First quarter results 2019

7 May 2019

Photo: Equinor / Woldcam

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Highlights, first quarter 2019

- EPC complete for Johan Sverdrup ULQ
- Assembly of Valhall jacket completed
- Husnes aluminium plant upgrade contract
- Hywind Tampen offshore wind power FEED
- Contract for marine operations, Canada
- Dividend NOK 1.00 per share approved

Valhall Flank Vest topside and jacket project

Subsequent events:

- Statfjord A decom

HSSE results are business critical

+

- High HSSE attention throughout org.
- Zero serious incidents, serious near misses and lost time injuries
- Joint HSSE campaign and safety culture initiatives with clients

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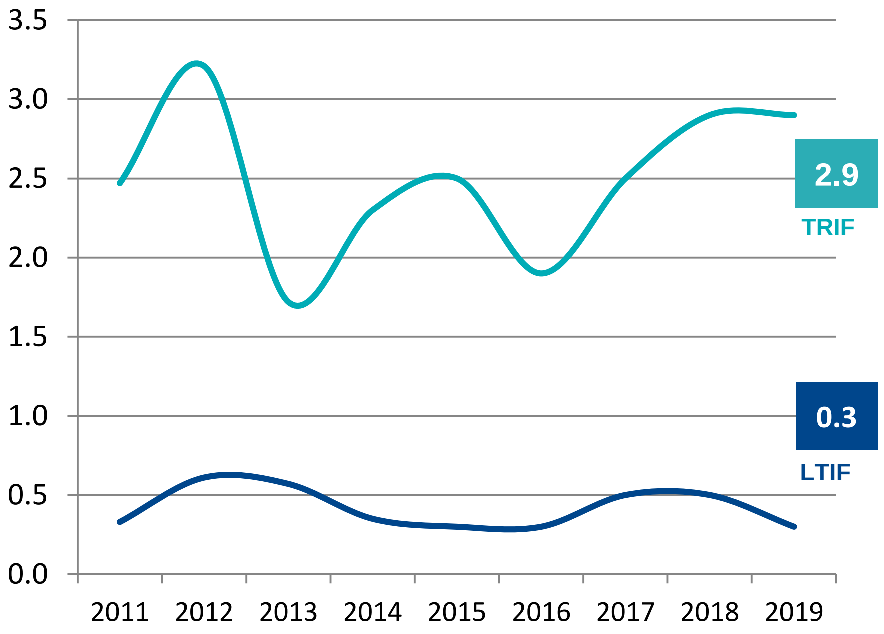
- Still too many medical treatment cases

Lost time injury frequency (LTIF) & total recordable injury frequency (TRIF) Per million worked hours (12 months average)



Globally recognised for predictable deliveries:

All current projects on track™

Njord A upgrade

Johan Sverdrup hook-up and modification

Johan Sverdrup Phase 2 Process platform jacket

Valhall Flank West normally unmanned WHP

Johan Castberg FPSO

Nord Stream 2 onshore facility

West White Rose marine operations

Husnes
Removal, Canada
Decommissioning

Other projects

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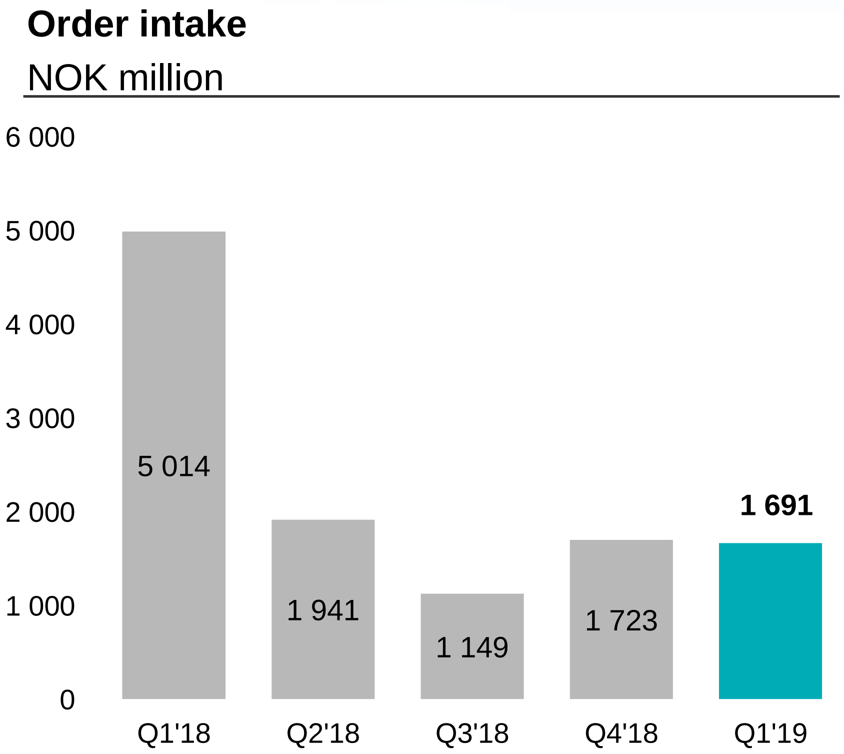
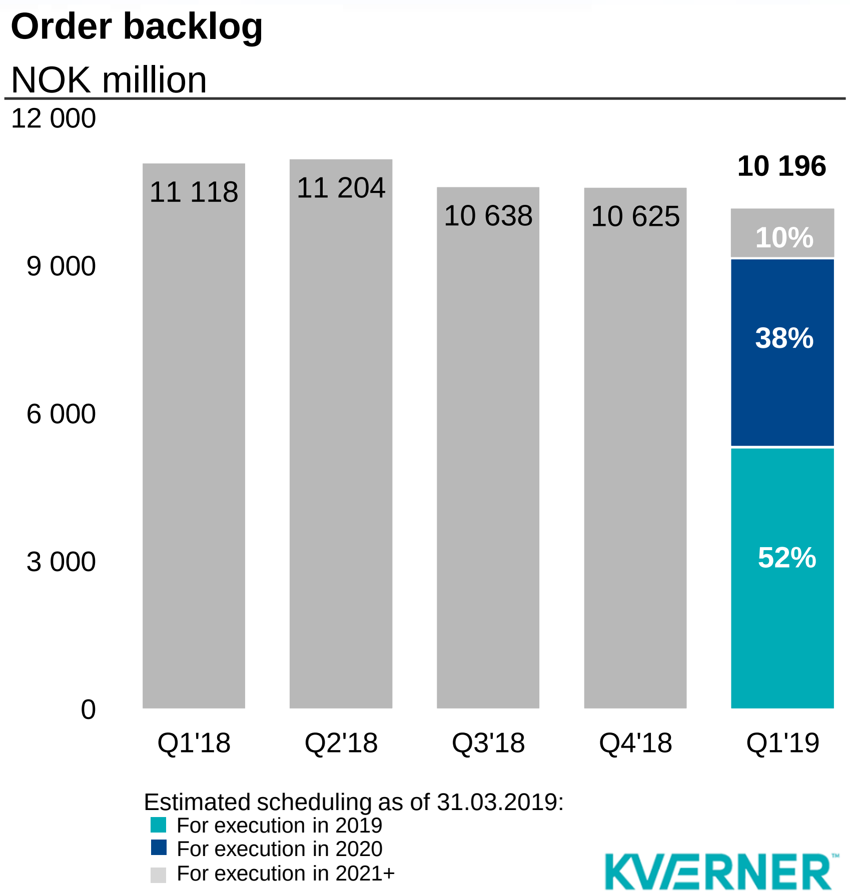
Johan Sverdrup Utility & Living Quarter (ULQ):

In operation 1 month ahead of original schedule!

Order intake and backlog





Note: All figures include scope of work of jointly controlled entities.

First quarter financials

Idar Eikrem, Chief Financial Officer

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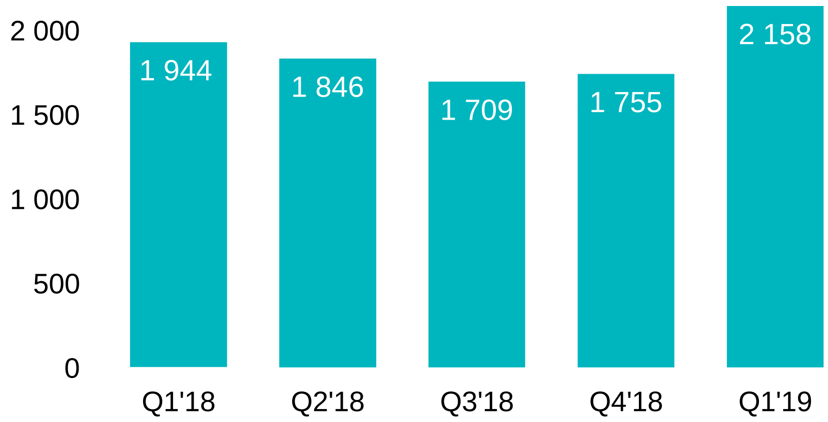
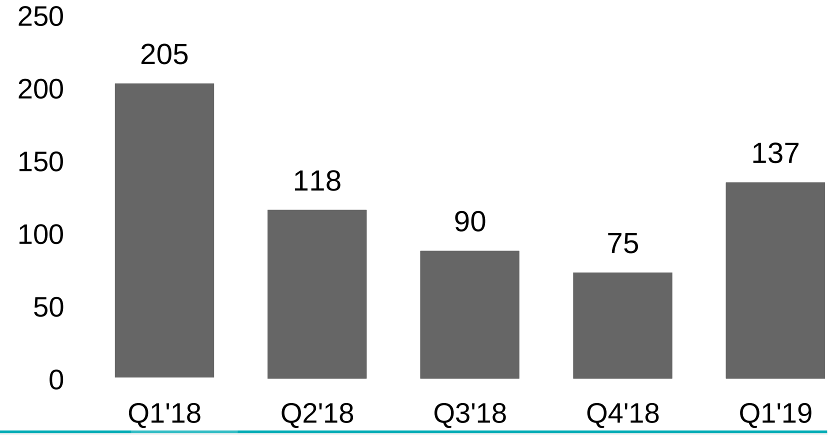
Field Development review

- EBITDA margin for 1Q19 was 6.3 percent
- Results reflect phasing of projects

Revenues
NOK million



EBITDA
NOK million



EBITDA-%	**10.6%**	**6.4%**	**5.2%**	**4.3%**	**6.3%**

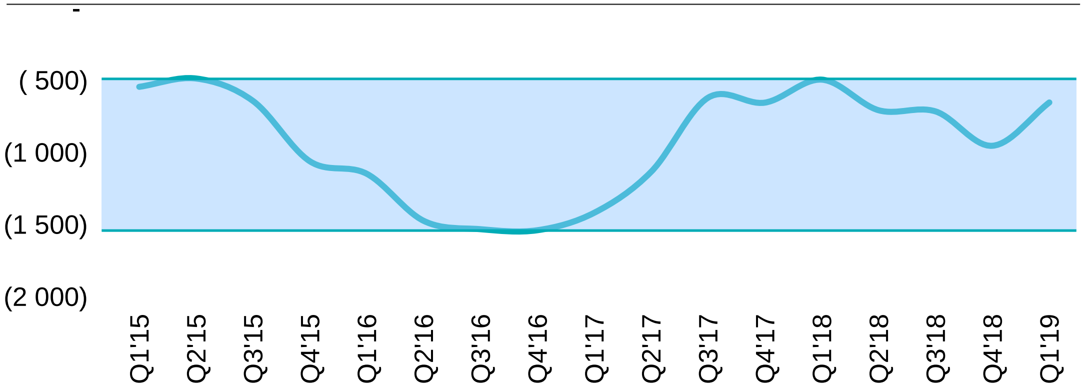
Note: All figures include Kvaerner's scope of work of jointly controlled entities

Cash flow and working capital development

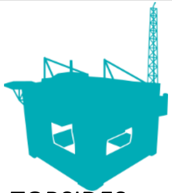
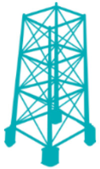
Amounts in NOK million	Q1 2019	Q4 2018	Q1 2018	FY 2018
Cash flow from operating activities	(208)	370	(14)	719
Cash flow from investing activities	(69)	(126)	(26)	(335)
Cash flow from financing activities	(17)	(15)	(2)	(29)
Translation adjustments	6	7	(5)	(4)
Net increase/(decrease) in cash and bank deposits	**(288)**	**236**	**(46)**	**352**

- Negative working capital of NOK 649 million
- Fluctuations in working capital must be expected
- Capital tied up in the Nordsee Ost project

Net current operating assets (NCOA) – Continuing operations
(NOK million)



Market and outlook

Traditional segments	Growth segments
 TOPSIDES  FLOATERS  CONCRETE  JACKETS	 DECOMMISSIONING & RE-USE / RECYCLING  UPGRADING & MODIFICATION  ONSHORE PROCESS PLANTS  MARINE OPERATIONS  OFFSHORE WIND


Njord A semisubmersible:
Upgrade production platform

Marine operations for
platform removal, Canada

Husnes aluminium:
Upgrade onshore plant

Hywind Tampen:
FEED for offshore wind power

Statfjord A: Decommissioning and recycling

Statfjord A topside out of dock at Stord 1976

- Statfjord A: Topside and concrete GBS delivered in the 1970's by today's Kvaerner
- Life cycle perspective: ~ 98% recycling
- 48 000 tonnes topside: Largest decom and recycling project at NCS

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EPCI expertise will benefit wind power market

CONVERTER PLATFORMS

EPCI contractor for converter platforms

CONCRETE GBS FOUNDATIONS

Gravity based wind turbine foundations in concrete

STEEL JACKET SUBSTRUCTURES

Steel jackets and tripods for offshore wind turbines

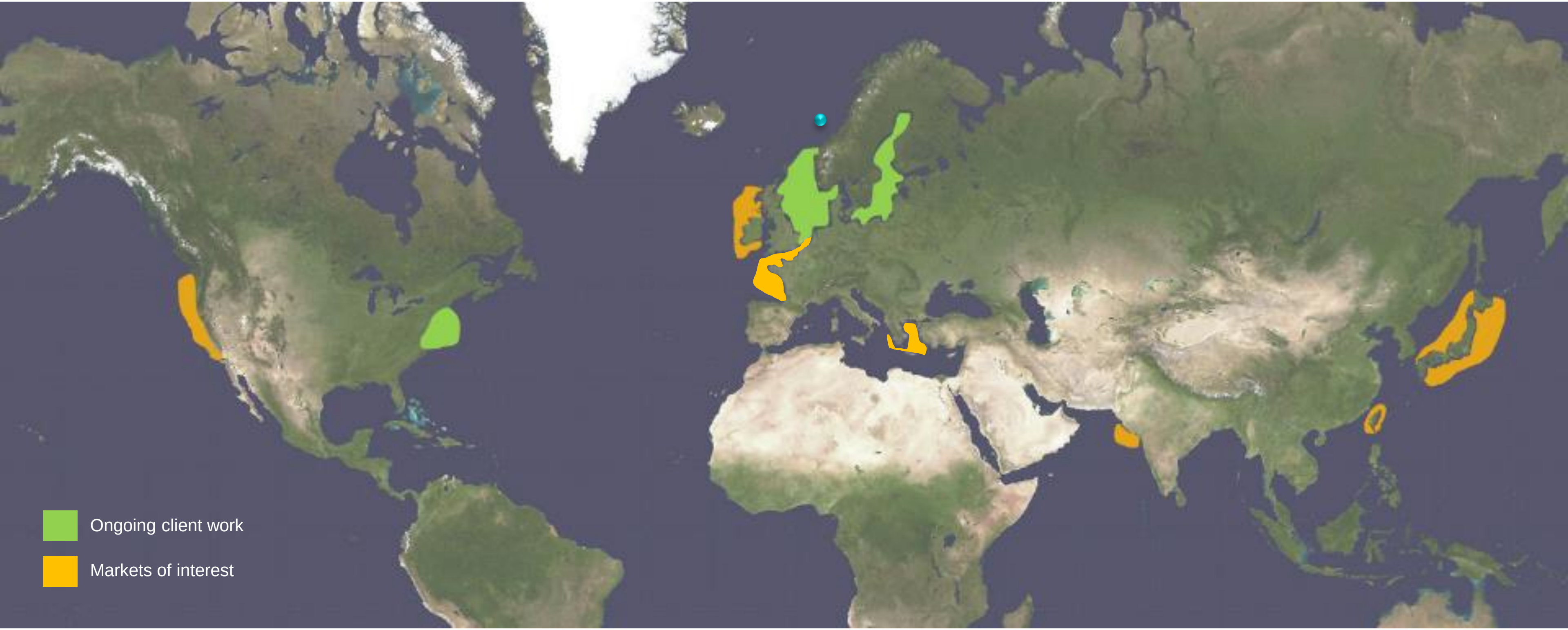
FLOATING FOUNDATIONS

Steel or concrete floating substructures

MARINE OPERATIONS

In-house marine operations

Offshore windpower prospects



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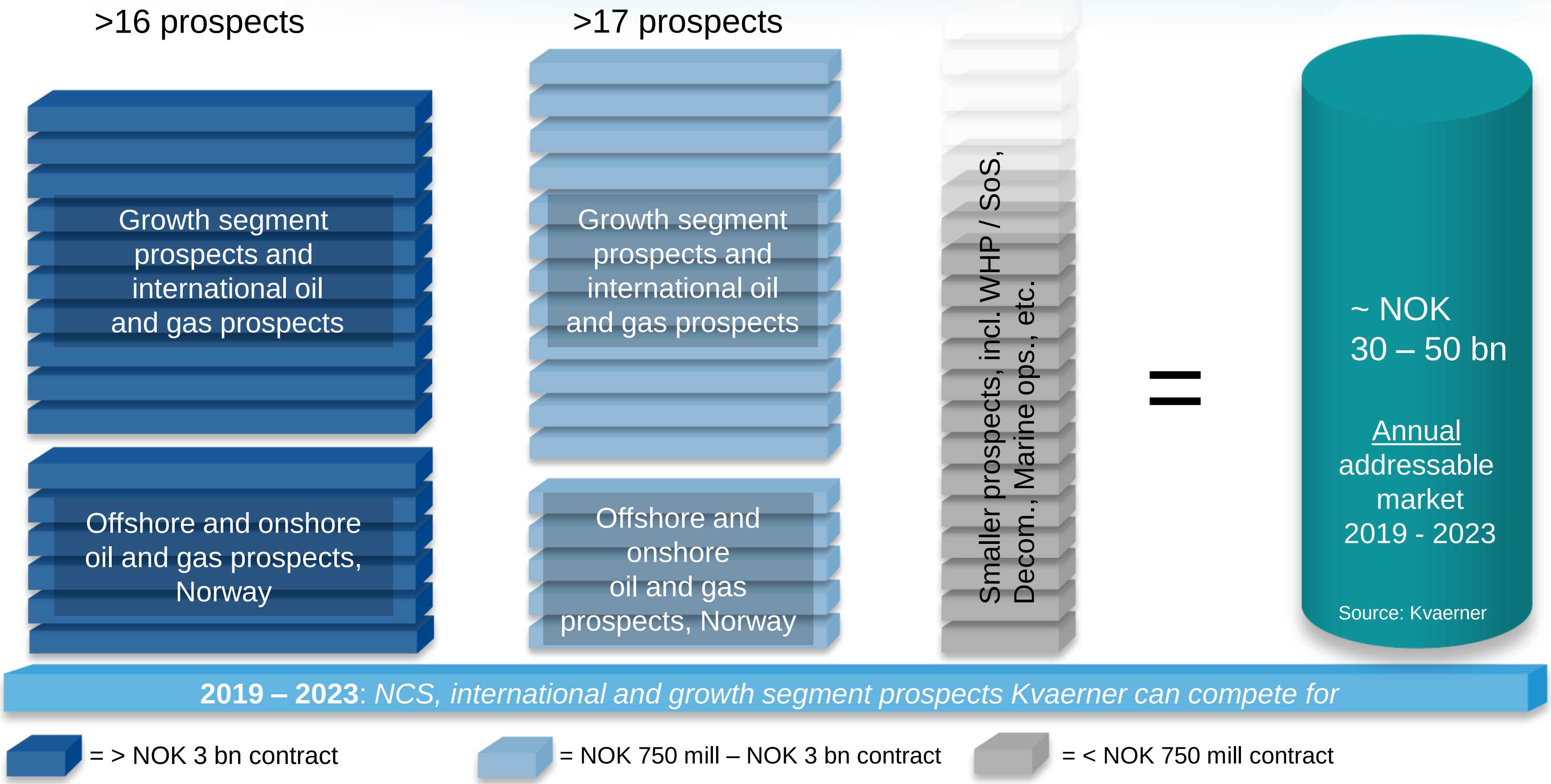
Exciting market opportunities for a contractor with competitive power



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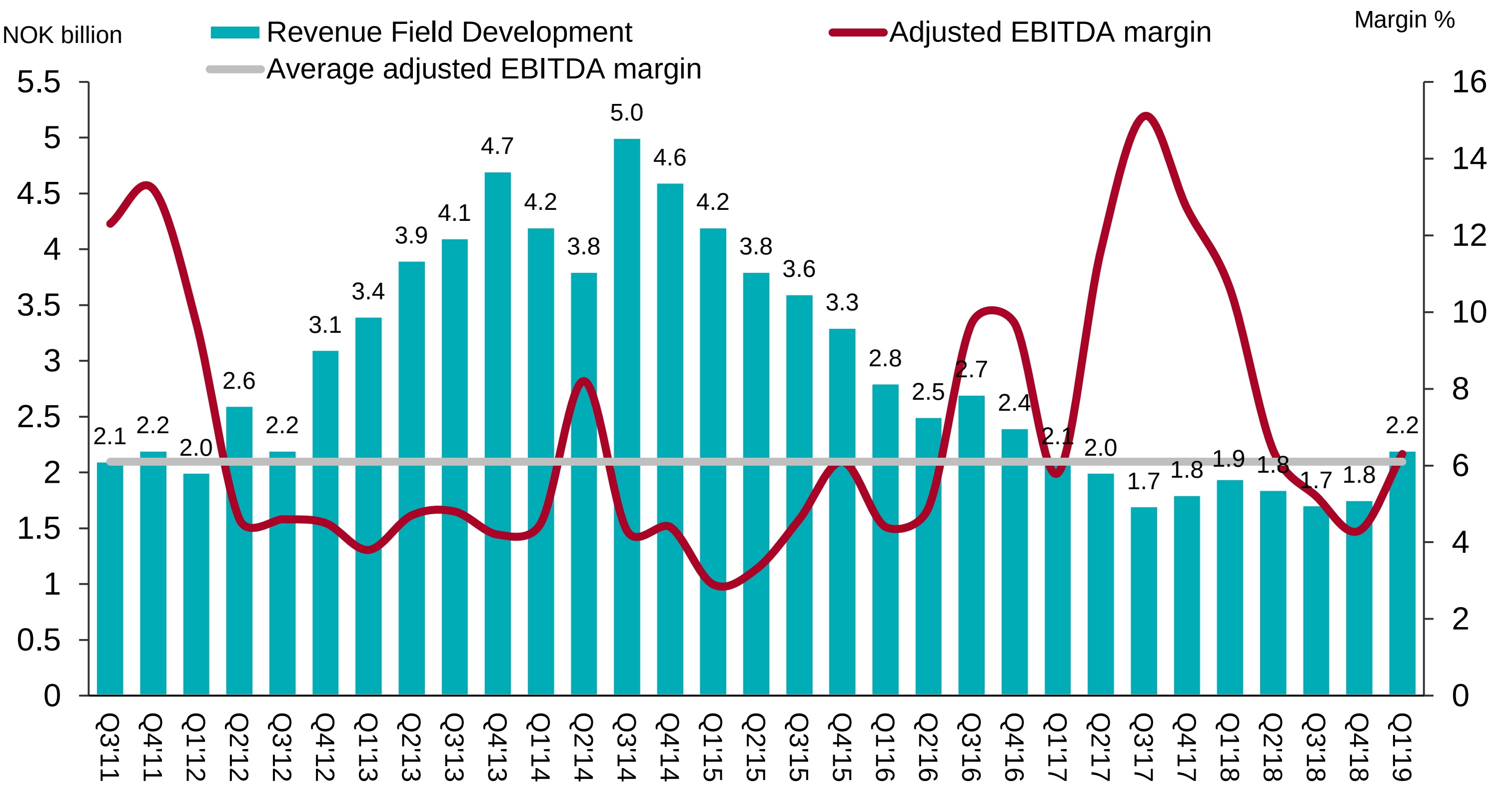
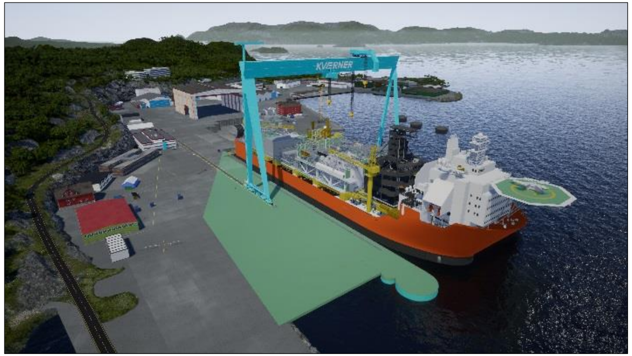
Market opportunities transformed to predictable deliveries 31 quarters in a row



Yard development positioning Kvaerner for the future

Development progressing on time and budget

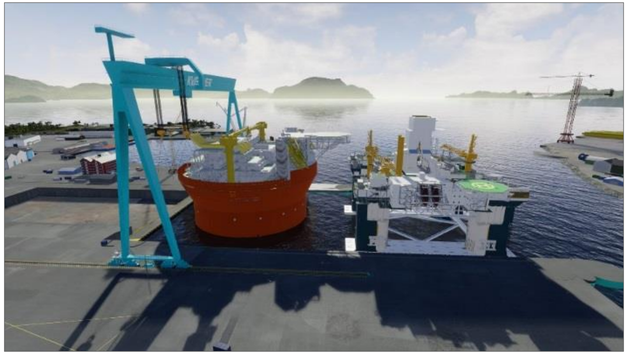
FPSO construction and integration



Module off and on-loading (BOKA Vanguard)

Modifications (Njord x2)

FPSO + Modifications (Sevan 1000 + Njord)



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A clear strategic direction for growth

Increased market share at NCS

1

Growth in selected international markets

2

Increased business in growth segments

3

Fundamentals for success:

a) HSSE: best in class
b) Increased productivity, reduced costs
c) Effective delivery models
d) Competence profile fit for upcoming market

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1Q19 summary

- Operations and results on track
- Robust financial platform
- Improved market outlook, positioning for key prospects
- Revenues for full year 2019 expected to grow to >NOK 8 billion (Field Development segment)

Way forward

- Execute projects safely and predictably
- Further improve competitiveness
- Maintain home markets, develop growth segments and increase international business
- Develop products and consider structural growth opportunities

Outlook 2019 per 1Q19

- Kvaerner sees an improved market and more customers considering new projects. During 2019, it is expected that several key prospects will pass important decision gates and move further towards project sanctioning and project execution. The company anticipates that potential contract awards for near term larger contracts will mostly come in 2020 and 2021.

- The market in and around Norway will continue to be important, but several key prospects are also in international regions.

- For 2019, the full year gross revenue is expected to be above NOK 8 billion. CAPEX level for 2019 is expected to be about NOK 300 million.

- The working capital level is expected to increase somewhat during 2019.

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Appendix first quarter results 2019

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Income statement

Amounts in NOK million	Q1 2019	Q4 2018	Q1 2018	FY 2018
Total revenue and other income [1]	2 119	1 715	1 913	7 220
Operating expenses	(1 990)	(1 638)	(1 721)	(6 783)
EBITDA	**129**	**77**	**193**	**437**
Depreciation and amortisation	(41)	(29)	(26)	(110)
EBIT	**88**	**49**	**167**	**327**
Net financial income/(expense)	(13)	33	(8)	11
Profit/(loss) before tax	**75**	**81**	**159**	**338**
Income tax expense	(17)	6	(40)	(60)
Profit/(loss) from continuing operations	**57**	**87**	**119**	**278**
Profit/(loss) from discontinued operations	**(3)**	**(2)**	**(4)**	**0**
Net profit/(loss)	**54**	**86**	**115**	**278**
EBITDA	**129**	**77**	**193**	**437**
Adjusted EBITDA [2]	***137***	***60***	***190***	***427***
Adjusted EBITDA pre IFRS 16	**122**	**60**	**190**	**427**
Adjusted EBITDA margin	6.5 %	3.5 %	10.0 %	5.9 %
Adjusted EBITDA pre IFRS 16 margin	5.8 %	3.5 %	10.0 %	5.9 %
Earnings per share (NOK)				
Basic and diluted EPS continuing operations	0.21	0.33	0.44	1.04
Basic and diluted EPS discontinued operations	(0.01)	(0.01)	(0.01)	0.00
Basic and diluted EPS total operations	0.20	0.32	0.43	1.04

- IFRS 16 Leases
  - The standard has been implemented from 1 January 2019
  - Comparative figures are not restated
  - Impacts of the new standard are further specified in slide 31 and 32

[1] Revenues excluding Kvaerner's scope of work of jointly controlled entities.
[2] Adjusting impact related to embedded derivatives in jointly controlled entities closely related to Kvaerner's operating activities.

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Segment information first quarter

Amounts in NOK million	Field Development		Group activities and eliminations		Consolidated	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Construction contracts	1 618	1 251	-	-	1 618	1 251
Services revenue	279	382	-	-	279	382
Revenue/share of result from joint ventures	208	244	(164)	(216)	44	28
Other revenue	53	68	121	182	174	250
Revenue from contracts with customers	**2 158**	**1 944**	**(43)**	**(34)**	**2 115**	**1 910**
Lease revenue	-	-	4	4	4	4
Gain on sale of assets	0	-	-	-	0	-
Internal revenue	0	0	(0)	(0)	-	-
Total revenue and other income	**2 158**	**1 944**	**(39)**	**(31)**	**2 119**	**1 913**
Adjusted EBITDA [1]	**137**	**205**	**0**	**(15)**	**137**	**190**
EBITDA	**137**	**205**	**(7)**	**(13)**	**129**	**193**
Depreciation and amortisation	(29)	(26)	(12)	-	(41)	(26)
EBIT	**108**	**179**	**(20)**	**(13)**	**88**	**167**
Net current operating assets [2]	(724)	(660)	75	169	(649)	(491)

[1] *Adjusting impact related to embedded derivatives in jointly controlled entities closely related to Kvaerner's operating activities.*
[2] *Onerous lease provisions, previously included in NCOA, are from 2019 reported as part of Right-of-use assets (IFRS 16). This increased NCOA by NOK 33 million at 1 January 2019.*

- Following sale of Kvaerner's onshore construction business in North America in 2013, Kvaerner only has one reportable segment; Field Development
- The Field Development segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's activities

Segment information full year 2018

Amounts in NOK million	Field Development FY 2018	Group activities and eliminations FY 2018	Consolidated FY 2018
Construction contracts	4 811	-	4 811
Services revenue	1 272	-	1 272
Revenue/share of result from joint ventures	898	(706)	192
Other revenue	267	658	925
Revenue from contracts with customers	**7 248**	**(48)**	**7 200**
Lease revenue	-	14	14
Gain on sale of assets	6	-	6
Internal revenue	0	(0)	-
Total revenue and other income	**7 253**	**(34)**	**7 220**
Adjusted EBITDA [1]	**487**	**(60)**	**427**
EBITDA	**487**	**(51)**	**437**
Depreciation and amortisation	(110)	-	(110)
EBIT	**377**	**(51)**	**327**
Net current operating assets	(885)	(64)	(949)

[1] *Adjusting impact related to embedded derivatives in jointly controlled entities closely related to Kvaerner's operating activities.*

- Following sale of Kvaerner's onshore construction business in North America in 2013, Kvaerner only has one reportable segment; Field Development
- The Field Development segment reporting includes Kvaerner's share (proportionate consolidation) of jointly controlled entities closely related to Kvaerner's activities

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Discontinued operations

Amounts in NOK million	Q1 2019	Q1 2018	FY 2018
Total revenue and other income	-	-	-
Administrative and legal expenses	(3)	(2)	(1)
EBIT	**(3)**	**(2)**	**(1)**
Net financial income/(expense)	(0)	(2)	2
Profit/(loss) before tax	**(3)**	**(4)**	**1**
Income tax income/(expense)	-	0	(1)
Profit/(loss) from discontinued operations	**(3)**	**(4)**	**0**
Basic and diluted earnings/(losses) per share (NOK)	(0.01)	(0.01)	0.00
Net assets	**(32)**	**(33)**	**(34)**

- Full year 2018 results reflecting insurance settlements in Q2 2018

Amounts in NOK million	Q1 2019	Q1 2018	FY 2018
Cash flow from operating activities	(5)	(4)	(6)
Cash transferred (to)/from parent	7	2	1
Translation adjustments	(0)	(2)	2
Net increase/(decrease) in cash and bank deposits	**2**	**(4)**	**(3)**
Cash at the beginning of the period	28	31	31
Cash at the end of the period	**30**	**27**	**28**

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Financial items

Amounts in NOK million	Q1 2019	Q1 2018	FY 2018
Net interest income/(expense) pre IFRS 16	3	1	6
Interest expense on lease liabilities	(4)	-	-
Profit/(loss) on foreign currency contracts	0	0	(0)
Foreign currency embedded derivatives impact	(12)	(7)	7
Net foreign exchange gain/(loss)	0	(0)	2
Other financial items, net	(2)	(1)	(4)
Net financial income/(expense)	**(13)**	**(8)**	**11**

Cash flow

Amounts in NOK million	Q1 2019	Q1 2018	FY 2018
Profit before tax continuing operations	75	159	338
Profit before tax discontinued operations	(3)	(4)	1
Profit/(loss) before tax total operations	**71**	**154**	**339**
Depreciation, amortisation and impairment	41	26	110
Taxes (paid)/refund	(1)	(10)	(10)
Other cash flow from operating activities	(319)	(184)	281
Cash flow from operating activities	**(208)**	**(14)**	**719**
Capital expenditure	(70)	(26)	(334)
Other cash flow from investing activities	1	-	(1)
Cash flow from investing activities	**(69)**	**(26)**	**(335)**
Interest portion on lease liabilities	(12)	-	-
Principle portion on lease liabilities	(4)	-	-
Other cash flow from financing activities	(2)	(2)	(29)
Cash flow from financing activities	**(17)**	**(2)**	**(29)**
Translation adjustments	6	(5)	(4)
Net increase/(decrease) in cash and bank deposits	**(288)**	**(46)**	**352**
Cash at the beginning of the period	3 165	2 812	2 812
Cash at the end of the period	**2 877**	**2 766**	**3 165**

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Balance sheet - Assets

Amounts in NOK million	31.03.2019	31.03.2018	31.12.2018
Assets			
Non-current assets			
Property, plant and equipment	989	798	967
Right-of-use assets (IFRS 16)	248	-	-
Intangible assets	728	651	710
Investments in associates and jointly controlled entities	110	35	69
Other non-current assets	7	7	7
Total non-current assets	**2 082**	**1 492**	**1 753**
Current assets			
Trade and other receivables	1 831	1 637	1 402
Prepaid company tax	0	15	-
Total cash and bank	2 877	2 766	3 165
Retained assets of business sold	1	0	0
Total current assets	**4 709**	**4 419**	**4 567**
Total assets	**6 791**	**5 911**	**6 320**

- Trade and other receivables at end of Q1 2019 includes contract assets of NOK 593 million

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Balance sheet – Equity and liabilities

Amounts in NOK million	31.03.2019	31.03.2018	31.12.2018
Equity and liabilities			
Equity			
Share capital	91	91	91
Share premium	729	729	729
Retained earnings	2 767	2 546	2 710
Other reserves	(95)	(76)	(91)
Total equity	**3 492**	**3 289**	**3 439**
Non-current liabilities			
Non-current lease liabilities (IFRS 16)	236	-	-
Deferred tax liabilities	283	265	265
Employee benefit liabilities	219	195	229
Total non-current liabilities	**738**	**460**	**494**
Current liabilities			
Current lease liabilities (IFRS 16)	47	-	-
Trade and other payables	2 325	1 858	2 118
Tax liabilities	1	0	0
Provisions	156	270	233
Retained liabilities of business sold	32	33	35
Total current liabilities	**2 561**	**2 161**	**2 386**
Total equity and liabilities	**6 791**	**5 911**	**6 320**

- Trade and other payables at end of Q1 2019 includes contract liabilities of NOK 344 million

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Basis for preparation

- *Accounting principles*
  - The accounting principles applied in these condensed consolidated interim financial statements are the same as those applied in the Annual accounts 2018 except the implementation of new financial reporting standards as indicated below. Reference is also made to annual accounts 2018 note 2, discussing the new standards and potential impacts to the accounts

  - IFRS 16 Leases
    - The group adopted IFRS 16 as from 1 January 2019. There were no transition impacts on equity on transition date
    - The new standard significantly changes how Kvaerner's lease contracts are accounted for
    - Kvaerner has elected to apply the modified retrospective approach (with practical expedients) at the date of initial application; 1 January 2019, with no restatement of comparable periods

IFRS 16 – impacts of new standard

Impacts on transition

Amounts in NOK million	Annual report 2018	Revised
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	424	424
Discounted using the incremental borrowing rate at 1 January 2019	372	372
Recognition exemptions for:		
Short term leases	(35)	(35)
Leases of low-value assets	(57)	(57)
Extension and termination options reasonably certain to be exercised	4	4
Price adjustments		1
New lease contracts		10
Lease liabilities recognised at 1 January 2019	283	295
Weighted-average discount rate (incremental borrowing rate)	*5 %*	*5 %*
Right-of-use assets equal to liability	283	295
Onerous lease provision	(33)	(33)
Provision for office upgrades	(2)	(2)
Right-of-use assets adjusted by amounts of provisions at 1 January 2019	248	260

Actual and expected effects on income statement

Amounts in NOK million	Q1 2019	FY 2019 Annual report 2018	FY 2019 Revised
EBITDA	15	58	60
Depreciation of right-of-use assets	(12)	(47)	(49)
Interest expense on lease liabilities	(4)	(13)	(14)

- Earnings before interest, taxes, depreciation and amortisation (EBITDA) increases following implementation of IFRS 16, as lease payments are presented as depreciation and finance cost rather than operating expense
- Cash flow from operating activities will increase and cash flow from financing activities will decrease as the interest portion paid for the lease liability and the principle portion of the lease payments will be presented within financing activities
- New lease contracts, lease modifications and re-assessments of onerous leases and contract options could change the impacts on the group financials

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Alternative performance measures

Kvaerner discloses alternative performance measures in addition to those normally required by IFRS. Kvaerner believes that the alternative performance measures provide useful supplemental information to management, investors, security analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Kvaerner's business operations and to improve comparability between periods. Order intake and backlog are indicators of the company's revenues and operations in the future

Profit measures

- **EBITDA** is short for Earnings before Interest, Taxes, Depreciation and Amortisation and is term commonly used by analysts and investors
- **Adjusted EBITDA** Earnings before Interest, Taxes, Depreciation and Amortisation excluding impact of embedded foreign currency derivatives reported in jointly controlled entities closely related to Kvaerner's operating activities
- **Adjusted EBITDA pre IFRS 16** Adjusted EBITDA excluding impact of IFRS 16 Leases. Lease expenses for leases recognised in the balance sheet are included as operating cost
- **Adjusted EBITDA margin** is used to compare relative profit between periods. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue
- **Adjusted EBITDA pre IFRS 16 margin** is used to compare relative profit between periods. Adjusted EBITDA margin is calculated as Adjusted EBITDA pre IFRS 16 divided by revenue

Alternative performance measures

Order intake measures

- **Order intake** represents expected revenue from contracts entered into in period or growth in existing contracts
- **Order backlog** represents remaining expected revenue from contracts entered into as per reporting date

Financing measures

- **Net current operation assets (NCOA)** Kvaerner's measure of net working capital, defined as Trade and other receivables less Trade and other payables and Provisions
- **Net interest bearing deposits and loans** Kvaerner's measure of net interest bearing debt, defined as interest bearing receivables and cash and bank less interest bearing liabilities
- **Equity ratio** is calculated as total equity divided by total assets

In the below tables it is shown how certain of the above measures are derived from the IFRS consolidated financial statements:

Amounts in NOK million	Q1 2019	Q1 2018	FY 2018
EBITDA	129	193	437
Adjustment for equity accounted investees [1]	8	(2)	(9)
Adjusted EBITDA	**137**	**190**	**427**
Lease expenses	(15)	-	-
Adjusted EBITDA pre IFRS 16	**122**	**190**	**427**

[1] *Excluding embedded derivatives' impact reported.*

Amounts in NOK million	31.03.2019	31.03.2018	31.12.2018
Trade and other receivables	1 831	1 637	1 402
Trade and other payables	(2 325)	(1 858)	(2 118)
Provisions [1]	(156)	(270)	(233)
Net current operating assets (NCOA)	**(649)**	**(491)**	**(949)**
Total cash and bank	2 877	2 766	3 165
Net interest bearing deposits and loans excluding lease liabilities from IFRS 16	**2 877**	**2 766**	**3 165**
Non-current lease liabilities (IFRS 16)	(236)	-	-
Current lease liabilities (IFRS 16)	(47)	-	-
Net interest bearing deposits and loans	**2 594**	**2 766**	**3 165**

[1] *Onerous lease provisions, previously included in NCOA, are from 2019 reported as part of Right-of-use assets (IFRS 16). This increased NCOA by NOK 33 million at 1 January 2019.*

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