Annual report 2011

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KVÆRNER™

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Contents

This is Kvaerner

Kvaerner is a specialised engineering, procurement and construction (EPC) company, working on some of the world's most demanding projects in this field. Kvaerner is a preferred partner for upstream and downstream oil and gas operators, industrial companies and other engineering and fabrication providers.

Solid track record
Kvaerner is established to leverage the experience and expertise from the execution of complex field development projects during more than 40 years of operation. The company provides a comprehensive range of technologies, solutions and products for offshore topsides, floating oil and gas facilities, substructures and complete onshore plants.

Reliable, flexible and competitive
Kvaerner is tailored to meet the demands from the clients and a dynamic EPC market through reliable, flexible and competitive delivery models.

HSE performance
In Kvaerner, concern for health, safety and the environment is a core value, and the company systematically works to ensure continuous improvement on HSE culture and performance.

- Kvaerner strives continuously for zero harm to personnel, material and non-material assets.
- Kvaerner focuses on employee health and on improvement of work environment.
- Every employee takes personal responsibility for HSE by focusing on their own behaviour.

Stock listing and ownership
Kvaerner's headquarters are at Fornebu (outside Oslo), Norway and the company has more than 3 200 employees worldwide, in addition to a significant number of contract staff. Kværner ASA was listed on the Oslo Børs (the stock exchange in Oslo) 8 July 2011. The investment company Aker ASA exercises active ownership and is, through Aker Kværner Holding AS, indirectly a significant shareholder in Kvaerner.

KEY FIGURES

	2011	2010
Operating revenues	**13 295**	13 209
EBITDA	**1 073**	488
EBITDA margin	**8.1%**	3.7%
EBIT	**1 019**	434
Earnings per share	**2.08**	0.28
Order backlog	**10 046**	12 435

We plan & execute demanding EPC projects

Message from the President & CEO

2011 has been a year of important strategic progress and focused project execution for Kvaerner. We carried out a successful listing of the new company under a well-known brand in July. In parallel with executing important projects and studies, we have been clarifying our international strategic profile.

When we listed Kvaerner on the Oslo Børs in July 2011, I said that the timing for establishing a global EPC contractor like Kvaerner could not have been better. Even with the financial uncertainty in many countries, this statement is still valid. In fact, I believe it is fair to say that the market ahead of us has gone from quite promising to very promising. The fundamental demand for hydrocarbon based energy is expected to remain strong. In addition, leading customers focus on maintaining their production level, which for most oil producers makes it necessary to identify and develop new reservoirs. The recent high impact discoveries in the mature North Sea as well as the Barents Sea reaffirm the potential of the Norwegian continental shelf. According to oil and gas analysts at Rystad Energy, it is expected that the North Sea market for offshore EPC projects will grow by 22 percent from 2010 to 2015. For the global EPC market the growth for this period is expected to be 16 percent. This means that the prospects for all our business areas are very good.

The EPC industry is built upon trust and reputation. An EPC contractor gains trust from the ability to deliver facilities according to plan, meeting the specified quality, and at the agreed time. Our ability to perform on these criteria is the key to our success, and Kvaerner has already proven that its organisations are capable of doing so.

Looking at the numbers for 2011, EBITDA ended at NOK 1 073 million with an EBITDA margin of 8.1 percent and a net profit of NOK 559 million. Our financial position is solid and the Board of Directors has proposed to pay a dividend of NOK 1.00 per share for 2011.

In light of the numbers, it is important to remember that Kvaerner's activity is highly affected by fluctuations in the market. These fluctuations are consequences of different project phases and variations in the mix of project portfolios. Kvaerner's accounting policy does not recognise profit on projects before 20 percent completion has been achieved, this results in lower margins in those quarters where several projects are in an early phase. Kvaerner enters 2012 with a somewhat small project portfolio with several projects in these early phases, consequently 2012 will be a year of uncertainty with regards to the final financial outcome. The results will be influenced by uncertainty to the commercial end result of major projects, representing both a potential upside as well as a potential downside. There is also uncertainty with regards to on-going projects. However, I believe 2012 will be a year of transition in the sense that our tendering activity is very high with several projects in the bidding phase.

In November 2011, we summoned 116 of Kvaerner's leaders from all around the world to the Kvaerner Leadership Conference (KLC). This was the first arena where the senior management gathered, and a very important venue for establishing a common platform for the future development of Kvaerner.

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.

On average, the Executive Management Team has 26 years of industrial experience and the members have all seen the evolution and the prosperity of our industry. The team's composition reflects our ambitions in becoming a top league global EPC contractor with the combined efforts in the fields of HSE, quality, timeliness and hands-on-management.

The main focus area for 2011 was consolidation. Now we are strengthening our core business in the home markets, and further on we progress towards international expansion of Kvaerner's operations. Strategically, our focus is two-fold: in our home market we are optimising the production line in order to maximise the capacity utilisation. Internationally, we are continuing to develop the delivery models in our target regions; Asia Pacific, Russia, the Caspian and Atlantic Canada. We carefully select our target projects with the aim of getting an optimal portfolio of projects to benefit our customers and ourselves.

The platform for our operation is in place and the crew is ready. We have started our journey, but a lot of hard works lies ahead of us.

On 9 June 2011 we received the devastating news that one of our colleagues on the Sakhalin 1 project in East Russia went to work and did not return home in the afternoon. An accident like this is unacceptable and it is an important reminder that we can never relax our HSE focus. The accident has been investigated and the cause has been identified and conveyed to all our operations. The key lessons learnt have been made part of the HSE training. We will continue to focus on HSE relentlessly, whether it is in Nakhodka, Verdal, Stord or anywhere else in the world.

2011 was indeed a special year, with the listing of Kvaerner on the Oslo Børs in July and the second half of the year as a listed company. A lot of work has been done during the year in preparation for the long journey towards our strategic goal of becoming a global EPC contractor. An exciting, demanding and arduous journey lies ahead of us, but the markets are favourable and Kvaerner has the experience and capabilities for further growth. It is up to us.

Jan Arve Haugan
President & CEO

Board of Directors' report

Summary

Kværner ASA was publicly listed with the ticker «KVAER» on the Oslo Børs on 8 July 2011. At the time of the listing, Kvaerner had more than 3 500 skilled employees, an order backlog of NOK 15.6 billion and a strong market forecast, which gave the new company a solid foundation from the start.

Kvaerner is a dedicated engineering, procurement and construction (EPC) company. This dedication, and the demerger from Aker Solutions, was a response to customers' requests for specialised and flexible EPC contractors. The initial task for Kvaerner has been to ensure that the company operated as an efficient and dynamic independent EPC organisation from the time of the consummation of the demerger and listing. The President & CEO, executives and senior management were appointed and, together with the rest of the organisation, are forming a dedicated team, tailored to meet market trends and client demands.

Consolidated operating revenues for 2011 were NOK 13 295 million which were on the same level as in 2010 (NOK 13 209 million). Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) amounted to NOK 1 073 million, an increase of NOK 585 million from 2010 (NOK 488 million). The EBITDA margin for 2011 was 8.1 percent compared with an EBITDA margin of 3.7 margin for 2010.

Care for Health, Safety and Environment (HSE) is a core value of Kvaerner and expressed in the Just Care™ mindset. Kvaerner works continuously to prevent incidents which could cause harm to personnel, to material or non-material assets, and continuously seeks to improve the HSE culture and performance. Kvaerner suffered a fatality during 2011 at the Sakhalin 1 project in Russia when a scaffold worker died after a fall from height.

The Board considers Kvaerner to be tailored to meet the challenges confirming customers demands in the EPC market. The market is strong with an unprecedented market growth ahead confirming that the timing of the establishment of Kvaerner was good. Work continues to fully align the organisation ready for Kvaerner to take the steps and actions necessary to reach their goals in the coming years.

Business overview

Principal operations

Kvaerner is a specialised engineering, EPC provider working on some of the world's most demanding projects. Kvaerner is comprised of two Norwegian yards at Stord and Verdal; the field development engineering hub and concrete organisation based in Oslo; and organisations in USA, Kazakhstan, Russia, Australia and Canada. In total, Kvaerner operates in 14 countries worldwide.

Kvaerner is a preferred partner to upstream and downstream oil and gas operators, industrial companies and other engineering and fabrication providers. Tailored to meet customer demands and EPC market trends, Kvaerner has 40 years' expert experience executing complex field development projects. Kvaerner provides a comprehensive range of technologies, solutions and products for offshore topsides, floating oil and gas facilities, substructures and complete onshore plants.

Kvaerner's business is divided into two reporting segments: (i) Upstream and (ii) 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 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 is a contractor for onshore facilities, power plants and steel mills.

Markets

The demand for products and services in the EPC field is driven by the world's demand and consumption of oil and gas for transportation, industrial purposes and energy production. This justifies the need for increased capital spending in developing oil and gas fields.

Kvaerner's success depends on the trust the company is able to earn and sustain from customers. An important factor in achieving such trust is a cost-effective and proven proprietary delivery model. The model needs to be flexible to meet the demand for attractive solutions and products delivered on time and at a quality level complying with EPC industry practice.

The market development within the two segments is driven by different factors, and the geographical focus is different for these segments.

Upstream

From a geographical perspective, the most important market for the Upstream segment has historically been the North Sea offshore and onshore markets. Kvaerner also aims to continue its growth internationally, in Caspian, Russian, Canadian and Asian Pacific markets. Other markets may be selectively targeted to assist upstream oil and gas customers that operate in harsh environments and deep waters.

The development of the upstream market is fuelled by a strong underlying growth in the demand for energy which requires and justifies increased capital spending on the development of oil and gas fields. Global primary energy demand is expected to be 40 percent higher in 2035 than it was in 2009. The expected cumulative investments on energy supply infrastructure to meet the demand amounts to USD 38 trillion in the 2011–2035 period [1)]. 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

1) Source: IEA World Energy Outlook 2011.

and natural gas resources. Concrete structures have seen a renaissance and provide numerous benefits such as oil storage, significant local content, robustness in arctic conditions, low lifecycle cost and installations without the need for heavy lift vessels. Kvaerner holds a unique position in this area with over 40 years of international concrete experience and is a lead contractor in more than 20 major concrete projects worldwide.

The Norwegian continental shelf is considered mature, and the major fields developed in the 1970's are in decline. The smaller fields that are put into production are unable to offset this decline, but there is significant exploration potential and drive in the region. This has led to recent successful discoveries in new areas of the North Sea and the Barents Sea. This development is further encouraged by government-led incentive programmes such as Awards in Predefined areas (APA) and the current fiscal regime. APA was put into force to enhance exploration in mature areas, while the fiscal regime was created to encourage exploration on the Norwegian continental shelf in general. The recent discoveries and developments open up new opportunities for Kvaerner in the Upstream segment.

Downstream

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, liquefied natural gas (LNG), chemical, petrochemical, oil and gas, and large capital energy infrastructure projects. The main market is in certain sectors in the North American region and selected international markets.

The Downstream & Industrials segment will continue to develop sustainable areas of business and further leverage its current strengths in front-end engineering and design (FEED), as well as in EPC, general construction, maintenance and renovation expertise throughout North America. A number of major steel producers in North America are planning several upgrades in the years to come. The Marcellous shale gas value chain is creating good future opportunities.

Strategy and target regions

The demerger from Aker Solutions and the establishment of Kvaerner was a response to customers' requests for more flexible and specialised EPC contractors. More flexible, in the sense that Kvaerner would be able to meet low cost requirements through strategic partnerships and local content requirements through local partnerships. More specialised, in the sense that increased attention to cost and risk efficiency is a prerequisite for a global EPC player and requires a dedicated management focus on project execution and risk management.

The initial task for Kvaerner has been to ensure that the company operated as an efficient and dynamic independent EPC organisation from the time of the consummation of the demerger on 7 July and listing on 8 July 2011.

Kvaerner's mission is to plan and execute the world's most demanding EPC projects and to become a top league global EPC provider. Kvaerner believes that the company is well positioned to realise this mission through a set of competitive strengths and a tailored strategy. Kvaerner has a long history and track record in the EPC field and has through numerous projects proven that the company is able to deliver quality on time.

The strategy for the next few years has several defined steps: in the first phase, Kvaerner will maintain and further develop its strong position in traditional home markets in the North Sea region and North America. Kvaerner will strengthen the organisation, including the engineering resources and the regional delivery models. Kvaerner will then start to grow in selected geographical regions, focusing on prospects where the company can leverage its competitive edge.

The key criteria for Kvaerner's selection of target regions are a set of factors which include market attractiveness. The factors include risk profile, the relevance of Kvaerner technology and 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 will be Russia, the Caspian, Asia Pacific and Atlantic Canada.

Kvaerner's competitive edge is based on a combined set of factors:

- **Extensive track record**
  Kvaerner is a «new» company, yet has over 40 years' experience from the world's most demanding market.

- **Tailored to meet market trends and demands**
  With unprecedented market growth ahead, Kvaerner is tailored to meet market trends as well as customer demands.

- **Robust financial platform**
  A robust financial position that can handle the cyclical nature of the business and secures necessary financial guarantees for new large projects and future expansion.

- **A solid position for growth**
  Kvaerner's five business areas have strong positions in their key expertise and the technologies necessary to capture growth.

Report for 2011

Listing of Kværner ASA

Kværner ASA was publicly listed with the ticker «KVAER» on the Oslo Børs on 8 July 2011. Kvaerner was established by the Norwegian engineer Oluf A. Onsum in 1853. Both Aker and Kvaerner share a common history and were fierce competitors for decades. As of December 2001, the parties agreed to merge Aker Maritime and Kvaerner, and Aker became the main shareholder of Aker Kvaerner. The listing of the «new» Kvaerner on Oslo Børs is a revitalisation of an almost 160 years old brand. It is a result of a process where the previous Aker Solutions' activities for delivery of platforms and onshore plants (EPC projects) have been established as a separate corporation through the «new» Kvaerner. Kvaerner will leverage the previous organisations' combined experience and expertise built up over more than 40 years. The listing of the «new» Kvaerner writes the next chapter in the common history of Aker and Kvaerner within offshore and onshore new build projects. At the time of the listing, Kvaerner had more than 3 500 skilled employees, an order backlog of NOK 15.6 billion and a strong market forecast, which gave the new company a solid foundation from the start.

Executive Management Team

Following the demerger from Aker Solutions, emphasis was put on recruiting a senior management team with experience in project execution both from the supplier and customer side.

For a complete presentation of the Board of Directors and Executive Management Team, please refer to page 92 of this report.

Financials

Kvaerner presents its accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Unless otherwise specified, figures in brackets present prior year numbers. As further explained in the notes to the financial statements, the historical financial statements of Kvaerner include the results of Kvaerner businesses that were controlled by Aker Solutions prior to the demerger subject to certain allocations for all periods presented.

Profit and loss

Consolidated operating revenues for 2011 were NOK 13 295 million which were on the same level as in 2010 (NOK 13 209 million). Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) amounted to NOK 1 073 million, an increase of NOK 585 million from 2010 (NOK 488 million). The EBITDA margin for 2011 was 8.1 percent compared with an EBITDA margin of 3.7 percent for 2010. The increase in EBITDA is mainly due to contribution from projects being completed and release of contingencies during 2011. The EBITDA in 2011 was negatively affected by the Blind Faith project arbitration ruling and loss related to the Longview project of NOK 165 and 278 million respectively. Further, one-off demerger expenses of NOK 80 million have been recognised during the year. Depreciation, impairment and amortisation totalled NOK 54 million, which is on the same level as in 2010 (NOK 54 million).

Consolidated earnings before Interest and Taxes (EBIT) were NOK 1 019 million (NOK 434 million). Net financial expenses amounted to NOK 116 million, an increase of NOK 86 million from 2010 (NOK 30 million), including foreign exchange losses of NOK 107 million which were losses from prior periods recorded in the fourth quarter.

The group hedges currency risk for all project exposures in accordance with well-established practices. Although this provides a full currency hedge, aspects of the hedging (about 20 percent) do not meet the requirements for hedge accounting specified in IFRS. This means that fluctuations in the value of the associated hedging instruments are recognised with full effect as financial items in the accounts. The accounting effect appears as an expense of NOK 11 million (NOK 6 million) in a separate line under financial items.

Associated companies and joint ventures reported a loss of NOK 6 million compared with a loss of NOK 11 million in 2010.

Tax expense was NOK 344 million (NOK 330 million) which corresponded to an effective tax rate of 38 percent (82 percent). Normally the income tax expense reflects the tax rate in Norway (28 percent) and the tax rate in the US (approximately 40 percent), thus the effective tax rate is normally representing the segments' relative share of the profit before tax. However, both 2011 and 2010 tax charges are affected by US tax losses not being recognised as deferred tax assets, which increases the overall tax rate.

Consolidated net profit in 2011 ended at NOK 559 million with basic and diluted earnings per share of NOK 2.08, compared to NOK 74 million and basic and diluted earnings per share of NOK 0.28 in 2010.

Cash flow

Consolidated cash flows from operating activities depends on a number of factors, including progress on and delivery of projects, changes in working capital and pre-payments from customers. Net cash flow from operating activities was NOK 1 069 million in 2011 (negative NOK 645 million). The increase mainly reflects the increase in profit in 2011 and improved working capital due to phasing of the projects in the Upstream segment.

Net cash outflow from investing activities in 2011 was negative NOK 231 million (negative NOK 26 million). The capital expenditures for 2011 amounted to NOK 163 million (NOK 10 million) and was mainly related to the facility upgrades at the Kvaerner Verdal yard. Net cash flow from financing activities was negative NOK 1 103 million in 2011 (NOK 349 million) reflecting repayment of all financing from Aker Solutions.

Balance sheet and liquidity

The group's book value of total assets was NOK 6 823 million on 31 December 2011 (NOK 10 485 million). The reduced asset base is due to settlement of funding from Aker Solutions and completion of major projects.

Book equity totalled NOK 2 445 million as of 31 December 2011 (NOK 2 459 million). The group's equity ratio was 35.8 percent of the total balance sheet as of 31 December 2011, which is an increase of 12.3 percent compared with 23.5 percent at year end 2010.

Consolidated interest-bearing debt amounted to NOK 468 million (NOK 548 million) as of 31 December 2011.

The group's bank facilities 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 international banks. The term loan of NOK 500 million was fully drawn at year-end 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 related to acquisitions, disposals and mergers. There are also certain provisions of change of control included in the agreements. 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 1 956 million (NOK 1 711 million) as of 31 December 2011, of which goodwill amounted to NOK 1 182 million (NOK 1 178 million).

Consolidated capital adequacy and liquidity are good, and help to ensure that Kvaerner is well equipped to meet the challenges and opportunities faced over the next few years.

Segment reviews

As detailed above, Kvaerner's business comprises two reporting segments: Upstream and Downstream & Industrials. During 2011 relatively few contracts within Kvaerner's market segments were awarded. However, the bidding activity has been high in all business areas in the second half of the year. The order backlog was NOK 10 046 million at year end 2011 (NOK 12 435 million).

Upstream

Operating revenues in 2011 totalled NOK 10 887 million (NOK 9 192 million). EBITDA was NOK 1 571 million (NOK 928 million) with an EBITDA margin of 14.4 percent, increasing from 10.1 percent in 2010. The increase in EBITDA is mainly due to positive influence by projects in the North Sea and International business areas that were winding down over the summer 2011. The order intake for 2011 amounted to NOK 9 257 million (NOK 6 518 million), which included the Eldfisk 2/7 S, a NOK 5.5 billion EPC contract with ConocoPhillips to deliver the topside and bridges of the production platform, the fabrication and construction contract for the upgrade of the Delayed Cocker Revamp unit at Statoil's facilities at Mongstad of NOK 220 million, the Skarv FPSO completion job for BP, as well as FEEDs and growth in existing contracts. The order backlog as of 31 December 2011 was NOK 8 758 million (NOK 10 376 million).

The North Sea business area experienced high activity during mid-year as the in-shore work for the Skarv FPSO (Floating Production, Storage and Offloading) was completed at the Stord yard. At year end the contract to modify and develop the gas plant at Kollsnes was completed. Also, the construction work on the CO_2 test plant at Mongstad (TCM) was completed in the fourth quarter, and testing will commence in 2012. Engineering and procurement work on the Eldfisk project has been ongoing during 2011, and the fabrication started in the first quarter of 2012. At year end, 160 employees at the Stord yard were temporarily laid off.

The Gudrun jacket was the first delivery from Kvaerner in the Jackets business area, and was delivered to Statoil on 1 July 2011. This jacket was number 35 in the series of jackets delivered from the yard at Verdal. During 2011, there has been very high activity at the yard. Projects include the jacket and bridge support for the Ekofisk living quarters (2/4L), the Clair Ridge jackets and the Nordsee Ost wind jacket project, where the first six of 49 steel substructures were completed at year end 2011.

In the Concrete Solutions business area, all major concrete works on the Sakhalin 1 Gravity Based Structure (GBS) project were completed during the year and mechanical completion was reached in December 2011. The GBS will be towed offshore in the summer of 2012. When completed, this platform will be the largest platform in Russian waters. FEED and site preparation for the Hebron GBS project offshore Canada, a joint venture project with Peter Kiewit Corporation, has been ongoing throughout 2011.

In the International business area, The Kashagan Hook-up project in Kazakhstan was at its peak during the first half of 2011, and the offshore work reached completion in June. Demobilisation of offshore personnel started in July and the project is expected to be closed down during the first half of 2012.

In China, Kvaerner and COOEC (Offshore Oil Engineering Co, Ltd) jointly invested in engineering and fabrication of a demonstration module according to the NORSOK standards to document the partners' combined capabilities for delivering new offshore oil and gas platforms in preparation for the Browse bid to the Australian operator Woodside. The NORSOK standards are developed by the Norwegian petroleum industry to ensure adequate safety, value adding and cost effectiveness for petroleum industry developments and operations. The partnership was established in 2010 and offers a new, competitive delivery model for upcoming offshore oil and gas projects in the Asia Pacific region and internationally.

Downstream & Industrials

Total operating revenues in 2011 were NOK 2 417 million (NOK 4 049 million). EBITDA was negative NOK 351 million (negative NOK 440 million) and the EBITDA margin decreased from negative 10.9 percent in 2010 to negative 14.5 percent in 2011. The EBITDA for the year was negatively affected by delays and losses on projects in the segments' project portfolio.

Total order intake for 2011 amounted to NOK 1 655 million (NOK 2 701 million) which included a contract for the installation of the V&M seamless pipe mill in the USA, growth in existing contracts as well as smaller steel maintenance jobs and studies. The order backlog stood at NOK 1 287 million (NOK 2 059 million) at year end 2011.

In the third quarter, the Gulf LNG regasification terminal in Pascagoula, Mississippi, was delivered in a joint venture with IHI Corporation. The Kvaerner/IHI joint venture partnership worked over 3.3 million man-hours to design, construct and commission the large regasification plant. The Longview project, with construction of the 695 megawatt (net) supercritical pulverised coal power plant, reached substantial completion and was handed over to the customer Longview Power LLC in the fourth quarter 2011. There are still substantial uncertainties with respect to the financial outcome of the project. During the year there has also been high activity on the V&M pipe mill project located in Youngstown, Ohio. When completed, this construction will be a state-of-the art hot rolling seamless pipe mill with a 350 000–500 000 tonne capacity.

Going concern

Based on the group's financial results and position, the Board of Directors confirms that the annual accounts for 2011 have been prepared under the assumption that the company is a going concern.

Parent company accounts and allocation of net profit
The parent company, Kværner ASA, had a net profit of NOK 66.2 million for 2011.

The parent company's dividend policy incorporates an ambition to distribute dividends such that the average dividend over time – through cash distribution and/or share buy-backs – amounts to between 30 and 50 percent of the Kvaerner group's net profit.

Pursuant to the company's dividend policy, the Board of Directors proposes to the Annual General Meeting that an ordinary dividend of NOK 1.00 per share should be paid (48 percent of net profit). The Board of Directors thereby proposes the following allocation of net profit:

Proposed dividend	NOK 269 million
Transferred from other equity	NOK 203 million
Total allocated	NOK 66 million

Unrestricted equity after the proposed dividend payment amounts to NOK 4 755 million.

Events after the balance sheet date
In January and February 2012, two steel jacket contracts totalling approximately NOK 2.3 billion were awarded for execution at Kvaerner's yard at Verdal.

Lundin Norway AS awarded Kvaerner an EPC contract worth approximately NOK 1.1 billion for delivery of a steel jacket to be located at the Luno field, production license PL338, offshore the Norwegian North Sea. The contract includes engineering, procurement, construction, load-out and sea-fastening of the jacket and associated piles.

Total E&P Norge AS awarded Kvaerner an EPSC-contract (Engineering, Procurement, Supply and Construction) worth close to NOK 1.2 billion for delivery of a steel jacket to be located at the Hild Field offshore the Norwegian North Sea. The contract includes engineering, procurement, supply, construction, load-out and sea-fastening of the jacket and associated piles. Fabrication will commence in fourth quarter 2012 for both contracts, and the steel jackets will be delivered in the spring of 2014.

Corporate governance and risk management
As Kvaerner exercises ultimate governance and control from its headquarters in Norway, and is listed on the Oslo Børs, Norwegian legislation is a significant framework in terms of company and securities legislation, financial reporting and other corporate issues. Kvaerner is subject to laws and regulations in the jurisdictions where Kvaerner operates. As part of its corporate governance model, Kvaerner's Board of Directors has adopted the Norwegian code of practice for corporate governance. The detailed corporate governance statement of Kvaerner can be found on page 83 of this annual report and on the company's webpage www.kvaerner.com.

In general, corporate governance in 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. Kvaerner has a set of 20 policies, with attached standards and tools, which provide direction on acceptable performance and guides decision-making in all parts of the company. The policy framework provides the delegated authority and authorisation limits of the President & CEO and the organisation.

As set out in the Norwegian Public Limited Liability Companies Act, the Board of Kvaerner has appointed an Audit Committee amongst its Directors, comprising Lone Fønss Schrøder (Chair), Bruno Weymuller and Bernt Harald Kilnes. The Board 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 and financial risk, reputational risk, risk related to mergers and acquisitions and the risk related to operations and project execution. Strategic risk arises from pursuing the wrong markets, segments, services and products or customers. 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 rate, counterparty and liquidity risk. The corporate treasury function is responsible for managing financial market risk and the group's exposure to financial markets. Kvaerner has defined procedures and routines for managing the group's financial market exposure.

Currency risk; operating units in Kvaerner identify their own foreign currency exposure and mitigate this through the corporate treasury function when contracts are awarded. Such cover is provided in the operating unit's functional currency. All major contracts are furthermore hedged in the external market and documented to qualify for hedge accounting. More than 80 percent of project related currency risk exposure either qualify for hedge accounting or are embedded derivatives.

- **Interest rate risk:** Kvaerner has made a draw-down on its NOK 500 million term loan facility. The term loan has a floating interest rate.
- **Counterparty risk:** assessments are made of major contractual counterparties and subcontractors. Risk is reduced through bank and parent company guarantees and/or structuring of payment terms. Where bank risk and the placement risk for surplus liquidity are concerned, specific maximum levels have been set for the group's exposure to each financial institution. A special debtor list is signed annually by Kvaerner's EVP & CFO.

- **Liquidity risk:** the group's policy is to maintain satisfactory liquidity at the corporate level. The liquidity buffer is expressed as the sum of undrawn bank credit facilities and available cash and bank deposits. Working capital will vary over time, depending on the phasing of projects in the various segments.

Reputation risk can be hard to identify and assess as it can appear in many forms and situations. Albeit elusive and intangible, it can nevertheless have the most severe impact on a business. Kvaerner has chosen to focus on reputation risk on assessments of the risk related to countries with special challenges, frameworks for managing risks and making decisions and the processes for ensuring compliance with policies. Kvaerner is currently reviewing its policies and procedures with a view to managing reputational risks, with focus on bribery, corruption and fraud. This review will be finalised during the first quarter of 2012.

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 with 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 is often more specific and relates to potential incidents or challenges in a project or other business operations. Typical challenges pertaining to project execution is the complexity of the project scope of work, timely delivery and tough weather conditions. The operations and project execution risk is typically directly managed by the operating businesses and followed up at corporate level through the monthly and quarterly review structure and the corporate risk committee. Furthermore, the EVP Project Support monitors operations and project execution risk and provides support to the project and tenders team within the organisation.

Risk management at the corporate level

Control of risk and compliance with policies represent a key activity of the corporate functions. 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 its respective area. This applies regardless of the approach adopted for organising the business, and is pursued in part through a close dialogue with the company's corporate risk and investment committees and through monthly meetings related to financial and operational reporting by the business areas. Each corporate function will also follow up its area of responsibility outside these formal processes through direct dialogue with the businesses. For a further description of the corporate functions most relevant to risk management, please refer to the Board's corporate governance statement on page 83 of this annual report. Kvaerner has identified a need to review the company's current policies in order to assess the current risk management of the group. This review will be finalised during the first quarter of 2012.

The Audit Committee of the Board of Directors will assist the Board of Directors in 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. As Kvaerner is still in a start-up phase and because the policy system is currently being revised, only limited internal reviews have been performed in 2011. Until these policies and corporate functions are in place, corporate staff are monitoring the businesses through reporting and monthly operating reviews. More detailed reviews are executed where applicable.

Whistle blowing procedure

Any allegation of potential violation of the Kvaerner policies can be reported confidentially or even anonymously. Kvaerner will assure that there will be no adverse consequences as a result of an employee bringing complaints about violations of the governing policies of Kvaerner. A fair and comprehensive investigation will be conducted with relevant internal and external assistance according to Kvaerner's investigation procedures.

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. 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.

Due to the demanding nature of the projects Kvaerner is involved in, the Project Execution Model (PEM™) is a key element in the operating units' operating system. The PEM™ is the methodology followed when executing projects. All risk management processes and controls shall be described according to the respective operating system of the business unit. The process descriptions in the PEM™ vary from the 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 for projects. The main phases are Feasibility & Concept, Tender & Kick-off, System Definition, Detailing & Fabrication, Assembly & Erection and System Completion. In each of these phases, there are defined milestones that the project needs to pass through, and between all the phases there are gates.

All projects in Kvaerner have a register where identified risks and opportunities are categorised and assessed in terms of impact and probability. All these risk registers are live documents that support follow-up of all risks in the project as well as improvement opportunities. Depending on its size and complexity, a project may also have a separate Risk Manager.

Risks are reported by the business areas in monthly operating reviews. These reviews form the main internal management control procedures and reporting line across Kvaerner. The business areas are required to perform regular audits of their projects and operations to ensure they follow the established processes and procedures. The management team of the business area will perform annual reviews of its operating system to ensure its integrity and relevance to operations. Such reviews will also include 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 from the President & CEO and from the EVP & CFO.

Kvaerner has also established a Control Self Assessment (CSA) procedure which is compulsory for all legal entities and business areas. In this process, the operating units will assess the quality and relevance of the established control activities. The timing of the CSA will be determined by the EVP & CFO. Furthermore, each of the business areas will be required to conduct an annual evaluation of its internal financial reporting control systems.

Corporate responsibility

Kvaerner encompasses the corporate responsibility policy of Aker Solutions. Since the demerger in July 2011 it has initiated projects in the organisation to adapt and modify this policy according to Kvaerner's global operation.

For Kvaerner it is fundamental to comply with the international laws and practicals, such as those of the United Nations (UN) Universal Declaration of Human Rights and International Labour Organization. Kvaerner views the following as a fundamental right: freedom from any discrimination based on origin, age, religion, gender, sexual orientation, marital status, connections with a national minority, disability or other status.

Kvaerner's values, and international norms such as the UN Global Compact, the Global reporting Initiative and the OECD guidelines, define the company's corporate responsibility principles.

The aim of Kvaerner is to ensure that all operations are aligned with company values, relevant laws and regulations and society's expectations, with integrity. For Kvaerner, the purpose of corporate responsibility is to provide all products and services in a socially, environmentally and ethically responsible way. Operating with integrity is just as important as achieving business goals. As a good corporate citizen, Kvaerner aims at contributing to the development of local, national or global society, creating mutually beneficial or «win-win» situations for communities and the company's employees, shareholders and other stakeholders.

The common set of values shared by all units at Kvaerner forms a compass that guides policies, operations and ultimately, the behaviour of all employees. Business ethics concern the principles that guide Kvaerner's value creation and the daily business decisions.

Aker ASA's three-way international framework agreement with the Norwegian United Federation of Trade Unions (Fellesforbundet) and the International Metalworkers' Federation (IMF), commits Kvaerner to respect and support fundamental human rights as well as union rights in the societies in which the company operates. These principles are delineated in the United Nation's declaration for multinational corporations, and the ILO's Declaration on Fundamental Principles and Rights at Work.

Kvaerner will do its utmost to contract only with subcontractors or suppliers who themselves adhere to the high standards of ethical conduct similar to the standards of Kvaerner.

The aim is that corporate responsibility is an integral part of Kvaerner's procurement processes and practices. Kvaerner commits to monitoring ethical performance and to taking immediate and thorough steps in cases where the ethical performance of its suppliers comes into question. Kvaerner will work towards the company's goals by driving continuous improvement through systematic engagement with suppliers.

People and organisation

Health, safety and the environment

Care for Health, Safety and Environment (HSE) is a core value of Kvaerner and expressed in the Just Care™ mindset. Kvaerner works continuously to prevent incidents which could cause harm to personnel, to material or non-material assets, and continuously seeks to improve the HSE culture and performance.

Driven by care

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

Clear expectations

A common HSE operating system sets expectations for the key elements in HSE management and leadership. Regular reviews uncover possible gaps in relation to expectations, and the necessary activities for improvement are identified and initiated. Such reviews also function as a framework for cross-organisational sharing and learning.

In order to measure HSE performance at Kvaerner, key HSE performance indicators have been implemented. A strong focus on leading activities in the HSE field, combined with defined targets measured against actual results, guides us towards continual improvements of HSE performance at Kvaerner.

The Just Rules, part of Kvaerner's HSE operating system, are established to control the most safety-critical activities in the operations. The Just Rules are a mandatory part of Kvaerner's safety training to all employees, also providing clear and simple check lists and controls for the operation.

Training and information to achieve a common HSE culture

Competence occupies a central place in Kvaerner's HSE 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 way, Kvaerner uses dedicated training programmes at business area and project levels, as well as eLearning programmes for key areas within HSE. These include the Just Care™ culture and HSE as a core value, as well as more specific topics on mastering stress and protecting the environment. Training packages at project level are tailored to individuals both in terms of content and language. Self-assessments provide an internal evaluation of how far expectations are being met. They are conducted at least annually by key personnel. Line managers are trained to be role models and to drive HSE improvements through specific safety academy programmes. During 2011, 0.8 percent of total worked hours were invested in HSE training.

Sharing of best practices 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 implemented. Following serious incidents, lessons learned packages are produced and shared throughout Kvaerner with the aim of preventing similar incidents in the future.

Achievements – Safety Performance

During 2011 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 0.33 and a total recordable incident frequency (TRIF) of 2.5 indicated a reduction of incidents during 2011. These figures also include Kvaerner's subcontractors and are calculated per million man-hours worked.

On 9 June, Kvaerner suffered a fatality at the Sakhalin 1 project in Russia when a scaffold worker died after a fall from height.

In addition, Kvaerner had seven lost time incidents during 2011, two linked to working at height, two from falling objects and three from handling of mechanical equipment.

Kvaerner has several examples of projects and units with long periods without any serious incidents or personal injury (up to 4 million man-hours) indicating that a zero incident target is achievable.

In 2011, twenty serious incidents were identified and thoroughly investigated. The majority of these incidents were as a result of working at height and lifting operations.

Occupational Health

The company's sponsorship of the 2011 World Ski Championship and participation in the Aker Aktiv programme are examples of health initiatives in 2011 with a focus on physical exercise and nutrition.

Total sick leave for Kvaerner amounted to 4.8 percent of total working hours in 2011, compared with 4.6 percent the previous year. Sick leave for the blue collar operators at the Norwegian yards at Stord and Verdal were at 6.8 percent and 7.8 percent, respectively.

It should be noted that due to differences in local regulations, a direct comparison of sick leave between different countries can be complicated.

Environment

Kvaerner as a business is a supplier to the oil and gas industry with limited exposure to the environment. The company continuously works to reduce its environmental footprint. Kvaerner reported seven environmental incidents in 2011, all minor spills.

Total energy consumption by the business in 2011, based on recorded use of oil, gas and electricity, amounted to 102 312 megawatt-hours. Carbon emissions related to this usage are estimated at 25 682 tonnes. The methodology used derives from the Greenhouse Gas Protocol (GHG), and Global Reporting Initiative (GRI). Waste recorded in connection with the business totalled 16 332 tonnes, of which 91 percent was recycled. The main energy consumption, carbon emissions and waste disposal are in conjunction with activities at the yards.

The Norwegian yards are certified according to the ISO 14001 environmental standard. An eLearning programme with a particular focus on the environment is used as part of our mandatory training to make every employee realise the importance of the environment and to take personal responsibility for this.

The HSE leadership development initiatives, eLearning and the management system incorporate clear components which focus on the environment. Collectively, these contribute to continuous improvements in environmental awareness and attitudes among managers and our 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 HSE focus activities

To further establish its proactive approach to HSE, Kvaerner utilises a number of leading key performance indicators to monitor and further encourage HSE performance. The benefits of utilising the leading indicators can be seen in further improvement of the lagging indicators. The use of leading indicators can provide an accurate and continuous picture of the status of the control measures needed to prevent major incidents. Our carefully selected indicators assist Kvaerner in detecting any eventual 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 showing a positive development throughout 2011.

Security

Due to the global nature of Kvaerner's operations, the company is exposed to changes in the global risk situation. The projects operate in a wide range of areas, including high risk countries, which means potential security threats may arise. To counter possible risk situations, Kvaerner is linked up 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.

The HSE operating environment

Kvaerner performs business in operating environments of variable HSE standards. In general, the HSE initiatives are strongly supported by our customers. In some parts of the business the customer is less visible from a HSE point of view. Kvaerner brings high HSE standards and expectations wherever the company does business.

Developing people and teams

Kvaerner strives to attract and develop talented people and teams who understand customers' needs and requirements in order to produce and deliver the best solutions. For most operating entities in Kvaerner, lack of skilled personnel is regarded as a potential risk and therefore systematically addressed.

Competence covers all key disciplines. Together with partners and subcontractors, Kvaerner ensures that plans and projects are executed efficiently. Challenges in terms of diverse cultures, various experiences and remote locations with various infrastructures imply complex work conditions which need attention.

The attention paid by Kvaerner to employee and leadership development is regarded as an important competitive advantage. Competence development is systematically based on operational requirements. Local in-house academies organise programmes and training to qualify and certify Kvaerner's people to work with projects on Kvaerner's own sites as well as in challenging areas across the world.

Kvaerner educates their personnel in leadership and project management to ensure safe project execution, with added value. Kvaerner matches people and team management with projects, a specific process that enables employees and leaders to perform at their best. The process is based upon fundamental principles for productivity, such as aligned goals and good communication. It is oriented towards results through leadership and performance management.

Leadership at Kvaerner is based on company values and leadership principles. The education and training of leaders strongly emphasise these principles. Since HSE is the fundamental basis for all work, it is addressed in all leadership training. Leadership development programmes are based on the leadership pipeline, addressing challenges and methods for each level of leadership.

Project management competence is crucial to project execution. The existing project execution model has been developed over years, forming the basis for best practise. Project management is Kvaerner's core competence and this knowledge will be addressed in training modules and programmes for all levels in the organisation. Mentor programmes and project specific training is securing experience transfer both between individuals and projects.

Due to the nature of our projects, «mobile» programmes and eLearning is necessary to provide training. Furthermore, the demand to accommodate virtual working has been a focus for specialised training. Results from this have a quick and positive effect on communication and performance.

Organisation and recruitment

As of 31 December 2011, the overall workforce consisted of 4 366 individuals which includes 3 156 permanent employees and 1 210 contract staff. Gender distribution at Kvaerner is approximately 15 percent women and 85 percent men. As of July 2011 and until year-end, the company made 173 new permanent staff placements of which 30 were women and 143 were men.

The North Sea business area, which includes the Stord yard, and the Jackets business area, which includes the Verdal yard, recruited 64 new permanent employees altogether during 2011. In addition, 56 apprentices were employed under applicable national and regional agreements. There has been a considerable increase in the average number of contract staff during 2011 due to the activity level within these two business areas.

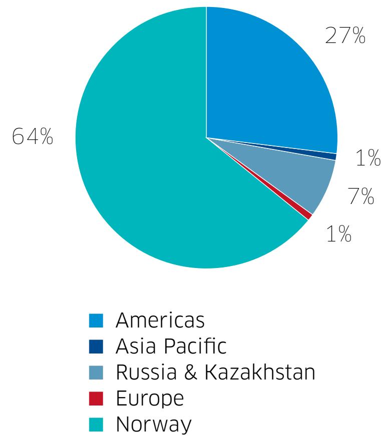
Diversity and equal opportunity

Kvaerner has both international and national operations which involve employees from several operating entities and geographical regions. The principle of equal opportunities for everyone is well established in Kvaerner. No differences shall exist between genders or ethnic groups.

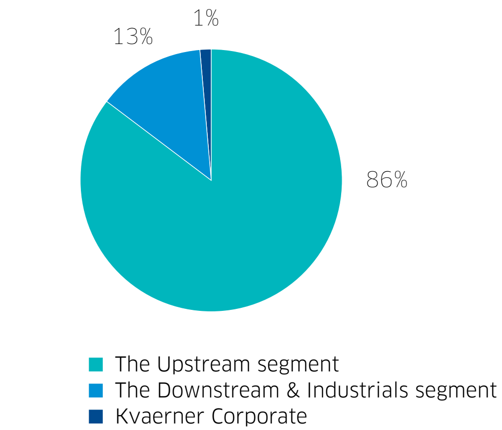
This commitment to equal opportunity is clearly described in policies and by agreement, for instance in a three-party frame agreement with national and international trade unions. This agreement covers general employment terms and employee relations, with specific focus on non-discrimination.

Equal opportunity for people of both genders is a basic principle at Kvaerner. Since a considerable part of the company consists of yard operations, male employees

EMPLOYEES BY REGION



EMPLOYEES BY SEGMENT

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continue to be in the majority. Historically, mostly men have been chosen as they possess the adequate education for these positions within this industry segment. Requirements are set for diversity in recruitment and people development. Of the total number of new employees in 2011, 17 percent were women.

The corporate management team had two female members as of 31 December 2011. 16 percent of employees in senior management positions are women.

Two of Kvaerner's five shareholder-elected Directors are women. All Directors elected by and amongst employees are men. This is in accordance with legal requirements, since women account for less than 20 percent of the overall workforce.

Leadership development programmes make an important contribution to getting women into senior positions. Out of the 35 participants who completed the Kvaerner leadership training programme in 2011, ten were women, representing nearly 29 percent of the participants.

Each entity is encouraged to seek a work pattern which 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 or home office and compressed working weeks. These benefits are regarded as important elements in ensuring equal opportunities.

Performance culture and employee remuneration

Kvaerner's global remuneration policy and reward guidelines enable the company to attract and retain employees with the right attitudes, skills and the ability to deliver strong performance on a global basis.

In order to attract and retain the right employees, Kvaerner focuses continuously on staff engagement. The company is aiming to support employees' work enthusiasm to support Kvaerner's overall success. 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:

- Kvaerner offers salaries and compensation systems which are internally fair, consistent, comprehensible and competitive in the external market.
- The total compensation which consists of fixed salary, any incentives and other benefits, shall reflect the employee's experience, level of responsibility and performance.
- Kvaerner offers employees the opportunity to impact their total compensation by rewarding performance and results and minimises the number on non-performance related rewards.
- Kvaerner focuses 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 pay. Objectives are set and performance is measured on team and individual levels. The objectives are determined on the basis of strategies and financial budgets. Both personal behaviour and commercial dimensions are evaluated and measured.

The performance dialogue is the key building block in the creation of a high performance culture. At least once a year, manager and employees evaluate the results achieved during the performance dialogue. The dialogue is an important arena for recognition, rewards, consideration of career development, and direction for potential individual performance improvements.

Performance based pay is regarded as an attractive part of the total remuneration at Kvaerner. Variable pay programmes are in place for different positions in the organisation. Annual variable pay is offered to middle management and key personnel. Managers earn their annual variable pay based on the commercial results for the units or projects they influence, and according to the extent they comply with Kvaerner's values.

Variable pay for senior executives is distributed over several years in order to encourage long-term achievement of financial results and a lasting employee relationship. Further details about the remuneration of senior executives are provided in Note 9 Salaries, wages and social security costs to the consolidated financial statements.

Research and development

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.

The ability to continuously develop new technology to meet the customers' needs and secure competitive advantage is fundamental to Kvaerner. This ability will be further strengthened going forward.

In 2011, the company's Intellectual Property (IP) position was further developed through new patent filings and granted applications.

There has been no capitalisation related to development activities in 2011. NOK 2.4 million has been expensed for research and development (NOK 15 million in 2010) because the criteria for capitalisation were not met. There have not been any research and development costs paid by customers during the period.

Technology development in Kvaerner is market-driven and cost-effective. It is often pursued in close cooperation with business partners and customers worldwide. Financing is done through separate funding and/or by contributions from partners. Kvaerner's engineering teams around the world are focused on understanding the local and global market challenges. These ensure cost effective technical solutions with focus on quality and safety. Kvaerner's longstanding track record and experience from developing and qualifying solutions for the North Sea will continue to be developed further and exported into global markets.

During 2011, North Sea has developed a platform concept that is relevant for the European offshore wind energy industry. The concept is based on the production of a lean, removable and competitive Kvaerner HVDC Converter Unit (KCU). The Kvaerner Converter concept device can, by land-based completion and commissioning, be wet-towed to location and installed without offshore heavy-lifting.

Jackets has increased the focus on research and development work to meet current and future market needs through continuous improvement and technology development. This work includes the efforts made towards offshore wind jackets. Jackets has also for several years worked with Research & Development activities targeting the challenges in Arctic areas in close cooperation with research institutions, customers and contractors.

Concrete Solutions had a number of projects related to material development through Concrete Innovation Centre (COIN), a SFI programme (Centre for Research-based Innovation) supported by the Research Council of Norway. The COIN programme will extend over several years, and has been granted support until 2014. The business area has had a special focus on the concrete structures exposed to ice scour, ductility of lightweight concrete and fibre-reinforced load-bearing structures. Kvaerner worked closely with customers and end users in Norway, the USA and Russia on these issues during 2011. Concrete Solutions' proprietary product development relates to shallow water structures in harsh Arctic environments to enable all year drilling and ice protection of wells.

Share and share capital

The main shareholder is Aker Kværner Holding AS holding 41.02 percent of the shares. 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. From listing to year-end, the share price decreased by 30 percent. The closing price was NOK 9.75 on 30 December 2011. The company held no treasury shares at year-end. Further information related to the share and shareholders can be found on page 80 of this annual report.

Acknowledgments

The Board of Directors wish to extend sincere thanks and appreciation to the management and workforce for the commitment shown during 2011. The new organisation is in place, and Kvaerner has plans to further strengthen the capabilities, capacity and delivery models in selected areas. The next step is to make sure that all parts of the organisation are fully aligned, ready for Kvaerner to take the concrete steps and actions necessary to reach their goals in the coming years.

Fornebu, 19 March 2012
Board of Directors 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	2011	2010
Total revenue and other income	8	**13 295**	13 209
Materials, goods and services		**(8 885)**	(8 856)
Salaries, wages and social security costs	9	**(2 881)**	(3 337)
Other operating expenses	11	**(456)**	(528)
Total operating expenses		**(12 222)**	(12 721)
Operating profit before depreciation, amortisation and impairment		**1 073**	488
Depreciation	19	**(51)**	(54)
Amortisation	20	**(3)**	-
Operating profit		**1 019**	434
Financial income	12	**68**	47
Financial expenses	12	**(167)**	(60)
Share of profit or loss of associated companies and joint ventures accounted for using the equity method	22	**(6)**	(11)
Profit/(loss) on foreign currency forward contracts	12	**(11)**	(6)
Profit before tax		**903**	404
Income tax expense	13	**(344)**	(330)
Profit for the year		**559**	74
Profit for the period attributable to:			
Equity holders of the parent company		**559**	74
Profit for the year		**559**	74
Basic and diluted earnings per share (NOK)	6	**2.08**	0.28

The notes on pages 24 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income 01.01 - 31.12

Amounts in NOK million	Note	2011	2010
Profit for the year		**559**	74
Other comprehensive income			
Cash flow hedges, net of tax		**2**	(8)
Translation differences - equity-accounted investees		**-**	(1)
Translation differences - foreign operations		**14**	2
Other comprehensive income for the year, net of tax		**16**	(7)
Total comprehensive income for the year		**575**	67
Total comprehensive income attributable to:			
Equity holders of the parent company		**575**	67
Total comprehensive income for the year		**575**	67

The notes on pages 24 to 67 are an integral part of these consolidated financial statements.

Consolidated balance sheet as of 31 December

Amounts in NOK million	Note	2011	2010
Assets			
Non-current assets			
Property, plant and equipment	19	**468**	357
Deferred tax assets	13	**104**	12
Intangible assets	20	**1 186**	1 189
Interest bearing receivables related parties	7	**15**	-
Investments in associated companies and jointly controlled entities	22	**119**	121
Other non-current assets	21	**64**	32
Total non-current assets		**1 956**	1 711
Current assets			
Current tax assets	14	**168**	107
Trade and other receivables	7	**2 135**	3 641
Trade and other receivables related parties	7	**121**	327
Non interest-bearing receivables related parties	7	**-**	1 120
Interest-bearing receivables related parties	7	**-**	902
Interest-bearing loans related parties	7	**25**	-
Cash in Aker Solutions cash pool arrangement	7	**-**	2 299
Cash and cash equivalents		**2 418**	378
Total current assets		**4 867**	8 774
Total assets		**6 823**	10 485

Amounts in NOK million	Note	2011	2010
Equity and liabilities			
Equity			
Share capital		**91**	-
Share premium		**729**	-
Retained earnings		**1 757**	-
Combined equity from former parent		**-**	2 598
Other reserves		**(132)**	(139)
Total equity	6, 31	**2 445**	2 459
Non-current liabilities			
Non-current interest-bearing liabilities	24	**460**	530
Employee benefits obligations	25	**151**	110
Deferred tax liabilities	13	**10**	75
Total non-current liabilities		**621**	715
Current liabilities			
Current interest-bearing liabilities	24	**8**	18
Current tax liabilities	13	**257**	-
Provisions	17	**414**	503
Trade and other payables	16	**2 963**	4 137
Trade and other payables related parties	7	**115**	392
Non interest-bearing liabilities related parties	7	**-**	2 261
Total current liabilities		**3 757**	7 311
Total liabilities		**4 378**	8 026
Total liabilities and equity		**6 823**	10 485

The notes on pages 24 to 67 are an integral part of these consolidated financial statements.

Fornebu, 19 March 2012
Board of Directors of Kværner ASA

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Chairman

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Deputy Chairman

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Director

Lone Fønss Schrøder
Director

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Ståle Knoff Johansen
Director

Bernt Harald Kilnes
Director

Jan Arve Haugan
President & CEO

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Consolidated statement of changes in equity 01.01 - 31.12

Amounts in NOK million	Notes	Number of shares	Share capital	Share premuim	Combined equity from parent	Retained earnings	Hedge reserve	Currency translation reserve	**Total equity [2]**
Equity as of 1 January 2010 [1]			-	-	3 615	-	-	(132)	**3 483**
Profit for the period			-	-	74	-	-	-	**74**
Other comprehensive income			-	-	-	-	(8)	1	**(7)**
Total comprehensive income			-	-	74	-	(8)	1	**67**
Changes in parent's investment			-	-	(1 091)	-	-	-	**(1 091)**
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	30		91	729	(2 352)	1 532	-	-	**-**
Equity as of 31 December 2011		269 000 000	91	729	-	1 757	(6)	(126)	**2 445**

1) Reclassification of NOK 36 million from currency translation reserve to combined equity from parent.
2) Total equity is attributable to owners of the parent company as there are no non-controlling interests in the group.

The notes on pages 24 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows 01.01 - 31.12

Amounts in NOK million	Note	2011	2010
Cash flow from operating activities			
Profit/(loss) for the period		**559**	74
Adjusted for:			
Income tax expense	13	**344**	330
Net interest cost		**105**	24
Unrealised (profit)/loss on foreign currency forward contracts	12	**11**	6
Depreciation and amortisation	19	**54**	54
Non-cash effects of corporate allocations		**-**	143
(Profit)/loss from associated companies and jointly controlled entities	22	**(6)**	(11)
Interest paid and received		**11**	(4)
Income taxes paid		**(281)**	(471)
Changes in other net operating assets		**272**	(790)
Net cash from operating activities	8	**1 069**	(645)
Cash flow from investing activities			
Acquisition of property, plant and equipment	19	**(163)**	(10)
Proceeds from sale of property, plant and equipment		**1**	3
Change in long term investments with joint ventures		**(44)**	(19)
Change in other investments		**(25)**	-
Net cash from investing activities		**(231)**	(26)
Cash flow from financing activities			
Net proceeds of external borrowings		**460**	-
Net change in financial liabilities related parties		**(821)**	(836)
Net equity contribution from/to the Aker Solutions group		**(742)**	1 185
Net cash from financing activities		**(1 103)**	349
Effect of exchange rate changes on cash and bank equivalents		**6**	53
Net increase/(decrease) in cash and bank equivalents		**(259)**	(269)
Cash and cash equivalents at the beginning of the period		**2 677**	2 946
Cash and cash equivalents at the end of the period		**2 418**	2 677
Of which is restricted cash [1]		**22**	214

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

Note 1 General information

Kværner ASA, formerly Fornebu Newco AS, was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Snarøyveien 30, Fornebu, 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 & 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 (EPC) services for offshore platforms and onshore plants. Refer to 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 2011.

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 2011.

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

The consolidated financial statements will be authorised by the Annual General Meeting on 12 April 2012. Until the latter date the Board of Directors have the authority to amend the financial statements.

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 (NOK million), except when otherwise indicated.

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 carrying amount of that interest, including any long-term investments, is reduced to zero, and further losses are not recognised except to the extent that the group has legal or constructive obligations or has made payments on behalf of the investee.

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.

The consolidated financial statements include the group's share of the 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.

Jointly controlled operations

Jointly controlled operations involve the use of assets and other resources of the 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.

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 the profit or loss on 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 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 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 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 resultant gain or loss depends on the nature of the item being hedged.

Hedging activities

Kvaerner may engage in three different 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).
- Hedges of a net investment in a foreign operation (net investment 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 percent to 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 financial 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 hedging instrument is recognised in profit or loss within financial 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.

Net investment hedge

Gains or losses arising from the hedging instruments relating to the effective portions of the net investment hedges are recognised in other comprehensive income and presented within currency translation reserve in equity. These translation reserves are reclassified as profit or loss upon disposal of the hedged net investments, offsetting the translation differences from these net investments. Any ineffective portion is recognised immediately in profit or loss within financial items.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

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. 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.

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, to the extent that these investments are related to the group's operating activities, is included in other income within operating profit, along with gains and losses related to the sale of operating assets.

Financial income and expenses

Financial income and finance costs 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 which they 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 expense is recognised on a straight line basis based upon the cost of an asset less any residual value over the estimated useful lives of property, plant and equipment.

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 on the acquisition 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.

Capitalised development expenditures are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditures
Subsequent expenditures on capitalised intangible assets are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed 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, then the difference is presented as advances from customers.

IMPAIRMENT

Financial assets
The 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 remote.

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 annually for impairment.

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

Recoverable amount
The recoverable amount of an asset or a CGU is the greater of their net selling price and value in use. In assessing value in use, the 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 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.

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.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

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.

Employee share purchase programme

As of 2009, Aker Solutions has offered employees the option to buy shares in Aker Solutions at a discount through a share purchase programme. The share purchases were subsidised by Aker Solutions and follow tax regulations related to tax-free subsidised shares. Employees who keep their shares and who remains employed by the Aker Solutions group throughout the period of the running programme (2.5 years) are entitled to a bonus share award whereby they will receive free of charge one bonus share for every second share purchased under the scheme.

Kvaerner has undertaken to give cash compensation to employees who were transferred from Aker Solutions to Kvaerner and were entitled to bonus shares in the Aker Solutions programme. The value of the bonus shares is expensed over the service period based on the fair value of each award, adjusted for estimated forfeitures.

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.

Significant principles that were used to prepare the combined financial information for the Kvaerner group and key adjustments made in the preparation were as follows:

Corporate and other shared costs

The combined financial information includes Kvaerner's direct expenses as well as allocations arising from certain shared expenses including office facilities, and management fees covering costs related to corporate services provided centrally, such as tax, legal, treasury, compliance, business development, insurance, staffing, risk management, IT support and corporate accounting services. Excluded from corporate allocations and other shared costs were certain shareholder expenses incurred due to Aker Solutions' listing on the Oslo Børs.

Allocations were made based upon an appropriate allocation method depending upon the nature of the costs. Headcount, square meters, revenues and operating profit were some of the variables used to perform such allocations.

In some cases, the allocation of corporate and shared costs included a small profit margin. However, the over and under recovery of such costs was allocated back to the businesses using an appropriate allocation method.

Kvaerner believes that while the basis for allocating such costs is reasonable, the amounts may not be representative of the costs necessary for Kvaerner to operate as a separate stand-alone entity.

Cash and cash equivalents

Cash and cash equivalents represent cash balances held by Kvaerner businesses and are included in the combined financial information. Aker Solutions operated a centralised cash management system.

Cash and cash equivalent balances for Kvaerner on deposit with Aker Solutions' Treasury are presented as a separate line item on the face of the balance sheet under current assets. Likewise overdrafts with Aker Solutions' Treasury are presented under current liabilities. Interest income was earned based upon the base rate of the cash pool bank.

Related party borrowings and deposits

Kvaerner was financed through borrowings from Aker Solutions centralised treasury system. Kvaerner had no outstanding external borrowings.

Interest expense charged to Kvaerner on a monthly basis for all financial periods is presented based on Aker Solutions' external financing costs adjusted for the business units calculated risk margin which was based upon gearing levels, country risk and loan term. Interest income was earned based on interbank deposit rates.

Hedge accounting

Aker Solutions has a centralised policy for its subsidiaries to hedge any foreign currency exposure centrally with its treasury department. Historically, the effects of certain hedge accounting transactions at the Aker Solutions group level have not been allocated back to its individual businesses.

For the purpose of presenting the combined financial information, the effects of all hedging transactions related to Kvaerner were allocated to Kvaerner.

Pension costs

All Norwegian employees in Kvaerner participated in a defined benefit plan or a defined contribution plan covering Aker Solutions employees. For the defined benefit plans, the service cost that was previously charged to legal entities and other components of Aker Solutions' net pension cost were included within the combined financial information.

The pension liabilities and pension assets associated with Kvaerner employees (including retired plan members) were included within the combined financial information.

Income taxes

Through 7 July 2011 the provision for income taxes was calculated from Aker Solutions' consolidated financial information including allocations and eliminations deemed necessary by management as though the Kvaerner legal entities and business filed their own tax returns using the «separate return method».

Certain Kvaerner legal entities and business units did not file separate tax returns but rather were included in the income tax returns filed by Aker Solutions and its subsidiaries in Norway and foreign jurisdictions. The provision for income taxes prior to 7 July 2011 was impacted by Aker Solutions worldwide tax structure and strategies, which were designed to optimise an overall tax position and not necessarily that for the Kvaerner's businesses.

Under the separate return method, differences between tax expenses or benefits were calculated on a separate return basis, and cash paid or received by the legal entities was treated as a contribution to capital to the extent it was net paid or received by Kvaerner entities. The income tax balance sheet for these legal entities was also calculated on a separate return basis, reflecting the tax effect of the difference between the amounts recognised in the financial information and the tax base of assets, liabilities and loss carry forwards that remained with Kvaerner.

Family Venture Projects

Some customer projects, particularly in Norway, were executed utilising a «family ventures» concept. On a family ventures project, the total contract revenues are divided between the different Aker Solutions business units performing the work for the customer. Revenues and expenses related to each business unit's scope of work are recognised within the unit as progress is completed. Typically, there is a profit sharing agreement between legal entities which shares the result of the total outcome of the project between legal entities.

However, in certain cases, the amount of revenues and costs allocated per legal entity was adjusted for management reporting purposes when management determined that the family venture allocation as reflected in the intercompany agreement did not accurately represent the substance of the project outcome for Aker Solutions' operating segment reporting purposes. The effects of such adjustments were allocated to Kvaerner based upon its relative share of the projects.

Other project allocations
As part of the reorganisation certain contracts or portions of contracts that historically were served by entities remaining within Aker Solutions may ultimately be assigned to Kvaerner. These contracts were excluded from the combined financial information to the extent that the historical business of Kvaerner did not include these activities.

Transfer of employees
Approximately 540 employees were transferred from Aker Solutions to Kvaerner as part of the re-organisation in addition to those transferred with legal entities. Most of these employees perform engineering or project management services.

For approximately 400 employees, the revenues and costs are clearly allocable to Kvaerner and were included in the combined financial information. For the remaining employees, an allocation of revenues and costs was made to Kvaerner based upon utilisation rates and estimates of revenues and costs. Kvaerner believes that these estimates represent a reasonable allocation of the activities of these employees for the periods presented.

Pension liabilities and other employee accruals were allocated based on amounts calculated in 2010.

Internal transactions and contracts
Contracts between Aker Solutions and Kvaerner entities were generally recognised in the group financial statements as if they were contracts with unrelated parties on an arm's-length basis. Receivables and payables with Aker Solutions as the counterparty were presented separately classified as due to/from related parties in the group balance sheet. All intercompany transactions and balances between Kvaerner group components were eliminated in combination.

Goodwill
Included within the group financial statements is goodwill associated with cash generating units that are components of Kvaerner. Goodwill was historically monitored at the segment level for Aker Solutions. Goodwill in Aker Solutions' operating segments which included the Kvaerner businesses (ED&S and P&C) was allocated to Kvaerner based upon their relative fair values as of 31 December 2010. This was subsequently allocated to Kvaerner's new operating segments after 7 July 2011.

Equity
Equity balances in the combined financial statements prior to 7 July 2011 included other changes in Aker Solutions' investment in Kvaerner such as the effect of intercompany dividends, intercompany contributions and other intercompany allocations settled through equity.

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 following new standards and amendments may potentially have an impact on the consolidated financial statements of the group when adopted:

IFRS 11 Joint arrangements, effective for annual reporting periods beginning from 1 January 2013, replaces IAS 31 Interests in joint ventures and removes the choice of equity or proportionate consolidation accounting for jointly controlled entities, and so may lead to some interests in such arrangements held by the group being equity accounted rather than proportionately consolidated.

IAS 19 Employee benefits amendments, effective for annual reporting periods beginning from 1 January 2013, require immediate recognition of actuarial gains and losses in other comprehensive income and eliminate the corridor method and requires net interest income or expense calculations to use the discount rate used to measure the defined benefit asset or liability.

The group does not plan to early adopt these new standards and amendments, and the extent of the impact has not yet been determined.

Note 4 Accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the group's reported revenues, expenses, assets and liabilities. 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, in the group'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 the contracts with customers include procedures for presentation of an agreement of variation orders. 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 contingencies lapse or new contingencies 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, the following projects are subject to estimation uncertainty, the outcome of which could have a material impact on the consolidated financial statements:

Longview

Kvaerner North American Construction Inc, a subsidiary of Kvaerner, has initiated arbitration against both Longview and Foster Wheeler North America Corp, the supplier of the boiler for the Longview project. 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 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.

There are still substantial uncertainties with respect to the final financial outcome of the project.

Nordsee Ost

In 2010, a subsidiary of Kvaerner entered into a contract with 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. The dispute is being prepared for arbitration.

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. Both the general one percent provision and the evaluation of project specific circumstances 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 annually whether goodwill has suffered any impairment 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 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 Tax.

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. The effect on the accounts of such changes is, however, spread over relatively long time periods by the use of the corridor approach, where changes are amortised over many years. Further information about the pension obligations and the assumptions used are included in Note 25 Employee benefits – pension.

Note 5 Financial risk management and exposures

Financial risks
The 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 treasury management services continue to be provided by Aker Solutions under the transitional services agreement (Note 7 Related parties). 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-optimization 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 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 group's policy requires its companies to hedge their entire currency risk exposure in any project using forward contracts and currency options. The group's treasury department manages internal exposures by entering into external forward contracts or currency options. The group has a large number of contracts involving foreign currency exposures and the currency risk policy has been well-established for many years under the ownership of the Aker Solutions group prior to the demerger.

For segment reporting purposes, each business unit 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. More than 80 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 group's exposure to the main foreign currencies

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**

2010

Amounts in million	RUB	USD	EUR	KZT
Cash	82	27	39	624
Related party foreign currency loans	-	(1)	-	-
Balance sheet exposure	**82**	**26**	**39**	**624**
Estimated forecast receipts from customers	-	-	157	-
Estimated forecast payments to vendors	-	(33)	(198)	-
Cash flow exposure	**-**	**(33)**	**(41)**	**-**
Forward exchange contracts	-	29	36	-
Net exposure	**82**	**22**	**34**	**624**

Estimated forecasted receipts and payments in the table above are calculated based on the group's hedge transactions through the 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. Corporate Treasury is allowed to hold positions within an approved trading mandate. This mandate is closely monitored and reviewed by group management.

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 below 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 can not 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. The analysis is performed on the same basis as it was for 2010.

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.

	2011		2010	
Amounts in NOK million	Profit before tax	Equity [1]	Profit before tax	Equity [1]
USD	**(37)**	**-**	15	-
EUR	**31**	**15**	26	32
KZT	**6**	**-**	2	-
RUB	**8**	**-**	2	-

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

A 10 percent strengthening of the NOK against the above currencies as of 31 December 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 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	**2011**	2010	**2011**	2010
USD	**5.615**	6.074	**6.004**	5.851
CAD	**5.665**	5.869	**5.884**	5.861
EUR	**7.799**	8.049	**7.769**	7.819
KZT	**0.038**	0.041	**0.040**	0.040
RUB	**0.190**	0.199	**0.187**	0.191

The next table illustrates the group's exposure to translation risk. Had the Norwegian currency depreciated by 10 percent during 2011, the consolidated statement would be affected by the changes in the table. A 10 percent appreciation would have had an equal but opposite effect. The sensitivity analysis is only a translation sensitivity and does not reflect changes in competitive-ness, derivatives or other effects from currency fluctuations. Sensitivity analysis per currency has been made, however the total result is given in the table:

2011

				10% depreciation of NOK			Change		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
Total	13 295	1 073	2 455	14 066	1 168	2 523	770	93	69

2010

				10% depreciation of NOK			Change		
Amounts in NOK million	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity	Revenue	EBITDA	Equity
Total	13 209	488	2 459	13 654	449	2 510	445	(38)	51

Interest rate risk
The 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 2011 would have increased (decreased) equity and profit and loss by the amounts shown in the table on the next page. A decrease of 100 basis points would have had an equal but oppsite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for2010.

Amounts in NOK million	2011	2010
Cash and cash equivalents	**24**	27
Interest-bearing receivables related parties	**-**	9
Interest-bearing loans to related parties	**-**	-
Interest-bearing liabilities related parties	**-**	(5)
External loan	**(5)**	-
Cash flow sensitivity (net)	**20**	30

Price risk
The 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 the treasury department. 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 client or escalated to the local authority. The customers are mainly large and highly reputable oil companies with a low credit risk, which reduces the credit risk significantly. Based on the above, the group's credit risk is considered to be limited.

On the balance sheet date, there were no significant concentrations of credit risk. 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 26 Financial instruments. The group does not hold collateral as security.

Liquidity risk
Liquidity risk is the risk that the group will 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 are often up-front and involve 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 24 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

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
Interest-bearing liabilities	24	(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)

2010

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
Interest-bearing liabilities	24	(548)	(564)	(18)	-	(546)	-
Non-interest-bearing liabilites related parties	7	(2 261)	(2 261)	(2 261)	-	-	-
Trade and other payables related parties	7	(392)	(392)	(392)	-	-	-
Trade and other payables	16	(4 137)	(4 137)	(4 120)	(7)	(9)	(1)
Total		(7 338)	(7 354)	(6 791)	(7)	(555)	(1)

1) Nominal currency value including interest.

The 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 (business units) in such cash-pooling arrangements is that the group as an owner of such pools is financially viable and capable of servicing its obligations concerning repayment of any net deposits made by business units.

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, issue new shares or sell assets to reduce debt. Normally, 30–50 percent of net profit will be paid out as dividends.

The group monitors capital on the basis of a gearing ratio (gross debt/EBITDA) and interest coverage ratio (EBITDA/net finance cost). The ratios are calculated from gross debt, including all interest-bearing liabilities as shown in Note 26 Financial instruments, EBITDA (earnings before interest, tax, depreciation and amortisation) 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 2011 (all obligations are per date of issue).

- Kværner ASA has provided indemnities to Aker Solutions in respect of parent company guarantees issued by Aker Solutions on behalf of Kvaerner group companies: NOK 39 billion (NOK 53.7 billion).
- Counter guarantees for bank/surety bonds: NOK 1.2 billion (NOK 2.3 billion).

Note 6 Earnings per share

Kværner ASA was newly formed in 2011. There were no outstanding shares in 2010. 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 demerger in July 2011. Each share has a nominal value of NOK 0.34. 2011 and 2010 earnings per share information has been prepared on a proforma basis as if these shares were outstanding for all periods presented.

Earnings per share

	2011	2010
Profit/(loss) attributable to ordinary shares (NOK million)	**559**	74
Number of shares outstanding	**269 000 000**	269 000 000
Basic and diluted earnings per share (NOK)	**2.08**	0.28

Note 7 Related parties

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

Prior to consummation of 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 continue to be presented as related parties due to the relationship in 2011. Consequently, all transactions and balances between Kvaerner entities and Aker Solutions entities for the full year 2011 are 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 and Note 23 Jointly controlled operations for further information.

The section on the next page provides information in respect of on-going arrangements between companies within the Kvaerner group and companies within the Aker Solutions group in conjunction with the demerger. Details of the demerger transactions are included in Note 30 Separation from Aker Solutions ASA.

2011

Amounts in NOK million	Note	Entities controlled by Aker Solutions	Entities controlled by Aker	Associated companies	Joint ventures	Other related parties	**Total**
Income statement							
Operating revenues		672	195	-	224	2	**1 093**
Operating expenses		(823)	-	-	-	(3)	**(826)**
Net financial 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)**

2010

Amounts in NOK million	Note	Entities controlled by Aker Solutions	Entities controlled by Aker	Associated companies	Joint ventures	Other related parties	**Total**
Income statement							
Operating revenues		472	384	78	76	-	1 010
Operating expenses		(678)	-	-	-	-	(678)
Net financial items		(20)	-	-	-	-	(20)
Balance sheet as of 31 December							
Trade and other receivables		142	56	-	129	-	327
Non interest-bearing receivables[1]		1 120	-	-	-	-	1 120
Interest-bearing receivables		902	-	-	-	-	902
Deposits Aker Solutions cash pool arrangement		2 299	-	-	-	-	2 299
Trade and other payables		(303)	-	-	(89)	-	(392)
Non interest-bearing liabilities[1]		(2 261)	-	-	-	-	(2 261)
Interest-bearing liabilities[2]	24	(541)	-	-	-	-	(541)

1) Relates to group contribution and dividends from/to entities controlled by Aker Solutions, and have been settled within six months after 31 December 2010.
2) Relates to funding and are described further in Note 24 Interest-bearing liabilities.

Trade receivables and trade payables in the table above are derived from ordinary business operations. Other receivables from and liabilities to entities (interest-bearing and non interest-bearing) controlled by Aker Solutions are included in separate captions in the balance sheet.

Related party transactions with entities controlled by Aker Solutions
The Aker Solutions group has been both an acquirer and a supplier of services to the Kvaerner group. Ordinary business operations including subcontracting and hire of personnel, management services, shared services, recruitment and supply services, treasury services and insurance services have been purchased from the Aker Solutions group. The costs of these services are included within Kvaerner's operating expenses. Pricing models vary between types of projects and services, however all transactions with Aker Solutions entities are based on arms-length terms.

Sale of man hours to the Aker Solutions group is treated as revenue. Pricing models vary between types of projects and services, however all transactions with related parties are based on arms-length terms.

Transitional services agreement
The Aker Solutions group shall for a transitional period provide the services below to the Kvaerner group.

- Treasury services – executing hedging transactions, cash management, bond and guarantee support.
- Legal & Tax services – general and project specific legal support in the US and on legacy issues, tax reporting and returns.
- Pension services – management of defined benefit schemes and compensation schemes.
- Insurance services – renewal / procurement of insurance policies, contract and claims handling services.
- Accounting services – technical assistance, guidance and knowledge transfer, maintenance of Hyperion system.
- Compliance services – corporate risk committee, corporate operational reviews.
- Facilities and facilities management services – subletting of space.
- Moscow office services – office support functions.
- US services – legal, accounting and secretarial services in the US.
- In addition to the defined service above, legal assistance and tax filings related to two specific projects will be provided.

Terms of expiry for the various services are between 31 December 2011 and 6 July 2012. Kvaerner has requested Aker Solutions to continue to provide certain of these services for a longer term than originally agreed upon, and an addendum is being prepared for extension. The fees for services are on cost basis plus mark-up for all services delivered, except pensions and facilities. The agreement with Aker Pensjonskasse are based on a premium for each individual agreement. Facility charges are dependent upon the underlying lease agreement with the supplier and the external facility owner. It is invoiced on a back-to-back basis reflecting the terms and conditions in the main lease agreement.

Main agreement, transitional services from Aker Business Services AS
The Aker Solutions group, through its subsidiary Aker Business Services AS, will supply products, services and support to Kvaerner companies in Norway, UK, USA and Asia. The services are within HR, finance & accounting, facilities management, IT services and software license areas.

The contract was non-terminable and binding until 31 December 2011, and the parties are working to renew and extend these agreements before 31 March 2012.

The supplier operates with four price models: one-off payments, fixed monthly rates, usage based, and rates per man-hour, and prices are generally adjusted on a quarterly basis.

Technology agreement
Entities within the Aker Solutions group and entities within the Kvaerner group have entered into a technology agreement regulating allocation of ownership to certain key intellectual property rights and know-how between the parties, and licencing of certain intellectual property rights and know-how from the Aker Solutions group to the Kvaerner group and vice versa. The main principle for the allocation of ownership to intellectual property rights and know-how under the technology agreement is that ownership shall follow the party to which it naturally belongs.

Licencing arrangements are used in respect of intellectual property rights and know-how that are required for the successful operations of the party not being allocated ownership to such intellectual property rights or know-how. The licencing right is based on actual need for the technology in the Kvaerner business. Therefore, to the extent the right to licence a specific technology has not been utilised for a period of seven years then the right under the Technology Agreement to receive a licence to that specific technology will terminate.

Kvaerner will have a right to use the project execution model (PEM) of Aker Solutions, subject to certain restrictions which will terminate after seven years. In addition the agreement regulates access to databases, files and records, IT systems and solutions in general.

The owner of the technology will be responsible for all costs and expenses related to maintaining its ownership interest in the technology.

The cost for licences is set at an all-inclusive cost for the provider, or at observable market rates.

Global staffing agreement with Aker Advantage
Aker Advantage AS, a subsidiary of Aker Solutions, is Aker Solutions' recruitment and consultancy company for technical and project administrative consultancy services. Aker Advantage has offices in Norway, England, Scotland, Australia and USA. In conjunction with the demerger, Kvaerner has entered into a general agreement with Aker Advantage AS. The new agreement is entered into on similar terms as those applied when the Kvaerner group was part of Aker Solutions.

The main objective of this agreement is that Aker Advantage shall provide suitable temporary contract personnel at a competitive rate on a timely basis for a mutually beneficial cooperation relationship between the supplier and the customer.

The agreement is initially fixed term until 20 June 2013, and can be mutually extendable by another two years.

The rates of pay for temporary contract personnel shall be on competitive terms and conditions. Fees payable by Kvaerner to Aker Advantage shall be calculated based on the rates for respective relevant geographical areas where temporary contract personnel are recruited.

Frame agreement for personnel hire
Aker Solutions group and Kvaerner group have entered into an agreement to establish a framework whereby a member of the each group may hire personnel from a member of the Aker Solutions group or the Kvaerner group respectively, and to set out the terms of such hire agreements.

The providing party shall make personnel available to the receiving party. With respect to engineering resources, the providing party shall, to the extent it has available resources and does not have other restrictions reasonably arising out of its own operations, make personnel available for hire to the receiving party in accordance with the request. The same principle applies to personnel with specialised competences. The providing party shall only be obliged to make available personnel for assignments of limited scope and duration, and the obligation shall not exceed NOK 15 million during each calendar year.

After 31 March 2012, either party may terminate with three months' notice, or the frame agreement will automatically terminate on 31 December 2012 unless the parties mutually agree to extend.

The price hiring personnel shall be in accordance with the below principles and shall be calculated to cover all salary costs, social costs and other costs of the providing party relating to the hired out personnel, including:

- Salary, taxes, insurances and benefits.
- Office, tools, equipment and IT costs.
- An agreed share of the providing party's overhead cost and all other relevant costs.

In addition a profit margin of ten pecentage shall be applied.

PROJECT SPECIFIC AGREEMENTS

Agreements regarding the Kashagan HUC project
Kvaerner and Aker Solutions have agreed that the project will be finalised in accordance with the plan agreed with the customer, and that Aker Solutions companies shall continue to provide personnel resources in accordance with the demobilisation plan.

The contract for engineering services on the Kashagan HUC project remains legally with Aker Solutions, though the full economic interest in the contract has transferred to Kvaerner under the terms of the Separation Agreement (refer to Note 30 Separation from Aker Solutions ASA).

Agreements regarding the Sakhalin 1 GBS project
The contract for engineering services on the Sakhalin 1 GBS project remains legally with Aker Solutions, though the economic interest in the contract is divided between Kvaerner and Aker Solutions at a ratio of 80:20 from 1 July 2011 under the terms of the Separation Agreement (refer to Note 30 Separation from Aker Solutions ASA).

Hebron FEED
Kvaerner is both an acquirer and a supplier of personnel to this project. There is a partnership between Kvaerner and Kiewit in Canada, named Kiewit Kvaerner Contractors (KKC). The partnership has its own employees including personnel from both Kvaerner and Aker Solutions. In addition, personnel from Kiewit and external consultants are hired in to the partnership.

The Norwegian part of the contract is subcontracted to Aker Solutions. Aker Solutions hires in personnel from Kvaerner and invoices the client respectively for both companies.

RELATED PARTY TRANSACTIONS WITH ENTITIES CONTROLLED BY AKER

Aker Clean Carbon AS
Aker Solutions has a 50 percent shareholding in Aker Clean Carbon AS, a company which is jointly controlled by Aker Solutions and Aker ASA. The Kvaerner group was party to a joint venture agreement with Aker Clean Carbon AS for construction of the European CO_2 Technology Centre at Mongstad in Norway, where Aker Clean Carbon AS provided the technology, project management and carried through commissioning and initial operation of the plant while the Kvaerner group built the plant. Project completion is expected in 2012.

Aker Drilling ASA
In 2005, Aker Drilling ASA, a company then controlled by Aker ASA, and the Kvaerner group entered into contracts for the turnkey delivery of the two semisubmersible drilling rigs, Aker Barents and Aker Spitsbergen. The rigs are operating successfully with advanced technical solutions and the general guarantee period of 24 months is running until 1 January 2012. In the summer of 2010, guarantee work was performed on Aker Spitsbergen, and a provision has been made for expected similar guarantee work to be performed on Aker Barents. Aker Drilling ASA was sold by Aker ASA to an unrelated party in October 2011.

Aker Pensjonskasse
Aker Pensjonskasse (established by Aker ASA) manages the Kvaerner group's retirement plan for employees and retirees of entities within the Kvaerner group. Premiums paid to Aker Pensjonskasse amounted to NOK 18.5 million for the year ended 31 December 2011 (18 million for 31 December 2010). Aker Solutions holds 93.4 percent of the shares in the Aker Pensjonskasse.

TRANSACTIONS WITH ASSOCIATES

Kvaerner holds ownership in the following associates:
Vitec AS (34 percent), Proneo AS (46 percent), Stord Industribygg (34 percent) and Petromarine AS (20 percent). See the table on page 38 for the total transaction amount between Kvaerner and the associates as a group.

FAMILY VENTURE PROJECTS

Some customer projects, particularly in Norway, are executed utilising a «family ventures» concept, see Note 2 Basis of preparation for further description. Listed below are significant family venture projects in Kvaerner for 2011.

Projects	Started	Estimated completion
Sakhalin 1	2008	2012
Mongstad CO_2	2009	2012
Kashagan HUC	2009	2012
Hebron FEED	2010	2012

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 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 is a contractor for onshore facilities, power plants and steel mills.

The market development within the two segments Upstream and Downstream & Industrials 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 at segment level.

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

The accounting principles of the reportable segments are the same as described in Note 2 Basis of preparation and Note 3 Accounting principles, except for hedge accounting. When contract revenues and contract costs are denominated in a foreign currency, the subsidiary has hedged 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 statement is 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.

2011 - Operating segments

Amounts in NOK million	Note	Upstream	Downstream & Industrials	**Total operating segments**	Other	Elim.	**Total**
Operating revenue							
Construction contracts		10 687	1 521	**12 208**	-	(22)	**12 186**
Services revenue		30	896	**926**	-	(13)	**913**
Products		-	-	**-**	-	-	**-**
Other		170	-	**170**	57	(31)	**196**
External operating revenue		10 887	2 417	**13 304**	57	(66)	**13 295**
Inter-segment revenue		-	-	**-**	-	-	**-**
Total operating revenue		10 887	2 417	**13 304**	57	(66)	**13 295**
EBITDA		1 571	(351)	**1 220**	(147)	-	**1 073**
Depreciation, amortisation and impairment	19	(45)	(9)	**(54)**	-	-	**(54)**
EBIT		1 526	(360)	**1 166**	(147)	-	**1 019**
Assets							
Current operating assets		925	1 338	**2 263**	21	(28)	**2 256**
Non-current operating assets		1 542	133	**1 675**	1		**1 676**
Operating assets		2 467	1 471	**3 938**	22	(28)	**3 932**
Tax-related assets							**273**
Investment in associates and jointly controlled operations							**119**
Investments in other companies							**19**
Financial receivables							**62**
Deposits with Kvaerner Treasury							**1 427**
Cash and interest-bearing receivables							**991**
Total assets							**6 823**
Liabilities							
Current operating liabilities		(2 761)	(720)	**(3 481)**	(39)	28	**(3 492)**
Non-current operating liabilities		(119)	-	**(119)**	(32)		**(151)**
Operating liabilities		(2 880)	(720)	**(3 600)**	(71)	28	**(3 643)**
Financial liabilities related parties							**(8)**
Tax-related liabilities							**(267)**
Net 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**	52	(67)	**10 897**
Order backlog (unaudited)		8 758	1 287	**10 045**	3	(2)	**10 046**
Own employees (unaudited)		2 607	402	**3 009**	147	-	**3 156**

2010 - Operating segments

Amounts in NOK million	Note	Upstream	Downstream & Industrials	**Total operating segments**	Other	Elim.	**Total**
Operating revenue							
Construction contracts		8 734	3 048	11 782	-	-	11 782
Services revenue		16	977	993	-	-	993
Products		54	-	54	-	-	54
Other		380	-	380	-	-	380
External operating revenue		9 184	4 025	13 209	-	-	13 209
Inter-segment revenue		8	24	32	-	(32)	-
Total operating revenue		9 192	4 049	13 241	-	(32)	13 209
EBITDA		928	(440)	488	-	-	488
Depreciation, amortisation and impairment	19	(42)	(12)	(54)	-	-	(54)
EBIT		886	(452)	434	-	-	434
Assets							
Current operating assets		2 334	1 798	4 132	(92)	(72)	3 968
Non-current operating assets		1 430	137	1 567			1 567
Operating assets		3 764	1 935	5 699	(92)	(72)	5 535
Tax-related assets							119
Investment in associates and jointly controlled operations							121
Investments in other companies							9
Financial receivables related parties							2 022
Deposits with Aker Solutions Treasury							2 299
Cash and interest-bearing receivables							380
Total assets							10 485
Liabilities							
Current operating liabilities		(3 707)	(1 489)	(5 196)	92	72	(5 032)
Non-current operating liabilities		(110)	-	(110)			(110)
Operating liabilities		(3 817)	(1 489)	(5 306)	92	72	(5 142)
Financial liabilities related parties							(2 279)
Tax-related liabilities							(75)
Net interest-bearing liabilities							(530)
Total liabilities							(8 026)
Net current operating assets		(1 373)	309	(1 064)	-	-	(1 064)
Cash flow							
Cash flow from operating activities		1 211	(1 856)	(645)	-	-	(645)
Acquisition of property, plant and equipment	19	7	3	10	-	-	10
Order intake (unaudited)		6 518	2 701	9 219	-	(32)	9 187
Order backlog (unaudited)		10 376	2 059	12 435	-	-	12 435
Own employees (unaudited)		2 063	414	2 477	-	-	2 477

Major customers
Revenue from the three largest customers of the Upstream segment represened approximately NOK 6.7 billion (50 percent) of the group's total revenue of NOK 13.3 billion. Of this, one customer represented 24 percent, the second represented 15 percent and the third represented 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 and capital expenditures are based on the geographical location of the assets.

	Operating revenues		Non-current segment assets	
Amounts in NOK million	**2011**	2010	**2011**	2010
Norway	**4 186**	3 106	**1 696**	1 559
Europe	**1 477**	-	**3**	1
North America	**2 296**	4 345	**149**	139
Rest of the world [1]	**5 336**	5 758	**(12)**	(11)
Total	**13 295**	13 209	**1 836**	1 688

1) **Operations in Kazakhstan and the Russian Federation**
The group has significant operations in Kazakhstan and the Russian Federation. Consequently, the group is exposed to the economic and financial markets of these countries which display characteristics of emerging markets. The legal, tax and regulatory frameworks in these countries continue to be developed, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan and the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of these business environments on the operations and the financial position of the group. The future business environment in these countries may differ from management's current assessment.

	Capital expenditure	
Amounts in NOK million	**2011**	2010
Norway	**153**	7
Europe	**2**	-
North America	**3**	3
Rest of the world	**5**	-
Total	**163**	10

Note 9 Salaries, wages and social security costs

Amounts in NOK million	Note	**2011**	2010 [1]
Salaries and wages including holiday allowance		**2 135**	2 314
Social security tax/National insurance contribution		**397**	839
Pension cost	25	**191**	36
Other employee costs		**157**	148
Salaries, wages and social security costs		**2 881**	3 337

1) 2010 figures have been restated (reclassified from materials, goods and services) to ensure comparability. Total amount restated is NOK 1 721 million which includes NOK 1 064 million related to salaries and wages and NOK 657 million related to social security taxes.

Employee share purchase programme
Kvaerner has undertaken to deliver cash compensation to employees who were transferred from Aker Solutions to Kvaerner and were entitled to bonus shares in the Aker Solutions programme, on the same basis as they would have continued as employees of Aker Solutions.

Kvaerner paid out a total NOK 4.3 million in cash equal to the value of the bonus shares related to programme number 1, in September 2011. The same type of cash compensation will be paid out in September 2012 and 2013. Kvaerner recognises the cost over the service period, and has accounted for an estimated cost of NOK 2.5 million for programme number 2 and 3 as of 31 December 2011.

Remuneration to members of the Executive Management Team

Amounts in NOK			Base salary [1]	Variable pay [2]	Other benefits [3]	Pension benefit earned/ cost to company [4]	**Total remuneration**
Jan Arve Haugan	01.08.2011	31.12.2011	2 100 000	2 000 000	2 854	26 785	**4 129 639**
Eiliv Gjesdal	01.04.2011	31.12.2011	1 753 172	1 145 826	4 000	54 715	**2 957 713**
Lars Eide	01.04.2011	31.12.2011	1 510 289	1 148 587	13 819	89 499	**2 762 194**
Nina Udnes Tronstad	01.04.2011	31.12.2011	1 511 543	1 090 605	13 819	99 242	**2 715 210**
Bjørn Gundersen	01.04.2011	31.12.2011	1 606 849	2 190 356	5 035	81 888	**3 884 128**
James Harry Miller	06.06.2011	31.12.2011	1 481 611	1 023 157	-	-	**2 504 767**
Jan Tore Elverhaug	01.04.2011	31.12.2011	1 891 733	1 283 877	13 819	111 721	**3 301 150**
Jan Øyri	08.08.2011	31.12.2011	924 601	636 570	1 412	26 464	**1 589 047**
Tony Allen	03.10.2011	31.12.2011	700 247	2 531 055	33 612	105 037	**3 369 951**
Total			13 480 046	13 050 034	88 370	595 350	**27 213 800**
Per Harald Kongelf	01.01.2011	01.08.2011					

Kvaerner has paid Aker Solutions NOK 127 000 for services related to Per Harald Kongelf up to 01.08.2011.

1) Base salary includes accrued holiday allowances.
2) Variable pay in 2011 mainly relates to amounts earned in 2011 and which will be paid later. (Amount listed for Bjørn Gundersen includes compensation for extensive travelling in period. Amount listed for Tony Allen includes buy out from Share Program at previous employer).
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 benefit scheme to a pension contribution scheme and a disability pension scheme.

Board of Directors

2011

	Board fees [4]	Audit Committee fees [4]	Remuneration Commitee 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]	150 000	-	-
Ståle Knoff Johansen [2]	150 000	-	-
Bernt Harald Kilnes [2]	150 000	37 500	-

1) Members of the Board of Directors are elected for one year.
2) Members of the Board of Directors are elected for two years.
3) In two board meetings deputy board member Amram Hadida met for Rune Rafdal.
4) Fees for work performed in 2011 related to Board meetings, Audit and Remuneration Committe, will be decided by the annual General meeting in April 2012. Kvaerner has accrued a total of NOK 2.1 million for 2011 related to such meetings. Fees listed in the table are based upon 6 months activity from the demerger of Kvaerner from Aker Solutions on 7 July 2011.

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

According to agreement with and initiative from the employees, NOK 50 000 is transferred to the labour union covering occupational activities in the group, for each Director elected from the employees.

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 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
The Kvaerner Board of Directors has appointed 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 has appointed a Remuneration Committee comprising three Directors. The Committee will hold at least four meetings a year. The current members of the committee are Kjell Inge Røkke (Chairman), Tore Torvund and Vibeke Hammer Madsen.

Guidelines for remuneration for the President & CEO and the members of the Executive Management Team

The main purpose of the executive reward 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 Team participate in the standard pension and insurance plan applicable to all employees. The company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President & CEO and the members of the Executive Management Team.

The company did not offer a share programme to any managers or employees in 2011. It is Kvaerner's intention to launch an employee and a management share purchase programme in 2012. The Programme implies that employees and managers in Kvaerner are offered to buy shares in the company at a discounted price. The share purchase programme is expected to contribute to increased employee attention and commitment to Kvaerner's overall value creation.

The objective of the variable pay programme at Kvaerner is to recognise and reward results and performance which are obtained in accordance with the company's values.

Health, Safety and Environment shall be defined as a specific measurement in the variable pay programme from 2012.

The variable pay programme presents a pay potential of up to 94.5 percent of base salary. Earnings are paid over three years. 50 percent of the earnings are 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 variable payment in any calendar year is one annual base salary.

The actual remuneration for the Executive Management Team for 2011 was according to the guidelines of the company.

Directors' and Executive Management Team's shareholding

		Shares
Rune Rafdal	Director	195
Ståle Knoff Johansen	Director	31
Bernt Harald Kilnes	Director	447
Jan Arve Haugan [1)]	President & CEO	28 000
Lars Eide	Executive Vice President	283
Nina Udnes Tronstad	Executive Vice President	447
Jan Tore Elverhaug	Executive Vice President	252
Jan Øyri	Executive Vice President	10 000

1) Jan Arve Haugan and related parties hold 28 000 shares in Kværner ASA.

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 five 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	2011	2010
Contracts due within one year	**6**	8
Contracts running from one to five years	**22**	55
Contracts running for more than five years	**1**	-
Total	**29**	63

The group has not entered into any non-cancellable sublease contracts in 2011.

Lease and sublease payments recognised in the income statement

2011

Amounts in NOK million	Buildings	Plant, equipment, machinery	Total
Minimum lease payments	9	5	**14**
Total	9	5	**14**

2010

Amounts in NOK million	Buildings	Plant, equipment, machinery	Total
Minimum lease payments	25	3	28
Contingent payments	-	7	7
Sublease payments	(1)	-	(1)
Total	24	10	34

Note 11 Other operating expenses

Other operating expenses amount to NOK 456 million in 2011 and NOK 528 million in 2010. The expenses include operating lease costs (Note 10 Operating leases) and other expenses mainly related to premises, electricity, maintenance, travelling and IT-equipment.

Fees to KPMG

Amounts in NOK million	2011	2010
Audit	**6**	5
Other assurance services [1)]	**12**	4
Total	**18**	9

1) 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 fee for 2011 includes NOK 10.9 million in other assurance service related to the demerger which were paid by Aker Solutions AS and recharged to Kværner ASA.

Note 12 Financial income and expenses

Amounts in NOK million	2011	2010
Profit (loss) on foreign currency forward contracts	**(11)**	(6)
Interest income on bank deposits measured at amortised cost	**50**	46
Interest income related party	**15**	-
Other financial income	**3**	1
Financial income	**68**	47
Interest expense on financial liabilities measured at amortised cost	**(39)**	(44)
Interest expense related party	**(16)**	-
Net foreign exchange loss [1]	**(112)**	(16)
Financial expenses	**(167)**	(60)
Net financial expenses recognised in profit and loss	**(110)**	(19)

1) Includes foreign exchange losses of NOK 107 million from prior periods.

See Note 26 Financial instruments for details of the finance income and expense generating items.

Note 13 Income taxes

Income tax expense

Amounts in NOK million	2011	2010
Income tax expense		
Current tax expense	**448**	391
Prior year adjustment	**23**	-
Total current tax expense	**471**	391
Deferred tax expense/(income)	**(127)**	246
Deferred tax expense of group contribution	**-**	(307)
Total tax expense	**344**	330

Effective tax rate

Amounts in NOK million	2011	2010
Profit/(loss) before tax, total	**903**	404
Expected income taxes (28 percent) of profit/(loss) before tax	**253**	113
Tax effects of:		
Prior year adjustments [1]	**23**	-
Permanent differences [2]	**15**	2
Effect of unrecognised timing differences and tax losses	**101**	253
Change in tax rates	**(4)**	-
Differences in tax rates from 28 percent	**(40)**	(40)
Other	**(4)**	2
Total	**344**	330
Effective tax rate	38%	82%
Tax effect of differences	91	217

1) Prior year adjustment mainly relates to additional NOL that was utilised in the final tax return for the US businesses in 2010
2) Permanent differences relate to net non-tax deductible expenses (currency, write offs, entertainment etc.)

Recognised deferred tax assets and liabilities

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**

2010

Amounts in NOK million	Assets	(Liabilities)	Net
Property, plant and equipment	40	(3)	37
Pensions	23	7	30
Projects under construction	(164)	(1)	(165)
Tax loss carry-forwards	107	(58)	49
Provisions	19	8	27
Intangible assets	(39)	-	(39)
Other	26	(28)	(2)
Total	12	(75)	(63)

Change in net recognised deferred tax assets and liabilities

Amounts in NOK million	2011	2010
Balance as of 1 January	**(63)**	278
Recognised in profit and loss	**127**	(246)
Other adjustments [1)]	**33**	(95)
Translation differences and other	**(4)**	-
Balance as of 31 December	**93**	(63)

1) Other adjustments are in 2011 related to reclassifications to other receivables/prepaid taxes. In 2010 other adjustments relate to proforma adjustments following dermerger from Aker Solutions.

Amounts in NOK million	Balance as of 1 January 2011	Recognised in profit and loss	Other adjustments	Translation differences and other	**Balance as of 31 December 2011**
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	2011	2010
Unrecognised tax loss carry-forwards	**609**	246
Total tax loss carry-forwards [1)]	**762**	407

1) Tax losses of NOK 117 million have no expiry date. NOK 644 million of the tax losses carried forward are mainly related to operations in the US and of which NOK 27 million expire in 2023 and the remaining can be carried forward more than 15 years.

Tax losses are recognised in the balance sheet to the extent that forecasts and convincing evidence exist to show that Kvaerner will be able to use the tax losses before they expire.

Note 14 Trade and other receivables

Amounts in NOK million	Note	2011	2010
Trade receivables		**570**	751
Less provision for impairment of receivables		**(16)**	(13)
Trade receivables, net		**554**	738
Advances to suppliers		**2**	10
Work in progress	15	**980**	1 714
Other receivables [1)]		**566**	1 151
Derivative financial instruments	18	**23**	14
Total trade and other receivables	26	**2 125**	3 627
Other		**10**	14
Total		**2 135**	3 641

1) The amount consists of accrued operating revenue of NOK 169 million (NOK 926 million) and other receivables of NOK 402 million (NOK 226 million). Other receivables consist of prepaid tax, VAT and other prepayments for NOK 106 million.

No impairment loss in 2011 (NOK 1 million in 2010)

Aging of trade receivables

Amounts in NOK million	2011	2010
Current	**157**	444
Past due 0–30 days	**254**	90
Past due 31–90 days	**68**	48
Past due 91 days to one year	**46**	169
Past due more than one year	**45**	-
Total	**570**	751

Note 15 Construction contracts

Amounts in NOK million	Note	2011	2010
Value of work performed on uncompleted contracts		**17 897**	36 072
Invoiced to customers		**16 917**	34 358
Work in progress to be invoiced		**980**	1 714
Trade receivables including from related parties		**404**	1 065
Net receivables on construction contracts		**1 384**	2 779
Advances from customers	16	**516**	1 731

Largest projects in progress at year end 2011 (unaudited):

Project	Customer	Estimated delivery
Upstream segment:		
Eldfisk topside	ConocoPhillips	2014
Mongstad Test Centre	Statoil	2012
Kashagan HUC	Agip	2012
Sakhalin 1	Exxon	2012
Ekofisk 2/4L Jacket	ConocoPhillips	2012
Nordsee Ost	Essent wind	2012
Clair Ridge	BP	2013
Downstream & Industrials segment:		
V & M Star Structural	V & M	2012
V & M Star MEP	V & M	2012

Note 16 Trade and other payables

Amounts in NOK million	Note	2011	2010
Trade creditors		**499**	778
Advances from customers		**516**	1 731
Accrued operating and financial costs		**1 148**	1 598
Derivative financial instruments	18	**83**	25
Other current liabilities [1]		**717**	5
Total		**2 963**	4 137

1) Other current liabilities consist of sundry taxes and other accruals.

Note 17 Provisions

Amounts in NOK million	Warranties	Other	Total
Balance as of 31 December 2009	28	46	**74**
Provisions made during the year	351	94	**445**
Provisions used during the year	(2)	(3)	**(5)**
Provisions reversed during the year	(5)	(5)	**(10)**
Currency translation differences	(1)	-	**(1)**
Balance as of 31 December 2010	371	132	**503**
Provisions made during the year [1]	(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**
Expected timing of payment as of 31 December 2011			
Non-current	-	336	**336**
Current	78	-	**78**
Total	78	336	**414**

1) Reclassification of NOK 311 million from warranty to other provisions for expected upgrade work.

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 loss contracts and expected upgrade work. Provisions for loss contract are deducted from the value of the same contracts in work in progress or, to the extent they exceed this value, disclosed as provisions. The provision accrued for is considered sufficient.

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:
Kvaerner hedge 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).

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)	-

2010

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	13	(23)	(10)	(17)	-	(6)	(11)	(1)
Not hedge accounted	1	(2)	(1)	(1)	(1)	(1)	1	-
Total	14	(25)	(11)	(18)	(1)	(7)	(10)	(1)

1) There are no derivatives with maturity over five years.
2) Undiscounted cash flows are translated to NOK using the exchange rates on 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 always classified as a current asset or liability.

Foreign exchange derivatives
Kvaerner hedge 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 purposs 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 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 and loss and equity (not adjusted for tax).

Forward exchange contracts

Amounts in NOK million	2011	2010
Fair value of all hedging instruments	**(11)**	(10)
Deferred in equity (hedging reserve)	**(11)**	(10)

The purpose of the hedging instrument is to secure a situation where the hedged item and the hedging instrument together represent a predetermined value independent of fluctuations of exchange rates. Revenue and expense on the underlying construction contracts are recognised in the income statement in accordance with progress. The negative NOK 11 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 2010	544	754	2	**1 300**
Additions	4	6	-	**10**
Disposals	-	(3)	-	**(3)**
Currency translation differences	-	1	-	**1**
Historical cost as of 31 December 2010	548	758	2	**1 308**
Accumulated depreciation as of 1 January 2010	(369)	(531)	-	**(900)**
Depreciation for the year	(17)	(37)	-	**(54)**
Disposals	-	3	-	**3**
Accumulated depreciation as of 31 December 2010	(386)	(565)	-	**(951)**
Book value as of 31 December 2010	162	193	2	**357**
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**
Balance 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**
Balance as of 31 December 2011	(402)	(585)	-	**(987)**
Book value as of 31 December 2011	220	201	47	**468**

Kvaerner has not entered into any financial lease contracts. By the end of December 2011 Kvaerner has not entered into any significant contractual commitments for the acquisition of property, plant and equipment.

Depreciation
Assets are mainly depreciated on a straight-line basis over their expected economic 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 2010	11	1 176	**1 187**
Currency translation differences	-	2	**2**
Balance as of 31 December 2010	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**

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

Research and development costs
There has been no capitalisation related to development activities in 2011. NOK 2.4 million has been expensed for research and development (NOK 15 million in 2010) because 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 segments

Amounts in NOK million	2011	2010
Upstream	**1 071**	1 071
North Sea	421	
Jackets	186	
Concrete	198	
International	266	
Downstream & Industrials	**111**	107
Total	**1 182**	1 178

Impairment testing of goodwill
Goodwill originates from a number of acquisitions made prior to 31 December 2010. Management has historically monitored goodwill at the reportable segment level, which was also considered to be the cash-generating unit (CGU). Following the demerger, goodwill has been allocated to the five business areas, based on relative fair value estimates of the businesses at the time of the demerger.

Recoverable amounts are based on value in use calculations. The calculations use cash flow projections based on the future cash flow, budgets and strategic forecasts for the periods 2012–2014 and an annual growth of 2.0 percent for subsequent periods. A discount rate (WACC) of 10.0 percent after tax (13.9 percent before tax) has been used for discounted cash flows. For the Downstream & Industrials segment 9.5 percent (15.2 percent before tax) has been used.

The recoverable amount is higher than the carrying amount and consequently the analysis indicates that no impairment is required. There is significant headroom on the recoverable amount which is consistent with the fair value indication of equity provided by external advisors of approximately NOK 5.5 billion, compared to the carrying amount of equity of 2.5 billion, at the time of the demerger.

Cashflow estimates are sensitive to the ability to maintain volume and margin assumptions, however no reasonable changes in assumptions has found to result in impairment charges.

Note 21 Other non-current assets

Amounts in NOK million	Note	2011	2010
Pension funds	25	**14**	10
Interest-bearing non-current receivables		**22**	2
Other non-current operating assets		**9**	11
Other investments		**19**	9
Total		**64**	32

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 B.V. – with the Kazakh company KGNT Holding LLP. The joint venture company is targeting to service the offshore oil and gas industry in the Kazakhstan sector of the Caspian Sea. Kvaerner Caspian B.V. will offer a wide scope of services to offshore field development and maintenance and modification projects as well as fabrication services for onshore plants in Kazakhstan.

Investments in associated companies and jointly controlled entities

2011

Amounts in NOK million	Book value as of 01.01.2011	Additions/ Disposals/ Payments	Profit/ (loss)	Currency	**Book value as of 31.12.2011**
Kvaerner Caspian B.V.	86	2	(6)	-	**82**
Power Maintenance and Constructors, LLC	14	(4)	-	-	**10**
Siva Verdal Eiendom AS	21	-	-	-	**21**
Concrete Structures AS	-	4	-	-	**4**
Zvezdocha Engineering OOO	-	2	-	-	**2**
Total	121	4	(6)	-	**119**

2010

Amounts in NOK million	Book value as of 01.01.2010	Additions/ Disposals/ Payments	Profit/ (loss)	Currency	**Book value as of 31.12.2010**
Kvaerner Caspian B.V.	81	18	(11)	(2)	86
Power Maintenance and Constructors, LLC	14	-	-	-	14
Siva Verdal Eiendom AS	20	-	-	1	21
Total	115	18	(11)	(1)	121

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

2011

Amounts in NOK million	Business office	Percentage held [3]	Assets	Liabilities	Equity	Revenues	Net profit/(loss)
Kvaerner Caspian B.V. [1]	Zoetermeer, Netherlands	50%	195	52	143	-	(13)
Power Maintenance and Constructors, LLC [2]	Hammond, USA	49%	74	41	33	473	1
Siva Verdal Eiendom AS [2]	Verdal, Norway	46%	57	18	39	8	1
Concrete Structures AS [2]	Oslo, Norway	50%	2	-	2	2	2
Zvezdocha Engineering OOO [2]	Arkhangelsk, Russia	50%	4	-	4	6	-

1) Jointly controlled entity. Assets and liabilities are mainly non-current.
2) Associated company.
3) Percentage of voting rights equals percentage held.

2010

Amounts in NOK million	Business office	Percentage held [3]	Assets	Liabilities	Equity	Revenues	Net profit/(loss)
Kvaerner Caspian B.V. [1]	Zoetermeer, Netherlands	50%	207	33	174	-	(18)
Power Maintenance and Constructors, LLC [2]	Hammond, USA	49%	70	28	42	569	1
Siva Verdal Eiendom AS [2]	Verdal, Norway	46%	41	4	37	8	1

1) Jointly controlled entity. Assets and liabilities are mainly non-current.
2) Associated company.
3) Percentage of voting rights equals percentage held.

Note 23 Jointly controlled operations

The group has interests in several jointly controlled operations whose principal activities are engineering and construction contracts. The group's share of assets, liabilities, income and expenses of jointly controlled operations are included in the consolidated financial statements. The material agreements and entities are listed and described below.

Percentage share	**2011**	2010
ASC-ERSAI Consortium	**50%**	50%
Kvaerner-Varisal	**50%**	50%
KKC - Kiewit and Kvaerner New Foundland	**50%**	50%
Halton Hills Power Partners Joint Venture	**50%**	50%
Kvaerner/IHI Cove Point FEED activities	**50%**	50%
Kvaerner/IHI general engineering/studies	**50%**	50%
AK/IHI Gulf	**50%**	50%
ASO/IHI Gulf	**50%**	50%
Cameron LNG (Sempra)	**50%**	50%

Jointly controlled operations are defined as related parties to Kvaerner. See Note 7 Related parties for overview of transactions and balances between Kvaerner and jointly controlled operations.

Note 24 Interest-bearing liabilities

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

2011

Amounts in million	Currency	Nominal currency value	**Book value**	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**					
Other loans			-					
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 new financing. Accrued interest and issue costs related to the loans are included.
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 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. See Note 5 Financial risk management and exposures for more information regarding capital risk in the group.

2010

Amounts in million		Nominal currency value	**Book value**	Interest rate	Fixed interest margin	Interest coupon	Maturity date	Interest terms
Aker Solutions ASA - Treasury	USD	90	**530**	3.29%	3.00%	6.29%	01.11.2012	LIBOR + Margin
Aker Solutions ASA - Treasury	AUD	2	**11**	8.26%	2.90%	11.16%	30.06.2011	LIBOR + Margin
DNB Nor Shanghai	CNY	7	**7**			5.56%	30 days	PBoC
Total borrowings			**548**					
Current borrowings			**18**					
Non-current borrowings			**530**					
Total			**548**					

Financial liabilities and the period in which they mature

2011

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)	**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**

2010

Amounts in NOK million	**Book value**	Total undiscounted cash flow	6 mths and less	6-12 mths	1-2 years	More than 5 years
Aker Solutions ASA - Treasury	**530**	546	-	-	546	-
Aker Solutions ASA - Treasury	**18**	18	18	-	-	-
Total borrowings	**548**	**564**	**18**	**-**	**546**	**-**

Note 25 Employee benefits - pensions

The 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 this annual contribution is also the cost. In a defined benefit plan it is the company's responsibility to provide a certain pension benefits. The measurement of the cost and the pension liability for such arrangements are subject to actuarial valuations. Aker Solutions has over a long time period gradually moved from defined benefit arrangements to defined contribution plans which impacts Kvaerners employees. Consequently, the impact of the remaining defined benefit plans is gradually reduced.

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 60 years of age. Employees who were 58 years or older 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. These paid up policies were provided based on actuarial demographic assumptions required to be used in Norway at the time. It was known that these assumptions would have to be adjusted and a provision was set up for the anticipated cost of NOK 10 million for this. It was subsequently appreciated that this cost has been absorbed by the pension fund and the provision was released to profit and loss in 2010.

All pension plans outside Norway are defined contribution plans. Contributions to these plans for Kvaerner was NOK 123 million in 2011 (NOK 4 million in 2010).

AFP is an early retirement agreement organised by Norwegian employers, The Norwegian Confederation of Trade Unions (LO) and the Norwegian State. The previous AFP agreement was established to provide pension between the age of 62 to 67 for employees who retired before the general retirement age of 67. In a 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 the remaining recognised obligation of NOK 89 million for Kvaerner employees was released to profit and loss in 2010. A newAFP agreement effective 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 have issued a comment concluding that the «new AFP» previous is a multi-employer defined benefit plan. The «new AFP» previous 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» previous is accounted for as a defined contribution plan.

Net periodic pension cost (return)

Amounts in NOK million	**2011**	2010
Defined benefit plans		
Service cost	**20**	25
Interest on projected benefit obligation	**17**	23
Expected return on plan assets	**(18)**	(21)
Net amortisations and deferrals	**8**	21
Curtailments and settlements	**(11)**	(89)
Administration cost	**(6)**	4
Social security tax	**3**	4
Pension cost defined benefit plans	**13**	(33)
Pension cost defined contribution plans	**178**	69
Total pension cost	**191**	36

Status of pension plans reconciled with the balance sheet

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			
Employee benefit assets	14	-	**14**
Employee benefit obligations	(35)	(116)	**(151)**
Total	(21)	(116)	**(137)**

2010

Amounts in NOK million	Funded	Unfunded	Total
Accumulated benefit obligation	371	125	496
Effect of projected future compensation levels	17	(17)	-
Projected benefit obligation (PBO)	388	108	496
Social security tax on plan assets in excess of (less than) PBO	6	16	22
Plan assets at fair value	346	-	346
Plan assets in excess of (less than) PBO	(48)	(124)	(172)
Unrecognised net (gain) loss	50	22	72
Net employee benefit assets (employee benefit obligations)	2	(102)	(100)
As presented in the balance sheet			
Employee benefit assets	10	-	10
Employee benefit obligations	(8)	(102)	(110)
Total	2	(102)	(100)

Economic assumptions

Norwegian plans	**2011**	2010
Discount rate	**2.60%**	4.00%
Asset return	**4.10%**	5.40%
Salary progression	**3.25–3.75%**	3.75–4.00%
Pension indexation	**1.15–2.50%**	2.50%

The discount rate is based on the Norwegian ten-year government bond rate. The asset return is expected to be higher than the discount rate because the assets are invested in instruments with a higher risk than government bonds. Experience has shown that the rate of return on pension assets has been about 1-2 percent higher than discount rate over an extended period of time.

Generally, a one percent increase in the discount rate will lead to approximately 10-15 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 years.

Movement in pension obligation and plan asset

Amounts in NOK million	**2011**	2010
Projected benefit obligation as of 1 January	**496**	569
Service cost incl. cost related to the compensation plan	**19**	25
Interest on projected benefit obligation	**17**	23
Benefits paid by the plan	**(33)**	(31)
Curtailment and settlement	**(4)**	11
Acquisition and disposal	**-**	(65)
Change in unrecognised (gain)/loss	**47**	(36)
Currency translation differences	**-**	-
Projected benefit obligation as of 31 December	**542**	496
Plan assets at fair value as of 1 January	**346**	341
Expected return on plan assets	**18**	21
Contributions paid into the plan	**19**	13
Benefits paid by the plan	**(20)**	(17)
Curtailment and settlement	**2**	-
Change in unrecognised gain/(loss)	**-**	(9)
Administration costs	**(6)**	(3)
Plan assets at fair value as of 31 December	**359**	346

Analyses of the plan assets (Norwegian plans)

Major categories of plan assets in percent of total plan assets	**2011**	2010
Equity instruments	**7.8%**	6.0%
Debt instruments	**89.4%**	92.4%
Other assets	**2.7%**	1.6%
Plan assets	**100.0%**	100.0%

The estimated contributions to be paid to the plans during 2012 are NOK 23 million.

Overview of net pension obligation

Amounts in NOK million	**2011**	2010	2009	2008
Projected benefit obligation	**542**	496	569	529
Plan assets at fair value	**359**	346	341	320
Net pension obligation	**(183)**	(150)	(228)	(209)
Change in unrecognised (gain) loss projected benefit obligation	**47**	(36)	20	29
Change in unrecognised gain (loss) plans assets	**-**	(9)	8	(18)

Note 26 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 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 receivables	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 financial liabilities		-	(83)	-	(2 995)	**(3 078)**
Current liabilities		-	(83)	-	(2 995)	**(3 078)**
Total liabilities		-	(83)	-	(2 995)	**(3 078)**

Assets as of 31 December 2010

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	**Total carrying amount**
Cash and cash equivalents		378	-	-	-	378
Cash in Aker Solutions cash pool arrangement		2 299	-	-	-	2 299
Total cash and cash equivalents		2 677	-	-	-	2 677
Non-current interest-bearing receivables	21	-	-	-	2	2
Trade and other receivables	14	-	14	-	3 613	3 627
Trade and other receivables related parties	7	-	-	-	327	327
Non-interest bearing receivables related parties	7				1 120	1 120
Current interest-bearing receivables related parties	7	902	-	-	-	902
Total loans and receivables		902	14	-	5 062	5 978
Total assets classified as financial instruments		3 579	14	-	5 062	8 655
Current assets		3 579	-	-	5 060	8 639
Non-current assets		-	14	-	2	16
Total assets		3 579	14	-	5 062	8 655

Liabilities as of 31 December 2010

Amounts in NOK million	Note	Level 1	Level 2	Level 3	Amortised cost	**Total carrying amount**
Non-current interest-bearing liabilities related parties	24	-	-	-	(530)	(530)
Trade and other payables	16	-	(25)	-	(4 112)	(4 137)
Trade and other payables related parties	7	-	-	-	(392)	(392)
Non-interest bearing liabilities related parties	7	-	-	-	(2 261)	(2 261)
Current interest-bearing liabilities related parties	24	-	-	-	(18)	(18)
Total financial liabilities		-	(25)	-	(7 313)	(7 338)
Current liabilities		-	(25)	-	(6 783)	(6 808)
Non-current liabilities		-	-	-	(530)	(530)
Total liabilities		-	(25)	-	(7 313)	(7 338)

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 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 level 3 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 book value of NOK 460 million.

	2011		2010	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Other borrowings [1]	**460**	**460**	548	548
Total borrowings	**460**	**460**	548	548

1) Credit facilities have floating interest and the notional amount is a reasonable approximation of fair values. Notional values of other loans is also expected to be a good approximation of fair values.

Cash and cash equivalents
Total cash and cash equivalents consists of NOK 1.4 billion in deposits on group bank accounts, and NOK 1 billion in interest-bearing deposits.

Note 27 Group companies as of 31 December 2011

Company name 31.12.2011	Company name 31.12.2010	Country of incorporation	Ownership (percent) 1)
Kværner ASA 2)		Norway	100
Kværner AS 2)		Norway	100
Kværner Engineering AS 2)		Norway	100
Kværner Stord AS	Aker Stord AS	Norway	100
Kværner Verdal AS	Aker Verdal AS	Norway	100
Dovre Maling AS	Dovre Maling AS	Norway	100
Vind Sammenstilling AS	Vind Sammenstilling AS	Norway	100
Kværner Sakkyndig Virksomhet AS	Aker Sakkyndig Virksomhet AS	Norway	100
Kværner Jacket Technology AS	Aker Jacket Technology AS	Norway	100
Kværner Piping Technology AS	Aker Piping Technology AS	Norway	100
Aker Kværner Contracting International (Spain) AS	Aker Kværner Contracting International (Spain) AS	Norway	100
Aker Kværner Contracting Italy AS	Aker Kværner Contracting Italy AS	Norway	100
Aker Contracting Russia AS	Aker Contracting Russia AS	Norway	100
Norwegian Contractors AS	Norwegian Contractors AS	Norway	100
Aker Solutions Contracting AS	Aker Solutions Contracting AS	Norway	100
Kværner Resources AS 2)		Norway	100
Kvaerner Finland Oy	Aker Offshore OY	Finland	100
Kvaerner Contracting Limited 2)		UK	100
Kvaerner Resources Ltd 2)		UK	100
Kvaerner Field Development Inc	Aker Field Development Inc	USA	100
Kvaerner Strategic Operations Inc	Aker Strategic Operations Inc	USA	100
Kvaerner Americas Holdings Inc	Aker Michigan Inc	USA	100
Kvaerner Americas Inc	Aker Solutions Americas Inc	USA	100
Kvaerner North American Construction Inc	Aker Construction Inc.	USA	100
Kvaerner Industrial Constructors Inc	AIC-Hou-NewCo (Houston Assets) US	USA	100
Kvaerner Constructors Holdings Inc	Aker AIC Holdings Inc	USA	100
Kvaerner Oil & Gas Australia Pty Ltd	Aker Solutions Oil & Gas Australia Pty Ltd	Australia	100
Kvaerner Newfoundland Ltd.	Aker Solutions Newfoundland Ltd	Canada	100
Kvaerner North American Construction Ltd	Aker Construction Canada Ltd	Canada	100
Kvaerner Projects (Beijing) Co Ltd 3)		China	100
Aker Solutions S.A. de C.V.	Aker Solutions SA de CV	Mexico	100
Aker Process Gulf Ltd 4)	Aker Process Gulf Ltd	Saudi Arabia	100

1) Ownership equaling the percentage of voting shares.
2) New companies in 2011.
3) Under incorporation.
4) Share transfer from Aker Solutions BV to be completed in 2012.

Note 28 Contingent events

Given the scope of the 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.

Although some uncertainty surrounds the final outcome of these events, the expectation is that it will not have a material impact on Kvaerner's financial position or results. Due to uncertainties related to these events and to avoid prejudicing Kvaerner's position, no estimate of the expected final outcome is disclosed.

Longview project
Kvaerner North American Construction Inc has initiated arbitration against both Longview Power, LLC and Foster Wheeler North America Corp., the supplier of the boiler for the Longview project. 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.

There are still substantial uncertainties with respect to the final financial outcome of the project.

Nordsee Ost project
In 2010, a subsidiary of Kvaerner entered into a contract with RWEI for the delivery of 48 jackets for windmill turbines and one jacket for trafo 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 on the scope of these changes and the related consequences or the financial and schedule consequences associated therewith. The dispute is being prepared for arbitration.

Note 29 Subsequent events

New contracts
On 19 January 2012, Lundin Norway AS awarded Kvaerner an EPC contract of approximately NOK 1.1 billion for delivery of a steel jacket to be located at the Luno field, production license PL338, offshore the Norwegian North Sea. The contract will be executed by Kvaerner's yard in Verdal, and includes engineering, procurement, construction, load-out and sea-fastening of the jacket and associated piles. The jacket will have a total weight of approximately 14 500 tonnes. Detailed engineering started immediately, while fabrication in Verdal will commence in fourth quarter 2012. The project will reach its peak manpower of more than 400 people in first quarter 2013. The Luno jacket will be delivered in the spring of 2014, and will then become number 41 in the series of jackets delivered by Kvaerner.

On 13 February 2012, Total E&P Norge AS awarded Kvaerner an EPSC-contract (Engineering, Procurement, Supply and Construction) of close to NOK 1.2 billion for delivery of a steel jacket to be located at the Hild Field offshore the Norwegian North Sea. The contract will be executed by Kvaerner's yard in Verdal, and includes engineering, procurement, supply, construction, load-out and sea-fastening of the jacket and associated piles. The jacket (16 500 tonnes) and piles will have a total weight of approximately 21 400 tonnes. Detailed engineering starts immediately, while fabrication in Verdal will commence in fourth quarter 2012. The project will reach its peak manpower of more than 400 persons in third quarter 2013. The Hild jacket will be delivered in the spring of 2014, and becomes number 42 in the series of jackets delivered by Kvaerner since 1975.

Note 30 Separation from Aker Solutions ASA

Effective 7 July 2011, Aker Solutions transferred certain activities and subsidiaries relating to its Engineering, Procurement & Construction (EPC) businesses to Kværner ASA.

The transfers from Aker Solutions to Kværner ASA included:

- shares in subsidiaries and other equity interests;
- transfer of the economic interest in certain project activities relating to the EPC business where contract notation to Kvaerner was impracticable;
- transfer of engineering, project management and corporate staff providing services to the EPC business, and who were previously employed by the Aker Solutions group;
- related pension liabilities, and
- an equity contribution in the amount of NOK 4.7 billion.

As consideration, the shareholders in Aker Solutions received one share in Kværner ASA for each share they owned in Aker Solutions ASA.

These transactions were recorded in the second and third quarter of 2011, and have significantly impacted the consolidated statement of financial position at 31 December 2011. The separation transactions resulted in a NOK two billion reduction of total balance sheet value. The reduction was due to settlement of intercompany balances between Aker Solutions and Kvaerner during 2011.

Demerger transactions
General principles of the demerger are described below:

- Kvaerner takes over all risk and rewards for projects transferred.
- Some family joint venture agreements were settled and terminated, with the party that assumed the end customer contract having the right to purchase services from the other parties (e.g. to complete warranty works).

- Cooperation agreement signed which sets up forums and principles for cooperation on current and future projects where cooperation is in the mutual interest of both parties.
- Parent company and bank guarantees are either released or a guarantee fee is paid by Kvaerner.
- Aker Solutions will not receive any consideration for this transfer.

Family joint venture settlement and subcontracts
The Aker Solutions group and the Kvaerner group have on-going projects which require resources both from entities within the Aker Solutions group and entities within the Kvaerner group. This includes projects where the execution has been organized as intra-group joint ventures (family joint ventures with full risk sharing) and projects where the execution has been organized through subcontracts between entities within the Aker Solutions group and the Kvaerner group. Some of these projects are on-going, and others are in warranty period. In addition, a number of potential projects where bids are outstanding or planned and will require the resources of both entities within the Aker Solutions group and entities within the Kvaerner group if they are awarded. In conjunction with the demerger, new subcontracting agreements have been entered into for a number of projects.

This includes subcontracting agreements for the completion of the contracts for the Sakhalin 1, Hejre and Eldfisk field developments. The family joint venture agreements for certain projects in warranty period have been terminated and settled between the participants. For these family joint venture agreements, the Kvaerner group company or the Aker Solutions group company having the main customer contract has taken over the full upside and downside risk for remaining warranty obligations on the project against receiving all amounts that have been reserved in the accounts of the joint venture partners for expected remaining liabilities. For instance, Kværner Stord AS will have the full responsibility for the H-6e project (the semi-submersible drilling rigs Aker Barents and Aker Spitsbergen) based on this principle.

Certain family joint venture agreements will continue as before with risk sharing between the participants. This includes the Kollsnes project, the greater Ekofisk area development project, and the Blind Faith project. Kvaerner and Aker Solutions have also reviewed other on-going contractual relationships between the Kvaerner group and the Aker Solutions group and have made necessary amendments to reflect the demerger and that the agreements will continue between unrelated parties. It is intended that future contracts will be based on subcontracting formats and not joint ventures.

Changes in equity
By year end 2011 NOK 589 million was reduced in equity due to the engineering demerger, reference is made to Consolidated statement of changes in equity and the Prospectus for listing of Kværner ASA.

The following demerger steps are to be completed in 2012
The only outstanding share transfer is the sale of 75 percent of the shares in Aker Process Gulf Company Limited from Aker Solutions BV to Kværner AS for a consideration of NOK 3 375 000.

Sale of 25 percent of the shares in Aker Process Gulf Company Limited from Aker Process BV to Kværner Engineering AS for a consideration of NOK 1 250 000.

Incorporation and transfer of certain personnel to Kvaerner (Beijing) Co Ltd has not been completed.

Note 31 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.

In the second quarter of 2011 Aker Solutions decided to demerge the company. An allocation of the share capital was determined, after deducting the value of Aker Solutions' treasury shares, such that 17 percent of the share capital was allocated to Kvaerner and 83 percent was allocated to Aker Solutions giving a split ratio of 17:83. Following the demerger, Kværner ASA issued pro rata consideration shares to Aker Solutions' shareholders and was listed on the Oslo Børs on 8 July 2011.

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

Dividends	2011
Paid dividend per share (NOK)	-
Total dividend proposed (NOK million)	**269**
Ordinary dividend per share proposed by the Board of Directors (NOK)	**1.00**

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, and foreign exchange gain or loss on loans defined as hedges or net investments, see Note 12 Financial income and expenses.

Annual accounts Kværner ASA

Income statement 12.01 - 31.12.

Amounts in NOK thousands	Note	12 January - 31 December 2011
Operating revenue		-
Operating expenses	2	(100 007)
Operating loss		(100 007)
Net financial items	3	191 895
Profit before tax		91 888
Income tax expense	4	(25 729)
Profit for the period		66 159
Net profit for the year is distributed as follows:		
Proposed dividends 1)	6	66 159
Profit for the period		66 159

1) Total proposed dividends for the year is NOK 269 million, see Note 6 Shareholders' equity.

Balance sheet as of 31 December

Amounts in NOK thousands	Note	31 December 2011
Assets		
Deferred tax asset	4	14 617
Investments in group companies	5	428 671
Non-current interest-bearing receivables from group companies	7	6 838 411
Other non-current interest-bearing receivables	8	15 085
Total non-current assets		7 296 784
Non interest-bearing receivables from group companies	7	23 367
Other current receivables	9	22 779
Cash and cash equivalents	7	827 832
Total current assets		873 978
Total assets		8 170 762
Liabilities and shareholders' equity		
Issued capital		91 460
Share premium reserve		729 027
Other equity		4 500 849
Total equity	6	5 321 336
Non-current interest-bearing borrowing	10	459 629
Total non-current liabilities		459 629
Interest-bearing current borrowing from group companies	7	1 937 771
Other current borrowings	9	8 434
Provision for dividend	6	269 000
Other current liabilities to group companies	7	40 399
Other current liabilities	9	134 193
Total current liabilities		2 389 797
Total liabilities and shareholders' equity		8 170 762

Fornebu, 19 March 2012
Board of Directors 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

Statement of cash flows 12.01 - 31.12.

Amounts in NOK thousands	12 January - 31 December 2011
Profit before tax	91 888
Changes in net operating assets	89 102
Net cash from operating activities	180 990
Change in long term investment in related party Kvaerner Caspian B.V.	(15 085)
Change in short term investment	(1 002)
Net cash from investing activities	(16 087)
Net proceeds from external borrowings	468 063
Net change in intercompany loans	194 866
Net cash from financing activities	662 929
Net increase in cash and bank deposits	827 832
Cash and bank deposits at the end of the period	827 832

Notes to the financial statements

Note 1 Accounting principles

Kværner ASA, formerly Fornebu Newco AS, was incorporated on 12 January 2011 and is domiciled in Norway. Kværner ASA's registered office address is Snarøyveien 30, Fornebu, 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.

Effective as of 7 July 2011, Aker Solutions transferred certain activities and subsidiaries relating to its Engineering, Procurement & Construction (EPC) businesses to Kværner ASA. As 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.

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

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 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.

Foreign currency
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.

Tax
Tax expense in the profit and loss account 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.

Use of estimates
Preparation of financial statements in confirmity with generally accepted accounitng principles in Norway requires management to make estimates and assumptions that effect the income statement, assets and liabilities and disclosures related to contingent assets and liabilities on the balance sheet date.

Transaction costs
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 expenses

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

Costs incurred by Aker Solutions AS and external advisors for establishing Kværner ASA with future subsidiaries as a stand alone group listed on the Oslo Børs (the stock exchange in Oslo) has been charged to Kværner ASA, total NOK 81 million.

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 related audit fee for 2011 NOK 10,9 million was paid by Aker Solutions AS and recharged to Kværner ASA, and is included in total demerger cost NOK 81 million.

Fees to KPMG for statutory audit of the parent company amounted to NOK 2.15 million and fees for other audit assurance services amounted to NOK 0.4 million excluding VAT.

No fees have yet been paid to the Board of Directors during the period. NOK 2.1 million has been allocated to this purpose in 2011.

Refer to Note 9 Other current receivables and current receivables in the group accounts for further details regarding remuneration of the President & CEO.

Note 3 Net financial items

Amounts in NOK thousands	12 January - 31 December 2011
Interest income from group companies	252 320
Interest expense to group companies	(41 849)
Net interest group companies	210 471
Interest income from external companies	10 938
Interest expense to external companies	(19 455)
Net interest external	(8 517)
Net other financial items	(10 059)
Net financial items	191 895

Note 4 Tax

Amounts in NOK thousands	12 January - 31 December 2011
Taxable income	
Profit before tax	91 888
Temporary differences	52 205
Taxable income	144 093
Temporary differences and deferred tax effect	
Unrealised gain/(loss) on forward exchange contracts	52 205
Basis for deferred tax	52 205
Deferred tax asset	14 617
Income tax expense	
Payable tax on operating profit	(40 346)
Deferred tax expense on temporary differences	14 617
Total tax expense in income statement	(25 729)

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	Fornebu, Norway	250	10 000	428 671	100%

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**

Kværner ASA was newly formed in 2011. There were no outstanding shares in 2010. 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 demerger, each with a par value of NOK 0.34.

Upon the demerger the share premium account of Kværner ASA was increased by NOK 729 027 303, and other capital of NOK 4 703 690 388 was transferred from Aker Solutions ASA to Kværner ASA. This transaction primarily involve transfer of shares in subsidiaries. An overview of the company's largest shareholders is to be found in Note 14 Shareholders.

The Board of Directors has proposed a dividend of NOK 1.00 per share for 2011.

Note 7 Receivables and borrowings from group companies

Amounts in NOK thousands	12 January - 31 December 2011
Kværner ASA bank deposits	827 832
Total Cash in cash pool system	**827 832**
Non-current interest-bearing receivables from group companies	6 838 411
Interest-bearing current intercompany loans	(288 539)
Interest-bearing current borrowings from group companies	(1 649 232)
Net interest-bearing receivables from group companies	**4 900 640**
Non interest-bearing receivables from group companies	23 367
Other current liabilities to group companies	(40 399)
Net non interest-bearing liabilities to goup companies	**(17 032)**
Total cash and group receivables	**5 711 440**

Note 8 Other non-current interest-bearing receivables

Amounts in NOK thousands	31 December 2011
Loan to related party Kvaerner Caspian B.V.	15 085
Total other non-current interest-bearing receivables	**15 085**

Note 9 Other current receivables and current liabilities

Amounts in NOK thousands	31 December 2011
Other current external receivables	22 779
Other current external liabilities	(82 985)
Net other current receivables and liabilities excluding tax, accounts payable and dividend	**(60 206)**
VAT liabilities	(10 391)
Payable tax	(40 346)
Other accounts payable	(471)
Other current external borrowings	(8 434)
Dividend	(269 000)
Net other current liabilities	**(388 848)**

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

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 the Kværner ASA's exposure to interest rates, foreign currency and liquidity risk, see Note 12 Financial risk management and exposures.

2011

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 1)
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					

1) The book value is calculated by reducing the nominal value of NOK 500 million by total issue costs related to the new financing. Accrued interest and issue costs related to the loans are included.
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. 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.

Financial liabilities and the period in which they mature

2011

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)	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 11 Guarantees

Amounts in NOK million	2011
Parent company guarantees to group companies [1]	39 020
Counter guarantees for bank/surety bonds [2]	1 260
Total	**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 counterguarantees for bank/surety bonds .

Note 12 Financial risk management and exposures

Foreign exchange
Kværner ASA entered into currency contracts with subsidiaries in 2011 with a total value of NOK 2.7 billion. Most contracts are hedged back-to-back with external banks, minor contracts are hedged after internal netting.

Currency exposure from equity investments in foreign currencies are only hedged when specifically instructed by management. As of 31 December 2011, the group had no hedging of net investments.

Currency risk and balance sheet hedging

	2011	
Amounts in NOK thousands	Assets	Liabilities
Forward exchange contracts with group companies	22 367	(14 364)
Forward exchange contracts with external counterparts	22 777	(82 985)
Total	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, overdraft in the group cash pool, hedging contracts, guarantees to subsidiaries and deposits with external banks. Loans to subsidiaries are assessed by the internal credit committee. Loss provisions are made in situations of negative equity and were the company is not expected to be able to fulfil it's loan obligations from future earnings. External deposits and forward contracts are done according to a list of approved banks and primarily with banks were the company also have a borrowing relation. The existence of netting agreements between Aker Solutions ASA and the relations banks reduces the credit risk.

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

Note 13 Related parties

Kværner ASA has reported outstanding accounts with Kvaerner Caspian B.V.

See Note 8 Other non-current interest-bearing receivables for further details.

Note 14 Shareholders

Shareholders with more than 1 percent shareholding as of 31 December 2011

Company	Nominee	Number of shares held	Ownership
AKER KVÆRNER HOLDING AS		110 333 615	41.02
MORGAN STANLEY & CO	X	14 092 950	5.24
STATE STREET BANK	X	10 387 119	3.86
JPMORGAN CLEARING CO	X	8 187 432	3.04
GOLDMAN SACHS & CO	X	8 006 831	2.98
JP MORGAN CLEARING	X	7 862 714	2.92
JPMORGAN CHASE BANK	X	5 579 211	2.07
FONDSFINANS SPAR		5 150 000	1.91
CLEARSTREAM BANKING	X	4 603 711	1.71
SKANDINAVISKA ENSKILDA	X	3 775 694	1.40
JPMORGAN CHASE BANK	X	3 650 455	1.36
JPMORGAN CHASE BANK	X	3 388 500	1.26
NOMURA INTERNATIONAL		2 927 464	1.09
SKANDINAVISKE ENSKILDA	X	2 875 394	1.07

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 2011 calendar year ended on 31 December 2011 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 2011 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 2011.
- The annual report provides a true and fair overview of:
  - the development, profit and financial position of the group and parent company;
  - the most significant risks and uncertainties facing the group and the parent company.

Fornebu, 19 March 2012
Board of Directors 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 2011, the income statement and statement of cash flow for the period from 12 January 2011 (inception) to 31 December 2011, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at 31 December 2011, 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 Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director 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 Managing Director 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.

TM

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 2011, and of its financial performance and its cash flows for the period from 12 January 2011 to 31 December 2011 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 2011, 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, 19 March 2012
KPMG AS

Tom Myhre
State Authorised Public Accountant (Norway)

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Share and shareholder information

Kvaerner is committed to serve the financial market with precise and relevant information about the company. All reporting of information and contact with the financial community is based on openness and equal treatment. The company aims at ensuring that the information provided gives the market players the best possible basis to establish a precise picture of the company's financial condition and factors that may affect its future value creation.

Shares and share capital

Kværner ASA was listed on the Oslo Børs (the stock exchange in Oslo) on 8 July 2011 under the ticker KVAER after a demerger from Aker Solutions ASA. The shares are registered in the Norwegian Central Securities Depository with DNB Bank as registrar under the securities registration number ISIN NO0010605371. Kværner ASA has 269 000 000 ordinary shares with a par value of NOK 0.34 (see the consolidated financial statements on page 67). The company has a single share class and each share carries one vote. Kvaerner did not own any treasury shares as of 31 December 2011.

Shareholder structure

Kvaerner had 10 826 shareholders on record as of 31 December 2011, of which 42.6 percent (1 266 shareholders) were non-Norwegian. 75.5 percent of the share capital was owned by the company's 20 largest shareholders at year end 2011. The largest shareholder in Kvaerner is Aker Kværner Holding AS, which owned 41.02 percent of the shares as of 31 December 2011. Aker ASA owns 70 percent of Aker Kvaerner Holding while the Norwegian Government owns 30 percent. For more information about the principal shareholder, see the chapter concerning corporate governance on page 85.

Dividend policy

Kvaerner's ambition is to distribute dividends such that the average over time – through cash distribution and/or share buy-backs – amounts to between 30 and 50 percent of the Kvaerner group's net profit. The size of the dividend shall be assessed in relation to alternative uses of funds and the desire to continue strengthening the financial structure of the Kvaerner group. The Board of Directors has proposed to the Annual General Meeting that a total dividend of NOK 1.00 per share be paid for 2011, corresponding to 48 percent of the annual net profit per share. The dividend will be paid out to shareholders of record on the date of the Annual General Meeting.

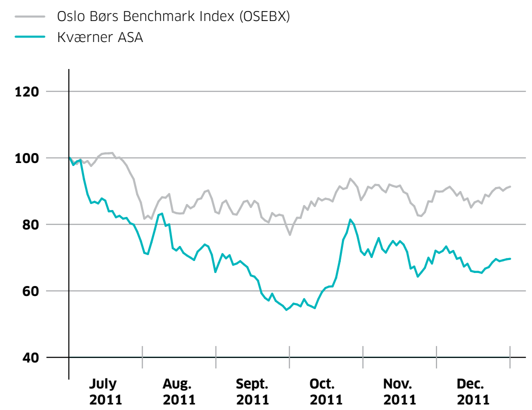
Current Board mandates

The Board of Directors has not had any mandates to buy back stock or increase the share capital during 2011. The Board of Directors has proposed that the Annual General Meeting grant the Board power of attorney to acquire own shares in the company of up to 10 percent of the share capital.

Stock option programme

Kværner ASA had no stock option programmes as of 31 December 2011.

INDEXED SHARE PRICE DEVELOPEMENT (IN NOK)



THE KVAERNER SHARE IN 2011

Highest traded share price	NOK	14.34
Lowest traded share price	NOK	7.31
Closing share price as of 31 December	NOK	9.75
Market captitalisation as of 31 December	NOK million	2 623
Daily turnover	No. of shares	1 517 251
Turnover ratio	Percent	70.50
Shares issued and outstanding as of 31 December	No. of shares	269 000 000

20 LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2011

Name	Nominee	Number of shares held	Ownership (in %)
AKER KVÆRNER HOLDING AS		110 333 615	41.02
MORGAN STANLEY & CO	x	14 092 950	5.24
STATE STREET BANK	x	10 387 119	3.86
JPMORGAN CLEARING CO	x	8 187 432	3.04
GOLDMAN SACHS & CO	x	8 006 831	2.98
JP MORGAN CLEARING	x	7 862 714	2.92
JPMORGAN CHASE BANK	x	5 579 211	2.07
FONDSFINANS SPAR		5 150 000	1.91
CLEARSTREAM BANKING	x	4 603 711	1.71
SKANDINAVISKA ENSKILDA	x	3 775 694	1.40
JPMORGAN CHASE BANK	x	3 650 455	1.36
JPMORGAN CHASE BANK	x	3 388 500	1.26
NOMURA INTERNATIONAL		2 927 464	1.09
SKANDINAVISKE ENSKILDA	x	2 875 394	1.07
FIDELITY NORDIC FUND		2 336 149	0.87
DNB NOR SMB VPF		2 100 000	0.78
VERDIPAPIRFONDET DNB		2 072 782	0.77
JPMBLSA	x	2 021 789	0.75
CITIBANK NA NEW YORK	x	1 973 275	0.73
VPF NORDEA KAPITAL		1 751 129	0.65
Total		**203 076 214**	**75.48**
Other shareholders		65 923 786	24.52
Total		**269 000 000**	**100.00**

Source: Norwegian Central Securities Depository (VPS)

Nomination Committee

Kvaerner's Articles of Association provide for a Nomination Committee composed of minimum three members who are elected by the General Meeting. The Nomination Committee comprises the following members:

- Øyvind Eriksen (Chairman), 2011–2013
- Mette Wikborg, 2011–2013
- Thomas Thune Andersen, 2011–2013

Shareholders who wish to contact the Nomination Committee, may do so using the following e-mail address: ir@kvaerner.com.

General Meetings

The Annual General Meeting will normally be held in April or early May. Written notice is sent to all shareholders individually or to their custodian bank. The Articles of Association of the company stipulate that documents pertaining to matters to be deliberated by the General Meeting shall only be made available on the company's website, and not normally be sent physically by post to the shareholders unless required by statute. For more information about General Meetings, see the chapter concerning corporate governance on page 86.

Investor Relations
Kvaerner wishes to maintain an open dialogue with participants from the financial community on a regular basis through meetings, presentations, seminars and roadshows to financial centres. All stock exchange announcements, quarterly reports and presentations, other public presentations and press releases are made available on the company's website, www.kvaerner.com, together with other relevant information. All information sent to the shareholders is posted on the company's website simultaneously. Kvaerner holds open presentations in connection with the financial reporting, and these presentations are broadcast live via the Internet. A capital markets day will be hosted annually, and will be open to all interested parties. Shareholders and other interested parties can contact the company by e-mail: ir@kvaerner.com.

Registrar
Shareholders can contact Kvaerner's registrar if they have any questions concerning their holdings:

DNB Bank ASA
Registrar's Department
Stranden 21
N-0021 Oslo

E-mail: kua@dnb.no
Phone: +47 22 94 94 28
Fax: +47 22 48 11 71
www.dnb.no

Financial calendar 2012
Annual General Meeting: 12 April 2012
1st quarter results 2012: 8 May 2012
2nd quarter results 2012: 10 August 2012
3rd quarter results 2012: 31 October 2012

GEOGRAPHICAL DISTRIBUTION OF OWNERSHIP (AS OF 31 DESEMBER 2011)

Citizenship	No. of shareholders	Ownership (in %)
Norway	9 560	57.5
USA	214	24.6
United Kingdom	494	8.4
Luxembourg	24	2.9
Sweden	75	2.8
Others	459	4.0
Total	**10 826**	**100**

Source: Norwegian Central Securities Depository (VPS)

OWNERSHIP STRUCTURE BY SIZE OF SHAREHOLDINGS (AS OF 31 DECEMBER 2011)

Shares held	Number of shareholders	Percent of share capital
1-100	2 256	0.04
101-1 000	6 911	1.02
1 001-10 000	1 282	1.58
10 001-100 000	268	3.32
100 001-500 000	83	6.91
More than 500 000	56	87.13
Total	**10 856**	**100**

Source: Norwegian Central Securities Depository (VPS)

THE FOLLOWING RESEARCH ANALYSTS PROVIDE COVERAGE OF KVAERNER (AS OF 31 DECEMBER 2011)

Company	Name	Phone
ABG Sundal Collier	Anders Hagen	+47 22 01 60 48
Arctic Securities	Kjetil Garstad	+47 21 01 32 24
Carnegie	Frederik Lunde	+47 22 00 93 79
DNB	Eirik R. Mathisen	+47 22 94 89 97
Fearnley Fonds	Morten Nystrøm	+47 22 93 63 88
Handelsbanken	Haakon Amundsen	+47 22 94 09 95
Nordea	Anne S. Ulriksen	+47 22 48 68 67
Pareto	Erik S. Thomassen	+47 24 13 21 65
RS Platou	Gøran Andreassen	+47 22 01 63 42
SEB Enskilda	Terje Fatnes	+47 21 00 85 38
Swedbank First Securities	Pål H. Dahl	+47 23 23 81 98

Corporate governance

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

The corporate governance principles of Kvaerner are adopted by the Board of Directors of Kvaerner. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 21 October 2010, as amended 20 October 2011, (the «Code of Practice»). The principles are set out in the Continuing Obligations of stock exchange listed companies from the Oslo Børs (the stock exchange in Oslo) and the relevant Norwegian background law such as the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act. The Code of Practice may be found at www.nues.no, and the Continuing Obligations of stock exchange listed companies may be found at www.oslobors.no.

Below follows an account outlining how Kvaerner has implemented the Code of Practice. This account follows the same structure as the Code of Practice and covers all sections thereof. Deviations from the Code of Practice are addressed under the relevant section.

In addition to the Code of Practice, the Norwegian Accounting Act § 3-3b stipulates that companies must provide a report on their policies and practices for corporate governance either in the annual report or in a document referred to in the annual report. This report is integrated in the Corporate Governance statement.

Section 1: Implementation and reporting on corporate governance

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

It is the responsibility of the Board of Directors of Kværner ASA to ensure that Kvaerner implements sound corporate governance. The Board of Directors evaluates the Corporate Governance statement on an annual basis. The Board's Audit Committee also evaluates the Corporate Governance statement and will evaluate other policies and procedures, such as those relating to whistleblowing and anti-corruption, on a regular basis.

Basic corporate values and ethical guidelines

Kvaerner wishes to contribute to sustainable social development through responsible business practices.

Below is a specification of where the items on which information must be disclosed under Section 3-3b of the Norwegian Accounting Act may be found within this corporate governance statement:

1. «a statement of the recommendations and regulations concerning corporate governance that the enterprise is subject to or otherwise chooses to comply with» can be found in Section 1 of this Corporate Governance statement.
2. «information on where the recommendations and regulations mentioned in no. 1 are available to the public» can be found in the introduction section of this Corporate Governance statement.
3. «the reason for any non-conformance with recommendations and regulations mentioned in no. 1». The non-conformances are described in the relevant section where there are non-conformances, which are sections 6 and 14 respectively.
4. «a description of the main elements in the enterprise's, and for entities that prepare consolidated financial statements, if relevant also the group's internal control and risk management systems linked to the financial reporting process» can be found in Section 10 of this Corporate Governance statement.
5. «Articles of Association which entirely or partly expand or depart from provisions of Chapter 5 of the Public Limited Liability Companies Act can be found in Section 6 of this Corporate Governance statement.
6. «the composition of the Board of Directors, the Corporate Assembly, the Committee of Shareholders' Representatives and the Control Committee and any working committees related to these bodies, as well as a description of the main instructions and guidelines that apply to the work of the bodies and any committees» can be found in Section 8 and 9 of this Corporate Governance statement.
7. «Articles of Association governing the appointment and replacement of Directors» can be found in Section 8 of this Corporate Governance statement.
8. «Articles of Association and authorisations empowering the Board of Directors to decide that the enterprise is to buy back or issue its own shares or equity certificates» can be found in Section 3 of this Corporate Governance statement.

Kvaerner has defined a set of basic corporate values, ethical guidelines and corporate social responsibility principles for the group to achieve this, and these are available at www.kvaerner.com/en/Environment--Society.

The ethical guidelines and other policy documents of Kvaerner have been drafted on the basis of these basic corporate values. These policy documents express Kvaerner's position with regard to, inter alia, corporate responsibility, whilst at the same time providing operational guidelines that apply to individual employees, thus enabling compliance within the various functions operated by Kvaerner. The relevant policies are in place, and Kvaerner is currently performing an in-depth review of its entire policy framework, which will be finalised within the first quarter of 2012. During the first quarter of 2012, Kvaerner will also develop and implement its own «Code of Conduct» for the group, which is intended to summarize the corporate responsibility principles adopted by Kvaerner and other key requirements governing the business practices of Kvaerner.

Kvaerner has implemented procedures to ensure that the projects globally are conducted in compliance with Kvaerner's own guidelines. For key areas like HSE, anti-corruption and human rights, the controls are implemented through internal procedures. These procedures are currently subject to review and improvements.

This review will be finalised during the course of the first quarter of 2012. In case of doubt, issues may be referred for deliberation at group level, where they are examined by the Corporate Quality Management & Enterprise Risk function. As far as the tendering for main projects of the company are concerned, the complex extended effects and risks are reviewed by a committee with a broad representation. The committee makes recommendations to the EVP & CFO, the President & CEO and the Board of Directors on whether to pursue with the tender for the relevant projects or not.

Kvaerner will do its utmost to contract only with subcontractors or suppliers who themselves adhere to the highest standards similar to the standards of Kvaerner. The aim is that corporate responsibility is an integral part of the Kvaerner procurement processes and practices.

Kvaerner commits to monitor the ethical performance and to taking immediate and thorough steps in cases where the ethical performance of its suppliers comes into question. Kvaerner will work towards its goals by driving continuous improvement through systematic engagement with the suppliers. Kvaerner is now focusing on updating the supplier policy, standards and tools to strengthen the verifications on suppliers' performance within HSE, labour conditions and anti-corruption, and Kvaerner will also focus on training of Kvaerner personnel in this respect. Such procedures are work in progress in Kvaerner. Kvaerner has a supplier pre-qualification system which is mandatory for all use of suppliers.

Any allegation of potential violation of the Kvaerner compliance policies can be reported confidentially or anonymously. Kvaerner will assure that there will be no adverse related consequences as a result of an employee bringing complaints about violations of the compliance policies. A fair and comprehensive investigation will be conducted with relevant internal and external assistance according to the Kvaerner investigation procedures. Kvaerner is now working on strengthening the reporting and investigation routines across all legal entities.

Section 2: Business

The objectives of Kvaerner, as defined in the Articles of Association of Kværner ASA, are «to own or carry out industrial and other associated businesses, management of capital and other functions for the group, and to participate in or acquire other businesses». The Articles of Association of Kvaerner are available at Kvaerner's website: www.kvaerner.no/en/toolsmenu/Investors/Corporate-governance-/Articles-of-association.

Based on the solid foundation on which Kvaerner is built, the group has a clear objective for further growth and the long term ambition to become a leading EPC contractor. Internationally, Kvaerner will build its capabilities within EPC projects at a global scale, and capitalise on deepwater oil and gas exploration and development, gravity base structures (GBS) and jacket technologies. It will also develop its operations in selected international markets where there is a strong need for project and construction management and yard development competency.

The principal strategies of the group are further presented in the Board of Directors' report on page 7. Each year, the Board of Directors evaluates the strategy, goals and guidelines of Kvaerner through a designated strategy process and a strategy workshop. Information concerning the financial position and principal strategies of Kvaerner, and any changes thereto, are disclosed to the market in the context of the quarterly reporting and in designated market presentations.

Section 3: Equity and dividends

The Board regularly monitors that the company's equity capital is at a level appropriate for its objectives, strategy and risk profile. The book equity of the group as of 31 December 2011 was NOK 2 445 million, which represents an equity ratio of 35.8 percent. Kvaerner's ambition is to distribute dividends such that the average dividend over time – through cash distribution and/or share buy-backs – amount to between 30 and 50 percent of net profit. The size of the dividends shall be assessed in relation to alternative uses of funds and the desire to continue strengthening the financial structure of Kvaerner. The Board of Directors have proposed that a dividend of NOK 1.00 per share should be paid for 2011.

Authorisations for the Board of Directors

Proposals from the Board of Directors for future authorisations for share capital increases, share buy-backs or similar shall be restricted to defined purposes, such as share purchase programmes and acquisitions of companies, and shall remain in effect until the next Annual General Meeting. There are currently no such authorisations. The Board will propose to the Annual General Meeting that the Board is given a mandate to acquire own treasury shares. The purpose of such authorisation from the Annual General Meeting is to provide flexibility to the Board in case there should be a need to acquire own treasury shares of up to 10 percent of the share capital of the company for use in a future share purchase programme, as well as other purposes over the next year such as share capital reductions if relevant.

There are no current provisions in the Articles of Association of the company or power of attorney from the General Meeting which grant the Board of Directors the mandate to buy back or issue shares in the company.

Share purchase programme for employees
Kvaerner wants its employees to be able to participate in Kvaerner as owners, and to benefit from any increase in the value of the company, and thereby contribute to an even closer relationship between the employees and the company, as well as to enhance interest in the creation of value within Kvaerner. It is Kvaerner's intention to launch an employee and a management share purchase programme in 2012. The programme implies that employees and managers in Kvaerner are offered to buy shares in the company at a discounted price. The share purchase programme is expected to contribute to increased employee attention and commitment to Kvaerner's overall value creation.

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

The company has only one class of shares, and all shares carry equal rights. Existing shareholders shall have pre-emptive rights to subscribe for shares in the event of share capital increases, unless otherwise indicated by special circumstances. If the Board of Directors proposes to the General Meeting that the pre-emptive rights of existing shareholders are waived in respect of a share capital increase, the reasons for such waiver shall be explained by the Board of Directors in the documentation to the General Meeting. Transactions in own shares are effected via Oslo Børs.

In the event of any material transactions between Kvaerner and shareholders, Directors, senior executives or close associates thereof, which do not form part of ongoing projects pursued in the ordinary course of the company's business, the Board of Directors shall arrange for an independent assessment. The same shall, generally speaking, apply to the relationship between Kvaerner and the Aker group. The Board of Directors will similarly arrange for a valuation by an independent third party in the event of not insignificant transactions between companies within the Kvaerner group where there are minority shareholders. Any contracts in the ordinary course of the company's business with other listed companies in which Aker ASA holds ownership interests, will nevertheless normally be negotiated and concluded at arm's length without any independent assessment necessarily being arranged for.

As further described in both the listing prospectus and in the demerger plan, Kvaerner has entered into a number of agreements with the Aker Solutions group for, among other things, the rendering of corporate services until similar processes are fully in place within Kvaerner, and for completion of ongoing projects. Further information on transactions with related parties is provided in Note 7 Related Party to the consolidated financial statements.

Kvaerner has prepared guidelines ensuring that Directors and senior executives notify the Board of Directors if they have any material direct or indirect personal interest in any agreement concluded by the group, and these guidelines form an integrated part of the Rules of Procedures for the Board of Directors of Kvaerner. The Rules of Procedure for the Board of Directors of Kvaerner stipulate that the Directors and the President & CEO shall not participate in the preparation, deliberation or resolution of any matters that are of such special importance to themselves, or any of their close associates, that they must be deemed to have a prominent personal or financial interest in such matters. The relevant Director(s) and the President & CEO shall raise the issue of his or her competence whenever there may be cause to question it.

In general, as further stipulated in the Rules of Procedure for the Board of Directors of Kvaerner, Directors of Kvaerner should be cautious in participating in the consideration of issues where a potential conflict of interest or conflict of roles may arise, and so undermining the confidence in the decision process. Such a person may not participate in Board discussions of more than one company that is part of the same related party agreement, unless the companies have common interests.

The Chairman of the Board of Directors, Kjell Inge Røkke, is an indirect shareholder of both Aker ASA, Aker Solutions ASA and Kvaerner. Since his relative indirect ownership interests in Aker ASA exceed his ownership interests in Kvaerner, he will not participate in the Board of Directors' deliberation of matters that concern commercial relationships between Kvaerner and Aker ASA. The same principle is applied if Kvaerner contracts with other companies in which the said Director holds direct or indirect ownership interests that exceed, in relative terms, his ownership interest in Kvaerner. As his indirect shareholding in Aker Solutions is identical to such of Kvaerner, he is as a ground rule considered competent to deliberate on matters concerning both companies.

If incompetence is concluded, the relevant Director will, as a ground rule, not be granted access to any documentation prepared to the Board of Directors prior to the deliberation of the matter in question. Kvaerner applies a strict norm as far as competence assessments are concerned.

As far as the other officers and employees of Kvaerner are concerned, transactions with close associates will be comprehensively addressed and regulated in the group's ethical guidelines.

Principal shareholder
Aker ASA holds 70 percent of the shares of Aker Kværner Holding AS (formerly Aker Holding AS), which held 41.02 percent of the shares of Kvaerner as of 31 December 2011. 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 other shareholders of Aker Kværner Holding AS. The Board of Directors is of the view that it is positive for Kvaerner that Aker ASA assumes the role of an active owner and is as such involved in matters of major importance to the group and to all shareholders. The cooperation with Aker ASA offers Kvaerner, inter alia, access to special know-how and resources within strategy, transactions and funding. Moreover, Aker ASA offers network and negotiation resources from which Kvaerner benefits in various contexts. This complements and strengthens Kvaerner without curtailing the autonomy of

the group. It may be necessary to offer Aker ASA special access to commercial information in connection with such cooperation. Any information disclosed to Aker's representatives in such a context will be presented in compliance with the laws and regulations governing the stock exchange and the securities market. Kvaerner is not deemed, within the meaning of the Public Limited Companies Act, to be a close associate of Aker ASA or any company in which Aker ASA holds ownership interests. The Board of Directors and the Executive Management Team of Kvaerner are nevertheless conscious that all relations with other Aker companies shall be premised on commercial terms and structured in line with the arm's length principle. Transactions are made public in accordance with the rules and regulations governing companies listed on Oslo Børs. Furthermore, transactions of a certain magnitude between Kvaerner and companies within the Aker group will be handled in accordance with the procedures in Section 3-8 of the Public Limited Companies Act.

Section 5: Freely negotiable shares

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

Section 6: General meetings

The Board of Directors encourages shareholders to attend the General Meetings. It is a priority for Kvaerner to hold the Annual General Meeting as soon as possible after year end, normally in April or early May. Notices convening General Meetings, including comprehensive documentation relating to the items on the agenda, including the recommendations from the Nomination Committee, are made available on Kvaerner's website no later than 21 days prior to the General Meeting. The Articles of Association of Kværner ASA stipulate that documents pertaining to matters to be deliberated by the General Meeting shall only be made available on the company's website, and not normally be sent physically by post to the shareholders unless required by statute.

The following matters are typically decided at the Annual General Meeting, in accordance with the Articles of Association of Kværner ASA and Norwegian background law:

- Election of the Nomination Committee and stipulation of the Nomination Committee's fees.
- Election of Board of Directors.
- Election of the external auditor and stipulation of the auditor's fee.
- Approval of the annual accounts and the annual report, including distribution of dividend.
- Other matters which, by law or under the Articles of Association, are the business of the Annual General Meeting.

The deadline for registering intended attendance is as close to the General Meeting as possible, but not shorter than five days before the meeting. Shareholders who are unable to attend may vote by proxy, and the Board will appoint the Chair of the Board or a person designated by him, to vote for shareholders as their proxy holder. Moreover, information concerning both the registration procedure and the filing of proxies is included in the notice convening the General Meeting and on the registration form. The Board of Directors also aims to structure, to the extent practicable, the proxy form such as to enable the shareholders to vote on each individual item on the agenda. The Articles of Association of Kværner ASA stipulate that the General Meetings shall be chaired by the Chair of the Board of Directors or a person appointed by said Chair. Pursuant to the Code of Practice, section 6, the Board should make «arrangements to ensure an independent Chair for the General Meeting». Thus, the Articles of Association of Kvaerner deviate from the Code of Practice in this respect, having the Chair of the Board or a person appointed by him/her chairing the General Meetings simplifies the preparations for the General Meetings significantly.

It is intended for the Board of Directors, the Chair of the Nomination Committee and Kvaerner's auditor to attend the Annual General Meeting.

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

As it is a priority for the General Meetings to be conducted in a sound manner, with all shareholder votes to be cast, to the extent possible, on the basis of the same information, Kvaerner has thus far not deemed it advisable to recommend the introduction of an electronic attendance. The Board of Directors will contemplate the introduction of such arrangements on an ongoing basis in view of, inter alia, the security and ease of use offered by available systems. In accordance with the Articles of Association of Kværner ASA allow for advance voting options at the Annual General Meetings.

Minutes of General Meetings will be published as soon as practicable on the announcement system of Oslo Børs, www.newsweb.no (ticker: KVAER), and on the company's own website, www.kvaerner.com.

Section 7: Nomination committee

The Articles of Association stipulate that Kvaerner shall have a Nomination Committee. The Nomination Committee shall have no less than three members, who shall normally serve for a term of two years. The 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. According to these guidelines, the committee shall emphasise that candidates for the Board have the necessary experience, competence and capacity to perform their duties in a satisfactory manner. Furthermore, attention should be paid to ensuring that the Board can function effectively as a collegiate body. A reasonable representation with regard to gender and background should also be emphasised, and the

Nomination Committee should present its nomination of Directors to the Board. The Nomination Committee shall justify its nominations. The guidelines for the Nomination Committee are available on the company's website: www.kvaerner.com/en/toolsmenu/Investors/Corporate-governance-/Nomination-committee.

The Chair of the Nomination Committee has the overall responsibility for the work of the committee. In the exercise of its duties, the Nomination Committee may contact, amongst others, shareholders, the Board of Directors, management and external advisors. The Nomination Committee shall also ensure that its recommendations are endorsed by the largest shareholders.

A majority of the members of the Nomination Committee are independent of the Board of Directors and executive management of the company. The Articles of Association charge the Nomination Committee with proposing candidates for appointment as Directors. The Nomination Committee shall also propose the fees payable to the Directors.

The composition of the Nomination Committee shall reflect the interests of all shareholders, in addition to its members' independence from the Board of Directors and the Executive Management Team. The members and the Chair of the Nomination Committee are appointed by the Annual General Meeting, which also determines the remuneration of the committee.

Information concerning the Nomination Committee and deadlines for making suggestions or proposing candidates for Directorships are available on the company's website: www.kvaerner.com/en/toolsmenu/Investors/Corporate-governance-/Nomination-committee.

Section 8: Corporate assembly and Board of Directors: Composition and independence

It has been agreed with the employees that Kvaerner shall have no corporate assembly. Hence, the Board of Directors appoints its own Chair, pursuant to the provisions of the Public Limited Companies Act, section 6-1(2), unless the Chair has been appointed by the Annual General Meeting. The proposal of the Nomination Committee will normally include a proposed candidate for appointment as Chair of the Board of Directors. The Board of Directors appoints its own deputy Chair. According to the Public Limited Companies Act, the Directors are appointed for a term of two years at a time unless otherwise stated in the company's Articles of Association.

The right of the employees to be represented and participate in decision making is safeguarded through, inter alia, expanded employee representation on the Board of Directors, with Kvaerner currently having three employee representatives on the Board of Directors. The employee-appointed Directors are elected for a period of two years. The Articles of Association stipulate that the Board of Directors shall comprise six to ten persons, one third of whom shall be elected by and from the employees of the group. In addition, up to three shareholder-appointed alternates may be appointed. The Articles of Association further stipulate that up to three shareholder-elected deputy members may be elected annually.

The Board of Directors comprised eight Directors as of 31 December 2011, five of whom were elected by the shareholders: Kjell Inge Røkke (Chairman), Tore Torvund (Deputy Chairman), Bruno Weymuller, Lone Fønss Schrøder and Vibeke Hammer Madsen, and three of whom were elected by and from the group's employees: Bernt Harald Kilnes, Rune Rafdal and Ståle Johansen. Kjell Inge Røkke and Vibeke Hammer Madsen are elected for the period until the Annual General Meeting in 2012, while Bruno Weymuller, Tore Torvund and Lone Fønss Schrøder are elected for the period until the Annual General Meeting in 2013. The current Board composition, including information about the Directors' background and expertise, is detailed on page 92 of this annual report and on the company's website.

Kvaerner encourages the Directors to own shares in the company. The shareholdings of the Directors as of 31 December 2011 are described in Note 9 Salaries, wages and social security costs to the consolidated financial statements. In addition to Kjell Inge Røkke's indirect ownership of shares in the company, the Board members Bernt Harald Kilnes, Rune Rafdal and Ståle Johansen also are currently shareholders in Kvaerner. A majority of the Directors elected by the shareholders are independent of the executive personnel and important business associates. None of the executive personnel of the company are Directors thereof.

The composition of the Board of Directors aims to ensure that the interests of all shareholders are attended to and that the company has the necessary know-how, resources and diversity at its disposal. Among the five shareholder-elected Directors, four (Tore Torvund, Lone Fønss Schrøder, Bruno Weymuller and Vibeke Hammer Madsen) are deemed independent of the company's largest indirect shareholder; Aker ASA.

The reasoned proposals of the Nomination Committee for candidates to become shareholder-appointed Directors will be published on the company's website and on Oslo Børs, via www.newsweb.no, prior to General Meetings. The appointment of employee representatives to the Board of Directors will be conducted as prescribed by the Public Limited Companies Act and the Representation Regulations. The Board of Directors will appoint a designated appointment committee charged with implementing the appointment of such employee representatives, which committee comprises representatives of the employees and of the Executive Management Team.

Section 9: The work of the Board of Directors

The Board of Directors adopts an annual plan for its work, with an emphasis on goals, strategy and implementation. Furthermore, there are Rules of Procedure for the Board of Directors, which govern areas of responsibility, duties and the distribution of roles between the Board of Directors, the Chair of the Board of Directors and the President & CEO. The Rules of Procedure for the Board of Directors also include provisions on convening and chairing board meetings, on decision making, on the duty and right of the President & CEO to disclose information to the Board of Directors, on the duty of confidentiality, as well as on for example competence. In order to ensure a more independent consideration of matters of a material character in which the Chair of the Board is, or has been, personally involved, the Board's consideration of such matters should be chaired by the Deputy Chair. In addition, a separate guideline for related party transactions is integrated in the Rules of Procedures.

In connection with the demerger and the listing, Per Harald Kongelf was acting CEO of Kvaerner from May 2011 until 5 August 2011. During this time period, Mr Kongelf had a leave of absence from his position as chief operating officer of Aker Solutions ASA. From 5 August 2011, Jan Arve Haugan took the position as President & CEO of Kvaerner.

The Board of Directors held six ordinary Board meetings since the demerger and listing 8 July 2011. In addition, three extraordinary Board meetings have been held. An overview of the Directors' participation in ordinary and extraordinary board meetings during 2011 is provided in Note 9 Salaries, wages and social security cost to the consolidated financial statements of the group. Total attendance rate at Board meetings was 88.8 percent from and including July 2011.

The President & CEO prepares matters for deliberation by the Board of Directors, in consultation with the Chair of the Board of Directors. Weight is attached to having matters prepared and presented in such a way that the Board of Directors is provided with an adequate basis for its deliberations. The Board of Directors has overall responsibility for the management of Kvaerner and shall, through the President & CEO, ensure that its activities are organised in a sound manner. The Board of Directors shall, inter alia, adopt plans and budgets for the business, and keep itself informed of the financial position of, and development within, Kvaerner. This encompasses the annual planning process of Kvaerner, with the adoption of overall goals and strategic choices for the group, as well as financial plans, budgets and forecasts for the group and the business areas. The Board of Directors performs an annual evaluation of its work and its know-how in accordance with the Rules of Procedure for the Board of Directors. The evaluation is performed as an anonymous survey and a round-table discussion and evaluation of the survey results.

The Board of Directors has established two sub-committees, as further described below.

Audit Committee

As of 8 July 2011, Kvaerner has an Audit Committee comprising the following three Directors; Lone Fønss Schrøder (Chair), Bruno Weymuller and Bernt Harald Kilnes. Hence the Audit Committee is independent of the management of Kvaerner. The Audit Committee has held two committee meetings in 2011 since the demerger and listing 8 July 2011, both in connection with the quarterly reporting of the company. The Audit Committee has adopted an annual plan for its work.

At least one of the members of the committee shall have relevant accounting or auditing qualifications. The Audit Committee has a mandate and a working method that complies with statutory requirements. The committee will participate, on behalf of the Board of Directors, in the quality assurance of guidelines, policies and other governing instruments pertaining to Kvaerner. The Audit Committee will perform a qualitative review of quarterly and annual reports of Kvaerner. The mandate of the Audit Committee is further defined in a separate guideline for the Audit Committee, which forms an integrated part of the Rules of Procedures for the Board of Directors.

Remuneration Committee

From 8 July 2011, the Board of Directors of Kvaerner has a Remuneration Committee comprising three of the Directors. The current members of the committee are Kjell Inge Røkke (Chairman), Tore Torvund and Vibeke Hammer Madsen. Hence the Remuneration Committee is independent of the management of Kvaerner.

The committee will prepare and recommend proposals for the Board of Directors relating to the salary and terms of the President & CEO, as well as the guidelines and principles governing the remuneration of executive personnel within the group at any given time. The Remuneration Committee will also approve, based on the recommendation of the President & CEO, the salary and terms of those who report directly to the President & CEO. The mandate of the Remuneration Committee is further defined in a separate guideline for the Remuneration Committee, which forms an integrated part of the Rules of Procedures for the Board of Directors.

Section 10: Risk management and internal control

The Board of Directors shall ensure that Kvaerner has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. As a new company, Kvaerner is still developing its policies, procedures, risk management and internal control practices, and a thorough review of all policies is currently being performed. This review and revision will be completed during the first quarter 2012.

The Audit Committee of the Board of Directors assists the Board in safeguarding that the company has internal procedures and systems that ensure good corporate governance, effective internal controls and good risk management, particularly in relation to financial reporting. As this is still work in progress within Kvaerner, the Audit Committee has not yet been enabled to perform a full review of such issues.

Risk management

Kvaerner manages risk through an internal framework comprising guidelines, procedures, standards and tools intended to ensure good business operations and provide unified and reliable financial reporting. Some of which are adopted already, while some are work in progress. The framework will be anchored in the various group functions.

The operating model of Kvaerner implies that each group function in Kvaerner corporate management has a global responsibility for following up on their respective areas of specialisation and the frameworks associated therewith. Such responsibility includes in particular risk management and ownership to their respective policies and procedures, irrespective of how the business is organised. Individual group functions follow up on their area of responsibility through a direct dialogue with the businesses, both in connection with specific projects and as part of know-how development to enhance risk management. Group functions set the direction for taking risks and management within the respective areas in line with ambitions and guidelines from the Board of Directors, and safeguard that the operating businesses comply with this direction. Within the risk framework established at corporate level, the operating businesses manage the day-today risks related to their operations.

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

The overall risk management effort is primarily handled by the following group functions, in close cooperation with the business areas and operating units:

- Corporate Finance & Accounting is responsible for the handling of risks and internal control in connection with the financial reporting, and financial reporting and financial assessments made in relation thereto. Corporate Finance & Accounting is the owner of the Financial Reporting and Planning policy, together with connected standards and tools. The set of policies, standards and tools aim to manage risks and internal control pertaining to the financial reporting process. The corporate EVP & CFO is also responsible for the corporate risk committee and the corporate investment committee of the group.
- Treasury is responsible for financial market risk and the group's exposure in financial markets, and is a permanent member of the investment committee of the group.
- Corporate Tax is responsible for the various tax risks of the group, relating to, inter alia, transactions, operational activities and tax returns.
- Corporate Quality Management & Enterprise Risk coordinates the management of risk outside the traditional project and financial areas, and has overall responsibility for the development of Kvaerner's framework, basic corporate values, corporate responsibility policy, Code of Conduct, anti-corruption effort and ethical guidelines.
- Project Support assists in connection with project assessments, including risk and strategy assessments, in the tender phase and the implementation phase of the projects.
- Business Support assists the organisation in respect of facility management, insurance, HR, quality, shared services and HSE.
- Corporate Legal assists all of the abovementioned functions in their handling of risks by, inter alia, being a permanent member of the corporate risk committee and the corporate investment committee of the group, and is also responsible for the contractual and legal follow-up of projects, partners, agreements, disputes and the relationship with the legal framework.

In addition to the said group functions, the business areas have their own management teams and finance/staff functions tailored to their organisations and activities. The responsibility for managing risks in projects and operations lies with the operating units. Each operating unit has incorporated risk management within their project execution process. All projects in Kvaerner have a register where identified operational risks and opportunities are categorised and assessed in terms of impact and probability. The reporting of all operational risks and opportunities is standardised across the group and aggregated up to group level through the line organisation.

Internal control

In an international organisation like Kvaerner, it is a prerequisite that the activities in every part of the group meet financial and non-financial requirements, and are carried out in accordance with the group's common norms and values.

Each operational unit and business area has independent responsibility for adherence to the internal framework of the group and compliance with external laws and regulations at any given time, and the executive management of each operation unit is responsible for ensuring reliable financial reporting and compliance with legislation and regulations. This involves close cooperation between the staff functions and the business areas with a view to identifying, monitoring, reporting and handling risks for the entire group in conformity with, inter alia, the requirements laid down by the Audit Committee and the Board of Directors.

All operating units within Kvaerner shall evaluate, on an ongoing basis, their own adherence to the framework and policies established on corporate level and whether established control activities function appropriately. This is done by using, inter alia, a standard form with a number of verification questions relating to Kvaerner's guidelines and procedures. The Audit Committee of the Board of Directors shall assist the Board of Directors in 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. As Kvaerner is still in a start-up phase and because the policy system is currently being revised, only limited internal reviews have been performed in 2011. Until these policies and corporate functions are in place, corporate staff is monitoring the businesses through reporting and monthly operating reviews. More detailed reviews are executed where applicable.

Future annual reports will contain a more detailed description of Kvaerner's handling of the operational and financial risks associated with the business activities, as well as internal control procedures.

The financial reporting process

The group's businesses report monthly on the financial, operational and market status within their respective areas, including matters relating to important projects. The reports are reviewed in physical meetings with the President & CEO and the EVP & CFO before the Board of Directors receives its monthly report on the financial performance of the company. The business areas are responsible for monthly financial follow-up and reporting.

The monthly financial reporting from the operating units of Kvaerner is performed through the Hyperion reporting system, in order to ensure consistent and unified reporting throughout the organisation. As described above, Kvaerner has a financial reporting and planning policy with corresponding standards and tools, owned by the EVP & CFO, which sets out the regulations and procedures for the financial reporting. The internal control of financial reporting is a process designed under the supervision of the EVP & CFO to provide reasonable assurance.

Kvaerner prepares and presents its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The accounting policies applied by the group also comply with IFRS, International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB).

Section 11: Remuneration of the Board of Directors

The remuneration of the Board of Directors will reflect its responsibilities, know-how and time commitment, as well as the complexity of the business. The remuneration will be proposed by the Nomination Committee, and is not performance-related or linked to options in Kvaerner. Any remuneration in addition to normal Directors' fees shall be specifically identified in the annual report. There has not been any such additional remuneration in 2011. More detailed information about the proposed remuneration of the Board of Directors in 2011 is provided in Note 9 Salaries, wages and social security cost to the consolidated financial statements for the group.

Neither the members of the Board of Directors, nor companies with whom they are affiliated, should accept specific paid duties for Kvaerner beyond their directorships, unless the Board of Directors is informed and the compensation is approved by the Board of Directors. No compensation shall be accepted from anyone other than the relevant group company in connection with such duties.

Section 12: Remuneration of executive personnel

The Board of Directors has adopted designated guidelines for the remuneration of executive management pursuant to the provisions of Section 6-16a of the Public Limited Companies Act. The guidelines set out the main principles applied in determining the salary and other remuneration of the executive personnel, and help to ensure convergence of the financial interests of the executive personnel and the shareholders. The guidelines were approved by the Extraordinary General Meeting of Kværner ASA on 30 May 2011. More information is included under Section 2 herein, and additional details pertaining thereto as well as the executive remuneration guidelines of Kvaerner are addressed in Note 9 Salaries, wages and social security cost to the consolidated financial statements. The remuneration guidelines will consequently be submitted to the Annual General Meeting.

Kvaerner has, under the terms of the demerger plan, undertaken to deliver bonus shares in the form of shares in Kvaerner, or alternatively offer cash compensation, to employees who are transferred to Kvaerner, and who had entitlements under Aker Solutions' employee share purchase programme. Other than this programme, the Kvaerner group does not have any employee share purchase or share option schemes.

Kvaerner has an executive variable pay programme based on the achievement of financial and personal performance targets and leadership performance in accordance with the company's values and the development of the company's share price compared to the development of the Oslo Børs benchmark index. The executive variable pay programme represents a potential for an additional variable pay up to the value of 94.5 percent of the executives' ordinary salary.

Further, Kvaerner employs an annual variable pay programme that senior and middle managers and key professionals that have an important impact on Kvaerner's performance and long-term success may be eligible for. Members of the annual variable pay programme will be measured on achievement of financial and personal performance targets. The annual variable pay programme has various pay-potential levels (20, 30, 40 and 50 percent of ordinary salary) dependent upon individual scope, role and responsibility within the employee's business area.

The Remuneration Committee prepares and recommends proposals to the Board of Directors on the remuneration of the President & CEO. The President & CEO determines the remuneration of executive management on the basis of the guidelines laid down by the Board of Directors; see also the description of the Remuneration Committee of the Board of Directors in Section 9. All performance-related remuneration within the group has been made subject to a cap.

Section 13: Information and communications

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

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

All stock exchange announcements, quarterly reports and presentations, other public presentations and press releases are made available on the company's website, www.kvaerner.com, together with other relevant information. Stock exchange announcements are also available on www.newsweb.no. All information sent to the shareholders is posted on the company's website simultaneously. Kvaerner holds open presentations in connection with the financial reporting, and these presentations are broadcast live via the Internet. A capital markets day will be hosted annually, and will be open to all interested parties. All relevant dates are published in the financial calendar available on Kvaerner's website.

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

Section 14: Take-overs

Aker ASA has undertaken to retain control of Aker Kværner Holding AS for a period of ten years from June 2007. The Board of Directors has not deemed it appropriate to adopt specific guidelines for takeover situations for as long as the ownership cooperation context within Aker Kværner Holding AS remains intact.

Section 15: Auditors

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

The Board of Directors has established procedures for regular contact with the external auditor through the Audit Committee. This contact includes, but is not limited to, the auditor:

- Presenting the audit plan for the coming year.
- Contributing to meetings concerning Kvaerner's annual financial statements.
- Discussing audit findings, including changes in accounting principles, significant estimates and judgments reflected in the annual financial statements, any areas of disagreement with management and identified process improvement opportunities.
- Participating in an annual meeting with the Board of Directors without the President & CEO or other members of management being present.
- Attending Annual General Meetings.

The Audit Committee oversees the work of the auditor and reviews its qualifications, performance and independence. As part of this independence oversight, the Audit Committee has implemented guidelines covering the services which may be provided by the auditor in addition to statutory audit. The Audit Committee receives an annual summary of audit and non-audit services provided globally by the auditor, which the Board of Directors presents to the Annual General Meeting for approval. Details of the external auditor's remuneration are given in Note 11 Other operating expense to the consolidated financial statements.

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

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 and Aker BioMarine 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 2011-2012.

Tore Torvund
Deputy Chairman

Tore Torvund holds the position as Executive Vice President of the solar technology company REC Silicon Renewable Energy Corporation since 2009. Mr Torvund has senior executive experience of more than twenty years in the oil and gas industry, including as Executive Vice President of Exploration & Production Norway at the oil company StatoilHydro, and Executive Vice President of Oil and Energy at Norsk Hydro. He has held several management positions related to drilling operations, field development and technology projects. Mr Torvund holds a M.Sc. in Petroleum Engineering from the Norwegian University of Science and Technology. He holds no shares in Kværner ASA, and has no stock options. Mr Torvund is a Norwegian citizen. He has been elected for the period 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, the Energy Directorate as well as serving in key positions at the Prime Minister's office. Mr Weymuller has 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 a M.Sc. from Massachusetts Institute of Technology. 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 chairing 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 a 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 is the CEO of Virke (The federation of Norwegian enterprises) since 2002. Prior to this, she was partner in 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, and she is among others chairperson of the board of innovation and board member of the Research Council of Norway, as well as chair of Junior Achievement Young Enterprise. She was 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 2011-2012.

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 at the boards of Aker Stord AS and Aker Kværner Stord AS in the period 2000 to 2011. Mr Rafdal is a sheet metal worker and holds a certificate of apprenticeship in the sheet metal discipline. He holds 195 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 K. 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 at the board of Aker Verdal AS and Kværner Verdal AS. Mr Johansen is a welder and sheet metal worker and holds a certificate of apprenticeship in the welding discipline. He holds 31 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 at the boards of Kværner ASA, Aker Kværner ASA and Aker Verdal AS. Mr Kilnes is educated as an engineer and business administrator. He holds 447 shares in Kværner ASA, and has no stock options. Mr Kilnes is a Norwegian citizen. He has been elected for the period 2011-2013.

Executive Management Team

Jan Arve Haugan
President & CEO

Jan Arve Haugan started his professional career in the Norwegian Construction Company F. Selmer (now Skanska) and worked as project consultant in Terra Mar Project Management before he joined the Norwegian industrial conglomerate Norsk Hydro as chief engineer in 1991. He has had several leading positions in Hydro's oil & gas projects and operations, and more recently in the aluminium business. From 2007 to 2009 he was director of technology and global smelter operations. In 2009 he became CEO of Qatar Aluminium Ltd (Qatalum), a 50/50 Joint Venture between Qatar Petroleum and Hydro Aluminium, and one of the largest primary aluminium plants ever built in one phase. Mr Haugan was Hydro's project owner and technology provider for Qatalum in Hydro, before joining Qatalum as CEO. He holds a M.Sc. in Construction Management from the University of Colorado at Boulder, USA. Mr Haugan and related parties, holds 28 000 shares in Kværner ASA. Mr Haugan is a Norwegian citizen.

Eiliv Gjesdal
Executive Vice President & CFO

Eiliv Gjesdal joined Kvaerner after ten years with Aker Solution, from where he has extensive experience from finance and control functions. From 1997 to 2002, he was audit manager with Arthur Andersen & Co working with large Norwegian companies like Kværner, Bergesen, Nycomed, Bravida and Statkraft. Mr Gjesdal holds a M.Sc. in Economics and Business Administration from the Norwegian School of Economics and Business Administration in Bergen, Norway, and is a state authorised public accountant in Norway. He holds no shares in Kværner ASA, and has no stock options. Mr Gjesdal is a Norwegian citizen.

Lars Eide
Executive Vice President North Sea

Lars Eide joined Kværner Stord in 1990 and has been involved in several projects, most recently as project director of Gjøa EPCH. He has broad experience from a wide range of positions in Aker Solutions, including corporate strategy co-ordinator, vice president engineering, vice president fabrication and business manager. In 2004 he took on the role as president of Aker Kværner Egersund. Mr Eide holds a Masters Degree from the Norwegian University of Science and Technology. He holds 283 shares in Kværner ASA, and has no stock options. Mr Eide is a Norwegian citizen.

Nina Udnes Tronstad
Executive Vice President Jackets

Nina Udnes Tronstad has been president of Kværner Verdal AS since 2007. Prior to joining Kvaerner, Ms Udnes Tronstad worked four years for Aker Solutions in the same position as she holds today. Before joining Aker Solutions, Ms Udnes Tronstad worked 24 years with Statoil, where she was executive vice president HSE from 2005-2007. She has held various technical and management positions in Statoil, both upstream, midstream and downstream. Ms Udnes Tronstad is a board member of Trelleborg AB since 2010. Ms Udnes Tronstad holds a degree in chemical engineering from the Norwegian University of Science and Technology. She holds 447 shares in Kværner ASA, and has no stock options. Ms Udnes Tronstad is a Norwegian citizen.

Bjørn Gundersen
Executive Vice President Concrete

Bjørn Gundersen has over 30 years' experience from the oil and gas industry, and prior to joining Kvaerner he worked for Aker Solutions from 1979-2011. He has extensive experience through project management positions for major world class offshore oil and gas projects, as well as corporate business executive management positions, in Norway as well as internationally. Mr Gundersen holds a degree in civil engineering from the Regional College of Stavanger. He holds no shares in Kværner ASA, and has no stock options. Mr Gundersen is a Norwegian citizen.

James Harry (Jim) Miller
Executive Vice President
E&C Americas

Jim Miller joined Kvaerner as Executive Vice President of E&C Americas in 2011. From 2008-2011 he was President and CEO of Aker Philadelphia Shipyard. Before that, he was President of Aker Solutions Process & Construction (P&C) Americas, where he was responsible for financial operations of seven business units. During his tenure, Aker Solutions P&C Americas became a leading provider of global engineering and construction solutions with 7 500 employees, including 4 500 construction trades personnel. Prior to joining Aker Solutions P&C Americas, Mr Miller held the position as President of Aker Construction Inc. Mr Miller graduated from the University of Edinboro in Pennsylvania with a BA. He holds no shares in Kværner ASA, and has no stock options. Mr Miller is a resident of Pittsburgh, Pennsylvania and is a US citizen.

Tony Allen
Executive Vice President
International

Tony Allen has over 30 years experience from the Oil and Gas industry. Commencing his career in the UK shipbuilding industry Mr Allen gained significant experience working around the globe in both project and Corporate management positions with several of the world's leading EPC Oil and Gas contractors, including Earl and Wright and Humphries and Glasgow. During the 1990's he worked as a Project Manager and subsequently Technical Director for Kvaerner. Prior to re-joining Kvaerner Mr Allen was a Senior Vice President with SNC-Lavalin Inc. Mr Allen holds a Bachelor of Science degree from the University Of Strathclyde. He is a Chartered Engineer. He holds no shares in Kværner ASA, and has no stock options. Mr Allen is a British citizen.

Jan Øyri
Executive Vice President
Business Support

Jan Øyri has more than 15 years of experience with organisational- and production processes, management development and general line management from both aluminium and construction industries, including companies like NCC, Elkem, Mesta and Norsk Hydro. In 2010 he became Business Support Group Manager, Qatar Aluminium, a 50/50 joint venture between Hydro and Qatar Petroleum. Mr Øyri has significant tenure as an Officer with the Norwegian Army and educational background from the Norwegian Military Academy and the Norwegian Army Staff College. He holds 10 000 shares in Kværner ASA, and has no stock options. Mr Øyri is a Norwegian citizen.

Jan Tore Elverhaug
Executive Vice President
Project Support

Jan Tore Elverhaug joined Kværner Engineering in 1979. He has more than 30 years experience from the offshore industry and has held a range of management positions in Kværner Engineering and Aker Solutions, including EVP for Field Development, President of Aker Stord, as well as project director for some of the largest and most advanced projects like Ormen Lange, H6 and Kristin. Mr Elverhaug is a graduate of the Regional College of Stavanger in Petroleum Engineering and also holds a business degree from the Norwegian School of Management. He holds 252 shares in Kværner ASA, and has no stock options. Mr Elverhaug is a Norwegian citizen.

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