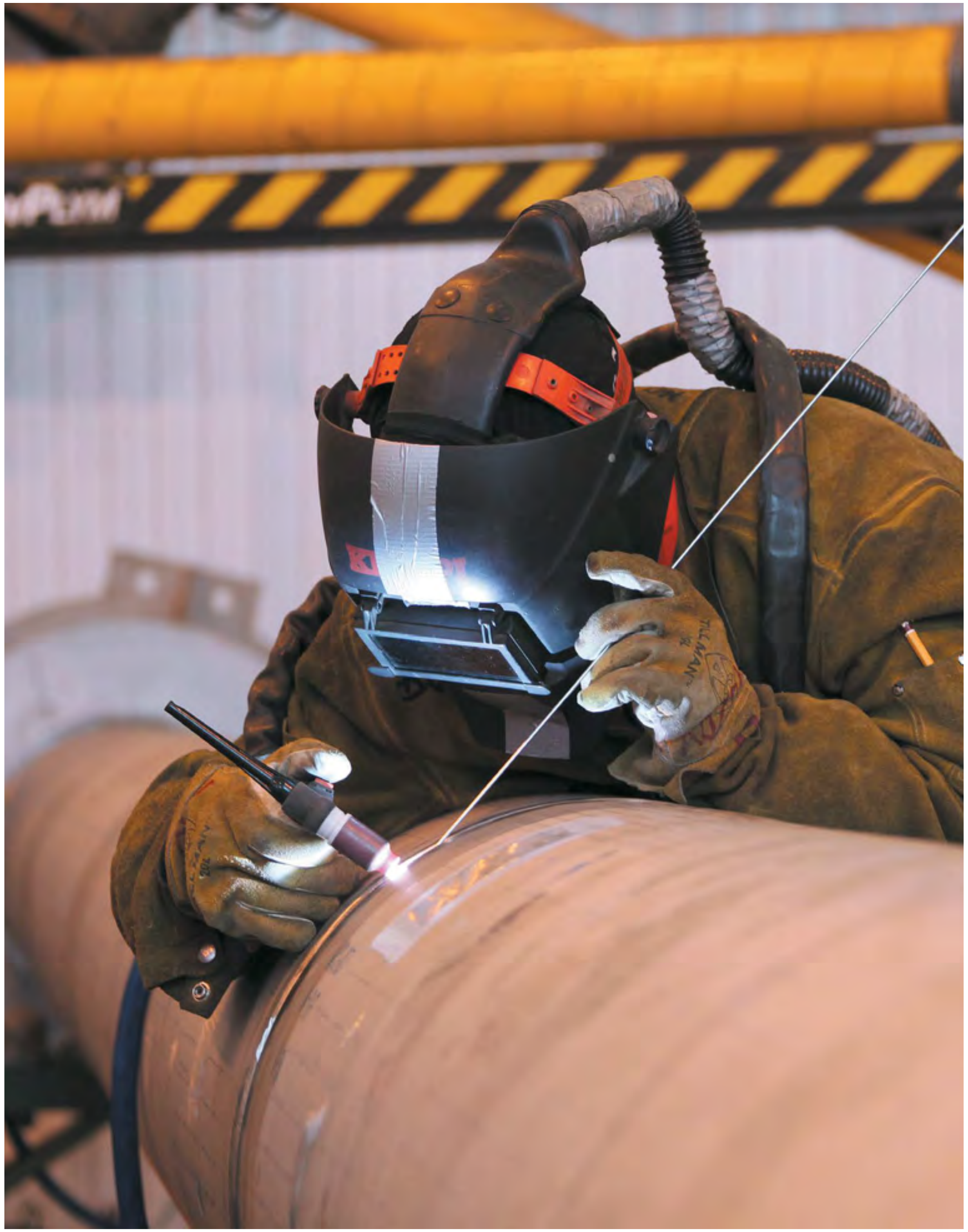
Download the free Adobe Reader here: http://get.adobe.com/uk/reader/otherversions

Print

The document is configured for printing on a horizontal A4 sheet in full size without margins.

Tablet

The document is optimised for iBooks, but the top navigation panel should function with all PDF readers for tablets supporting hyperlinks. The navigation buttons mentioned above may not be visible on your tablet, you will then have to use the tablets inherent functionality to browse through the document.



Contents

Message from the President & CEO

2012 was a year where our competitors showed their increasing appetite for our home markets, but we have proven to be competitive by winning large projects and growing our order backlog to a record level. Now, with our first full year behind us, we look forward to strong markets in all our target regions. Discoveries all over the world mean that we will have an exceptional offshore market to expand into.

Despite this, winning EPC-contracts is not easy. 2012 unleashed the full force of global competition. Our home markets were no exception, but we won the Edvard Grieg topside and jacket, the Martin Linge jacket and the Nyhamna onshore project, the latter being substantially increased early in 2013. We know we can win! Global competition will only spur us on to become even better.

In the most recent round of awards, topside EPC contracts were awarded to Asian yards and jacket contracts to European yards. Needless to say, we are not satisfied with the outcome. Substantial macroeconomic factors like over-capacity in shipbuilding and global recession play an important role. We understand the procurement strategy and the choices made by all of our customers. As international companies it is not surprising that they are sourcing globally.

Kvaerner's immediate focus is to execute our ongoing projects and further increase our competitiveness, positioning ourselves for the next round of contract awards. We aim to win new contracts from both established and new customers. This will mean reinforcing and strengthening our strong position with key customers.

From a profitability perspective, we have described 2012 as a transitional year, impacted by somewhat lower activity, limited contribution from projects awarded early in the market cycle and projects currently in the phase prior to recognition of margin. However, our financial position is solid and in August, the Board of Directors introduced a new dividend policy to increase the visibility and predictability of dividends going forward. The proposed semi-annual dividend of NOK 0.55 per share is expected to be paid in April after approval by the Annual General Meeting. This is in line with announced frequency and targeted growth.

Kvaerner has strong and competent partners, increasing our adaptability and strengthening our delivery model. But we also see an increase in competition here: to attract and retain good partnerships, order backlog and attractive projects have become increasingly important. In the first wave of Norwegian projects we submitted bids supported by our preferred supplier of engineering services, Aker Solutions. Going forward Aker Solutions continues to be our preferred partner, but other suppliers (both in engineering, procurement and construction) will become part of our procurement portfolio in a quest to continually improve our delivery model.

We are continuously driving down our costs and adopting measures to improve productivity. With the portfolio we now have, we are in a position to improve when we can, not wait until we must. We are constantly developing and refining our delivery models to achieve this objective. Lower cost engineering and fabrication flexibility are important but all elements of our cost base are under review.

We see an exciting market picture developing in the Arctic, and we are determined to work with our customers in reaching their ambitions for the region. Offshore opportunities under Arctic conditions may be the business development area with the highest potential for Kvaerner longer term. We have a strong track record there already. Most particularly, we are at the forefront of Arctic technology – with our concrete solutions. We are keenly aware of the environmental challenges associated with working in the Arctic, and we are committed to provide our customers with the safest and most sustainable solutions. Nothing less should be countenanced.

Marketing and bid activity is important. But true customer satisfaction is in the end a function of the success of our projects. This is why 2013 for us is driven by an execution agenda – making sure we do what we have told our customers we will do and what they should expect from Kvaerner.

Summing up, our priorities are the following:

1) Ensure we deliver our project portfolio on time, with good quality and to a predictable price.
2) Work structurally on our cost base to strengthen our competitive edge.
3) Systematically identify and implement measures to optimise existing capacity and capabilities.

In my message in the 2011 Annual Report I said the following: «I acknowledge that we have set bold goals for Kvaerner, and that we need a dedicated crew to accomplish these goals. I'm proud to say that I'm confident that we have the right crew and that they are with me on this expedition.»

People are and will remain our most important asset at Kvaerner. Let me repeat this statement now. Our products and services are delivered by the committed and competent men and women working for Kvaerner. Their support and dedication is what makes us successful.

Jan Arve Haugan
President & CEO

Board of Directors' report

Operational highlights

New contracts secured

- Engineering, procurement and construction (EPC) for jacket and topside, as well as hook-up and commissioning for the Edvard Grieg field, located on the Norwegian Continental Shelf (NCS)
- Detailed engineering and EPC-related services for the Hebron GBS field, located offshore Newfoundland and Labrador
- EPC and management for the Nyhamna onshore upgrade project in mid-Norway
- EPC jacket for the Martin Linge field, in the northern part of the Norwegian North Sea
- Eldfisk 2/7 S hook-up and commissioning assistance, located in the Greater Ekofisk area on the NCS
- EPC for the Calpine Garrison gas-fired power plant in Dover, Delaware, USA

Deliveries

- EPC for the Technology Centre Mongstad (TCM) in Hordaland, Norway – onshore carbon capture plant
- EPC for 31 wind jackets, including the transformer jacket, for the Nordsee Ost wind farm project in the eastern part of the German sector of the North Sea
- EPC for a jacket and bridge support for the Ekofisk 2/4 L project on the NCS
- EPC for Sakhalin-1 Arkutun Dagi gravity-based structure (GBS) outside the Sakhalin Island in Russia
- Kashagan hook-up project in Kazakhstan's zone of the Caspian Sea
- Maintenance and modifications of a seamless pipe mill in Youngstown, Ohio, USA

Business overview

Principle operations

Kvaerner is a specialised EPC company focusing on executing some of the world's most demanding projects for oil and gas operators, industrial companies and other engineering and fabrication providers.

Kvaerner is an international company headquartered in Oslo, with offices and operations in nine countries: Norway, United Kingdom, Finland, USA, Canada, Russia, Kazakhstan, Australia and China. It delivers turnkey solutions to its customers, who include some of the world's major oil and gas companies.

Kvaerner has more than 40 years of experience in executing complex field development projects. It provides a comprehensive range of technologies, solutions and products to the oil and gas industry for topsides, floating oil and gas facilities, steel and concrete substructures, and complete onshore plants to selected offshore regions globally. Within the downstream segment, Kvaerner offers a full range of construction, maintenance and renovation services to the power, steel, chemical and petro-chemical sectors in North America.

Kvaerner possesses the full value chain of EPC service offerings, providing project management, engineering, procurement and construction expertise. In addition to its own resources and two fully-owned fabrication yards in Norway, the company ensures flexibility and capacity through a wide range of partnerships and subcontractors within engineering and fabrication.

Kvaerner's business is divided into two reporting segments, Upstream and Downstream & Industrials, and five business areas; North Sea, International, Jackets, Concrete Solutions and Engineering & Construction (E&C) Americas.

Markets

The demand for EPC products and services is driven by the global demand and consumption of oil and gas for transportation, industrial activities and energy production. It is estimated that global energy demand will rise by one-third by 2035, with the majority of this increase coming from the Middle East, India and China [1]. This demand is a key driver for increased capital spending in the development of oil and gas fields.

Several new fields have been discovered, particularly in Kvaerner's home markets on the Norwegian and UK continental shelves. According to the oil and gas consultancy, firm Rystad Energy, the Norwegian Continental Shelf (NCS) was ranked first in 2011 and fourth in 2012 in terms of new discoveries of conventional hydrocarbons.

The accumulated growth in EPC spending between 2012 and 2020 is expected to be approximately USD 75 billion [1]. This represents an increase of almost 20 percent compared to the market forecast made when Kvaerner was stock listed in July 2011.

Competition in Kvaerner's home market increased in 2012 with several large EPC projects being awarded to Asian and European contractors for topsides and jackets, respectively. Kvaerner continues to pay close attention to the market signals provided both by customers and the recent contract awards to competitors. The company is responding pro-actively to the market developments and steps are being implemented to improve its competitiveness.

As one of many companies that engage contract staff, Kvaerner is involved in discussions related to Norway's implementation of the Temporary Agency Workers Directive. Kvaerner's ambition is to resolve this issue with a non-material cost impact, working closely with union representatives and the authorities.

Market developments within Kvaerner's two segments of Upstream and Downstream & Industrials are driven by different factors and the geographical focus varies for the two segments.

Mission, strategy and target regions

Kvaerner's mission is to plan and execute the world's most demanding EPC projects, with a vision to become a

1) Source: Rystad Energy, Kvaerner analysis.

top league global EPC provider. Kvaerner believes that the company is well positioned to realise this mission through its competitive strengths and a tailored strategy. Kvaerner has a long and proven track record in the EPC field and has, through numerous successful projects, demonstrated that it is able to deliver quality products on-time.

Kvaerner offers a highly specialised workforce tailored to EPC projects and is continuously refining and improving its delivery model.

Kvaerner's strategy is to maintain and develop its home market, including taking steps to quickly regain former strong positions with home market clients. Health, safety, security and environment (HSSE) is defined as a core Kvaerner value and is a prerequisite in order to compete. At the same time Kvaerner is targeting international expansion of its operations both in terms of bids and sourcing, with attention to hands-on management and strong execution capabilities as key tools to success.

The strategy for the next few years includes several specific milestones. In the first phase, Kvaerner will maintain and further develop its home markets in the North Sea region and North America. Kvaerner will optimise its business model and the organisation and secure engineering resources, procurement and regional delivery models based on market demand.

This includes activities aimed at developing yard capacity and leveraging options with regards to engineering partners, subcontractors, joint venture partners and strategic alliances to capture supplier and engineering options internationally and for home markets.

The key criteria for Kvaerner's selection of geographical target regions are factors that include: market attractiveness; risk profile; the relevance of Kvaerner's offerings; experience in the region; local presence and cooperation with local operators; access to yards and engineering resources; and the competitive landscape in the region. Based on this assessment, the international target regions selected are: Arctic Canada and USA; Arctic Russia; the Caspian Sea; and Asia-Pacific/Australia.

Upstream

The most important market for the Upstream segment has traditionally been the North Sea offshore and onshore markets. However, Kvaerner aims to expand its international operations in the Caspian, Russian, Canadian and Asia-Pacific markets. The market looks strong in the Arctic, particularly in Russia, in the Kara Sea and the area around Sakhalin Island. Exploration drilling in the Kara Sea is expected to start in 2015. In the Asia-Pacific region, a inal investment decision on the proposed Browse development, offshore Western Australia, is expected within the first half of 2013. Kvaerner may furthermore selectively target other markets to assist long term customers operating in harsh environments and deep waters.

The development of the upstream market is driven by strong underlying energy demand that requires and justifies increased capital spending on the development of oil and gas fields. The increased complexity of new field developments is another factor adding to capital spending.

According to the United States Geological Survey's (USGS) mean estimate, the Arctic region holds about 22 percent of the world's undiscovered conventional oil and natural gas resources. Concrete structures are recognised to provide numerous benefits for oil storage, such as significant local content, robustness under arctic conditions, low lifecycle cost and installations without the need for heavy lift vessels. Due to new oil and gas developments in Arctic Russia (the Kara Sea), Arctic Canada and Arctic USA (Alaska), there is medium- and long-term demand for concrete substructures. Kvaerner holds a unique position in this area with over 40 years of international concrete experience as a lead contractor in more than 20 major concrete projects worldwide. The majority of Kvaerner's business offerings, not only concrete substructures, are attractive for harsh conditions and projects requiring winterisation.

Until 2010, the mature NCS looked to be facing a decline, but new discoveries in 2011 and 2012 have triggered increased optimism regarding the discovery of new fields. Prospects from the 2011 discoveries are being developed and schedules and plans were defined during 2012. These discoveries and developments open up new opportunities for Kvaerner, and the company is positioned to take part in the development of these prospects. In addition, the development of new and major upgrades of existing onshore upstream plants looks promising for Kvaerner in the Norwegian market.

Downstream & Industrials

The downstream and industrial EPC market is a large and diversified market segment. Kvaerner's main target areas in the segment are construction, maintenance and renovation services to the power utility, steel production and environmental industries, chemical, petrochemical and large capital energy infrastructure projects. The primary market is North America. The low cost of natural gas and retirement of coal-fired plants have led to tender opportunities related to gas-fired power plants. A large number of these opportunities are in the union labour markets in which Kvaerner operates. Opportunities have also developed in relation to environmental upgrades at existing power plants. In addition, a number of major steel producers in North America will be initiating upgrades in the near future, creating openings for Kvaerner in maintenance and capital projects. Kvaerner sold its downstream focused operations and related assets of the entity known as EPC Center Houston to IHI E&C International Corp, a US subsidiary of the Japanese company IHI Corporation (IHI). EPC Center Houston's business focus was typically delivery of LNG terminals and petrochemical process facilities onshore. Houston will continue be an important hub for Kvaerner.

The Downstream & Industrials segment will continue to develop sustainable areas of business and further leverage its current strengths in EPC, general construction, maintenance and renovation expertise throughout the unionised areas of North America.

Report for 2012

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 from previous year.

Profit and loss

Consolidated operating revenues for 2012 was NOK 10 748 million, compared with NOK 13 295 million in 2011. The reduction from last year is mainly due to a significant decrease in operating revenues from the International business area that saw the completion of major projects, the sale of Kvaerner's EPC Center operations in Houston, USA within the Downstream & Industrials segment and lower activity.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to NOK 473 million, a decrease of NOK 600 million from 2011 (NOK 1 073 million). The 2012 EBITDA includes a net NOK 42 million positive effect from divestment and balance sheet adjustments of remaining balances excluded from the sale related to EPC Center Houston operations. The EBITDA margin for 2012 was 4.4 percent, compared with an EBITDA margin of 8.1 percent for 2011. The reduction in the EBITDA and margin is a consequence of project phasing in the current portfolio, with newly awarded projects yet to recognise margin and a limited contribution from projects awarded early in the market cycle.

Depreciation, impairment charges and amortisation totalled NOK 66 million, an increase of NOK 12 million from 2011 (NOK 54 million), reflecting capital investments at the Verdal yard in mid-Norway.

Consolidated earnings before interest and taxes (EBIT) were NOK 407 million (NOK 1 019 million). Net financial expenses amounted to NOK 31 million, compared to NOK 110 million in 2011. In 2011, one-off foreign exchange losses of NOK 107 million from prior periods were recognised. Net interest expense for the year was NOK 28 million (net interest income NOK 11 million). The increased net interest expense reflects the lower net cash position in the year compared to 2011.

The group aims to hedge currency risk for project exposures in accordance with well-established practices. Profit on foreign currency contracts in 2012 was NOK 4 million compared to a NOK 11 million expense in 2011.

Associated companies and joint ventures defined as financial investments reported a loss of NOK 7 million compared with a loss of NOK 6 million in 2011.

The tax expense was NOK 131 million (NOK 344 million), which corresponded to an effective tax rate of 35 percent (38 percent). Ordinarily, the income tax expense reflects the tax rate in Norway (28 percent) and the tax rate in the US (approximately 40 percent), with the effective tax rate representing the segments' relative share of profit before tax. However, both 2012 and 2011 tax charges were affected by tax losses in some jurisdictions that were not recognised as deferred tax assets, which impacted the overall tax rate. Furthermore, the effects of prior-year tax adjustments increased the effective tax rate in both years.

Consolidated net profit in 2012 was NOK 238 million, with basic and diluted earnings per share of NOK 0.89, compared to NOK 559 million and basic and diluted earnings per share of NOK 2.08 in 2011.

Cash flow

Consolidated cash flows from operating activities depend on a number of factors, including progress on and delivery of projects, changes in working capital and pre-payments from customers. Net cash outflow from operating activities was NOK 748 million in 2012 (positive NOK 1 069 million). This decrease mainly reflects the reduced profit in 2012 and increased working capital due to the phasing of projects in the Upstream segment.

Net cash outflow from investing activities in 2012 was NOK 91 million (negative NOK 231 million). The capital expenditures for 2012 amounted to NOK 217 million (NOK 163 million) and was mainly related to facility upgrades at the Stord yard and the completion of upgrades to the Verdal yard, both in Norway. These investments will substantially increase production capacity at the yards. The upgrades at the Stord yard include a new Goliath gantry crane, expected to be ready for operation at the beginning of 2014. In addition, a total maintenance capex of NOK 30-50 million is expected annually. Net cash flow from financing activities was negative NOK 481 million in 2012 (negative NOK 1 103 million), mainly reflecting dividend payments, payment of interests and purchase of own shares in the year.

Balance sheet and liquidity

The group's total assets were NOK 6 052 million on 31 December 2012 (NOK 6 823 million).

Net current operating assets (NCOA) were negative NOK 514 million at year-end, an increase of NOK 721 million from the end of 2011 (NOK 1 235 million). The group's NCOA is expected to fluctuate between negative NOK 500 million and negative NOK 1 500 million, with quarterly fluctuations. Equity as of 31 December 2012 totalled NOK 2 202 million (NOK 2 445 million). The group's equity ratio was 36.4 percent of the total balance sheet as of 31 December 2012, compared with 35.8 percent at year-end 2011. Consolidated interest-bearing debt amounted to NOK 469 million (NOK 468 million) as of 31 December 2012.

Bank facilities of NOK 3 000 million consist of a revolving credit facility of NOK 2 500 million maturing in May 2016 and a term loan of NOK 500 million maturing in May 2014. The facilities are provided by a syndicate of international banks. The term loan of NOK 500 million was fully drawn, whilst the NOK 2 500 million credit facility remained undrawn at year-end 2012. The terms and conditions include restrictions that 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 included in the agreements relating to change of control. There are no restrictions for dividend payments and both the revolving credit facility and the term loan are 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. The margin applicable to the facility is based on a price grid determined by the gearing ratio.

Consolidated non-current assets totalled NOK 2 231 million (NOK 1 954 million) as of 31 December 2012, of which goodwill amounted to NOK 1 157 million (NOK 1 182 million). Net interest-bearing cash amounted to NOK 650 million at year-end of 2012 (NOK 2 012 million). The reduction between 2011 and 2012 was due to reduced cash positions. Cash and cash equivalents was NOK 1 069 million at 31 December 2012 (NOK 2 418 million). With undrawn, committed, long-term credit facilities of NOK 2.5 billion, the Board considers consolidated capital adequacy and liquidity as good, which ensures that Kvaerner is well equipped to meet the challenges and opportunities over the coming years.

Segment reviews

For reporting purposes the business activities of Kvaerner are organised in two segments: Upstream and Downstream & Industrials.

During the year, bidding activity was high in all business areas and a number of contracts were awarded during 2012. The order backlog was NOK 21 262 million at year-end 2012 (NOK 10 046 million).

Upstream

The Upstream segment is divided into four separate business areas: North Sea, delivering topsides, floaters and onshore upstream facilities; Jackets, delivering large steel jackets for oil and gas installations and offshore wind jackets; and Concrete Solutions, delivering concrete substructures and International delivering topsides, floaters and onshore upstream facilities outside the NCS.

Operating revenues in 2012 totalled NOK 8 917 million (NOK 10 887 million). EBITDA was NOK 551 million (NOK 1 571 million), with an EBITDA margin of 6.2 percent, a reduction from 14.4 percent in 2011. The EBITDA reflects the phasing of projects and a project portfolio with a relatively wide margin range. Additionally, newly awarded projects were not yet recognising margin and, thirdly, there were limited contributions from projects awarded early in the market cycle.

The order intake for 2012 amounted to NOK 20 383 million (NOK 9 257 million) and the order backlog as of 31 December 2012 was NOK 20 226 million (NOK 8 758 million).

The North Sea business area experienced temporary lay-offs during the first half year, but as major projects entered the start-up phase they had reduced to zero by year-end. Pre-fabrication and multi-discipline fabrication of the Eldfisk topside commenced in the second quarter. The technology centre at Mongstad (TCM) was completed during the third quarter and the Eldfisk project entered the assembly phase. There was significant activity at the Mongstad Delayed Coker Revamp project and the Edvard Grieg topside progressed satisfactorily.

In the Jacket business area, activity was high during 2012. The bridge support and jacket for the Ekofisk 2/4 L project were delivered from the Verdal yard during the spring. More than half of the contracted wind jackets, including the transformer jacket for the Nordsee Ost project, were completed. The Clair Ridge project progressed according to plan, while the engineering activities for the Edvard Grieg and Martin Linge jackets progressed significantly and major subcontracts were secured. The Nordsee Ost project has commercial challenges and is proceeding with arbitration. A resolution is expected during the first half of 2013. Please see Note 28 Contingent events (page 61), for further details.

Within Concrete Solutions, a major milestone was reached with the delivery of the Sakhalin-1 Arkutun Dagi GBS for the Berkut platform. In June, the GBS was towed and successfully installed on the Arkutun Dagi field located offshore north-east of Sakhalin. Work on the Hebron GBS project progressed throughout the year, with substantial completion of front-end and design services and further work authorised for detailed engineering, procurement and construction-related services. The project is a 50/50 joint venture between Peter Kiewit Infrastructure and Kvaerner.

In the International business area, the closedown activities on the Kashagan Hook-up project were completed during the fourth quarter. The tender for the Browse project was delivered to Woodside in April and general studies were conducted on several international projects.

Downstream & Industrials

The Downstream & Industrials segment comprises E&C Americas. This business area provides a full range of construction, maintenance and renovation services to the power, steel, chemical, petrochemical and other industrial sectors in the unionised areas of North America.

Total operating revenues in 2012 were NOK 1 887 million (NOK 2 417 million). EBITDA was NOK 62 million (negative 351 million), and the EBITDA margin increased from negative 14.5 percent in 2011 to 3.3 percent in 2012. The improved EBITDA result both reflects the inclusion of net positive effect of NOK 42 million related to the divestment of EPC Center Houston operations and improved project results.

The order intake for 2012 amounted to NOK 1 744 million (NOK 1 655 million), and the order backlog as of 31 December 2012 was NOK 1 039 million (NOK 1 287 million). Operationally, the construction of a seamless pipe mill in Youngstown, Ohio, was completed and framework agreements on steel and iron maintenance services progressed as planned during the year.

The arbitration process for the Longview project is running and a resolution is expected during second half of 2014. Please see Note 28 Contingent events (page 61), for further details.

Going concern

Based on the group's financial results and position described above, the Board of Directors confirms that the annual accounts for 2012 have been prepared under the assumption that the company is a going concern.

Parent company accounts

The parent company, Kværner ASA, had a net profit of NOK 185.3 million for 2012 (NOK 66.2 million). Kværner ASA has no employees and operating expenses are mainly shareholder costs for the parent holding company. The parent company has interest income from loans to subsidiaries and its main assets are shareholdings in and loans to subsidiaries. Equity ratio was 64.9 percent at year-end 2012 (65.1 percent).

New dividend policy

In August, the Board of Directors amended the company's dividend policy in order to increase the visibility and predictability of dividends going forward. The ambition is to pay semi-annual dividends with increases, in order to give a stable and predictable dividend growth, balancing out the underlying volatility of earnings. The new policy was implemented with immediate effect and a semi-annual dividend of NOK 0.53 per share was approved by an Extraordinary General Meeting and paid in October 2012. The Board of Directors will announce the proposed semi-annual dividends in connection with the reporting of fourth quarter results and second quarter results, respectively.

Allocation of net profit

Pursuant with the company's dividend policy, the Board of Directors proposes to the Annual General Meeting that a semi-annual dividend of NOK 0.55 per share should be paid in April 2013. The Board of Directors thereby proposes the following allocation of net profit:

Proposed dividend	NOK 148 million
Transferred to other equity	NOK 37 million
Total allocated	NOK 185 million

Unrestricted equity after the proposed dividend payment amounts to NOK 2 213 million.

Events after the balance sheet date

In January 2013, the framework agreement for the Nyhamna project for A/S Norske Shell for engineering, procurement, construction and management (EPCm) for modifications and projects at the Nyhamna/Ormen Lange facilities was adjusted to include an addition of approximately NOK 5 billion. The estimated total value of the contract is NOK 11 billion.

Corporate governance and risk management

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, 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, the Board of Directors has endorsed the Norwegian Code of Practice for Corporate Governance and adopted a corporate governance statement for Kvaerner. The detailed corporate governance statement can be found on www.kvaerner.com/cg.

In general, corporate governance at Kvaerner is based on the traditional 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 main policies in accordance with Norwegian legislation and frameworks. The Code of Conduct and a set of thematic policies, with attached standards and procedures and tools, provide direction concerning acceptable operations and guides decision-making processes for all parts of the company. The Kvaerner Code of Conduct was approved by the Board of Directors early in 2012. All policies are regularly revised.

As set out in the Norwegian Public Limited Liability Companies Act, the Board of Kvaerner has appointed an Audit Committee among its Directors, comprising Lone Fønss Schrøder (Chair), Bruno Weymuller and Bernt Harald Kilnes. The Board of Directors has also appointed a Remuneration Committee, with the Directors Kjell Inge Røkke (Chairman), Tore Torvund and Vibeke Hammer Madsen as members.

Risk management

The intention of the governance framework of Kvaerner is to minimise risk through guiding behaviour and decisions in the direction that is most appropriate for the company. The executive management of Kvaerner has implemented business processes, management meetings and organisational structures to ensure that the governing framework is adhered to.

Kvaerner manages risk based on five identified main areas. These are: strategic risk; risk related to the operations and project execution, financial risk; reputational risk and risk related to mergers and acquisitions.

Strategic risk arises from pursuing the wrong markets, segments, services and products or customers and from not being able to meet the market's expectations with regards to cost and productivity. It is managed through the annual strategy process, which includes a special strategy workshop for the Board of Directors, where the Board ensures that the overall direction, markets and customers are reflected in the strategies of the company.

Financial risk includes currency, interest rates, counterparty and liquidity risk. The Corporate Treasury function is responsible for managing financial market risk and the group's exposure to financial markets. Please see Note 5 Financial risk management and exposures (page 30), for a detailed description of the group's financial risks and Note 28 Contingent events (page 61) for an overview of significant current disputes. Kvaerner has defined procedures and routines for managing the group's financial market exposure.

Reputation risk can occur in different situations and is hard to identify and assess. Kvaerner focuses on reputation risk related to challenging host countries, procedures for managing risks and policy compliance. A policy on business integrity covering human rights, corruption and improper payments and fraud was adopted in 2012. An important element of the risk assessment is related to the performance of Kvaerner's partners, suppliers and subcontractors, and the Code of Conduct includes a section on partners, suppliers and subcontractors. Furthermore, a supplier declaration was introduced in 2012 and Kvaerner has also strengthened the due diligence process of suppliers and partners related to risk and expectations, such as the UK Bribery Act. In 2013, Kvaerner will strengthen the improvement programmes, inspections and audits within the supply chain and among partners, especially with regard to labour conditions and anti-corruption.

Merger and acquisition risk can arise from decisions to invest in other companies. Typically, the risk is related to the pricing of an acquisition, buying a company that does not fit well within the existing portfolio, or a company with hidden problems. Risk in this category is managed through a special corporate investment committee.

Operations and project execution risk relates to potential incidents or challenges in a project or other business operations. Kvaerner executes large EPC projects on a global basis and faces all kinds of risks from both internal and external environments. A proactive risk management culture is therefore considered to be of the utmost importance for Kvaerner.

A risk management framework has been set up with especial focus on project execution risk. Kvaerner's framework is based on guidelines and principles from ISO 31000. The direct responsibility for risk management on projects sits with each business area, with assistance from the Project Support function.

Risk management at corporate level

Control of risk and compliance with policies represent key activities of the corporate function. The corporate functions are responsible for the development and implementation of effective quality management policies, strategies, procedures, work processes and supporting tools, in alignment with business areas and corporate plans.

Each corporate function has a global responsibility for following up policies and associated frameworks for each respective area. For a further description on the corporate functions most relevant to risk management, please refer to the corporate governance statement at www.kvaerner.com/cg.

The Audit Committee supports the Board of Directors in its execution of its responsibility for oversight of the management and safeguarding of the company's resources. In particular, this relates to ensuring that the company has internal procedures and systems that promote good corporate governance, effective internal controls and good risk management, particularly in relation to financial reporting. In 2012, Kvaerner established a Corporate Internal Audit function, reporting to the Audit Committee. The Corporate Internal Audit function will conduct audits based on risk reviews and will work closely with each business area to ensure continuous improvements.

Risk management in operating entities and projects

Each legal entity is responsible for ensuring compliance with corporate procedures and systems and with all other applicable regulations and legal requirements. This is being followed up on a business area level. Corporate staff and the business areas collaborate closely to identify, monitor, report on and manage risk for the whole group. This ensures compliance with requirements from the Board of Directors and with internal and external frameworks and regulations.

The Kvaerner 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 business unit. The process descriptions in the PEM vary with each type of business or project being performed, but the general requirements of the PEM are the same across the company. The PEM has defined phases and stages for project execution. These defined phases and stages require mandatory reviews.

In 2012, activities related to the training of project members in risk management, how to quantify risks and how to register the risks and follow-up with risk mitigating actions were given high attention.

Risks are reported by the business areas in monthly operating reviews. These reviews form the main internal management control procedures and reporting lines across Kvaerner. The business areas perform regular reviews of their projects and operations. The management team of the business area performs annual reviews of its operating systems to ensure their integrity and relevance to operations. Such reviews will also include the assessment of opportunities for improvement and the need for changes to the operating system, strategy and objectives.

The Board of Directors receives monthly reports on the company's performance and the status of its most important individual projects. Kvaerner has also established a Control Self-Assessment (CSA) procedure that is compulsory for all legal entities and business areas. Using this process, the operating units will assess the quality and relevance of the established control activities. Furthermore, each of the business areas will be required to conduct an annual evaluation of its internal financial reporting control systems.

The Corporate Risk Committee (CRC) performs tender reviews prior to submitting a tender, conducts reviews after start-up, if deemed necessary, and may initiate ad-hoc reviews based on the risk picture.

Whistleblowing procedure

Allegations of a potential violation of the Kvaerner policies can be reported confidentially or anonymously. Kvaerner assures those who submit a complaint that no adverse consequences will take place as a result of the complaint. A fair and comprehensive investigation will be conducted with relevant internal, and potentially external assistance when a whistleblowing report is received.

In 2012, Kvaerner implemented a channel for reporting concerns on its external website (www.kvaerner.com/whistleblowing). The channel was also promoted internally and during business integrity training courses. An investigation and review team has been set up to handle any complaints. In 2012, there were eight whistleblowing reports that were classified as concerns with a potentially high severity. Several improvement actions were initiated in the organisation based on the reports and Kvaerner will continue to promote the use of the whistleblowing channel in cases of concern.

Corporate social responsibility (CSR)

The Code of Conduct was approved by the Board of Directors early in 2012. The Code of Conduct summarises Kvaerner standards of behaviour in all types of activities. It covers all areas within CSR and comprises: human rights; prevention of corruption; employee rights; health and safety; working environment; discrimination and the environmental area. The Code of Conduct is available in English, Norwegian, Polish, Russian, Chinese and Kazakh languages on the external website at www.kvaerner.com/codeofconduct. It is the clear expectation of the Board of Directors that the Code of Conduct is adhered to by all Kvaerner employees.

An important part of CSR is value creation in the societies in which Kvaerner operates, and close cooperation with the labour unions is a fundamental cornerstone to achieving success in CSR work. Kvaerner contributes to local value creation by facilitating a higher degree of technical competence of both local hired employees and local contract staff.

The key policies relating to CSR are: Health, Safety, Security and Environment Policy; Business Integrity Policy; People Policy; and Representation, Partnership and Joint Venture Policy.

- **Health, Safety, Security and Environment (HSSE) Policy:** Kvaerner employees are entitled to a workplace that is safe and secure. Kvaerner has a zero-incident mindset, meaning zero personal injury and zero work-related illness. The zero incident mindset is both a goal to strive for and a way of thinking. Kvaerner continuously works to reduce the environmental footprint of its operations and products. The Kvaerner methodology for reporting environmental impact derives from the Greenhouse Gas Protocol (GHG) and Global Reporting Initiative (GRI). The Norwegian yards are certified to the ISO 14001 environmental standard. Risk assessment within HSSE shall be an integral part of all project execution activities. Environmental targets include: no environmental incidents; recycling; and segregation of waste. Energy consumption at the two yards is closely monitored and initiatives to reduce consumption are part of an overall improvement plan.

- **Business Integrity Policy:** The Kvaerner Business Integrity Policy covers three main areas: human rights, corruption and improper payments, and fraud. Kvaerner shall conduct its business in accordance with the fundamental human rights stated in the United Nations niversal Declaration of Human Rights (1948). This defines a number of fundamental principles on religious, political, cultural, economic and social rights. The policy refers to, and is in accordance with, the International Framework Agreement (IFA) that was signed by Fellesforbundet (The Norwegian United Federation of Trade Unions), IndustriALL Global Union and Aker ASA. Compliance with national, regional and international legislation and conventions is mandatory at Kvaerner, but business integrity extends beyond simple compliance. Risk assessment in terms of business integrity shall be an integral part of all activities.

- **People Policy:** This policy sets out Kvaerner's fundamental principles for ensuring its ability to attract, engage and retain a workforce with the right skills, attitudes and behaviours. The policy is based on the Code of Conduct, which is integrated with all stages of employment at Kvaerner. Risk assessment within the people domain shall be an integral part of all activities.

- **Representation, Partnership and JV Policy – Due Diligence procedure:** Before appointing a third-party representative or entering into an agreement with a partner, Kvaerner shall carry out an internal and external pre-contractual investigation, referred to as "due diligence". The purpose of the Integrity Due Diligence process is to identify, assess and mitigate integrity risks in a timely manner that arise from a potential or existing business relationship. The effort should be proportional to the inherited risk, as well as risks that are identified through the process itself.

In addition to the above policies, the Code of Conduct contains a separate section relating to Kvaerner's partners, suppliers and subcontractors, whereby they are encouraged to strive beyond legal compliance in areas such as governance, human rights, social impact and protection of the environment. Kvaerner also commits to monitoring the performance of its partners, suppliers and subcontractors and will take immediate and relevant remedial steps in cases where the ethical performance of its business partners comes into question. Kvaerner will work with partners, suppliers and subcontractors to establish and execute improvement programmes, with regular follow-up on progress.

Training within CSR

Kvaerner considers it critical to prepare employees and contractors for the tasks and situations they may meet in the workplace. For this reason, a high priority is placed on training. This emphasis on training also applies to partners, suppliers and other third-party representatives.

In 2012, Kvaerner initiated a mandatory face-to-face training course on business integrity, for employees in all operating units. By the end of 2012, 95 percent of employees had already undertaken this training, with courses adapted to the risk assessment of the roles and geographical area of the participants.

Kvaerner has mandatory, tailor-made introductory training courses within HSSE for all employees and contractors on-site. Kvaerner works with partners and suppliers to ensure that their employees also receive appropriate training in alignment with Kvaerner's standards. An important element of such training involves cultural building in which employees and contractors feel freely able to report their concerns. The threshold for what and when to report is very culturally dependent and Kvaerner is making concerted efforts to further create an open and direct culture in all operating units.

People and organisation.

Executive Management Team (EMT)

The EMT has experience with project execution both from the supplier and customer sides. The 12 EMT members have a wealth of national and international experience in both business and political circles. As well as holding senior positions in major oil and gas concerns, working on some of the largest recent field development projects around the globe, EMT members have also worked in a broad range of complementary and associated industries.

EMT changes in 2012

Liv Monica Stubholt joined Kvaerner in April 2012 as a member of the EMT as senior vice president (SVP) Strategy & Communications. In June 2012, Sverre Myklebust took up the position of executive vice president (EVP) for the Jackets business area and President of Kværner Verdal AS. Janne Harstad Rasten stepped up as acting EVP Project

Support in September, while Henrik Inadomi joined the EMT in September as SVP Legal.

For a complete presentation of the EMT, please visit www.kvaerner.com/emt.

Health, safety, security and the environment (HSSE)

Care for HSSE is a core value of Kvaerner and is expressed through its Just Care™ mindset. Kvaerner works continuously to prevent incidents that may cause harm to personnel, to material or non-material assets, and continuously seeks to improve the HSSE culture and performance.

A key element in the Just Care™ mindset is that all employees accept personal responsibility for HSSE by actively caring for themselves, co-workers and the environment. Through Just Care™, the HSSE message effectively addresses individual employees. Managers act as positive HSSE role models and have a strong commitment to communication and training. This creates attitudes that integrate HSSE focus for all employees every day.

Clear expectations

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. To measure HSSE performance at Kvaerner, 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, part of Kvaerner's HSSE operating system, has been established to control the most safety-critical activities in the group's 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.

Training and information to achieve a common HSSE culture

Competence has a central place in Kvaerner's HSSE programme. All personnel must be competent, having the necessary knowledge, skill and behaviour to perform their work safely.

To reach out to all employees in an efficient manner, Kvaerner uses dedicated training programmes at business area and project levels, as well as eLearning programmes for key areas within HSSE. Training packages at project level are tailored to individuals, both in terms of content and language. Line managers are trained to be role models and to drive HSSE improvements through specific safety academy programmes. During 2012, 1.1 percent of total worked hours were invested in HSSE training.

Sharing of best practice and learning from incidents

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

Achievements – safety performance

During 2012, Kvaerner continuously improved its safety performance, a direct result of efforts to implement further safety systems. At year-end, a lost time incident frequency (LTIF) of 0.61 and a total recordable incident frequency (TRIF) of 3.22 were recorded. These figures also include Kvaerner's subcontractors and are calculated per million man-hours worked. For the upsteram-related part of the business, excluding our construction activities in USA, the corresponding numbers were 0.49 (LTIF) and 2.74 (TRIF), respectively. Hand, fingers and foot injuries dominated, accounting for 29 of the total of 42 injuries.

Kvaerner has numerous examples of projects and units with long periods without any serious incidents or personal injury. This indicates that a zero incident target is achievable. The Sakhalin-1 GBS project was successfully completed with an excellent safety performance. An active and hands on leadership style helped to create an outstanding safety culture amongst the workforce where close to 22 000 people received training on HSSE.

The project was awarded ExxonMobil's Contractor of the Year award for excellence in safety.

In 2012, 15 serious incidents or serious near misses were identified and thoroughly investigated. The majority of these incidents were as a result of working at height and lifting operations. The most serious incident occurred in conjunction with a lifting operation at the Verdal yard in February 2012, where three people were seriously injured. The physical recovery of all three is progressing well, and two of them are already back at work.

Occupational health

The company's sponsorship of and participation in the Aker Active programme are examples of health initiatives in 2012 that had a focus on physical exercise and nutrition.

Total sick leave for Kvaerner in 2012 was 197 496 sick leave hours for own employees, which constitutes 4.48 percent of total working hours. The Kvaerner companies in Norway are signed up to the More Inclusive Working Life (IA) Agreement. The IA Agreement is an instrument aimed at reducing sick leave and increase the focus on job presence.

Environment

Kvaerner is a supplier to the oil and gas industry, with limited exposure to the environment. However, Kvaerner continuously works to reduce its environmental footprint.

Total energy consumption by the business in 2012, based on recorded use of oil, gas and electricity, amounted to 81 600 megawatt-hours. Carbon emissions relating to this use are estimated at 8 700 tonnes. The methodology used derives from the Greenhouse Gas Protocol (GHG), and Global Reporting Initiative (GRI). Waste recorded in connection with the business totalled 4 400 tonnes, of which 80 percent was recycled. The main energy consumption, carbon emissions and waste disposal are in relation to with activities at the yards. The two Norwegian yards are certified according to the ISO 14001 environmental standard.

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

Proactive HSSE focus activities

To further establish its proactive approach to HSSE, Kvaerner uses a number of leading key performance indicators to monitor and further encourage HSSE performance. The benefits of using the leading indicators can be seen in further improvements in the lagging indicators. The use of leading indicators provides an accurate and continuous picture of the status of the control measures needed to prevent major incidents. Carefully selected indicators assist Kvaerner in detecting any possible decline in the quality of control measures, and thereby provide sufficient time to remedy the situation. Kvaerner has chosen to focus on inspections, task-risk analyses and risk observations as leading indicators, all of which showed a positive development throughout 2012.

Security

Due to the global nature of Kvaerner's operations, the company is exposed to changes in the global risk situation. Its projects operate in a wide range of areas, which means that potential security threats may arise. To counter possible risk situations, Kvaerner is linked to International SOS, which provides a global tool for risk assessment and risk control. All employees can be provided with a reliable and updated risk assessment and have access to information, as well as to local contacts and an existing network, at all times. Special attention on security has been put on operations in Kazakhstan.

The HSSE operating environment

Kvaerner conducts business in operating environments that have varying HSSE standards. In general, HSSE initiatives are strongly supported by customers. In some parts of the business the customer is less visible when it comes to HSSE. Despite this, Kvaerner always endeavours to meet the highest HSSE standards and expectations wherever it does business.

Developing people and teams

Kvaerner strives to attract and develop talented people and teams who understand customer needs and requirements. For Kvaerner, a lack of skilled personnel is regarded as a potential risk and is, therefore, addressed both locally and globally.

Kvaerner educates its personnel in leadership and project management to ensure added value and safe project execution. Leadership at Kvaerner is based on company values and leadership principles. The education and training of leaders strongly emphasise these principles. Since HSSE is the fundamental basis for all work, it is addressed in all leadership training.

Challenges in terms of diverse cultures, differing levels of experience and remote locations with various infrastructures imply complex working conditions and require project-specific attention. To meet project needs, mobile programmes and eLearning are often necessary to provide training. The demand to accommodate virtual working has been a focus for specialised training. Results from this provided a fast and positive effect on communication and performance.

Organisation and recruitment

As of 31 December 2012, the overall workforce comprised 4 373 individuals which included 2 966 permanent employees and 1 407 contract staff. Gender distribution at Kvaerner is approximately 15 percent women and 85 percent men. During 2012, the company made 329 new permanent staff placements, of which 62 were women and 267 were men.

Apprenticeships are an important method of recruitment to the company's fabrication entities. At the end of 2012, Kvaerner employed a total of 126 apprentices under applicable national and regional agreements. A total of 75 apprentices were recruited during 2012. 89 percent of the employees work in Norway. The remaining 11 percent work in USA, Finland, China, Australia and Russia.

Diversity and equal opportunity

Due to the nature of its business, Kvaerner has both international and national operations, which call upon employees from several operating entities and geographical regions. The principle of equal opportunities for everyone is well established at Kvaerner. No differences shall exist between genders or ethnic groups.

This commitment to equal opportunity is clearly described in company policies and by agreement, for instance in a three-party framework agreement with national and international trade unions. This agreement covers general employment terms and employee relations, with a specific focus on non-discrimination. Specific reference is made to corporate governance and risk management, covering Kvaerner's Code of Conduct and its whistleblowing channel.

Equal opportunity for both genders is a basic principle at Kvaerner. Company requirements are geared towards diversity in recruitment and development of people. Of the total number of new employees in 2012, 19 percent were women. Kvaerner constantly seeks to increase the percentage of women in the workforce, wherever appropriate. This is a challenge for Kvaerner, as it is for the rest of the global oil and gas industry.

Compensation at Kvaerner is based on roles and responsibilities and is not influenced by gender. The EMT has two female members as of 31 December 2012 and 16 percent of leaders in senior management positions are women. Two of Kvaerner's five shareholder-elected Directors are women. All Directors elected by and among employees are men. This is in accordance with legal requirements, as women account for less than 20 percent of Kvaerner's workforce.

Leadership development programmes make an important contribution to progressing women into senior positions. Out of the 83 participants who completed the Kvaerner leadership training programme in 2012, 15 were women, representing 18 percent of participants.

Each entity is encouraged to seek a work pattern that suits both employees and the company, and which ensures a good balance between work and private life. Examples of work patterns include flexible working hours, remote access or home office and compressed working weeks. These benefits are regarded as important elements in ensuring equal opportunities. There is a negligible difference in part-time working between women and men, while there is no significant difference in overtime.

Performance culture and employee remuneration

Kvaerner's global remuneration policy and remuneration guidelines enable the company to attract and retain employees with the right attitudes, skills and ability to deliver strong performance on a global basis. In order to foster a high level of engagement, Kvaerner provides both monetary and non-monetary rewards.

Kvaerner's global remuneration policy is based on the following:

- Competitive, internally fair, consistent, and comprehensible compensation systems. The total compensation, consisting of fixed salary and incentives or other benefits, shall reflect the employee's experience, level of responsibility and performance.
- Compensation by rewarding performance and results, with a minimal number of non-performance related rewards.
- A focus on leadership development and leadership performance in order to offer a supportive working environment, encouraging open and direct dialogue.

Kvaerner's performance management process is a prerequisite when considering the link between performance and remuneration. Objectives are set and performance is measured on both a team and individual level. Objectives are determined on the basis of strategies and financial budgets. Both personal behaviour and commercial dimensions are evaluated and measured.

Once a year, at a minimum, the manager and the employee evaluate the results achieved. The dialogue at this meeting provides an important opportunity for recognition, rewards, consideration of career development and direction for potential individual performance improvements.

Performance-based pay is regarded as an attractive part of total remuneration at Kvaerner. Variable pay programmes are in place for different positions in the organisation. Annual variable pay is offered to key management personnel. This is based on the commercial results for the units they influence, key performance indicators, personal performance and to what extent these measures comply with Kvaerner's values. Variable pay for senior executives is distributed over several years to encourage long-term achievement of financial results and a lasting employee relationship. Further details about the remuneration of the executive management are provided in Note 9 Salaries, wages and social security costs (page 39), in the consolidated financial statements.

Research and development (R&D)

Kvaerner's innovation and technology development is founded on a broad and strong engineering community with hands-on experience, from project-driven engineering and project management through to procurement, construction, commissioning and operations.

Technology development at Kvaerner is market-driven and cost-effective. Financing is undertaken through separate funding and/or by contributions from partners. Understanding local and global market challenges ensures cost-effective technical solutions with a focus on quality and safety. Kvaerner's longstanding track record in developing and qualifying offshore solutions for the North Sea will continue to be developed further and exported into global markets.

Jackets' focus on R&D is mainly driven by optimising project execution. Finding fabrication-friendly solutions is crucial, both from a HSSE perspective and in sustaining the company's competitive position.

Shallow Arctic waters will constitute a major challenge in the future, making flexibility regarding concrete density, durability and ice-resistance important. A number of projects related to material development through the Concrete Innovation Centre (COIN), a centre for research-based innovation programmes (SFI). The COIN programme will extend over several years, and has been granted support until 2014. There is a special focus on concrete structures exposed to ice abrasion, including research on repair materials and ice loading. For repair materials, a joint research programme has been conducted.

Ductility of light weight concrete (LWC) structures is a focus area, with continuous research having been conducted over several years. In 2012 there was an increase in the activity level, which will continue in 2013. The R&D includes fibre-reinforced concrete and non-steel reinforcement bars through invited partners.

Shallow-water concrete structures in the harsh Arctic environment, to enable all-year exploration, production drilling and ice protection of wells, have been developed on the company's own initiative and in cooperation with customers. Proprietary development also relates to special foundation principles related to arctic areas with heavy ice loading.

In 2012, there was continuing development of concrete hulls for floating production platforms, SPAR-type and circular floating production, storage and offloading units (FPSOs).

Share and share capital

The company's shares are listed on Oslo Børs (the stock exchange in Oslo) 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 main shareholder is Aker Kværner Holding AS, holding 41.02 percent of the shares. Aker ASA owns 70 percent of Aker Kvaerner Holding, while the Norwegian Government owns 30 percent as of 31 December 2012. 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 10 125 shareholders (2011: 10 826) on record as of 31 December 2012, of which 40.33 percent

(2011: 42.60 percent) were non-Norwegian. The share price was NOK 9.88 at the beginning of the year, and the closing price was NOK 16.20 at year-end 2012 (2011: NOK 9.75).

During 2012 Kværner ASA acquired 2 164 580 treasury shares in the open market. The company sold 1 915 778 of its own shares during the year as part of the share purchase programme for Kvaerner employees and managers launched in 2012. The company also awarded 248 802 of its own shares as bonus shares to Kvaerner employees under previous Aker Solutions share purchase programmes. This was part of Kvaerner's obligations to employees transferring from Aker Solutions in connection with the demerger. The company does not exercise any shareholder rights for the shares purchased by the company for use in the share purchase programmes for employees and managers, respectively. At year-end 2012, Kværner ASA held no treasury shares. For more information about the share purchase programmes, please see Note 9 Salaries, wages and social security costs (page 39), in the consolidated financial statements.

Outlook

Kvaerner sees a strong market and expects new development projects to be awarded in the market over the coming years, both on the NCS and internationally. In 2013, numerous FEEDs for new development projects will be executed and these projects will be considered for tendering in 2014. However, the competition in Kvaerner's home market has increased. Several large EPC projects have been awarded to Asian and European contractors for topsides and jackets, respectively.

Concrete substructures constitute one of Kvaerner strong points and the market is promising in the arctic regions with interesting future prospects in early phases. Furthermore, Kvaerner is committed to reintroduce concrete solutions to the NCS and projects in the Barents Sea.

New gas-fired power plant tender opportunities continue to arrive due to the low cost of natural gas and the retirement of coal fired power plants. A large number of these opportunities will be in union labour markets where Kvaerner operates. In addition, opportunities are developing for environmental upgrades at existing power plants. The major steel producers in North America are beginning several upgrades in the primary and finishing areas in the near-term, creating strong opportunities for both maintenance and capital projects.

Kvaerner expects the activity level for 2013 to be higher than in previous years. The company has secured 2013 revenues of approximately NOK 10.6 billion as of year-end 2012, and expects 2013 revenues to be NOK 13 billion with upside, including incorporated joint venture revenues of an estimated NOK 2.5 billion. The high order intake during 2012 and continued opportunities into 2013, provides a good foundation for increased activity levels over the coming years. However, delivering projects and equipment in accordance with the contract terms and the anticipated cost framework represent a substantial risk. This will be the most significant factor which could affect Kvaerner's financial performance. Results also depend on costs, both Kvaerner's own and those charged by suppliers, and on interest expenses, exchange rates and customers' ability to pay.

This outlook reflects current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and circumstances that will occur in the future.

Acknowledgments

2012 has been the first full year of operation for Kvaerner. The company has a strong project portfolio that lays a good foundation for the years to come. Work to f ully align the organisation and to strengthen capacity and delivery models progressed during the year, and will continue. The Board of Directors wishes to extend its sincere thanks and appreciation to the management and workforce for the commitment and drive shown during 2012.

Oslo, 11 March 2013
Board of Directors and President & CEO of Kværner ASA

Kjell Inge Røkke
Chairman

Tore Torvund
Deputy Chairman

Bruno Weymuller
Director

Lone Fønss Schrøder
Director

Vibeke Hammer Madsen
Director

Rune Rafdal
Director

Ståle K. Johansen
Ståle Knoff Johansen
Director

Bernt Harald Kilnes
Director

Jan Arve Haugan
President & CEO

Annual accounts Kvaerner group

Consolidated income statement 01.01 - 31.12

Amounts in NOK million	Note	2012	2011
Operating revenue and other income	8	**10 748**	13 295
Materials, goods and services		**(6 533)**	(8 885)
Salaries, wages and social security costs	9	**(3 046)**	(2 881)
Other operating expenses	11	**(696)**	(456)
Total operating expenses		**(10 275)**	(12 222)
Operating profit before depreciation, amortisation and impairment		**473**	1 073
Depreciation	19	**(63)**	(51)
Amortisation	20	**(3)**	(3)
Operating profit		**407**	1 019
Finance income	12	**32**	49
Finance expenses	12	**(63)**	(159)
Share of profit/(loss) from equity accounted investees	22	**(7)**	(6)
Profit before tax		**369**	903
Income tax expense	13	**(131)**	(344)
Profit for the year		**238**	559
Profit attributable to:			
Equity holders of the parent company		**238**	559
Profit for the year		**238**	559
Basic and diluted earnings per share (NOK)	6	**0.89**	2.08

The notes on pages pages 22 to 62 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income 01.01 - 31.12

Amounts in NOK million	2012	2011
Profit for the year	**238**	559
Other comprehensive income		
Cash flow hedges, net of tax	**(15)**	2
Translation differences - equity-accounted investees	**1**	-
Translation differences - foreign operations	**(51)**	14
Other comprehensive income for the year, net of tax	**(65)**	16
Total comprehensive income for the year	**173**	575
Total comprehensive income attributable to:		
Equity holders of the parent company	**173**	575
Total comprehensive income for the year	**173**	575

The notes on pages 22 to 62 are an integral part of these consolidated financial statements.

Consolidated balance sheet as of 31 December

Amounts in NOK million	Note	2012	2011
Assets			
Non-current assets			
Property, plant and equipment	19	**620**	468
Deferred tax assets	13	**251**	104
Intangible assets	20	**1 157**	1 186
Interest-bearing receivables related parties	7	**44**	15
Investments in associated companies and jointly controlled entities	22	**106**	117
Other non-current assets	21	**53**	66
Total non-current assets		**2 231**	1 956
Current assets			
Current tax assets		**91**	168
Trade and other current assets	14	**2 654**	2 135
Trade and other receivables related parties	7	**6**	146
Cash and cash equivalents		**1 069**	2 418
Total current assets		**3 819**	4 867
Total assets		**6 052**	6 823

Amounts in NOK million	Note	2012	2011
Equity and liabilities			
Equity			
Share capital		**91**	91
Share premium		**729**	729
Retained earnings		**1 580**	1 757
Other reserves		**(197)**	(132)
Total equity	6, 30	**2 202**	2 445
Non-current liabilities			
Non-current interest-bearing liabilities	23	**469**	460
Employee benefits obligations	24	**177**	151
Deferred tax liabilities	13	**1**	10
Total non-current liabilities		**647**	621
Current liabilities			
Current interest-bearing liabilities	23	**-**	8
Current tax liabilities	13	**28**	257
Provisions	17	**338**	414
Trade and other payables	16	**2 818**	2 963
Trade and other payables related parties	7	**19**	115
Total current liabilities		**3 203**	3 757
Total liabilities		**3 850**	4 378
Total liabilities and equity		**6 052**	6 823

The notes on pages pages 22 to 62 are an integral part of these consolidated financial statements.

Oslo, 11 March 2013
Board of Directors and President & CEO of Kværner ASA

Kjell Inge Røkke
Chairman

Tore Torvund
Deputy Chairman

Bruno Weymuller
Director

Lone Fønss Schrøder
Director

Vibeke Hammer Madsen
Director

Rune Rafdal
Director

Ståle Knoff Johansen
Director

Bernt Harald Kilnes
Director

Jan Arve Haugan
President & CEO

Consolidated statement of changes in equity 01.01 - 31.12

Amounts in NOK million	Number of shares	Share capital	Share premium	Combined equity from parent	Retained earnings	Hedge reserve	Currency translation reserve	**Total equity**
Equity as of 31 December 2010		-	-	2 598	-	(8)	(131)	**2 459**
Profit for the period		-	-	343	216	-	-	**559**
Other comprehensive income		-	-	-	9	2	5	**16**
Total comprehensive income		-	-	343	225	2	5	**575**
Changes in parent's investment		-	-	(589)	-	-	-	**(589)**
Separation from Aker Solutions on 7 July 2011	269 000 000	91	729	(2 352)	1 532	-	-	**-**
Equity as of 31 December 2011	269 000 000	91	729	-	1 757	(6)	(126)	**2 445**
Profit for the period		-	-	-	238	-	-	**238**
Other comprehensive income		-	-	-	-	(15)	(50)	**(65)**
Total comprehensive income		-	-	-	239	(15)	(50)	**173**
Employee share purchase programme		-	-	-	(5)	-	-	**(5)**
Dividend		-	-	-	(412)	-	-	**(412)**
Equity as of 31 December 2012	269 000 000	91	729	-	1 579	(21)	(176)	**2 202**

The notes on pages pages 22 to 62 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows 01.01 - 31.12

Amounts in NOK million	Note	2012	2011
Cash flow from operating activities			
Profit/(loss) for the period		**238**	559
Adjusted for:			
Income tax expense	13	**131**	344
Net interest cost		**35**	105
Unrealised (profit)/loss on foreign currency forward contracts		**(4)**	11
Depreciation, amortisation and impairment	19, 20	**66**	54
Difference between pension premiums paid and pension expense, defined benefit schemes		**12**	-
Difference between income and dividends received from associates	22	**27**	(6)
(Gain)/losses on asset sales		**(42)**	-
Interest received		**27**	11
Income taxes paid		**(284)**	(281)
Changes in other net operating assets		**(953)**	272
Net cash from operating activities	8	**(748)**	1 069
Cash flow from investing activities			
Acquisition of property, plant and equipment	19	**(218)**	(163)
Proceeds from sale of property, plant and equipment, investments and operations		**111**	1
Change in long term investments with joint ventures		**-**	(44)
Change in other investments		**16**	(25)
Net cash from investing activities		**(91)**	(231)
Cash flow from financing activities			
Net proceeds from external borrowings		**-**	460
Interest paid		**(45)**	-
Payment of dividend		**(412)**	-
Transactions in own shares		**(24)**	-
Net change in financial liabilities related parties		**-**	(821)
Net equity contribution from/to Aker Solutions Group		**-**	(742)
Net cash from financing activities		**(481)**	(1 103)
Effect of exchange rate changes on cash and bank equivalents		**(29)**	6
Net increase/(decrease) in cash and bank equivalents		**(1 349)**	(259)
Cash and cash equivalents at the beginning of the period		**2 418**	2 677
Cash and cash equivalents at the end of the period		**1 069**	2 418
Of which is restricted cash [1]		**6**	22

1) Restricted cash mainly includes inter alia cash in joint ventures where both partners must agree before use outside the joint venture.

The notes on pages pages 22 to 62 are an integral part of these consolidated financial statements.

Note 1 General information

Kværner ASA was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Drammensveien 264, 0283 Oslo, Norway.

Kværner ASA was incorporated as a wholly owned subsidiary of Aker Solutions ASA (Aker Solutions) to be the parent company and owner of certain entities and operations within Aker Solutions' Energy Development & Services and Process & Construction segments.

As of 7 July 2011, Aker Solutions transferred certain activities and subsidiaries relating to its engineering, procurement and construction (EPC) businesses to Kværner ASA. As a consideration, the shareholders in Aker Solutions received one share in Kværner ASA for each share they owned in Aker Solutions ASA. As of 8 July 2011, the shares of Kværner ASA were listed on the Oslo Børs.

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 on-shore plants. See Note 8 Operating segments, for further details.

Note 2 Basis of preparation

General
The consolidated financial statements of Kværner ASA incorporate the financial statements of the company and its subsidiaries, and the group's interest in associates and jointly controlled entities and operations at 31 December 2012.

These consolidated financial statements include the results of the group's businesses which were controlled by Aker Solutions until 7 July 2011.

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 2012.

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

The consolidated financial statements will be approved by the Annual General Meeting on 10 April 2013.

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.

Measurement of performance
The group's key measure of financial performance is EBITDA. EBITDA definition: Earnings before interest (net financial items), Taxes, Depretiation and Amortisation.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries
Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in associates
Associates are those entities in which the group has significant influence, but not 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.

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 carry-ing 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.

Jointly controlled entities
Jointly controlled entities are those entities over whose activities the group has joint control, established by contractual agreement and requiring unanimous consent of the venturers for strategic, financial and operating decisions.

Investments in jointly controlled entities are accounted for using the equity method.

Results from jointly controlled entities not being taxable in itself, will include share of net result pre tax and with the associated tax charge liable on the partners on the tax cost line in profit or loss. For jointly controlled entities liable for the entity's tax, share of net result after tax will be recognised in the group accounts.

Jointly controlled operations
Jointly controlled operations involve the use of assets and other resources of venturers rather than the establishment of a corporation, partnership or other entity. Each venturer uses its own assets and incurs liabilities which represent its own obligations under the agreement. The agreement also determines how the revenues are shared among the venturers.

The consolidated financial statements include the group's share of profit or loss and other comprehensive income of proportionately consolidated 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.

Transactions eliminated on 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 jointly controlled entities 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.

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

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 exchange differences arising from retranslation are recognised in profit or loss, except for the differences arising from the retranslation of qualifying cash flow hedges (to the extent that the hedge is effective), which are recognised in other comprehensive income.

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 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.

FINANCIAL INSTRUMENTS

Financial assets
The group initially recognises loans and receivables on the date that they originate. All other financial assets are recognised on the trade-date, being the date that the group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has substantially transferred all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount presented only when the group has the legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies its financial assets according to the following categories: at fair value through profit or loss; loans and receivables; and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, with transaction costs expensed in profit or loss as incurred, and are subsequently carried at fair value with any changes therein recognised in profit or loss.

The group's financial assets at fair value through profit or loss comprise derivative financial instruments which are not designated as hedges.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value, plus any attributable transaction costs, are subsequently carried at amortised cost using the effective interest method, less any impairment losses.

The group's loans and receivables comprise "trade and other receivables" in the balance sheet.

Cash and cash equivalents include cash on hand, demand deposits held at banks and other short-term highly liquid investments with original maturity of three months or less. Restricted cash is mainly cash tied up in projects through joint ventures with external parties. The amounts fluctuate with the projects' life cycle and are usually released when the project is delivered or close to delivery.

Available-for-sale
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value, plus any attributable transaction costs, and are subsequently carried at fair value with any changes therein recognised in other comprehensive income and presented in the fair value reserve in equity. If fair value is lower than book value and the fall in value is significant or long term, then impairment will be recognised in the income statement.

Financial liabilities
The Kvaerner group initially recognises financial liabilities on the trade-date, being the date that the group becomes party to the contractual provisions of the instrument. Financial liabilities are derecognised when the group's contractual obligations are discharged, cancelled or expire.

The group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognised at fair value, less any attributable transaction costs, and are subsequently carried at amortised cost using the effective interest method.

The group's other financial liabilities comprise interest-bearing liabilities, bank overdrafts and trade and other payables in the balance sheet.

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

Embedded derivatives may exist where commercial contracts are to be settled in a currency different from the functional currency of the contracting parties, typically for the group's activities in countries that do not have an international convertible currency, or where customers wish to use foreign currency settlements as part of their own hedging strategy.

Embedded foreign exchange derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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.

Hedging activities
Kvaerner engages in these types of hedging relationships:

- Hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction with variability in cash flows (cash flow hedge).
- Hedges of the fair value of assets or liabilities (fair value hedge).

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

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

Cash flow hedges
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.

Fair value hedges

The change in fair value of the hedging instrument is recognised in profit or loss together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of the hedging instrument is recognised in profit or loss within finance items. The gain or loss relating to the ineffective portion is recognised in profit or loss within other gains or losses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity.

Revenue recognition

Engineering and construction contracts

Revenues from contracts to provide construction, engineering, design or similar services are recognised using the percentage-of-completion method, based primarily on contract costs incurred to date compared to estimated total contract costs.

When the final outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent costs incurred are expected to be recoverable. The revenue recognised in one period will be the revenues attributable to the period's progress and the progress to date effect of any changes to the estimated final outcome. Losses on contracts are fully recognised when identified.

Contract revenues include variation orders and incentive bonuses when it is probable that they will result in revenue that can be measured reliably. Disputed amounts and claims are recognised when it is probable the customer will accept the claim and the amount can be measured reliably.

See Note 4 Accounting estimates and judgements, for further details of revenue recognition criteria in respect of engineering and construction contracts.

Goods sold and other services rendered

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

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

No revenue is recognised if there is significant uncertainty regarding recovery of consideration due.

When the group acts in the capacity of an agent rather than as the principal in the transaction, the revenue recognised is the net amount earned by the group.

Other income

Share of profit from associated companies and jointly controlled operations, related to the group's operating activities, is included in other income along with gains and losses related to the sale of operating assets.

Expenses-construction contracts

Contract costs include costs that relate directly to the specific contract and allocated costs that are attributable to general contract activity. Costs that cannot be attributed to contract activity are expensed as incurred.

Bidding costs are capitalised when it is probable that the company will be chosen as a party to the resulting customer contract. All other bidding costs are expensed as incurred.

Finance income and expenses

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 currency gains and losses are reported on a net basis.

Income tax

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 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, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Goodwill not deductible for tax purposes.
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future.

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.

Property, plant and equipment

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.

Subsequent costs

The group capitalises the cost of a replacement part or a component of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are expensed as incurred.

Depreciation

Depreciation expenses are recognised on a straight line basis based upon the costs of the assets less any residual value over the estimated useful lives of the assets.

Intangible assets

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 the 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 (see Impairment). Gains and losses on the disposal of an entity or an interest in an entity include the carrying amount of goodwill relating to the ownership interest sold.

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, from the date they are available for use.

Construction work in progress

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

IMPAIRMENT

Financial assets

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

Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories, deferred tax assets and employee benefit assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment annually or more frequent if impairment indicators are identified.

An impairment loss is recognised if the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount.

Recoverable amount

The recoverable amount of an asset or a CGU is the greater of their net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows independently of other assets or CGUs. Subject to the operating segment limit, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed, reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill is allocated to groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Impairment loss recognition

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then, to reduce the carrying amount of the other non-financial assets in the CGU (or group of CGUs) on a pro rata basis.

Reversals of impairment

An impairment loss on goodwill is not reversed. An impairment loss on other assets is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

OTHER ACCOUNTING POLICIES

Provisions

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.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Leases

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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Employee benefits

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 in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of plan assets is deducted. The discount rate is the yield at the balance sheet date on government bonds or 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.

When the benefits of a plan to employees are increased, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, an expense is recognised immediately in profit or loss.

To the extent that any subsequent cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the actuarial calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

From 2013, Kvaerner will adopt International Accounting Standard 19, Employee Benefits (IAS 19) as amended see section New Standards and interpretations not yet adopted at the end of this note, for further information.

Employee share purchase programmes

In 2012 Kvaerner launched share purchase programmes for employees and managers. The participants of the programmes were offered a price reduction and a fixed discount. The price reduction is determined representing a fair value adjustment as the shares have a locked-in period of three years. The amount is recognised in equity and specified in the consolidated statement of changes in equity. The fixed discount is considered a cost and is booked to the income statement. See Note 9 Salaries, wages and social security costs, for further details of the share purchase programmes.

Carve-out adjustments prior to 7 July 2011

Prior to 7 July 2011, the EPC businesses transferred to the Kvaerner group did not constitute a reportable segment within the Aker Solutions group. Consequently, Kvaerner's combined financial information prior to 7 July 2011 was extracted from the consolidated financial statements of Aker Solutions.

Entities which were designated as being part of the Kvaerner business and which were controlled by Aker Solutions prior to 7 July 2011 have been included fully in the combined financial information prepared prior to that date.

The principles that were used to prepare the combined financial information for the Kvaerner group and key adjustments are specified in the 2011 annual accounts.

New standards and interpretations not yet adopted
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:
IAS 19 Employee Benefits as amended, effective for annual reporting periods beginning from 1 January 2013, requires immediate recognition of actuarial gains and losses in other comprehensive income and elimination of the corridor method. The standard further requires net interest income or expense calculations to use the discount rate used to measure the defined benefit asset or liability. At 31 December 2012, the corridor was NOK 11 million (NOK 68 million at 31 December 2011). The amounts will reduce the equity when the amendments of IAS 19 are implemented. The implementation of IAS 19 (revised) is not expected to have any significant effect on the restated 2012 income statement.

IFRS 11 Joint Arrangements, effective for annual reporting periods beginning from 1 January 2014, replaces IAS 31 Interests in joint ventures and removes the choice of equity or proportionate consolidation accounting for jointly controlled entities. Adoption of this IFRS is not expected to affect the group financial statements, as the group is already applying similar principles.

IFRS 10 Consolidated Financial Statements, effective from annual reporting periods beginning from 1 January 2014 requires consolidation on the basis of control rather than ownership. Adoption of this IFRS is not expected to affect the group financial statements.

The Kvaerner group does not plan to early adopt these new standards and amendments.

Note 4 Accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the Kvaerner group's reported revenues, expenses, assets and liabilities. Actual results may differ from these estimates. 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.

Assumptions and estimation uncertainties that may impact the next financial year are detailed below.

Revenue recognition
The percentage-of-completion method is used to account for construction contracts. This method requires estimates of the final revenue and costs of the contract, as well as measurement of progress achieved to date as a proportion of the total work to be performed.

The main uncertainty when assessing contract revenue is related to recoverable amounts from variation orders, claims and incentive payments which are recognised when, based on management's judgment, it is probable that they will result in revenue and are reliably measurable. This assessment is adjusted upon management's evaluation of liquidated damages to be imposed by customers typically relating to contractual delivery terms. In many projects there are frequent changes in scope of work resulting in a number of variation orders. Normally contracts with customers include procedures for submission of variation orders for agreement. At any point in time, there will be unapproved variation orders and claims included in the project revenue where recovery is assessed as probable and other criteria are met. Even though management has extensive experience in assessing the outcome of such negotiations, uncertainties exist.

Cost to complete depends on productivity factors and the cost of inputs. Weather conditions, the 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.

Progress measurement based on costs has an inherent risk related to the cost estimate as described above. In situations where cost is not seen to properly reflect actual progress, alternative measures such as hours or plan progress are used to achieve more precise revenue recognition. The estimation uncertainty during the early stages of a contract is mitigated by a policy of normally not recognising revenue in excess of costs on large projects before the contract reaches 20 percent completion.

In the group's view there are two projects that are subject to significant estimation uncertainty and where the outcome could have a material impact on the consolidated financial statements. These are the Longview project and the Nordsee Ost project, which are further described in Note 28 Contingent events.

Pre-contract costs
Costs will normally incur prior to securing the contract, including costs for assigned tenders and tenders that are not yet awarded. These tender costs are capitalised when it is probable that Kvaerner will obtain the contract.

If an assumed probable tender is awarded to competitors, the capitalised tender costs will be expensed in the period the project is awarded. Tender costs that have been expensed in previous periods cannot be reinstated as contract cost if the contract is obtained or the probability of obtaining the contract has increased.

Warranties
A provision is made for expected warranty expenditures. 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. Reference is made to Note 17 Provisions, for further information about provisions for warranty expenditures on delivered projects.

Property, plant and equipment and intangible assets
At every balance sheet date, the group considers whether there are indications of impairment on the book values of long-term assets. If such indications exist, a valuation is performed to assess whether or not the asset should be impaired. Such valuations will often have to be based on estimates of future results for a number of cash flow generating units. References are made to Note 19 Property, plant and equipment and Note 20 Intangible assets.

Goodwill
In accordance with the stated accounting policy, the group tests whether goodwill has suffered any impairment, annually or more frequently if impairment indicators are identified. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which require the use of estimates and judgments. Further details about assumptions used for value-in-use calculations to support carrying value of goodwill are included in Note 20 Intangible assets.

Income taxes
The Kvaerner group is subject to income taxes in numerous jurisdictions. Significant judgement is required to determine the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Provisions for anticipated tax audit issues 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 the many 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.

Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change. During the period when tax authorities may challenge the taxable income, management is required to make estimates of the probability and size of possible tax adjustments. Such estimates may change as additional information becomes known. Further details about income taxes are included in Note 13 Income taxes.

Pension benefits
The present value of pension obligations depends on a number of factors determined on the basis of actuarial assumptions. These assumptions include financial factors such as the discount rate, expected salary growth, inflation and return on assets as well as demographical factors concerning mortality, employee turnover, disability and early retirement. Assumptions about all these factors are based on the situation at the time the assessment is made. However, it is reasonably certain that such factors will change over the very long periods for which pension calculations are made. Any changes in these assumptions will affect the calculated pension obligations. Further information about the pension obligations and the assumptions used are included in Note 3 Significant accounting policies; section New Standards and interpretations not yet adopted at the last section in Note 3 and Note 24 Employee benefits – pensions.

Note 5 Financial risk management and exposures

Financial risks
The Kvaerner group is exposed to a variety of financial risks: currency risk, interest rate risk, price risk, credit risk, liquidity risk and capital risk. 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 volatility when it comes to profit or loss.

Until the demerger on 7 July 2011, financial risk management activities were carried out by Aker Solutions' Corporate Treasury department on the group's behalf. Following the demerger, the group is responsible for its own financial risk management activities, though some treasury management services continue to be provided by Aker Solutions under the transitional services agreement as described in the 2011 annual report. 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 is the responsibility of the project managers in cooperation with Corporate 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. There have been no changes in these policies during the year.

Currency risk
The Kvaerner group 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, KZT, RUB and EUR but it is also exposed to several other currencies on a smaller scale.

The purpose of the group's hedging policy is to secure that entities hedge their entire currency risk exposure in any project using forward contracts. Corporate Treasury manages internal exposures by entering into external forward contracts. The group has a large number of contracts involving foreign currency exposures and the currency risk policy has been well-established for many years.

For segment reporting purposes, each legal entity designates all currency hedge contracts with Corporate Treasury as cash flow hedges. External foreign exchange contracts are designated at group level as hedges of currency risk on a gross basis. Close to one hundred percent of these hedges are done back-to-back and qualify for hedge accounting. When hedges do not qualify for hedge accounting in the external reporting, a correction is performed at group level and is included in the "unallocated" part of the segment reporting. See Note 18 Derivative financial instruments, for information regarding the accounting treatment of hedging and embedded derivatives.

The Kvaerner group's exposure to the main foreign currencies

2012

Amounts in million	RUB	USD	EUR	KZT
Cash	199	24	11	105
Related party foreign currency loans	-	2	-	-
Balance sheet exposure	**199**	**26**	**11**	**105**
Estimated forecast receipts from customers	-	3	115	-
Estimated forecast payments to vendors	-	(9)	(131)	-
Cash flow exposure	**-**	**(6)**	**(16)**	**-**
Forward exchange contracts	**-**	**60**	**34**	**-**
Net exposure	**199**	**80**	**29**	**105**

2011

Amounts in million	RUB	USD	EUR	KZT
Cash	438	93	26	1 600
Related party foreign currency loans	-	2	-	-
Balance sheet exposure	**438**	**95**	**26**	**1 600**
Estimated forecast receipts from customers	-	12	25	-
Estimated forecast payments to vendors	-	(10)	(39)	-
Cash flow exposure	**-**	**2**	**(14)**	**-**
Forward exchange contracts	**-**	**(62)**	**39**	**-**
Net exposure	**438**	**35**	**51**	**1 600**

Estimated forecasted receipts and payments in the tables above are calculated based on the group's hedge transactions through Corporate 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. The net exposure is managed by Corporate Treasury. A foreign currency sensitivity analysis indicates that changes in the foreign currency rates have only 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 reflects the recent years' changes in currency rates. Changes in currency rates change the values of hedging derivatives. Hedges that qualify for hedge accounting are reported in the profit and loss according to the progress of projects. The deferred value of the hedging derivative is reported as hedging reserve in equity. Any changes to currency rates will therefore affect equity.

The 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 2012. The analysis is performed on the same basis as it was for 2011.

Although hedge accounting is not applied to all foreign exchange contracts, these contracts are still economically hedged. 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 on the next page is the hedge reserve that follows from the cash flow hedges.

	2012		2011	
Amounts in NOK million	Profit before tax	Equity [1]	Profit before tax	Equity [1]
USD	**-**	**(1)**	(37)	-
EUR	**6**	**(8)**	31	15
GBP	**-**	**(2)**	-	-
KZT	**-**	**-**	6	-
RUB	**-**	**-**	8	-

1) The effects to equity that follow directly from the effects to profit and loss are not included.

A ten percent strengthening of the NOK against the above currencies as of 31 December 2012 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.

The primary currency-related risk is the risk of reduced competitiveness abroad in the case of a strengthened NOK. This risk relates to future commercial contracts and is not included in the sensitivity analysis above.

Translation exposure
Translation exposure occurs when foreign operations are translated for inclusion in the financial statements of the Kvaerner group.

The Kvaerner group has several investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is normally only hedged to the extent of agreed future payments.

Significant exchange rates applied for group consolidation

	Average rate		Closing rate	
Currency	**2012**	2011	**2012**	2011
USD	**5.8152**	5.6154	**5.5878**	6.0039
CAD	**5.7997**	5.6648	**5.6204**	5.8841
EUR	**7.4979**	7.7990	**7.3711**	7.7687
KZT	**0.0390**	0.0383	**0.0371**	0.0404
RUB	**0.1873**	0.1904	**0.1835**	0.1869

The next table illustrates the group's exposure to translation risk. Had the Norwegian currency depreciated by ten percent during 2012, the consolidated financial statements would be affected by the changes in the table. The sensitivity analysis is only a translation sensitivity and does not reflect changes in competitiveness, derivatives or other effects from currency fluctuations. Sensitivity analysis per currency have been made. The total result is given in the presented table.

	Total			**10% depreciation**			**Change**		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
2012	**10 748**	**473**	**2 202**	**11 121**	**569**	**2 419**	**373**	**96**	**217**
2011	13 295	1 073	2 455	14 066	1 168	2 523	770	93	69

Interest rate risk
The Kvaerner group's interest rate risk arises from interest-bearing liabilities with related parties and external loans. Interest-bearing liabilities issued at variable rates expose the group to cash flow interest rate risk.

An increase of 100 basis points in interest rates during 2012 would have increased (decreased) 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 2011.

Amounts in NOK million	**2012**	2011
Cash and cash equivalents	**11**	24
External loan	**(5)**	(5)
Cash flow sensitivity (net)	**6**	20

Price risk
The Kvaerner group is exposed to fluctuations in market prices in the operating businesses related to individual contracts, including changes in market price for raw materials, equipment and development in wages. These risks are managed in the bid process by locking in committed prices from vendors as a basis for offers to customers or through escalation clauses with customers.

Credit risk
Credit risk is the risk of financial loss to the group if customer or counterparty to financial investments/instruments fails to meet its contractual obligations, and arises principally from external receivables. Derivatives are only traded against approved banks, through Corporate 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.

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 and Credit Watch). Sales to customers are settled in cash.

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

Revenues are mainly related to large and long-term projects closely followed up in terms of payments up front and in accordance with agreed milestones. Normally, lack of payment is due to disagreements related to project deliveries and is solved together with the customer or escalated for resolution through arbitration or other mechanisms provided for in the contract.

Customers are mainly 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 28 Contingent events.

The maximum exposure to credit risk as at the reporting date equals the book value of each category's financial assets; see carrying amounts in Note 25 Financial instruments. The group does not hold collateral as security.

Liquidity risk
Liquidity risk is the risk that the group could encounter difficulty in meeting the obligations associated with its financial liabilities. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity reserves to meet its liabilities when due. 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. Due to the dynamic nature of the underlying businesses, Corporate Treasury maintains flexibility in funding by maintaining availability under committed credit lines, see Note 23 Interest-bearing liabilities.

Management monitors rolling weekly and monthly forecasts of the group's liquidity reserve on the basis of expected cash flow. For information regarding capital expenditures and net operating assets, see Note 8 Segment information.

Financial liabilities and the period in which they are mature

2012

Amounts in NOK million	Note	Book value	**Total undiscounted cash flow 1)**	6 mths and less	6-12 mths	1-2 years	2-5 years	More than 5 years
Interest-bearing liabilities	23	(469)	**(529)**	(10)	(11)	(508)	-	-
Trade and other payables related parties	7	(19)	**(19)**	(19)	-	-	-	-
Trade and other payables	16	(2 818)	**(2 818)**	(2 808)	(10)	-	-	-
Total		(3 306)	**(3 366)**	(2 837)	(21)	(508)	-	-

2011

Amounts in NOK million	Note	Book value	Total undiscounted cash flow 1)	6 mths and less	6-12 mths	1-2 years	2-5 years	More than 5 years
Interest-bearing liabilities	23	(460)	(553)	(12)	(13)	(19)	(509)	-
Trade and other payables related parties	7	(115)	(115)	(115)	-	-	-	-
Trade and other payables	16	(2 963)	(2 963)	(2 960)	(2)	(1)	-	-
Total		(3 538)	(3 631)	(3 087)	(15)	(20)	(509)	-

1) Nominal currency value including interest.

The Kvaerner group policy for the purpose of optimising availability and flexibility of cash within the group is to operate a centrally managed cash-pooling arrangement. Such arrangements are either organised with a bank as a service provider, or as a part of the operation of the internal treasury function. An important condition for the participants (legal entities) in such cash-pooling arrangements is that the group as an owner of such pools that 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. Kværner ASA's dividend policy is based on visibility and predictability. The ambition is to pay semi-annual dividends with increases, in order to give a stable and predictable dividend growth, balancing out the underlying volatility of earnings.

The group monitors capital on the basis of equity ratio (gross debt/total equity), cash (gross debt less NCOA and cash and cash equivalents) and interest coverage ratio (EBITDA/net finance cost). The ratios are calculated from gross debt, including all interest-bearing liabilities as shown in Note 25 Financial instruments, EBITDA and finance cost. The reported ratios are well within the requirements of the loan agreements.

Guarantee obligations
The group has provided the following guarantees on behalf of wholly owned subsidiaries as of 31 December 2012 (all obligations are per date of issue):

Amounts in NOK million	2012	2011
Parent company guarantees to group companies [1]	**42 767**	39 020
Counter guarantees for bank/surety bonds	**2 016**	1 260
Total	**44 783**	40 280

1) Kværner ASA has provided indemnities to Aker Solutions of NOK 32 billion in respect of parent company guarantees issued by Aker Solutions on behalf of Kvaerner group companies (2011 NOK 39 billion).

Note 6 Earnings per share

Kværner ASA's share capital has a value of NOK 91 460 000 which was obtained through the issuance of 269 000 000 shares upon the demerger in July 2011. Each share has a nominal value of NOK 0.34. 2011 earnings per share information has been prepared on a proforma basis as if these shares were outstanding for the entire year.

Earnings per share

	2012	2011
Profit/(loss) attributable to ordinary shares (NOK million)	**238**	559
Weighted average number of shares outstanding	**268 780 114**	269 000 000
Basic and diluted earnings per share (NOK)	**0.89**	2.08

Note 7 Related parties

The largest shareholder of Kværner ASA, Aker Kværner Holding AS, is controlled by Aker ASA (70 percent) which in turn is controlled by Kjell Inge Røkke through The Resource Group AS. All entities controlled by Aker ASA are considered related parties to Kvaerner. These entities are referred to as entities controlled by Aker in this note.

Prior to the demerger on 7 July 2011, Kvaerner was a wholly owned subsidiary of Aker Solutions, and consequently Aker Solutions, and all the entities in the Aker Solutions group, were related parties prior to that date. Following the demerger, Aker Solutions and Kvaerner are no longer part of the same group, but for 2011, transactions and balances with Aker Solutions were reported as related party transactions.

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 several associated companies and joint ventures related to significant projects in the portfolio, and these meet the definition of a related party. See Note 22 Equity accounted investees.

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

Kværner ASA has entered into an agreement with employee representatives that regulates use of grants for activities related to professional updating. The grant in 2012 was NOK 465 000 (2011: NOK 150 000).

2012

Amounts in NOK million	Entities controlled by Aker	Associated companies	Joint ventures/ operations	Other related parties	**Total**
Income statement					
Operating revenues	-	-	157	1	**158**
Operating expenses	(1)	(106)	-	-	**(107)**
Net finance items	-	-	2	-	**2**
Balance sheet as of 31 December					
Trade and other receivables	-	-	5	-	**5**
Non interest-bearing receivables	-	1	-	-	**1**
Interest-bearing non current receivables	-	-	44	-	**44**
Interest-bearing loans	-	-	-	-	**-**
Trade and other payables	-	(19)	-	-	**(19)**

2011

Amounts in NOK million	Entities controlled by Aker Solutions	Entities controlled by Aker	Associated companies	Joint ventures/ operations	Other related parties	**Total**
Income statement						
Operating revenues	672	195	-	224	2	1 093
Operating expenses	(823)	-	-	-	(3)	(826)
Net finance items	(1)	-	-	-	-	(1)
Balance sheet as of 31 December						
Trade and other receivables	116	-	-	5	-	121
Interest-bearing non current receivables	15	-	-	-	-	15
Interest-bearing loans	25	-	-	-	-	25
Trade and other payables	(114)	-	-	(1)	-	(115)

Trade receivables and trade payables in the tables above are derived from ordinary business operations.

Receivables and payables to related party are included in separate captions in the balance sheet.

PROJECT SPECIFIC AGREEMENTS

Kiewit-Kvaerner Contractors
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.

Aker Clean Carbon
The execution of the European CO_2 Technology Centre project at Mongstad was finalised in 2012. The project has been executed as a joint venture agreement between Aker Clean Carbon AS and Kværner Stord AS. Aker Clean Carbon has provided the CO_2 capture technology and Kvaerner has been responsible for the EPC project execution, including commissioning.

Note 8 Operating segments

Kvaerner's business is divided into two reportable operating segments: Upstream and Downstream & Industrials. The Upstream segment is divided into four separate business areas: North Sea delivering topsides, floaters and onshore upstream facilities; Jackets delivering large steel jackets for oil and gas installations and offshore wind jackets; Concrete Solutions delivering concrete substructures and International delivering topsides, floaters and onshore upstream facilities. The Downstream & Industrials segment consists of one business area: Engineering & Construction (E&C) Americas and provides a full range of general construction, maintenance and renovation services to the power, steel, chemical and petrochemical and other industrial sectors in the unionised areas of North America.

The market development within the two segments is driven by different factors and the geographical focus is different for the segments. The Upstream segment targets its activities towards the upstream oil and gas field development industry, both onshore and offshore. Kvaerner's ambition is to maintain home markets in the North Sea (upstream) and North America (downstream), and to expand its upstream activities internationally.

The strategic business areas offer different products and services, and are managed separately. Included within the two segments are other businesses that may meet the definition of a segment but have been aggregated based upon criteria in IFRS.

The President & CEO reviews each of the operating segments with the segment management on a monthly basis.

Measurement of segment performance
Performance is measured by segment operating profit before depreciation, amortisation and impairment (EBITDA) and operating profit (EBIT), as included in the internal management reports. Segment profit, together with key financial information as described below, gives management relevant information in evaluating the results of the operating segments and is relevant in evaluating the results of the segments relative to other entities operating within these industries. The President & CEO will not assess financial items or total liabilities on segment level.

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

The accountings principles of the reportable segments are the same as described in Note 2 Basis of preparation and Note 3 Significant accounting policies, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiaries hedge the exposure with Corporate Treasury. The hedge accounting is applied independently of whether the hedge qualifies for hedge accounting in accordance with IFRS or not. 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 hedges as qualifying even though they may not qualify in accordance with IFRS.

2012 - Operating segments

Amounts in NOK million	Note	Upstream	Downstream & Industrials	**Total operating segments**	Other/ Elim.	**Total**
Operating revenue and other income						
Construction contracts		7 616	952	**8 568**	-	**8 568**
Services revenue		743	868	**1 612**	-	**1 612**
Other		413	-	**413**	21	**434**
External operating revenue		8 772	1 821	**10 593**	21	**10 614**
Other income		72	60	**133**	1	**134**
Inter-segment revenue		72	6	**79**	(79)	**-**
Total operating revenue and other income		8 917	1 887	**10 804**	(56)	**10 748**
EBITDA		551	62	**613**	(140)	**473**
Depreciation, amortisation and impairment	19, 20	(57)	(8)	**(65)**	(1)	**(66)**
EBIT		495	53	**548**	(141)	**407**
Assets						
Current operating assets		1 665	1 009	**2 674**	(14)	**2 661**
Non-current operating assets		1 710	104	**1 814**	2	**1 816**
Operating assets		3 376	1 113	**4 489**	(12)	**4 477**
Tax-related assets						**341**
Investments in associates and jointly controlled entities						**106**
Investments in other companies						**9**
Financial receivables						**50**
Cash and cash equivalents						**1 069**
Total assets						**6 052**
Liabilities						
Current operating liabilities		2 674	413	**3 087**	87	**3 175**
Non-current operating liabilities		140	-	**140**	37	**177**
Operating liabilities		2 814	413	**3 227**	124	**3 352**
Tax-related liabilities						**29**
Current interest-bearing liabilities						**-**
Non-current Interest-bearing liabilities						**469**
Total liabilities						**3 850**
Net current operating assets		(1 009)	596	**(413)**	(101)	**(514)**
Cash flow						
Cash flow from operating activities		(611)	(4)	**(615)**	(133)	**(748)**
Acquisition of property, plant and equipment	19	210	7	**217**	2	**218**
Order intake (unaudited)		20 383	1 744	**22 127**	(57)	**22 070**
Order backlog (unaudited)		20 226	1 039	**21 265**	(3)	**21 262**
Own employees (unaudited)		2 515	218	**2 733**	233	**2 966**

2011 - Operating segments

Amounts in NOK million	Note	Upstream	Downstream & Industrials	**Total operating segments**	Other/ Elim.	**Total**
Operating revenue and other income						
Construction contracts		10 642	1 516	12 159	-	12 159
Services revenue		19	896	915	-	915
Other		156	-	156	24	180
External operating revenue		10 817	2 412	13 229	24	13 253
Other income		34	-	34	7	42
Inter-segment revenue		35	5	40	(40)	-
Total operating revenue and other income		10 887	2 417	13 304	(9)	13 295
EBITDA		1 571	(351)	1 220	(147)	1 073
Depreciation, amortisation and impairment	19, 20	(45)	(9)	(54)	-	(54)
EBIT		1 526	(360)	1 166	(147)	1 019
Assets						
Current operating assets		925	1 338	2 263	(7)	2 256
Non-current operating assets		1 542	133	1 675	1	1 676
Operating assets		2 467	1 471	3 938	(6)	3 932
Tax-related assets						273
Investments in associates and jointly controlled entities						117
Investments in other companies						21
Financial receivables						62
Cash and cash equivalents						2 418
Total assets						6 823
Liabilities						
Current operating liabilities		2 761	720	3 481	11	3 492
Non-current operating liabilities		119	-	119	32	151
Operating liabilities		2 880	720	3 600	43	3 643
Tax-related liabilities						267
Current interest-bearing liabilities						8
Non-current Interest-bearing liabilities						460
Total liabilities						4 378
Net current operating assets		(1 836)	618	(1 218)	(18)	(1 236)
Cash flow						
Cash flow from operating activities		1 719	(672)	1 047	22	1 069
Acquisition of property, plant and equipment	19	159	3	162	1	163
Order intake (unaudited)		9 257	1 655	10 912	(15)	10 897
Order backlog (unaudited)		8 758	1 287	10 045	1	10 046
Own employees (unaudited)		2 607	402	3 009	147	3 156

Major customers
Revenue from the three largest customers of the Upstream segment represented NOK 5.1 billion, or 48 percent of the group's total revenue of NOK 10.7 billion (2011: NOK 6.7 billion and 50 percent). Of this, one customer represented 24 percent (2011: 24 percent), the second represented 13 percent (2011: 15 percent) and the third represented ten percent (2011: 11 percent) of the total revenue of the Kvaerner group.

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

	Operating revenues		Non-current segment assets	
Amounts in NOK million	**2012**	2011	**2012**	2011
Norway	**5 482**	4 186	**1 683**	1 696
Europe	**1 588**	1 477	**3**	3
North America	**1 982**	2 296	**104**	149
Rest of the world [1)]	**1 696**	5 336	**102**	(12)
Total	**10 748**	**13 295**	**1 892**	**1 836**

1) Includes operations in Kazakhstan and the Russian Federation.

Note 9 Salaries, wages and social security costs

Amounts in NOK million	Note	**2012**	2011
Salaries and wages including holiday allowance		**2 239**	2 136
Social security tax/National insurance contribution		**432**	397
Pension cost	24	**255**	191
Other employee costs		**120**	157
Salaries, wages and social security costs		**3 046**	2 881

Employee share purchase programmes
Kvaerner share purchase programmes
In 2012 Kvaerner implemented employees' and managers' share purchase programmes. The two share purchase programmes are expected to contribute to increased employee attention and commitment to Kvaerner's overall value creation. The programmes imply that employees and managers employed in the Norwegian subsidiaries of Kvaerner were offered to buy shares in Kværner ASA at a discounted price.

The employees included in the scope of the share purchase programme were offered the opportunity to buy Kværner ASA shares for a minimum amount of NOK 10 000 and a maximum amount of NOK 60 000. The employees were offered an one year loan from Kvaerner as funding for the share purchase.

Kvaerner also offered certain managers employed by its subsidiaries the opportunity to buy Kværner ASA shares. The programme allowed managers to buy shares for an amount limited to 25 percent of their base salary. The managers were not offered loans as funding for the share purchase.

The participants in the share purchase programmes were offered a price reduction of 25 percent on the share price in addition to a discount of NOK 1 500, the latter representing a cost of NOK 0.7 million in the group accounts. The price reduction is determined representing fair value as the shares have a locked-in period of three years. The employees retain the rights to the shares regardless of whether they remain employees of Kvaerner.

In total, 1 915 778 Kværner ASA shares were distributed to employees and managers under the programmes at a price of NOK 13.05 per share.

Obligations to Kvaerner employees under former Aker Solutions share purchase programmes
The Kvaerner group has undertaken to deliver compensation to employees who were transferred from Aker Solutions to Kvaerner as part of the demerger in July 2011, and who were entitled to bonus shares in Aker Solutions' share purchase programme, on the same basis as they would have continued as employees of Aker Solutions. The Kvaerner employees have in 2012 been granted Kvaerner shares instead of Aker Solutions' shares as matching, in accordance with the value split between the shares from the demerger.

The number of matching shares to Kvaerner employees under the Aker Solutions share purchase programme number 2 was 248 802 at a price of NOK 15.59 per share. In 2011 Kvaerner paid out a total of NOK 4.3 million in cash, equal to the value of the bonus shares for programme number 1. The last award of matching shares, for programme number 3, will be in 2013.

Guidelines for remuneration to the President & CEO and the executive management of Kvaerner
The main purpose of the executive remuneration programme is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to executives consists of a market based salary, standard employee benefits and a variable pay programme.

The President & CEO and the executive management participate in the standard pension and insurance plan applicable to all senior managers. The company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President & CEO and the executive management. The company does not offer share options programmes to any managers or employees. Share purchase programmes for employees and managers were introduced in 2012, and it is Kvaerner's attention to continue the share purchase programmes in the forthcoming years.

The objective of the variable pay programme is to recognise and reward the achievements of financial results and performance obtained in accordance with the company's values. The variable pay programme represents a pay potential of up to 94.5 percent of base salary. The programme is based on the achievement of financial and personal performance targets and the development of the share price of Kværner ASA. 50 percent of the variable pay is paid the following year. The remaining amount is paid two years thereafter with the addition of a retention element provided the executive is still employed by the company. The maximum paid variable pay in any year cannot exceed one year's base salary, and a surplus can be delayed for payment in later periods.

The actual remuneration for the executives of Kvaerner for 2012 was according to the guidelines of the company.

Remuneration to members of the Executive Management Team

2012

Amounts in NOK for 2012		Base salary 1)	Variable pay 2)	Other benefits 3)	Total paid	Pension benefit earned/ cost to company 4)	**Total remuneration**
Jan Arve Haugan	01.01.2012 - 31.12.2012	4 438 462	120 000	12 574	4 571 036	67 193	**4 638 229**
Eiliv Gjesdal	01.01.2012 - 31.12.2012	2 103 576	581 911	7 409	2 692 895	106 893	**2 799 789**
Jan Øyri	01.01.2012 - 31.12.2012	1 995 295	465 533	9 314	2 470 142	127 585	**2 597 727**
Anthony Paul (Tony) Allen	01.01.2012 - 31.12.2012	2 829 010	2 173 881	140 830	5 143 721	730 322	**5 874 042**
James Harry (Jim) Miller	01.01.2012 - 31.12.2012	3 016 139	1 587 893	71 770	4 675 803	69 847	**4 745 650**
Bjørn Gundersen	01.01.2012 - 31.12.2012	2 104 004	894 657	16 980	3 015 641	187 280	**3 202 920**
Lars Eide	01.01.2012 - 31.12.2012	2 104 911	1 080 817	14 085	3 199 812	125 808	**3 325 620**
Janne Harstad Rasten (acting)	01.10.2012 - 31.12.2012	495 512	-	6 009	501 521	41 241	**542 762**
Sverre Myklebust	01.07.2012 - 31.12.2012	1 046 949	-	138 406	1 185 355	138 410	**1 323 765**
Nina Udnes Tronstad	01.01.2012 - 30.06.2012	993 552	461 122	7 323	1 461 998	91 301	**1 553 299**
Jan Tore Elverhaug	01.01.2012 - 30.09.2012	1 770 171	609 702	11 486	2 391 358	176 317	**2 567 675**
		22 897 582	**7 975 515**	**436 185**	**31 309 281**	**1 862 198**	**33 171 479**

Variable pay including accrued holiday allowance for the persons above earned in 2012 for payment in 2012 and future periods: **25 449 002**

1) Base salary includes paid holiday allowance for base salary.
2) As from the annual report for 2012 the variable pay relates to amounts paid in 2012 and holiday allowance paid in 2012 for variable amount paid in 2011. The amount listed is for the period of membership of the Executive Management Team. Variable pay listed for Anthony Paul (Tony) Allen includes buy out from share purchase programme with previous employer. Payment of deferred variable pay will start in 2014.
3) Other benefits include telephone, insurance agreements, car allowance etc.
4) Pension benefits include the standard employee and management pension scheme, a pension compensation scheme related to the transfer from a defined benefit scheme to a defined contribution scheme and a disability pension scheme.

2011

Amounts in NOK for 2011		Base salary 1)	Variable pay - paid 2)	Other benefits 3)	Total paid	Variable pay - accrued 2)	Pension benefit earned/ cost to company 4)	**Total remuneration**
Jan Arve Haugan	01.08.2011 - 31.12.2011	2 100 000	1 000 000	2 854	3 102 854	-	26 785	3 129 639
Eiliv Gjesdal	01.04.2011 - 31.12.2011	1 753 172	-	4 000	1 757 172	1 145 826	54 715	2 957 713
Jan Øyri	08.08.2011 - 31.12.2011	924 601	-	1 412	926 013	636 570	26 464	1 589 047
Anthony Paul (Tony) Allen	03.10.2011 - 31.12.2011	700 247	2 016 712	33 612	2 750 571	514 343	105 037	3 369 951
James Harry (Jim) Miller	06.06.2011 - 31.12.2011	1 481 611	-	-	1 481 611	1 023 157	-	2 504 767
Bjørn Gundersen	01.04.2011 - 31.12.2011	1 606 849	1 085 946	5 035	2 697 830	1 104 410	81 888	3 884 128
Lars Eide	01.04.2011 - 31.12.2011	1 510 289	-	13 819	1 524 108	1 148 587	89 499	2 762 194
Nina Udnes Tronstad	01.04.2011 - 31.12.2011	1 511 543	-	13 819	1 525 362	1 090 605	99 242	2 715 210
Jan Tore Elverhaug	01.04.2011 - 31.12.2011	1 891 733	-	13 819	1 905 552	1 283 877	111 721	3 301 150
		13 480 046	**4 102 658**	**88 370**	**17 671 074**	**7 947 376**	**595 350**	**26 213 800**

Kvaerner has paid Aker Solutions NOK 127 000 for services related to Per Harald Kongelf for the period 01.01.2011 to 31.07.2012.

1) Base salary includes holiday allowance.
2) The variable pay reported in 2011 is split in paid and accrued amounts to be comparable with the 2012 reporting of remuneration. Variable pay listed for Anthony Paul (Tony) Allen includes buy out from share purchase program with previous employer. Amount listed for Bjørn Gundersen includes compensation for extensive travelling in period. Jan Arve Haugan's variable pay was incorrectly stated in 2011, and is now correctly stated.
3) Other benefits include telephone, insurance agreements, membership in the standard employee scheme and an additional executive group life and disability insurance.
4) Pension benefits include the standard employee pension scheme, a pension compensation scheme related to the transfer from a defined benefit scheme to a defined contribution scheme and a disability pension scheme.

Remuneration to the Board of Directors

2012	Board fees 3)	Audit Committee fees 3)	Remuneration Committee fees 3)
Kjell Inge Røkke 1)	570 000	-	30 000
Tore Torvund 2) 4)	485 000	-	30 000
Bruno Weymuller 2) 4)	385 000	80 000	-
Lone Fønss Schrøder 2)	310 000	155 000	-
Vibeke Hammer Madsen 1)	310 000	-	30 000
Rune Rafdal 2) 5)	155 000	-	-
Ståle Knoff Johansen 2) 5)	155 000	-	-
Bernt Harald Kilnes 2) 5)	155 000	80 000	-

1) Members of the Board of Directors elected for one year.
2) Members of the Board of Directors elected for two years.
3) Final fees for work performed in 2012 related to Board meetings, Audit Committee and Remuneration Committee will be approved by the Annual General Meeting on 10 April 2013. The fees listed in the table are the fees approved by the Annual General Meeting on 12 April 2012.
4) Directors resident outside Scandinavia are granted NOK 12 500 per physical Board meeting.
5) Directors appointed by and from the employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives.

According to Aker policies, fees to Directors employed in Aker companies will be paid to the Aker companies, not to the Directors in person. The same policy is implemented for fees for the Remuneration and Audit Committees. Therefore, fees for Kjell Inge Røkke were paid to The Resource Group AS.

2011	Board fees 4)	Audit Committee fees 4)	Remuneration Committee fees 4)
Kjell Inge Røkke 1)	275 000	-	12 500
Tore Torvund 2)	200 000	-	12 500
Bruno Weymuller 2)	150 000	37 500	-
Lone Fønss Schrøder 2)	150 000	75 000	-
Vibeke Hammer Madsen 1)	150 000	-	12 500
Rune Rafdal 2) 3) 5)	100 000	-	-
Ståle Knoff Johansen 2) 5)	100 000	-	-
Bernt Harald Kilnes 2) 5)	100 000	37 500	-

1) Members of the Board of Directors elected for one year.
2) Members of the Board of Directors elected for two years.
3) In two board meetings, deputy board member Amram Hadida met for Rune Rafdal.
4) Final fees, for work performed in 2011 related to Board meetings, Audit Committee and Remuneration Committee, was approved by the Annual General Meeting on 12 April 2012. Kvaerner had accrued a total of NOK 2.1 million for 2011 related to such meetings. Fees listed in the table are based upon six months activity from the demerger of Kvaerner from Aker Solutions on 7 July 2011.
5) Directors appointed by and from the employees. Board fees to employee elected Directors are reduced in accordance with agreement with employee representatives.

According to Aker policies, fees to Directors employed in Aker companies will be paid to the Aker companies, not to the Directors in person. The same policy is implemented for fees for the Remuneration and Audit Committees. Therefore, fees for Kjell Inge Røkke were paid to The Resource Group AS.

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:
Øyvind Eriksen (Chairman), Mette Wikborg and Thomas Thune Andersen. Kvaerner's General Meeting has adopted guidelines governing the duties of the Nomination Committee.

Audit Committee
Kvaerner has an Audit Committee comprising the following three Directors:
Lone Fønss Schrøder (Chair), Bruno Weymuller and Bernt Harald Kilnes.

Remuneration Committee
The Kvaerner Board of Directors have appointed a Remuneration Committee comprising three of the Directors. The current members of the Remuneration Committee are:
Kjell Inge Røkke (Chairman), Tore Torvund and Vibeke Hammer Madsen.

Directors' and members of Executive Management Team's shareholding		Shares
Jan Arve Haugan 1)	President & CEO	118 805
Eiliv Gjesdal	Executive Vice President & CFO	22 989
Bjørn Gundersen	Executive Vice President	4 598
Jan Øyri	Executive Vice President	54 292
James Harry (Jim) Miller	Executive Vice President	6 897
Janne Harstad Rasten	Executive Vice President (acting)	15 873
Lars Eide	Executive Vice President	44 728
Anthony Paul (Tony) Allen	Executive Vice President	22 989
Ståle Johansen 2)	Director	1 564
Rune Rafdal 2)	Director	3 161
Bernt Harald Kilnes 2)	Director	5 712

1) Jan Arve Haugan and related parties.
2) Directors appointed by and from the employees.

The overview includes only direct ownership of Kvaerner shares and does not include Kjell Inge Røkke's indirect ownership through his ownership in Aker ASA.

Note 10 Operating leases

Kvaerner has entered into various operating lease contracts, mainly related to rental of buildings and equipment. The lease terms vary from short term contracts to contracts with duration up to seven years. None of the leases include significant contingent rent. The majority of the contracts are renewable at the end of the lease period at market rates.

Total non-cancellable operating lease commitments

Amounts in NOK million	2012	2011
Contracts due within one year	**57**	6
Contracts running from one to five years	**72**	22
Contracts running for more than five years	**2**	1
Total	**131**	29

Minimum lease payments recognised in the income statement

Amounts in NOK million	2012	2011
Buildings	**52**	9
Plant, equipment and machinery	**40**	5
Total	**92**	14

Sublease payments and contingent rent recognised in the income statement for the years ended 31 December 2012 and 2011 were insignificant. The group has not entered into any non-cancellable sublease contracts.

Note 11 Other operating expenses

Other operating expenses amount to NOK 696 million in 2012 and NOK 456 million in 2011. The expenses include audit fees, operating lease costs (Note 10 Operating leases) and other expenses mainly related to premises, electricity, maintenance, travelling and IT-equipment.

Fees to auditor

Amounts in NOK million	2012	2011
Audit [1]	**13**	6
Other assurance services [2]	**-**	12
Other services	**2**	-
Total fees to KPMG	**14**	18
Total audit fees - other auditors	**1**	-
Total	**15**	18

1) Audit fees for 2012 include fees related to finalisation of 2011 audit of NOK 5 million.
2) As part of the demerger KPMG provided an opinion on carve out financial statements for the years 2008, 2009 and 2010. KPMG also provided a statutory opinion on the demerger transactions. The fees for 2011 includes NOK 10.9 million in other assurance services related to the demerger which were paid by Aker Solutions AS and recharged to Kværner ASA.

Note 12 Finance income and expenses

Recognised in profit and loss

Amounts in NOK million	2012	2011
Interest income on bank deposits measured at amortised cost	**25**	32
Interest income related party	**2**	15
Other finance income	**5**	2
Finance income	**32**	49
Interest expense on financial liabilities measured at amortised cost	**(54)**	(21)
Interest expense related party	**-**	(16)
Net foreign exchange loss [1]	**(7)**	(112)
Other finance cost	**(1)**	(11)
Finance expenses	**(63)**	(159)
Net finance expenses recognised in profit and loss	**(31)**	(109)

1) For 2011 foreign exchange losses include NOK 107 million from prior periods.

See Note 25 Financial instruments, for information on the finance income and expense generating items.

Note 13 Income taxes

Income tax expense

Amounts in NOK million	2012	2011
Income tax expense		
Current year's tax expense	**280**	448
Prior year tax payable adjustments	**(2)**	23
Total current tax expense	**278**	471
Current year's deferred tax expense	**(196)**	(127)
Prior year deferred tax adjustments	**49**	-
Total deferred tax expense/(income)	**(148)**	(127)
Total tax expense	**131**	344

Effective tax rate

Amounts in NOK million	2012	2011
Profit (loss) before tax, total	**369**	903
Expected income taxes (28 percent) of profit/(loss) before tax	**103**	253
Tax effects of:		
Prior year adjustments [1]	**47**	23
Permanent differences [2]	**8**	15
Effect of unrecognised timing differences and tax losses	**(42)**	101
Change in tax rates	**(7)**	(4)
Differences in tax rates from 28 percent	**13**	(40)
Other	**9**	(4)
Total	**131**	344
Effective tax rate	**35%**	38%
Tax effect of differences	**27**	91

1) Prior year adjustments mainly relate to management's reassessment of the level of non-deductible expenses. In 2011, prior year adjustments were related to net operating losses that were utilised in the final tax return for the USA businesses for 2010.
2) Permanent differences relates to net non-tax deductible expenses (currency, write offs, entertainment etc).

Recognised deferred tax assets and liabilities

2012

Amounts in NOK million	Assets	(Liabilities)	Net
Property, plant and equipment	42	-	42
Pensions	42	-	42
Projects under construction	(214)	-	(214)
Tax loss carry-forwards	260	-	260
Provisions	94	7	101
Other	27	(8)	19
Total	**251**	**(1)**	**250**

2011

Amounts in NOK million	Assets	(Liabilities)	Net
Property, plant and equipment	35	-	35
Pensions	40	-	40
Projects under construction	(109)	(6)	(115)
Tax loss carry-forwards	39	5	44
Provisions	124	(27)	97
Intangible assets	(23)	-	(23)
Other	(2)	17	15
Total	104	(10)	93

Change in net recognised deferred tax assets and liabilities

Amounts in NOK million	2012	2011
Balance as of 1 January	**93**	(63)
Recognised in profit and loss	**148**	127
Other adjustments [1]	**9**	33
Translation differences	**-**	(4)
Balance as of 31 December	**250**	93

1) Other adjustments in 2012 and 2011 are related to reclassifications to other receivables/prepaid taxes.

2012

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Translation differences	**Balance as of 31 December**
Property, plant and equipment	35	3	4	-	**42**
Pensions	40	4	(3)	-	**42**
Projects under construction	(115)	(104)	5	-	**(214)**
Tax loss carry-forwards	44	210	(1)	6	**260**
Provisions	97	(19)	22	-	**101**
Intangible assets	(23)	8	14	1	**-**
Other	15	45	(34)	(7)	**19**
Total	93	148	9	-	**250**

2011

Amounts in NOK million	Balance as of 1 January	Recognised in profit and loss	Other adjustments	Translation differences	**Balance as of 31 December**
Property, plant and equipment	37	(5)	3	-	**35**
Pensions	30	14	(4)	-	**40**
Projects under construction	(165)	(22)	73	-	**(115)**
Tax loss carry-forwards	49	74	(76)	(4)	**44**
Provisions	27	79	(9)	-	**97**
Intangible assets	(39)	(12)	29	(1)	**(23)**
Other	(2)	-	17	1	**15**
Total	(63)	127	33	(4)	**93**

Tax loss carry-forwards

Amounts in NOK million	**2012**	2011
Recognised tax losses carried forward	**930**	153
Unrecognised tax loss carry-forwards	**271**	609
Total tax loss carry-forwards [1)]	**1 202**	762

1) Unrecognised tax losses are mainly related to US operations and expire after more than five years. Recognised tax losses are mainly related to the Norwegian operations and have indefinite expiry dates.

Tax losses are recognised in the balance sheet to the extent that forecasts and realistic expectations about results show that Kvaerner will be able to use the tax losses before they expire.

Current tax assets relate to net prepaid taxes and amounts due from tax authorities.

Note 14 Trade and other current assets

Amounts in NOK million	Note	2012	2011
Trade receivables		**808**	570
Less provision for impairment of receivables		**(14)**	(16)
Trade receivables, net		**794**	554
Advances to suppliers		**6**	2
Work in progress	15	**1 282**	980
Accrued operating revenue		**411**	169
Other receivables		**84**	391
Derivative financial instruments	18	**19**	23
Other current assets		**46**	6
Total trade and other receivables	25	**2 641**	2 125
Other		**13**	10
Total		**2 654**	2 135

Impairment losses in 2012 were NOK 1.6 million (2011: nil).

Aging of trade receivables

Amounts in NOK million	2012	2011
Current	**301**	157
Past due 0-30 days	**114**	254
Past due 31-90 days	**132**	68
Past due 91 days to one year	**72**	46
Past due more than one year	**189**	45
Total	**808**	570

Note 15 Construction contracts

Amounts in NOK million	Note	2012	2011
Value of work performed on uncompleted contracts		**15 124**	17 897
Invoiced to customers		**13 843**	16 917
Work in progress to be invoiced		**1 282**	980
Trade receivables		**187**	404
Net receivables on construction contracts		**1 469**	1 384
Advances from customers	16	**143**	516

Largest projects in progress at year end 2012 (unaudited):

Project	Customer	Estimated delivery
Upstream segment:		
Nyhamna onshore	Shell	2018
Edvard Grieg topside	Lundin	2015
Eldfisk topside	ConocoPhillips	2014
Martin Linge jacket	Total	2014
Edvard Grieg jacket	Lundin	2014
Clair Ridge jackets	BP	2013
Nordsee Ost wind jackets	RWEI	2013
Downstream & Industrials segment:		
Calpine Garrison	Calpine Garrison	2015

Note 16 Trade and other payables

Amounts in NOK million	Note	2012	2011
Trade creditors		**957**	499
Advances from customers		**143**	516
Accrued operating and finance expenses		**1 321**	1 148
Derivative financial instruments	18	**39**	83
Sundry taxes		**183**	370
Other current liabilities		**175**	347
Total		**2 818**	2 963

Note 17 Provisions

Amounts in NOK million	Warranties	Other	**Total**
Balance as of 31 December 2010	371	132	**503**
Provisions made during the year	(306)	311	**5**
Provisions used during the year	27	(46)	**(19)**
Provisions reversed during the year	(16)	(60)	**(76)**
Currency translation differences	2	(1)	**1**
Balance as of 31 December 2011	78	336	**414**
Provisions made during the year	2	3	**5**
Provisions used during the year	(6)	(56)	**(62)**
Provisions reversed during the year	(11)	(7)	**(18)**
Currency translation differences	-	-	**(1)**
Balance as of 31 December 2012	63	275	**338**
Expected timing of payment as of 31 December 2012			
Non-current	-	275	**275**
Current	63	-	**63**
Total	63	275	**338**

Warranties
The provision for warranties relates mainly to the possibility that Kvaerner, based on contractual agreements, needs to perform guarantee work related to products and services delivered to customers. See Note 4 Accounting estimates and judgements, for further description.

Other
Other includes mainly provisions for expected upgrade work. If the amount exceeds the carrying value of work in progress the remaining part is recognised as a provision.

Note 18 Derivative financial instruments

The Kvaerner group uses derivative financial instruments to hedge foreign exchange risks. Further information regarding the group's risk management policies is available in Note 5 Financial risk management and exposures.

Forward foreign exchange contracts
The table below presents the fair value of the derivative financial instruments and a maturity analysis of the derivative's undiscounted cash flows. Given the Kvaerner group hedging policy and the assumption that the projects are cash neutral, this table also indicates when the cash flows related to project expenses are expected to impact profit and loss. The majority of project revenues are recognised in accordance with International Accounting Standard 11, Construction Contracts (IAS 11) using the percentage-of-completion method. This may result in different timing of cash flows related to project revenues and revenue recognition.

2012

Amounts in NOK million	Assets at fair value	Liabilities at fair value	**Net fair value**	**Total undiscounted cash flow 2)**	6 mths or less	6-12 mths	1-2 years	2-5 years 1)
Cash flow hedges	1	(33)	**(32)**	**(32)**	(23)	(9)	-	-
Embedded derivatives	12	(2)	**10**	**10**	5	5	-	-
Not hedge accounted	6	(4)	**2**	**2**	2	-	-	-
Total	19	(39)	**(20)**	**(20)**	(16)	(4)	-	-

2011

Amounts in NOK million	Assets at fair value	Liabilities at fair value	**Net fair value**	**Total undiscounted cash flow 2)**	6 mths or less	6-12 mths	1-2 years	2-5 years 1)
Cash flow hedges	9	(20)	(11)	(12)	(8)	(3)	(1)	-
Not hedge accounted	14	(63)	(49)	(48)	(49)	1	-	-
Total	23	(83)	(60)	(60)	(57)	(2)	(1)	-

1) There are no derivatives with maturity over five years.
2) Undiscounted cash flows are translated to NOK using the exchange rates as of the balance sheet date.

Derivative financial instruments are classified as current assets or liabilities. The full 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. All other hedges are not designated as hedges for accounting purposes and will have an effect on profit or loss. Most hedges qualifying for hedge accounting are classified as cash flow hedges (hedges of highly probable future revenues and/or expenses). The company has entered into currency forward contracts in 2012 which are classified as embedded derivatives.

The 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.

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

Forward exchange contracts

Amounts in NOK million	**2012**	2011
Fair value of all hedging instruments	**(32)**	(11)
Recognised in profit and loss	**10**	-
Deferred in equity (hedging reserve)	**(22)**	(11)

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 negative NOK 22 million that are currently recorded directly in the hedging reserve, will be reclassified to income statement over approximately the next three years.

Note 19 Property, plant and equipment

Amounts in NOK million	Buildings and sites	Machinery, equipment and software	Under construction	**Total**
Historical cost as of 1 January 2011	548	758	2	**1 308**
Additions	75	42	46	**163**
Disposals	(2)	(15)	(1)	**(18)**
Currency translation differences	1	1	-	**2**
Historical cost as of 31 December 2011	622	786	47	**1 455**
Accumulated depreciation as of 1 January 2011	(386)	(565)	-	**(951)**
Depreciation for the year	(16)	(35)	-	**(51)**
Disposals	-	15	-	**15**
Accumulated depreciation as of 31 December 2011	(402)	(585)	-	**(987)**
Book value as of 31 December 2011	220	201	47	**468**
Historical cost as of 1 January 2012	622	786	47	**1 455**
Additions	62	156	-	**218**
Disposals	(1)	(22)	-	**(23)**
Transfers	44	(4)	(40)	**-**
Currency translation differences	(1)	(5)	-	**(6)**
Balance as of 31 December 2012	726	911	7	**1 644**
Accumulated depreciation as of 1 January 2012	(402)	(585)	-	**(987)**
Depreciation for the year	(20)	(43)	-	**(63)**
Disposals	1	21	-	**22**
Currency translation differences	1	4	-	**4**
Balance as of 31 December 2012	(419)	(604)	-	**(1 023)**
Book value as of 31 December 2012	306	307	7	**620**

Kvaerner has not entered into any financial lease contracts as of 31 December 2012. At year end 2012 Kvaerner has contractual commitments for the acquisition of property, plant and equipment relating to upgrades at the Stord yard amounting to approximately NOK 175 million.

Depreciation

Assets are mainly depreciated on a straight-line basis over their expected economic useful lives as follows:

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

Estimates for residual values are reviewed annually.

Note 20 Intangible assets

Amounts in NOK million	Intangible assets excl. goodwill	Goodwill	Total
Balance as of 1 January 2011	11	1 178	**1 189**
Amortisation	(3)	-	**(3)**
Disposals	(4)	-	**(4)**
Currency translation differences	-	4	**4**
Balance as of 31 December 2011	4	1 182	**1 186**
Amortisation	(3)	-	**(3)**
Disposals	-	(19)	**(19)**
Additions	-	-	**-**
Currency translation differences	-	(6)	**(6)**
Balance as of 31 December 2012	-	1 157	**1 157**

Intangible assets other than goodwill have finite useful lives and are amortised over their expected economic useful life, ranging between five to ten years.

Research and development costs
For the year ended 31 December 2012, the group did not capitalise any costs related to development activities. NOK 4.7 million has been expensed for research and development (NOK 2.4 million in 2011) as the criteria for capitalisation was not met. There have not been any research and development costs paid by customers during the period.

Goodwill
Allocation of goodwill by operating segment

Amounts in NOK million	2012	2011
Upstream	**1 071**	1 071
North Sea	**421**	421
Jackets	**186**	186
Concrete Solutions	**198**	198
International	**266**	266
Downstream & Industrials	**86**	111
Total	**1 157**	1 182

Impairment testing of goodwill
Goodwill originates from a number of historic acquisitions. Following the demerger from Aker Solutions in 2011 goodwill has been allocated to the five business areas, based on relative fair value estimates of the businesses at the time of the demerger.

The group performs an impairment test annually to ensure that the recoverable amount related to recorded goodwill exceeds the related carrying value.

Recoverable amounts are based on value in use calculations. The calculations use cash flow projections based on management approved budget and strategic forecasts for the period 2013-2015 and an annual growth rate of 2.0 percent for subsequent periods. A pre tax discount rate (weighted average cost of capital) of 7.4 percent has been used to discount projected cash flows for the Upstream segment. For the Downstream & Industrials segment a pre tax discount rate of 7.0 percent has been applied.

Based on the impairment test performed in 2012, the recoverable amounts for the recorded goodwill exceeds the related carrying values, and consequently the analysis indicates that no impairment is required. There is significant headroom compared to the carrying amount for all business areas. From a total group perspective market value of equity at year end 2012 was approximately double compared to the book value of equity, which provides further comfort that no impairment is required.

Cash flow estimates are sensitive to changes in volume, margin and discount rate assumptions. No reasonable changes in these parameters would result in impairment losses.

Note 21 Other non-current assets

Amounts in NOK million	Note	2012	2011
Pension funds	24	**28**	14
Interest-bearing non-current receivables		**6**	22
Other non-current operating assets		**11**	9
Other investments		**7**	21
Total		**53**	66

Note 22 Equity-accounted investees

Jointly controlled entities are accounted for using the equity method. Associated companies and jointly controlled entities are defined as related parties to Kvaerner. See Note 7 Related parties, for overview of transactions and balances between Kvaerner and the associated companies and joint ventures.

Joint Venture Agreement with KGNT Holding LLP
Kvaerner is party to a 50/50 percent owned joint venture – Kvaerner Caspian BV – with the Kazakh company KGNT Holding LLP. The joint venture company is targeting offshore EPC and onshore module fabrication projects in the Kazakhstan sector of the Caspian Sea. The joint venture is committed to an investment plan up to 2022 to maintain its lease arrangements.

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.

Investments in associated companies and jointly controlled entities

2012

Amounts in NOK million	Book value as of 01.01.2012	Additions/ Disposals	Dividend	Profit/ (loss)	Currency translation differences	**Book value as of 31.12.2012**
Kvaerner Caspian BV	83	-	-	(8)	2	**77**
Kiewit-Kvaerner Contractors (KKC) 1)	-	20	(89)	68	-	**-**
Power Maintenance and Constructors, LLC 2)	16	(16)	-	-	(1)	**-**
Siva Verdal Eiendom AS	14	-	-	-	-	**14**
Concrete Structures AS	4	-	(1)	2	-	**6**
Zvezdochka Engineering OOO 3)	-	11	-	-	-	**11**
Total	117	15	(89)	63	1	**106**

1) KKC addition of NOK 20 million is reclassification from other balance sheet lines.
2) Power Maintenance and Constructors, LLC was sold in fourth quarter 2012, with proceeds equal to net carrying value.
3) Zvezdochka Engineering addition is reclassification from other non-current assets.

2011

Amounts in NOK million	Book value as of 01.01.2011	Additions/ Disposals	Dividend	Profit/ (loss)	Currency translation differences	**Book value as of 31.12.2011**
Kvaerner Caspian BV	87	2	-	(6)	-	**83**
Power Maintenance and Constructors, LLC	20	(5)	-	-	-	**16**
Siva Verdal Eiendom AS	14	-	-	-	-	**14**
Concrete Structures AS	-	3	-	1	-	**4**
Total	121	1	-	(5)	-	**117**

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

2012

Amounts in NOK million	Business office	Percentage held [3]	Assets	Liabilities	Equity	Revenues	Net profit (loss)
Kvaerner Caspian BV [1]	Zoetermeer, Netherlands	50.0%	188	75	112	17	(15)
Kiewit-Kvaerner Contractors (KKC) [1]	Newfoundland, Canada	50.0%	612	563	50	1 940	136
Siva Verdal Eiendom AS [2]	Verdal, Norway	46.0%	60	18	41	10	2
Concrete Structures AS [2]	Oslo, Norway	50.0%	18	8	10	41	6
Zvezdochka Engineering OOO [2]	Arkhangelsk, Russia	50.0%	3	-	3	2	(1)

1) Jointly controlled entity.
2) Associated company.
3) Percentage of voting rights equals percentage held.

2011

Amounts in NOK million	Business office	Percentage held [3]	Assets	Liabilities	Equity	Revenues	Net profit (loss)
Kvaerner Caspian BV [1]	Zoetermeer, Netherlands	50.0%	195	52	143	-	(13)
Power Maintenance and Constructors, LLC [2]	Hammond, USA	49.0%	74	41	33	473	1
Siva Verdal Eiendom AS [2]	Verdal, Norway	46.0%	57	18	39	8	2
Concrete Structures AS [2]	Oslo, Norway	50.0%	11	8	3	20	3

1) Jointly controlled entity.
2) Associated company.
3) Percentage of voting rights equals percentage held.

Note 23 Interest-bearing liabilities

This note provides information about the contractual terms of the Kvaerner group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the group's exposure to capital risk, including interest rates, foreign currency and liquidity risk, see Note 5 Financial risk management and exposures.

2012

Amounts in NOK million	Currency	Nominal currency value	**Book value [1)]**	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 500		2.10%-2.50%			3 May 2016	IBOR + Margin [2)]
Term loan	NOK	500	**469**	1.50%-2.50%	3.95%	4.01%	3 May 2014	NIBOR + Margin [2)]
Total credit facility		3 000	**469**					
Total non-current borrowings			**469**					

1) The book value is calculated by reducing the nominal value of NOK 500 million by total issue costs related to the credit facility, less subsequent amortisation.
2) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 40 percent of the margin.

Bank debt

The bank facility of NOK 3 000 million consists of a revolving credit facility of NOK 2 500 million maturing in May 2016 and a term loan of NOK 500 million maturing in May 2014. The facilities are provided by a syndicate of high quality international banks. The term loan of NOK 500 million was fully drawn at end of year 2011 whilst the NOK 2 500 million credit facility remained undrawn as of 31 December 2012. The terms and conditions include restrictions which are customary for these kinds of facilities, including inter alia negative pledge provisions and restrictions for acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreements. There are no restrictions for dividend payments, both revolving credit facilities and the term loan are 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 2012 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.

2011

Amounts in NOK million	Currency	Nominal currency value	**Book value [1)]**	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 500		2.10%-2.50%			3 May 2016	IBOR + Margin [2)]
Term loan	NOK	500	**460**	1.50%-2.50%	4.65%	4.73%	3 May 2014	NIBOR + Margin [2)]
Total credit facility		3 000	**460**					
Total non-current borrowings			**460**					
Current borrowings			**8**					
Non-current borrowings			**460**					
Total			**468**					

1) The book value is calculated by reducing the nominal value of NOK 500 million by total issue costs related to the credit facility.
2) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 40 percent of the margin.

Financial liabilities and the period in which they mature

2012

Amounts in NOK million	Book value	Total undiscounted cash flow	6 mths and less	6-12 mths	1-2 years	2-5 years
Term loan (NOK 500 million)	**469**	500	-	-	500	-
Total credit facility	**469**	500	-	-	500	-
Interest on revolving credit facility and other bank debt	**8**	29	10	11	8	-
Total borrowings	**477**	529	10	11	508	-

2011

Amounts in NOK million	Book value	Total undiscounted cash flow	6 mths and less	6-12 mths	1-2 years	2-5 years
Term loan (NOK 500 million)	**460**	500	-	-	-	500
Total credit facility	**460**	500	-	-	-	500
Interest on revolving credit facility and other bank debt	**8**	53	12	13	19	9
Total borrowings	**468**	553	12	13	19	509

Note 24 Employee benefits - pensions

The Kvaerner group's pension costs represent the future pension entitlement earned by employees in the financial year. In a defined contribution plan the company is responsible for paying an agreed contribution to the employee's pension assets. In such a plan the annual contribution is also the cost. In a defined benefit plan it is the company's responsibility to provide a certain pension benefit. The measurement of the cost and the pension liability for such arrangements are subject to actuarial valuations.

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 as a defined contribution plan. Kvaerner closed its defined benefit plans in 2008 and are now providing defined contribution plans for all of their employees under 62 years of age. Employees who were 58 or more in 2008, when the change took place, are still in the defined benefit plan. This is a funded plan and represents most of the funded pension liability reported in the tables below. In 2008, paid up policies were set up for accrued rights for employees who were moved to the new defined contribution plan. This compensation plan is an unfunded plan. The obligation is calculated by actuary on a yearly basis.

All pension plans outside Norway are defined contribution plans. Contributions to these abroad plans for Kvaerner was NOK 137 million in 2012 (NOK 123 million in 2011).

AFP is an early retirement arrangement organised by Norwegian employers, the main Labour Union organisation in Norway (LO) and the Norwegian state. The "old AFP" arrangement was established to provide pension between the age of 62 and 67 for employees who retired before the general retirement age of 67. In the 2010 pension reform individual employees are given a general choice of retirement age, but with lower pension with earlier retirement. The old AFP arrangement has been stopped and a "new AFP" plan is being established from 2011 to provide additional life long pensions to employees that retire early to compensate for the reduction in the ordinary pension entitlements. The Norwegian Accounting Standards Board has issued a comment concluding that the "new AFP" plan is a multi-employer defined benefit plan. The "new 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 "new AFP" plan is accounted for as a defined contribution plan.

Net periodic pension cost (return)

Amounts in NOK million	**2012**	2011
Defined benefit plans		
Service cost	**26**	20
Interest on projected benefit obligation	**12**	17
Expected return on plan assets	**(15)**	(18)
Net amortisations and deferrals	**4**	8
Curtailments and settlements	**-**	(11)
Administration cost	**6**	(6)
Social security tax	**4**	3
Pension cost defined benefit plans	**38**	13
Pension cost defined contribution plans	**217**	178
Total pension cost	**255**	191

Status of pension plans reconciled with the balance sheet

2012

Amounts in NOK million	Funded	Unfunded	**Total**
Accumulated benefit obligation	383	154	**537**
Effect of projected future compensation levels	(25)	(7)	**(33)**
Projected benefit obligation (PBO)	358	146	**504**
Social security tax on plan assets in excess of (less than) PBO	(1)	21	**20**
Plan assets at fair value	364	-	**364**
Plan assets in excess of (less than) PBO	7	(167)	**(160)**
Unrecognised net (gain)/loss	15	(5)	**11**
Net employee benefit assets (employee benefit obligations)	23	(172)	**(149)**
As presented in the balance sheet net of disposal groups			
Employee benefit assets	28	-	**28**
Employee benefit obligations	(5)	(172)	**(177)**
Total	23	(172)	**(149)**

2011

Amounts in NOK million	Funded	Unfunded	**Total**
Accumulated benefit obligation	395	105	500
Effect of projected future compensation levels	41	1	42
Projected benefit obligation (PBO)	436	106	542
Social security tax on plan assets in excess of (less than) PBO	7	15	22
Plan assets at fair value	359	-	359
Plan assets in excess of (less than) PBO	(84)	(121)	(205)
Unrecognised net (gain)/loss	63	5	68
Net employee benefit assets (employee benefit obligations)	(21)	(116)	(137)
As presented in the balance sheet net of disposal groups			
Employee benefit assets	14	-	14
Employee benefit obligations	(35)	(116)	(151)
Total	(21)	(116)	(137)

Economic assumptions

Norwegian plans	**2012**	2011
Discount rate	**3.80%**	2.60%
Asset return	**4.00%**	4.10%
Salary progression	**3.50%**	3.25-3.75%
Pension indexation	**1.90-2.50%**	1.15-2.50%

The discount rate in 2012 is based on the Norwegian high quality corporate bond rate. The discount rate in 2011 was based on the Norwegian ten-year government bond rate. The assumptions used are in the line with recommendations from the Norwegian Accounting Standards Board.

Generally, a one percent increase in the discount rate will lead to approximately ten to 15 percent decrease in service cost/projected benefit obligation. This is lower than an expected effect of approximately 20 percent as the benefit obligation in Kvaerner consist mainly of pensioners and employees over 60.

Movement in pension obligation and plan asset (for all units including disposal groups)

Amounts in NOK million	**2012**	2011
Projected benefit obligation as of 1 January	**542**	496
Service cost incl. cost related to the compensation plan	**26**	19
Interest on projected benefit obligation	**12**	17
Benefits paid by the plan	**(32)**	(33)
Curtailment and settlement	**(11)**	(4)
Acquisition and disposal	**-**	-
Change in unrecognised (gain)/loss	**(33)**	47
Currency translation differences	**-**	-
Projected benefit obligation as of 31 December	**504**	542
Plan assets at fair value as of 1 January	**359**	346
Expected return on plan assets	**15**	18
Contributions paid into the plan	**29**	19
Benefits paid by the plan	**(19)**	(20)
Curtailment and settlement	**(6)**	2
Change in unrecognised gain/(loss)	**(7)**	-
Administration costs	**(6)**	(6)
Currency translation differences	**-**	-
Plan assets at fair value as of 31 December	**364**	359

Analyses of the plan assets (Norwegian plans)

Major categories of plan assets in percent of total plan assets	**2012**	2011
Equity instruments	**8.1%**	7.8%
Debt instruments	**89.2%**	89.4%
Other assets	**2.7%**	2.7%
Plan assets	**100.0%**	100.0%

The estimated contributions to be paid to the plans during 2013 are NOK 245 million.

Overview of pension obligations and assets

Amounts in NOK million	**2012**	2011	2010	2009	2008
Projected benefit obligation	**504**	542	496	569	529
Plan assets at fair value	**364**	359	346	341	320
Net pension obligation [1)]	**(140)**	(183)	(150)	(228)	(209)

1) Numbers are stated exclusive of social taxes and unrecognised gain.

Change in unrecognised (gain)/loss projected benefit obligation	**(33)**	47	(36)	20	29
Change in unrecognised gain/(loss) plans assets	**(7)**	-	(9)	8	(18)

As described in Note 3 Significant accounting policies, section for New standards and interpretations not yet adopted, Kvaerner will from 2013 adopt IAS19 (revised).

KVÆRNER

Note 25 Financial instruments

This note summarises each class of financial instruments and gives an overview of book and fair value of the group's financial instruments. The table below also shows on what level in the measurement hierarchy the group's financial instruments measured at fair value are considered to be in regard to how objective the measuring method is.

Assets as of 31 December 2012

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	Total carrying amount
Total cash and cash equivalents		1 069	-	-	-	**1 069**
Non-current interest-bearing receivables	21	-	-	-	6	**6**
Trade and other current assets	14	-	19	-	2 622	**2 641**
Trade and other receivables related parties	7	-	-	-	6	**6**
Non-current interest-bearing receivables related parties	7	-	-	-	44	**44**
Total loans and receivables		-	19	-	2 678	**2 697**
Total assets classified as financial instruments		1 069	19	-	2 678	**3 766**
Current assets		1 069	19	-	2 628	**3 716**
Non-current assets		-	-	-	50	**50**
Total assets		1 069	19	-	2 678	**3 766**

Liabilities as of 31 December 2012

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	Total carrying amount
Trade and other payables	16	-	(39)	-	(2 779)	**(2 818)**
Trade and other payables related parties	7	-	-	-	(19)	**(19)**
Total current financial liabilities		-	(39)	-	(2 798)	**(2 837)**

Assets as of 31 December 2011

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	**Total carrying amount**
Total cash and cash equivalents		2 418	-	-	-	**2 418**
Non-current interest-bearing receivables	21	-	-	-	22	**22**
Trade and other current assets	14	-	23	-	2 102	**2 125**
Trade and other receivables related parties	7	-	-	-	121	**121**
Current interest-bearing receivables related parties	7	-	-	-	15	**15**
Non-current interest-bearing receivables related parties	7	-	-	-	25	**25**
Total loans and receivables		-	23	-	2 285	**2 308**
Total assets classified as financial instruments		2 418	23	-	2 285	**4 726**
Current assets		2 418	23	-	2 238	**4 679**
Non-current assets		-	-	-	47	**47**
Total assets		2 418	23	-	2 285	**4 726**

Liabilities as of 31 December 2011

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	**Total carrying amount**
Trade and other payables	16	-	(83)	-	(2 880)	**(2 963)**
Trade and other payables related parties	7	-	-	-	(115)	**(115)**
Total current financial liabilities		-	(83)	-	(2 995)	**(3 078)**

Loans, receivables and financial liabilities
The first level in the above table, fair value based on prices quoted in an active market for identical assets or liabilities, includes cash and financial instruments that are calculated based on observable prices on identical instruments.

The second level in the above table, fair value is based on price inputs, other than quoted prices, which are derived from observable market transactions in an active market for identical assets or liabilities, includes currency derivatives. These will typically be when the group uses forward prices on foreign exchange rates as inputs to valuation models.

The third level in the above table, fair value is based on unobservable inputs, includes financial instruments for which fair values are calculated on the basis of input and assumptions that are not from observable market transactions. The Kvaerner group has no such level three assets or liabilities.

Non-current loans
Non-current loans consists of a term loan with a duration of three years. The carrying amount is measured at amortised cost. Fair value is equal to the book value of NOK 469 million (NOK 460 million in 2011).

	2012		2011	
Amounts in NOK million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Other borrowings [1]	**469**	**469**	460	460
Total borrowings	**469**	**469**	460	460

1) Credit facilities have floating interest and the notional amount is a reasonable approximation of fair values.

Cash and cash equivalents
Total cash and cash equivalents consists of NOK 596 million in deposits on group bank accounts, and NOK 473 million in interest-bearing deposits.

Note 26 Group companies as of 31 December 2012

Company name 31.12.2012	City	Country of incorporation	Ownership (percent)[1]
Kværner ASA	Oslo	Norway	100
Kværner AS	Oslo	Norway	100
Kværner Engineering AS	Oslo	Norway	100
Kværner Stord AS	Stord	Norway	100
Kværner Verdal AS	Verdal	Norway	100
Dovre Maling AS	Verdal	Norway	100
Vind Sammenstilling AS	Verdal	Norway	100
Kværner Jacket Technology Trondheim AS [2]	Trondheim	Norway	100
Kværner Jacket Technology AS	Oslo	Norway	100
Kværner Piping Technology AS	Verdal	Norway	100
Aker Kværner Contracting International (Spain) AS	Oslo	Norway	100
Aker Kværner Contracting Italy AS	Oslo	Norway	100
Aker Contracting Russia AS	Oslo	Norway	100
Norwegian Contractors AS	Sandvika	Norway	100
Aker Solutions Contracting AS	Oslo	Norway	100
Kværner Resources AS	Oslo	Norway	100
Kvaerner Finland Oy	Ulvila	Finland	100
Kvaerner Contracting Ltd	London	UK	100
Kvaerner Resources Ltd	London	UK	100
Kvaerner Field Development Inc	Houston	USA	100
Kvaerner Strategic Operations Inc	Canonsburg	USA	100
Kvaerner Americas Holdings Inc	Canonsburg	USA	100
Kvaerner Americas Inc	Canonsburg	USA	100
Kvaerner North American Construction Inc	Canonsburg	USA	100
Kvaerner Industrial Constructors Inc	Canonsburg	USA	100
Kvaerner Industrial Constructors Holdings Inc	Canonsburg	USA	100
Kvaerner Oil & Gas Australia Pty Ltd	Perth	Australia	100
Kvaerner Newfoundland Ltd	St. John's	Canada	100
Kvaerner North American Construction Ltd	Burlington	Canada	100
Kvaerner Engineering & Technology (Beijing) Co Ltd	Beijing	China	100

1) Ownership equaling the percentage of voting shares.
2) Previously named Kværner Sakkyndig Virksomhet AS.

Note 27 Divestment of EPC Center Houston

On 16 July 2012, Kvaerner closed the transaction with IHI E&C International Corp, a US subsidiary of the Japanese company IHI Corporation ("IHI") to sell the on-going operations and related assets of EPC Centre Houston. All completed contracts with related assets and liabilities, including warranties and legacies will be retained by Kvaerner.

Following the sale, a net positive EBITDA effect of NOK 42 million from the divestment and adjustments resulting from management's reassessment of the retained assets and liabilities have been recognised.

The sold assets were part of the Downstream & Industrials segment, but is not considered a separate major line of business and is consequently not classified and presented as discontinued operations in the group accounts.

Note 28 Contingent events

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

Significant current disputes

Longview project

Kvaerner North American Construction Inc, a subsidiary of Kvaerner, initiated arbitration against both Longview Power, LLC and Foster Wheeler North America Corp. the supplier of the boiler for the Longview project in 2011. Kvaerner North American Construction Inc experienced an increase in the cost of construction of the project from a number of causes, including force majeure events; changes to the project; and third party actions in furnishing engineering services, equipment and materials; all of which have directly and adversely impacted Kvaerner North American Construction Inc's project work. The arbitration is intended to recover excess construction costs and other damages incurred by Kvaerner North American Construction Inc in execution of the project. Arbitration resolution is expected during second half of 2014.

Nordsee Ost project

In 2010, Kværner Verdal AS entered into a contract with a subsidiary RWEI for the delivery of 48 jackets for windmill turbines and one jacket for a transformer station for the Nordsee Ost Windmill Farm. The Kvaerner subsidiary has requested to be compensated for additional costs and schedule impacts of various changes to the scope of work and associated matters. The parties are in disagreement about the scope of these changes and the related consequences or the financial and schedule consequences associated therewith. In 2012, the arbitration related to the ongoing Nordsee Ost project was filed. Arbitration resolution is expected during the first half of 2013.

There are still substantial uncertainties with respect to the final financial outcome of the above projects and to avoid prejudicing Kvaerner's position, no estimate of the expected final outcome is disclosed.

Note 29 Subsequent Events

The Board proposes dividend of NOK 0.55 per share

The Board of Directors has in accordance with the dividend policy proposed to pay a semi-annual dividend of NOK 0.55 per share in April 2013. The Annual General Meeting (AGM) is scheduled for 10 April 2012. Subject to approval by the AGM, the dividend payment will take place on or about 24 April 2013 to shareholders of record as per the date of the AGM. The shares will be traded exclusive dividend from and including 11 April 2013.

Increase in the Nyhamna onshore framework agreement

In April 2012 Kvaerner signed a framework agreement with A/S Norske Shell for Engineering, Procurement, Construction and Management (EPCM) for modifications and projects at the Ormen Lange/Nyhamna onshore facilities. Based on the completed front end engineering and design (FEED) work for the Nyhamna Expansion project, the estimated value of the framework agreement has been adjusted to include an addition of approximately NOK five billion, giving an estimated total value of the contract of NOK 11 billion.

Note 30 Capital and reserves

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.

Dividends	2012	2011
Paid dividend per share (NOK)	**1.53**	-
Total dividend proposed (NOK million)	**148**	269
Semi-annual dividend per share proposed by the Board of Directors (NOK)	**0.55**	1.00

Dividends paid in 2012 consists of a dividend payment of NOK 1.00 per share in April and NOK 0.53 per share in October.

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 18 Derivative financial instruments.

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

Annual accounts Kværner ASA

Income statement 01.01 - 31.12

Amounts in NOK thousands	Note	2012	12 January - 31 December 2011
Operating revenue	2	**10 664**	-
Operating expenses	2	**(46 474)**	(100 007)
Operating loss		**(35 810)**	(100 007)
Net financial items	3	**294 506**	191 895
Profit before tax		**258 696**	91 888
Income tax expense	4	**(73 406)**	(25 729)
Profit for the period		**185 290**	66 159
Net profit for the year is distributed as follows:			
Proposed dividends [1]	6	**147 950**	66 159
Transferred to other equity		**37 340**	
Profit for the period		**185 290**	66 159
Group contribution with tax effect		**206 763**	-
Group contribution without tax effect		**2 000 000**	-

1) Total proposed dividends for the year is NOK 148.0 million, see Note 6 Shareholders' equity.

Balance sheet as of 31 December

Amounts in NOK thousands	Note	2012	31 December 2011
Assets			
Deferred tax asset	4	-	14 617
Investments in group companies	5	**2 577 540**	428 671
Non-current interest-bearing receivables from group companies	7	**6 975 174**	6 838 411
Other non-current interest-bearing receivables	8	**14 485**	15 085
Total non-current assets		**9 567 199**	7 296 784
Non interest-bearing receivables from group companies	7	**18 589**	23 367
Other current receivables	9	**35 724**	22 779
Cash and cash equivalents	7	**414 653**	827 832
Total current assets		**468 966**	873 978
Total assets		**10 036 165**	8 170 762
Liabilities and shareholders' equity			
Issued capital		**91 460**	91 460
Share premium reserve		**729 027**	729 027
Other equity		**4 395 928**	4 500 849
Total equity	6	**5 216 415**	5 321 336
Deferred tax liability	4	**456**	-
Non-current interest-bearing borrowing	10	**468 983**	459 629
Total non-current liabilities		**469 439**	459 629
Interest-bearing current borrowing from group companies	7	**1 843 606**	1 937 771
Other current borrowings	9	**8 007**	8 434
Provision for dividend	9	**147 950**	269 000
Other current liabilities to group companies	7	**2 311 874**	40 399
Other current liabilities	9	**38 874**	93 847
Tax payable	9	-	40 346
Total current liabilities		**4 350 311**	2 389 797
Total liabilities and shareholders' equity		**10 036 165**	8 170 762

Oslo, 11 March 2013
Board of Directors and President & CEO of Kværner ASA

Kjell Inge Røkke
Chairman

Tore Torvund
Deputy Chairman

Bruno Weymuller
Director

Lone Fønss Schrøder
Director

Vibeke Hammer Madsen
Director

Rune Rafdal
Director

Ståle K. Johansen
Ståle Knoff Johansen
Director

Bernt Harald Kilnes
Director

Jan Arve Haugan
President & CEO

Statement of cash flows 01.01 - 31.12

Amounts in NOK thousands	2012	12 January - 31 December 2011
Profit before tax	**258 696**	91 888
Taxes paid	**(40 785)**	-
Changes in accounts receivable	**(12 945)**	-
Changes in other net operating assets	**(30 607)**	89 102
Net cash from operating activities	**174 359**	180 990
Change in long term investment in related party	**600**	(15 085)
Change in short long term investment	**-**	(1 002)
Net cash from investing activities	**600**	(16 087)
Amortisation of prepaid fees	**9 354**	-
Net proceeds from external borrowings	**-**	468 063
Increase in long term borrowings to group companies	**(131 985)**	(6 549 872)
Increase/(reduction) in short term debt	**(54 246)**	1 649 232
Change in equity/investments in group companies	**-**	5 095 506
Proceeds from employee share purchase programme	**(28 573)**	-
Repurchase of shares	**28 880**	-
Dividends paid	**(411 568)**	-
Net cash from financing activities	**(588 138)**	662 929
Net increase/(decrease) in cash and bank deposits	**(413 179)**	827 832
Cash and bank deposits at the beginning of the period	**827 832**	-
Cash and bank deposits at the end of the period	**414 653**	827 832

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 Drammensveien 264, 0283 Oslo, Norway.

The accounts are presented in conformity with Norwegian legislation and Norwegian generally accepted accounting principles. The functional and presentation currency is Norwegian kroner (NOK).

Revenue recognition
Operating revenue comprises from parent company guarantees recharged entities within the Kvaerner group. The revenue is recognised over the the guarantee period.

Investment in subsidiaries and associates
Investments in subsidiaries and associates are accounted for using the cost method in the parent company accounts. The investments are valued at cost less impairment losses. Write-down to fair value are according to good accounting practice recognised when the impairment is considered not to be temporary and reversed if the basis for the write-down is no longer present.

Dividends and other distributions are recognised as income the same year as they are appropriated in the subsidiary. If the dividend exceeds accumulated profits in the subsidiary after the day of acquisition the payment is treated as a reduction of the carrying value of the investment.

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. The rest is classified as fixed assets/non-current debt.

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

Non-current debts are initially valued at transaction value less attribute transaction cost. Subsequent to initial recognition, interest-bearing long-term debt is stated 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. Current assets and current liabilities include items due within one year or items that are part of the operating cycle.

Trade receivables and other receivables are recognised at nominal value less provision for expected losses. Provision for expected losses is considered on an individual basis.

The cash flow statement is established according to the indirect method.

Cash in cash pool system
Cash in cash pool system is the parent company's cash as well as net deposits from subsidiaries in the group cash pooling systems owned by the parent company. Correspondingly, the parent company's current debt to group companies will include the same net deposits in the group's cash pooling system.

Cash, receivables and foreign currency are valued at the exchange rate at the end of the fiscal year. Subsidiaries have entered into agreements with the parent company to hedge their foreign exchange exposure. In the parent company, this risk is hedged in the external financial markets.

All agreements are booked at fair value with any gains or losses booked against the income statement.

Share capital
Cost for purchase of own shares including transaction costs are accounted for directly against equity. Sale of own shares are done according to stock-exchange quotations at the time of award and accounted for as a change in equity.

Tax
Tax expense in the income statement comprises current tax and changes in deferred tax. Deferred tax is calculated as 28 percent of temporary differences between accounting and tax values as well as any tax losses carry forward at the year end. A net deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be utilised.

Transaction cost
Fees related to the negotiation and arrangement of finance facilities are capitalised in the balance sheet and recognised as an expense over the expected term of the loan.

Note 2 Operating revenue and operating expenses

Operating revenue relates to parent company guarantees recharged entities within the Kvaerner group.

There are no employees in Kværner ASA and hence no salary or pension related costs, and no loan or guarantees related to the executive management team. Group management and corporate staff are employed by other Kvaerner companies and costs for their services as well as other parent company costs are recharged to Kværner ASA. Total parent company cost for 2012 amounts to NOK 48 million.

Fees to KPMG for statutory audit of the parent company amounted to NOK 3.5 million excluding VAT.

NOK 2.9 million has been allocated to payable fees to the Board of Directors for 2012.

See Note 9 Salaries, wages and social security costs in the annual account for the Kvaerner group for further details regarding remuneration of the President & CEO.

Note 3 Net financial items

Amounts in NOK thousands	2012	12 January - 31 December 2011
Interest income from group companies	**360 414**	252 320
Interest expense to group companies	**(28 957)**	(41 849)
Net interest group companies	**331 457**	210 471
Interest income from external companies	**13 671**	10 938
Interest expense to external companies	**(51 098)**	(19 455)
Net interest external	**(37 427)**	(8 517)
Net other financial items	**476**	(10 059)
Net financial items	**294 506**	191 895

Note 4 Tax

Amounts in NOK thousands	2012	12 January - 31 December 2011
Taxable income		
Profit before tax	**258 696**	91 888
Group contribution with tax effect	**(206 763)**	-
Temporary differences	**(53 834)**	52 205
Permanent differences	**1 901**	-
Taxable income	**-**	144 093
Temporary differences and deferred tax effect		
Unrealised gain/(loss) on forward exchange contracts	**1 629**	(52 205)
Basis for deferred tax	**1 629**	(52 205)
Deferred tax asset	**-**	14 617
Deferred tax liability	**456**	-
Tax expense		
Tax expense on taxable income before group contribution	**(57 894)**	(40 346)
Paid extra tax for 2011	**(439)**	-
Deferred tax expense on temporary differences	**(15 074)**	14 617
Total tax expense in income statement	**(73 406)**	(25 729)
Rate of taxation	**28%**	28%
Payable tax acc to balance sheet:		
Payable tax on net income statement	**57 894**	(40 346)
Payable tax on group contribution	**(57 894)**	-
Total payable tax	**-**	(40 346)

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 AS	Oslo, Norway	250	10 000	2 577 540	100%

Kværner ASA has in 2012 given group contribution to subsidiary Kværner AS. Group contribution with tax effect is NOK 206.8 million, group contribution without tax effect is NOK 2 000 million. The equity value of this is booked against the shares in the subsidiary, increasing the book value with NOK 2 148.9 million after tax.

Kværner AS 2012

Amounts in NOK thousands	
Profit for the period	(457 218)
Equity per 31 December 2012	2 554 188

Note 6 Shareholders' equity

Amounts in NOK thousands	Number of shares	Share capital	Share premium	Other equity	Total
Equity at date of inception, 12 January 2011	1000	1000	-	-	**1 000**
Capital reduction	(1 000)	(1 000)	-	-	**(1 000)**
Separation from Aker Solutions on 7 July 2011	269 000 000	91 460	729 027	4 703 690	**5 524 177**
Profit for the period				66 159	**66 159**
Proposed dividend				(269 000)	**(269 000)**
Equity as of 31 December 2011	269 000 000	91 460	729 027	4 500 849	**5 321 336**
Shares issued to employees through share programmes	2 164 580			28 880	**28 880**
Shares buy back	(2 164 580)			(28 573)	**(28 573)**
Profit for the period				185 290	**185 290**
Dividend paid				(142 568)	**(142 568)**
Proposed dividend				(147 950)	**(147 950)**
Equity as of 31 December 2012	269 000 000	91 460	729 027	4 395 928	**5 216 415**

Employee share purchase programmes

Kvaerner share purchase programmes

In 2012 Kvaerner implemented employees' and managers' share purchase programmes for the employees and managers of the Norwegian subsidiaries.

The participants in the share purchase programmes were offered a price reduction of 25 percent on the share price in addition to a discount of NOK 1 500. The price reduction is determined representing fair value as the shares have a locked-in period of three years.

In total, 1 915 778 Kværner ASA shares were distributed to employees and managers under the programmes at a price of NOK 13.05 per share.

Obligations to Kvaerner employees under former Aker Solutions share purchase programmes

The number of matching shares to Kvaerner employees under the Aker Solutions share purchase programme number 2 was 248 802 at a price of NOK 15.59 per share. In 2011 Kvaerner paid out a total of NOK 4.3 million in cash, equal to the value of the bonus shares for programme number 1. The last award of matching shares, for programme number 3, will be in 2013.

The employee share purchase programmes are further described in Note 9 Salaries, wages and social security costs in the annual account for the Kvaerner group.

The cost of the shares in both programmes have been recharged the Norwegian subsidiaries of Kvaerner.

A dividend of NOK 142.5 million (NOK 0.53 per share) was paid out to all shareholders (excl. own shares) on 24 October 2012. The Board of Directors has according to the dividend policy proposed to pay a semi-annual dividend of NOK 0.55 per share in total NOK 148.0 million.

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

Note 7 Receivables and borrowings from group companies

Amounts in NOK thousands	2012	12 January - 31 December 2011
Kværner ASA bank deposits	**414 653**	827 832
Total Cash in cash pool system	**414 653**	827 832
Non-current interest-bearing receivables from group companies	**6 975 174**	6 838 411
Interest-bearing current intercompany loans	**-**	(288 539)
Interest-bearing current borrowings from group companies	**(1 843 606)**	(1 649 232)
Net interest-bearing receivables from group companies	**5 131 568**	4 900 640
Non interest-bearing receivables from group companies	**18 589**	23 367
Other current liabilities to group companies	**(2 311 874)**	(40 399)
Net non interest-bearing liabilities to goup companies	**(2 293 285)**	(17 032)
Total cash and group receivables	**3 252 936**	5 711 440

Note 8 Other non-current interest-bearing receivables

Amounts in NOK thousands	2012	2011
Loan to related party	**14 485**	15 086
Total other non-current interest-bearing receivables	**14 485**	15 086

Note 9 Other current receivables and current liabilities

Amounts in NOK thousands	2012	2011
Other current external receivables	**35 724**	22 779
Other current external liabilities	**(38 874)**	(82 985)
Net other current receivables and liabilities excluding tax, accounts payable and dividend	**(3 150)**	(60 206)
VAT liabilities	**-**	(10 391)
Payable tax	**-**	(40 346)
Other accounts payable	**-**	(471)
Other current external borrowings	**(8 007)**	(8 434)
Dividend	**(147 950)**	(269 000)
Net other current liabilities	**(159 107)**	(388 848)

Net other current receivables and other current liabilities include unrealised forward exchange contracts with external counterparts, see Note 12 Financial risk managment and exposures.

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.

2012

Amounts in million	Currency	Nominal currency value	Book value[1)]	Interest margin	Interest rate	Effective interest rate	Maturity date	Interest terms
Revolving credit facility	Multi currency	2 500		2.10-2.50%			3 May 2016	IBOR + Margin[2)]
Term loan	NOK	500	469	1.50-2.50%	3 95%	4.01%	3 May 2014	NIBOR + Margin[2)]
Total credit facility		3 000	469					

1) The book value is calculated by reducing the nominal value of NOK 500 million by total issue costs related to the new financing.
2) The margin applicable to the facility is decided by a price grid based on the gearing ratio. Commitment fee is 40 percent of the margin.

Bank debt
The bank facility of NOK 3 000 million consists of a revolving credit facility of NOK 2 500 million maturing in May 2016 and a term loan of NOK 500 million maturing in May 2014. The facilities are provided by a syndicate of high quality international banks. The term loan of NOK 500 million was fully drawn at end of year 2011 whilst the NOK 2 500 million credit facility remained undrawn. The terms and conditions include restrictions which are customary for these kinds of facilities, including inter alia negative pledge provisions and restrictions for acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreements. There are no restrictions for dividend payments; both revolving credit facilities and the term loan are 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 asstes and an interest coverage ratio based on consolidfated EBITDA/consolidated finance costs. The financial covenants are tested on a quarterly basis. As of 31 December 2012 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 12 Financial risk management and exposures, for more information regarding capital risk in Kværner ASA.

The numbers for 2011 are stated in Note 23 Interest-bearing liabilities in the Kvaerner group accounts.

Financial liabilities and the period in which they mature

2012

Amounts in NOK million	Book value	Total undiscounted cash flow	6 mths and less	6-12 mths	1-2 years	2-5 years
Revolving credit facility (NOK 2 500 million)	-	-	-	-	-	-
Term loan (NOK 500 million)	469	500	-	-	500	
Total credit facility	469	500	-	-	500	-
Interest on term loan and other bank debt	8	29	10	11	8	
Total borrowings	477	529	10	11	508	-

Note 11 Guarantees

Amounts in NOK million	**2012**	2011
Parent company guarantees to group companies[1]	**42 767**	39 020
Counter guarantees for bank/surety bonds[2]	**2 016**	1 260
Total	**44 783**	40 280

1) Kværner ASA has provided indemnities to Aker Solutions in respect of parent company guarantees issued by Aker Solutions on behalf of Kvaerner group companies.
2) Financial guarantees including counter guarantees for bank/surety bonds.

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

Note 12 Financial risk management and exposures

Foreign exchange
Kværner ASA entered into currency contracts with subsidiaries in 2012 with a total notional value of NOK 2.1 billion. Close to hundred percent of contracts are hedged back-to-back with external banks.

Currency exposure from equity investments in foreign currencies are only hedged when specifically instructed by management. As of 31 December 2012, the group had no hedging of net investments.

Currency risk and balance sheet hedging

	2012		2011	
Amounts in NOK thousands	**Assets**	**Liabilities**	Assets	Liabilities
Fair value of forward exchange contracts with group companies	**35 724**	**(13 722)**	22 367	(14 364)
Fair value of forward exchange contracts with external counterparts	**18 501**	**(38 874)**	22 777	(82 985)
Total	**54 225**	**(52 596)**	45 144	(97 349)

Interest rate risk
The company is exposed to changes in interest rates because of floating interest rate loan receivables and loan payables. The company does not hedge transactions exposure in the financial markets and have no fixed rate loan receivables or loan payables. The company is therefore not exposed to the risk that changes in interest rates impact market value of its outstanding loan receivables or loan payable. 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. 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. The development in the groups and thereby Kværner ASA's available liquidity, is continuously monitored through weekly and monthly cash forecasts, annual budgets and long term planning.

Note 13 Related parties

Kværner ASA has receivables with related parties of NOK 28 million and interest-bearing receivables of NOK 14.5 million.

According to agreement with, and initiative from, the Directors of the Board appointed by the employees, NOK 155 000 per Director elected by the employees is transferred to the labour unions.

See also Note 8 Other non-current interest-bearing receivables.

Note 14 Shareholders

Shareholders with more than one percent shareholding as of 31 December 2012

Company	Nominee	Number of shares held	Ownership
AKER KVÆRNER HOLDING AS		110 333 615	41.02
MORGAN STANLEY & CORPORATION LLC	X	13 021 121	4.84
JP MORGAN CLEARING CORPORATION	X	12 090 077	4.49
STATE STREET BANK	X	10 441 905	3.88
JPMORGAN CHASE BANK	X	8 127 210	3.02
GOLDMAN SACHS & CORPORATION	X	7 347 294	2.73
FONDSFINANS SPAR		4 800 000	1.78
CLEARSTREAM BANKING	X	4 653 616	1.72
SKANDINAVISKA ENSKILDA	X	3 662 108	1.36
VARMA MUTUAL PENSION		3 600 000	1.33
JPMORGAN CLEARING CORPORATION	X	3 191 520	1.18

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 2012 calendar year ended on 31 December 2012 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 2012 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 and parent company's assets, liabilities, profit and overall financial position as of 31 December 2012.
- 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.

Oslo, 11 March 2013
Board of Directors and President & CEO of Kværner ASA

Kjell Inge Røkke Chairman	Tore Torvund Deputy Chairman	Bruno Weymuller Director	Lone Fønss Schrøder Director	Vibeke Hammer Madsen Director
Rune Rafdal Director	Ståle Knoff Johansen Director	Bernt Harald Kilnes Director	Jan Arve Haugan President & CEO	

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

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

To the Annual Shareholders meeting of Kværner ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Kværner ASA, which comprise the financial statements of the parent company Kværner ASA and the consolidated financial statements of Kværner ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2012, the income statement and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2012, and income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the President and CEO's Responsibility for the Financial Statements

The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway, and for the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the President and CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report
Kværner ASA

Opinion on the separate financial statements

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Kværner ASA as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Kværner ASA and its subsidiaries as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and Report on corporate governance

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 Report on corporate governance concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

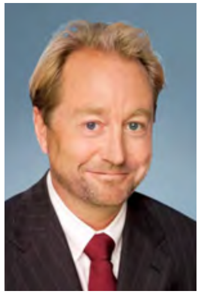
Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures, we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's 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 March 2013
KPMG AS

Tom Myhre
State Authorised Public Accountant (Norway)

Board of Directors

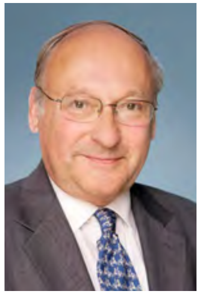


Kjell Inge Røkke
Chairman

Kjell Inge Røkke is an entrepreneur and industrialist, and has been a driving force in the development of Aker since the 1990s. Mr Røkke owns 67.8 percent of Aker ASA through The Resource Group TRG AS and subsidiaries which he co-owns with his wife. He is Chairman of Aker ASA, board member of Aker Solutions ASA and deputy board member of Det norske oljeselskap ASA. He holds no shares in Kværner ASA, and has no stock options. Mr Røkke is a Norwegian citizen. He has been elected for the period 2011-2013.

Tore Torvund
Deputy Chairman

Tore Torvund has held the position as Executive Vice President of the solar technology company REC Silicon Renewable Energy Corporation since 2009. Mr Torvund has senior executive experience from more than 20 years in the oil and gas industry, including as Executive Vice President of Exploration & Production Norway at the oil company StatoilHydro, and Executive Vice President of Oil and Energy at Norsk Hydro. He has held several management positions related to drilling operations, field development and technology projects. Mr Torvund holds an M.Sc. in petroleum engineering from the Norwegian University of Science and Technology. He holds no shares in Kværner ASA, and has no stock options. Mr Torvund is a Norwegian citizen. He has been elected for the period 2011-2013.

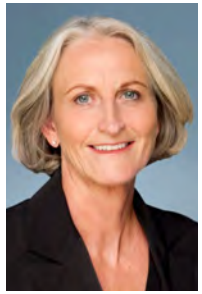


Bruno Weymuller
Director

Bruno Weymuller served as Strategy Director of the oil company Total Group from 2000 to 2008. He started his career with positions within the French Ministry of Industry and the Energy Directorate as well as serving in key positions at the Prime Minister's office. Mr Weymuller held various executive positions in Elf Aquitaine (Total) from 1981 to 2008. Mr Weymuller is an alumnus of the Ecole Polytechnique and the Ecole des Mines (Paris) and also holds an M.Sc. from MIT. He holds no shares in Kværner ASA, and has no stock options. Mr Weymuller is a French citizen. He has been elected for the period 2011-2013.

Lone Fønss Schrøder
Director

Lone Fønss Schrøder has broad international experience acquired during 21 years in senior management positions, including board positions at the industrial conglomerate A.P. Møller-Maersk A/S. She is a non-executive director and chairs the audit committee of Volvo PV, non-executive director and member of the audit committee of Aker Solutions ASA, Vattenfall AB and Svenska Handelsbanken AB in Sweden and non-executive director of NKT A/S (Denmark). Ms Fønss Schrøder holds a law degree from the University of Copenhagen, and an M.Econ. 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 2011-2013.



Vibeke Hammer Madsen
Director

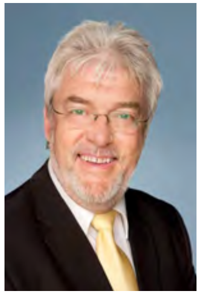
Vibeke Hammer Madsen has been the CEO of Virke (The Enterprise Federation of Norway) since 2002. Prior to this, she was a partner in the PA Consulting Group also working for international companies. From 1993 to 1999 she was a vice president, holding various positions in Statoil. Ms Madsen holds a number of board positions, including chairperson of the Board of Innovation and board member of the Research Council of Norway, as well as the chair of Junior Achievement Young Enterprise. She was a board member of Aker Floating Production from 2006 to 2010 and a board member of Aker Solutions ASA from 2008 until May 2011. Ms Madsen is a graduate of the Norwegian School of Radiography. She holds no shares in Kværner ASA, and has no stock options. Ms Madsen is a Norwegian citizen. She has been elected for the period 2011-2013.

Rune Rafdal
Director

Rune Rafdal 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 Stord Yard 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 3 161 shares in Kværner ASA, and has no stock options. Mr Rafdal is a Norwegian citizen. He has been elected for the period 2011-2013.

Ståle Knoff Johansen
Director

Ståle Knoff Johansen 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 Verdal Yard 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 1 564 shares in Kværner ASA, and has no stock options. Mr Johansen is a Norwegian citizen. He has been elected for the period 2011-2013.



Bernt Harald Kilnes
Director

Bernt Harald Kilnes 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 was educated as an engineer and business administrator. He holds 5 712 shares in Kværner ASA, and has no stock options. Mr Kilnes is a Norwegian citizen. He has been elected for the period 2011-2013.

Company information

Kværner ASA
Drammensveien 264
0283 Oslo

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

Telephone: +47 21 08 90 00
Telefax: +47 21 08 99 99

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

www.kvaerner.com

Layout design: Haugvar AS **Programming iPDF:** Teigens Design **Production:** Bolt Communication AS **Photos:** Studio Vest AS; Olga Galashina