ANNUAL REPORT 2016

built on trust™

VARD™

a Fincantieri company

MARINE OPPORTUNITIES

As the world changes, demand for products and services evolves with it.

VARD has both contributed and adapted to such changes. We see that also in the future, opportunities will be profoundly connected to the sea that covers two-thirds of our planet. As before, we will take advantage of these opportunities, in close cooperation with ship owners, operators and business partners.

VARD's research and development, innovative design, equipment and solutions, and shipbuilding of the highest quality, contribute to significant improvements in safety, sustainability and performance for our customers and end-users. While remaining the global leader in the design, build and maintenance of vessels and systems for the Energy sector, VARD also continues to grow its presence in the areas we call Adventure, Security and Seafood.

CONTENTS

BUSINESS REVIEW

FINANCIAL AND STATUTORY REPORT

TESTIMONIALS

VARD has delivered a broad range of highly specialized vessels in 2016. Together with our customers we have developed and built state-of-the-art vessels and solutions for the oil and gas industry, fisheries and the aquaculture business.

Deep Explorer

An offshore subsea and diving support vessel of VARD 3 06 design, delivered from Vard Langsten to TechnipFMC.

TechnipFMC is proud to welcome this impressive new ship - Deep Explorer - to our fleet, after a three-year build project. As we continue to innovate and support our clients' evolving needs, this vessel, which is arguably one of the most advanced dive support vessels in the world, will be a key asset for our clients and help us to continue as a leader in our field.

The collaboration and teamwork between our newbuilding project team, VARD and the other partner companies involved, have been excellent and demonstrate that any challenge can be overcome when the teams are sharing a common objective. My sincere thanks to all those who have contributed to this successful project.

Mr. Pascal Grosjean

Director of Projects, TechnipFMC Marine Operations Services, TechnipFMC

Normand Maximus

An offshore subsea construction vessel of VARD 3 19 design, delivered from Vard Brattvaag to Solstad Offshore.

"We successfully completed and received delivery of Solstad's largest vessel to-date, Normand Maximus, in 2016. Tapping on VARD's technical expertise in building highly specialized vessels, Solstad's newbuilding team along with VARD's designers and shipbuilders worked hand-in-hand to overcome all challenges pertaining to the construction of the advanced vessel, which is capable of installing large-diameter flexible pipes in ultra-deepwater environments. The 180-meter long vessel has an exceptionally high capacity for subsea construction activities.

The 180-meter long vessel has an exceptionally high capacity for subsea construction activities.

The giant's interior was inspired by VARD's "A step forward" concept, which focuses on improving onboard experience, with the key objective of promoting greater wellbeing for all crew in voyage. Normand Maximus was chartered out to Saipem on an eight-year charter contract, and we look forward to new and innovative collaborations with VARD in the future."

Mr. Lars Peder Solstad

Chief Executive Officer, Solstad Offshore

CEO LETTER

Dear Valued Shareholders,

The maritime industry is well accustomed to cyclical changes, which we have experienced innumerable times throughout VARD's long shipbuilding history. Our strength is to adapt to these changes and transform them into new opportunities.

Today's downturn in the offshore market is the worst we have experienced in recent times. It is tough to see our loyal customers and close relations struggling, and it is hard for us not having enough work for all our employees and locations. In 2016, each and every day has been a fight to achieve new contracts and to adjust our operations to a fluctuating workload. Closing down our shipyard in Niterói was one of the difficult decisions we had to make last year.

In line with VARD's new diversification strategy and business plan launched in 2016, we pursued a comprehensive internal cost reduction and improvement program, while we continued to invest in R&D and concept development.

The opportunity lies ahead of us. The sea is essential to solving several of the world's greatest challenges. Many future opportunities and needs are profoundly connected to the sea. The population is increasing, and the world will need more food and energy provided by sustainable and efficient solutions. Authorities' demand for security and monitoring of the seas is expanding, and people are travelling ever more to explore the world and experience new adventures at sea. Our four new focus areas in VARD are Adventure, Energy, Seafood and Security.

We have already established valuable relationships with leading players in the cruise industry, and we are honored to be the trusted partner to build their new flagships and innovative fleets in the years to come. With the contracts for twenty module carrier vessels, we strengthened our customer portfolio in the oil industry and our foothold in the Caspian region and the Middle East. We have developed solutions for the aquaculture industry, and we have been awarded contracts for coast guard and naval projects.

In close cooperation with our customers, we have developed a broad portfolio of vessels, equipment and solutions that gives us new opportunities in new markets. I give all credit to our highly adaptable colleagues in VARD. Their indefatigable work and creative spirit reflects VARD's core values; Craftsmanship, Salesmanship and Fellowship.

Committed in all that we do, we strive to restore value for all our stakeholders, and we are humble and thankful for all the support from our owners and investors. We will continue to focus on professionalism, our ethical guidelines and our customer promise - built on trust.

Sincerely,

Mr. Roy Reite
Chief Executive Officer and Executive Director

CHAIRMAN'S STATEMENT

Dear Shareholders,

Since undertaking the role of Chairman at VARD in October 2016, I have had the privilege of gaining deeper understanding of the Group's values and vision, its people and operations. I am respectful of the strengths of the organization, its unique shipbuilding know-how built over generations, and the recognition it receives from some of the most demanding clients in the industry. But I am also mindful of the challenges still ahead of us on the path back to sustainable, profitable growth.

2016 was a year of profound changes for VARD, during which great strides were made to reposition the Group to strengthen it operationally and financially, and mitigate risks in our portfolio. The most visible change is in respect to the successful diversification into new markets, from exploration cruise to fishing and aquaculture. Behind this success is VARD's courage to think out-of-the-box, its willingness to learn and adapt, and an unwavering determination to succeed. With the same determination, the Group is now tackling the implementation stage of its new strategy and business plan, on course towards the delivery of its first cruise vessel in mid-2018. All the while, we continue to innovate and leverage our know-how and relationships to seize new business opportunities in the offshore sector.

I am particularly encouraged by the ever-increasing cooperation between VARD and Fincantieri. The long-term agreement to produce parts of cruise vessel hulls for Fincantieri projects at VARD's Romanian shipyards has linked the companies inextricably, providing tangible and intangible benefits to both. A wealth of other commercial transactions taps the strengths of each organization, while the tight cooperation with Fincantieri in the exploration cruise vessel segment is a clear competitive advantage for VARD over other new entrants into this market.

Fincantieri's strong commitment to VARD was also demonstrated by its voluntary offer to minority shareholders to acquire all outstanding shares in the Group. Irrespective of the final outcome of the offer, Fincantieri has reinforced its ownership position in VARD, and I wish to assure all stakeholders that our relationship remains positive.

Through continued focus on seizing diverse market opportunities, operational excellence, and strong cooperation within the Fincantieri group, I am confident that VARD will emerge from the challenges of 2016 stronger and more robust, and will reassert its role as a leading designer and builder of specialized vessels in the global shipbuilding arena.

On behalf of the Board of Directors, I would like to thank our shareholders and clients for their continued support and trust in VARD.

Sincerely,

Mr. Giuseppe Coronella
Chairman of the Board and
Non-Executive Director

BOARD OF DIRECTORS

Mr. Giuseppe Coronella
Chairman of the Board and Non-Executive Director

Mr. Coronella was appointed chairman of the board and non-executive director of the Company in 2016. He is head of the offshore business unit of FINCANTIERI S.p.A.

Experience: Mr. Coronella joined Fincantieri in 1990 in the design/engineering department, and moved to the project management department in 1999, becoming project manager for cruise shipbuilding projects in 2001. From 2006, he led the ship repair and conversion business systems development department. In 2010, he was appointed head of the offshore business development project, and has headed the offshore business unit since its establishment in 2012. Prior to joining Fincantieri, Mr. Coronella started his career at Ideal Standard in Germany and at Esso in Italy.

Other board positions: Mr. Coronella is president of the Italian offshore industries association "Polo Offshore," and a member of the American Bureau of Shipping National Committee in Italy.

Qualifications: Degree in Mechanical Engineering from the University of Palermo, Italy.

Mr. Roy Reite
Chief Executive Officer and Executive Director

Mr. Reite is the chief executive officer and serves as executive director of VARD. He has served as president of the Company since 2001.

Experience: Mr. Reite was yard director at Vard Søviknes from 1999 to 2001, and assumed various positions as project manager, production manager and technical manager from 1990 to 1995. He was also a business consultant at Intentia International AS from 1995 to 1999.

Other board positions: Mr. Reite is presently the vice chairman of the board of Norway-based bank Sparebanken Møre, and director of Offshore Merchant Partners AS and Fjordlaks AS.

Qualifications: Master of Science degree from the Norwegian University of Science and Technology.

Mr. Vittorio Zane
EVP and Executive Director

Mr. Zane is executive vice president and has served as executive director of VARD since 2014. He has recently taken on responsibility for VARD's cruise vessel segment, group procurement, strategic planning and the basic design process and development.

Experience: From 2005 to 2014, Mr. Zane held senior positions at FINCANTIERI S.p.A., where he was first appointed as head of group financial planning and control, before rising through the ranks to senior executive vice president of Fincantieri - VARD Coordination and Development.

Prior to that, Mr. Zane was a consultant at McKinsey & Company from 2002 to 2005. He started his career in 1996 as an engineer at Mining Italiana S.p.A. before joining Saipem in 1998.

Qualifications: Engineering degree from the Università degli Studi di Trieste, and a Master of Business Administration degree from SDA Bocconi, Italy.

Mr. Claudio Cisilino
Non-Executive Director

Mr. Cisilino was appointed non-executive director of the company in 2016. He is vice president of fincancial planning and control of FINCANTIERI S.p.A.

Experience: Mr. Cisilino joined Fincantieri in 2007 in the M&A and business development department and became head of financial controlling in 2009, before assuming his current role in 2011, where he is responsible for the group budgeting and multi-year financial planning activities, cost controlling and capital expenditure evaluation.

From 2005 to 2007, Mr. Cisilino worked as a consultant at The Boston Consulting Group. Prior to that, he had started his career as a consultant mainly in the fields of corporate reorganization and supply chain optimization.

Qualifications: Degree in Managerial Engineering from the University of Udine, Italy, and completed the Business Essentials Program at Babson College, Wellesley MA, United States.

Mr. Sung Hyon Sok
Independent Director

Mr. Sok serves as an independent director of the Company. Mr. Sok is also the managing director of BDF Holdings Pte. Ltd.

Experience: Mr. Sok started his career in Goodmorning Shinhan Securities Co. Ltd. between 1987 and 1998. Thereafter, he was vice president of ICAP (Singapore) Pte. Ltd. before joining REFCO (Singapore) Pte. Ltd. in 2005. Additionally, Mr. Sok was president of World Hawk Eyes Advisor Pte. Ltd. from 2005 to 2007 and senior vice president of AM Fraser Securities Pte. Ltd. from 2007 to 2009. From 2009 to 2016, he was managing director of Money Werks Capital Pte. Ltd.

Qualifications: Master of Science in Finance from the University of Lancaster, United Kingdom and a Master in Business Administration degree from the University of Hull, United Kingdom.

Mr. Keen Whye Lee
Independent Director

Mr. Lee serves as the lead independent director of the Company. Mr. Lee is the managing director of Strategic Alliance Capital Pte. Ltd.

Experience: Prior to founding Strategic Alliance Capital Pte. Ltd. in 1997, Mr. Lee was managing director of Rothschild Venture Asia Pte. Ltd. from 1990 to 1997, and associate director of Kay Hian James Capel Pte. Ltd. from 1987 to 1990.
He was also an investment manager of the Government of Singapore Investment Corporation from 1981 to 1985.

Other board positions: Mr. Lee is director of various companies, including public companies listed on the SGX-ST such as Ntegrator International Ltd and Santak Holdings Limited.

Qualifications: Master in Business Administration degree from the Harvard Graduate School of Business Administration, United States.

EXECUTIVE MANAGEMENT TEAM

Mr. Roy Reite
Chief Executive Officer and Executive Director

Mr. Reite is the chief executive officer and serves as executive director of VARD. He has served as president of the Company since 2001.

Experience: Mr. Reite was yard director at Vard Søviknes from 1999 to 2001, and assumed various positions as project manager, production manager and technical manager from 1990 to 1995. He was also a business consultant at Intentia International from 1995 to 1999.

Qualifications: Master of Science degree from the Norwegian University of Science and Technology.

Mr. Geir Ingebrigtsen
EVP and Chief Financial Officer

Mr. Ingebrigtsen has served as chief financial officer for VARD since 2015.

Experience: Mr. Ingebrigtsen first joined the Company in 2011 as group chief accountant, before being promoted to the position of group chief controller and deputy chief financial officer of VARD in 2014.

Prior to that, he was vice president of finance for Opplysningen AS, where he worked from 2007 to 2010. Mr. Ingebrigtsen first started his career with PwC in 1997, and stayed with the company till 2007, when he left in the position of senior manager.

Qualifications: Bachelor's degree in Economics from Sør-Trøndelag State College (HiST) and State Authorized Public Accountant based on a degree from Norwegian School of Economics (NHH).

Mr. Stig Bjørkedal
EVP Equipment and Solutions

Mr. Bjørkedal oversees the Equipment and Solutions business in VARD since 2015, and was appointed General Manager of Vard Electro in 2016.

Experience: Prior to his current roles, Mr. Bjørkedal was the executive vice president for business development & strategy in VARD from 2006 and vice president of deck machinery at Rolls-Royce Marine in Norway, from 2001 to 2006.

Mr. Bjørkedal has extensive management experience, having served in different positions in various maritime companies from 1993 to 2000, including Vard Piping, Skipsteknisk and Ulstein Brattvaag.

Qualifications: Bachelor's degree in Naval Architecture from the University of Møre og Romsdal in Ålesund, Norway, and a Master of Management degree from BI Executive School in Oslo, Norway.

Mr. Vittorio Zane
EVP and Executive Director

Mr. Zane is executive vice president and has served as executive director of VARD since 2014. He has recently taken on responsibility for VARD's cruise vessel segment, group procurement, strategic planning and the basic design process and development.

Experience: From 2005 to 2014, Mr. Zane held senior positions at Fincantieri, where he was first appointed as head of group financial planning and control, before rising through the ranks to senior executive vice president of Fincantieri - VARD Coordination and Development.

Prior to that, Mr. Zane was a consultant at McKinsey & Company from 2002 to 2005. He started his career in 1996 as an engineer at Mining Italiana before joining Saipem in 1998.

Qualifications: Engineering degree from the Università degli Studi di Trieste, and a Master of Business Administration degree from SDA Bocconi, Italy.

Mr. Magne Håberg
EVP Sales and Marketing

Mr. Håberg heads sales and marketing in VARD. In addition, he took on responsibility for the aquaculture business at the end of 2016.

Experience: Mr. Håberg first joined VARD as a project manager at Vard Langsten in 2000, and became senior vice president overseeing the sales and marketing department at VARD in 2004. Between 1995 and 2001, Mr. Håberg held several positions as senior project engineer at Aker Maritime, where he was responsible for different projects within the offshore oil and gas industry.

Prior to that, Mr. Håberg acquired a wealth of experience within the offshore oil and gas business, having taken on key engineering roles in Smedvig Drilling from 1990 to 1994, and with Wilh. Wilhelmsen from 1982 to 1989.

Qualifications: Diploma in Engineering from the Ålesund Maritime College, Norway.

Mr. Knut Ola Tverdal
EVP Brazil

Mr. Tverdal is responsible for the Brazil operation in VARD.

Experience: Earlier, as executive vice president of strategy implementation he was responsible for the start up phase of several activities, like Group's shipyard in Vietnam. Since 2014, he has been focusing on VARD's business in Brazil. Mr. Tverdal joined the Company in 2000, and has extensive experience in the shipbuilding industry, having served as yard director at Vard Aukra from 2005 to 2010.

Prior to that, Mr. Tverdal was vice president of production at Aker Philadelphia Shipyard from 2003 to 2005, as well as project manager from 2002 to 2003, and production manager from 2000 to 2002 at VARD.

Qualifications: Master of Science degree from the Norwegian University of Science and Technology in Trondheim, Norway.

Mr. Magne O. Bakke
EVP and Chief Operating Officer

Mr. Bakke is the head of shipyard operations at VARD and oversees the Norway, Romania and Vietnam operations.

Experience: Previously, Mr. Bakke was director at the Vard Søviknes yard from 2005 to 2009. Between 1984 and 2005, Mr. Bakke gained in-depth and broad experience in different business areas in the Aker Group, including Offshore Oil and Gas Field Development and Drilling.

Qualifications: Bachelor of Science in Marine Technology from the Aust-Agder State College of Engineering, Norway.

Mr. Holger Dilling
EVP Investor Relations and Business Development Asia

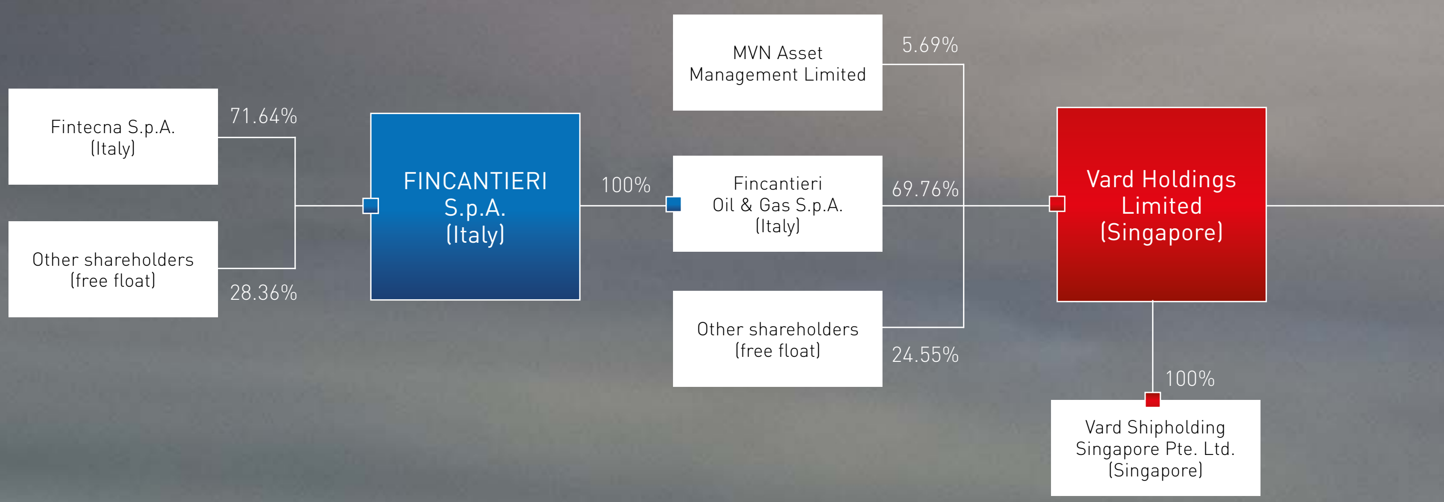
Mr. Dilling is responsible for investor relations at VARD, having held that role since the time of the Company's listing in Singapore. In May 2015, he in addition assumed responsibility for business development activities in the Asia-Pacific region.

Experience: Mr. Dilling joined VARD from STX Europe, where he had worked as vice president for business delevoment since 2008, overseeing the IPO of VARD in 2010. Prior to that, he worked in the areas of market analysis, business development and strategy in industrial and energy related companies in Norway.

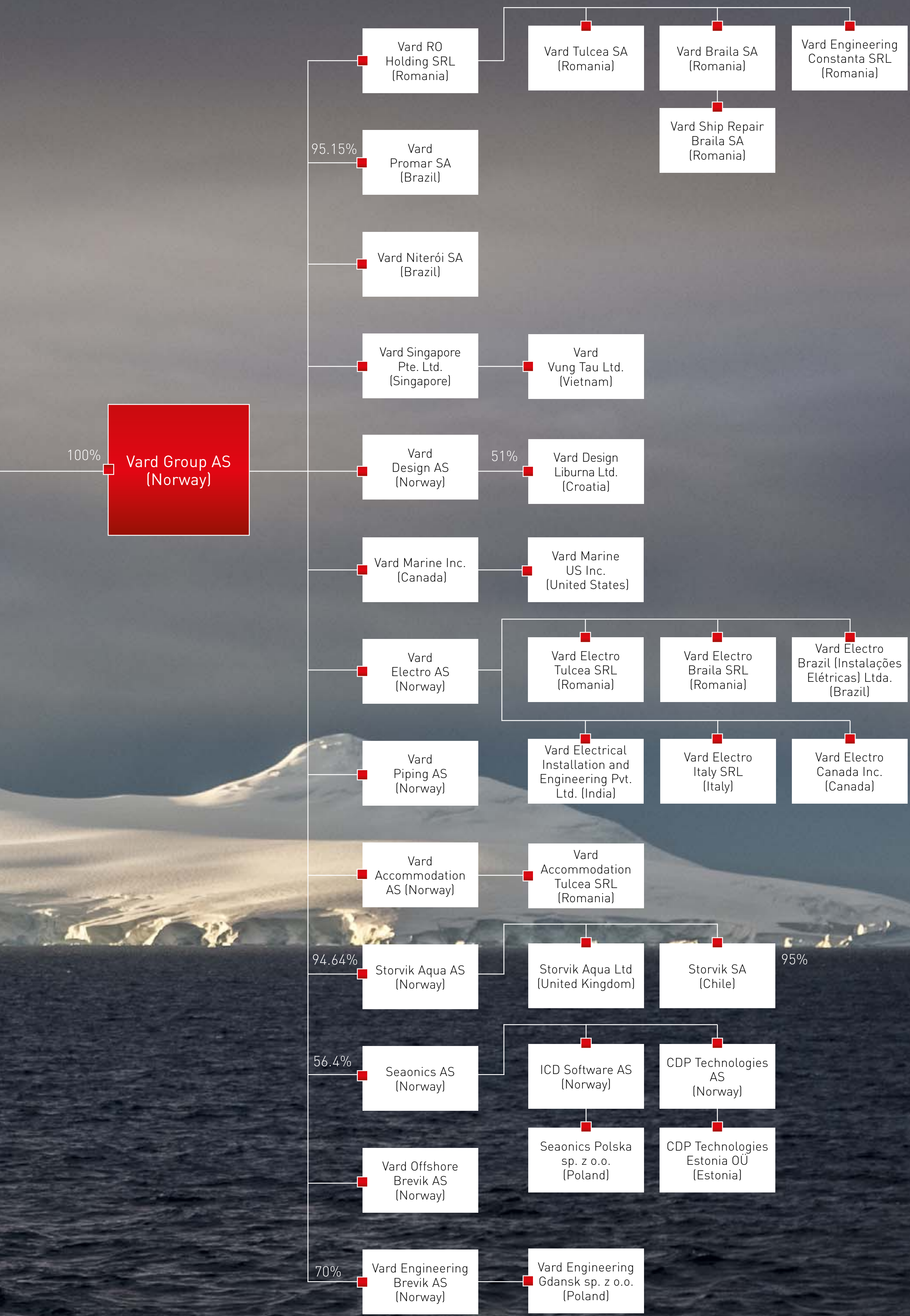
Mr. Dilling started his career in management consulting, working for The Boston Consulting Group in Germany and Norway from 1997 to 2001.

Qualifications: Master of Science in Economics degree from University of Würzburg, Germany.

SHAREHOLDING AND CORPORATE STRUCTURE



Note: Simplified shareholding structure. Does not include dormant subsidiaries, minority shareholdings and non-core businesses. In case of split ownership within the group, only major shareholders are shown. Shareholding structure as at 10 March 2017.


100%
Vard Group AS (Norway)
Vard RO Holding SRL (Romania)
Vard Tulcea SA (Romania)
Vard Braila SA (Romania)
Vard Engineering Constanta SRL (Romania)
Vard Ship Repair Braila SA (Romania)
95.15%
Vard Promar SA (Brazil)
Vard Niterói SA (Brazil)
Vard Singapore Pte. Ltd. (Singapore)
Vard Vung Tau Ltd. (Vietnam)
Vard Design AS (Norway)
51%
Vard Design Liburna Ltd. (Croatia)
Vard Marine Inc. (Canada)
Vard Marine US Inc. (United States)
Vard Electro AS (Norway)
Vard Electro Tulcea SRL (Romania)
Vard Electro Braila SRL (Romania)
Vard Electro Brazil (Instalações Elétricas) Ltda. (Brazil)
Vard Electrical Installation and Engineering Pvt. Ltd. (India)
Vard Electro Italy SRL (Italy)
Vard Electro Canada Inc. (Canada)
Vard Piping AS (Norway)
Vard Accommodation AS (Norway)
Vard Accommodation Tulcea SRL (Romania)
94.64%
Storvik Aqua AS (Norway)
Storvik Aqua Ltd (United Kingdom)
Storvik SA (Chile)
95%
56.4%
Seaonics AS (Norway)
ICD Software AS (Norway)
CDP Technologies AS (Norway)
Seaonics Polska sp. z o.o. (Poland)
CDP Technologies Estonia OÜ (Estonia)
Vard Offshore Brevik AS (Norway)
70%
Vard Engineering Brevik AS (Norway)
Vard Engineering Gdansk sp. z o.o. (Poland)

KEY FINANCIALS

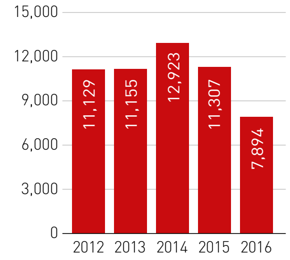
INCOME STATEMENT

VARD reported consolidated revenues of NOK 7.89 billion for the financial year 2016 (FY2016), down 30% from NOK 11.31 billion in financial year 2015 (FY2015). The reduction is caused by reduced activity especially at the European yards, mainly stemming from the low order intake in 2015. The effects of the cancellation of a vessel under construction for REM and the reclassification to inventory of a vessel previously under construction for Harkand, as well as the cessation of operations in Vard Niterói during the third quarter also contributed to lower revenues.

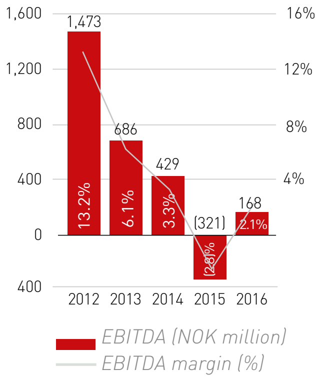
VARD registered positive EBITDA* (before restructuring cost) of NOK 168 billion (FY2015: NOK 321 billion negative). The improvement is primarily due the positive contribution of projects under construction in Europe as well as to the loss provisions accrued in 2015 related to projects at the Brazilian yards. VARD registered restructuring cost of NOK 105 million for FY2016 (FY2015: NOK 77 million), which includes termination benefits and statutory payments for temporary redundancies, and is mainly due to the closure of the Niterói shipyard.

The Group recorded a net loss of NOK 197 million for FY2016, compared to a loss of NOK 1.29 billion for FY2015. Of the FY2016 loss, NOK 163 million was attributable to equity holders of the Company.

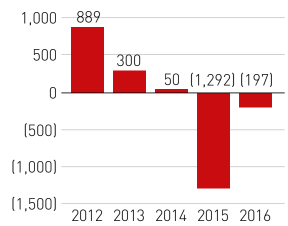
Revenue
(NOK million)



EBITDA and EBITDA margin



Profit (loss) for the period
(NOK million)



Summary Statement of Income

Amounts in NOK million	**2016**	**2015**
Revenue	**7,894**	**11,307**
EBITDA*	**168**	**(321)**
EBITDA margin (%)	2.1%	(2.8%)
Restructuring cost	(105)	(77)
Depreciation, impairment and amortization	(205)	(235)
Operating profit (loss)	**(142)**	**(633)**
Net financial income / (cost)	41	(571)
Share of result from associates	(58)	-
Profit (loss) before tax	**(159)**	**(1,204)**
Profit (loss) for the period	**(197)**	**(1,292)**
Non-controlling interest	(34)	(689)
Profit (loss) attributable to equity holders of the Company	**(163)**	**(603)**

** Earnings before interest (but including interest on construction loans), tax, depreciation and amortization, before restructuring cost*

BALANCE SHEET

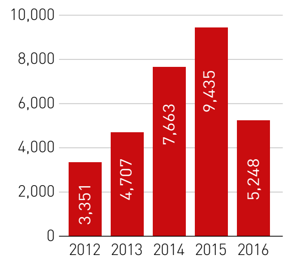
Total assets decreased by 35% from NOK 20.90 billion at the end of 2015 to NOK 13.52 billion at the end of 2016.

The decrease in total assets is largely due to a decrease in current assets, from NOK 17.14 billion at the end of 2015 to NOK 9.63 billion at the end of 2016. Cash and cash equivalents were reduced by NOK 197 million and other working capital assets decreased by NOK 7.31 billion. The decrease in other working capital assets is the result of a decrease in construction work in progress assets generated by vessel deliveries, and in particular the delivery of high value complex OSCV projects, as well as result of hedge accounting effects.

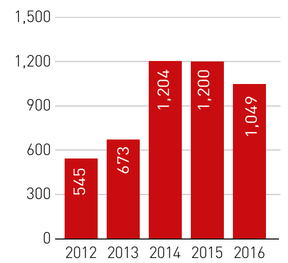
Total current liabilities decreased from NOK 16.53 billion at the end of 2015 to NOK 9.36 billion at the end of 2016. The decrease in current liabilities is mainly due to a decrease of construction loans as a consequence of vessel deliveries and to a reduction of trade payables due to the lower production volumes compared to the previous year. Current derivatives decreased from NOK 3.24 billion to NOK 591 million following the delivery of two vessels with contracts denominated in USD, as well as the strengthening of the NOK vs. the USD.

The Group's total non-current assets remained stable year-on-year, while total non-current liabilities increased by 33% from NOK 1.41 billion as at 31 December 2015 to NOK 1.87 billion as at 31 December 2016, primarily due to the slot reservation fee received from Fincantieri related to the multi-year production program for Fincantieri entered into during the first quarter.

Construction loans
(NOK million)



Loans and borrowings, non-current *(NOK million)*



Summary Balance Sheet

Amounts in NOK million	2016	2015
Non-current assets	3,892	3,760
Cash and cash equivalents	722	919
Other current assets	8,904	16,216
Total assets	**13,518**	**20,895**
Total equity	**2,295**	**2,961**
Loans and borrowings, non-current	1,049	1,200
Other non-current liabilities	819	209
Construction loans	5,248	9,435
Other current liabilities	4,107	7,090
Total liabilities	**11,223**	**17,934**
Total equity and liabilities	**13,518**	**20,895**

CASH FLOW STATEMENT

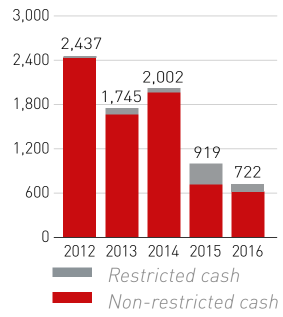
The Group registered positive cash flow from operating activities of NOK 764 million for FY2016, compared to a net negative of NOK 1.18 billion for FY2015, largely due to movements in working capital as a result of vessel deliveries of large OSCVs, and instalments and fees received on other projects during the period.

Cash flow used in investing activities was NOK 311 million for FY2016, stable compared to FY2015. Investments in property, plant and equipment during 2016 were mainly related to the expansion of facilities at Vard Tulcea. The Group also recorded a net cash outflow of NOK 32 million in FY2016, relating to the acquisition of Storvik Aqua.

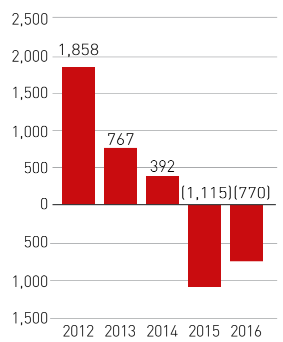
For FY2016, the Group had a negative cash flow from financing activities of NOK 587 million, compared to NOK 219 million positive in FY2014. NOK 205 million of the FY2016 repayments were related to amortization of long-term loans and borrowings, and NOK 382 million related to repayment of short term loans. The repayment of short term loans was only in part due to expiry of the related facilities, while the main portion NOK 255 million was due to non-utilization of available cash lines.

As a result of the above, combined with movements in restricted cash and the effects of currency translation differences on cash and cash equivalents, the Group registered a net decrease in cash and cash equivalents of NOK 197 million for FY2016, from NOK 919 million to NOK 722 million.

Cash and cash equivalents
(NOK million)



Net cash [1]
(NOK million)



[1] Cash and cash equivalents less sum of short-term and long-term interest bearing liabilities, excluding construction financing.

Summary Statement of Cash Flow

Amounts in NOK million	**2016**	**2015**
Cash flows from / (used in) operating activities	764	(1,184)
Cash flows from / (used in) investing activities	(311)	(311)
Cash flows from / (used in) financing activities	(587)	219
Net change in cash and cash equivalents	**(134)**	**(1,276)**
Effects of currency translation differences	32	30
Cash and cash equivalents excluding restricted cash at the beginning of the financial period	720	1,966
Restricted cash at the end of the financial period	104	199
Cash and cash equivalents at the end of the financial period	**722**	**919**

ORDER BOOK DEVELOPMENT

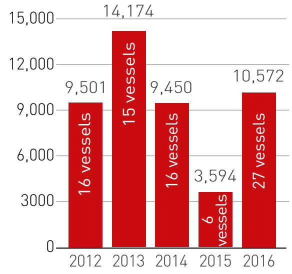
At the end of 2016, VARD's order book stood at NOK 12.65 billion, significantly up from NOK 10.2 billion a year earlier. Notably, the order book comprised 41 vessels, twelve more than at the end of the previous year, and included 35 vessels of VARD's own design.

The aggregate value of new orders, including variation orders, repair and conversion, and equipment sales, was NOK 10.57 billion. In terms of number of vessels, the new order intake – comprising 27 vessels - was the highest in five years, while in terms of value, the order intake exceeded each of the two preceding years. The average value per vessel decreased, due to the large number of contracts for Module Carrier Vessels (MCV) secured, while the share of own designs increased to a record 85%.

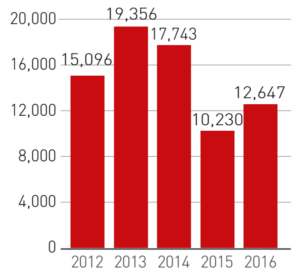
In addition to the 20 MCVs, the new orders comprised six exploration cruise vessels and one fishing vessel, while no new orders were taken from the offshore sector. Instead, two contracts were removed from the order book as a results of cancellations. The order intake from new market segments reflects VARD's successful efforts to diversify and reduce its dependency on the offshore market during the prolonged downturn in that industry. However, the MCV contracts demonstrate that niche opportunities for specialized vessels continue to exist also in the oil and gas space. At the end of 2016, the order book comprised 20 MCVs, twelve offshore vessels, six exploration cruise vessels, two Liquefied Petroleum Gas carriers (LPG) and one fishing vessel. Geographically, the share of clients domiciled in Norway fell dramatically, while orders from the rest of Europe increased, and clients from the Middle East and Asia for the first time stood for the majority of vessels in the order book. 16 vessels are to be delivered from the Group's Norwegian yards, 13 from Romania, eight from Vietnam and four from Brazil.

During the year, 13 vessels were delivered from VARD shipyards – seven from Norway, one from Romania, one from Vietnam and four from Brazil. Deliveries encompassed the full range of offshore vessels built by VARD, including Anchor Handling Tug Supply vessels (AHTS), Platform Supply Vessels (PSV) and different types of Offshore Subsea Construction Vessels (OSCV), as well as three LPG carriers and two fishing vessels.

Order intake
(NOK million)



Order book
(NOK million)



Order book by customer segment
As at 31 December 2016

- MCV: 20 vessels
- Offshore:12 vessels
- Cruise: 6 vessels
- Other: 3 vessels

Order book by customer domicile

- Asia and Middle East: 23 vessels
- Norway: 8 vessels
- Other Europe: 6 vessels
- South America: 4 vessels

Order book by yard location

- Norway: 16 vessels
- Romania: 13 vessels
- Vietnam: 8 vessels
- Brazil: 4 vessels

VESSELS DELIVERED

During 2016, VARD delivered 13 vessels from our shipyards across the world.

1. Deep Explorer, 2. Bourbon Arctic, 3. Skandi Açu, 4. Nao Galaxy, 5. Nao Horizon, 6. MMA Brewster

PLATFORM SUPPLY VESSELS

MMA Brewster	805	MMA Offshore	VARD 1 08	Vard Vung Tau
Nao Horizon	832	Nordic American Offshore	VARD 1 08	Vard Aukra
Nao Galaxy	833	Nordic American Offshore	VARD 1 08	Vard Aukra

ANCHOR HANDLING TUG SUPPLY VESSELS

Bourbon Arctic	802	Bourbon	VARD 2 12	Vard Brattvaag
Skandi Paraty	PRO 33	DOF	VARD 2 11	Vard Niterói


7


11


8


9


12


13


10

7. Barbosa Lima Sobrinho, 8. Darcy Ribeiro, 9. Newfoundland Victor, 10. Breivik Junior, 11. Lucio Costa, 12. Normand Maximus, 13. Skandi Paraty

OFFSHORE SUBSEA CONSTRUCTION VESSELS

Skandi Açu	823	TechDof Brasil	VARD 3 05	Vard Søviknes
Normand Maximus	830	Solstad Offshore	VARD 3 19	Vard Brattvaag
Deep Explorer	818	TechnipFMC	VARD 3 06	Vard Langsten

OTHER SPECIALIZED VESSELS

Barbosa Lima Sobrinho	EP 03	Transpetro	WBDC	Vard Promar
Darcy Ribeiro	EP 02	Transpetro	WBDC	Vard Promar
Lucio Costa	EP 04	Transpetro	WBDC	Vard Promar
Breivik Junior	803	Breivik	SC 34	Vard Braila
Newfoundland Victor	845	Newfound Resources	NVC 374	Vard Aukra

1. The interior on board Normand Maximus, *has been inspired by VARD's concept "A step forward". 2.* ***Henrik Ibsen,*** *a fish feed barge of VARD 8 52 design was delivered to Marine Harvest.* ***3. PONANT*** *entered into contracts with VARD for the construction of four luxury expedition cruise vessels.*

SIGNIFICANT EVENTS

VARD expanded its shipbuilding expertise into new markets in 2016, and achieved breakthroughs through innovation and proactive business development.

Awards

VARD's CEO, Mr. Roy Reite was chosen amongst 50 nominated industry leaders globally, for the Industry Leader Award by the Offshore Support Journal (OSJ), a British publication and organizer of conferences for the offshore services sector. Mr. Reite was honored with the award for VARD's exemplary turnaround with its diversification strategy amid difficult times in its core offshore market.

Shipbuilding milestones

Barbosa Lima Sobrinho, a 7,000 m^3 fully pressurized LPG was delivered from Vard Promar in January 2016. The vessel is the second in a series to be delivered to Petrobras Transporte S.A., and the first to be built entirely at and delivered from Vard Promar, marking an important milestone in the development of our newest shipyard, and for VARD's operations in Brazil.

The delivery of Henrik Ibsen, a fish feed barge of VARD 8 52 design from Vard Aukra to Marine Harvest, was the first of a total of four deliveries within the aquaculture segment in 2016. The barge was developed in close cooperation between Vard Design, the yard and the owner. The technology on board is amongst the most efficient and environmentally friendly in the market. These deliveries are strong examples of VARD's ability to diversify and strengthen its expertise in new market segments.

Normand Maximus, a offshore construction vessel, was delivered from Vard Brattvaag to Solstad Offshore. The vessel was the largest ever built at VARD and also the largest member of the Solstad Offshore's fleet. Normand Maximus will execute projects in the most challenging environments worldwide, with a particular focus on East and West Africa, Brazil, Australia, the North Atlantic and the Gulf of Mexico. The interior, delivered by Vard Accommodation, is inspired by VARD's innovation project "A step forward", and emphasizes the crew's wellbeing and improving the onboard experience. The 180-meter vessel has since started its eight-year contract with Saipem.

TechnipFMC's latest newbuild Deep Explorer, a Diving Support Vessel (DSV), was delivered from Vard Langsten. The vessel is one of the most modern and versatile DSVs in the world and is capable of working globally on subsea construction projects, even in extreme weather conditions.

Business development

VARD acquired Storvik Aqua, a key supplier of equipment within feeding, measurement and control solutions to the aquaculture industry, with operations in Norway, Chile and Scotland, and long term relations with a range of key industry players. The acquisition was in line with the Group's strategy of increasing its product range, capabilities and market position within the aquaculture business.

In Brazil, VARD decided to concentrate all shipbuilding activities on the new shipyard Vard Promar. Following the delivery of the yard's final projects, operations at Vard Niterói were terminated in second quarter of 2016, and the leased land area subsequently returned to its owners. Later during the year, VARD increased its shareholdings in Vard Promar from 50.5% to 95.15%, amicably terminating the relations with its long-term partner in Brazil. The transaction underscores

*4. **Hapag-Lloyd Cruises,** awarded VARD with the contracts for the design and construction of two luxury expedition cruise vessels. **5. The US Coast Guard** has selected a design developed by Vard Marine for its new Offshore Patrol Cutter program. **6. VARD's CEO, Mr. Roy Reite** won OSJ Industry Leader Award.*

VARD's commitment to remain a key player in Brazilian shipbuilding, supporting the local oil and gas industry. Key resources were transferred from Niterói to Vard Promar, strengthening the management team there.

Order book

HAVFISK, Norway's largest trawler company, entered into a contract with VARD for the design and construction of a new state-of-the-art stern trawler of VARD 8 02 design. With a length of 80 meters and featuring two separate cargo holds for refrigerated and frozen fish, a fish factory and a freezing capacity of 80 tons per 24 hours, the trawler will be the first of its kind. The design reflects a high focus on safe operations, efficiency, cargo handling and the crew's overall wellbeing.

PONANT, the only French-flag cruise line and one of the world's leading provider of luxury polar cruises, entered into contracts with VARD for the construction of four luxury expedition cruise vessels. The ice-class expedition cruise vessels will measure about 131 meters long and 18 meters wide, and will adhere to the highest environmental and safety standards.

Hapag-Lloyd Cruises, a premier cruise provider in the luxury and expedition segments, awarded VARD with the contracts for the design and construction of two luxury expedition cruise vessels. The vessels are specially designed for polar cruises in the Arctic and Antarctica, but are also prepared for operations in warm water destinations such as the Amazon river. Each vessel will feature seven passenger decks, and can accommodate up to 230 passengers across 120 cabins and suites.

Topaz Energy and Marine, a leading offshore support vessel company providing marine solutions to the global energy industry, appointed VARD as the designer and builder of 17 identical MCVs. The vessels, of VARD 9 21 design, are specially developed to navigate the shallow river systems as they transport modules through the Russian waterways to oilfields in Kazakhstan. Measuring 123 meters by 16.5 meters, the vessels are designed to carry high deck loads of up to 1,800 tons.

Kazmortransflot, the National Maritime Carrier of the Republic of Kazakhstan, awarded VARD with a contract for the design and construction of three MCVs designed for transport in the Caspian Sea. All three vessels will be built at Vard Braila in Romania, as the yard has unique experience in building vessels for Kazakhstan and the Caspian Sea. All 20 MCVs being built for Topaz Energy & Marine and Kazmortransflot will be operated by a consortium led by Blue Water Shipping. The projects underline our long-term commitment to the Caspian region.

The US Coast Guard has selected a design developed by Vard Marine, for its new Offshore Patrol Cutter (OPC) program. The garnering of the design and construction contract was achieved through the strong collaboration between Eastern Shipbuilding and Vard Marine that spans more than 15 years. Drawing from Vard Marine's extensive experience working with international navies and coast guards, the OPC design will use proven methods to meet or exceed reliability requirements, while employing new technologies and innovative solutions to address the client's stringent and demanding mission objectives.

The Chilean Navy, through ASMAR Shipbuilding & Ship Repair Company, has appointed Vard Marine to design an antarctic icebreaking vessel, which will be equipped to operate throughout the Southern Ocean, providing services including logistic support, search and rescue missions, scientific research, and resupplying bases in the Chilean Antarctic Territory. The vessel is designed to carry a wide range of containerized and vehicle cargo, such as helicopters and rescue boats for logistics and search-and-rescue missions.

Cochin Shipyard Ltd, one of India's top public sector shipyards, entered into a contract with Vard Electro for the delivery of an equipment and electrical installation package for a vessel under construction for the Government of India. The vessel with a length of approximately 120 meters, will be equipped with several SeaQ products and systems.

Cammell Laird Shiprepairers & Shipbuilders Ltd awarded a contract to Vard Electro for the delivery of an engineering and electrical installation package for the United Kingdom's new polar research vessel under construction for the Natural Environment Research Council. The 130-meter long polar research vessel, which is expected to become operational in 2019, will be equipped with the SeaQ Communications system.

MARINE OPPORTUNITIES

The sea will be key in solving several of the world's greatest challenges in the future. Many future opportunities and needs are profoundly connected to the sea that covers two-thirds of our planet. We have identified four focus areas for VARD: Energy, Adventure, Security and Seafood. We will do our utmost to meet our customers' and the world's needs in the times to come.

People and businesses in traditional and emerging marine industries are looking to increase their competitive edge through strategic investment in specialized vessels that help realize commercial opportunities and build sustainable operations.

VARD is well known for the design and shipbuilding of a broad range of highly advanced vessels for the Energy sector. Over decades, we have also been trusted to build state-of-the-art newbuildings for fisheries, research, surveillance, icebreaking, transportation and other marine operations. Now it is time to take new steps forward. Together with our customers and partners, we utilize our innovation power to meet the world's changing needs with new vessels, products and services.

ENERGY

A broad range of specialized vessels for oil and gas and emerging offshore energy industries

VARD's research and development, innovative design, equipment and solutions, and shipbuilding of the highest quality, contribute to significant improvements in safety, sustainability and performance for our customers and end-users. While remaining the global leader in the design, build and maintenance of vessels and systems for the Energy sector, VARD aims to grow its presence in the areas we name Adventure, Security and Seafood.

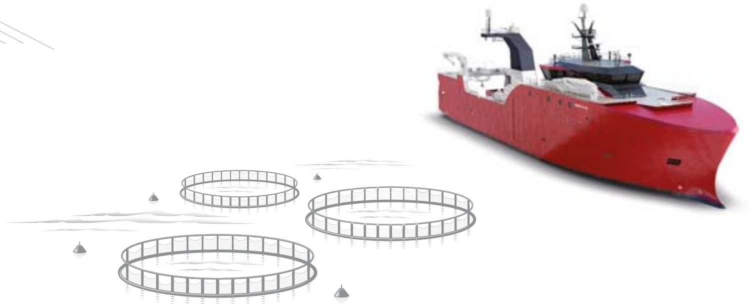
This is also the core in our new strategy and business plan announced in 2016, focusing on solid long-term prospects. Key elements in the new plan are diversification in the market, utilizing our yard capacity and maintaining our global footprint.

ADVENTURE

Luxury expedition cruise vessels designed for adventures in polar and exotic environments

SECURITY

Vessels built to secure and monitor seas and coastal waters



SEAFOOD

Bespoke vessels and the solutions for the fisheries and aquaculture industries designed for efficiency and sustainability

As the world changes, demand for products and services evolves with it.

THE VARD SERIES

The VARD Series comprises a broad range of ship designs.

ENERGY

VARD 1-SERIES

Platform Supply Vessels

Platform Supply Vessels (PSV) are able to perform a variety of tasks to support offshore operations. Cargo capacity and manoeuvering capabilities combined with low fuel consumption are our main focus areas when designing PSVs.

VARD 2-SERIES

Anchor Handling Tug Supply Vessels

Anchor Handling Tug Supply vessels (AHTS) mainly perform anchor handling duties and towage of offshore drilling units and floating production units. Cargo and bulk in tanks are placed below deck, and a large free deck area ensures the flexibility to run deck operations.

VARD 3-SERIES

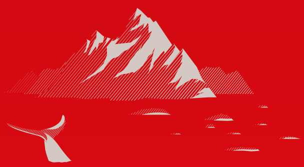
Offshore Subsea Construction Vessels

Offshore Subsea Construction Vessels (OSCV) perform subsea operations and maintenance work, including pipe laying, subsea construction, diving support, ROV support, well intervention and well stimulation. Optimal mission performance and high capabilities are among the main focus areas.

VARD 4-SERIES

Offshore Renewables

This series comprises a range of vessel solutions supporting the entire offshore renewables value chain, including offshore wind, tidal and wave power. One of the core products within this series is a wind farm support vessel with high focus on efficient logistics, crew and technician comfort, and high operability.



ADVENTURE

VARD 6-SERIES

Passenger Vessels

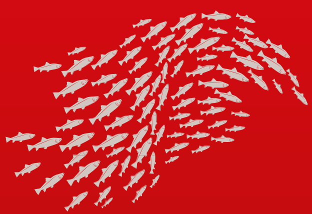
Designed and built with an emphasis on superior passenger comfort and environmental performance, our cruise vessels and yachts are developed for navigating waters in the most challenging and vulnerable environments, from arctic to tropical conditions.The series also includes RO-PAX vessels (Roll-On-Roll-Off Passenger vessels) designed for efficient logistics, fuel-efficiency and passenger comfort.

SECURITY

VARD 7-SERIES

Offshore Patrol Vessels

Offshore Patrol Vessels (OPV), designed and developed with a commercial approach, can withstand some of the toughest ocean conditions in the world. Experienced staff work closely with the clients, using in-house software design tools along with our extensive vessel database to define vessel characteristics that meet the requirements and expectations of the customer.



SEAFOOD

VARD 8-SERIES

Fisheries and Aquaculture

This series includes a variety of vessels, platforms and barges within fisheries and aquaculture, able to perform functions such as live fish transportation and treatment, fish feed, and fish farm operation and maintainance. All our fisheries and aquaculture vessels are developed with focus on environmental sustainibility through innovative solutions.

VARD 9-SERIES

Other Specialized Vessels

Specialized vessels are tailormade to customer-specific requirements and needs. This series includes vessel types such as research and coast guard vessels, special purpose cable layers, seismic vessels and icebreakers.

OPERATIONAL REVIEW

VARD operates nine strategically located shipbuilding facilities on three continents, and serves the global maritime industry with innovative products and services through a network of highly specialized subsidiaries.

HEADQUARTERS

- Vard Group (Norway)

REGISTERED OFFICE

- Vard Holdings (Singapore)

SHIPYARDS

Europe

- Vard Aukra (Norway)
- Vard Braila (Romania)
- Vard Brattvaag (Norway)
- Vard Brevik (Norway)
- Vard Langsten (Norway)
- Vard Søviknes (Norway)
- Vard Tulcea (Romania)

Asia

- Vard Vung Tau (Vietnam)

South America

- Vard Promar (Brazil)
- Vard Niterói (Brazil)*

Ceased operations in 2016

Norway

VARD's core shipbuilding operations in Norway were heavily affected by the cyclical downturn in the industry during 2016. Resulting from a combination of low order intake in the previous two years, postponement of vessels under construction, and clients defaulting on contracts, the overall activity level at the Norwegian yards was significantly lower than in previous years.

Even though Vard Aukra was repositioned to develop new business in the aquaculture area, the overall workload at the yards in Norway remained insufficient to support the full occupation of the workforce. As a consequence, temporary staff layoffs were unavoidable to mitigate the cost of excess capacity. The yard in Brevik was particularly hard hit, with the majority of the yard's employees out of work for most of the year, while the other three yards, Vard Brattvaag, Vard Søviknes and Vard Langsten, saw intermittent phases of suboptimal utilization. Resources were shared between Vard Aukra and the other three yards on the northwestern coast of Norway to reduce the need for layoffs to the largest extent possible.

Despite the challenges, the Norwegian yards recorded notable achievements, with seven vessel deliveries during the year, including three very large and complex OSCVs. Early in the year, Vard Søviknes delivered the first in a series of Pipelay Support Vessels (PLSV) for DOF and TechnipFMC. In the fourth quarter, Vard Brattvaag completed the largest offshore vessels ever built by VARD, and the largest such vessel built in Norway, for Solstad Offshore. Also towards the end of the year, Vard Langsten delivered one of the industry's most advanced Diving Support Vessels (DSV), for TechnipFMC.

Complementing the newbuilding portfolio, the yards in Norway engaged in multiple conversion, repair and maintenance projects, including the upgrade and lengthening of a vessel, in order to secure additional work. Helped by the Group's long-standing relationships and reputation, projects were secured mainly from the fisheries sector.

While shipyard operations were still struggling with low utilization, other parts of the Group's organization in Norway already benefitted from the upswing in new orders during 2016. Vard Design recorded high demand, as the new diversification strategy called for new concept development in diverse new market segments. With the first cruise vessel orders secured, engineering and procurement departments also saw a marked increase in workload. In the interim, the yards have started preparing for the arrival of the first cruise vessel hull in Norway in the second half of 2017, adapting their facilities and work processes, and fine-tuning the organization to the requirements of a new and different type of project.

Romania

Following a period of downsizing and operational streamlining, VARD's Romania shipyards, Vard Tulcea and Vard Braila, VARD's global presence

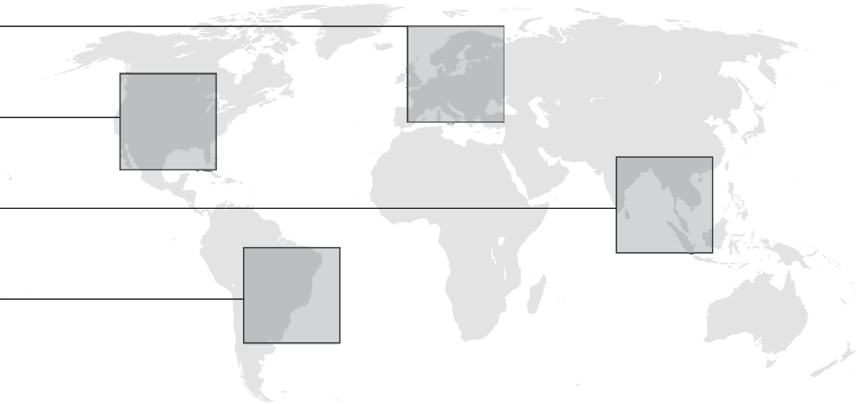
Europe
6,344 employees

North America
96 employees

Asia
772 employees

South America
1,770 employees

Employees wordwide
8,982 employees



saw a positive reversal in 2016. While the number of employees had declined by more than 25% during 2015, in line with decreasing capacity utilization as a result of the order draught in the offshore industry, by the end of 2016 both shipyards were hiring again on the back of the significant order intake during the year.

During the first quarter of 2016, VARD signed an agreement with Fincantieri for a multi-year program to supply partially-outfitted hull sections for cruise vessels projects. On the back of the successful cooperation, the program was subsequently expanded and now provides a substantial workload for Vard Tulcea. In the second quarter, VARD secured an order for initially 15 MCVs from Topaz Energy and Marine, nine of which are set to be built in Romania. The series was later extended with one more identical vessel for Topaz also slated for construction in Romania, and three similar vessels for Kazmortransflot. In contrast to the large majority of orders in prior years, where the Romanian yards delivered partially-outfitted hulls for completion in Norway, the MCVs will be fully outfitted and delivered from Vard Tulcea and Vard Braila with the support of the Group. Another distinct feature of the MCV project is that it is under joint project management for both Romanian yards and Vard Vung Tau in Vietnam, fostering close cooperation within the Group.

Later during the year, as VARD's push into new market segments began to gain traction, it quickly became apparent that the Group would need to expand its capacity and capabilities in Romania.

In total, the Group secured contracts for six exploration cruise vessels, all for delivery between 2018 and 2019, in addition to the MCVs and work secured under contract for Fincantieri. To accommodate larger vessels and hull sections and secure sufficient capacity to cater to increasing demand, VARD embarked on an investment program at its Tulcea yard. The upgrade program includes the installation of a new panel line, the expansion of the building berth, and dredging of the harbor basin close to the yard, and will cumulate in the installation of a new gantry crane in 2017. In addition, the launching barge owned by Fincantieri and deployed in Tulcea was enlarged into a fully-fledged floating dock during 2016, and can now be used to launch vessels up to 210 meters by 49 meters in size.

Vietnam

Fortunes at VARD's Vietnam shipyard in Vung Tau also turned for the better during 2016. Despite an impressive track record of stable and profitable operations and on-time vessel deliveries, the yard started with only two vessels remaining in the order book. Construction of a third vessel continued on VARD's own account following a contract termination the year before.

In May, Vard Vung Tau received orders for six MCVs, part of the 15-vessel contract from Topaz Energy and Marine shared between VARD's two shipyards in Romania and the one in Vietnam. Together with a seventh order secured later during the year, the series provides work for the yard

SPECIALIZED SUBSIDIARIES

Europe
Vard Accommodation (Norway)
Vard Accommodation Tulcea (Romania)
Vard Design (Norway)
Vard Design Liburna (Croatia)
Vard Electro (Norway)
Vard Electro Brevik (Norway)
Vard Electro Braila (Romania)
Vard Electro Tulcea (Romania)
Vard Electro Italy (Italy)
Vard Engineering Brevik (Norway)
Vard Engineering Constanta (Romania)
Vard Engineering Gdansk (Poland)
Vard Offshore Brevik (Norway)
Vard Piping (Norway)
Vard Ship Repair Braila (Romania)
CDP Technologies (Norway)
CDP Technologies Estonia (Estonia)
ICD Software (Norway)
Seaonics (Norway)
Seaonics Polska (Poland)
Storvik Aqua (Norway)
Storvik Aqua (United Kingdom)

Asia
Vard Electrical Installation and Engineering (India)
Vard Shipholding (Singapore)
Vard Singapore (Singapore)

South America
Vard Electro Brazil (Brazil)
Storvik (Chile)

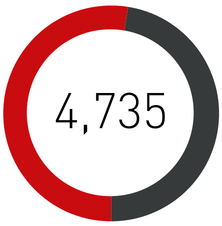
North America
Vard Electro (Canada)
Vard Marine (Canada)
Vard Marine (United States)

1. The launching barge at Vard Tulcea was enlarged into a fully-fledged floating dock during 2016.

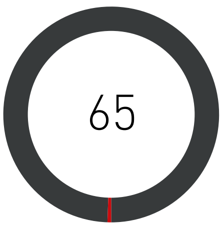
Employees by country

As at 31 December 2016

Norway



Romania



Other Europe

Italy, United Kingdom, Croatia, Poland and Estonia

throughout 2017 and into 2018, and allows Vard Vung Tau to make full use of its facilities that were upgraded and expanded during the preceding phase of low activity. Sharing the contract between three yards also allows for a close cooperation between Vung Tau and its Romanian sister yards, through joint project management and sharing of best practices.

By the end of 2016, keel laying of all MCVs had taken place, with the first vessel already close to launch. Of the remaining offshore orders, one had been completed early during the year, while the other – Vard Vung Tau's first OSCV project – was close to completion, and was successfully delivered during first quarter of 2017.

Brazil

VARD's Brazilian operations underwent significant changes during the past year. After 15 years of operations at Vard Niterói, the Group ceased operations at the yard in mid-2016. During this time, 33 vessels were delivered from the yard, and two vessels from the order book of Vard Promar were outfitted in Niterói. Despite the operational difficulties the yard experienced in recent years, Vard Niterói and its dedicated staff can take credit for establishing VARD solidly on the map as one of the leading shipbuilders in Brazil, with a reputation of building advanced offshore vessels to the highest international standards, and at the same time compliant with the country's strict local contents rules.

Amongst other achievements, Vard Niterói can also lays claim to the construction of the only two modern PLSVs built in Brazil to-date. This provided the backdrop for VARD's success in securing the prestigious order from a joint venture between DOF and TechnipFMC for two PLSVs, which are currently under construction at Vard Promar, the Group's new – and now only – shipyard in Brazil. Having commenced operations in 2013, the new shipyard has since delivered two LPG carriers to Transpetro. Meanwhile, two more LPG carriers remain under construction at the yard, with delivery slated for 2017. This will complete the initial series of vessels built during completion and ramp-up of the new facility. With the construction of the PLSVs, the yard is taking a major step forward in terms of project size and complexity. The operating environment in Brazil is still considered challenging, and the yard organization continues to develop, aided by key personnel who transferred to Promar following the closure of Vard Niterói, as well as the support of colleagues from Norway and Romania. Following a rightsizing process during 2016, the yard currently has a headcount of approximately 1,500.

VARD remains committed to the Brazilian market, despite a difficult order situation in the short term resulting from the global downturn in offshore oil and gas, coupled with country specific constraints. Underscoring its long-term ambitions in Brazil, VARD increased its ownership stake in the Vard Promar shipyard from 50.5% to 95.15% during the year. Part of an overall agreement resolving the relations between

2. PLSVs under construction for DOF and TechnipFMC at Vard Promar.

VARD and its former partner in Brazil, the transaction gives the Group full control of the yard and increases its strategic options to adapt its presence in Brazil to expected future market demand.

Equipment and Solutions

The Equipment and Solutions business area in VARD comprises specialized subsidiaries that offer products and services to the global maritime industry outside of VARD's core shipbuilding portfolio, in addition to serving the Group's own yards. Examples include power and automation systems from Vard Electro, design and engineering services from Vard Marine, and deck handling equipment from Seaonics. By offering equipment and solutions to ship owners and shipyards across the globe, VARD can extend its market reach to projects that cannot be constructed at the Group's own yards for regulatory or other reasons, such as certain government projects. It can also leverage its expertise in select parts of the shipbuilding value chain to build an incremental business complementary to its core operations. Starting in 2015, the Group increased its focus on growth in this business area through increased cooperation and information exchange between different specialized subsidiaries. In 2016, the Group further expanded its geographical footprint and recorded a number of breakthrough contract wins in the Equipment and Solutions business area.

Early in 2016, Vard Electro established a subsidiary in Canada to support clients there with dedicated system integration knowledge, and support Vard Electro's growth in North America. Vard Electro has since established a successful cooperation with Vancouver Shipyard, providing engineering support for the National Shipbuilding Program. Later during the year, Vard Electro signed a contract with the United Kingdom's Cammell Laird Shiprepairers & Shipbuilders for the delivery of an engineering and electrical installation package for United Kingdom's new polar research vessel. Vard Electro also garnered a new contract for the delivery of an equipment and installation package, including VARD's proprietary propulsion and integrated automation and bridge systems, to Cochin Shipyard Ltd. in India for a vessel under construction for the Government of India.

Vard Marine has a long history of providing naval architecture and marine engineering services in North America, and its portfolio of coast guard and patrol vessels includes reference projects world-wide. Highlighting its market leading expertise, a design developed by Vard Marine was selected for the US Coast Guard's new OPC program, to be built at Eastern Shipbuilding Group. Also in 2016, Vard Marine secured a contract for the design of an antarctic icebreaking vessel for the Chilean Navy, to be built at ASMAR Shipbuilding & Ship Repair Company in Chile. A Vard Marine design was also selected with the preferred bidder Southern African Shipyards for the new Hydrographic/Oceanographic Survey vessel project for the South African Navy, which was announced early in 2017.

Employees by country

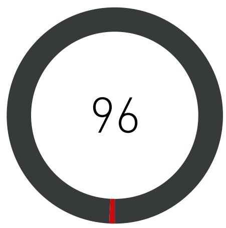
As at 31 December 2016

Asia

Singapore, Vietnam and India

South America

Brazil and Chile



North America

United States and Canada

3. The deep-sea trawler Molnes from Nordic Wildfish underwent an extensive refit at the Vard Søviknes. 4. MCVs for Topaz Energy and Marine under construction at Vard Vung Tau. 5. Live fish treatment barge delivered from Vard Aukra to Midt-Norsk Havbruk.

Equipment and solutions from Seaonics, are mainly used in subsea construction, reservoir exploration, module handling and well intervention, on research vessels and in ocean trawling. In 2016, VARD increased its ownership stake in this part-owned subsidiary, and reorganized the Seaonics group of companies to streamline the business. During the year, Seaonics delivered large parts of a complete package of winches, deck cranes, and overboarding systems, including A-frames and Launch and Recovery Systems (LARS), for a the new Norwegian icebreaking polar research vessel currently under construction at Fincantieri in Italy. Notable contracts awarded to Seaonics comprise winches and cranes within ocean fisheries, equipment for research vessels, and hatches and cranes for the new exploration cruise vessels to be built by VARD. ICD Software, a wholly-owned subsidiary of Seaonics, won contracts for control systems within the offshore wind access segment, within aquaculture supervision and control, and for control systems for remote-operated vehicles.

Aquaculture

VARD's aquaculture business is a new business area that aims to take advantage of opportunities arising from the booming market for fish farming in Norway and elsewhere in the world, such as in Canada, Chile, Scotland and the Faroe Islands. Already a major industry in Norway, fish farming is currently experiencing a step change in innovation and investment. On the back of high salmon prices reflecting rising demand for high quality seafood – especially from Asia – on the one side, and supply constraints on the other, the industry is developing fast, and with it the need for new technology.

Originally conceived in 2015 as an initiative to procure additional work for Vard Aukra at a time of low yard utilization, VARD's innovative concepts were quickly noticed by operators of fish farming facilities, ship owners catering to the segment, and other service providers. A portfolio of designs ranging from service boats, barges and operation platforms to large fish feed carriers and live fish carriers was developed, drawing on VARD's design and engineering expertise, previous experience in building vessels for the aquaculture and fisheries sector, and feedback from industry insiders. At the same time, a dedicated team at Aukra launched a sales and marketing offensive introducing VARD to key decision makers. Though fairly new to sector, VARD's technological capabilities, innovation power, and long track record of providing maritime solutions customized to client needs on an large scale stand out in an industry that is still is in its infancy.

The first fish feed barge and live fish treatment barges contracted in late 2015 and early 2016 were delivered during the year, to thoroughly positive response from customers. In the meantime, Vard Aukra contracted the first small services boats for the aquaculture market, and in the second half of the year, signed new contracts for another fish feed barge, a fish treatment vessel, and a fish farm operation platform.

In the fourth quarter of 2016, VARD acquired Storvik Aqua, a leading equipment supplier providing measurement and control solutions for the aquaculture industry. Storvik Aqua has a production facility in Norway as well as subsidiaries in Chile and Scotland. Storvik Aqua's product range enables Vard Aukra to deliver specialized vessels and products for fish farming with innovative integrated solutions, differentiating it in the market. The acquisition also gives VARD access to an established customer base that allows it to broaden its relations with potential clients in the aquaculture business, and provides a platform for the development of new solutions, in particular within bio mass measurement, fish feeding systems and fish health related equipment, several of which have already been rolled out.

In line with the industry's rapid evolution, VARD continues to invest in new technology and broaden its market presence, with the aim of becoming one of the leading suppliers of integrated solutions for the sea-based aquaculture industry.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

At VARD, we strive to foster a sustainable and responsible business that adheres to the highest levels of safety and corporate governance, to protect the welfare of our stakeholders, including our employees, customers, shareholders, partners, suppliers and subcontractors, and the local communities which we operate in globally.

VARD's commitment towards building a sustainable and responsible practice remains steadfast, and is reflected in our three core values:

Craftsmanship
We take pride in delivering high quality products and services.

Fellowship
We truly care about the individual, team and society.

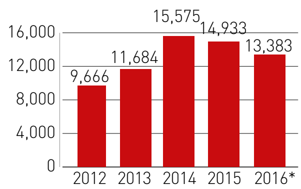
Salesmanship
Customer satisfaction is everyone's responsibility.

Active approach towards HSE

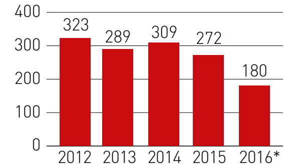
Health, Safety and Environment (HSE) initiatives remain at the forefront of VARD's business, and the company proactively keeps up-to-date with international best practices to ensure the safety of its global workforce. With initiatives firmly supported by top management, all employees and subcontractors are regularly trained and equipped with the latest knowledge for local HSE compliance. At all VARD shipyards, it is mandatory for management to adhere to HSE initiatives, and to encourage a proactive culture of reporting incidents and safety observations to promote a safer working environment, which is in line with VARD's core value of Fellowship.

"Vision Zero", our aspiration since 2005, aims to avoid any mishaps, for both our people and the environment. VARD's HSE training emphasizes the importance of using the right protective gear at all times and work according to our safety rules, which are continuously tightened, especially in areas concerning protective equipment and the adoption of preventive behavior for workplace safety. In testament of these efforts, VARD achieved zero fatalities at its workplaces in 2016, and continued to witness a positive trend in employees complying with safety rules proactively. In order to monitor and maintain a consistent and transparent view of the Group's HSE performance, all daily HSE routines are reported by all locations through the software management tool "Synergi". The information received through "Synergi" also lays the foundations for several internal campaigns that aim to raise awareness to current HSE related topics at specific locations.

Safety observations reported and handled



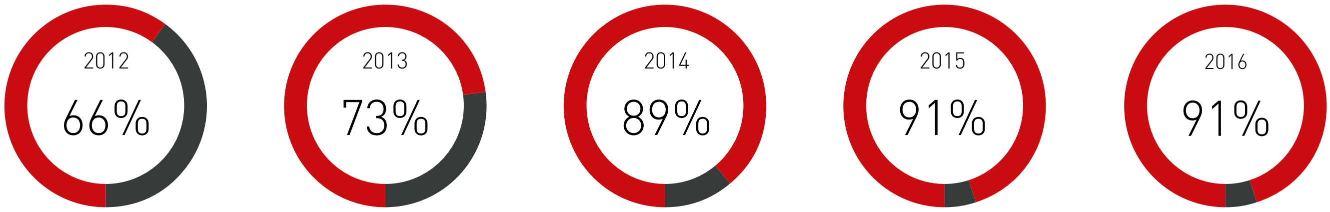
Accidents



** Reflecting downsizing and lower activity level.*

Waste management progress

Percentage of waste recycled



We continue to comply with strict key performance indicators (KPIs) relating to safety across all our shipyards, and benchmark and adopt best practices in terms of HSE work with our parent company, Fincantieri. Our company-wide efforts in implementing a comprehensive range of HSE initiatives continues to be well recognized and appreciated by our key stakeholders, comprising our valued employees, customers, labor unions and local communities.

In terms of contingency planning, a framework of scenario-based notification procedures and individual checklists for all members of the emergency response and executive management teams have been established. In addition, individual plans for dealing with all forms of emergencies, and assisting with next-of-kin handling are readily in place, to ensure VARD's preparedness.

It is with this all-encompassing array of HSE practices that VARD is able to become the industry's leader in safety practices, and has contributed to our goal of avoiding fatal mishaps while maintaining a low rate of personal injuries and incidents across our global locations.

Environmental sustainability

Protecting the environment is a key focus at VARD. With three of its shipyards already certified under ISO 14001, VARD continues to explore new ways to improve on its current practices to minimize the impact of its operations on the environment, particularly with regards to waste management, noise abatement, emissions reduction and the construction of eco-friendly ships.

Since 2011, when a comprehensive waste management framework was established, we have come a long way. VARD continues to register improvements year-on-year, with the amount of waste being recycled continuing to surpass 90% in 2016.

Being a member of the Confederation of Norwegian Enterprises' NOx-Fund, whose primary objective is to reduce nitrogen oxide (NOx) emission, VARD continues to explore new initiatives to reduce emissions. One development is the Group's investment in shore power systems on the majority of our Norwegian yards. These systems contribute to reduce exhaust emissions during newbuild ship commissioning.

Employees

A prolonged period of depressed oil prices is affecting demand across the entire offshore industry. To mitigate the impact, VARD undertook measures to further trim its workforce in 2016. Despite the difficult situation, the relationship between management, employees and union representatives was generally positive and constructive.

Following the closure of the Niterói shipyard in Brazil, the majority of the workforce was terminated, resulting in an overall reduction of more than 1,000 employees. Some key personnel were transferred to Vard Promar to further strengthen the management team and maintain the required competences in the Brazilian operations. Vard Vung Tau underwent a challenging phase when workload reached an all-time low in the second quarter. Coupled with an abundant number of job opportunities in Vietnam's fast-growing economy, this situation resulted in 115 employees leaving the yard in 2016. In Romania, the substantial headcount decrease seen in 2015 came to an end, helped by Initiatives to increase mobility in the workforce, including temporary transfers to Fincantieri's Monfalcone shipyard in Italy. In the second half of the year, the freeze on new hiring was lifted amid a general pick-up in activity levels at both yards.

In Norway, local legislation allowed the VARD yards to reduce personnel using flexible work arrangements. To further buffer the impact of the delicate industry situation, the Norwegian government decided in 2015 to provide businesses undertaking diversification programs with financing for in-house training. Immediately qualifying for this type of financing, VARD launched an initial training program, followed by another four different training projects organized and managed by Vard Academy in early 2016.

A coordinated change program was carried out among the VARD units in North West Norway last year, and received significant funding from NAV Møre og Romsdal (the regional department for the Norwegian Labour and Welfare Administration). This helped to effectively address the manning issues of the VARD units in North West Norway, and enabled us to take on a more diversified range of new orders. The program also contributed to the development in Vard Design of additional know-how enabling the Group to enter new and diversified segments increasing the innovation pace, and enabling the company to grow in competences and skilled resources numbers. Also for other Group companies, such as Vard Electro, the program was beneficial, supporting the entry in new geographical markets, new segments and the development of new product solutions. In addition, VARD entities in Brevik and our subsidiaries, Seaonics and ICD Software, received NAV funding through separate applications.

Training and development

With a view to cut costs to manage the low and volatile demand, VARD not only generally stopped recruitment at some of its European yards, but also reduced investment in training (except for mandatory training and training on occupational health and safety issues), preferring e-learning tools as an alternative to traditional methods.

The main focus in Romania has been on the renewal of existing authorizations in various fields of expertise, in order to prepare both yards for the increased demand for skilled workers on the back of an increasing workload. Vard Tulcea and the local Chamber of Commerce, which focuses on the worker selection process and the professional training of new welders, have in the course of 2016 renewed their partnership. Approximately 50% of the personnel at Vard Braila underwent external training during the year.

Vard Vung Tau in Vietnam continued to sustain training activity to enhance the local team's competency levels. In 2016, our Vietnam employees clocked around 30,000 training hours across 59 courses during the year, in areas ranging from orientation to leadership, soft skills, HSE initiatives, legal frameworks and technical and quality matters. An Essential Leadership Program was also developed and conducted for 81 people at the junior management level.

For our Brazilian operations at Vard Promar, the focus was mainly on HSE training. The team there had in total 60 courses with around 46,000 hours of training. Additionally, a leadership program with focus on soft skills for all production leaders was initiated in late 2016. Such training programs have been a significant contributor to the high staff retention rate. In the area of employee development, VARD also initiated a new process in 2016 that will incorporate the involvement levels of management staff in the Group's appraisal and succession planning system.

Aligned with international standards

In terms of ethics and social responsibility, VARD complies with two international certification standards: SA 8000 (Social Accountability) and OHSAS 18001 (Occupational Health and Safety Assessment Series). The SA 8000 standard is based on principles established in international documents such as, among others, the Conventions of ILO (International Labor Organization) and the Universal Declaration of Human Rights, which are particularly relevant in emerging markets. All VARD's workplaces operate according to this standard. In order to enhance compliance with Vard Ethical Guidelines, an interactive E-learning course is being rolled out at all units.

During 2016, VARD was the subject of numerous audits conducted by customers as well as financial institutions, achieving positive feedback and valuable input on each occasion. Compliance with OHSAS 18001 demonstrates VARD's commitment to guarantee health and safety at work. The two VARD shipyards in Romania and the one in Vietnam are officially certified under this standard.

Apart from these two standards, all of VARD's nine global shipyards are certified according to the ISO 9001 standard, as are Vard Electro in Norway and Romania, Vard Marine in the US and Canada, Vard Design in Croatia, Vard Engineering in Romania, and Vard Accommodation, Vard Piping, Vard Offshore Brevik, Vard Engineering Brevik and Seaonics in Norway. Based on a number of key management principles, this standard is focused on strong customer service, and the commitment and involvement of top management through the delivery process, with the objective of making continual advancements and enhancements in the area of product quality.

CORPORATE RESPONSIBILITY
Vard Vung Tau: In light of a series of massive floods and tropical storms that hit Vietnam in 2016, VARD Vung Tau actively gave back to the local communities in terms of financial aid, allowing families of afflicted VARD employees and flood victims to rebuild their homes safely and regain their livelihoods in a shorter span of time. This is in line with VARD's commitment and responsibility towards its employees and the communities they live in.

ANNUAL HSE CONTEST
Vard Braila: Together with the SANAB Trade Union, Vard Braila organizes an annual HSE contest to promote further awareness of HSE initiatives by testing each participant's knowledge of subjects pertaining to daily activities at the shipyard. The employees from Vard Braila have continued to secure first and second place in the national contest for the past five consecutive years, showing their high level of safety awareness and reflecting VARD's continuous commitment towards HSE efforts.

RISK MANAGEMENT

During times of rapid change and heightened uncertainty, well-functioning risk management becomes critical to maintaining stable operations. VARD's risk management framework, focusing on the areas of market risk, operational risk, financial and regulatory risk, and human resources risk, was put to the test during the past year.

Market risk

As a shipbuilder operating on a project-based business model, VARD is dependent on consistently maintaining an order book of projects with an adequate risk-return profile, and avoiding excessive volatility in the order book. Over time, new order intake must match revenues in order to secure a stable business.

With its core market of offshore-related vessels going through a severe downturn, market risk was a real threat for VARD at the start of 2016. Prior-year orders had totaled less than half of expected annual revenues, and the order book was diminishing fast. By leveraging on the organization's strengths and refocusing its design, sales and marketing efforts on new market segments, VARD was able to conclude the year with an order intake that allowed the Group to stop or reverse the decline in activity in almost all yard locations. A proactive and countercyclical approach to managing market risk was key to this success.

Compounding the order shortfall, VARD was and continues to be exposed to increased counterparty risk as a result of the downturn in the oil and gas industry. One vessel was cancelled during the first half of 2016, while another project was reclassified to inventory after the client went into administration. Two vessels were already held in inventory following cancellations in 2015. Other projects were exposed to clients undergoing financial restructuring or requesting delivery postponement in anticipation of improved market conditions. Throughout these processes, VARD is working with clients, their banks and other stakeholders to secure the best outcome for the Group – securing delivery of projects and minimizing financial losses. Risk management in a wider sense also includes the extensive work put into developing technical and commercial opportunities to adapt or convert vessels for other markets, such as offshore windfarm support and exploration cruising.

Operational risk

Fixed-price contracts are the norm in the shipbuilding industry, and shipbuilding contracts are agreed up to three years prior to a vessel's expected delivery. It is the Group's responsibility to ensure that all contract terms are met, and to manage an array of variables spanning from cost of labor and materials, to technology, supply chain and project execution matters. Risk management is an integral part of our project management disciplines, and well-established processes and project management tools are in place. The ability to calculate and manage the complexity of all project components and stages, including man-hours, scheduling, and workload, are key to successful shipbuilding operations.

As a result of the considerable volatility in the order book, managing the workload at the yards has been a focus area during 2016, to contain the extra cost associated with suboptimal capacity utilization. Prudent resource planning and using all available tools to minimize excess direct and indirect cost were key to managing this risk. The closure of the Niterói shipyard in Brazil and the repositioning of the Aukra shipyard in Norway were also risk-mitigating in relation to the Group's overall capacity. The agreement with Fincantieri entered into at the beginning of the year, which secured a base load for the Romanian yards was instrumental in reducing downside risk for the Group. During the second half of the year, attention turned to developing the

organization's capabilities and capacity to handle the newly-acquired orders, especially in Romania.

The orders taken in new market segments affect and challenge VARD's way of doing business throughout the value chain. From basic design and engineering through procurement to the various production stages, the construction of cruise vessels has distinct differences to the design and construction of other specialized vessels. VARD's risk management is tasked with identifying and managing the operational risk associated with the ambitious change program that has been initiated throughout the organization, and the new vessel segments being added to the Group's product portfolio.

Financial and regulatory risk

Shipbuilding is a capital-intensive business, and as such, relies on access to financing, both on the ship owner's and the shipyard's side. In addition to loans during construction and after delivery, the large and complex projects require guarantee facilities and the capability to hedge foreign exchange exposure. Guarantees mainly relate to the advance payments received from clients, payments owed to suppliers, and the shipyard's contractual performance, and typically comprise a combination of corporate and bank guarantees. While VARD aims to hedge all transactional currency risk under a consistent hedging policy, the Group is nevertheless exposed to foreign exchange rate developments, in particular, in relation to its long-term financing arrangements in Brazil.

Especially during challenging times, banks and financial institutions tend to reduce or withdraw their support for certain projects or market segments. This was a key risk for VARD during 2016 as the financial strength of many players in the offshore industry deteriorated. Significant effort has gone into managing this risk through diversification of the banking relationships during the year, and preserving sufficient levels of working capital financing for the Group. Working capital needs are heightened by delivery postponements and vessels being completed while reclassified under inventory. Building trust with the financial community is also key to procuring construction loan financing, guarantees and foreign exchange lines required for projects in new market segments, which often also entail unfamiliar counterparties and sector exposure. In relation to the cruise vessel market, VARD works proactively with GIEK, the Norwegian Guarantee Institute for Export Credit, to support its clients in obtaining export finance.

Operating in multiple jurisdictions, including some emerging economies, VARD is also subject to regulatory risk. Since 2014, VARD has been facing a claim from Brazilian tax authorities, which is still awaiting a decision in an appeals process. No provisions have been made in relation to the matter. In each of the jurisdictions it operates in, VARD aims to seek the best tax and legal advice in order to ensure compliance with local laws and regulations, and minimize regulatory risk.

Human resources risk

Shipbuilding as an industry depends heavily on the availability of skilled personnel. VARD has built up substantial know-how over the years and has made significant efforts to ensure that learnings are transferred from project to project and across shipyards. A prolonged industry downturn like the one the offshore industry is currently experiencing exposes the Group to the risk of losing key resources and expertise, which may be difficult and costly to rebuild again later. To manage this risk, VARD aims to maintain a core number of key talent at each yard. In Norway, temporary layoffs are used to mitigate the effects of fluctuating capacity utilization.

Throughout the recent phase of adjustment and consolidation, VARD has maintained a cooperative relationship with the trade unions, which most of the Group's workers are members of. VARD aims to secure early involvement and establish a constructive dialogue with all stakeholders concerning issues related to the workforce and its development.

As the entry into new market segments also demands new skills, the business diversification effort launched in 2016 was also accompanied by the targeted development of new capabilities through retraining, new hiring, and cooperation with Fincantieri. By active know-how transfer within the group, VARD is able to reduce the risk related to the steep learning curve required for the successful execution of its maiden cruise projects.

INVESTOR RELATIONS

Our work with Investor Relations in 2016 focused on rebuilding trust with the investment community by transparently communicating both risks and opportunities.

Total shareholder composition

As at 31 December 2016

- Substantial Shareholder (Fincantieri Oil&Gas): 55.6%
- Private and small investors: 30.2%
- Institutional investors: 12.4%
- Other: 1.8%

Institutional shareholdings by geography

- United Kingdom: 31.9%
- Other Europe: 25.5%
- Australia: 16.0%
- North America: 14.1%
- Asia: 12.5%

2016 started with a test of patience for investors in the oil and gas, oil services and offshore marine sectors. With the Brent oil price dipping below 30 USD per barrel in the second half of January, prospects looked bleak. VARD was no exception, and investor confidence in the company's ability to withstand the strong headwinds was shaken by the severity of the general industry downturn.

At the end of February, VARD released its FY2015 results, and simultaneously announced key elements of its new diversification strategy to reduce its dependency on the construction of OSVs. The new strategy and business plan outlined how the Group would deploy its assets, skills and relationships, to secure new business and maintain operating profitability in a year that was characterized by what some analysts have called the "worst OSV downturn in modern history." While admitting that 2016 would mark a low point in capacity utilization and revenues, the plan set out an ambitious target to return to previous highs in turnover by 2020.

In the following weeks and months, the focus of VARD's investor relations programme was to educate and inform financial stakeholders about the Company's prospects, and build trust in the strength of the business case that had been developed. Investors and analysts who were still familiarizing themselves with the Company's new target markets were aided by a steady stream of new contract announcements during the first half year. Still, with limited visibility in terms of order prospects and profitability in the new market segments, fears about the continued exposure to the offshore sector prevailed. After two clients defaulted on contracts in quick succession during the second quarter, and increased scrutiny on the financial soundness of offshore industry players globally, the value of VARD's shares bottomed out in the third quarter. Only from September, with the first cruise vessel contracts having become effective and some confidence returning into oil and gas markets, investor interest began to pick up noticeably.

Unperturbed by the ups and downs of the business cycle, VARD has upheld two principles throughout its history as a listed company: Transparent investor communication and good corporate governance. It is the continued commitment to these causes that helped the Company foster strong relationships with its investors, and aided them in adopting a long term or countercyclical view, even at the low point of the industry cycle. Though engagement with the financial community was less frequent than in prior years due to the generally negative perception of the offshore sector, management once again reached out to both institutional and private investors, and held meetings with analysts, fund managers and brokers. Individual information needs are served quickly and efficiently from the Company's headquarters in Norway via email, teleconferencing or through the comprehensive and up-to-date information presented on the Group's web site, www.vard.com/investor. While senior management is in Singapore for the Annual General Meeting and for every quarterly results presentation, a dedicated team of investor relations professionals is in place year-round to serve shareholders, analysts and media alike. Further underlining its dedication to the cause of individual investors, VARD has for several years partnered with the Securities

"VARD values the continued support of all its shareholders, regardless the size of their shareholdings, and will maintain its commitment towards corporate governance and transparent communication with the investor community as a whole."

Mr. Holger Dilling
EVP Investor Relations and Business Development Asia

Investors Association (Singapore), or SIAS, a leading Singapore-based investor lobby group. Publication of press releases and announcements via international newswires and financial and local media, in addition to release via the Singapore Exchange's online portal, SGXNET, rounds off the Company's investor communication program.

During the fourth quarter of 2016, VARD's main shareholder Fincantieri Oil & Gas S.p.A launched a voluntary conditional cash offer for all outstanding shares in VARD, with the intention of delisting and privatizing the company. The offer was subsequently declared unconditional in January 2017. Despite the offer price representing a premium to the last one-, three- and six-month periods prior to the offer, many shareholders demonstrated their strong faith in the Company's future as a separate, listed entity. Shareholders representing only about one-third of the share capital not previously controlled by Fincantieri chose to accept the offer.

As a result, Fincantieri Oil & Gas remains VARD's largest shareholder, with its stake increased from 55.63% to 69.76% (as at 10 March 2017). As in the previous year, minority shareholdings were largely in the hands of private and small investors, representing approximately 30% of total shareholdings. Institutional holdings were again spread over all major financial centers, with London recording the largest gain year-on-year, but also the number of shares held by investors in Asia being on the rise again. Unaffected by the outcome of the voluntary offer, VARD continues to enjoy excellent relations with Fincantieri, recording a steady growth in the number of intra-group transactions, and benefiting from synergies and know-how transfer within the larger Fincantieri group. At the same time, VARD values the continued support of all its shareholders, regardless the size of their shareholdings, and will maintain its commitment towards corporate governance and transparent communication with the investor community as a whole.

17 identical Module Carrier Vessels (MCV), of VARD 9 21 design, to be designed an built by VARD for Topaz Energy and Marine.

OUTLOOK

Branching out into diversified market segments has strengthened VARD's prospects and made it more resilient to the cyclical nature of shipbuilding.

VARD's new strategy launched at the beginning of 2016 has profoundly changed the Company over the course of less than a year. At year-end 2015, the order book was still dominated by offshore support and offshore subsea construction vessels, both in terms of number of vessels and value. Within twelve months, that picture has changed dramatically, with more than half of the order book value at year-end 2016 being attributable to exploration cruise vessels, and more than two-thirds of the vessels on order coming from segments outside VARD's traditional core markets. The pace of change is even more remarkable taking into consideration that shipbuilding is an industry typically characterized by long lead times, high-value projects, and entrenched relationships between shipyards and clients.

Also in terms of outlook, a change of perspective has taken place during 2016. At the core and through its long affiliation with the industry, VARD remains an offshore company, and will play a key role again in the design and construction of advanced vessels for this sector once the business climate improves. However, the outlook for VARD is not defined solely by the timing of a potential recovery in the oil and gas industry any more. With the inroads made into market segments as diverse as exploration cruise ships, fishing vessels and aquaculture, VARD has effectively uncoupled its destiny from that of the oil and gas market, and has taken the future into its own hands.

The outlook for the exploration cruise vessel segment remains upbeat, with demand driven by increasing interest for adventure tourism, offering the convenience of luxury cruising combined with individualistic, exotic experiences, whether it be in arctic or Antarctic climates, or to other less-travelled destinations. In the fisheries sector, demand for new vessels – especially at the high end of the market which VARD targets – is driven by an overdue renewal of the fleet with more modern and more efficient vessels, while in aquaculture, record salmon prices stimulate high investment into modernization and expansion of the entire industry – especially in Norway. Other market segments targeted by VARD as part of its new business plan include OPV's, where the Company has recorded notable success in the sale of ship designs, and offshore wind farm support vessels, where projects are still under development. Starting the new year off on a promising note, VARD recently announced the signing of a Letter of Intent for an exploration cruise vessel and two contracts for large fishing vessels, and continues to explore a pipeline of project opportunities with potential clients.
Also in early 2017, an important contract

for two LNG-powered car- and passenger ferries was secured, ensuring continued operations at the Brevik yard. Nevertheless, rebuilding the order book to enable the Company to return to previous highs in revenue by 2020, as envisaged by the business plan, requires a concerted effort by the entire organization.

While business development in relation to new market segments looks promising, VARD continues to be exposed to the downturn in the offshore sector through its existing project portfolio. At year-end, the Group held three completed or nearly-completed offshore vessels in inventory, as a result of clients defaulting on their original contractual obligations. Delivery of certain vessels in the order book has also been postponed repeatedly. One commonality of these projects is that utilization levels and charter rates in their respective markets are at a low point, and ship owners are struggling to finance and operate these vessels in a depressed market. Successful delivery, either as offshore vessels or reconfigured or rebuilt for other purposes, is a prerequisite for the Company to finalize its turnaround and fully focus on restoring growth and profitability. Similarly, VARD's Brazilian operations, which have weighed down on the Group's results in recent years, are still considered challenging. Further stabilization of operational performance, the upcoming delivery of two large and complex PLSVs, and follow-on orders for the yard are key milestones for VARD in Brazil on its journey to full recovery.

With the groundwork laid for a more diversified and robust business targeting multiple market segments going forward, VARD has now moved into the implementation stage of its new strategy and business plan. Customers have demonstrated great trust in the Group's capabilities, and now the entire organization is being mobilized to deliver on VARD's customer promise – "Built on trust". To this end, an ambitious change program is underway to adapt work processes and develop the necessary know-how, skills and relationships in all phases of the shipbuilding value chain, taking into account the specific requirements of new vessel types such as cruise vessels. In building up new capabilities, VARD benefits from know-how transfer through the strong cooperation with its parent group Fincantieri. Commercial transactions and synergies with Fincantieri have increased significantly in the wake of the VARD's strategy shift, and will continue to play an important role in the development of the Company.

Skandi Açu, an offshore subsea construction and pipelay vessel of VARD 3 05 design, was delivered from Vard Søviknes to TechDof Brasil.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Giuseppe Coronella, Chairman and Non-Executive Director (appointed on 30 September 2016)
Roy Reite, Chief Executive Officer and Executive Director
Vittorio Zane, Executive Director
Keen Whye Lee, Lead Independent Director
Sung Hyon Sok, Independent Director
Claudio Cisilino, Non-Executive Director (appointed on 30 September 2016)

AUDIT COMMITTEE
Keen Whye Lee, Chairman
Sung Hyon Sok
Claudio Cisilino (appointed on 30 September 2016)

NOMINATING COMMITTEE
Sung Hyon Sok, Chairman
Keen Whye Lee
Vittorio Zane

REMUNERATION COMMITTEE
Sung Hyon Sok, Chairman
Keen Whye Lee
Claudio Cisilino (appointed on 30 September 2016)

SECRETARY
Elizabeth Krishnan

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AUDIT PARTNER-IN-CHARGE
Maurice Loh (Appointed in 2013)

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CORPORATE GOVERNANCE REPORT

The directors and management of Vard Holdings Limited (the "Company") are committed to high standards of corporate governance and have adopted the principles set out in the Code of Corporate Governance 2012 (the "Code") which forms part of the Continuing Obligations of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"). Where there are deviations from the Code, appropriate explanations are provided.

THE BOARD'S CONDUCT OF AFFAIRS

The principal functions of the Board are:

1) providing entrepreneurial leadership and approving board policies, corporate strategies, key operational initiatives, financial objectives of the Group and monitoring the performance of management;
2) overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
3) ensuring the Group's compliance with laws, regulations, policies, directives, guidelines and internal code of conduct;
4) approving the nomination of directors and appointment of key personnel;
5) approving annual budgets, major funding, investments, divestment proposals and monitoring operations;
6) approving the remuneration packages for the Board and key executives;
7) ensuring accurate, adequate and timely reporting to, and communication with shareholders; and
8) assuming the role for the satisfactory fulfilment of social responsibilities of the Group.

The Board has adopted a charter setting out rules and procedures for its self governance. Certain functions have been delegated by the Board to three main sub-committees (Audit, Nominating and Remuneration Committees), which operate under clearly defined terms of reference. The Chairman of the respective committees reports the outcome of committee meetings to the Board.

Matters that are specifically reserved for the full Board to decide are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders and matters that require Board approval.

The Board conducts scheduled meetings on a quarterly basis. Ad-hoc meetings are held where necessary, to address significant issues. Where expedient, board meetings are held by way of teleconference, which is permitted by the Constitution of the Company. The attendance of the directors at meetings of the Board and Board Committees for FY2016 is as follows:

Name of Directors	Board		Audit Committee ("AC")		Remuneration Committee ("RC")		Nominating Committee ("NC")	
	No. of meetings	Atten-dance	No. of meetings	Atten-dance	No. of meetings	Atten-dance	No. of meetings	Atten-dance
Giuseppe Bono[1]	6	5	N/A	N/A	N/A	N/A	N/A	N/A
Giuseppe Coronella[2]	1	1	N/A	N/A	N/A	N/A	N/A	N/A
Roy Reite	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Vittorio Zane	7	7	N/A	N/A	N/A	N/A	1	1
Pier Francesco Ragni[3]	6	6	6	6	1	1	N/A	N/A
Claudio Cisilino[4]	1	1	1	1	1	1	N/A	N/A
Sung Hyon Sok	7	7	7	7	2	2	1	1
Keen Whye Lee	7	7	7	7	2	2	1	1

N/A: Not Applicable

1. Mr. Giuseppe Bono resigned as a director w.e.f. 30 September 2016.
2. Mr. Giuseppe Coronella was appointed as a director w.e.f. 30 September 2016.
3. Mr. Pier Francesco Ragni resigned as a director w.e.f. 30 September 2016.
4. Mr. Claudio Cisilino was appointed as a director and a member of AC and RC w.e.f. 30 September 2016.

Upon joining the Board, a director is provided with an orientation to familiarize him with the Group's business, operations and the relevant regulations and governance requirements.

The Company adopts a policy whereby directors are encouraged to request further explanation, briefings or informal discussion on any aspect of the Group's operations or business issues from management. During the financial year, the Directors received training on regulatory updates including briefings on directors' duties conducted by relevant professionals at a specially convened meeting. The directors are also informed of new updates in the requirements of the SGX-ST, Companies Act or other regulations/statutory requirements from time to time. They are encouraged to participate in seminars and training programmes in connection with their duties, funded by the Company. The directors have open invitations to visit the Group's operating facilities to enable them to obtain a better perspective of the business and to enhance their understanding of the Group's operations.

BOARD COMPOSITION AND GUIDANCE

The Board presently consists of six directors and the Board considers this number to be appropriate for the current scope of operations of the Group. Messrs Keen Whye Lee and Sung Hyon Sok are non-executive independent directors. Mr. Roy Reite is an executive director and the Chief Executive Officer of the Company. Mr. Vittorio Zane is also an executive director of the Company. The other members of the Board, Mr. Giuseppe Coronella and Mr. Claudio Cisilino were appointed on 30 September 2016, in place of Mr. Giuseppe Bono and Mr. Pier Francesco Ragni. Mr. Giuseppe Coronella and Mr. Claudio Cisilino are non-executive non-independent directors. Mr. Giuseppe Coronella is the Chairman of the Board of Directors. Mr. Keen Whye Lee is the Lead Independent Director.

The background of each director is set out on pages 8 and 9. None of the directors are related to one another. The Board comprises directors with a broad range of commercial experience including expertise in shipbuilding industry, financial, capital and investment management. Together, they bring a wide range of expertise, technical skills and relevant experience to the Group. There is sufficient independent element on the Board. This is to ensure that there is effective representation for shareholders and issues of strategy, performance and resources are fully discussed and examined to take into account long-term interest of shareholders, employees, customers, suppliers and the industry in which the Group conducts its business.

Mr. Keen Whye Lee as the Lead Independent Director, leads and co-ordinates the activities of the independent directors. He is the principal liaison on board issues between the independent directors and the Chairman.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer ("CEO") are separate and the positions are held by separate persons who are not related. There is a division of responsibility between the Chairman and the CEO. The Chairman leads the Board and bears responsibility for the workings of the Board of Directors, the governance process of the Board of Directors, scheduling Board meetings and setting the Board meeting agenda in consultation with the CEO. The Chairman reviews most Board papers before they are presented to the Board of Directors and ensures that Board members are provided with adequate and timely information.

The CEO is the most senior executive in the Group and is responsible for strategic goals and day-to-day management of the Group.

BOARD MEMBERSHIP

The Nominating Committee ("NC") comprises three directors, namely Mr. Sung Hyon Sok (Chairman of the NC), Mr. Keen Whye Lee and Mr. Vittorio Zane. Mr. Sung Hyon Sok and Mr. Keen Whye Lee are independent directors.

The scope and responsibilities of the NC include:
1) identifying, reviewing and recommending candidates for nomination for appointment and reappointment of directors, senior executive staff and the members of the various committees;
2) reviewing the Board structure, size and composition and making recommendations to the Board with regards to any adjustments that are deemed necessary;
3) reviewing the strength and assessing the effectiveness of the Board as a whole;
4) determining on an annual basis the independent status of directors;
5) deciding whether or not a director is able to and has been adequately carrying out his duties as a director of the Company, particularly when he has multiple board representations;
6) overseeing the management, development and succession planning of the Group; and
7) identifying training and professional development programs for directors.

During the financial year under review, the NC considered and recommended the appointments of Mr. Giuseppe Coronella and Mr. Claudio Cisilino as non-executive non-independent directors. The Board accepted the NC's recommendation.

The NC assessed and recommended to the Board, the directors to be re-elected pursuant to the Company's Constitution at the Annual General Meeting.

The NC determines the independence of directors annually in accordance with the guidelines set out in the Code and is of the opinion that the Board is able to exercise objective judgment on corporate affairs independently and that the Board's decision-making process is not dominated by any individual or small group of individuals. Although the Directors have multiple listed-company board representations and/or other principal commitments, the Board has considered and is satisfied that each of them is able to and has adequately carried out his duties as a director of the Company.

BOARD PERFORMANCE

The NC evaluates the performance of the Board and the committees annually based on objective performance criteria. The performance evaluation is aimed at giving directors an opportunity to gauge their effectiveness individually and collectively. It also helps to ensure continual improvement in the Board's decision-making process as it provides a benchmark by which future performance can be measured.

ACCESS TO INFORMATION

Management provides all directors with Board/Board Committee reports prior to the respective meetings. As a general rule, papers on specific subjects are sent to the Board in advance and are issued, where possible, in a timely manner to enable the directors to obtain further explanations where necessary so that they are adequately informed prior to the meetings. Amongst others, the report provides information on the Company's performance, financial position and prospects.

The Company Secretary attends all Board and Board Committee meetings. The Company Secretary is responsible for ensuring that procedures are followed and that the Company has complied with the requirements of the Companies Act and all other rules and regulations that are applicable to the Company. Directors have independent access to the Company Secretary at all times.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES
LEVEL AND MIX OF REMUNERATION

The Remuneration Committee ("RC") comprises three directors, namely Mr. Sung Hyon Sok (Chairman of the RC), Mr. Keen Whye Lee and Mr. Claudio Cisilino (appointed on 30 September 2016). Mr. Sung Hyon Sok and Mr. Keen Whye Lee are independent directors.

The RC's responsibilities include:
1) recommending a framework of executive remuneration for the Board and key executives; and
2) reviewing and recommending to the Board the remuneration packages and terms of employment of the CEO and senior executives of the Group.

There is a formal and transparent procedure for fixing the remuneration packages of individual directors. No director is involved in deciding his own remuneration. In addition to the RC's responsibilities as stated above, the RC is also responsible for reviewing and recommending to the Board, the remuneration packages for all directors, taking into account the current market circumstances and the need to attract directors of experience and good standing.

As part of its review, the RC will cover all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, shares and benefits-in-kind.

The RC and the Board are of the view that the remuneration of the directors is adequate but not excessive in order to attract, retain and motivate them to run the Company successfully.

Non-executive directors including the Chairman have no service contracts. The CEO's contract, which commenced on 1 October 2010, has no fixed term. His service contract contains non-competition and non-solicitation clauses, which are binding on him for a period of 6 months and 12 months respectively after the cessation of his employment with the Company. Executive director Mr. Vittorio Zane's contract, which commenced on 28 April 2015, also has no fixed term. His service contract also contains non-competition and non-solicitation clauses, which are binding on him for a period of 6 months and 12 months respectively after the cessation of his employment with the Company.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from executive directors. The executive directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the executive directors in the event of such breach of fiduciary duties. The variable component paid to key executives is moderate, and in line with the practice in the country of operation. Currently, there is no requirement to institute contractual provisions in service agreements of the executives to reclaim incentive components of remuneration paid to the executives.

The CEO's remuneration package includes pension contributions. It also includes a discretionary bonus to be determined by the RC and recommended to the Board.

DISCLOSURE OF REMUNERATION PAID TO DIRECTORS AND KEY EXECUTIVES

A breakdown showing the level and mix of each individual director's remuneration paid for FY2016 (in percentage terms) is as follows:

Name of Director	Remuneration[1]	Fees[2] (%)	Salary[3] (%)	Bonus[3] (%)	Other Benefits[4] (%)	Total (%)
Roy Reite	S$716,000	0%	94%	0%	6%	100%
Giuseppe Bono[5]	S$393,000*	100%	0%	0%	0%	100%
Giuseppe Coronella[6]	S$50,000	100%	0%	0%	0%	100%
Vittorio Zane	S$199,000	0%	99%	0%	1%	100%
Pier Francesco Ragni[5]	S$50,000	100%	0%	0%	0%	100%
Claudio Cisilino[6]	S$17,000	100%	0%	0%	0%	100%
Keen Whye Lee	S$85,000	100%	0%	0%	0%	100%
Sung Hyon Sok	S$66,000	100%	0%	0%	0%	100%

1 Rounded off to the nearest thousand dollars.
2 Director's fees received from the Company are subject to approval by shareholders as a lump sum at the AGM.
3 Salary relates to FY2016. Bonus disclosed in relation to FY2015 paid in 2016.
4 Other benefits are inclusive of allowances and pensions.
5 Mr. Giuseppe Bono and Mr. Pier Francesco Ragni resigned as directors on 30 September 2016.
6 Mr Giuseppe Coronella and Mr. Claudio Cisilino were appointed as non-executive directors on 30 September 2016.

* Includes director's fees received from subsidiary.

The RC ensures that the remuneration package of employees related to executive directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scope and level of responsibilities. The aim of the RC is to motivate and retain such executives and ensure that the Group is able to attract the best talent in the market in order to maximize shareholders' value.

The table below shows the range of gross remuneration (in percentage terms) of the top six executives (executives who are not directors) (the "Top Six Executives"):

Remuneration band & name of executives	Salary[a] (%)	Bonus[a] (%)	Other Benefits[b] (%)	Total (%)
S$250,000 to S$499,999				
Magne Bakke	97%	0%	3%	100%
Magne Håberg	97%	0%	3%	100%
Knut Ola Tverdal	97%	0%	3%	100%
Stig Bjørkedal	97%	0%	3%	100%
Holger Dilling	98%	0%	2%	100%
Geir Ingebrigtsen	98%	0%	2%	100%

a Salary relates to FY2016. Bonus disclosed in relation to FY2015 paid in 2016.
b Other benefits are inclusive of allowances and pensions.

The aggregate amount of termination, retirement and post-employment benefits that may be granted to the executive directors and the Top Six Executives is S$2,712,215. Non-executive directors are not entitled to such benefits. The total remuneration paid to the Top Six Executives in FY2016 amounted to S$2,133,984.

Mr. Magne Reite, father of Mr. Roy Reite, Director and Chief Executive Officer of the Company, is an employee of the Group, whose remuneration exceeded S$50,000 during the financial year ended 31 December 2016. His remuneration was in the band of S$200,000 to S$250,000.

ACCOUNTABILITY

The results and other relevant information on the Company, are disseminated via SGXNET and are also available on the Company's website at www.vard.com.

In presenting the periodic announcement of the results, the Board aims to provide shareholders with a balanced and comprehensible assessment of the Group's performance, financial positions and prospects on a quarterly basis.

To enable the Board to fulfill its responsibilities, management reports are made available regularly to all the directors that include updates on the performance of the Company and all its subsidiaries. The management is accountable to the Board and the Board is accountable to shareholders.

AUDIT COMMITTEE

The Audit Committee ("AC") comprises three directors, namely Mr. Keen Whye Lee (Chairman of the AC), Mr. Claudio Cisilino (appointed on 30 September 2016) and Mr. Sung Hyon Sok. Mr. Keen Whye Lee and Mr. Sung Hyon Sok are independent directors.

The principal responsibilities of the AC include:

1) recommending to the Board of Directors the external auditors to be nominated, and approving the compensation of the external auditors. It also reviews the scope and results of the audit, its cost-effectiveness, and the independence and objectivity of the external auditors;
2) reviewing with management, the significant risks or exposures that exist and the steps management have taken to manage such risks to the Company, and with the external auditors the audit plan and areas of audit focus;
3) reviewing with the Chief Financial Officer and external auditors at the completion of the full year financial results of the Group:
    a) any significant findings and recommendations of the external auditors together with management's responses thereto;
    b) evaluation of the system of internal controls;
    c) the external auditors' reports;
    d) the assistance given by management and the staff of the Company to the external auditors, including any concerns encountered during the course of audit;
    e) interested person transactions ("IPTs") falling within the scope of Chapter 9 of the Listing Manual;
4) reviewing quarterly and full year financial statements for submission to the Board for its approval;
5) considering legal and regulatory matters that may have a material impact on the financial statements, related exchange compliance policies and reports received from regulators.

Minutes of the AC meetings are submitted to the Board for its information and review. To create an environment for open discussion on audit matters, the AC meets with the external auditors and with the internal audit team, without the presence of Management, at least once a year. The AC assesses changes in accounting standards and issues that have an impact on the financial statements with the Auditors.

The AC assesses the independence of the external auditors annually. The aggregate amount of fees paid to the external auditors of the Group for the financial year ended 31 December 2016 was NOK 11 million.

The AC has reviewed the non-audit services rendered by the external auditors for the financial year ended 31 December 2016 as well as the fees paid, and is satisfied that the independence of the external auditors has not been impaired.

INTERNAL CONTROLS AND INTERNAL AUDIT

The Board believes in the importance of maintaining a sound system of internal controls to safeguard the interests of shareholders and the Company's assets. The Board has approved a set of internal controls that set out approval limits for expenditure and transactions to be incurred in the ordinary course of business including hedge transactions.

In performing its functions, the AC:

a) had full access to and assistance of the management and the discretion to invite any director and executive officer to attend its meetings;
b) had been given reasonable resources to enable it to discharge its functions properly; and
c) had the express powers to conduct or authorize investigation into any matters within its terms of reference.

Based on the report of the internal and external auditors, information furnished by Management and observations made, the Board, in concurrence of the AC, is of the view that the existing internal controls and risk management systems are adequate and effective in addressing financial, operational, compliance and information technology risks. In addition, the Board recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement and loss.

The Board is cognizant of the importance of internal audit, and the Company has during 2016 planned and, supported by the internal audit function of its parent company, carried out internal audit activities, concluding with a report with specific recommendations for further improvements to be implemented. The Audit Committee is of the view that the internal audit team has adequate resources to perform its functions and has to the best of its ability, maintained its independence from the activities that it audits.

For the financial year under review, the Chief Executive Officer and the Chief Financial Officer have provided assurance to the Board that the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the operations and finances and that an effective risk management and internal control system has been put in place.

WHISTLE-BLOWING POLICY

Management has put in place a whistle-blowing policy, whereby employees and any other persons may, in confidence, raise concerns about possible improprieties on matters of financial reporting or other matters. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

COMMUNICATION WITH SHAREHOLDERS
GREATER SHAREHOLDER PARTICIPATION

Major developments on the Company and its business operations are communicated to shareholders via SGXNET and are also available on the Company's website at www.vard.com. The Company does not practise selective disclosure. Price sensitive information is first publicly released before the Company meets with any group of investors or analysts.

Quarterly and annual results are released on SGXNET within the mandatory period.

All shareholders of the Company will receive the Annual Report of the Company and notice of AGM within the mandatory period. The notice of AGM is also advertised in a prominent newspaper. The Constitution of the Company permits a shareholder to appoint one or two proxies to attend and vote in his stead. Relevant Intermediaries which provide nominee or custodial services may appoint more than two proxies. The Company has not amended its Constitution to provide for absentee voting methods, which call for elaborate and costly implementation of a foolproof system, the need for which does not arise presently. As recommended by the Code, all resolutions at general meetings will be voted by poll.

Each item of special business included in the notice of the general meetings is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for each separate issue at the meeting.

The Chairmen of the Board Committees are present and available to address questions relating to the work of their respective Board Committees at general meetings. Shareholders are given the opportunity to air their views and ask directors, management and external auditors questions regarding the Company.

In view of the financial performance of the Company, and cash preservation and financing of operations being a focus area, no dividend has been proposed for FY2016.

DEALINGS IN SECURITIES

The Company has adopted an internal Code of Best Practices on Securities Transactions ("Code") to provide guidance to its officers with regard to dealings in the securities of the Company in compliance with principles of Rule 1207(19) of the Listing Manual of the SGX-ST.

In general, officers are encouraged to hold shares in the Company but the listed issuer and its officers are prohibited from dealing in shares:

- in the period commencing two weeks before the announcement of the quarterly financial results or one month before the announcement of the financial statements of the financial year, as the case may be, and ending on the dates of the announcement of the relevant results.
- at any time while in possession of price-sensitive information.

Directors and employees are expected not to deal in the Company's securities on short-term considerations and to observe insider trading laws at all times. All senior managers of the Company are required to notify their dealings in the Company's shares within two market days of transaction.

INTERESTED PERSON TRANSACTIONS ("IPT")

The Company has adopted an internal policy in respect of any transaction with interested person and has set out the procedures for review and approval of the Company's IPTs.

The aggregate value of the transactions conducted during the financial year are as follows:

	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	NOK	NOK
Fincantieri Group		
Production service to Fincantieri at Italian facilities	-	6,965,633
Secondment of personnel to VARD	-	5,068,888
Secondment of personnel to Fincantieri	-	7,733,924
Support service to yard management in Vard	-	1,074,030
Contract for manufacturing and outfitting of a ship-part to Fincantieri	-	598,046,050
Contract between Marine Interiors S.p.A. and VARD for accomodation modules	-	295,046,050
Contract for sale of spare parts to Fincantieri	-	937,602
Slot reservation agreement	-	584,152,600
Total	**-**	**1,499,024,777**

MATERIAL CONTRACTS

There were no material contracts involving the interests of any director or controlling shareholder of the Company, not being contracts entered into in the ordinary course of business, entered into by the Company during the period under review, except as disclosed in the audited financial statements.

USE OF PROCEEDS

The Company raised total net proceeds of NOK 606 million from the issuance of 180,000,000 new ordinary shares of S$0.79 each from the IPO in 2010. The Company utilized the proceeds as follows:

Use of proceeds	Amount allocated (NOK million)	Amount utilized in prior years (NOK million)	Amount utilized in FY2015 (NOK million)	Balance (NOK million)
Construction of a second shipyard in Brazil	84	84	-	-
Expansion of yard capabilities in Norway	19	19	-	-
Improvement of manufacturing capacity and equipment at Vung Tau (Vietnam) and Tulcea (Romania)	227	227	-	-
Expansion of power and automation capabilities at Vard Electro AS, including potential acquisitions	65	65	-	-
Investments in emerging markets, including potential acquisitions	65	33	32	-
R&D, including potential acquisitions of design/engineering companies	61	61	-	-
General corporate purposes and working capital	85	85	-	-
Total net proceeds	**606**	**574**	**32**	**-**

The total amount utilized as at 31 December 2016 is NOK 606 million. The utilization is in accordance with the intended use of proceeds of the initial public offering and in accordance with the amounts allocated, as stated in the Prospectus.

OTHERS

The Company and its Singapore-incorporated subsidiary are audited by PricewaterhouseCoopers LLP. Significant foreign-incorporated subsidiaries are audited by other member firms of PricewaterhouseCoopers International Limited (PwCIL).

Associated companies are audited by PricewaterhouseCoopers AS, Deloitte AS, Revisjonsselskapet AS, Solvang Revisjon AS, AT ADLER Pte Ltd. and KPMG AS.

The Company is in compliance with Rules 712 and 715 of the Listing Manual.

DIRECTORS' STATEMENT

The Directors present this statement to the members of the Company together with the audited financial statements for the financial year ended 31 December 2016. The consolidated financial statements have been presented on the basis described in Note 2 to the audited financial statements.

1. DIRECTORS

The directors in office at the date of this statement are as follows:

Mr. Giuseppe Coronella, Chairman
Mr. Roy Reite, Chief Executive Officer and Executive Director
Mr. Vittorio Zane, Executive Director
Mr. Claudio Cisilino, Non-Executive Director
Mr. Keen Whye Lee, Lead Independent Director
Mr. Sung Hyon Sok, Independent Director

In the opinion of the directors:

a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 58-111 are drawn up as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and

b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of Directors and corporation in which interests are held	Holdings at beginning of the year/date of appointment	Holdings at end of the year
Mr. Giuseppe Coronella (appointed on 30 September 2016)		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	11,000	11,000
Mr. Claudio Cisilino (appointed on 30 September 2016)		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	12,000	12,000
Mr. Vittorio Zane		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	8,800	8,800

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

There were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2017.

3. ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

4. SHARE OPTIONS

a) Options to take up unissued shares

During the financial year, there were no options granted to take up unissued shares of the Company.

b) Options exercised

During the financial year, there were no shares of the Company issued by virtue of the exercise of an option to take up unissued shares.

c) Unissued shares under option

At the end of the financial year, there were no unissued shares of the Company under option.

5. AUDIT COMMITTEE

The members of the Audit Committee at the date of this report are:

- Mr. Keen Whye Lee (Chairman), Lead Independent Director
- Mr. Sung Hyon Sok, Independent Director
- Mr. Claudio Cisilino, Non-Executive Director*

* Mr. Claudio Cisilino was appointed as a member of the Audit Committee in place of Mr. Pier Francesco Ragni with effect from 30 September 2016.

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance.

In performing its functions, the Audit Committee met with the Company's auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the external auditors;
- the scope and results of the internal audit procedures;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, PricewaterhouseCoopers LLP, be nominated for reappointment at the forthcoming Annual General Meeting of the Company.

6. INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Mr. Giuseppe Coronella
Chairman of the Board and Non-Executive Director

Mr. Roy Reite
Chief Executive Officer and Executive Director

21 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS AND MEMBERS OF VARD HOLDINGS LIMITED

Our Opinion

In our opinion, the accompanying consolidated financial statements of Vard Holdings Limited (the "Company") and its subsidiaries (the "Group") and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated statement of financial position of the Group as at 31 December 2016;
- the statement of financial position of the Company as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Our Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
1. Contract revenue recognition using the percentage-of-completion method	
Refer to Note 2D *Construction Contracts*, 3H, 3M and 24 to the financial statements. Revenue from construction contracts amounted to NOK 7,673 million, representing 97.2% of the Group's total revenue for the financial year ended 31 December 2016. Revenue from construction contracts is recognised based on the stage of completion of the construction contract (the "POC" method), which is measured generally by reference to contract costs incurred to date, as compared to the estimated total costs for the contracts. The revenue from construction contracts using the POC method is key to our audit because of the use of significant management judgements to estimate the total contract costs that could arise, including uncertainties occurring during the execution of the projects.	Our audit procedures included the following: ▪ Obtained an understanding of the status of the work-in-progress contracts and the project contingencies and risks associated with those customer contracts; ▪ Evaluated the effectiveness of management's control over the preparation and revision to the budgeted total costs, and the recording of the actual costs; ▪ Assessed the reliability of management's estimates of the budgeted total costs by comparing these against the actual costs; ▪ Tested, on a sample basis, the actual material and subcontractor costs incurred to suppliers' invoices and project job sheets, ▪ Tested, on a sample basis, the basis of overhead allocation; ▪ Performed, on a sample basis, inspection of job sites and performed physical verification of the existence of the work-in-progress hulls; and ▪ Recomputed the revenues and costs recognised for the year and traced these to the accounting records. Based on our audit procedures, we found management's judgements in relation to estimating the total costs in respect of the construction contracts to be reasonable.
2. Impairment assessment of property, plant and equipment in Brazil	
Refer to Note 2D I*mpairment assessment of goodwill and property plant and equipment*, 3D, 3I and 4 to the financial statements. The Group owns shipyards, plant and machinery used in shipbuilding activities. As at 31 December 2016, the carrying value of the property, plant and equipment relating to the shipbuilding activities in Brazil was NOK 1,139 million, representing 8.4% of the Group's total assets. In Brazil, the Group is experiencing an overall market downturn and demanding operations. Management has performed an impairment assessment, including analysing the overall market condition and the future prospects in relation to the assumed	Our audit procedures included the following: ▪ Validated the calculation of management's future cash flows including comparing them to the latest business plan approved by the Board of Directors, and involvement of our valuation specialist; ▪ Assessed the reasonableness of management's significant assumptions related to assumed new contracts and assumed margins based on our knowledge of the business and industry trends; ▪ Involved our valuation specialist to assess the reasonableness of management's assumptions supporting the cash flow forecast, margins and discount rate; and ▪ Performed sensitivity analyses to ascertain the extent of change in the assumptions that either individually or in combination would be required for the property, plant and equipment to be impaired.

cash flows of the yard in Brazil. Based on the impairment test, no impairment charge was required to be recorded.

The impairment assessment was significant to our audit because of the significant judgements made in the assumptions applied when calculating the recoverable amount of the assets, relating to the future prospects for the Brazilian market, assumed new orders, margins, and discount rate.

Based on our audit procedures, we found management's assumptions in relation to the value in use calculations to be reasonable.

3. Recoverability of work-in-progress balances for customers in the offshore sector

Refer to Note 2D *Construction Contracts*, 3H, 3M and 15 to the financial statements.

The downturn in the offshore sector has had a significant impact on the customers in the offshore sector. With the industry still facing challenges, certain customers had requested for deferral of delivery dates of the vessels under construction. This could impact the recoverability of the work-in-progress balances.

As at 31 December 2016, the total construction work-in-progress balance, including the offshore sector, was NOK 5,594 million.

In estimating the recoverability, management considered the financial condition of their customers, and whether the work-in-progress may be recovered through alternative transactions in the event that the customers were to be unable to take delivery.

We focused on this area because of the complexity of facts and circumstances and the inherent judgment required in assessing whether the customers will be able to fulfil their contractual obligations and take delivery of the vessels.

Our audit procedures included the following:

- Evaluated management's assessment of the risk of customers defaulting on the contracts, and corroborated these with our understanding of the industry, facts and circumstances applicable to the individual contracts, as well as publicly available information that would be relevant to understand the financial position of the customers;
- Where requests have been received for deferral of the delivery dates, reviewed the appropriateness of continued recognition of revenue and associated margin as construction contracts; and
- Assessed management's estimation of the recoverability of the work-in-progress, with reference to possible alternatives in the market, should the customers be unable to take delivery of the vessels.

Based on the audit procedures performed, we found management's judgments on the recoverability of the work-in-progress to be appropriate.

Other Information

Management is responsible for the other information. The other information comprises all the sections of the annual report, which we obtained prior to the date of this auditor's report, and excludes the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with FRSs, and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Maurice Loh Seow Wee.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 21 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in NOK millions unless otherwise stated)

		Group		Company	
	Note	2016	2015	2016	2015
ASSETS					
Non-current assets					
Property, plant and equipment	4	2,555	2,382	-	-
Intangible assets	5	475	429	-	-
Investment in subsidiary	6	-	-	2,983	2,142
Investment in associates	7	222	341	-	-
Other investments	8	19	39	-	-
Interest-bearing receivables, non-current	9	473	492	-	656
Non-current derivatives	31	28	-	-	-
Other non-current assets	10	38	35	-	-
Deferred tax assets	11	82	42	-	-
Total non-current assets		**3,892**	**3,760**	**2,983**	**2,798**
Current assets					
Inventories	14	1,949	752	-	-
Construction WIP in excess of prepayments	15	5,594	12,451	-	-
Trade and other receivables	16	801	878	112	79
Current derivatives	31	53	331	-	-
Other current assets	10	161	1,316	-	-
Interest-bearing receivables, current	9	289	488	7	129
Cash and cash equivalents	17	722	919	3	4
Assets classified as held for sale	32	57	-	-	-
Total current assets		**9,626**	**17,135**	**122**	**212**
Total assets		**13,518**	**20,895**	**3,105**	**3,010**
EQUITY AND LIABILITIES					
Equity					
Paid up capital	18	4,138	4,138	4,138	4,138
Restructuring reserve	18	(3,190)	(3,190)	(1,411)	(1,411)
Other reserves	18	(877)	531	-	-
Retained earnings	18	2,194	2,319	375	280
Total equity attributable to equity holders of the Company		**2,265**	**3,798**	**3,102**	**3,007**
Non-controlling interests	12	30	(837)	-	-
Total equity		**2,295**	**2,961**	**3,102**	**3,007**
Non-current liabilities					
Loans and borrowings, non-current	19,31	1,049	1,200	-	-
Deferred tax liabilities	11	109	79	-	-
Non-current derivatives	31	32	12	-	-
Other non-current liabilities	20	582	22	-	-
Provisions, non-current	21	96	96	-	-
Total non-current liabilities		**1,868**	**1,409**	**-**	**-**
Current liabilities					
Loans and borrowings, current	19,31	443	834	-	-
Construction loans	19,31	5,248	9,435	-	-
Prepayments in excess of construction WIP	15	763	392	-	-
Trade and other payables	22	1,636	2,141	2	2
Current derivatives	31	591	3,238	-	-
Income tax payable		85	26	-	1
Provisions, current	21	141	116	-	-
Other current liabilities	23	404	343	1	-
Liabilities directly associated with assets classified as held for sale	32	44	-	-	-
Total current liabilities		**9,355**	**16,525**	**3**	**3**
Total liabilities		**11,223**	**17,934**	**3**	**3**
Total equity and liabilities		**13,518**	**20,895**	**3,105**	**3,010**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in NOK millions unless otherwise stated)

		Group	
	Note	**2016**	**2015**
Revenue	24,30	7,894	11,307
Materials and subcontract costs		(5,049)	(8,561)
Salaries and related costs	25,35	(2,162)	(2,461)
Other operating expenses	26	(515)	(606)
Depreciation, impairment and amortization	4,5	(205)	(235)
Restructuring cost	13	(105)	(77)
Operating profit/(loss)		**(142)**	**(633)**
Financial income	27	323	295
Financial costs	27	(282)	(866)
Net		**41**	**(571)**
Share of results of associates, net of tax	7	(58)	-
Profit/(loss) before tax		**(159)**	**(1,204)**
Income tax expense	28	(38)	(88)
Profit/(loss) for the year		**(197)**	**(1,292)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(404)	417
Net fair value change in cash flow hedge		(49)	-
Income tax on other comprehensive income	28	93	(42)
Items that may not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in associated companies	7	(102)	(3)
Other comprehensive income for the year, net of income tax		**(462)**	**372**
Total comprehensive income/(loss) for the year		**(659)**	**(920)**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		(163)	(603)
Non-controlling interests	12	(34)	(689)
Profit/(loss) for the year		**(197)**	**(1,292)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(444)	(334)
Non-controlling interests	12	(215)	(586)
Total comprehensive income/(loss) for the year		**(659)**	**(920)**
Earnings/(loss) per share (expressed in NOK)			
Attributable to Equity holders of the Company			
Basic	29	(0.14)	(0.51)
Diluted	29	(0.14)	(0.51)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in NOK millions unless otherwise stated)

Group	Paid up capital	Restructuring reserve	Other reserves: Currency translation reserve	Other reserves: Fair value reserve	Other reserves: Other reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
At 1 January 2016	**4,138**	**(3,190)**	**392**	**139**	**-**	**2,319**	**3,798**	**(837)**	**2,961**
Comprehensive income									
Loss for the year	-	-	-	-	-	(163)	(163)	(34)	(197)
Other comprehensive income/(loss)	-	-	(142)	(177)	-	38	(281)	(181)	(462)
Total comprehensive income/(loss)	**-**	**-**	**(142)**	**(177)**	**-**	**(125)**	**(444)**	**(215)**	**(659)**
Transactions with owners									
Equity subscribed by non-controlling shareholders	-	-	-	-	-	-	-	22	22
Transactions with non-controlling interests	-	-	(87)	-	(1,002)	-	(1,089)	1,060	(29)
Total transaction with owners	**-**	**-**	**(87)**	**-**	**(1,002)**	**-**	**(1,089)**	**1,082**	**(7)**
At 31 December 2016	**4,138**	**(3,190)**	**163**	**(38)**	**(1,002)**	**2,194**	**2,265**	**30**	**2,295**

Group	Paid up capital	Restructuring reserve	Other reserves: Currency translation reserve	Other reserves: Fair value reserve	Other reserves: Other reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
At 1 January 2015	**4,138**	**(3,190)**	**120**	**142**	**-**	**2,922**	**4,132**	**(268)**	**3,864**
Comprehensive income									
Loss for the year	-	-	-	-	-	(603)	(603)	(689)	(1,292)
Other comprehensive income/(loss)	-	-	272	(3)	-	-	269	103	372
Total comprehensive income/(loss)	-	-	272	(3)	-	(603)	(334)	(586)	(920)
Transactions with owners									
Effects of business combinations	-	-	-	-	-	-	-	17	17
Total transaction with owners	-	-	-	-	-	-	-	17	17
At 31 December 2015	**4,138**	**(3,190)**	**392**	**139**	**-**	**2,319**	**3,798**	**(837)**	**2,961**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(All amounts in NOK millions unless otherwise stated)

	Note	Group 2016	2015
Operating activities			
Profit (loss) before tax		(159)	(1,204)
Adjustments for:			
Net interest expense		42	51
(Gain)/loss on disposal of property, plant and equipment, net		-	(1)
Unrealized foreign exchange gain/loss		(193)	380
Depreciation, impairment and amortization		205	235
Change in pension assets and liabilities		-	(1)
Other non-cash items in the statement of comprehensive income		17	-
Share of results of associates		58	-
Operating cash flows before movements in working capital		**(30)**	**(540)**
Inventories		(129)	(286)
Construction work in progress		5,921	(3,079)
Proceeds from construction loans		3,296	5,415
Repayment of construction loans		(7,414)	(4,053)
Other working capital assets		975	933
Other working capital liabilities		(1,814)	738
Provisions		25	(85)
Cash generated from/(used in) operations		**830**	**(957)**
Interest received		36	23
Interest paid		(77)	(61)
Income tax paid		(25)	(189)
Cash flows from/(used in) operating activities		**764**	**(1,184)**
Investing activities			
Proceeds from disposal of property, plant and equipment		19	2
Purchase of property, plant and equipment		(245)	(246)
Purchase of intangible assets		(45)	(30)
Issuance of new non-current interest bearing receivables		(3)	(8)
Proceeds from repayment of non-current interest bearing receivables		6	1
Proceeds from repayment of short-term interest-bearing receivables		-	30
Acquisition of subsidiary, net of cash acquried	32	(32)	(45)
Acquisition of equity interest in associates		(11)	(12)
Issuance of new short-term interest-bearing receivables		-	(3)
Cash flows used in investing activities		**(311)**	**(311)**
Financing activities			
Proceeds from loans and borrowings		44	604
Repayment of loans and borrowings		(615)	(385)
Transactions with non-controlling interests		(16)	-
Cash flows from financing activities		**(587)**	**219**
Net increase in cash and cash equivalents		**(134)**	**(1,276)**
Effects of currency translation difference on cash and cash equivalents		32	30
Cash and cash equivalents at beginning of financial year		720	1,966
Cash and cash equivalents at end of financial year		**618**	**720**
Restricted cash at end of financial year		104	199
Cash and cash equivalents at end of financial year including restricted cash	**17**	**722**	**919**

The accompanying notes form an integral part of these financial statements.

NOTES

(All amounts in NOK millions unless otherwise stated)

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

The financial statements were authorized for issue by the Board of Directors on 21 March 2017.

1 Corporate information

GENERAL INFORMATION

The Company (Registration No. 201012504K) is a company incorporated in Singapore. The address of its registered office is at 6 Battery Road, #10-01, Singapore 049909.

The financial statements of the Group as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

The principal activities of the Company during the financial year are mainly that of an investment holding company. The Company also provides support services to its subsidiaries, including the provision of performance and repayment guarantees on the construction contracts. A list of its subsidiaries is given in Note 36 to the financial statements.

2 Basis of preparation

(A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

(B) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

Going concern basis

The financial statements have been prepared on a going concern basis, since the Directors have verified that there are no financial, operating or other types of indicators that might cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and particularly within the 12 months from the end of the reporting period.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

The Company's functional currency is the Norwegian Kroner (NOK). The financial statements of the Group and the statement of financial position of the Company are presented in Norwegian Kroner (NOK) and all amounts have been rounded to the nearest million, unless otherwise stated.

(D) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRSs requires the management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may ultimately differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are accounted for in the period in which the estimates are revised and any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Contruction contracts

The Group uses the percentage-of-completion (POC) method to account for construction work in progress. The use of this method requires the Group to estimate the stage of completion of contract activity and also estimate the outcome of a contract at each reporting date. Revenue recognition depends on variables such as development in steel prices, cost of other factor inputs, extent of calculated contingencies, developments in projects and shipyard capacity and efficiency. The scope of variation orders and acceptance of claims by customers may affect revenue estimates. Uncertainties about revenue estimates will also be affected by the Group's previous experience from similar construction projects. Generally, there are greater uncertainties related to revenue estimates of new constructions, new designs and new yards. Events, changes in assumptions and management's judgement will affect recognition of revenue in the current period.

Based on the current ongoing work to reduce the significant counterparty risk in the offshore project portfolio, and the current status of negotiations ongoing, management's assessment as of 31 December 2016 is still that it is probable that the economic benefits from the construction contracts will flow to the Group. When arriving at this conclusion, management is also considering the possibilities of reconfiguring or rebuilding the vessels for other purposes.

The Group has currently four construction projects ongoing at the Brazilian yard, Vard Promar. While the yard during 2016 was able to successfully deliver two vessels, and hence effectively reducing the overall operational risk, the production environment still remains challenging and management considers the estimates as more uncertain than those related to other construction projects in the Group. The estimates includes assumptions on a number of variables including e.g. cost of hours, material, capital, and liquidated damages making it impracticable to disclose sensitivities that capture all possible combinations in a consistent manner representative for all four projects. However, management has made its best efforts in estimating the final results of the said projects.

Impairment assessment of goodwill and property plant and equipment
In accordance with FRS, the recoverability of the carrying amount of goodwill is reviewed annually or more frequently when there is an indication of a possible impairment. Goodwill is tested for impairment at the lowest level cash-generating unit ("CGU") within the entity at which management assesses, directly or indirectly, the return on the investment that includes such goodwill. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows of the cash generating unit are discounted to their present value. The calculations require the use of estimates and assumptions relating to cash flows and discount rates.

Generally, there will be uncertainties related to cash flow estimates. The degree of uncertainty will depend on certainty of the order backlog and market development, uncertainties in prices related to different factor inputs and to what extent the prices are hedged. Events, changes in assumptions and the management's judgement will affect the evaluation of the recoverable amounts of the cash-generating units. The carrying amount of goodwill is disclosed in Note 5 to the financial statements.

Because of the continued challenging market conditions and historical operating losses at Vard Promar, impairment indicators have been identified for property, plant and equipment. At the Brazilian yard, an impairment test has been performed for the carrying amount of all property, plant and equipment (31 December 2016: NOK 1,139 million). The recoverable amount has been estimated based on a value in use calculation. The key assumptions in the impairment relates to future order intake, margin on projects and discount rate. The cash flow estimates are based on the current budget for 2017 and business plan approved for the period 2018 to 2020. Cash flow projections beyond the period covered by the business plan have been defined by extrapolating the cash flows in the business plan, combined with a terminal growth rate not higher than the long-term industry average growth rate. The recoverable amount also includes an estimated net cash inflow related to the claims disclosed in Note 37.

Key assumptions used for the value in use calculations:
- Assumed margin (defined as operating profit / revenues): 6.7%
- Assumed growth rate in the terminal year: 4.7%
- Weighted average cost of capital ("WACC") 11.6%

The results obtained have been subjected to sensitivity analysis, with reference to those assumptions, changes in which might reasonably cause the test results to be significantly different. This has shown that if, when calculating terminal value, WACC were to increase by 50 basis points or growth rates ("g rate") to decrease by 50 basis points, recoverable amounts would still exceed carrying amounts. Furthermore, in the scenario which not consider the Transpetro claim, the excess of the recoverable amount over the carrying amount would reduce to zero if any of the more important basic assumptions were to change as follows:

Reduction in terminal operating profit	WACC = 16.1%	g rate = -1.65%
-48%	+450 basis points	-633 basis points

NOTES

(All amounts in NOK millions unless otherwise stated)

Income taxes
The Group is subject to income tax in several jurisdictions. Considerable judgement is required when determining the global allocation of income taxes. The Group has many transactions and calculations where the final outcome may be uncertain. The Group accounts for its expected tax liabilities based on estimates. When final outcomes differ from the original estimations, the deviations in the estimations will affect the tax expense and provision in the period in which the re-estimation is made.

Vard Niterói SA has in previous year received a tax claim of appoximately NOK 240 million plus interest. No provision for the claim has been made. Further infomation about the claim is given in Note 37.

Deferred tax assets relating to losses carried forward are recognized when it is probable that the losses carried forward may be utilized. The evaluation of probability is based on historical earnings, expected future margins and the size of order backlog for the relevant entity. Any deviations in the probability evaluation will affect the deferred tax asset amount. The carrying amount of deferred tax balances is disclosed in Note 11.

Provisions
The provision for warranties is based on estimates from known and expected warranty work and contractual obligations for further work to be performed after completion. The warranty expense incurred could be higher or lower than the provision made. The carrying amount and movements in provision for warranties are detailed in Note 21.

Other significant provisions relate to legal proceedings and environmental clean-up costs whose bases of the estimates and movements are detailed in Note 21 and Note 37 respectively.

Property, plant and equipment
The Group reviews the residual values and useful lives of property, plant and equipment at each reporting date in accordance with the accounting policy in Note 3(d). The estimation of the residual amount and useful lives involves significant judgement.

Inventories
Following the termination of two shipbuilding contracts during 2015, and the reclassification of the vessel previously under construction for Harkand during 2016, the inventories includes two vessels within work in progress and one vessel within finished goods. The Group measures inventories at the lower of cost and net realizable value, where the net realizable value is the estimated selling price less the cost of completion and selling expenses. The management is currently assessing to be able to sell the vessels at a higher value than the current book value including the estimated remaining costs to completion.

Changes in accounting policies
With effect from 1 January 2016, the Group and the Company have adopted all the new and revised Financial Reporting Standards ("FRSs") and Interpretations of FRSs ("INT FRSs") that are relevant to its operations and are effective for annual periods beginning on 1 January 2016. The adoption of the new or revised FRSs and INT FRSs did not result in any significant changes to the accounting policies of the Group and the Company, and has no material effect on the amounts reported for the current or prior periods.

3 Significant accounting policies

The accounting policies described below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

(A) 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 when the group is exposed to, or has rights to, variable returns from its

involvement with the entity and has the ability to affect those returns through its power over the entity. The Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards are included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidiation are measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisition of non-controlling interests
Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisition from entities under common control
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognized directly in equity.

NOTES

(All amounts in NOK millions unless otherwise stated)

Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies of these entities. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted investees, after adjustments to align the accounting policies of the equity-accounted investees with those of the Group, from the date that significant influence or joint control commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, together with any long-term interest that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Subsidiaries and associates in the separate financial statements

Investments in subsidiaries and associates are stated in the Company's statement of financial position at cost less accumulated impairment losses.

(B) FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the entities in the group at exchange rates at the dates of the transactions. The functional currencies of the significant subsidiaries are NOK, USD, RON and BRL. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation of:

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges, to the extent the hedge is effective .

Foreign operations
The assets and liabilities of foreign operations are translated to NOK at exchange rates at the end of the reporting period. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to NOK at the weighted average exchange rate for the period. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the end of the reporting period.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or jointly controlled entity that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognized in other comprehensive income, and are presented in the translation reserve in equity.

(C) FINANCIAL INSTRUMENTS

Non-derivative financial assets
The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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 upon 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. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets designated at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognized in profit or loss.

NOTES

(All amounts in NOK millions unless otherwise stated)

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

There are no financial assets at fair value through profit or loss at the reporting date.

Held-to-maturity financial assets
There are no held-to-maturity financial assets at the reporting date.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables (excluding advances to suppliers, VAT and tax receivables).

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flow, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities.

Non-derivative financial liabilities
The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognized at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities for contingent consideration payable in a business combination are initially measured at fair value. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Share capital

Ordinary shares

Ordinary shares are classified as paid-up capital in equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

On initial designation of the derivative as the 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, both at the inception of the hedge relationship as well as 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 of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% to 125%. 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 flow that could ultimately affect reported profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Fair value hedges

The Group has entered into currency forwards that are fair value hedges for currency risk arising from contractual commitments (firm commitments) with respect to values of construction contracts or costs related to contracts in foreign currencies (hedged item). The fair value changes on the hedged item resulting from currency risk are recognized in profit or loss. The fair value changes on the effective portion of currency forwards designated as fair value hedges are recognized in profit or loss within the same line item as the fair value changes from the hedged item. The fair value changes on the ineffective portion of currency forwards are recognized separately in profit or loss.

Currency risk arising from construction contracts is evaluated for each contract. The hedge is accounted for under the concept of a firm commitment. This implies that a percentage-of-completion contract is a firm commitment until the asset under construction is completed and transferred to the customer.

Cash flow hedges

The Group can enter into currency forwards that qualify as cash flow hedges against probable forecasted transactions in foreign currencies. The fair value changes on the effective portion of the currency forwards designated as cash flow hedges are recognized in the hedging reserve in equity and transferred to either the cost of a hedged non-monetary asset upon acquisition or profit or loss when the hedged forecast transactions are recognized.

The fair value changes on the ineffective portion are recognized immediately in profit or loss. When a forecasted transaction is no longer expected to occur, the gains and losses that were previously recognized in the hedging reserve are reclassified to profit or loss immediately.

Intra-group financial guarantees in the separate financial statements

Financial guarantees are financial instruments issued by the Company, on behalf of its subsidiaries, that require the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognized initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortization and the amount that would be recognized if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantee is transferred to profit or loss.

NOTES

(All amounts in NOK millions unless otherwise stated)

(D) PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. However, this does not apply to vessels, and vessels under construction, owned by associated companies which are subject to revaluation. Refer to separate paragraph "Vessels" below.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

Vessels

Vessels and vessels under construction owned by associated companies are initially recognized at cost and are subsequently carried at the revalued amount less accumulated impairment losses.

Vessels and vessels under construction are revalued by independent professional valuers on a yearly basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When a vessel or a vessel under construction is revalued, any accumulated impairment losses at the date of revaluation are eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset. Revaluations of vessels and vessels under construction owned by associated companies are presented within investment in associates.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognized in other comprehensive income, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in profit or loss as results from investments in associated companies. Decreases in carrying amounts that offset previous increases of the same asset are recognized in other comprehensive income. All other decreases in carrying amounts are recognized in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized as an expense in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation is recognized from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives are as follows:

▪ Machinery and vehicles	3-20 years
▪ Buildings	20-50 years
▪ Land and leasehold improvements	Lease period of 4-40 years
▪ Quays/docks	33-50 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted if appropriate.

The estimated useful lives of vessels owned by associates are 25 to 30 years. Those vessels are carried at their revalued amounts subsequent to initial recognition, less any accumulated impairment losses.

(E) INTANGIBLE ASSETS

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a) "Business combinations".

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the associates.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

Amortization is calculated based on the cost of the asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

NOTES

(All amounts in NOK millions unless otherwise stated)

- Other intangible assets 4-10 years

Other intangible assets comprises sundry licenses and patents, as well as a beneficial lease agreement acquired through the acquisition of businesses.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(F) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the Group's statement of financial position.

(G) INVENTORIES

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out (FIFO) principle and includes expenditure in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(H) CONSTRUCTION CONTRACTS IN PROGRESS

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the reporting date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract as well as variation orders and claims that can be measured reliably. A variation order or a claim is only included in contract revenue when it is probable that the customer will approve the variation order or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured generally by reference to the ratio of contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from the costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work in progress on the statement of financial position unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognized as an expense immediately.

At the reporting date, the aggregated costs incurred plus recognized profit (less recognized losses) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognized profits (less recognized losses) exceed progress billings, the balance is presented as due from customers on construction contracts. Where progress billings exceed the cumulative costs incurred plus recognized profits (less recognized losses), the balance is presented as due to customers on construction contracts.

Interest on construction loans is considered as a project cost and are classified as materials and subcontract cost in the statement of comprehensive income.

(I) IMPAIRMENT

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearence of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at a specific asset level. All individually significant loans and receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or securities. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed. The amount of the reversal is recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using an after 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 that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, 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 acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

NOTES

(All amounts in NOK millions unless otherwise stated)

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss 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 amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(J) NON-CURRENT ASSETS HELD FOR SALE

Non-current asssets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets or components of a disposal group, are generally measured in accordance with the Group's accounting policies. Thereafter, the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred taxes and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of associates ceases once classified as held for sale or distribution.

(K) EMPLOYEE BENEFITS

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(L) PROVISIONS

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Warranties
A provision for warranties is recognized when the underlying products or services are sold. The provision is recognized for completed contracts based on past experience and industry averages for defective products, over the applicable warranty periods.

Restructuring
A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Site restoration
In accordance with applicable legal requirements, a provision for site restoration in respect of contaminated land and seabed, and the related expense, is recognized when the land and seabed is contaminated.

(M) REVENUE
Revenue comprises the fair value of the consideration received or receivable for the rendering of services and the sale of goods in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating transactions within the Group. Revenue is recognized as follows:

Revenue from construction contracts
Contract revenue is recognized by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is measured generally by reference to the contract costs incurred to date, as compared to the estimated total costs for the contract.

Please refer to Note 3(h) "Construction Contracts in Progress" for the elaboration of accounting policy for revenue from construction contracts.

Interest income
Interest income arising from financial instruments is recognized on a time-proportion basis using the effective interest method.

Revenue from sales of goods
Sale of goods primarily relates to the sale of automated systems by a subsidiary group. Revenue is recognized when risk and rewards is transferred to the customer.

Rendering of services
Revenue from rendering of services is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(N) LEASE PAYMENTS
Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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.

Determining whether an arrangement contains a lease
At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:
- the fulfilment of the arrangement is dependent on the use of a specified asset or assets; and
- the arrangement contains a right to use the asset(s)

At inception of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a

NOTES

(All amounts in NOK millions unless otherwise stated)

finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

Contingent rents are recognized as an expense in profit or loss when incurred.

(O) RESTRUCTURING COST

Restructuring cost in the statement of comprehensive income is defined as cost related to termination benefits to employees related to reduction in workforce, and other cost incurred as a consequence of temporary and permanent reduction of capacity.

(P) FINANCE INCOME AND FINANCE COSTS

Finance income comprises foreign exchange gains, interest income on funds invested (including available-for-sale financial assets), dividend income, gains on hedging instruments that are recognized in profit or loss and reclassifications of net gains previously recognized in other comprehensive income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise foreign exchange losses, interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, fair value losses on financial assets at fair value through profit or loss and contingent consideration, losses on hedging instruments that are recognized in profit or loss and reclassifications of net losses previously recognized in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(Q) TAX

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized 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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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 recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequenses that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying of its assets or liabilities. 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 by 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 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 realized simultaneously.

A deferred tax asset is recognized 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 utilized. 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 realized.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(R) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share data for it's ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for any own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(S) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's CEO, who is responsible for allocating resources and assessing performance of the operating segments.

(T) NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS NOT ADOPTED

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2017 or later periods and which the Group has not early adopted:

FRS 115 *Revenue from contracts with customers*

According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. FRS 115 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment. FRS 115 supersedes FRS 11 Construction Contracts, and FRS 18 Revenue, as well as related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted. The Group decided to not adopt the new standard before the effective date. Based on a preliminary analysis the Group does not expect significant impacts on its Consolidated Financial Statements from the application of the new standard.

FRS 109 *Financial instruments*

The new standard replace FRS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted. The Group decided to not adopt the new standard before the effective date. While the Group is yet to undertake a detailed assessment, the Group does not expect significant impact on its Consolidated Financial Statements.

FRS 116 *Leases*

The new standard replaces the previous standard FRS 17 Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. FRS 116, defines a lease as a contract that conveys to the customer (lessee) the right to use an asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases for the lessee as either operating leases or finance leases as required by FRS 17 and instead, introduces a single lessee accounting model whereby a lessee is required to recognize assets and liabilities for all leases with a term that is greater than 12 months, unless the underlying asset is of low value, and to recognize depreciation of lease assets separately from interest on lease liabilities in the income statement. FRS 116 is effective from January 1, 2019 and the Group is currently evaluating the implementation and the impact of adoption of this standard on its Consolidated Financial Statements.

There are no other FRSs or interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTES

(All amounts in NOK millions unless otherwise stated)

4 Property, plant and equipment

Group	Machinery and vehicles	Buildings	Land and land leasehold improvements	Quays/ docks	Assets under construction	Total
Cost						
At 1 January 2015	1,503	1,628	119	504	23	3,777
Additions	105	82	-	8	53	248
Acquisitions through business combinations	5	-	-	-	-	5
Disposals	(11)	-	-	-	-	(11)
Reclassifications	(38)	1	-	-	37	-
Currency translation differences	(107)	(55)	(6)	(36)	(8)	(212)
At 31 December 2015	**1,457**	**1,656**	**113**	**476**	**105**	**3,807**
At 1 January 2016	1,457	1,656	113	476	105	3,807
Additions	67	44	1	34	98	244
Acquisitions through business combinations	1	-	-	-	-	1
Disposals	(60)	-	-	-	-	(60)
Reclassifications	6	54	2	7	(69)	-
Currency translation differences	20	55	4	31	4	114
At 31 December 2016	**1,491**	**1,809**	**120**	**548**	**138**	**4,106**
Accumulated depreciation and impairment						
At 1 January 2015	715	465	3	59	-	1,242
Depreciation	137	51	1	13	-	202
Impairment losses	-	28	-	-	-	28
Disposals	(9)	-	-	-	-	(9)
Currency translation differences						
At 31 December 2015	**790**	**560**	**4**	**71**	**-**	**1,425**
At 1 January 2016	790	560	4	71	-	1,425
Depreciation	124	55	-	14	-	193
Impairment losses	-	-	-	-	-	-
Disposals	(49)	-	-	-	-	(49)
Currency translation differences	(12)	(8)	-	2	-	(18)
At 31 December 2016	**853**	**607**	**4**	**87**	**-**	**1,551**
Carrying amounts						
At 1 January 2015	**788**	**1,163**	**116**	**445**	**23**	**2,535**
At 31 December 2015	**667**	**1,096**	**109**	**405**	**105**	**2,382**
At 31 December 2016	**638**	**1,202**	**116**	**461**	**138**	**2,555**

As at the reporting dates, the Company did not have property, plant and equipment ("PPE").

At 31 December 2016, PPE of the Group with the carrying amount of NOK 1,817 million (2015: NOK 1,518 million) are pledged as security to secure the Group's borrowings (see Note 19). This involves all categories of PPE for Vard Electro, the Norwegian and Brazilian yards, and parts of PPE for Vard Tulcea.

5 Intangible assets

Group	Goodwill	Other intangibles	Total
Cost			
At 1 January 2015	484	68	552
Additions acquired separately	-	31	31
Acquisition of subsidiaries	27	43	70
Disposals and other adjustments	-	(1)	(1)
Currency translation differences	(1)	(1)	(2)
At 31 December 2015	**510**	**140**	**650**
At 1 January 2016	510	140	650
Additions acquired separately	-	44	44
Acquisition of subsidiaries	13	4	17
Disposals and other adjustments	-	(3)	(3)
Currency translation differences	0	(2)	(2)
At 31 December 2016	**523**	**183**	**706**
Accumulated amortization and impairment losses			
At 1 January 2015	176	38	214
Amortization for the year	-	5	5
Currency translation differences	-	2	2
At 31 December 2015	**176**	**45**	**221**
At 1 January 2016	176	45	221
Amortization for the year	-	12	12
Currency translation differences	-	(2)	(2)
At 31 December 2016	**176**	**55**	**231**
Carrying amounts			
At 1 January 2015	**308**	**30**	**338**
At 31 December 2015	**334**	**95**	**429**
At 31 December 2016	**347**	**128**	**475**

The carrying amounts of goodwill are allocated to the following CGUs:

Business entities	CGU:	Balance at 01.01.16	Additions	Currency translation differences	Balance at 31.12.16
Vard Group AS including the Romanian sub-group	CGU 1	295	-	-	295
Vard Marine	CGU 2	12	-	-	12
ICD Software	CGU 3	27	-	-	27
Storvik Aqua	CGU 4	-	13	-	13
Total		**334**	**13**	-	**347**

Business entities	CGU:	Balance at 01.01.15	Additions	Currency translation differences	Balance at 31.12.15
Vard Group AS including the Romanian sub-group	CGU 1	294	-	1	295
Vard Marine	CGU 2	14	-	(2)	12
ICD Software	CGU 3	-	27	-	27
Total		**308**	**27**	**(1)**	**334**

NOTES

(All amounts in NOK millions unless otherwise stated)

IMPAIRMENT TESTS FOR GOODWILL

The Group has defined four CGUs with goodwill which are its shipyards in Norway and Romania (CGU 1), and Vard Marine (CGU 2), and ICD Software (CGU 3), and Storvik Aqua (CGU 4). All goodwill relates to these CGUs. With regards to CGU 1: All of these shipyards have the same management, who is central in the allocation of contracts. As shipyards in Romania are mainly hull producers, there is a high degree of dependency between these shipyards and the outfitting shipyards in Norway. Accordingly, shipyards at different locations are not defined as separate CGUs.

The recoverable amount of the goodwill allocated to the CGUs has been determined based on value in use calculations. Value in use is calculated based on cash flow projections derived from financial budgets and business plans approved by the Board of Directors covering the period of 2017 to 2020 (2015: 2016 to 2020). The determination of budget and strategic figures are based on long-term construction contracts and their expected margins, and expectations of new contracts. This is reflected in the budget and business plan figures.

The discount rate for CGU 1, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2016 are 6.6% (at 31 December 2015: 7.6%). Terminal growth rate of 2.5% (2015: 2.0%) is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2017, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

The discount rate for CGU 2, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2016 are 6.6% (at 31 December 2015: 7.7%). Terminal growth rate of 2.5% (2015: 2.0%) is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2017, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

The discount rate for CGU 3, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2016 are 6.6%. Terminal growth rate of 2.5% is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2017, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

With regards of CGU 4, Storvik Aqua, no impairment tests has been performed, since the goodwill allocation is not completed at the balance sheet date, and no triggering events for the aquired business have been noted.

6 Investment in subsidiary

	Company	
	2016	**2015**
Unquoted shares, at cost		
At 1 January	2,142	2,142
Conversion of Current and Non-current interest–bearing receivables	841	-
At end of financial year	**2,983**	**2,142**

For newly-incorporated subsidiaries during the year, as well as aquisitions of subsidiaries and non-controlling interests, refer to Note 36 and 32 respectively. Details of the Group's significant subsidiaries are set out in Note 36.

7 Investment in associates

	Group					
	Ship owning associated companies		Other companies		Total associated companies	
	2016	2015	2016	2015	2016	2015
Share of profit or loss from continuing operations	**(48)**	**2**	**(10)**	**(2)**	**58**	**-**
Share of other comprehensive income	(102)	(3)	-	-	(102)	(3)
Share of total comprehensive income	**(150)**	**(1)**	**(10)**	**(2)**	**(160)**	**(3)**
Opening balance	**311**	**296**	**30**	**31**	**341**	**327**
Share of total comprehensive income	(150)	(1)	(10)	(2)	(160)	(3)
Shares in associated companies acquired/capital contributions made	18	11	1	1	19	12
Shares in associated companies sold	-	-	-	-	-	-
Reclassifications	18	5	4	-	22	5
Balance period end	**197**	**311**	**25**	**30**	**222**	**341**

		Ownership interest	
Associated companies	**Industry**	**31.12.16**	**31.12.15**
Olympic Challenger KS	Shipping	35%	35%
DOF Iceman AS	Shipping	50%	50%
REM Supply AS	Shipping	27%	27%
Olympic Green Energy KS	Shipping	30%	30%
Møkster Supply KS	Shipping	36%	36%
Møkster Supply AS	Shipping	40%	40%
Canadian Subsea Shipping Company AS	Shipping	45%	45%
AS Dameco	Other	34%	34%
Taklift AS	Other	25%	25%
Castor Drilling Solution AS	Other	34%	34%
Bridge Eiendom AS	Other	50%	50%
Brevik Technology AS	Other	34%	34%
CSS Design Inc	Other	31%	31%

When applying the equity method, the financial statements of the associated shipping companies are adjusted by measuring all the vessels at fair value, as described in FRS 16.31.

NOTES

(All amounts in NOK millions unless otherwise stated)

8 Other investments

Non-current investments	Group 2016	Group 2015
Available for sale financial assets:		
- Equity securities	19	39
Total	**19**	**39**

	Note	Share %	2016	Share %	2015
REM Offshore ASA		-	-	5%	30
Solstad Offshore ASA		1%	13	-	-
Moldekraft AS		8%	5	8%	5
Klosterøya Vest Holding AS	32	-	-	6%	3
Shares in other companies		n/m	1	n/m	1
Total			**19**		**39**

The equity securities have been subject to a fair value assessment, and an impairment of the shares in REM Offshore ASA of NOK 29 million has been recognized. As part of the compensation for the cancellation of the vessel under construction for REM Supply AS, and the subsequent financial restructuring of REM Offshore ASA, Vard Group AS obtained 13,766,554 shares in the company. On 9 December 2016, and as part of the merger between REM Offshore ASA and Solstad Offshore ASA, the shares were converted into Solstad Offshore ASA class B shares with a exchange ratio of 0.0696 Solstad shares per each REM share.

9 Interest-bearing receivables

	Group 2016 Lowest interest rate	Group 2016 Highest interest rate	Group 2016 Amounts	Group 2015 Lowest interest rate	Group 2015 Highest interest rate	Group 2015 Amounts
Non-current						
Interest-bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR + 2%	62	NIBOR + 2%	NIBOR + 2%	82
- Third parties	NIBOR + 2%	NIBOR + 3%	411	NIBOR + 2%	NIBOR + 3%	410
Total			**473**			**492**
Current						
Interest-bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR +2%	1	NIBOR + 2%	NIBOR + 2%	4
- Third parties	EURIBOR + 1%	NIBOR + 3%	288	EURIBOR + 1%	NIBOR + 3%	484
Total			**289**			**488**

The non-current receivables due from third parties of NOK 411 million (2015: NOK 410 million) relates to seller credits to customers. The receivables from related parties of NOK 62 million (2015: NOK 82 million) refers to seller credits to associated companies. The current receivables due to third parties of NOK 288 million (2015: NOK 484 million) relates to a cash collateral placed with Nordea as security for negative MtM value related to FX derivatives.

	Company			
	2016		2015	
	Interest rate	Amounts	Interest rate	Amounts
Non-current				
Non-current interest-bearing receivables due from Vard Group AS	n/m	-	3m NIBOR + 2%	656
Current interest-bearing receivables due from Vard Group AS	3m NIBOR + 3%	7	3m NIBOR + 2%	120
Current interest-bearing receivables due from Vard Shipholding Singapore Pte Ltd	n/m	-	3m NIBOR + 2%	9

10 Other current and non-current assets

	Group	
Other non-current assets	**2016**	**2015**
Prepayments	1	2
Deposits	7	12
VAT, taxes & other social expenses	12	10
Firm commitments hedge accounting	17	-
Other assets	1	11
Total	**38**	**35**

	Group	
Other current assets	**2016**	**2015**
Firm commitments hedge accounting	122	1,281
Prepayments	39	35
Total	**161**	**1,316**

Firm commitments hedge accounting consist of accumulated change in fair value related to hedged foreign exchange risk for hedged firm commitments.

This is not applicable for the Company.

NOTES

(All amounts in NOK millions unless otherwise stated)

11 Deferred tax assets and liabilities

(A) RECOGNIZED DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES:

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as disclosed in the table below.

Deferred tax liabilities related to projects under construction and deferred tax assets related to tax losses are expected to be reversed when projects currently in the order book in Norway are delivered.

Group	Property, plant and equipment	Project under construction	Tax losses	Receivables	Provisions	Others	Total
At 1 January 2016	26	(237)	146	1	37	(10)	(37)
(Charged)/credited to profit or loss	(1)	56	(57)	1	-	78	77
(Charged)/credited to equity	-	-	-	-	-	(69)	(69)
Currency translation differences	(1)	(1)	-	-	-	2	-
Effect of business combination	2	-	-	-	-	-	2
At 31 December 2016	**26**	**(182)**	**89**	**2**	**37**	**1**	**(27)**

Of which presented as deferred tax assets	82
Of which presented as deferred tax liabilities	(109)
Total	**(27)**

Group	Property, plant and equipment	Project under construction	Tax losses	Receivables	Provisions	Others	Total
At 1 January 2015	27	(122)	116	-	45	(5)	61
(Charged)/credited to profit or loss	4	(115)	40	1	(8)	(5)	(83)
Currency translation differences	1	-	(10)	-	-	-	(9)
Effect of business combination	(6)	-	-	-	-	-	(6)
At 31 December 2015	**26**	**(237)**	**146**	**1**	**37**	**(10)**	**(37)**

Of which presented as assets	42
Of which presented as liabilities	(79)
Total	**37**

B) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of unreocognized tax losses amounting to NOK 871 million (2015: NOK 685 million), were NOK 853 million relates to Brazil and NOK 18 million relates to Norway. There is no expiry dates on the tax losses. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits in certain of the Group's subsidiaries will be available against which the Group can utilize the benefit therefrom. The tax losses are subject to agreement by the tax authorities and compliance with the tax regulations in the respective countries in which the entities of the Group operate.

12 Non-controlling interest

Group
Set out below are the summarized financial information for each subsidiary that has a non-controlling interest that is material to the group.

Company name **Principal place of business**	**Vard Promar SA** **Brazil**		**Seaonics AS consolidated** **Norway**	
	2016	**2015**	**2016**	**2015**
Ownership interest/voting rights held by non-controlling interests	0.0%	49.5%	43.6%	49.0%
Profit/(loss) allocated to non-controlling interests	(23)	(683)	(8)	(5)
Accumulated non-controlling interest at period end	-	(856)	29	18
Revenues	1,353	1,989	151	221
Profit/(loss)	(261)	(1,380)	(19)	(24)
Total comprehensive income/(loss)	(665)	(1,172)	(19)	(24)
Cash flow operations*	(762)	(1,287)	(4)	17
Cash flow investing	(46)	(129)	(9)	(56)
Cash flow financing	788	1,264	16	49
Non-current assets	1,154	981	117	105
Current assets	3,035	2,637	59	133
Non-current liabilities**	846	942	8	50
Current liabilities***	4,342	4,406	74	135

* Non-controlling interest in Vard Promar has been derecognized from the date of the transaction described in note 32.

** Cash flow operations for Vard Promar include NOK 169 million (2015: NOK 972 million) in increased contructions loans.

*** Current liabilities for Vard Promar includes NOK 690 million (2015: NOK 705 million) in short term loans and payables from other Group companies.

The non-controlling interests in Seaonics AS have no commitments to make any further capital contribution to the companies. Both companies have an unfunded capital need for the next twelve months.

The Group has control over the decisions that are considered most important to determine whether control exist. Other decisions, like changing the bylaws of the companies, cannot be done without the consent of the non-controlling interests. This do not affect the assessment of control.

13 Restructuring cost

	Group	
Restructuring cost	**2016**	**2015**
Termination benefits	36	58
Statutory payments for temporary lay-offs	7	10
Other expenses related to reduced capacity	62	9
Total	**105**	**77**

NOTES

(All amounts in NOK millions unless otherwise stated)

14 Inventories

Inventories comprise the following items:	Group 2016	Group 2015
Raw materials	412	336
Work in progress	1,310	182
Finished goods	227	234
Total	**1,949**	**752**

Raw materials comprise mainly steel plates and steel profiles, pipes and pipe fittings, tools and consumables which are used in the Group's construction projects. Work in progress includes one vessel under construction in Vietnam and the vessel previously under construction for Harkand. Finished goods includes one completed vessel. NOK 1,068 million of the work in progress inventories are pledged as security for borrowings.

15 Construction work in progress

	Group 2016	Group 2015
Aggregate costs incurred and attributable profits recognized (less losses recognized) to-date	7,894	15,120
Progress billings	(3,063)	(3,061)
Total	**4,831**	**12,059**
Presented as:		
Current asset	5,594	12,451
Current liability	(763)	(392)
Total	**4,831**	**12,059**
Advances received on construction contracts	3,063	3,061
Provisions for loss on contracts	(538)	(1,468)

No retention sums are included in progress billings.

Provisions for loss on contracts	Group 2016	Group 2015
At 1 January	1,468	1,004
Additional provisions	369	1,076
Amounts used	(1,305)	(487)
Currency translation differences	(87)	-
Unused amounts reversed during the year	93	(125)
At 31 December	**538**	**1,468**

The provision amounts are recorded as reduction of "construction in progress" in the statement of financial position.

16 Trade and other receivables

Trade and other receivables consist of the following items:

	Group	
	2016	**2015**
Trade receivables (a)	174	220
Allowance for impairment of trade receivables	(7)	(8)
Total	**167**	**212**
Advances to suppliers	302	337
VAT and tax receivables	170	208
Receivables from related parties (b)	92	62
Other receivables (c)	70	59
Total	**801**	**878**

For the Company, trade and other receivables consists of short term intercompany receivables mainly towards Vard Group AS, Vard Promar SA, Vard Electro AS, Vard Tulcea SA and Vard Singapore Pte Ltd of NOK 112 million (2015: NOK 79 million).

(a) Trade receivables for the Group did not include any retention sums relating to construction work in progress or completed contracts.

(b) The amounts due from related parties are interest-free, unsecured and repayable on demand.

(c) Other receivables contain sundry receivables owing from external parties.

17 Cash and cash equivalents

	Group		Company	
	2016	**2015**	**2016**	**2015**
Short-term investments with maturity less than three months	3	4	-	-
Cash and bank deposits	615	716	3	4
Cash and cash equivalents reported in statement of Cash Flows	**618**	**720**	**3**	**4**
Restricted cash	104	199	-	-
Cash and cash equivalents reported in Statement of Financial Position	**722**	**919**	**3**	**4**

Restricted cash is held on escrow accounts, which is mainly security for guarantees made to customers on prepaid installments and restricted bank accounts for employees' tax deductions.

NOTES

(All amounts in NOK millions unless otherwise stated)

18 Capital and reserves

GROUP AND COMPANY

Paid up capital	Ordinary shares 2016		2015	
	No. of shares (millions)	Amount (NOK millions)	No. of shares (millions)	Amount (NOK millions)
On 1 January and 31 December	**1,180**	**4,138**	**1,180**	**4,138**

The ordinary shares issued by the Company have no par value and carry equal rights to voting, distribution of profits and dividends and to the residual assets of the Company in liquidation.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Issue of ordinary shares
There were no ordinary shares issued in FY2016. There are no treasury shares.

GROUP

Restructuring reserve
The restructuring reserve as presented in the Group's consolidated financial statements represents the difference between the cost of the acquisition for the restructuring and the amount of share capital of Vard Group AS at the date of acquisition.

Currency translation reserve
The currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items that form part of the Group's net investment in a foreign operation.

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, as well as the Group's share of vessel revaluation of its associated companies, until the investments are derecognized or impaired.

Other reserve
The Other reserve comprises the cumulative effects of the transaction with non-controlling interests as described in note 32.

COMPANY

Restructuring reserve
The restructuring reserve presented in the Company's statement of financial position at 31 December 2016 comprises the difference between the cost of acquisition of the Vard Group AS combined group recorded in accordance with FRS 27.38B, and the paid up capital of the Company issued for the acquisition.

Dividends
During FY2016 the Company did not pay any dividends to owners of the company (NOK 0 million in FY2015). The Directors have not recommended a payment of a dividend for FY2016.

19 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rates and foreign currency risks, see Note 31.

	Group	
	2016	**2015**
Current		
Current facilities (A)	245	595
First year installment non-current term loans (B)	198	239
Current loans and borrowings	**443**	**834**
Construction loans (C)	5,248	9,435
Total current loans and borrowings	**5,691**	**10,269**
Non-current		
Non-current term loans (B)	**1,049**	**1,200**
Total loans and borrowings	**6,740**	**11,469**

(A) CURRENT FACILITIES

	Interest rates 2016		2016		2015	
	Lowest	**Highest**	**Total facility**	**Drawn amount**	**Total facility**	**Drawn Amount**
Current facilities						
- Norway	2.45%	2.50%	382	245	154	154
- Romania	2.50%	2.80%	118	-	95	66
- Brazil			-	-	375	375
Total			**500**	**245**	**624**	**595**
Fixed interest rates					147	147
Variable interest rates	2.45%	2.80%	500	245	477	448
Total			**500**	**245**	**624**	**595**

Norway

Vard Group AS has a EUR 40 million uncommitted facility with Santander, with a 3-month rolling period (February, May, August, November), and a EUR 2 million overdraft facility with UniCredit.

Romania

Vard Tulcea SA has a EUR 10 million uncommitted facility with UniCredit with maturity date in December 2017, while Vard Braila SA has a EUR 3 million facility with Garanti Bank.

NOTES

(All amounts in NOK millions unless otherwise stated)

(B) TERM LOANS

	Interest rates 2016		2016		2015	
	Lowest	Highest	Non-current portion	Current portion	Non-current portion	Current portion
Term loans						
- Norway	3.14%	3.85%	177	51	165	72
- Singapore	2.13%	2.13%	26	12	40	13
- Romania	2.75%	2.75%	-	62	66	66
- Brazil	3.50%	4.50%	846	73	929	88
Total			**1,049**	**198**	**1,200**	**239**
Fixed interest rates	3.30%	4.50%	903	88	1,070	179
Variable interest rates	2.13%	3.95%	146	110	130	60
Total			**1,049**	**198**	**1,200**	**239**

Norway

Vard Group AS has six secured loans with Innovation Norway as of 31 December 2016 (2015: seven), for the total amount of NOK 129 million (2015: NOK 160 million). The loans are secured by investments and fixed assets such as property, plant and equipment. Vard Group AS has a term loan at NOK 30 million with Nordea maturing in 2017. The loan is secured by collateral of fixed assets in Vard Group AS. Vard Electro has a loan with SMN for an overall amount of NOK 59 million. The loan is funding the investment of the new headquarter for Vard Electro and has an amortizing repayment schedule with maturity in 2032. In addition to this, Storvik Aqua AS has NOK 10 million in long-term loans.

Singapore

The long-term Nordea Bank credit, currently at USD 4.5 million, is an investment facility to Vard Singapore Pte. Ltd. The loan was used towards financing of investments with the purpose of building the Vietnam shipyard. The loan is secured by pledge of shares and a parent guarantee issued by the Company, and matures in 2019.

Romania

Vard Tulcea SA has a EUR 6.7 million term loan with Unicredit. The loan matures in December 2017 and is secured by pledge in the property, plant and equipment of Vard Tulcea SA.

Brazil

Vard Promar SA has a long-term financing agreement of USD 106 million maturing in 2029. The loan is secured by mortgage and statutory lien of ownership of land, machinery and equipment.

(C) CONSTRUCTION LOANS

	Interest rates 2016		2016			2015		
	Lowest	Highest	Drawn amount	Undrawn amount year end	Total construction loan facility	Drawn amount	Undrawn amount year end	Total construction loan facility
Construction loans								
- Norway	3.54%	3.75%	2,511	-	7,949	5,992	-	7,110
- Singapore			-	-	-	115	-	705
- Brazil	2.50%	9.40%	2,737	-	3,413	3,328	-	3,825
Total			**5,248**	**-**	**11,362**	**9,435**	**-**	**11,640**
Fixed interest rates	2.50%	4.45%	2,558	-	3,206	2,110	-	4,315
Variable interest rates	3.54%	9.40%	2,690	-	8,156	7,325	-	7,325
Total			**5,248**	**-**	**11,362**	**9,435**	**-**	**11,640**

Construction loans are project specific and these borrowings are secured by the vessels under construction. There is a separate approval process and loan agreement for each loan. The loans are drawn down as the construction of the projects progresses. Available amount to be drawn at each individual loan is a defined percentage of cost incurred for the relevant project, in addition the sum of all loans with each bank must be within the total construction loan facility. The loans must be fully repaid at the earliest of the contractual maturity date of the loan and the actual delivery date of the project. The contractual maturity date when the loan is granted, covers the period up until the contractual delivery date. Interest expense on the borrowings are recorded within Materials and Subcontract cost in the Statement of Comprehensive Income.

The total construction loan facility for Norway totalling NOK 7.95 billion (2015: 7.11 billion) comprises a facility of NOK 4.94 billion (2015: NOK 4.95 billion) with Nordea, NOK 1.20 billion (2015: NOK 1.20 billion) with DNB, and NOK 0.9 billion (2015: NOK 0.96 billion) with Sparebank 1 SMN. The construction loan facility with Sparebank 1 SMN can be extended to NOK 1.81 billion (2015: NOK 1.86 billion), if there are GIEK guarantees available for the projects.

The utilization of the above construction loan facilities is based on assessment by the bank on a project by project basis with regards to counterparty, security package, take-out documentation.

The Brazilian construction loans are with Banco do Brasil SA and BNDES on a project-by-project basis. For Vard Promar, the project financing facilities were limited to BRL 78 million (2015: BRL 284 million) and USD 365 million (2015: USD 415 million). For Vard Niterói, all construction loans have been repaid (2015: USD 83 million).

As of the date of approval of the financial statements there are projects in the order book without construction loans. The Group intend to finance these projects by utilising existing construction loan framework agreements.

(D) COVENANTS

Covenant	Minimum consolidated working capital*	Minimum consolidated equity	Term loans (A) with covenant	Construction loan (B) with covenant
Nordea (Norway)	1,000	2,700	30	1,186
Nordea (Singapore)	1,000	2,700	39	-
DNB (Norway)	1,000	2,700	-	255
SMN (Norway)	1,000	2,700	-	1,091
SMN (Norway)	1,000	2,100	59	-
Innovasjon Norge (Norway)	1,000	2,100	129	-

* Working capital determined based on current assets less current liabilities, but with some adjustments specific for the individual loan agreement.

Because of an expected decrease in net working capital, the Group obtained waivers from banks providing non-current loans with equity and working capital covenants before year-end 2016. The Group has also obtained waivers for all the current facilities and construction loan facilities with equity and working capital covenants for Q4 2016.

In the event of a shipbuilding contract being terminated, the bank has the right to accelerate the maturity date of the loan, unless the Group is able to provide acceptable security.

Some of the loan agreements includes material adverse change clauses, which also refer to conditions relating to the Group's customers, that can accelerate the maturity date of the construction loans. The Group has received confirmations from the relevant banks, that no material adverse effect events have been identified for any of the construction loans.

20 Other non-current liabilities

	Group		Company	
	2016	2015	2016	2015
Shareholders loan in subsidiary from non controlling interest	-	22	-	-
Non-current firm commitments hedge accounting	27	-	-	-
Slot reservation agreement	555	-	-	-
Total	**582**	**22**	**-**	**-**

The slot reservation agreement refers to the agreement entered into between Vard Tulcea and Fincantieri to increase the reserved capacity at the yard to produce steel blocks for cruise vessels in the period 2016 to 2021. The agreement provides for a total slot reservation fee of EUR 62 million. The reservation fee cannot be offset against instalments on steel blocks before September 2018. For the Consolidated statement of cash flow, it has been determined that a presentation within cash flows from operating activities is the most appropriate taking into account the nature of the Slot reservation agreement.

NOTES

(All amounts in NOK millions unless otherwise stated)

21 Provisions

Group	Warranties	Other	Total
At 1 January 2016	74	138	212
Provisions made during the year	71	43	114
Provisions utilized during the year	(43)	(8)	(51)
Provisions reversed during the year	(31)	(6)	(37)
Currency translation differences	(1)	-	(1)
At 31 December 2016	**70**	**167**	**237**
Representing:			
Non-current	0	96	96
Current	70	71	141
Total	**70**	**167**	**237**

Group	Warranties	Other	Total
At 1 January 2015	139	158	297
Provisions made during the year	92	28	120
Provisions utilized during the year	(76)	(6)	(82)
Provisions reversed during the year	(85)	(45)	(130)
Currency translation differences	4	3	7
At 31 December 2015	**74**	**138**	**212**
Representing:			
Non-current	0	96	96
Current	74	42	116
Total	**74**	**138**	**212**

Other provisions include environmental clean-up costs of NOK 75 million (2015: NOK 75 million), legal claims of NOK 29 million (2015: NOK 25 million), restructuring provisions of NOK 23 million (2015: 16 million), as well as several other liabilities faced during the normal course of business, and provided for according to FRS 37, totalling NOK 40 million (2015: NOK 22 million).

Provisions for warranties relate to completed contracts and contractual guarantee work after vessel delivery. The warranty period is normally one to two years, but some of the provisions may relate to a longer period.

Provisions for warranties are recognized based on past experience for corresponding projects.

22 Trade and other payables

	Group		Company	
	2016	2015	2016	2015
Trade payables	1,045	1,053	1	1
Accrued expenses	339	808	1	1
Salary and social costs	150	178	-	-
VAT	102	102	-	-
Total	**1,636**	**2,141**	**2**	**2**

23 Other current liabilities

	Group		Company	
	2016	2015	2016	2015
Firm commitments hedge accounting	10	149	-	-
Liabilities to Fincantieri	394	194	-	-
Others	-	-	1	-
Total	**404**	**343**	**1**	**-**

Liabilities to Fincantieri relates to cost incurred for services, and advance payments received on projects.

24 Revenue

	Group	
	2016	2015
Construction contract revenue	7,673	11,091
Sale of goods	31	38
Rendering of services	190	178
Total revenue	**7,894**	**11,307**

25 Salaries and related costs

	Group	
	2016	2015
Salaries and wages	1,823	2,002
Social security contributions	244	366
Pension costs	43	48
Other employee benefits	52	45
Total	**2,162**	**2,461**

Directors fees amounting to NOK 2.5 million (2015: NOK 2.4 million) are included in salaries and related costs paid to directors of the Company during the financial year. Remuneration to key management personnel are disclosed in Note 35.

All employees in Norway are included in defined contribution plans with life insurance companies. In addition, most of the employees in Norway are included in an early retirement plan ("AFP"). After the plan was modified in 2011, this plan has been defined as a defined benefit multi-enterprise plan, but is recognized in the accounts as a defined contribution plan, because reliable and sufficient information is not available for the Group to recognize its proportional share of pension cost, liabilities and assets.

The Group's companies outside Norway have pension plans based on local practice and regulations. This plans are defined contribution plans.

NOTES

(All amounts in NOK millions unless otherwise stated)

26 Other operating expenses

Other operating expenses include:	Group 2016	2015
Auditors' remuneration:		
- auditors of the Company	1	1
- other auditors*	8	8
Non-audit fees:		
- other auditors*	2	1
Rent and leasing expenses (Note 34)	32	52
Office and administration expenses	86	113
Research and development	7	4
Travel and employee expenses	54	48
Marketing and communication	28	33
Repair and maintenance	43	57
IT expenses	41	37
Consultants and other external sevices	52	39
Sundry operating expenses	161	213
Total	**515**	**606**

* Includes the network of member firms of PricewaterhouseCoopers International Limited (PwCIL)

27 Financial income and financial costs

	Group 2016	2015
Financial income		
Interest income on loan and receivables, including bank deposits	36	28
Dividend income	-	-
Foreign exchange gain	281	260
Other financial income	6	7
Total	**323**	**295**
Financial costs		
Interest expense on loans and borrowings	(78)	(79)
Foreign exchange loss	(133)	(734)
Bank charges	(5)	(3)
Change in fair value of available for sale financial assets	(29)	(22)
Other financial expenses	(37)	(28)
Total	**(282)**	**(866)**
Net financial items	**41**	**(571)**

The Group has a net foreign exchange income of NOK 147 million for FY2016, of which NOK 193 million are net unrealized income and NOK 46 million net relized loss. NOK 237 million of the unrealized income are related to the yard construction loan in Vard Promar denominated in USD, while NOK 46 million of realized losses relate to instalments paid in 2016 on the same loan.

28 Income tax expenses

The Group is subject to income tax on an entity basis on profit arising or derived from the tax jurisdictions in which the Group entities are domiciled and operate.

(A) INCOME TAX RECOGNIZED IN PROFIT OR LOSS

	Group	
	2016	2015
Current tax expense:		
Current year	(118)	(2)
Over/(under) provision in respect of prior years	3	(3)
Total	**(115)**	**(5)**
Deferred tax expense:		
Origination and reversal of temporary differences	74	(41)
Over provisions in respect of prior years	-	31
Changes in tax rates	3	4
Tax assets previously not recognized/(written off)	-	(77)
Total	**77**	**(83)**
Total income tax expense	**(38)**	**(88)**

(B) INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	2016			2015		
Group	**Before tax**	**Tax expense**	**Net of tax**	**Before tax**	**Tax benefit**	**Net of tax**
Other comprehensive income						
Exchange differences on translation of foreign operations	(122)	-	(122)	281	-	281
Income tax on translation exchange difference on monetary items considered as part of the Group's net investment in foreign subsidiary	(282)	81	(201)	136	(42)	94
Income tax on cash flow hedge	(49)	12	(37)	-	-	-
Total	**(453)**	**93**	**(360)**	**417**	**(42)**	**375**

Tax expense related to other comprehensive income is current tax.

(C) RECONCILIATION OF EFFECTIVE TAX RATE

	2016		2015	
	%	Amount	%	Amount
Profit/(loss) before tax		**(159)**		**(1,204)**
Tax at the domestic rates applicable to profits in the countries where the Group operates	23.9%	38	-19.1%	230
Over/(under) provision in respect of prior years	-1.9%	3	-2.3%	28
Income not subject to tax	-8.8%	14	-3.7%	44
Non deductible expenses	3.8%	(6)	0.6%	(7)
Utilization of previously unrecognized tax assets	-1.9%	3	-0.3%	4
Tax asssets written off	0,0%	-	6.4%	(77)
Tax losses and temporary differences for which no deferred income tax asset was recognized	58.5%	(93)	26.1%	(314)
Change in tax rates	-1.9%	3	0.3%	4
Total income tax expense in profit or loss	**23.9%**	**(38)**	**7.3%**	**(88)**

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

NOTES

(All amounts in NOK millions unless otherwise stated)

29 Earnings per share and diluted earnings per share

The Group's basic and diluted earnings per share are calculated as follows:

	Group	
	2016	**2015**
Net profit/(loss) attributable to ordinary shareholders of the Company	**(163)**	**(603)**
Net profit/(loss) attributable to ordinary shareholders of the Company (SGD million)	(27)	(97)
Weighted average number of shares (million)	1,180	1,180
Basic earnings/(loss) per share (NOK per share)	(0.14)	(0.51)
Basic earnings/(loss) per share (SGD cents per share)	**(2.32)**	**(8.19)**
Adjusted weighted average number of shares (million) (in millions)	1,180	1,180
Diluted earnings per share (NOK per share)	(0.14)	(0.51)
Diluted earnings per share (SGD cents per share)	**(2.32)**	**(8.19)**
Exchange rates:	31.12.16	31.12.15
SGD/NOK	5.9645	6.2386

There were no outstanding options to subscribe for shares as at 31 December 2016 (31 December 2015: 0).

The SGD amounts are translated from NOK based on the exchange rates prevailing at the reporting date as shown above.

30 Operating segments

(A) REPORTABLE SEGMENTS

The CEO is considered as the chief operating decision maker. The CEO reviews the results of all the individual projects related to design and construction of vessels. The group is not involved in any other significant activities, so management is of the view that the whole Group should be considered as one segment.

(B) GEOGRAPHICAL INFORMATION

The Group has activity in 14 (2015: 13) countries and principally in Norway. In presenting geographical information, segmental revenue is based on the geographical location of companies within the Group. Segmental assets are based on the geographical location of the assets and the expenditure incurred.

	Revenue		Non-current assets	
	2016	**2015**	**2016**	**2015**
Norway	5,267	7,628	1,256	1,336
Romania*	528	189	1,151	1,108
Singapore	384	890	-	-
Vietnam**	-	-	270	283
Brazil	1,484	2,438	1,157	999
Canada	138	144	30	33
USA	19	12	-	-
Italy	66	1	1	-
Other countries	8	5	27	1
Total	**7,894**	**11,307**	**3,892**	**3,760**

* Revenue in Romania only relates to external revenues.

** Revenues from Singapore and Vietnam must be considered in total, as Vietnam operates principally as a subcontractor of the Singapore company.

(C) MAJOR CUSTOMERS

The Group has a few single customers which have generated revenue individually of 10% or more of the Group's revenue:

	%	2016	%	2015
Customer 1	22%	1,718	30%	3,358
Customer 2	8%	621	12%	1,303
Customer 3	3%	276	10%	1,090
Customer 4	0%	-	10%	1,164
Total revenue		**2,615**		**6,915**

31 Financial risk management objectives and policies

Overview

The main risks arising from the Group's financial instruments are credit risk, market risk (mainly interest rate risk and foreign currency risk) and liquidity risk. The Group enters into derivative transactions, primarily forward foreign currency contracts, to manage the Group's exposure arising from its operations and sources of finance. It is the Group´s policy that no trading of derivatives shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans, receivables and construction WIP in excess of prepayments.

The Group has an established process to evaluate the creditworthiness of its prospective customers. An internal credit review and rating is carried out on the prospective customers prior to contract signing. The Group requires customers to have the necessary funding in place at signing of the shipbuilding contract. In instances where the customer's funding is not in place, the Group would, where appropriate, obtain collaterals, including bank guarantees and letters of credit, from customers.

There is no significant concentration of credit risk on outstanding financial instruments as at the reporting date.

The Group´s maximum exposure to credit risk is represented by the carrying values of each financial asset, as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Interest-bearing receivables (Note 9)	762	980	7	785
Other receivables less derivative financial instruments, non-current (Note 10)	7	12	-	-
Trade and other receivables less advances to suppliers, VAT and tax receivables (Note 16)	329	333	112	79
Derivative financial instruments	53	331	-	-
Construction WIP in excess of prepayments (Note 15)	5,594	12,451	-	-
Cash and cash equivalents (Note 17)	722	919	3	4
Total	**7,467**	**15,026**	**122**	**868**

NOTES

(All amounts in NOK millions unless otherwise stated)

The age analysis of trade receivables that are not impaired is as follows:

	Group	
	2016	**2015**
Not Due	102	108
0 - 30 days	24	31
31 - 120 days	23	30
121 - 365 days	8	35
More than 365 days	10	8
TOTAL	**167**	**212**

This is not applicable for the Company, as there are no trade reveivables.

Allowance for impairment losses for trade receivables:

	Group	
	2016	**2015**
Gross amount	174	220
Less: Allowance for impairment losses	(7)	(8)
TOTAL	**167**	**212**
At 1 January	8	45
Allowance made/(written back)	-	-
Utilized	(1)	(37)
At 31 December	**7**	**8**

This is not applicable for the Company.

Trade receivables that are individually determined to be impaired at the reporting date relate to non-shipbuilding receivables.

Based on historic defaults rates, the Group believes that, apart from the above impaired receivables, no impairment allowance is necessary in respect of trade receivables not past due and past due to the good credit records of the Group's customers.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group´s exposure to fluctuations in interest rate relates primarily to construction loan facilities, and some of the term loans. Interest rate risk is managed on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Normally the Group will enter into construction loans with floating rates in Norway and Singapore/Vietnam and fixed rate construction loans in Brazil (as fixed rate loan facilities are more commonly available in Brazil than floating rate loan facilities).

No derivative financial instruments are entered into to manage the interest rate risks of the Group.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	Group		Company	
	2016	2015	2016	2015
Fixed rate instruments				
Financial assets (cash and cash equivalents)	-	-	-	-
Financial liabilities (loans and borrowings)	3,549	3,506	-	-
Variable rate instruments				
Financial assets (cash and cash equivalents)	722	919	3	4
Financial assets (interest bearing receivables)	762	980	7	785
Financial liabilities (loans and borrowings)	3,191	7,963	-	-

Sensitivity analysis
A change of 50 basis points ("bp") in interest rates at reporting date would have affected profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group Profit and loss		Company Profit and loss	
	50bp increase	50bp decrease	50bp increase	50bp decrease
At 31 December 2016				
Variable rate instruments (net)	(19)	19	2	(2)
Cash flow sensitivity (net)	**(19)**	**19**	**2**	**(2)**
At 31 December 2015				
Variable rate instruments (net)	(22)	22	3	(3)
Cash flow sensitivity (net)	**(22)**	**22**	**3**	**(3)**

Foreign currency risk
As a part of the operations take place in countries other than Norway (such as Romania, Singapore, Vietnam and Brazil), the Group's financial performance can be affected, especially by movements in the USD/BRL, EUR/NOK and USD/NOK. Because of the non-current financing denominated in USD for Vard Promar, USD/BRL is the currency cross that has the biggest impact on the consolidated financial statements.

The entities in the Group manages their foreign currency exposure arising from each construction contract project separately. Forward foreign currency contracts are used to hedge this foreign exchange risk. These forward foreign currency contracts are designated as fair value hedge instruments. The Group also use forward foreign currency contracts to hedge foreign exchange risk on moneraty items, not related to the construction contract projects. The Group does not use forward foreign currency contracts for trading purporses.

NOTES

(All amounts in NOK millions unless otherwise stated)

Overview of derivatives

	Group	
	2016	**2015**
Fair value hedges		
Forward foreign currency contracts	28	-
Non-current derivatives (assets)	**28**	**-**
Fair value hedges		
Forward foreign currency contracts	25	303
Non-hedging instruments		
Forward foreign currency contracts	28	28
Current derivatives (assets)	**53**	**331**
Fair value hedges		
Forward foreign currency contracts	(32)	(12)
Non-current derivatives (liabilities)	**(32)**	**(12)**
Fair value hedges		
Forward foreign currency contracts	(247)	(3,139)
Cash flow hedges		
Forward foreign currency contracts	(332)	-
Non-hedging instruments		
Forward foreign currency contracts	(12)	(99)
Current derivatives (liabilities)	**(591)**	**(3,238)**

Sensitivity analysis

A strengthening of the following foreign currencies as indicated below against the functional currencies of the Company and its subsidiaries at the reporting date, would have increased/(decreased) profit and loss by the amounts shown below. This analysis is based on foreign exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis also assumes that all other variables remain constant.

	2016	**2015**
USD/NOK (5% strengthening)	(6)	1
EUR/NOK (5% strengthening)	(23)	14
Total (Functional currency NOK)	**(29)**	**15**
USD/BRL (5% strengthening)	**(46)**	**(55)**
EUR/RON (5% strengthening)	**3**	**(5)**

The effect of foreign currency risk is immaterial for the Company.

A weakening of the above foreign currencies against the functional currencies of the Company and its subsidiaries at the reporting date would have equal but opposite effects on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group monitors its net operating cash flows based on individual construction contracts. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of available credit facilities, construction financing and advance payments from contracts.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on the gross contractual undiscounted cash flow.

Group	**Carrying amount**	**Total contractual cash flow**	**Within 1 year**	**Within 1 – 5 years**	**> 5 years**
At 31 December 2016					
Non–derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1,195)	(1,195)	(1,195)	-	-
Construction loans (Note 19)	(5,248)	(5,386)	(2,924)	(2,462)	-
Term loans and current facilities (Note 19)	(1,492)	(1,757)	(488)	(656)	(613)
Other non-current liabilities (Note 20)	-	-	-	-	-
Total	**(7,935)**	**(8,338)**	**(4,607)**	**(3,118)**	**(613)**
At 31 December 2015					
Non–derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1,231)	(1,231)	(1,231)	-	-
Construction loans (Note 19)	(9,435)	(9,798)	(6,675)	(3,123)	-
Term loan facilities (Note 19)	(2,034)	(2,425)	(914)	(661)	(850)
Other non-current liabilities (Note 20)	(22)	(22)	(22)	-	-
Total	**(12,722)**	**(13,476)**	**(8,842)**	**(3,784)**	**(850)**

Company	**Carrying amount**	**Total contractual cash flow**	**Within 1 year**	**Within 1 – 5 years**	**> 5 years**
At 31 December 2016					
Non–derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1)	(1)	(1)	-	-
Total	**(1)**	**(1)**	**(1)**	**-**	**-**
At 31 December 2015					
Non–derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1)	(1)	(1)	-	-
Other current liabilities (Note 23)	(1)	(1)	(1)	-	-
Total	**(2)**	**(2)**	**(2)**	**-**	**-**

NOTES

(All amounts in NOK millions unless otherwise stated)

ACCOUNTING CLASSIFICATION AND FAIR VALUES

Fair value disclosures

The fair values of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Group	Note	Fair value – Hedging instruments	Fair value – Available-for-sale	Loans and receivables	Amortized cost – Financial liabilities	Total carrying amount	Fair value
31 December 2016							
Financial assets							
Other investments	8	-	19	-	-	19	19
Interest-bearing receivables	9	-	-	762	-	762	644
Trade and other receivables	16	-	-	174	-	174	174
Current and non-current derivatives	31	81	-	-	-	81	81
Cash and cash equivalents	17	-	-	722	-	722	722
Total		**81**	**19**	**1,658**	**-**	**1,758**	**1,640**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(1,049)	(1,049)	(1,063)
Other non-current liabilities	20	-	-	-	(582)	(582)	(582)
Current and non-current derivatives	31	(623)	-	-	-	(623)	(623)
Trade and other payables	22	-	-	-	(1,195)	(1,195)	(1,195)
Current loans and borrowings	19	-	-	-	(5,691)	(5,691)	(5,691)
Total		**(623)**	**-**	**-**	**(8,517)**	**(9,140)**	**(9,154)**
31 December 2015							
Financial assets							
Other investments	8	-	39	-	-	39	39
Interest-bearing receivables	9	-	-	980	-	980	860
Trade and other receivables	16	-	-	345	-	345	345
Current and non-current derivatives	31	331	-	-	-	331	331
Cash and cash equivalents	17	-	-	919	-	919	919
Total		**331**	**39**	**2,244**	**-**	**2,614**	**2,494**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(1,200)	(1,200)	(1,273)
Other non-current liabilities	20	-	-	-	(22)	(22)	(22)
Current and non-current derivatives	31	(3,250)	-	-	-	(3,250)	(3,250)
Trade and other payables	22	-	-	-	(1,231)	(1,231)	(1,231)
Current loans and borrowings	19	-	-	-	(10,269)	(10,269)	(10,269)
Total		**(3,250)**	**-**	**-**	**(12,722)**	**(15,972)**	**(16,045)**

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on management´s best estimates and the discount rates are the market interest rates for a similar instrument at the reporting date. The discount rates used for non-current loans and borrowings for both years were 2%-6%.

Fair value hierarchy

The table below analyses financial instruments carried out at fair value, by valuation methods as at 31 December 2016 and 2015.

Group	Level 1	Level 2	Level 3	Total
At 31 December 2016				
Assets				
Available-for-sale financial assets	13	-	6	19
Derivatives	-	81	-	81
Total assets	**13**	**81**	**6**	**100**
Liabilities				
Financial liabilities at fair value through profit an loss	-	-	(13)	(13)
Derivatives	-	(623)	-	(623)
Total liabilities	**-**	**(623)**	**(13)**	**(636)**
Total	**13**	**(542)**	**(7)**	**(536)**
At 31 December 2015				
Assets				
Available-for-sale financial assets	30	-	9	39
Derivatives	-	331	-	331
Total assets	**30**	**331**	**9**	**370**
Liabilities				
Derivatives	-	(3,250)	-	(3,250)
Total liabilities	**-**	**(3,250)**	**-**	**(3,250)**
Total	**30**	**(2,919)**	**9**	**(2,880)**

The Company has no financial assets or liabilities carried at fair value.

The different levels of the fair value hierarchy are as follows:

- Level 1 – Fair values are measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Fair values are measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Fair values are measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

DETERMINATION OF FAIR VALUES

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example the derivative contracts) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable. The instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Derivatives

The fair value of forward currency contracts is determined using the forward exchange rates at the reporting date, with the resulting value discounted back to present value.

Securities

The fair value of the available-for-sale equity instruments in level 3 is based primarily on unobservable data, as these instruments are not actively traded and not comparable to any actively traded securities. The fair value is determined using other valuation techniques.

Financial liabilities

Level 3 also includes the financial liabilities relating to the fair value of options on equity investments calculated using valuation techniques whose inputs are not observable on the market.

NOTES

(All amounts in NOK millions unless otherwise stated)

32 Acquisition of subsidiary, transactions with non-controlling interests and disposal group classified as held for sale

Acquisition of subsidiary in 2016

Storvik Aqua AS
On 1 November 2016,the Group acquired the entire shareholding interest in Storvik Aqua AS (including its subsidiaries) from Storvik Aqua Holding AS, an unrelated party.

Storvik Aqua is a leading supplier of equipment within feeding, measurement and control solutions to the aquaculture industry, with operations in Norway, Chile and Scotland.

Upon closing, 5.36% of the shares in Storvik Aqua was sold to an entity held by key management as part of a share retention scheme. Consequent to the acquisition, Storvik Aqua becomes a 94.64% held subsidiary of Vard Group AS. The shareholding will increase to 100% in three steps between 2017 and 2019. Based on the analysis of the transfer of risks and rewards, no minority interest were recognized in 2016 Group's consolidated financial statements.

Consideration transferred

The consideration for the transaction was NOK 35 million, fully paid, at closing in cash.

Fair value of identifiable assets acquired and liabilities assumed

	Note	2016
Property, plant and equipment	4	1
Intangible assets (systems developed)	5	4
Cash and cash equivalents		3
Other current assets		32
Deferred tax liabilities		2
Non-current loans and borrowings		(10)
Other current liabilities		(10)
Total identifiable net assets and book value		**22**
Consideration transferred		35
Goodwill recognized in the transaction		**13**

The excess value is attributable mainly to the competence and know-how of the company's employees and synergies with other group companies. This cannot be separately valued, and hence allocated to goodwill. This represents future economic benefits accruing to the Group. None of the goodwill recognized is expected to be deductible for tax purposes. Goodwill attributable to the non-controlling shareholders has not been recognized. The expected synergies with other Group companies relates to different cash generating units. The allocation of goodwill to the different cash generating units is not completed year end 2016.

Cash flows	**2016**
Total consideration for acquisition of subsidiary	35
Cash acquired	(3)
Net cash outflows	**32**

Transactions with non-controlling interests in 2016

On 5 August 2016, the Group increased the ownership stake in Vard Promar from 50.5% to 95.15% as a result of a capital increase of BRL 532 million in Promar that, not being underwritten by minorities, was entirely taken up by Vard Group AS trough the conversion of shareholder loans into newly issued equity, with no cash consideration. As part of the overall agreement between VARD and its long-term partner in Brazil, PJMR Empreendimentos Ltda. ("PJMR"), and providing for an amicable termination of the partnership, the parties have agreed (i) a consideration of BRL 6 million (NOK 16 million) to terminate the shareholders agreement and for the assignment of the preemptive rights that was satisfied in cash and (ii) put and call options for PJMR's remaining 4.85% shareholding in Vard Promar. Hence, from the date of the agreement the remaining non-controlling interest in Vard Promar has been derecognized from equity.

Assets and liabilities of disposal group classified as held for sale in 2016

During the 4Q 2016 the Group initiated an active program to locate a buyer for it subsidiary Multifag AS, a 100% held subsidiary of Vard Group AS. The subsidiary is currently marketed actively at a price that is reasonable, in relation to its fair value, and the sale is expected to be completed whithin one year from the classification as held for sale.

The following assets and liabilities were reclassified as held for sale as at 31 December 2016:

	2016
Property, plant and equipment	3
Long-term investments	3
Other non-current assets	2
Trade and other receivables	19
Inventories	26
Other current assets	4
Total assets	**57**
Advances from customers	(21)
Accounts payable	(8)
Other current liabilities	(15)
Total liabilities	(44)
Net assets	**13**

Acquisition of subsidiary in 2015

ICD Software AS
On 24 June 2015, Seaonics AS, 51% held by Vard Group AS, acquired the entire shareholding interest in ICD Software AS (including its subsidiaries) from ICD Industries AS, the minority shareholer in Seaonics AS holding the 49% not held by Vard Group AS. ICD Software is a leading provider of automation and control system software for the offshore and marine sector.

Consideration transferred
The consideration for the transaction was NOK 90 million. The consideration was settled with NOK 46 million in cash, and with a seller credit of NOK 44 million, directly converted to equity. Vard Group made a private placement equivalent to the cash consideration, resulting in an unchanged shareholder structure before and after the transaction.

Fair value of identifiable assets acquired and liabilities assumed

	Note	**2015**
Property, plant and equipment	4	5
Intangible assets (systems developed)	5	43
Cash and cash equivalents		1
Other current assets		18
Deferred tax liabilities		(6)
Current loans and borrowings		(8)
Other current liabilities		(16)
Total identifiable net assets and book value		**37**
Consideration transferred		90
Goodwill identified on 100% basis		53
Non-controlling interest share of goodwill not recognized		**26**
Goodwill recognized in the transaction		**27**

The goodwill is attributable mainly to the competence and know-how of the company's employees and synergies with other group companies. This cannot be separately valued, and hence allocated to goodwill. This represents future economic benefits accruing to the Group. None of the goodwill recognized is expected to be deductible for tax purposes. Goodwill attributable to the non-controlling shareholders has not been recognized. The expected synergies with other Group companies relates to different cash generating units. There has not been any subsequent changes in the purchase price allocation compared to the intitial purchase price allocation done in 2015.

NOTES

(All amounts in NOK millions unless otherwise stated)

Cash flows	**2015**
Total consideration for acquisition of subsidiary	46
Cash acquired	(1)
Net cash outflows	**45**

33 Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios so as to maintain investors', creditors' and market confidence and to support and sustain future development of the business. The Group seeks to maintain a healthy balance between higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position.

Financing of major investments and acquisitions shall as far as possible be done by long-term debt, with a maturity profile that corresponds to the useful life of the investment.

As a general rule the Group will obtain construction financing for each respective construction project tailored to the negotiated payment terms for the various projects and with a pledge in the objective under construction. Through this way of financing the Group will in essence be debt free upon delivery of the orderbook (disregarding any long-term debt related to major investments).

The Group monitors its cash needs through its Group Treasury department which develops rolling cash forecasts with both monthly, semi-annually, annual and 5-year horizons. Based on these forecasts the Group is able to implement necessary actions if needed.

Capital consists of paid up capital, other reserves, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return of capital as well as the level of dividends to the shareholders. There were no changes in the Group's approach to capital management during the year.

Except from covenant requirements as described in Note 19, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Group monitors covenant compliance both in terms of working capital and equity levels at the group levels required.

34 Operational lease commitments

Operating lease rentals are payable as follows:

Group	**2016**	**2015**
Within one year	53	36
Between one and five years	88	56
More than five years	106	39
Total	**247**	**131**

Vard Holdings Limited did not have any lease commitments as of 31 December 2016 and 2015.

The Group's operating lease relates to primarily to yard and buildling leases. The group has a yard lease with a remaining lease period of three years.

During the financial year, an amount of NOK 91 million was recognized as an expense in profit or loss in respect of operational leases (2015: NOK 100 million).

35 Related parties

(A) PARENT AND ULTIMATE HOLDING COMPANY

Fincantieri Oil & Gas S.p.A is the immediate holding company of the Company. The ultimate holding company is Cassa Depositi e Prestiti S.p.A., incorporated in Italy.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

The Group's principles relating to remuneration to the Group's key management personnel are to cultivate a performance-based corporate culture based on the Group's values, and to motivate contribution to good financial performance and greater value creation for the shareholders of the Group. The Group's key management personnel participate in the Group's collective pension plan, under which all employees are entitled to a pension contribution amounting to 4.0% of salary up to 12 times the social security base amount.

Remuneration to key management personnel of the Group during the year is as follows:

	Group	
Numbers in NOK thousand	**2016**	**2015**
Base salary	17,923	18,594
Variable pay	-	2,989
Other benefits	193	258
Pension benefit	433	402
Total	**18,549**	**22,243**

(C) OTHER RELATED PARTY TRANSACTIONS

The following transactions took place between the Group and related parties, who are not members of the Group, during the financial year on terms agreed between the parties concerned:

TRANSACTIONS AND AGREEMENTS WITH RELATED PARTIES

Sales of goods and services	**2016**	**2015**
Sales of construction contracts and engineering services to parent company	413	142
Sale of electrical eqiupment and electrical package to parent company	107	-
Secondment of personnel to parent company	8	-
Guarantee commission, associates	4	5
Interest income, associates	3	3
Sales of vessels and services to associates	317	55
Total sales of goods and services	**852**	**205**
Purchases of goods and services		
Secondment of personnel from parent company	(5)	-
Other operating expenses, parent company	(10)	(30)
Total purchases of goods and services	**(15)**	**(30)**
Agreements entered into without impact on cost or revenues in the period		
Agreement regarding extension of barge owned by Fincantieri	-	201
Slot reservation agreement (Note 20)	584	-
Contract between Marine Interiors S.p.A. and VARD for accomodation modules	295	-
Contract for manufacturing and outfitting of a ship-part to parent company	248	-
Total agreements entered into without impact on cost or revenues in the period	**1,127**	**201**

Sales of vessels and services to associates, mainly relates to sales of vessels and where the share of profit is eliminated in the group, see also note 7.

Outstanding balances receivable from/payable to related parties are disclosed in Notes 9, 16 and 23 accordingly.

36 Group of companies

The subsidiaries included in the Vard Holdings Limited Group at 31 December 2016 were as follows:

Name of the company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2016 %	Effective equity held by the Group 2015 %
Vard Group AS	Norway	Shipbuilding	100	100
Vard Shipholding Singapore Pte. Ltd	Singapore	Shipowner	100	100
Subsidiaries of Vard Group AS				
Vard Electro AS	Norway	Electrical engineering and installation	100	100
Vard RO Holding SRL	Romania	Holding company	100	100
Vard Niterói SA	Brazil	Shipbuilding	100	100
Vard Promar SA [1]	Brazil	Shipbuilding	95	51
Estaleiro Quissamã Ltda	Brazil	Dormant	51	51
Vard Singapore Pte. Ltd	Singapore	Project development and engineering	100	100
Vard Design AS	Norway	Project development and ship design	100	100
Vard Accommodation AS	Norway	Accommodation installation	100	100
Vard Piping AS	Norway	Pipe installation	100	100
Vard Brevik Holding AS [2]	Norway	Holding company	n/a	100
Seaonics AS [3]	Norway	Ship equipment design and manufacturing	56	51
Vard Marine Inc	Canada	Project development and ship design	100	100
Aakre Eigendom AS [4]	Norway	Accommodation facilities	n/a	100
Vard Contracting AS	Norway	Shipyard support services	100	100
Vard Seaonics Holding AS	Norway	Dormant	100	100
Vard Engineering Brevik AS	Norway	Engineering	70	70
Vard Offshore Brevik AS	Norway	Offshore industrial services and installation	100	100
Multifag AS [5]	Norway	Offshore industrial services and installation	100	100
Storvik Aqua AS [6]	Norway	Equipment supply aquaculture industry	95	n/a
Subsidiaries of Vard Design AS				
Vard Design Liburna Ltd	Croatia	Ship design	51	51
Subsidiaries of Vard Electro AS				
Vard Electro Tulcea SRL [7]	Romania	Electrical engineering and installation	100	100
Vard Electro Brazil (Instalações Elétricas) Ltda [8]	Brazil	Electrical engineering and installation	100	100
Vard Electro Braila SRL	Romania	Electrical engineering and installation	100	100
Vard Electrical Installation and Engineering (India) Private Limited [9]	India	Electrical engineering and installation	100	100
Vard Electro Italy SRL	Italy	Electrical engineering and installation	100	100
Vard Electro Canada Inc [10]	Canada	Electrical engineering and installation	100	n/a
Subsidiaries of Vard RO Holding SRL				
Vard Tulcea SA [11]	Romania	Shipbuilding	100	100
Vard Braila SA [12]	Romania	Shipbuilding	100	100
- Vard Ship Repair Braila SA [13]	Romania	Ship repair and maintenance	100	100
- AJA Ship Design SA [14]	Romania	Dormant	n/a	60
Vard Engineering Constanta SRL [15]	Romania	Engineering	100	100
Subsidiary of Seaonics AS				
Seaonics Polska sp. z o.o.	Poland	Ship equipment design	56	51
ICD Software AS	Norway	Automation and control system software	56	51
ICD Polska sp. z o.o. [16]	Poland	Automation and control system software	n/a	51
SIA ICD Industries Latvia	Latvia	Automation and control system software	56	51
Faster Imaging AS [17]	Norway	Automation and control system software	n/a	51
Industrial Control Design AS	Norway	Automation and control system software	56	51
CDP Technologies AS [18]	Norway	Automation and control system software	56	n/a
- CDP Technologies Estonia OÜ [19]	Estonia	Automation and control system software	56	51
Vard Marine US Inc	USA	Project development and ship design	100	100
Subsidiary of Vard Singapore Pte. Ltd				
Vard Vung Tau Ltd	Vietnam	Shipbuilding	100	100
Subsidiary of Vard Accommodation AS				
Vard Accommodation Tulcea SRL [20]	Romania	Accommodation installation	100	100
Subsidiaries of Vard Engineering Brevik AS				
Vard Engineering Gdansk sp. z o.o. [21]	Poland	Engineering	70	70
Subsidiaries of Multifag AS				
Brevik Elektro AS	Norway	Electrical installation	100	100
Subsidiaries of Storvik Aqua AS				
Storvik SA [22]	Chile	Equipment supply aquaculture industry	90	n/a
Storvik Aqua Ltd [23]	United Kingdom	Equipment supply aquaculture industry	100	n/a

1) Increased shareholding from 50.5% to 95.15%
2) Merged with Vard Group AS in FY2016
3) Increase shareholding from 51% to 56.4%
4) Merged with Vard Group AS in FY2016
5) Classified as asset held for sale in FY2016
6) Acquired in FY2016
7) Vard Electro AS 99.96%, Håvard Sætre 0.04%
8) Vard Electro AS 99%, Vard Group AS 1%
9) Vard Electro AS 99%, Vard Electro Tulcea SRL 1%
10) Established in FY2016
11) Vard RO Holding 99.996%, Vard Group, 0.004%
12) Vard RO Holding SRL 94.12%, Vard Group AS 5.88%
13) Vard Braila SA 68.58%, Vard Group AS 31.42%
14) Liquidated in FY 2016
15) Vard RO Holding SRL 70%, Vard Braila SA 30%
16) Merged with Seaonics Polska sp. z o.o. in FY2016
17) Merged with ICD Software AS in FY2016
18) Established in FY2016
19) Previous name: ICD Industries Estonia OÜ. Acquired in FY2015
20) Vard Accommodation AS 99.77%, Vard Electro Tulcea SRL 0.23%
21) 100% owned by Vard Engineering Brevik AS, 70% indirectly owned by Vard Group AS
22) Acquired in FY2016
23) Acquired in FY2016

PricewaterhouseCoopers LLP are the auditors of the Singapore-incorporated subsidiary. Other member firms of PricewaterhouseCoopers International Limited (PwCIL) are auditors of all significant foreign-incorporated subsidiaries.

NOTES

(All amounts in NOK millions unless otherwise stated)

37 Contingencies and capital commitments

Guarantee obligations
As part of its ordinary operations, completion guarantees and guarantees for advance payments from customers (refundment guarantees) are issued. Such guarantees typically involve a financial institution that writes the guarantee vis-à-vis the customer.

Project risks and uncertainties
The Group's operations are subject to long-term contracts, many of which are fixed-price, turnkey contracts that are awarded on a competitive bidding basis. Failure to meet schedule or performance guarantees or increases in contract costs can result in non-recoverable costs, which could exceed revenues realized from the applicable project. When a project is identified as loss-making, forecasted loss is provisioned for according to FRS 11. The accounting treatment is based on detailed project forecasts carried out by management on a monthly basis based on experience, events and best judgement at each reporting date. Inevitably, such circumstances and information may be subject to change in subsequent periods and thus the eventual outcome may be better or worse than the assessments made in drawing up periodical financial reports.

If the contractual delivery date for projects with construction loans is postponed, it will be necessary to request the lenders to postpone the maturity date for the construction loans accordingly. If contracts for projects under construction are terminated, extensions of the construction loans might be necessary in order to finalize the vessels for resale. If construction loans are not extended in the event that projects are postponed or terminated, the Group will seek additional funding through alternative debt financing and/or contributions from shareholders.

Legal proceedings
With its extensive worldwide operations, companies included in the Group are in the course of its activities involved in numerous legal disputes. Provisions have been made to cover the expected outcome of the disputes to the extent that negative outcomes are likely and reliable estimates can be made. However, the final outcome of these cases will always be subject to uncertainties and resulting liabilities may exceed booked provisions. As of the reporting date, the Group is not part of any ongoing legal dispute, which could have a material impact on the financial statements, and not already provided for except for the claim against Petrobras Transporte S.A. (Transpetro) disclosed below.

Because of the losses incurred for eight shipbuilding contracts with Transpetro, the Group sought to renegotiate the terms and conditions of the contracts at a commercial and administrative level pursuant to a specific provision in the shipbuilding contract entitling such renegotiation. Efforts were made to reach an out-of-court settlement of the economic balance claims, although an agreeable solution was not attained.

On 11 September 2015, the Group filed a judicial claim requesting compensation for the losses incurred and the re-establishment of the economic balance of the agreements. The claim amounts to BRL 244 million (NOK 543 million). Preliminary expert evidence has confirmed the existence of imbalances, but the quantification of compensation and the likelihood of a favorable ruling are subject to the final expert examination to be determined by the Court. In December 2015, Transpetro sought to terminate the contracts for the construction of EP 07 and EP 08 and requested the return of the advance payments made in connection with such agreements. This issue is was also subject to judicial review and is under discussion in the State Court of Rio de Janeiro, and a sum equivalent to the advance payments was deposit in an escrow account, and the amount was released in September 2016. The Group has not recognized any assets related to the claims against Transpetro in the statement of financial position as of 31 December 2015, as this is considered a contingent asset that do not qualify for recognition.

The main claim is close to the "technical hearing phase", and the court has nominated a technical expert for the technical assessment of the claims put forward by the parties.

Tax claim Brazil
The previously reported tax claim in Brazil is still awaiting a decision in the second out of three levels of appeals within the Brazilian administrative tax authorities. VARD intends to continue to defend its position through further appeals and by all legal means at its disposal. The Company has in cooperation with its legal counsel assessed the likelihood of a favorable ruling in the second or third appeal as more likely than not and hence no provision for the claim has been made.

Capital and other commitments
In relation to the participation of minority stakes in various of its own shipbuilding projects (Note 8), the Group is committed to additional seller credit. In relation to the expansion of facilities at Vard Tulcea, the Group has an additional capital commitment. The total capital commitments are summarized in the table below, also showing the expected timing of the related cash outflows:

Capital and other commitments	**2017**	**2018**	**2019**
Capital commitment related to expansion of facilities at Vard Tulcea	170	-	-
Seller credit/loan	44	20	-
Total capital and other commitments	**214**	**20**	**-**

In relation to equity participation, the intention is to exit within one to three years from the time of delivery.

Clean-up costs
The Group's operations are subject to numerous national and supra-national environmental regulations, including removal and clean-up of environmental contamination. Although there have to date been no indications that the Group has failed to comply with applicable environmental rules, regulations or permits, current concentration limits for hazardous material will apply to historical contamination, and any further studies or changes in concentration limits may result in further clean-up operations or protective measures being imposed in the future. The costs related to such clean-up or protective measures may be significant and could have a material adverse effect on the business, financial condition and results of operations. Although the cost related to this can be material, the Group expects that the potential cost related to this can be covered within existing provisions and normal operations without any material negative impact.

38 Post balance sheet events

On 3 March 2017, Vard Promar S.A. received a tax assessment notice regarding non-payment of municipal service taxes ("ISS") related to the delivery of vessels EP 01 and EP 02 to Transpetro on 9 July 2015 and 20 June 2016 respectively. The tax assessment amounts to BRL 12 million (NOK 31 million). VARD will file an appeal against the ruling as it is deemed to have no merit, and no payments are expected to be made before a final conclusion of the case. No provision has been made as of 31 December 2016 based on a legal opinion received concluding that it is more likely than not that VARD will succeed with its appeal.

On 8 March 2017, Vard Singapore Pte. Ltd. successfully delivered the OSCV, Far Superior, to Farstad Shipping ASA. The vessel was contractually scheduled for delivery on 20 November 2016, and then postponed pending the finalization of the financial restructuring of the Farstad group. The vessel will shortly commence its long-term framework agreement with TechnipFMC Norge AS for a firm period of five years and up to five years options, a contract for which the vessel is purpose built.

APPENDIX – IPT MANDATE

Appendix in relation to the proposed renewal of the IPT Mandate

Definitions

Except where the context otherwise requires, the following definitions apply in the Appendix:

"Act"	The Companies Act, Chapter 50 of Singapore, as amended from time to time
"AGM"	The annual general meeting of the Company, notice of which is given on pages 132 to 135 of the Annual Report of the Company in respect of the financial year ended 31 December 2016
"Annual Report"	The Company's annual report for the financial year ended 31 December 2016
"Audit Committee"	The audit committee of the Company for the time being
"Board" or "Board of Directors"	The board of directors of the Company for the time being
"Cassa Depositi e Prestiti"	Cassa Depositi e Prestiti S.p.A.
"CDP"	The Central Depository (Pte) Limited
"Chief Executive Officer"	The chief executive officer of the Company for the time being
"Chief Financial Officer"	The chief financial officer of the Company for the time being
"Chief Operating Officer"	The chief operating officer of the Company for the time being
"Company"	Vard Holdings Limited
"Compliance Committee"	Has the meaning ascribed to it in paragraph 2.5(a) of this Appendix
"Director"	A director of the Company for the time being
"Executive Officer"	An executive officer of the Company for the time being
"Fincantieri"	FINCANTIERI S.p.A.
"Fincantieri Group"	Fincantieri, its subsidiaries and associated companies, excluding the Group
"Fincantieri O&G"	Fincantieri Oil & Gas S.p.A.
"Fintecna"	Fintecna S.p.A.
"Group"	The Company and its subsidiaries
"HVAC"	Has the meaning ascribed to it in paragraph 2.3(b) of this Appendix
" IPT Mandate"	The general mandate approved by Shareholders pursuant to Chapter 9 of the Listing Manual for the Group to enter into the Mandated Transactions

"Latest Practicable Date"	The latest practicable date prior to the printing of this Appendix, being 10 March 2017
"Listing Manual"	The listing manual of the SGX-ST, as may be amended, varied or supplemented from time to time
"Mandated Interested Persons"	Has the meaning ascribed to it in paragraph 2.3(c) of this Appendix
"Mandated Transactions"	Has the meaning ascribed to it in paragraph 2.3(b) of this Appendix
"Notice of AGM"	The notice of the AGM which is set out on pages 132 to 135 of the Annual Report of the Company in respect of the financial year ended 31 December 2016
"Ordinary Resolution"	The ordinary resolution proposed to be voted on at the AGM, in relation to the proposed renewal of the IPT Mandate
"Recommending Directors"	Has the meaning ascribed to it in paragraph 3 of this Appendix
"Review Procedures"	The methods or procedures for determining the transaction prices for Mandated Transactions as set out in paragraph 2.5 of this Appendix
"Securities and Futures Act"	The Securities and Futures Act, Chapter 289 of Singapore, as amended from time to time
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Shareholders"	Registered holders of Shares except that where the registered holder is CDP, the term "Shareholders" shall, in relation to such Shares, mean the persons whose direct securities accounts maintained with CDP are credited with the Shares
"Shares"	Ordinary shares in the capital of the Company
"subsidiary"	Has the meaning ascribed to it in Section 5 of the Act
"substantial shareholder"	Has the meaning ascribed to it in Section 81 of the Act
"S$"	Singapore dollars
"%" or "per cent."	Per centum or percentage

Vard Holdings Limited

(Incorporated in the Republic of Singapore)
(Company Registration No. 201012504K)

Directors:

Mr. Giuseppe Coronella	Chairman of the Board and Non-Executive Director
Mr. Roy Reite	Chief Executive Officer and Executive Director
Mr. Vittorio Zane	Executive Director
Mr. Claudio Cisilino	Non-Executive Director
Mr. Keen Whye Lee	Independent Director
Mr. Sung Hyon Sok	Independent Director

Registered Office:
Six Battery Road #10-01
Singapore 049909

30 March 2017

To the Shareholders of Vard Holdings Limited

1. Introduction

1.1 AGM

We refer to the Notice of AGM convening the AGM to be held on 20 April 2017 and in particular, the Ordinary Resolution 6 in relation to the proposed renewal of the IPT Mandate as further explained in paragraph 2 below.

1.2 Appendix

The purpose of this Appendix is to provide Shareholders with information relating to the proposed renewal of the IPT Mandate and to seek Shareholders' approval for the proposal at the AGM.

If you are in any doubt as to the contents herein or as to the course of action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

1.3 SGX-ST

The SGX-ST takes no responsibility for the accuracy of any statements or opinions made or reports contained in this Appendix.

2. The proposed renewal of the IPT mandate

2.1 Introduction

The IPT Mandate was adopted at the extraordinary general meeting of the Company on 3 October 2013, and last renewed at the annual general meeting of the Company on 30 April 2016 to allow the Company, its subsidiaries and its associated companies which are considered to be "entities at risk" within the meaning of Rule 904 of the Listing Manual, to enter into certain Mandated Transactions with the interested persons set out in the IPT Mandate. The IPT Mandate is subject to annual renewal.

As at the Latest Practicable Date, Fincantieri O&G holds approximately 69.76% of the Company's Shares. Fincantieri O&G is a wholly-owned subsidiary of Fincantieri. The aforementioned companies are accordingly controlling shareholders of the Company and are therefore, together with their respective associates, interested persons for the purposes of Chapter 9 of the Listing Manual.

2.2 Interested person transactions under Chapter 9 of the Listing Manual

(a) Definitions under Chapter 9 of the Listing Manual

Chapter 9 of the Listing Manual applies to transactions which a company listed on the SGX-ST or any of its subsidiaries or associated companies which is considered to be an "entity at risk" within the meaning of Rule 904(2) of the Listing Manual, proposes to enter into with a counter-party who is an interested person of the listed corporation within the meaning of Rule 904(4) of the Listing Manual. The following definitions are contained in the Listing Manual:

An "**approved exchange**" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles in Chapter 9 of the Listing Manual.

An "**associate**" in relation to any director, chief executive officer or controlling shareholder means (i) his immediate family (that is, the spouse, child, adopted child, step-child, sibling or parent), (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object, and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more, and, in relation to a controlling shareholder which is a company, means its subsidiary or holding company or a subsidiary of such holding company or a company in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

An "**associated company**" means a company in which at least 20% but not more than 50% of its shares are held by the listed company or the group.

A "**controlling shareholder**" means a person who holds (directly or indirectly) 15% or more of the total number of issued shares excluding treasury shares in the company or one who in fact exercises control over the company.

An "**entity at risk**" means:

(i) the listed company;

(ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or

(iii) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has or have control over the associated company.

An "**interested person**" means a director, chief executive officer or controlling shareholder of the listed company or an associate of any such director, chief executive officer or controlling shareholder.

An "**interested person transaction**" means a transaction between an entity at risk and an interested person.

(b) General requirements

Rule 905 of the Listing Manual states that a listed company must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3% of the group's latest audited consolidated net tangible assets, or if the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited consolidated net tangible assets, the listed company must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.

Rule 906 of the Listing Manual states that a listed company must also obtain shareholder approval for any interested person transaction of a value equal to, or more than (i) 5% of the group's latest audited consolidated net tangible assets; or (ii) 5% of the group's latest audited consolidated net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. However, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation.

Rule 920 of the Listing Manual also permits a listed company to seek a mandate from its shareholders for recurrent transactions with interested persons of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses, that may be carried out with the interested persons. Transactions conducted under such a mandate are not subject to Rules 905 and 906 of the Listing Manual. The general mandate is subject to annual renewal.

(c) Excluded transactions

In line with the rules set out in Chapter 9 of the Listing Manual, a transaction with a value of less than S$100,000 is not considered material and is not taken into account for the purposes of this Appendix.

(d) Listing Manual requirements

Pursuant to Rule 920(1) (b) of the Listing Manual, this Appendix seeking the approval of the Shareholders in relation to the proposed renewal of the IPT Mandate must include:

(i) the class of interested persons with which the Group will be transacting;

(ii) the nature of the transactions contemplated under the IPT mandate;

(iii) the rationale for, and benefit to, the Group;

(iv) the methods or procedures for determining transaction prices;

(v) an independent financial adviser's opinion on whether the methods or procedures in paragraph 2.2(d)(iv) of this Appendix are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders;

(vi) an opinion from the Audit Committee if it takes a different view to the independent financial adviser;

(vii) a statement from the Company that it will obtain a fresh mandate from Shareholders if the methods or procedures in paragraph 2.2(d)(iv) of this Appendix become inappropriate; and

(viii) a statement that the interested person will abstain and has undertaken to ensure that its associates will abstain from voting on the resolution approving the transaction.

Pursuant to Rule 920(1)(c) of the Listing Manual, an independent financial adviser's opinion is not required for the renewal of a general mandate provided that the audit committee confirms that:

(A) the methods or procedures for determining the transaction prices have not changed since last shareholder approval; and

(B) the methods or procedures in Rule 920(1)(c)(i) are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the issuer and its minority shareholders.

2.3 The proposed renewal of the IPT Mandate

(a) Background

As at the Latest Practicable Date, Fincantieri O&G holds approximately 69.76% of the Company's Shares. Fincantieri O&G is a wholly owned subsidiary of Fincantieri. The aforementioned companies are accordingly controlling shareholders of the Company and are therefore, together with their respective associates, interested persons for the purposes of Chapter 9 of the Listing Manual.

The interested person transactions in respect of the IPT Mandate that are or will be material for the purposes of this Appendix are set out in paragraph 2.3(b) of this Appendix. The Group has entered or will be entering into such transactions with such classes of interested persons as set out in paragraph 2.3(c) of this Appendix.

(b) Categories of interested person transactions

The IPT Mandate will cover the following categories of interested person transactions:

(i) the sale of goods to the Group, including:

(1) blocks, sections, hulls, pre-outfitted units and vessels;

(2) raw materials such as steel, piping and electrical cables;

(3) engines, marine systems components and equipment and other components, including heating, ventilation and air conditioning ("**HVAC**") systems and accommodation units and components for interior outfitting of vessels;

(4) spare parts and other minor equipment in respect of sub-paragraphs (b)(i)(1)(2) and (3) above; and

(5) installation and commissioning of the components under sub-paragraphs (b)(i)(1), (2), (3) and (4) above;

(ii) the provision of services to the Group, including:

(1) corporate services, such as finance, treasury, business development, tax, legal, internal audit, IT support services, HR management and staff training, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(2) ship design and engineering consultancy services provided by Fincantieri Group personnel both within and without the Group's premises;

(3) software licensing;

(4) repair, modification, maintenance, servicing, overhaul and other technical and after sales services;

(5) lease of equipment or assets;

(6) procurement services for equipment and raw materials;

(7) exchange of personnel; and

(8) docking services;

(iii) the entry into financial, treasury and insurance transactions, including:

(1) borrowing of funds by the Group on a short-term or medium term basis;

(2) placement of funds by the Group on a short-term or medium term basis;

(3) entry into any foreign exchange, interest rate, commodity or any other derivative transaction for hedging purposes; and

(4) provision of insurance cover for the Group's business;

(iv) the sale of goods by the Group, including:

(1) block, sections, hulls, pre-outfitted units and vessels;

(2) marine system components and equipment, offshore handling systems, electrical systems and automation software and systems;

(3) piping equipment, HVAC systems and accommodation units and components for interior outfitting of vessels;

4) spare parts and other minor equipment related to sub-paragraphs (b)(iv)(1), (2) and (3) above; and

(5) installation and commissioning of the components under sub-paragraphs (b)(iv)(1), (2), (3) and (4) above;

(v) the provision of services by the Group, including:

(1) corporate services, such as business development, HR management and staff training, IT support services, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(2) vessels design and engineering consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(3) procurement services for equipment packages and raw materials;

(4) software licensing;

(5) lease of equipment and assets;

(6) exchange of personnel; and

(7) docking services; and

(vi) the provision of corporate guarantees and other credit support for the benefit of the Group, including:

(1) refund guarantees;

(2) performance guarantees including but not limited to performance bonds and guarantees given in connection with the sale of vessels; and

(3) security for credit facilities,

(collectively, the "**Mandated Transactions**").

The Mandated Transactions are transactions of a revenue or a trading nature or those necessary for the Group's day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. Non-Mandated Transactions will remain subject to the requirements under Chapter 9 of the Listing Manual, in particular, Rules 905 and 906 of the Listing Manual.

(c) Classes of interested persons

The IPT Mandate, which will apply to the Group's transactions set out in paragraph 2.3(b) of this Appendix, is proposed to be carried out with Fincantieri and its associates (the "**Mandated Interested Persons**").

The Mandated Interested Persons are deemed to be interested persons pursuant to Chapter 9 of the Listing Manual and any transaction between the Group and any of them will, subject to the exceptions provided in Chapter 9, be an interested person transaction.

2.4 Rationale for the IPT Mandate and benefits to the Group

The Mandated Transactions mentioned in paragraph 2.3(b) of this Appendix are entered into or to be entered into by the Group in the ordinary course of business. They are recurring transactions which are likely to occur with some degree of frequency or arise at any time and from time to time. The IPT Mandate and subsequent renewal on an annual basis will eliminate the need to convene separate general meetings from time to time to seek Shareholders' approval as and when potential interested person transactions arise, thereby reducing substantially the administrative time and expenses in convening such meetings, without compromising the corporate objectives and adversely affecting the business opportunities available to the Group.

The IPT Mandate is intended to facilitate these transactions, provided that they are carried out on normal commercial terms and are not prejudicial to the Company and its minority Shareholders. The Directors are of the view that the Group will be able to benefit from such transactions with the Mandated Interested Persons. The Group will benefit from having access to competitive quotes from, or transacting with, the Mandated Interested Persons in respect of services and goods procured. The IPT Mandate will also allow the Group to enjoy economies of scale in the procurement of services and goods. Further, it will facilitate a more lean and efficient administrative set-up as the Group will be able to utilize the personnel of the Mandated Interested Persons for certain corporate services.

Disclosure will be made in the Company's annual report of the aggregate value of transactions conducted pursuant to the IPT Mandate and otherwise during the financial year under review, and in the annual reports for the subsequent financial years during which the IPT Mandate is renewed and remains in force.

2.5 *Guidelines and review procedures for the Mandated Transactions*

(a) To ensure that the Mandated Transactions are carried out at arm's length, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Group has put in place the following procedures for the review and approval of interested person transactions under the IPT Mandate:

(i) sale of goods and provision of services to the Group

In relation to any transaction proposed to be carried out with the Mandated Interested Persons for:

(1) the sale of goods to the Group, including:

(A) blocks, sections, hulls, pre-outfitted units and vessels;

(B) raw materials such as steel, piping and electrical cables;

(C) engines, marine systems components and equipment and other components, including HVAC systems and accommodation units and components for interior outfitting of vessels;

(D) spare parts and other minor equipment in respect of sub-paragraphs (i)(1)(A), (B) and (C)above; and

(E) installation and commissioning of the components in sub-paragraphs (i)(1)((A), (B), (C) and (D) above;

(2) the provision of services to the Group, including:

(A) corporate services, such as finance, treasury, business development, tax, legal, internal audit, IT support services, HR management and staff training, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(B) ship design and consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(C) software licensing;

(D) repair, modification, maintenance, servicing, overhaul and other technical and after services;

E) lease of equipment or assets;

(F) procurement services for equipment and raw materials;

(G) exchange of personnel; and

(H) docking services;

(3) the entry into financial, treasury and insurance transactions including:

(A) borrowing of funds by the Group on a short-term or medium term basis;

(B) placement of funds by the Group on a short-term or medium term basis;

(C) entry into any foreign exchange, interest rate, commodity or any other derivative transaction for hedging purposes; and

(D) provision of insurance cover,

the Group will satisfy itself that the actual fees paid or payable for the services provided or goods sold are fair and reasonable and that the terms extended by the Mandated Interested Person to the Group are no less favorable than the terms offered by the Mandated Interested Person to third parties.

For services provided and goods supplied to the Group in relation to shipbuilding, such as hulls, pre-outfitted units and vessels, ship design services, docking services and the sale of shipbuilding parts, the project team in charge of that particular shipbuilding project will obtain quotations from the Mandated Interested Person and at least two (2) unrelated third party service providers or suppliers.

For placement of funds with any Mandated Interested Person by the Group of its funds, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties for terms offered by such counterparties for deposits of an amount and currency and for a period equivalent to that of the funds to be placed by the Group. The Group will only place its funds with such Mandated Interested Person if the terms quoted are no less favorable than the terms quoted by the other potential counterparties for equivalent amounts.

For borrowing of funds from any Mandated Interested Person by a Company within the Group, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) potential counterparties of the borrowing company within the Group for terms offered by such counterparties for loans of an amount and currency and for a period equivalent to that of the funds to be borrowed by such borrowing company within the Group. The Group will only borrow funds from such Mandated Interested Person provided that the terms quoted are no less favorable than the terms quoted by the other potential counterparties for equivalent amounts.

For forex, swaps and options transactions with any Mandated Interested Person by the Group, the Company will require that rate quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties. The Group will only enter into such forex, swaps or options transactions with such Mandated Interested Person provided that such terms quoted are no less favorable than the terms quoted by the other potential counterparties.

For the provision of insurance cover by any Mandated Interested Person to the Group, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties. The Group will only enter into such insurance transactions with such Mandated Interested Person if the terms quoted by the Mandated Interested Person are no less favorable than the terms quoted by the other potential counterparties.

For other services, such as corporate services, and goods, the Chief Financial Officer or a senior management executive from the relevant department will obtain quotations from the Mandated Interested Person(s) and at least two (2) unrelated third party service providers or suppliers. Such third party service providers or suppliers will include those which have provided or supplied similar services or goods to the Group previously, or any service provider or supplier which is able to provide or supply similar services or goods.

Quotations from these third party service providers and suppliers are obtained in order to provide a basis of comparison to ensure that the price and terms offered by the Mandated Interested Person(s) are comparable to those offered by unrelated parties for the same or substantially similar type of services or goods, and the price and terms offered by unrelated parties are not more favorable than the price and terms offered by the Mandated Interested Person(s).

The project team, Chief Financial Officer or senior management executive will select the quotation received from the Mandated Interested Person(s) if the terms (including price) of such quotation are not less favorable than those offered by unrelated third party service providers or suppliers. The transaction will then be subject to the approval of the relevant authority based on the quantum of the transaction. Please refer to paragraph 2.5(b) of this Appendix for further details.

As some of the shipbuilding-related services and goods are of a specialized nature, and have to comply with specific technical requirements and standards, there may, from time to time and depending on the specific transaction, be few unrelated third party service providers or suppliers of such services or goods. All employees who procure such specialized goods and services and who search for quotations of the same must have the relevant expertise, experience and knowledge to review the quotations and make recommendations. Such quotations shall be subject to the selection process and approvals set out in the paragraphs above.

For certain corporate services, it may be impracticable to obtain third party quotations as the Mandated Interested Persons are staffed by employees with the relevant experience and expertise for the provision of these services and the intention of the Company is not to outsource such services and for such services to be provided by personnel within the Group, if such services are not provided by the Mandated Interested Persons. Such corporate services will be typically charged on a cost plus basis.

Where it is impracticable to obtain such third party quotations, or where such third party quotations are not available, or where it is not practicable or appropriate in the circumstances to make reference to prevailing market rates or prices, the Group may enter into transactions for the provision of services or sale of goods by Mandated Interested Persons provided that the terms (including price) received from the Mandated Interested Person(s) have been reviewed and approved by a committee comprised of three (3) senior management executives who do not have any interest, whether direct or indirect, in relation to the transaction and who are familiar with the operations of the Group (the "**Compliance Committee**").

The Compliance Committee as at the Latest Practicable Date is made up of (I) Chief Operating Officer, Mr. Magne O. Bakke, (II) Executive Vice President Equipment and Solutions, Mr. Stig Bjørkedal, and (III) Executive Vice President Investor Relations and Business Development Asia, Mr. Holger Dilling. The Compliance Committee will evaluate and weigh the commercial benefits of, and rationale for, transacting with the Mandated Interested Person(s) before proceeding with the transactions.

In reviewing the terms of the transaction, the Compliance Committee will evaluate such terms in accordance with prevailing industry norms (including the reasonableness of the terms), and will take into account the Group's usual business practices and pricing policies and all relevant factors including the circumstances relating to the need to obtain such services or goods.

The Compliance Committee may at its discretion defer the approval of the transactions to the Audit Committee where such transactions fall within the threshold limits set out in paragraph 2.5(b)(iii) of this Appendix or where any of the members of the Compliance Committee (I) are interested persons in respect of the Mandated

Transactions, (II) have an interest, whether direct or indirect, in relation to those Mandated Transactions, and/or (III) are not considered independent in relation to those Mandated Transactions.

The factors which (I) the project team, Chief Financial Officer or senior management executive from the relevant department will take into account when considering quotations from the Mandated Interested Person(s) and unrelated third parties or (II) the Compliance Committee will take into account when reviewing the terms received from the Mandated Interested Person(s) when third party quotes are not available, include, but are not limited to, the following: price, delivery and payment criteria, accessibility of the service providers or suppliers, past performance of service providers or suppliers, quality of the services or goods and compliance of the services or goods with industry standards;

(ii) sale of goods and provision of services by the Group

In relation to any transaction proposed to be carried out with Mandated Interested Persons for:

(1) the sale of goods by the Group, including:

(A) blocks, sections, hulls, pre-outfitted units and vessels;

(B) marine systems components and equipment, offshore handling systems, electrical systems and automation software and systems;

(C) piping and HVAC systems and accommodation units and components for interior outfitting of vessels;

(D) spare parts and other minor equipment in respect of sub-paragraphs (ii)(1)(A), (B) and (C) above; and

(E) installation and commissioning of the components in respect of sub-paragraphs (ii)(1)(A), (B), (C) and (D) above; and

(2) the provision of services by the Group, including:

(A) corporate services, such as business development, HR management and staff training, IT support services, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(B) vessels design and engineering consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(C) procurement services for equipment packages and raw materials;

(D) software licensing;

(E) lease of equipment and assets;

(F) exchange of personnel; and

(G) docking services,

such transactions shall where possible, be made at the prevailing rates or prices and carried out on normal commercial terms that are no more favorable than those extended to unrelated third persons or otherwise in accordance with industry norms. Where available, two (2) comparable third party quotes shall be obtained in determining the prevailing market rates or prices.

Where prevailing market rates or prices are not available, whether due to the nature of the services or goods to be provided, or the unavailability or impracticability of obtaining comparable third party quotes or otherwise, or it is not practicable or appropriate in the circumstances to make reference to prevailing market rates or prices, the Group's pricing for such services or goods will be determined by the Compliance Committee in accordance with the Group's usual business practices and pricing policies and taking into account all relevant factors including the circumstances relating to the need to provide such services or goods and any other direct or incidental benefit or detriment to the Group in providing such services or goods to the Mandated Interested Persons.

The Compliance Committee may at its discretion defer the approval of the transactions to the Audit Committee where such transactions fall within the threshold limits set out in paragraph 2.5(b)(iii) of this Appendix or where any of the members of the Compliance Committee (I) are interested persons in respect of the Mandated Transactions, (II) have an interest, whether direct or indirect, in relation to those Mandated Transactions, and/or (III) are otherwise not considered independent in relation to those Mandated Transactions; and

(iii) provision of corporate guarantees and other credit support for the benefit of the Group

In relation to the provision of corporate guarantees or other credit support (such as security interests, indemnities or letters of comfort) by the Mandated Interested Persons, such transactions shall only be entered into if the members of the Board (other than those who are not independent of the relevant Mandated Interested Persons) are of the view that it is in the interests of the Group to do so.

In particular, the fee charged by the Mandated Interested Persons for the provision of corporate guarantees or other credit support shall not be more than the lowest of the rates quoted by the Group's principal bankers for guarantees or credit support of an equivalent amount and tenure. The Company shall also take into consideration other factors, including but not limited to the terms of the relevant corporate guarantees or credit support, processing requirements, operation requirements and risks and other pertinent factors.

(b) Threshold limits

In addition to the review procedures, the Group will review and approve the Mandated Transactions as follows:

(i) transactions amounting from S$100,000 to 1.5% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by a Director, Chief Financial Officer or an Executive Officer of the Group (who has relevant experience and authority);

(ii) transactions amounting from above 1.5% to 3% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by the Board of Directors; and

(iii) transactions exceeding 3% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by the Audit Committee.

Any of the persons referred to in paragraphs 2.5(b)(i), (ii) and (iii) of this Appendix may, as he deems fit, request for additional information pertaining to the transaction from independent sources or advisors, including the obtaining of valuations from independent professional valuers. If any of the persons referred to in paragraphs 2.5(b)(i), (ii) and (iii) of this Appendix (I) is an interested person in respect of that particular Mandated Transaction to be reviewed, (II) has an interest, whether direct or indirect, in relation to that particular Mandated Transaction, and/or (III) is otherwise not considered independent in relation to that particular Mandated Transaction, he will, and will undertake to ensure that his associates will, abstain from any decision-making in respect of that particular Mandated Transaction.

The threshold limits stated in paragraphs 2.5(b)(i), (ii) and (iii) of this Appendix apply to Mandated Transactions only. Non-mandated interested person transactions will be subject to the review procedures stated in paragraph 2.5(c) of this Appendix and Rules 905 and 906 of the Listing Manual.

(c) Other review procedures

The Audit Committee will also review all interested person transactions including Mandated Transactions to ensure that the prevailing rules and regulations of the SGX-ST (in particular, Chapter 9 of the Listing Manual) are complied with. Interested person transactions which are not within the ambit of the IPT Mandate will be subject to Rules 905 and 906 of the Listing Manual.

The Group has also implemented the following procedures for the identification of interested person transactions (including Mandated Transactions) and interested persons (including Mandated Interested Persons) and the recording of all interested person transactions:

(i) the Compliance Committee will maintain two (2) registers of all transactions (including all transactions below S$100,000) carried out with interested persons including Mandated Interested Persons (recording the basis and the quotations, if any, obtained to support such basis on which these transactions are entered into, whether mandated or non-mandated). One register is maintained to record Mandated Transactions and the other register is maintained to record interested person transactions which are not classified as Mandated Transactions. The registers shall be submitted to the Audit Committee for review on a quarterly basis;

(ii) by the end of each month, each member of the Group will submit details of all interested person transactions entered into or existing interested person transactions that are renewed or revised during that month to the Compliance Committee. The Compliance Committee will reconcile the registers of interested person transactions based on the submissions by the various members of the Group. On a quarterly basis, the Compliance Committee will submit a report to the Audit Committee of all recorded interested person transactions, and the basis of such transactions, entered into by the Group. The Audit Committee shall review such interested person transactions at its quarterly meetings subject to the requirement under the review procedures for any such interested person transactions to be approved by the Audit Committee prior to the entry thereof. The outcome of such review shall be documented and filed in the registers of interested person transactions; and

(iii) the Company's annual internal controls plan shall incorporate a review of all interested person transactions, including the established review procedures for the monitoring of all such transactions including transactions with Mandated Interested Persons, whether they are new interested person transactions or existing interested person transactions that have been renewed or revised during the relevant financial year pursuant to the IPT Mandate.

In addition, the Audit Committee shall also review from time to time such internal controls and review procedures for interested person transactions to determine if they are adequate and/or commercially practicable in ensuring that the transactions between the Group and interested persons are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders. In conjunction with such review, the Audit Committee will also ascertain whether the established review procedures have been complied with. Further, if during these reviews the Audit Committee is of the view that the internal controls and review procedures for interested person transactions are inappropriate or not sufficient to ensure that the interested person transactions will be on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders, the Audit Committee will take such actions as it deems appropriate and/or institute additional procedures as necessary to ensure that the interested person transactions will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, and pursuant to Rule 920(1)(b)(vii), seek a fresh Shareholders' mandate based on new internal controls and review procedures for transactions with the Mandated Interested Persons. The Board of Directors and the Audit Committee will have overall responsibility for determining the review procedures with the authority to delegate to individuals or committees within the Group as they deem appropriate.

2.6 Validity period of the IPT Mandate

If approved at the AGM, the proposed renewal of the IPT Mandate will take effect from the date of the passing of the ordinary resolution in respect of the proposed renewal of the IPT Mandate to be voted on by the Shareholders at the AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent annual general meeting, or the expiration of the period within which the next annual general meeting is required by law to be held, whichever is the earlier. The Company intends to seek the approval of Shareholders for the renewal of the IPT Mandate annually. The renewal of such general mandate shall be subject to the satisfactory review by the Audit Committee of its continued application to any interested person transactions.

2.7 Audit Committee's Statements

Pursuant to Rule 920(1)(c) of the Listing Manual, the Audit Committee, comprising Mr. Keen Whye Lee, Mr. Sung Hyon Sok and Mr. Claudio Cisilino, confirms that:

(a) the Review Procedures have not changed since Shareholders last renewed the IPT Mandate at the annual general meeting of the Company held on 30 April 2016; and

(b) the Review Procedures are sufficient to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

If, during the periodic reviews by the Audit Committee, the Audit Committee is of the view that the Review Procedures are inadequate or inappropriate to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, or in the event of any amendment to Chapter 9 of the Listing Manual, it will in consultation with the Board of Directors take such action as it deems proper in respect of such procedures and/or modify or implement such procedures as may be necessary and direct the Company to revert to Shareholders for a fresh mandate based on new guidelines and procedures for transactions with Mandated Interested Persons.

2.8 Disclosure to Shareholders
Pursuant to Rule 920(1)(a) of the Listing Manual:

(a) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all interested person transactions conducted with interested persons pursuant to the IPT Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the IPT Mandate is in force, as required by the provisions of the Listing Manual;

(b) announcements will be made with regard to the aggregate value of interested person transactions conducted pursuant to the IPT Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report; and

(c) the names of the interested persons and the corresponding aggregate value of the interested person transactions will be presented in the following format (pursuant to Rule 907 of the Listing Manual):

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under the IPT Mandate)	Aggregate value of all interested person transactions conducted under the IPT Mandate (excluding transactions less than S$100,000)

3. Director's recommendations
The Directors who are considered independent for the proposed renewal of the IPT Mandate are Mr. Roy Reite, Mr. Keen Whye Lee and Mr. Sung Hyon Sok (collectively, the "**Recommending Directors**").

Having considered, inter alia, the terms, rationale and benefits of the proposed renewal of the IPT Mandate as set out in this Appendix the Recommending Directors are of the opinion that the proposed renewal of the IPT Mandate is in the best interests of the Company. Accordingly, they recommend that the Shareholders vote in favor of Ordinary Resolution 6 in relation to the proposed renewal of the IPT Mandate as set out in the Notice of AGM.

The Recommending Directors, in rendering their recommendation, and the Audit Committee, in rendering their confirmation, have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any Shareholder. As different Shareholders would have different investment objectives, the Recommending Directors recommend that any individual Shareholder who is unsure as to the action he/she should take should consult his/her legal, financial, tax or other professional advisers.

Mr. Giuseppe Coronella, Mr. Claudio Cisilino and Mr. Vittorio Zane are nominees of Fincantieri O&G. Accordingly, they are not considered independent for the purposes of the proposed renewal of the IPT Mandate.

4. Directors' and substantial shareholders' interests in the company

The details of the Directors' and substantial shareholders' interests in the Shares as at the Latest Practicable Date are set out below:

Name of Director	Direct Interest (Number of Shares)	Deemed Interest (Number of Shares)	Total Interest (Number of Shares)	Total Interest (%)
Mr. Giuseppe Coronella	Nil	Nil	Nil	Nil
Mr. Roy Reite	Nil	Nil	Nil	Nil
Mr. Vittorio Zane	Nil	Nil	Nil	Nil
Mr. Claudio Cisilino	Nil	Nil	Nil	Nil
Mr. Keen Whye Lee	Nil	Nil	Nil	Nil
Mr. Sung Hyon Sok	Nil	Nil	Nil	Nil

Name of substantial shareholder	Direct Interest (Number of Shares)	Deemed Interest (Number of Shares)	Total Interest (Number of Shares)	Total Interest (%)
MVN Asset Management Limited	67,199,720	Nil	67,199,720	5.69
Fincantieri O&G	823,215,577	Nil	823,215,577	69.76
Fincantieri [1]	Nil	823,215,577	823,215,577	69.76
Fintecna [1]	Nil	823,215,577	823,215,577	69.76
Cassa Depositi e Prestiti [1]	Nil	823,215,577	823,215,577	69.76

Notes:

(1) By virtue of Section 4 of the Securities and Futures Act, these entities are deemed to be interested in the shares held by Fincantieri O&G in the Company. The relationship of the said entities is as follows:

(i) Fincantieri is the immediate holding company of Fincantieri O&G;

(ii) Fintecna holds 71.64% of Fincantieri; and

(iii) Cassa Depositi e Prestiti is the immediate holding company of Fintecna.

Save as disclosed above, none of the substantial shareholders or Directors of the Company has any interest, whether direct or indirect, in relation to the proposed renewal of the IPT Mandate.

5. Shareholders who will abstain from voting

In accordance with Rule 920(1)(b)(viii) of the Listing Manual, Mandated Interested Persons shall abstain and undertake that their associates shall abstain from voting on the resolution approving interested person transactions involving themselves and the Group. Furthermore, such Mandated Interested Persons and their associates shall not act as proxies in relation to such resolutions unless voting instructions have been given by the relevant Shareholder.

Accordingly, Fincantieri O&G will abstain, and will procure that each of its associates will abstain, from voting in respect of each of their shareholdings in the Company on Ordinary Resolution 6 in relation to the proposed renewal of the IPT Mandate as set out in the Notice of AGM.

6. Annual general meeting

The AGM will be held at Stamford Raffles Room, Maxwell Chambers, 32 Maxwell Road, Singapore 069115 on Thursday, 20 April 2017 at 10:00 a.m. for, inter alia, the purpose of considering and, if thought fit, passing with or without any modifications, the Ordinary Resolution as set out in the Notice of AGM.

7. Director's responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix constitutes full and true disclosure of all material facts about the proposed renewal of the IPT Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix misleading. Where information in this Appendix has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Appendix in its proper form and context.

8. Documents available for inspection

Copies of the following documents may be inspected at the registered office of the Company at Six Battery Road #10-01 Singapore 049909, during normal business hours from the date of this Appendix to the date of the AGM:

(a) the Constitution of the Company; and

(b) the Annual Report.

Yours faithfully,
For and on behalf of the Board of Directors of
Vard Holdings Limited

Mr. Roy Reite
Chief Executive Officer and Executive Director

STATISTICS OF SHAREHOLDINGS

As at 10 March 2017

Class of equity securities	Number of equity securities	Voting Rights
Ordinary shares	1,180,000,000	One vote for each share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 99	7	0.16	149	0.00
100 - 1,000	107	2.46	100,700	0.01
1,001 - 10,000	2,217	50.99	14,363,310	1.22
10,001 - 1,000,000	1,995	45.88	112,117,768	9.50
1,000,001 and above	22	0.51	1,053,418,073	89.27
Total	**4,348**	**100.00**	**1,180,000,000**	**100.00**

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Fincantieri Oil & Gas S.p.A.	823,215,577	69.76	-	-
FINCANTIERI S.p.A.*	-	-	823,215,577	69.76
Fintecna S.p.A. *	-	-	823,215,577	69.76
Cassa Depositi e Prestiti S.p.A. *	-	-	823,215,577	69.76
MVN Asset Management Limited	67,199,720	5.69	-	-

* By virtue of Section 4 of the Securities and Futures Act, Chapter 289 of Singapore, these entities are deemed to be interested in the shares held by Fincantieri Oil & Gas S.p.A. in the Company. The relationship of the said entities is as follows:

(i) FINCANTIERI S.p.A. is the immediate holding company of Fincantieri Oil & Gas S.p.A.
(ii) Fintecna S.p.A. holds 71.64% of FINCANTIERI S.p.A.
(iii) Cassa Depositi e Prestiti S.p.A. is the immediate holding company of Fintecna S.p.A.

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	HSBC (SINGAPORE) NOMINEES PTE LTD	884,910,632	74.99
2.	DBS NOMINEES (PRIVATE) LIMITED	30,548,800	2.59
3.	CITIBANK NOMINEES SINGAPORE PTE LTD	27,520,017	2.33
4.	MAYBANK KIM ENG SECURITIES PTE LTD	23,482,300	1.99
5.	MERRILL LYNCH (SINGAPORE) PTE LTD	19,974,846	1.69
6.	DBSN SERVICES PTE LTD	13,899,800	1.18
7.	BNP PARIBAS SECURITIES SERVICES SINGAPORE BRANCH	8,066,122	0.68
8.	RAFFLES NOMINEES (PTE) LIMITED	7,840,016	0.66
9.	TAN CHWEE HUAT	5,180,000	0.44
10.	CIMB SECURITIES (SINGAPORE) PTE LTD	3,799,300	0.32
11.	UOB KAY HIAN PRIVATE LIMITED	3,366,600	0.29
12.	YAP MUI CHENG,ANGELA	3,345,900	0.28
13.	OCBC SECURITIES PRIVATE LIMITED	3,208,200	0.27
14.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	2,798,001	0.24
15.	HL BANK NOMINEES (SINGAPORE) PTE LTD	2,534,800	0.21
16.	KOH WOON PUAY OR TAN CHWEE GUAN	2,534,000	0.21
17.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	2,089,000	0.18
18.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	2,083,400	0.18
19.	PHILLIP SECURITIES PTE LTD	1,759,000	0.15
20.	LENG FEI	1,707,000	0.14
	TOTAL	**1,050,647,734**	**89.02**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately, 24.55% of the Company's shares are held in the hands of the Public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Vard Holdings Limited (the "Company") will be held at Stamford Raffles Room, Maxwell Chambers, 32 Maxwell Road, Singapore 069115, on Thursday, 20 April 2017 at 10:00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following directors of the Company retiring pursuant to the Constitution of the Company:

Mr. Vittorio Zane (Regulation 94) **(Resolution 2a)**
Mr. Sung Hyon Sok (Regulation 94) **(Resolution 2b)**
Mr. Giuseppe Coronella (Regulation 100) **(Resolution 2c)**
Mr. Claudio Cisilino (Regulation 100) **(Resolution 2d)**

Mr. Vittorio Zane will, upon re-election as a Director of the Company, remain as a member of the Nominating Committee, and will be considered non-independent.

Mr. Sung Hyon Sok will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and the Remuneration Committee, a member of the Audit Committee, and will be considered independent.

Mr. Giuseppe Coronella will, upon re-election as a Director of the Company, remain as the Chairman of the Board of Directors, and will be considered non-independent.

Mr. Claudio Cisilino will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and the Remuneration Committee, and will be considered non-independent.

3. To approve the payment of Directors' fees of S$420,000 for the financial year ending 31 December 2017, to be paid quarterly in arrears. (2016: S$420,000.) **(Resolution 3)**

4. To re-appoint PricewaterhouseCoopers LLP as the Auditors of the Company and to authorize the Directors of the Company to fix their remuneration. **(Resolution 4)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

6. Authority to issue shares

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorized and empowered to:

(a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution):

(A) by way of renounceable rights issues on a pro rata basis to Shareholders of the Company ("Renounceable Rights Issues"), shall not exceed 100 per centum (100%) of the total number of issued shares excluding treasury shares (as calculated in accordance with paragraph (3) below); and

(B) otherwise than by way of Renounceable Rights Issues ("Other Share Issues") shall not exceed 50 per centum (50%) of the total number of issued shares excluding treasury shares (as calculated in accordance with paragraph (3) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed 20 per centum (20%) of the total number of issued shares excluding treasury Shares (as calculated in accordance with paragraph (3) below);

(2) the Renounceable Rights Issues and Other Share Issues shall not, in aggregate exceed 100 per centum (100%) of the total number of issued shares excluding treasury shares (as calculated in paragraph (3) below);

(3) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (the "SGX-ST")) for the purpose of determining the aggregate number of shares that may be issued under paragraphs (1)(A) and (1)(B) above, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(4) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(5) unless revoked or varied by the Company in a general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 5)**

7. Renewal of Shareholders' Mandate for Interested Person Transactions

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

That for the purposes of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited:

(a) approval be and is hereby given for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of Mandated Transactions (as defined in the Appendix to the Annual Report dated 30 March 2017 (the "Appendix")) with any of the Mandated Interested Persons (as defined in the Appendix), provided that such transactions are carried out on normal commercial terms and in accordance with the review procedures of the Company for such Mandated Transactions as set out in the Appendix (the "Shareholders' Mandate");

(b) the Shareholders' Mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and

(c) the Directors of the Company and/or any of them be and are hereby authorized to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable or expedient, incidental or in the interests of the Company to give effect to the Shareholders' Mandate and/or this Resolution as they may deem fit.

[See Explanatory Note (ii)] **(Resolution 6)**

By Order of the Board

Ms. Elizabeth Krishnan
Company Secretary
Singapore, 30 March 2017

Explanatory Notes:

(i) The Ordinary Resolution 5 proposed in item 6 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding (i) 100% for Renounceable Rights Issues and (ii) 50% for Other Share Issues, of which up to 20% may be issued other than on a pro rata basis to shareholders, provided that, the total number of shares which may be issued pursuant to (i) and (ii) shall not exceed 100% of the issued shares (excluding treasury shares).

For the purpose of determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) at the time Resolution 5 is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or the vesting of share awards which are outstanding or subsisting at the time when Resolution 5 is passed, and any subsequent bonus issue, consolidation or subdivision of shares.

The authority for the Renounceable Rights Issues is proposed under the process described in Practice Note 8.3 (Rights Issue Limit) issued by the SGX-ST on 13 March 2017 ("PN 8.3"). Under PN 8.3, the SGX-ST provisionally raised the rights issue limit in Rule 806(2) from 50% to 100% ("Enhanced Rights Issue Limit"), subject to compliance with the conditions set out therein. The Enhanced Rights Issue Limit was introduced by SGX-ST as a measure to widen the available fund-raising avenues of companies listed on the SGX-ST and unless extended further by SGX-ST, the Enhanced Rights Issue Limit will expire on 31 December 2018. The Board considers that the authority sought for the Renounceable Rights Issues is in the interest of the Company and its shareholders. Unless renewed, the mandate sought at this meeting shall expire at the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

(ii) The Ordinary Resolution 6 proposed in item 7 above, if passed, will renew the mandate authorizing the Company, its subsidiaries and associated companies, or any of them, for the purposes of Chapter 9 of the Listing Manual, to enter into certain interested person transactions as described in the Appendix to the Annual Report and will empower the Directors of the Company to do all acts necessary to give effect to the Shareholders' Mandate. This authority will, unless previously revoked or varied by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. Please refer to the Appendix for further details.

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified.)

3. The instrument appointing a proxy must be deposited at c/o RHT Corporate Advisory Pte. Ltd., 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619 not less than seventy-two (72) hours before the time appointed for holding the Meeting.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Special Note on Dress Code:

Shareholders of Vard Holdings Limited (and their respective proxies) are requested NOT to wear singlets, bermudas, shorts and slippers at Maxwell Chambers, the venue of the Meeting. Your co-operation in complying with Maxwell Chambers' dress code is greatly appreciated or otherwise, you will be denied entry into the building.

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