# 2nd quarter results 2011

12 August 2011

# KVÆRNER ASA - SECOND QUARTER RESULTS 2011

## HIGHLIGHTS

- Kvaerner listed on Oslo Børs 8 July 2011
- Financing successfully completed
- Gudrun jacket delivered on schedule and successfully installed
- Kashagan Hook-up project reached completion milestone and demobilisation started in June

## FINANCIALS

- Revenues of NOK 3 947 million reflecting very high activity, especially in the North Sea and International business areas
- EBITDA of NOK 192 million giving an EBITDA margin of 4.9%
- Net cash of NOK 1 773 million

## FINANCIAL KEY FIGURES

| NOK million | Q2 2011 | Q2 2010 | YTD 2011 | YTD 2010 | 2010 |
|---|---|---|---|---|---|
| Operating revenues | 3 947 | 2 842 | 7 669 | 6 040 | 13 209 |
| EBITDA | 192 | (35) | 656 | 246 | 488 |
| EBITDA margin | 4.9% | (1.2)% | 8.6% | 4.1% | 3.7% |
| EBIT | 180 | (48) | 632 | 220 | 434 |
| Net profit | 22 | (19) | 343 | 151 | 74 |
| Earnings per share (EPS) | 0.08 | (0.07) | 1.28 | 0.56 | 0.28 |
| Order intake | 1 607 | 2 034 | 8 656 | 3 668 | 9 187 |
| Order backlog | 13 296 | 16 007 | 13 296 | 16 007 | 12 435 |
| Net current operating assets (NCOA) | (1 264) | (947) | (1 264) | (947) | (1 064) |
| Net cash | 1 773 | 2 948 | 1 773 | 2 948 | 3 034 |

## FINANCIAL REVIEW

### Income statement

Operating revenues in the second quarter amounted to NOK 3 947 million, compared with NOK 2 842 million for the second quarter 2010. This represents an increase of 38.9 percent, or NOK 1 105 million. The large increase in operating revenues is a reflection of the high activity in the Upstream segment during the quarter. Generally, the activity in Kvaerner will fluctuate over the quarters depending on the phasing of projects and the project portfolio mix. This is the nature of the EPC business.

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) for the second quarter 2011 ended at NOK 192 million, an increase of NOK 227 million compared to negative NOK 35 million in the same quarter last year. As a result the EBITDA margin for the second quarter 2011 was 4.9 percent compared to negative 1.2 percent in the corresponding period in 2010. The EBITDA for the second quarter is affected by the Blind Faith arbitration ruling. The ruling resulted in a recordable loss of NOK 165 million in the second quarter 2011, of which the net cash effect was NOK 42 million negative for the same quarter. In addition Kvaerner has made a further loss provision of USD 50 million (NOK 278 million) in respect of the Longview project in the second quarter. For both the Longview and Blind Faith projects, the financial effect is a result of a reversal of previously recognised revenues. Adjusted for the effects of Longview and Blind Faith, Kvaerner had an EBITDA of NOK 635 million for the second quarter 2011.

Kvaerner reported operating revenues of NOK 7 669 million for the first half year 2011, compared with NOK 6 040 million in the same period last year. The large increase in revenues year to date is a direct consequence of high activity in the Upstream segment. EBITDA for the first half year 2011 amounted to NOK 656 million, resulting in an EBITDA margin of 8.6 percent compared to 4.1 percent in the first half year of 2010.

Net financial items for the second quarter ended at negative NOK 3 million compared to NOK 5 million in the same period in 2010. The financial expenses in the quarter are affected by unrealised currency losses. For the first half year 2011, net financial items amounted to negative NOK 4 million, a decrease of NOK 12 million compared to the same period in 2010. Going forward financial expenses will be affected by a NOK 50 million fee for the established loan facilities. This fee will be distributed over the duration of the loan facilities.

Profit before tax for the second quarter 2011 was NOK 177 million, an increase of NOK 220 million compared to negative NOK 43 million for the same period last year. For the first half year 2011, profit before tax ended at NOK 628 million, up from NOK 204 million in the same period last year.

The total income tax expenses in the second quarter 2011 were NOK 155 million. This was an increase from NOK 24 million positive in the same period last year which was a result of the negative pre-tax profit in the second quarter last year. For the first half year 2011, the income tax expense ended at NOK 285 million, up from NOK 53 million in the same period last year. The effective tax rate in the second quarter 2011 was 87.6 percent. Normally the tax expenses reflect the tax rate in Norway (28 percent) and the tax rate in the US (approximately 40 percent). The effective tax rate is normally a representation of the segments' relative share of the profit before tax in the period. The effective tax rate in the quarter was exceptionally high, mainly due to no tax asset being recognised for the negative results in the Downstream & Industrials segment.

The net profit in the second quarter of 2011 was NOK 22 million, an increase of NOK 41 million from negative NOK 19 million in the second quarter last year. For first half year 2011, the net profit was NOK 343 million, compared with NOK 151 million for the same period in 2010.

### Cash flow

Net cash flow from operating activities was negative NOK 35 million in the second quarter compared to NOK 831 million in the first quarter of 2011. The large decline in cash flow from operating activities in the quarter is partly a result of lower EBITDA in the period and change in net current operating assets (NCOA). Kvaerner has recorded a marginal increase of NOK 72 million in net current operating assets during the quarter, compared to a decrease of NOK 262 million from fourth quarter 2010 to first quarter 2011.

Net cash outflow from investing activities in the second quarter 2011 was NOK 64 million, compared to a net cash outflow from investing activities of NOK 42 million for the previous quarter. Capital expenditures in the second quarter 2011 were NOK 47 million compared to NOK 26 million in the first quarter this year. The increased capital expenditure relates to the paint shop and construction of new assembly site for wind jackets at the Kvaerner Verdal yard. Capital expenditures for the first half year 2011 were NOK 73 million compared with NOK 5 million for the same period 2010.

Net cash flow from financing activities ended at negative NOK 1 533 million, down from NOK 4 million in the first quarter 2011. The reduction is related to settlement of inter-company positions, including group contribution to Aker Solutions and dividends settled in cash prior to the consummation of the Demerger.

### Balance sheet

Net cash amounted to NOK 1 773 million at the end of second quarter 2011, compared to NOK 3 903 million reported at the end of the first quarter 2011. The reduction is mainly caused by repayment of all inter-company funding from Aker Solutions.

Net current operating assets (NCOA) of negative NOK 1 264 million as at 31 June 2011 are reflecting an NCOA of negative NOK 1 704 million in the Upstream segment and NOK 463 million in the Downstream & Industrials segment. The unusually high NCOA in Downstream & Industrials is caused by capital tied up in the Longview project.

The equity ratio at the end of the second quarter was 28.2 percent compared to 24.3 percent at the end of first quarter 2011.

Kvaerner finalised the financing with three fully underwriting banks; Nordea, SEB and DnB NOR for NOK 3 000 million multi currency credit facilities. The facilities were signed on attractive terms and are split in two loans:

i) a NOK 500 million term loan for 3 year with a margin of 1.5% above NIBOR, expected to be drawn during the third quarter 2011.

ii) a NOK 2 500 million credit facility for 5 year with a margin of 2.1 to 2.5% which has been syndicated with eight banks; DnB NOR Bank ASA, Nordea Bank Norge ASA, SEB, Barclays Corporate, ING, Svenska Handelsbanken, Swedbank AB, Fifth Third Bank joining the facility.

The facilities agreement includes financial covenants:

- gross debt to equity
- gross debt to net current operating assets and cash and cash equivalents
- interest cover

The facilities have been established in order to have a robust financial position to handle unexpected negative fluctuations in the working capital, to secure necessary financial guarantees for new, large projects and to finance future expansion.

Thus, the company has a healthy financial position.

### Order activity

The order intake in the second quarter totalled NOK 1 607 compared to NOK 2 048 million in the second quarter 2010. The largest contract booked in the quarter was the contract for installation of the V & M seamless pipe mill in Youngstown, Ohio for V&M Star LLP. At 30 June, the order backlog amounted to NOK 13 296 million, a decrease of NOK 2 380 million from 31 March 2011. The order intake for the first half year 2011 was NOK 8 656 million compared with NOK 3 668 million for the same period in 2010.

## OPERATIONAL REVIEW

The business of Kvaerner is for reporting purposes organised in two segments: Upstream and Downstream & Industrials. The Upstream segment includes four different business areas: North Sea, Jackets, Concrete, and International. The Downstream & Industrials segment comprises the business area Engineering & Construction (E&C) Americas. 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.

### Health, Safety and Environment

In Kvaerner, concern for health, safety and the environment (HSE) is a core value. This HSE mindset, symbolised by its “Just Care” HSE operating system is founded on the belief that all incidents can be prevented. The HSE operating system provides a set of elements that are critical for effective HSE management, a set of expectations for the Kvaerner business for each of these elements, and a collection of enabling arrangements that can be used to fulfil the HSE expectations. The “Just Care” program is supported by a number of corporate HSE standards.

Through the implementation and use of the HSE operating system, the Kvaerner Group has established:

- A systematic approach to improvement towards a common set of HSE expectations.
- More efficient HSE interfaces, internally and externally.
- Measurements of HSE compliance and culture.
- A tool for increasing employee engagement and achieving an HSE culture where zero is sustainable.

Most regrettably we had one fatal accident during the second quarter. On 9 June, an employee died as a result of a fall on the Sakhalin-1 project site in Vostochny, Russia. The accident has been investigated and the cause of the incident has been identified.  The HSE practices are found to be in good order on the project. However, we recognise that the last barrier for our HSE work is the individual worker. Recommendations from the investigation team are now implemented to further enhance the safety regime at site to prevent such incidents in the future.

*HSE performance*

The table below sets forth details of the injury frequency

| (per mill worked hours, incl. subcontractors) | **Q2 11** | **Q1 11** | **2010** |
|---|---|---|---|
| Lost time incident frequency (LTIF) | 0.42 | 0.18 | 1.13 |
| Total recordable incidents (TRIF) | 2.65 | 2.21 | 3.27 |

**The Upstream segment**

| Amounts in NOK million | Q2 11 | Q2 10 | YTD 2011 | YTD 2010 | 2010 |
|---|---|---|---|---|---|
| Operating revenues | 3 600 | 1 739 | 6 659 | 3 884 | 9 192 |
| EBITDA | 554 | 29 | 1 030 | 262 | 928 |
| EBITDA margin | 15.4% | 1.7% | 15.5% | 6.7% | 10.1% |
| Net current operating assets | (1 704) | (904) | (1 704) | (904) | (1 373) |
| Order intake | 1 068 | 995 | 8 023 | 2 337 | 6 518 |
| Order backlog | 11 738 | 10 648 | 11 738 | 10 648 | 10 376 |
| Employees | 3 215 | 2 101 | 3 215 | 2 101 | 2 063 |

The Upstream segment includes four different business areas: North Sea, Jackets, Concrete, and International

*Financials*

Operating revenues from the Upstream segment totalled NOK 3 600 million, or an increase of NOK 1 861 million from NOK 1 739 compared to the same quarter last year. The increase reflects an unusual high activity within some of the business areas.

Second quarter 2011 EBITDA was NOK 554 million compared to NOK 29 million in the second quarter 2010. The EBITDA margin for the quarter was 15.4 percent compared to 1.7 percent for the corresponding period last year. The EBITDA margin will fluctuate with the phasing of projects and the project portfolio mix. In the second quarter last year, Kvaerner experienced challenges on some of its ongoing projects. During the last three quarters, the earnings have been impacted positively by very high activity on international projects.

*Order intake*

The order intake in the second quarter was NOK 1 068 million compared to NOK 995 million in the second quarter 2010. The order intake mainly consists of growth in existing contracts.

*Operations*

The Jackets business area reported high activity having been awarded several contracts in 2010. The Gudrun jacket was delivered on schedule 1 July. This jacket was number 35 in the series of jackets delivered from the yard in Verdal.

In the Concrete business area, FEED and site preparation for the Hebron Gravity Based Structure (GBS) project located 350 kilometres offshore from St. John's, in Newfoundland and Labrador, Canada awarded in November 2010, is ongoing. An important milestone on Sakhalin-1 was reached as slip forming of shafts was completed in the second quarter.

The North Sea business area experienced high activity on the Skarv FPSO as the client extended the work to include a complete high pressure system leak testing and to maximise onshore commissioning within the second quarter. The in-shore scope was completed in early August.

Activity in the International business area was at the same high level as in the previous quarter, as the activity on the Kashagan Hook-up project was at peak most of the quarter. The project started demobilising all offshore personnel in June and is currently demobilising the onshore base. Thus, the activity level in the Upstream segment will be substantially reduced in the second half of the year.

*Market*

The upstream EPC (engineering, procurement and construction) market is fuelled by a strong underlying demand growth for energy, requiring and justifying increased capital spending on developing oil and gas fields. The growth in capital spending is further supported by an increasing complexity of new field developments. The market is sensitive to oil companies' exploration and production spending and hence the prices of oil and natural gas.

New development projects are expected to be awarded during the next year, both in the North Sea and internationally. In the long term, a number of field developments are still expected worldwide which represents interesting opportunities for Kvaerner.

There is a tightening market for engineering services. Kvaerner has both internal engineering resources and agreements with external parties for specific projects. In addition, Kvaerner is actively recruiting new resources in parallel to further build capacity for future projects.

Kvaerner will leverage its strong track record on the Norwegian Continental Shelf (NCS) and the United Kingdom Continental Shelf (UKCS) to position ourselves and win international contracts going forward through the establishment of joint ventures and cost effective delivery models.

Within concrete solutions, we see an increase in demand due to more oil and gas developments in Arctic areas and harsh environments. Kvaerner holds an excellent position within this segment on a global level. Kvaerner also see a stable market opportunities for jackets ahead with several opportunities both in the North Sea and internationally.

**The Downstream & Industrials segment**

| Amounts in NOK million | Q2 11 | Q2 10 | YTD 2011 | YTD 2010 | 2010 |
|---|---|---|---|---|---|
| Operating revenues | 345 | 1 112 | 1 018 | 2 180 | 4 049 |
| EBITDA | (300) | (64) | (297) | (16) | (440) |
| EBITDA margin | (87.0)% | (5.8)% | (29.2)% | (0.7)% | (10.9)% |
| NCOA | 463 | (43) | 463 | (43) | 309 |
| Order intake | 537 | 1 053 | 641 | 1 351 | 2 701 |
| Order backlog | 1 558 | 5 356 | 1 558 | 5 356 | 2 059 |
| Employees | 387 | 494 | 387 | 494 | 414 |

The Downstream & Industrials segment comprises the business area E&C Americas.

*Financials*

Downstream & Industrials had operating revenues of NOK 345 million in the second quarter, a decrease of NOK 767 million compared to the same quarter last year. The low revenues in the quarter are reflecting a NOK 278 million revenues reversal on the Longview project. Both the EPC Centre Houston and the Union Construction businesses recorded reduced revenues in the quarter as major EPC projects were in the final stages of execution and the segment experienced a limited intake of new projects. The activity level is relatively low in the segment and both businesses are focusing hard on winning new work.

Second quarter 2011 EBITDA was negative NOK 300 million compared to negative NOK 64 million in the second quarter 2010. The EBITDA margin for the quarter was negative 87.0 percent compared to negative 5.8 percent for the corresponding period last year. The negative EBITDA reflects a further loss provision of USD 50 million on the Longview project as a result of the recent developments in the project and the strained commercial relation between the various parties to the project. Adjusted for the provision and legal costs on the Longview project, the Downstream & Industrials business was breaking even in the quarter.

Kvaerner was at the end of June informed that Longview Power LLC (Longview), the owner of the Longview project, had issued a demand for payment under a letter of credit supplied by Kvaerner for the project. Kvaerner North American Construction Inc. (a subsidiary of Kvaerner following consummation of the Demerger of Aker Solutions) 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.

By making a further provision of USD 50 million in the second quarter 2011 in respect of the project, the risk for further losses resulting from the final settlement of the project accounts is reduced. However, there are still substantial uncertainties with respect to the final financial outcome of the project.

*Order intake*

The order intake in the second quarter was NOK 537 million compared with NOK 1 053 million in the same quarter last year. The order intake reflects some growth in existing contracts and the V&M seamless pipe mill installation project that was awarded by V&M Star LP in April.

*Operations*

Kvaerner, in concert with our partners, are now in the process of completing the Longview Power and the Gulf LNG projects. The Longview project is currently in the final commissioning phase. According to Longview's June release, the Longview plant has been generating electricity since 6 June, which was the latest in a series of key milestones marking progress toward the start of commercial operations this summer. The Longview plant's peak electrical output has already reached 580 MW of the total 695 MW generating capacity. Once commercial operations begin, Longview will be the cleanest, most efficient, and most technically advanced coal-fired power plant in the PJM Interconnection region and among the top 0.3 percent most efficient coal plants in the United States.

*Market*

Kvaerner will further develop sustainable niches and leverage current strengths in front-end engineering and design (FEED) and engineering, procurement and construction (EPC) expertise in LNG, chemical, petrochemical, oil and gas segments. The Union Construction business providing services such as general construction, maintenance and renovation services to power, steel and industrial markets throughout North America also see major North American steel producers planning several upgrades in the years to come and hence good opportunities. Kvaerner will confirm and expand its position in these segments.

### Unallocated costs

Unallocated costs, which are net corporate costs not directly attributable to the individual segments, were NOK 62 million, an increase of NOK 47 million from NOK 15 million for the first quarter 2011. The increase is mainly a result of costs associated with the listing of Kværner ASA on Oslo Børs.

## OTHER

### Stock exchange listing

Kværner ASA was successfully listed on Oslo Børs (the stock exchange in Oslo) on 8 July 2011. The listing of Kvaerner took place in conjunction with the Demerger from Aker Solutions ASA, a process that was initiated at year-end 2010. On the day of listing, every shareholder in Aker Solutions received one consideration share in Kvaerner per share in Aker Solutions resulting in a shareholder structure very similar to Aker Solutions. Since the listing on Oslo Børs, more than 21 000 trades have been performed, and more than 63 million shares have changed hands.

### Shareholder structure

The main shareholder of Kvaerner is Aker Kværner Holding AS owning 41.02 percent of the shares. Aker Kværner Holding AS is owned 70 percent by Aker ASA and 30 percent by the Norwegian Government. As of 10 August, Kvaerner had 11 276 shareholders in 68 countries.

### New Executive Vice Presidents appointed

Jan Øyri was appointed EVP Business Support in June and started his position in the beginning of August 2011. He comes from the position as Business Support group manager, Qatalum which is a 50/50 Joint Venture between Hydro and Qatar Petroleum. 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.

Kvaerner has also appointed the EVP for the International business area, and the name of the new manager will be published shortly. The filling of this position was the only remaining point in the establishing of Kvaerner's new corporate management structure.

## PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk is the ability to deliver existing contracts at the agreed time, quality, functionality and cost. Delivering projects and equipment in accordance with the contract terms and the anticipated cost framework represents a substantial risk element, which will be the most significant factor affecting Kvaerner's financial performance. Results also depend on costs, both Kvaerner's own and those charged by suppliers, and on interest expenses, exchange rates and customers' ability to pay.

Kvaerner has established guidelines and systems to manage its exposure in the financial markets. These systems cover currency, interest rate, counterparty and liquidity risks.

Kvaerner works systematically with risk management in all its business areas, and has extensive systems and procedures.

*Fornebu, 11 August 2011*

*The Board of Directors and President & CEO*
*Kværner ASA*

## 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 condensed financial statements for the six months ending 30 June 2011 with comparatives for the corresponding period of 2010 for the Kvaerner Group.

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, provided to the Board of Directors of the parent company under obligation by the group's administration and subsidiaries.

To the best of our knowledge:

- the condensed financial statements for the six months ending 30 June 2011 for the group have been prepared in accordance with all applicable accounting standards
- the information provided in the financial statements gives a true and fair portrayal of the group's assets, liabilities, profit and overall financial position as of 30 June 2011
- the first half 2011 report provides a true and fair overview of:
  - the development, profit and financial position of the group
  - important events in the accounting period as well as the most significant risks and uncertainties facing the group

Fornebu, 11 August 2011

The Board of Directors and President & CEO of Kværner ASA

Kjell Inge Røkke
Chairman

Tore Torvund
Vice 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

## KVAERNER GROUP IN FIGURES

### CONDENSED COMBINED INCOME STATEMENT

| Group summary: Amounts in NOK million | Note | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|---|
| Operating revenues | | 3 722 | 3 947 | 2 842 | 7 669 | 6 040 | 13 209 |
| Operating expenses | | (3 258) | (3 755) | (2 877) | (7 013) | (5 794) | (12 721) |
| **EBITDA** | | 464 | 192 | (35) | 656 | 246 | 488 |
| Depreciation, amortisation and impairment | | (12) | (12) | (13) | (24) | (26) | (54) |
| **Operating profit** | | 452 | 180 | (48) | 632 | 220 | 434 |
| Financial income | | 11 | 14 | 11 | 25 | 15 | 47 |
| Financial expenses | | (12) | (19) | (5) | (31) | (29) | (60) |
| Profit from associated companies and jointly controlled entities | | (1) | - | (4) | (1) | (4) | (11) |
| Profit (+) / loss (-) on foreign currency forward contracts | | 1 | 2 | 3 | 3 | 2 | (6) |
| **Profit / loss before tax** | | 451 | 177 | (43) | 628 | 204 | 404 |
| Income tax benefit (expense) | | (130) | (155) | 24 | (285) | (53) | (330) |
| **Net profit** | | 321 | 22 | (19) | 343 | 151 | 74 |
| | | | | | | | |
| **Attributable to:** | | | | | | | |
| Equity holders of Kværner ASA | | 321 | 22 | (19) | 343 | 151 | 74 |
| | | | | | | | |
| **Basic earnings per share (NOK)** | *4* | 1,19 | 0,08 | (0,07) | 1,28 | 0,56 | 0,28 |

### CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Net profit / loss for the period | 321 | 22 | (19) | 343 | 151 | 74 |
| **Other comprehensive income:** | | | | | | |
| Cash flow hedges, net of tax | (1) | (5) | 4 | (6) | 3 | (8) |
| Translation differences | 57 | (109) | 69 | (52) | 114 | 1 |
| **Total comprehensive income** | 377 | (92) | 54 | 285 | 268 | 67 |

## CONDENSED COMBINED BALANCE SHEET

| Amounts in NOK million | 31.3 2011 | 30.6 2011 | 30.6 2010 | 31.12 2010 |
|---|---|---|---|---|
| ASSETS | | | | |
| *Non-current assets* | | | | |
| Property, plant and equipment | 369 | 402 | 384 | 357 |
| Deferred tax assets | 7 | 5 | 462 | 12 |
| Intangible assets | 1 185 | 1 184 | 1 198 | 1 189 |
| Other non-current assets | 165 | 169 | 172 | 151 |
| Interest-bearing non-current receivables | 2 | 15 | 2 | 2 |
| **Total non-current assets** | **1 728** | **1 775** | **2 218** | **1 711** |
| *Current assets* | | | | |
| Current tax receivables | 93 | 118 | 76 | 107 |
| Trade and other receivables | 4 217 | 3 578 | 3 990 | 3 641 |
| Trade and other receivables related parties | 187 | 263 | 459 | 327 |
| Non interest-bearing receivables | 1 120 | - | 93 | 1 120 |
| Interest-bearing receivables related parties | 906 | - | 398 | 902 |
| Cash and cash equivalents | 3 527 | 1 776 | 2 554 | 2 677 |
| **Total current assets** | **10 050** | **5 735** | **7 570** | **8 774** |
| **Total assets** | **11 778** | **7 510** | **9 788** | **10 485** |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| *Equity* | | | | |
| **Total equity attributable to the equity holders of the parent company** | **2 858** | **2 120** | **3 890** | **2 459** |
| *Liabilities* | | | | |
| Non-current interest-bearing liabilities related parties | 509 | 8 | - | 530 |
| Employee benefits | 114 | 122 | 129 | 110 |
| Deferred tax liabilities | 109 | 129 | 87 | 75 |
| **Total non-current liabilities** | **732** | **259** | **216** | **715** |
| *Current liabilities* | | | | |
| Current interest-bearing liabilities | 23 | 10 | 6 | 18 |
| Current tax payables | - | - | 217 | - |
| Provisions | 414 | 487 | 259 | 503 |
| Trade and other payables | 5 156 | 4 425 | 4 590 | 4 137 |
| Trade and other payables related parties | 170 | 193 | 547 | 392 |
| Non interest bearing liabilities related parties | 2 425 | 16 | 63 | 2 261 |
| **Total current liabilities** | **8 188** | **5 131** | **5 682** | **7 311** |
| **Total liabilities** | **8 920** | **5 390** | **5 898** | **8 026** |
| **Total liabilities and shareholders' equity** | **11 778** | **7 510** | **9 788** | **10 485** |

## CONDENSED COMBINED STATEMENT OF CASH FLOW

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Net cash flow from operating activities | 831 | (35) | (219) | 796 | (711) | (645) |
| Net cash flow from investing activities | (42) | (64) | (13) | (106) | (30) | (26) |
| Net cash flow from financing activities | 4 | (1 533) | 517 | (1 529) | 207 | 349 |
| Translation adjustments | 57 | (119) | 183 | (62) | 142 | 53 |
| **Net decrease (-) / increase (+) in cash and bank deposits** | 850 | (1 751) | 468 | (901) | (392) | (269) |
| Cash and bank deposits as at the beginning of the period | 2 677 | 3 527 | 2 086 | 2 677 | 2 946 | 2 946 |
| **Cash and bank deposits as at the end of the period** | 3 527 | 1 776 | 2 554 | 1 776 | 2 554 | 2 677 |

## CONDENSED COMBINED STATEMENT OF CHANGE IN EQUITY

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Equity as of the beginning of the period | 2 459 | 2 858 | 3 691 | 2 459 | 3 483 | 3 483 |
| Total comprehensive income | 377 | (92) | 54 | 285 | 268 | 67 |
| Dividends / Group contribution | - | - | - | - | - | (1 424) |
| Pro forma adjustments | 22 | (646) | 145 | (624) | 139 | 312 |
| Equity contribution | - | - | - | - | - | 21 |
| **Equity as of the end of the period** | 2 858 | 2 120 | 3 890 | 2 120 | 3 890 | 2 459 |

## Segments:

**REVENUE BY SEGMENT**

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Upstream | 3 059 | 3 600 | 1 739 | 6 659 | 3 884 | 9 192 |
| Downstream & Industrials | 673 | 345 | 1 112 | 1 018 | 2 180 | 4 049 |
| **Total operating segments** | 3 732 | 3 945 | 2 851 | 7 677 | 6 064 | 13 241 |
| Other | - | 3 | - | 3 | - | - |
| Eliminations | (10) | (1) | (9) | (11) | (24) | (32) |
| **Total** | 3 722 | 3 947 | 2 842 | 7 669 | 6 040 | 13 209 |

**EBITDA BY SEGMENT**

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Upstream | 476 | 554 | 29 | 1 030 | 262 | 928 |
| Downstream & Industrials | 3 | (300) | (64) | (297) | (16) | (440) |
| **Total operating segments** | 479 | 254 | (35) | 733 | 246 | 488 |
| Other | (15) | (62) | - | (77) | - | - |
| **Total** | 464 | 192 | (35) | 656 | 246 | 488 |

**EBIT BY SEGMENT**

| Amounts in NOK million | Q1 2011 | Q2 2011 | Q2 2010 | 1.1-30.6 2011 | 1.1-30.6 2010 | 1.1-31.12 2010 |
|---|---|---|---|---|---|---|
| Upstream | 467 | 545 | 18 | 1 012 | 241 | 887 |
| Downstream & Industrials | - | (303) | (66) | (303) | (21) | (453) |
| **Total operating segments** | 467 | 242 | (48) | 709 | 220 | 434 |
| Other | (15) | (62) | - | (77) | - | - |
| **Total** | 452 | 180 | (48) | 632 | 220 | 434 |

**NET CURRENT OPERATING ASSETS BY SEGMENT**

| Amounts in NOK million | 31.3 2011 | 30.6 2011 | 30.6 2010 | 31.12 2010 |
|---|---|---|---|---|
| Upstream | (1 821) | (1 704) | (904) | (1 373) |
| Downstream & Industrials | 499 | 463 | (43) | 309 |
| **Total operating segments** | (1 322) | (1 241) | (947) | (1 064) |
| Other | (14) | (23) | - | - |
| **Total** | (1 336) | (1 264) | (947) | (1 064) |

## NOTES

### Note 1 General
Kværner ASA (the company) is a company domiciled in Norway. For further details, reference is made to note 1 to the annual accounts.

### Note 2 Basis for preparation
The basis for preparation of these combined interim financial statements are described in note 2 to the annual combined financial statements. The same methods and accounting principles have been used for these interim statements.

On 1 January 2011, Kvaerner Group adopted revised IAS 24 Related Party disclosure. The adoption has not had any significant effects on the accounts.

These unaudited interim combined financial statements are prepared in accordance with the recognition, measurement and presentation principles consistent with International Financing Reporting Standards as adopted by the European Union ("IFRS") for interim reporting under International Accounting Standard IAS 34 Interim Financial Reporting, except as described below.

The interim Combined Financial Statements are condensed and do not include all of the information and footnotes required by IFRS for a complete set of financial statements. These interim combined financial statements should be read in conjunction with the combined financial statements for Kværner ASA.

The unaudited condensed combined financial statements reflect all adjustments, consisting only of normal, recurring adjustments that, in the opinion of the Kvaerner's management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the three months ended 30 June 2011 and are not necessarily indicative of the results that may be expected for any subsequent interim period or for the year ending 31 December 2011.

Several transactions required in the steps to reorganize the Kvaerner businesses under the ownership of Kværner ASA occurred in the first six months of 2011. The transactions primarily involve transfer of shares in subsidiaries from Aker Solutions AS to Kværner AS. The majority of transactions are to be settled through intercompany loans and receivables. For the purposes of this quarterly report, the transactions that have been formally completed have been excluded from the combined interim financial statements. Management believes this is required in order to more accurately reflect the equity position of the Kvaerner upon completion of all the legal steps of the reorganisation which were in process as of 30 June 2011.The demerger took place on 7 July 2011 .

The functional currency of the entities within Kvaerner is determined based on the nature of the economic environment in which it operates. The functional currency and presentation currency of Kværner ASA is NOK.

### Note 3 Judgments, estimates and assumptions
In applying the accounting policies, management makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these combined interim financial statement, the significant judgements made by management in applying the group's accounting policies and the key sources of uncertainty in the estimates were consistent with those applied to the combined annual financial statements.

### Note 4 Share capital and equity
Kværner ASA was founded in January 2011 with a nominal share capital. The share capital of Kværner ASA after the demerger completed 7 July 2011is NOK 91 460 000. Kværner ASA has 269 000 000 shares each with a nominal value of NOK 0.34.

Pro forma earnings per share has been calculated based on 269 000 000 shares outstanding for all periods presented.

## Note 5 Subsequent events

Capitalisation
The re-capitalisation of the Kvaerner Group was finalised upon consummation of the Aker Solutions Demerger on 7 July 2011.

Transactions related to demerger
All transactional inter-company balances between the Aker Solutions Group and the Kvaerner Group were settled prior to the Demerger.

Aker Engineering & Technology AS – an engineering resource and technology company within the Aker Solutions Group – was demerged such that approximately 140 employees, certain contracts, technologies and systems relating to the Kvaerner Business were transferred to an indirect subsidiary of Kværner AS, Kværner Engineering AS, prior to consummation of the Aker Solutions demerger.

Further, a number of other arrangements, including inter alia agreements for completion of ongoing projects, technology licensing, cooperation between Kværner ASA and Aker Solutions ASA, and provisioning of transitional services following consummation of the demerger, have been entered into to ensure that the Kvaerner Group acquires the benefit and value of, as well as the obligations associated with, the Kvaerner Business and that
the reliance of the Kvaerner Business on services provided to it by the Aker Solutions Group is reduced in a timely and orderly fashion.

### Note 6 Contingent event

The final ruling in the proceedings between subsidiaries of Aker Solutions and Chevron concerning delivery of the Blind Faith platform was delivered in June 2011. The ruling resulted in a recordable loss of approximately NOK 220 million for Aker Solutions in the second quarter 2011. The net cash effect was approximately USD 10 million negative. The financial effects described above has been divided between subsidiaries of Aker Solutions and Kvaerner, with 25 percent to Aker Solutions and 75 percent to Kvaerner.

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**About Kvaerner:**
With more than 3 500 HSE-focused and experienced employees, Kvaerner is a specialised provider of engineering, procurement and construction (EPC) services for offshore platforms and onshore plants. Kværner ASA, through its subsidiaries and affiliates ("Kvaerner"), is an international contractor that plans and realises some of the world's most demanding projects as a preferred partner for upstream and downstream oil and gas operators, industrial companies and other engineering and fabrication contractors.

In 2010, the Kvaerner group had aggregated annual revenues of more than NOK 13.3 billion and the company had an order backlog at 30 June 2011 of more than NOK 13 billion. Kvaerner was publicly listed with the ticker "KVAER" at the Oslo Stock Exchange on 8 July 2011. For further information, please visit www.kvaerner.com.