ANNUAL REPORT 2015

built on trust™

VARD™
a Fincantieri company

A LEADING INTERNATIONAL DESIGNER AND SHIPBUILDER

VARD's global operations stretch across four continents, and comprise ten shipyards and several specialized subsidiaries.

EUROPE
6,354 employees

NORTH AMERICA
86 employees

ASIA
799 employees

SOUTH AMERICA
2, 718 employees

EMPLOYEES WORDWIDE
9,957 employees

As of 31.12.2015

OUR VALUES

Our common set of values lies at the heart of everything we do.

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.

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TESTIMONIALS

In 2015, VARD delivered twelve specialized vessels, all developed in close partnership with its customers and built to meet their specific needs. Together, we make important choices relating to design, outfitting, equipment and solutions. All of VARD's design concepts have a high emphasis on safety, cost optimization, functionality, operability, fuel-economy and environmental performance.

SKANDI AFRICA FOR DOF
Awarded "Ship of the Year 2015" in Norway

As one of the largest and most complex projects undertaken by VARD, the Skandi Africa is a perfect example of the quality vessels that VARD produces.

The team effort between VARD, DOF, and our main suppliers and business partners resulted in one of the most sophisticated vessels ever built. Testament to their efforts, the Skandi Africa was subsequently recognized as "Ship of The Year 2015" by Skipsrevyen for its technical excellence.

It also sends a strong statement that the Norwegian offshore industry remains competitive in delivering high-end offshore vessels, with VARD as a leading shipbuilder.

MONS S. AASE
CEO, DOF

"THE VESSEL WAS DELIVERED ON TIME AND ON BUDGET TO A VERY HIGH STANDARD."

Jeff Weber
Managing Director, MMA Offshore

MMA PLOVER FOR MMA OFFSHORE
A PSV of VARD 1 08 design, delivered to our new Australian client

MMA Offshore chose VARD as a partner to construct two very complex PSVs to meet the requirements of a tender from Inpex to support their ongoing production on the Icythys project. The ability of the VARD design team to understand the technical requirements and come up with an innovative design to meet these requirements operationally and cost-effectively differentiated them in the shipbuilding market.

In the building phase of the project, VARD were able to meet the high quality standards required from their yard in Vietnam, and most importantly, were able to meet the high safety standards demanded of MMA Offshore and our client, Inpex.

The construction team at VARD were open to working with MMA Offshore's supervision staff to ensure that the vessel was delivered on time and on budget to a very high standard. The standard of construction and commissioning was highlighted in the sea trials which went exceptionally well for both vessels.

I would have no hesitation in recommending VARD and would be more than happy to work with them again on future projects.

JEFF WEBER
Managing Director, MMA Offshore

CEO LETTER

"WE REMAIN FIRMLY ROOTED IN OUR R&D AND INNOVATION EFFORTS AS WE BELIEVE IT SETS US APART FROM OUR PEERS."

Mr. Roy Reite
Chief Excecutive Officer
and Excecutive Director

DEAR VALUED SHAREHOLDERS,

Adaptation and competitiveness were our main focal points for 2015.

Throughout VARD's long shipbuilding history, we have experienced a number of periods with fluctuating demand. Each downturn is caused by different reasons, and each requires a unique response. Also amidst this latest downturn, we have adapted our strategy to the changed market conditions.

Taking the challenges in our stride, VARD remains focused on developing new initiatives to streamline the efficiencies of our business platforms and yard operations, and strengthen our competitiveness. In line with a decline in yard activity, we reduced our global headcount by more than 1800, or 15%, over the past year. As we break into new markets to reduce our dependency on the offshore business, we aim to preserve and develop VARD's core expertise and skilled employee base through increased innovation and knowledge transfers, while maintaining our high standards for Health, Safety and the Environment.

We remain firmly rooted in our research and development efforts, as we believe it sets us apart from our peers. One significant step in this direction during 2015 was the launch of our new innovation project, "A step forward". This project presented new ideas for future vessels and ties in with VARD's goal to push the envelope on the frontiers of new technologies, with the ultimate aim to improve a vessel's safety, user-friendliness, functionality, operability, cost optimization, fuel-economy and environmental performance.

VARD's customer promise is "Built on trust". Having delivered twelve state-of-the-art vessels in 2015, we are honoured to have received strong testimonials from our customers once again, demonstrating that even in demanding times, we maintain excellent relations with our clients and business partners, and we continue delivering the high quality work that we are known for.

With a clear vision for the future we remain committed to delivering sustainable results to all our stakeholders, backed by our core values of Craftsmanship, Fellowship, and Salesmanship.

Thank you for your continued support and trust in VARD.

Sincerely,

MR. ROY REITE
Chief Excecutive Officer and
Excecutive Director

CHAIRMAN'S STATEMENT

"THE CHALLENGING MARKET ENVIRONMENT HAS ALSO PROMPTED VARD TO SHARPEN ITS FOCUS ON COST AND EFFICIENCY, IMPROVING OUR COMPETITIVENESS AS WE EMERGE FROM THE DOWNTURN AND BROADEN OUR SCOPE."

Mr. Giuseppe Bono
Chairman of the Board

DEAR VALUED SHAREHOLDERS,

In every challenge there also lies opportunity.

In 2015, the oil & gas and offshore shipbuilding markets faced the most severe cyclical downturn in decades, weighing heavily on the profitability of every and all companies in the sector. In addition to that, VARD also dealt with the challenge of managing a difficult situation in Brazil due to the adverse economic, business and political climate in the country, as well as to the start-up phase of the Promar shipyard.

With the development of its new business plan and strategy, VARD has demonstrated that out of these challenges, opportunity arises.

VARD's push into new markets and geographies started over the course of 2015, when the Group secured contracts from clients in the Middle East, Singapore and Canada and in the fisheries sector in addition to our core offshore market. Diversification does not only help secure new orders now, but provides opportunities for further growth and risk mitigation in the longer term.

Entering the market segment of small, specialized cruise vessels represents a step change for VARD. I am very pleased that only weeks after the announcement of the Company's new strategic direction, we have secured a Letter of Intent for the construction of four such vessels. This is a clear signal that the market has confidence in VARD's capabilities as a leading designer and builder of highly complex, specialized vessels.

The challenging market environment has also prompted VARD to sharpen its focus on cost and efficiency, improving our competitiveness as we emerge from the downturn and broaden our scope. On top of that, we have started developing relevant synergies within the FINCANTIERI group. The opportunity for VARD to construct cruise vessel sections for FINCANTIERI at its Romanian shipyards is a fine example.

As we begin to reap the benefits of our efforts in Europe and around the world, we also reconfirm our commitment to succeed in the difficult Brazilian market. We will adapt our footprint to future local market demand, but our long-term ambition is for VARD to remain a key player in the Brazilian shipbuilding industry, in a more stable environment.

On behalf of the Board of Directors, I would like to thank our shareholders and clients for putting their trust in VARD. Together, we will seize the opportunities available to us in order to create value for all our stakeholders.

Sincerely,

Giuseppe Bono

MR. GIUSEPPE BONO
Chairman of the Board

BOARD OF DIRECTORS

MR. GIUSEPPE BONO
Chairman of the Board and Non-Executive Director

MR. VITTORIO ZANE
EVP Corporate Development and Executive Director

MR. PIER FRANCESCO RAGNI
Non-Executive Director

MR. ROY REITE
Chief Executive Officer and Executive Director

MR. SUNG HYON SOK
Independent Director

MR. KEEN WHYE LEE
Independent Director

MR. GIUSEPPE BONO, *Chairman of the Board and Non-Executive Director*

MR. BONO serves as chairman of the board and non-executive director of the Company. He has been chief executive officer of FINCANTIERI S.p.A. since 2002.

EXPERIENCE: From 1993 to 2002 Mr. Bono held senior positions at Finmeccanica, where he was appointed general manager and interim head of Alenia Difesa and Ansaldo (Finmeccanica Group) in 1997. In 2000 he was appointed CEO and general manager of the group.

From 1971 to 1993 he worked in EFIM where he held a number of key roles with increased responsibility until his appointment as general manager in 1991. From 1963 to 1971, he worked in Omeca (Fiat - Finmeccanica Group; taken over by EFIM in 1968) as head of administration, planning and control.

QUALIFICATIONS: Degree in Business and Economics, and an honorary degree in Naval Engineering.

MR. VITTORIO ZANE, *EVP Corporate Development and Executive Director*

MR. ZANE is the executive vice president of corporate development of VARD, and has served as executive director on the Board since 2014.

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 FINANCTIERI-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.

MR. PIER FRANCESCO RAGNI, *Non-Executive Director*

MR. RAGNI serves as non-executive director of the Company. Mr. Ragni is deputy general manager and senior executive vice president business development of FINCANTIERI S.p.A. and also serves as director of several subsidiaries of FINCANTIERI S.p.A.

EXPERIENCE: Mr. Ragni joined the Fincantieri Group in 2005.

Prior to joining the Fincantieri Group he was an investment banker with Banca Nazionale del Lavoro and Banca IMI, focusing on mergers & acquisitions and equity capital market transactions, and a financial analyst in the corporate finance department of PricewaterhouseCoopers, Milan.

QUALIFICATIONS: Business Administration at L. Bocconi University of Milan, 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 Sparebanken Møre, a Norway-based bank, and a director of Fjordlaks AS.

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

MR. SUNG HYON SOK, *Independent Director*

MR. SOK serves as an independent director of the Company. Mr. Sok is also the managing director of Money Werks Capital 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.

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, U.S.

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.

OTHER BOARD POSITIONS: Mr. Reite is presently the vice chairman of the board of Sparebanken Møre, a Norway-based bank, and a director of Fjordlaks AS.

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

MR. GEIR INGEBRIGTSEN
EVP and Chief Financial Officer

MR. INGEBRIGTSEN was appointed as chief financial officer for VARD in November 2015. He has also served on the Board of Vard Tulcea and Vard Braila since February 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 PriceWater-houseCoopers 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 serves as the head of Equipment and Solutions of VARD.

EXPERIENCE: Mr. Bjørkedal has held this position since May 2015. Prior to this, he 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 Corporate Development and Executive Director

MR. ZANE is the executive vice president of corporate development of VARD, and has served as executive director on the Board since 2014.

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 FINANCTIERI-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.

MR. MAGNE HÅBERG
EVP Sales and Marketing

MR. HÅBERG heads sales and marketing in VARD.

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 had been responsible for the start up phase of several activities, like the Vard yard in Vietnam. Lately he has been focusing on Vard's two shipyards 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

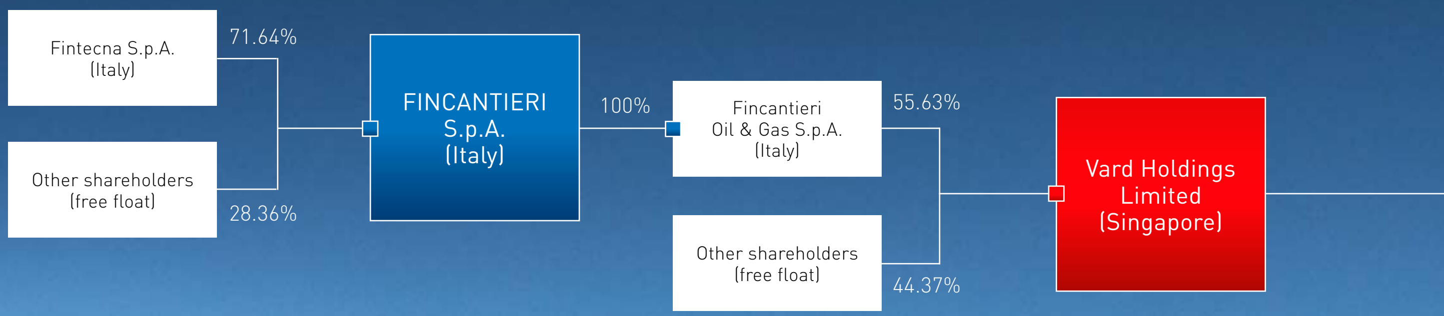
MR. DILLING is responsible for investor relations at VARD, having held that role since the time of the Company's listing in Singapore. In May 2015, he in addition assumed responsibility for business development activities in the Asia-Pacific region.

EXPERIENCE: Mr. Dilling joined VARD from STX Europe, where he had worked as vice president for business development 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.

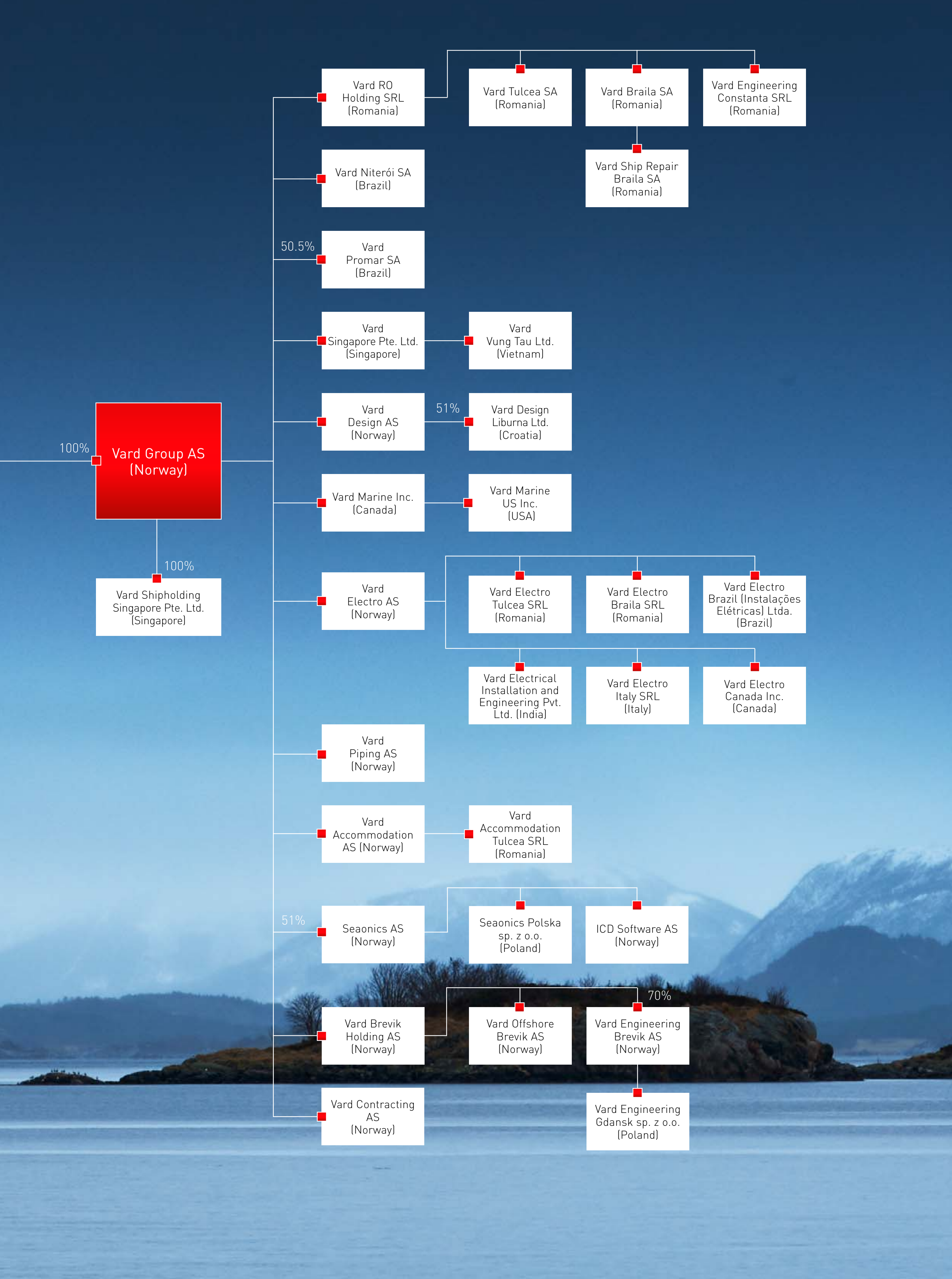
Mr. Dilling started his career in management consulting, working for The Boston Consulting Group in Germany and Norway from 1997 to 2001.

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

SHAREHOLDING AND CORPORATE STRUCTURE

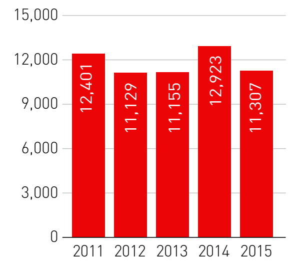


Note: Simplified shareholding structure. Does not include dormant subsidiaries, minority shareholdings and non-core businesses. In case of split ownership within the group, only major shareholders are shown. Shareholding structure as of 10 March 2016.

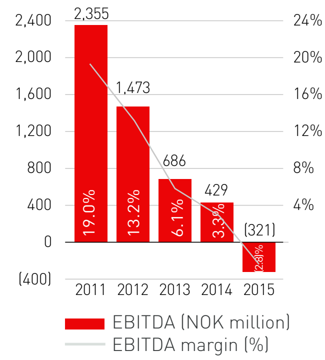

100%
Vard Group AS (Norway)
100%
Vard Shipholding Singapore Pte. Ltd. (Singapore)
Vard RO Holding SRL (Romania)
Vard Tulcea SA (Romania)
Vard Braila SA (Romania)
Vard Engineering Constanta SRL (Romania)
Vard Ship Repair Braila SA (Romania)
Vard Niterói SA (Brazil)
50.5%
Vard Promar SA (Brazil)
Vard Singapore 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. (USA)
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)
51%
Seaonics AS (Norway)
Seaonics Polska sp. z o.o. (Poland)
ICD Software AS (Norway)
Vard Brevik Holding AS (Norway)
Vard Offshore Brevik AS (Norway)
70%
Vard Engineering Brevik AS (Norway)
Vard Engineering Gdansk sp. z o.o. (Poland)
Vard Contracting AS (Norway)

KEY FINANCIALS

REVENUE (NOK MILLION)

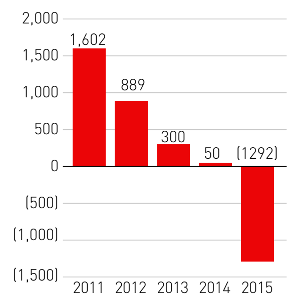


EBITDA AND EBITDA MARGIN*



** 2015 EBITDA before restructuring costs.*

PROFIT (LOSS) FOR THE PERIOD (NOK MILLION)



Statement of Income

VARD reported consolidated revenues of NOK 11.31 billion for the financial year 2015 (FY2015), down 13% from NOK 12.92 billion in financial year 2014 (FY2014).
A challenging business environment led to a shortfall in new orders, and as a result, VARD registered lower revenue due to reduced activity at some of the Group's European shipyards.

VARD registered negative EBITDA* (before restructuring cost) of NOK 321 million (FY2014: NOK 429 million positive), as the Group was impacted by the performance of its Brazilian yards despite the rest of the Group delivering a positive EBITDA. In Europe, the increasing cost of underutilized capacity contributed to lower margins compared to FY2014. VARD also registered a restructuring cost of NOK 77 million for FY2015, which included severance payments for staff lay-offs as part of an ongoing cost reduction initiative.

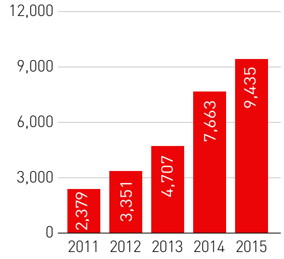
The Group recorded a net loss of NOK 1.29 billion for FY2015, compared to a profit of NOK 50 million for FY2014. The net result for FY2015 was weighed down by NOK 474 million net foreign exchange losses, of which NOK 380 million net unrealized. Of the FY2015 loss, NOK 603 million was attributable to equity holders of the Company, reflecting that most losses were incurred in the part-owned subsidiary, Vard Promar.

Summary Statement of Income

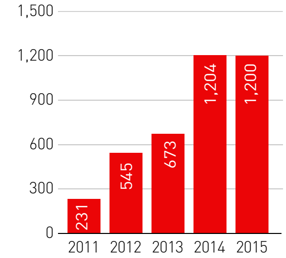
Amounts in NOK million	2015	2014
Revenue	**11,307**	**12,923**
EBITDA* before restructuring cost	**(321)**	**429**
EBITDA margin (%)	(2.8%)	3.3%
Restructuring cost	(77)	0
Depreciation, impairment and amortization	(235)	(189)
Operating profit (loss)	**(633)**	**240**
Net financial income / (cost)	(571)	(37)
Share of result from associates	0	35
Profit (loss) before tax	**(1,204)**	**238**
Profit (loss) for the period	**(1,292)**	**50**
Non-controlling interest	(689)	(299)
Profit (loss) attributable to equity holders of the Company	**(603)**	**349**

** Earnings before Interest (but including Interest on Construction Loans), Tax, Depreciation and Amortization.*

CONSTRUCTION LOANS (NOK MILLION)



LOANS AND BORROWINGS, NON-CURRENT (NOK MILLION)



Balance Sheet

Total assets increased by 7% from NOK 19.45 billion at the end of 2014 to NOK 20.90 billion at the end of 2015.

The increase in total assets was largely due to an increase in current assets, from NOK 15.66 billion at the end of 2014 to NOK 17.14 billion at the end of 2015. Cash and cash equivalents are reduced by NOK 1.08 billion, while other working capital assets have increased by NOK 2.56 billion. The increase in other working capital assets is the result of an increase in construction work in progress assets, and hedge accounting effects.

Total current liabilities have increased from NOK 14.13 billion at the end of 2014 to NOK 16.53 billion at the end of 2015. Current derivatives have increased from NOK 2.18 billion to NOK 3.24 billion, mainly because of the weakening of NOK compared to USD. The remaining increase in current liabilities is driven by the increase in net construction work in progress.

The Group's total non-current assets and total non-current liabilities remained stable in comparison.

Summary Balance Sheet

Amounts in NOK million	2015	2014
Non-current assets	3,760	3,786
Cash and cash equivalents	919	2,002
Other current assets	16,216	13,661
Total assets	**20,895**	**19,449**
Total equity	**2,961**	**3,864**
Loans and borrowings, non-current	1,200	1,204
Other non-current liabilities	209	248
Construction loans	9,435	7,663
Other current liabilities	7,090	6,470
Total liabilities	**17,934**	**15,585**
Total equity and liabilities	**20,895**	**19,449**

Cash Flows

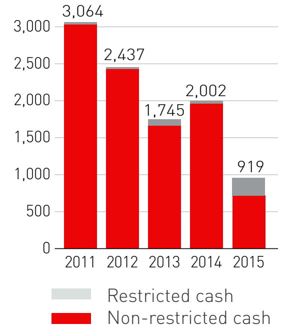
The Group registered negative cash flow from operating activities of NOK 1.18 billion for FY2015, compared to a net positive of NOK 690 million for FY2014, largely due to movements in working capital as a result of some large capital-intensive projects exceeding the available construction loan financing. The cash impact of previously reported losses in Brazil also started to materialize during FY2015.

Cash flow used in investing activities was NOK 311 million for FY2015, compared to NOK 865 million for FY2014 as the Group reduced its investments in property plant and equipment compared to 2014, when investments were made relating to the new yard in Promar, and the modernization of the yard in Tulcea. The Group also recorded a net cash outflow of NOK 45 million in FY2015 relating to the acquisition of ICD Software.

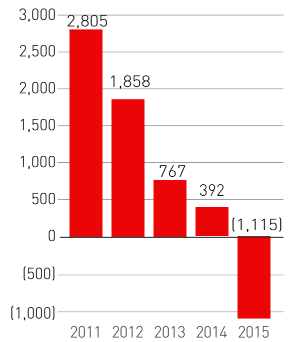
For FY2015, the Group had a positive cash flow from financing activities of NOK 219 million, compared to NOK 433 million in FY2014.

Resulting from the above as well as 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 1.08 billion for FY2015, from NOK 2.00 billion to NOK 919 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 Flows

Amounts in NOK million	2015	2014
Cash flows from / (used in) operating activities	(1,184)	690
Cash flows from / (used in) investing activities	(311)	(865)
Cash flows from / (used in) financing activities	219	433
Net change in cash and cash equivalents	**(1,276)**	**258**
Effects of currency translation differences	30	45
Cash and cash equivalents excluding restricted cash at the beginning of the financial period	1,966	1,663
Restricted cash at the end of the financial period	199	36
Cash and cash equivalents at the end of the financial period	**919**	**2,002**

ORDER BOOK DEVELOPMENT

At the end of 2015, VARD's order book stood at NOK 10.23 billion, down from NOK 17.7 billion a year earlier. The order book comprised 29 vessels, 18 of which are of VARD's own design.

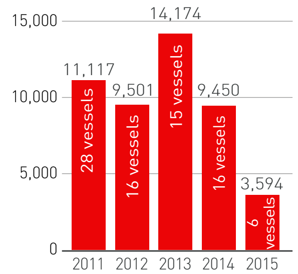
During the year, twelve vessels were delivered from the Group's shipyards – six from Norway, one from Romania, three from Vietnam and two from Brazil. Deliveries encompassed the full range of offshore vessels built by VARD, including AHTS, PSVs and different types of OSCVs. In addition, a highly advanced naval research and surveillance vessel and an offshore tug were delivered from Norway and Romania respectively, while Vard Niterói in Brazil completed work on the first in a series of Liquefied Petroleum Gas (LPG) carriers.

New order intake during 2015 was at a 10-year low, reflecting extremely difficult market conditions. Vessel newbuild orders tallied only six during the year, of which four were related to offshore oil and gas, and the remaining two were fishing vessels. For the first time in VARD's history, customers from outside Norway stood for the majority of the new order intake, with OSCVs being ordered from Singapore and Dubai and by an undisclosed international client, and one fishing trawler by a new Canadian client. The aggregate value of new orders, including variation orders, repair and conversion, and equipment sales, was NOK 3.59 billion.

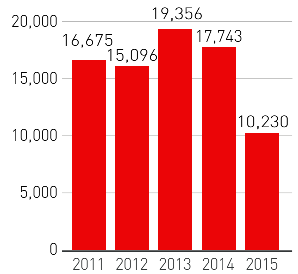
Also reflecting the difficult market, VARD saw four order cancellations during 2015. For two PSVs from the Vietnam order book, contracts were terminated but construction continued. One of the vessel's has since been delivered to the Group's wholly-owned subsidiary, Vard Shipholding Singapore, and operates on a charter contract in Australia. The other is still under construction. Separately, contracts for two LPG carriers for delivery from Vard Promar in Brazil were terminated late in 2015.

At the end of 2015, the order book included six PSVs, three AHTS, thirteen OSCVs and seven other vessels, reflecting VARD's leading position globally in the market for high-end OSCVs.

ORDER INTAKE (NOK MILLION)

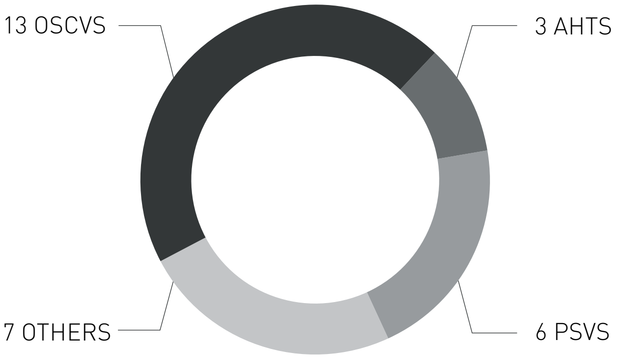


ORDER BOOK (NOK MILLION)

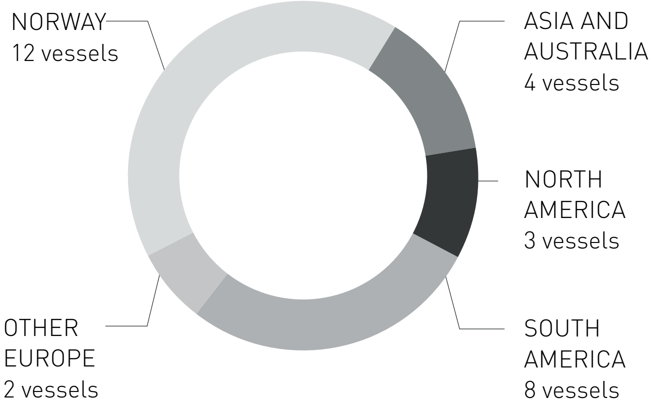


ORDERBOOK BY CUSTOMER SEGMENT

Per 31 December 2015



ORDERBOOK BY CUSTOMER DOMICILE



OPERATIONAL REVIEW

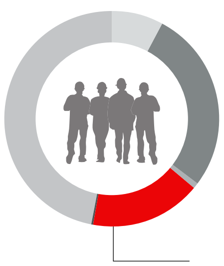
With global operations that span four continents, comprising ten state-of-the-art shipyards and several specialized subsidiaries, VARD is one of the leading international designers and builders of offshore and specialized vessels.

NORWAY

HEADQUARTERS
- Vard Group

SHIPYARDS
- Vard Aukra
- Vard Brattvaag
- Vard Brevik
- Vard Langsten
- Vard Søviknes

SPECIALIZED SUBSIDIARIES
- Vard Accommodation
- Vard Design
- Vard Electro
- Vard Piping
- Vard Engineering Brevik
- Vard Offshore Brevik
- Seaonics
- ICD Software



1,657
EMPLOYEES

Utilizing an integrated management system which fosters effective cross-border knowledge sharing, our yards have seen much success in operating seamlessly across the entire value chain, allowing us to flexibly and efficiently deliver customized products to our customers. Forming the cornerstone of VARD's business is a dedicated team of highly-skilled and experienced employees with a deep understanding of shipbuilding processes as well as our clients' needs.

Research and development remained a focus area for us in 2015 as we continue to strive towards achieving greater efficiencies in the vessels we build. Amid an environment that is constantly evolving, innovation is a dynamic process, and we consistently work towards devising new innovative solutions that push the barriers of the latest technologies, and enable us to stay ahead of the competition.

As our core business – the design and construction of vessels targeted to the offshore oil and gas markets – has come under pressure, VARD is branching out into new market segments and geographies, and we have increased our focus on our equipment and solutions businesses.

Norway

VARD has a long shipbuilding history in Norway, and has its headquarters, design center and five shipyards located there. With the exception of the Brevik yard which is located southwest of Norway's capital Oslo, VARD's yards are located along the northwestern coast of Norway – a well-known maritime cluster that is home to many leading ship owners and world-class companies in the offshore marine design, equipment and manufacturing, shipbuilding, and oil services industries.

Our shipyards in Norway are responsible for the final stages of the shipbuilding process for almost all vessels built in Europe – i.e. the outfitting, commissioning, testing and delivery to the client. This allows VARD to focus on high value-added production steps in Norway, while most of the very labor intensive work, namely the hull construction and large parts of the installation of major equipment, piping and electrical cabling, are performed more cost-efficiently in Romania.

Most of our specialized subsidiaries in the field of Equipment and Solutions are also headquartered in Norway. These are Vard Design for the conceptual and basic design including drawings and documentations of new projects, Vard Electro for electrical engineering and power and automation systems, Vard Piping as a specialist supplier of pipe systems and services, Vard Accommodation for the interior outfitting of vessels and heating, ventilation and air conditioning (HVAC) systems, Seaonics for deck equipment and handling systems, and ICD Software for control systems. In addition to supporting our shipyards, these companies increasingly also market their products and services to other shipyards and end customers.

The arrival of Solstads newbuilding to Vard Brattvaag for outfitting after hull fabrication at Vard Tulcea.

During 2015, VARD has seen an increasing volume of business with its parent group, FINCANTIERI, with Vard Electro leading the way in terms of realizing synergies through incremental sales to cruise and naval shipbuilding projects.

In 2015, six vessels including three OSCVs, two PSVs and one research and surveillance vessel were successfully delivered from our Norwegian yards, Vard Aukra, Vard Brevik, Vard Langsten, and Vard Søviknes. The overall yard activity experienced a gradual decline, resulting in the broad implementation of cost-cutting measures across our operations. The headcount at our Norwegian facilities declined from 1,797 at year-end 2014 to 1,657 at the end of 2015.

Despite a slowdown in newbuild activity, we remain determined in our efforts to develop new technologies, positioning ourselves as a partner for ship-owners seeking new, cost-effective solutions to address a changing market environment. In addition, as offshore projects become increasingly scarce, we have opened our doors to new projects beyond our core markets, to decrease our dependency on the cyclical nature of the industry. For example, Vard Aukra has led an initiative to develop new vessel types and establish relations to key industry players in the aquaculture market, in particular Norway's extensive fish farming industries. With the foundations laid and first contracts secured in 2015, these diversification efforts are expected to gain momentum in 2016.

Romania

Part of the VARD group since 2000 and 2003 respectively, our Romanian yards Vard Tulcea and Vard Braila specialize in the hull manufacturing and early outfitting stages of vessels. However, on the back of a rich shipbuilding history that dates back several decades, both facilities are equipped with the requisite expertise and capabilities to deliver fully-outfitted vessels when required. Our specialized subsidiaries, Vard Accommodation and Vard Electro also operate local units in Romania, while Vard Engineering Constanta provides engineering services to the Group.

In terms of deliveries, a total of ten hulls were delivered from VARD's Romanian yards to Norway in 2015, in addition to one complete offshore tug delivered directly from Vard Braila to the client. Faced with a prolonged order drought in VARD's key markets, both Romanian yards have experienced a sharp decline in activity over the year.

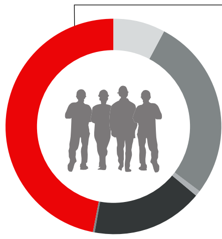
To that end, strict cost cutting measures have been implemented in Romania during the year, leading to a headcount reduction by 27% year-on-year.

In an effort to tap new market opportunities amid declining yard activity, VARD is also exploring synergies with parent group FINCANTIERI, to carry out a larger share of cruise shipbuilding projects at the Romanian yards. This follows the successful delivery of several sections of cruise ship hulls to FINCANTIERI in the second half of 2015.

ROMANIA

SHIPYARDS
- Vard Braila
- Vard Tulcea

SPECIALIZED SUBSIDIARIES
- Vard Accomodation Tulcea
- Vard Electro Braila
- Vard Electro Tulcea
- Vard Engineering Constanta
- Vard Ship Repair Braila

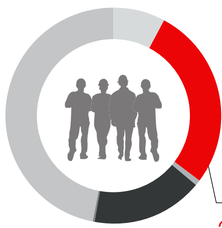


4,665
EMPLOYEES

BRAZIL

SHIPYARDS
- Vard Niterói
- Vard Promar

SPECIALIZED SUBSIDIARY
- Vard Electro Brazil



2,718
EMPLOYEES

Vard Vung Tau, a fully-integrated facility capable of undertaking the entire process of shipbuilding.

SINGAPORE

REGISTERED OFFICE
- Vard Holdings

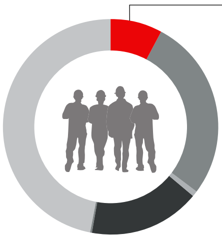
SPECIALIZED SUBSIDIARIES
- Vard Singapore
- Vard Shipholding Singapore

VIETNAM

SHIPYARD
- Vard Vung Tau

INDIA

SPECIALIZED SUBSIDIARY
- Vard Electrical Installation & Engineering



799
EMPLOYEES

Brazil

Brazil continues to be a challenging market for VARD, where the Group operates two fully-integrated shipyards: Wholly-owned Vard Niterói close to Rio de Janeiro, and the new, 50.5% owned facility Vard Promar further north in the country, which commenced operations in 2013 and delivered its first newbuild vessel in January 2016.

Vard Niterói is in the final stage of completing a series of delayed offshore vessels, and has seen a workforce reduction during the year reflecting its decling scope of operations and order book. After the successful delivery of an AHTS in May and a Liquefied Petroleum Gas (LPG) carrier in July 2015, only one AHTS, alongside outfitting works on a second LPG carrier, remain in Vard Niterói's order book for the year ahead.

At Vard Promar, the estimated completion dates for the initial series of LPG vessels to be built at the new yard have been delayed in the wake of lower than expected productivity development, and the scope and complexity of the project exceeding orignal assumptions. Additional resources from VARD's European operations have since been transferred to Brazil to support operational improvement at Vard Promar. At the very end of the year, contracts for the last two of eight vessels in the series were terminated by client Transpetro.

Singapore

With an aim to establish and build on relations with offshore vessel owners in Asia, VARD maintains a sales office in Singapore which helps support the Group's operations in the region. The sales office also functions as a holding company for our shipyard in Vietnam, Vard Vung Tau.

In September 2015, VARD incorporated a 100%-held subsidiary in Singapore, Vard Shipholding Singapore, with the purpose of owning one PSV built at VARD's Vietnam shipyard, which has since been chartered out on a bareboat contract basis.

Vietnam

Our yard in Asia, Vard Vung Tau, is a fully-integrated facility capable of undertaking the entire process of shipbuilding from hull construction to final outfitting works. The Vietnam-based shipyard is well-equipped to handle complex project management that measures up to the same international standards as our more established yards in Europe, and has during 2015 commenced work on it first OSCV project.

Yard utilization at the Vietnam yard remained robust during the year despite the termination of two vessel contracts in the first quarter of 2015. The first of

Production of hull sections for FINCANTIERI at Vard Tulcea.

From Vard Promar in Brazil.

the two terminated vessels has since been delivered to Vard Shipholding Singapore, while construction of the second vessel is still progressing. Both vessels continue to be actively marketed for sale.

More importantly, with a stellar track record of timely vessel deliveries and positive feedback from our customers, Vard Vung Tau has established itself as a highly valued part of the Group. Offering an attractive cost position and location, it allows VARD to tap into the potential of new geographies and market segments.

India

To offer support to our clients in India and the region, we continue to maintain an electrical installation and engineering subsidiary in Cochin.

Canada and USA

Forming VARD's first foray into North America, Vard Marine – acquired in 2014 – is a naval architecture and marine engineering specialist that provides solutions for offshore and specialized vessels such as offshore vessels, offshore patrol vessels, compact semi-submersibles and other specialized vessels. Based in Vancouver, Canada, Vard Marine serves the US Gulf of Mexico offshore market through its subsidiary Vard Marine US which is located in Houston, Texas. Early in 2016 Vard Electro Canada was established.

Croatia

In a move to strengthen our design and engineering capabilities, VARD acquired a 51% interest in Vard Design Liburna in 2012, located in Rijeka.

Poland

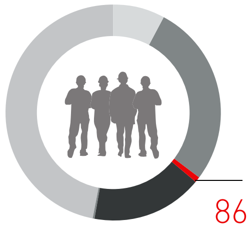
VARD's subsidiary Seaonics established Seaonics Polska in 2013. Located in Gdansk in the maritime cluster of Poland, Seaonics Polska provides engineering support to the parent company.

Italy

Dedicated to support Vard Electro's increasing business activities with FINCANTIERI, Vard Electro Italy was establish in mid-2015 in Genoa, Italy.

CANADA AND USA

SPECIALIZED SUBSIDIARIES
- Vard Marine
- Vard Marine US
- Vard Electro Canada



86
EMPLOYEES

CROATIA

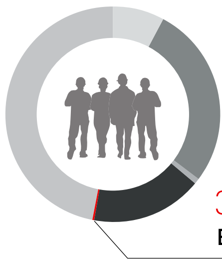
SPECIALIZED SUBSIDIARY
- Vard Design Liburna

POLAND

SPECIALIZED SUBSIDIARY
- Seaonics Polska
- Vard Engineering Gdansk

ITALY

SPECIALIZED SUBSIDIARY
- Vard Electro Italy



32
EMPLOYEES

THE VARD SERIES

THE VARD SERIES COMPRISES A BROAD RANGE OF SHIP DESIGNS

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 e.g. 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.

SELECTED DESIGNS

VARD 3 08
For Topaz

VARD 3 17
For Farstad Shipping

VARD 3 19
For Solstad Offshore

VARD has delivered ship designs* 221

*Ship designs sold by Vard Design and Vard Marine in the period 2005-2015.

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.

VARD 7-SERIES

Offshore Patrol Vessels

Offshore Patrol Vessels, 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.

VARD 8-SERIES

Fisheries and Aquaculture

Fisheries and Aquaculture have a high focus on environmental sustainibility through introducing innovative solutions. VARD aims to further strengthen its competence within this segment.

This series includes a variety of vessels, platforms and barges within fisheries that perform functions such as live fish transportation and treatment, fish feed, and fish farm operation and maintainance.

VARD 9-SERIES

Other Specialized Vessels

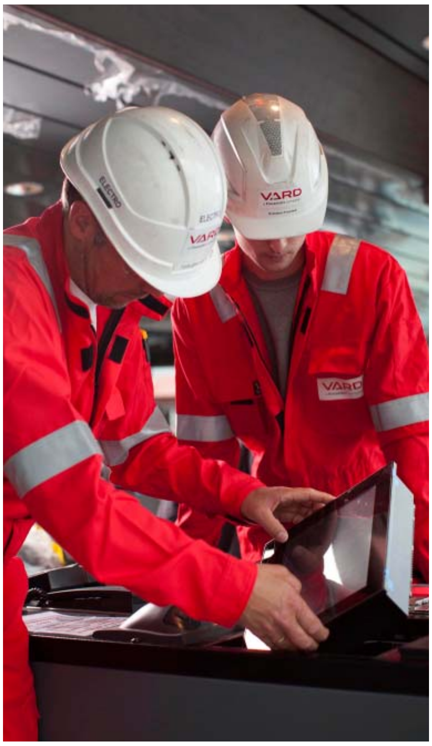
Specialized vessels are tailor-made to customer-specific requirements and needs.

This series includes vessel types such as research and coast guard vessels, special purpose cable layers, seismic vessels and icebreakers.

VARD 6 06
Expedition Cruise Vessel

VARD 7 085
Offshore Patrol Vessel

VARD 8 52
Fish Feed Barge



EQUIPMENT AND SOLUTIONS

VARD's specialized subsidiaries work closely together to develop and enhance VARD's products and services to increase seafarers' safety, efficiency and comfort.

The range of products within the portfolio, which are developed for use with both VARD projects and third-party clients, include design and engineering, marine electronics and electrical systems, operational equipment and systems integration platforms, interior outfitting, heating, ventilation and air conditioning (HVAC) packages.

VARD's subsidiaries within the Equipment and Solutions portfolio include Vard Marine, Vard Electro, Seaonics and Vard Accommodation.

Vard Marine is a naval architecture and marine engineering specialist catering to the North American market. With its in-house technical expertise on concept development and design, Vard Marine's offerings complement VARD's existing product portfolio.

Vard Electro is an experienced system integrator which develops, produces, and supports advanced marine electronics and turn-key electrical systems for the global maritime and offshore industries. Vard Electro works with all established makes in the market, thereby giving customers smart solutions with a high degree of flexibility. Currently, Vard Electro has installed its equipment on over 300 vessels, including complete systems for power management, propulsion, automation and navigation.

SEAONICS offers offers high-end integrated lift and handling systems for offshore, oceanography, fishery and special vessel segments. SEAONICS specializes in tailor-made equipment, as well as the delivery of shelf products, which simplify operational handling for the marine and offshore industry. Products include Active Heave Compensated (AHC) winches, module handling and well intervention systems, deck cranes and AHC subsea construction cranes, deck machinery, drilling and tensioning systems, and Launch And Recovery Systems (LARS).

Vard Accommodation is a turn-key contractor of complete accommodation and interior solutions, as well as a provider and integrator of HVAC packages for all types of vessels. Vard Accommodation has delivered more than 100 turn-key HVAC solutions to vessels worldwide.

"A STEP FORWARD" - OUR LATEST INNOVATION PROJECT

In the summer of 2015, VARD launched its latest innovation project, "A step forward", featuring a set of concepts and ideas developed specifically to meet future challenges and demands.

The innovation project builds on VARD's storied shipbuilding traditions and is a result of the close cooperation between Vard Design, Vard Electro and Vard Accommodation, in collaboration with industrial designer Per Ivar Selvaag and his design agency Montaag. These new ideas combines innovation with stand-alone products and creates a new total concept in shipbuilding.

The guiding principle of the new design concept is to improve the efficiency of future vessels at all levels. A new bridge design brings the helipad closer to the center of the vessel and below the bridge at the same time. The bridge constellation differs from any existing designs and provides an overall enhanced bridge experience with a focus on ease of operation, safety and ergonomics, and increase operability by reducing the impact of vessel movement in rough weather conditions. This is most evident from the captain's chair, where a complex array of bridge devices and interfaces includes a set of seamlessly integrated control systems, designed to improve usability and enhance vessel performance.

With all solutions based on a strong understanding of industry and classification requirements, the focus is centred on the quality of on-board living and user experience, whilst crafting a vessel that is more compact and well-arranged. An optimized cabin design provides less deck space requirements and increases the crew's privacy and comfort.

VESSELS DELIVERED

During 2015, VARD delivered twelve vessels from our shipyards across the world.

1. Skandi Angra, 2. Far Sentinel, 3. Island Clipper, 4. BB Power, 5. Troms Mira, 6. Stril Barents

Platform Supply Vessels (PSV)

TROMS MIRA	791	Troms Offshore	VARD 1 08	Vard Vung Tau
STRIL BARENTS	827	Simon Møkster Shipping	VARD 1 06	Vard Aukra
ISLAND CLIPPER	757	Island Offshore	UT 776 CD	Vard Brevik
TROMS HERA	792	Troms Offshore	VARD 1 08	Vard Vung Tau
MMA PLOVER	804	MMA Offshore	VARD 1 08	Vard Vung Tau

Anchor Handling Tug Supply vessels (AHTS)

SKANDI ANGRA	PRO 31	DOF	VARD 2 11	Vard Niterói

7. Skandi Africa, 8. Troms Hera, 9. Far Sleipner, 10. Oscar Niemeyer, 11. MMA Plover, 12. Marjata

Offshore Subsea Construction Vessels (OSCV)

SKANDI AFRICA	800	DOF	VARD 3 12	Vard Søviknes
FAR SLEIPNER	822	Farstad Shipping	VARD 3 07	Vard Langsten
FAR SENTINEL	829	Farstad Shipping	VARD 3 07	Vard Langsten

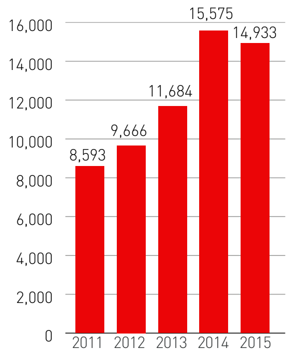
Other specialized vessels

MARJATA	777	Norwegian Navy	Undisclosed	Vard Langsten
BB POWER	828	Buksér og Berging	BB ASD 100	Vard Braila
OSCAR NIEMEYER	EP01	Transpetro	WBDC	Vard Promar

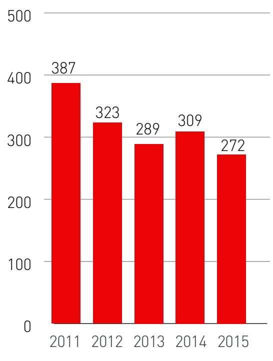
SUSTAINABILITY AND SOCIAL RESPONSIBILITY

VARD practices sustainable and responsible operations and is dedicated to the cause of our stakeholders, including our employees, customers, shareholders, partners, suppliers and subcontractors, and the local communities in which we operate in globally.

SAFETY OBSERVATIONS
REPORTED AND HANDLED



ACCIDENTS



VARDs commitment to sustainable and responsible operations is reflected in our three core values, namely,
Craftsmanship, Fellowship and Salesmanship.

- 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.

Proactive HSE work

VARD benefits from a clear company-wide commitment to Health, Safety and the Environment (HSE). With top management's support, every employee is responsible for local HSE compliance, and all HSE initiatives are ingrained in VARD's core value of Fellowship. It is mandatory for the management at all VARD shipyards to actively practice proactive HSE initiatives, as well as encourage a culture of reporting incidents and safety observations.

VARD continues to emphasize the importance of achieving "Vision Zero", our aspiration since 2005, whereby we aim to avoid all fatal accidents, personal injuries, unplanned incidents and damage to the environment. Having received positive feedback since the launch of the new HSE training film in 2014, which emphasized the importance of using the right protective gear at all times, the film and support material is now actively used throughout VARD for new employees, visitors and temporary personnel.

In 2015, VARD witnessed a continuous positive trend in employees practicing proactive HSE work, which is evident in the number of safety observations. This has resulted in a continuous improvement in VARD's HSE performance.

The Group's daily HSE routines are reported by all locations through the software management tool "Synergi", enabling VARD to monitor and maintain a consistent and transparent view of the Group's HSE performance. The information received through "Synergi" also lays the foundations of several internal campaigns that aim to raise awareness to current HSE related topics at specific locations.

An example is the "Finger campaign", which was initiated based on the analyses of reported work-related personal injuries entered in "Synergi" in 2014. The campaign was set up to reduce hand injuries at Vard Søviknes. Data collected from "Synergi" showed a decrease of 54% in hand injuries since 2014, justifying the efforts of the campaign.

Vard Promar also implemented and launched the new safety program, "Zero Accident Program", in June 2015, targeted at managers with the aim of enhancing

Firefighting drill at Vard Tulcea.

Industrial safety excercise at Vard Søviknes.

the individual focus and commitment towards health and safety risks by identifying critical issues and adopting mitigating actions needed for a safe environment.

The systematic HSE process has resulted in industry-leading low HSE indicators throughout our locations, and has contributed to our goal of avoiding fatal accidents, achieving a low rate of personal injuries and unplanned incidents. Despite our efforts, accidents do inevitably occur, and Vard Promar experienced an injury by fire in 2015. Action plans have been put in place to prevent any recurrence of such accidents.

VARD's efforts in implementing a diverse range of HSE initiatives have been recognized and appreciated by our most important allies – our employees, customers, labor unions and local societies. With strict key performance indicators (KPIs) relating to our safety culture implemented at all operational units, our proactive approach contributes to an outstanding HSE performance for a business of our type. In addition, we benchmark and share best practices of our HSE work with our parent company, FINCANTIERI.

Scenario-based notification procedures and individual checklists for all members of the emergency response and executive management teams have been established, and individual plans for dealing with any kind of emergency, and assisting with next-of-kin handling were developed, with regular exercises performed at all locations to maintain emergency preparedness.

Environmental sustainability

With an added emphasis placed on waste management, noise abatement, emission reduction and the construction of eco-friendly vessels, VARD continually strives to tighten policies and improve procedures to minimize our environmental impact. VARD promotes an open dialogue on environmental issues with employees, authorities, local communities and other stakeholders in addition to conducting regular and routine inspections.

One of VARD's key priorities is recycling waste from our shipbuilding and maintenance activities. In 2011, a comprehensive waste management framework was established, and the results have been positive, with VARD achieving a level of recycling of 95% for 2015.

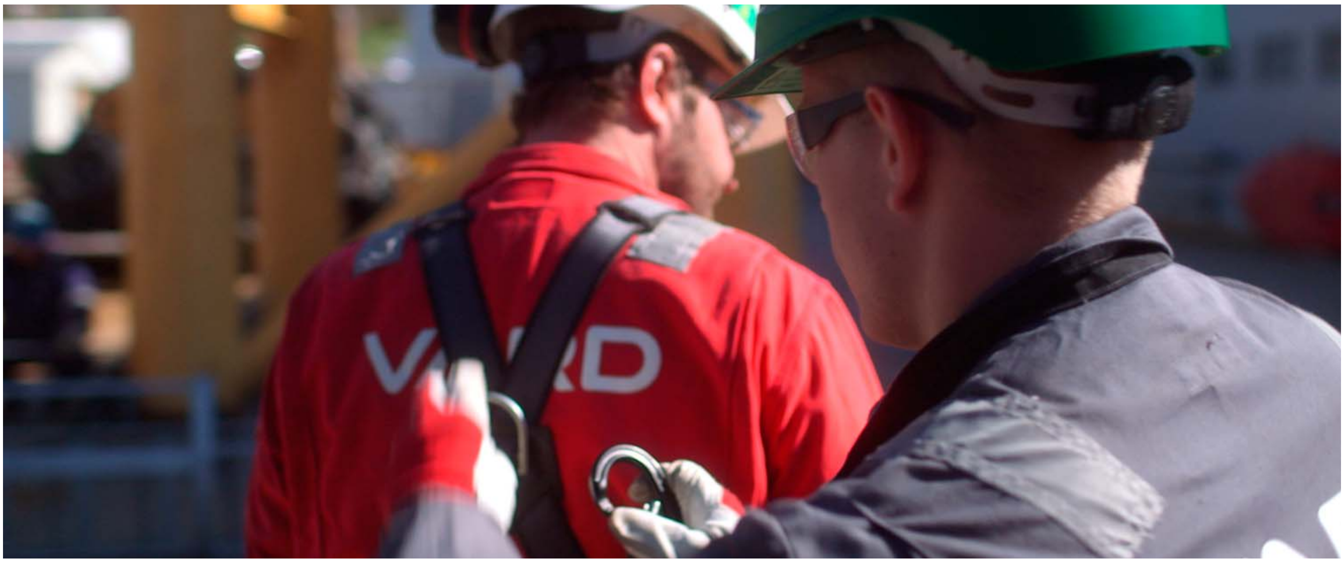
Since 2008, VARD has been a member of the Confederation of Norwegian Enterprises' NOx-Fund, whose primary objective is to reduce nitrogen oxide (NOx) emissions. These emissions are not only a health hazard, but also causes the deterioration of the ecosystem and vegetation. The NOx fund is a cooperative effort in which participating companies are obliged to contribute to the NOx Fund, and in return, are entitled to a tax exemption from the state. VARD reports, on a quarterly basis, all NOx emissions used in buildings and vessels under construction in Norway, and pays for its reported emissions to the fund.

NOx Fund members also receive financial support from the fund for projects and investments that reduce emissions from fossil fuels. VARD's most recent initiative – investing in shore power plants to reduce emissions during testing and commissioning of newbuilds – has already been implemented at Vard Aukra. Vard Brattvaag will be installing these emission-free shore power plants, after receiving approval on the application and funding. The remaining two yards located in the region are awaiting final approval for their applications.

Employees – the core of our success

Human capital forms the backbone of VARD's businesses, where a combination of knowledge, expertise, and experience acts as the driving force behind our endeavors. We have put in place programs and systems to sustain a workforce which is well-equipped and competent in their respective roles.

Amidst a general hiring freeze at VARD locations in Europe, also the investment in training and development was scaled down in 2015, except for mandatory training and HSE training. A new e-learning program was also established to provide cost-effective training alternatives.



As a measure to reduce the impact of the dramatic changes faced by the oil and gas industry, the Norwegian government decided in 2015 to make official funding available for companies implementing change programs via in-house training. The Vard Group applied for the funding, and received its first grant, allowing VARD the opportunity to launch four different training projects, organized and delivered through Vard Academy in 1Q 2016.

As a direct consequence of the market conditions, both internal adjustment processes and reductions in the workforce have been unavoidable. The relationships between management, employees, and their labor union representatives have remained positive despite the challenging market conditions.

All negotiations between labor union representatives and VARD's management follow established rules and regulations, and adhere to industry best practices, regardless of the markets where VARD operates.

The negative market situation has been especially noticeable at our locations in Europe. In Norway, governmental lay-off regulations have enabled us to maintain the majority of our core expertise due to only having to implement temporary lay-offs. Unfortunately, these regulations are not applicable in Romania, and we have therefore experienced a larger impact in staffing volatility in terms of permanent lay-offs.

Compliance with international standards

VARD complies with four international standards, including the areas of ethics and social responsibility – namely Social Accountability (SA8000), Occupational Health And Safety (OHSAS 18001), Quality (ISO 9001) and Environmental Management (ISO 14001).

The SA8000 standard is based on guidelines from the International Labor Organization (ILO), and draws on various international human rights declarations, which is particularly relevant in emerging markets, and all of VARD locations operate according to this standard. In 2015, a number of audits were conducted by our customers on various VARD locations, and VARD received positive feedback and constructive comments on the continuous improvements made to its internal routines and procedures. Compliance with the OHSAS 18001 standard also demonstrates VARD's commitment to safe and healthy working conditions. Two of VARD's Romanian shipyards and its Vietnamese shipyard are officially certified, and VARD's aim is to secure the same certifications for all its remaining shipyards.

The combination of the SA8000 and OHSAS 18001 standards is increasingly used to measure the overall performance of VARD in the field.

In addition to these two standards, all of VARD's yards in Norway, Brazil, Romania and Vietnam 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. VARD's Norwegian yards and Vard Electro have also been audited and recertified over the course of 2015.

This standard is based on a number of quality management principles, including a strong customer focus, the motivation and involvement of top management throughout the delivery cycle, the process approach, and continual improvements made to product quality. VARD will continue to maintain this standard to all its specialized subsidiaries, and in that regard, the Vard Group has initiated a process in order to implement "Synergi" for the handling of non-compliance and improvements proposals.

VARD is also fully-compliant with the ISO 14001 standard – the internationally recognized standard for environmental management.

Skandi Africa received the prestigious "Ship of the Year" award for 2015 by the Nordic shipping magazine, Skipsrevyen.

SIGNIFICANT EVENTS

VARD reached major milestones in its shipbuilding operations in 2015, and the Group recorded breakthroughs in the order book, in innovation and new business development. Our efforts were recognized with prestigious awards.

Awards

SKANDI AFRICA, an OSCV delivered from Vard Søviknes to our longstanding client DOF, was bestowed with the "Ship of the Year" award for 2015 by Skipsrevyen, the Nordic shipping magazine. Skandi Africa was one of the largest and most complex projects undertaken by VARD to date. The vessel is specially designed and equipped for subsea operations with a high focus on quality sea-keeping capabilities, excellent station keeping performance, and low fuel consumption. It is the latest vessel to join the DOF fleet.

THE VARD MARINE-DESIGNED Liquefied Natural Gas (LNG) powered offshore supply vessel Harvey Energy was recognized as "Workboat of the Year" at the 2015 International Workboat Show in New Orleans. The vessel, of VARD 1 311 design, is the first in a series of six ships to be delivered to Harvey Gulf International Marine, and will be the first support vessel to be delivered in North America that is capable of operating on diesel fuel and LNG.

VARD WAS HONOURED with the "Most Transparent Company Award" within the Foreign Listings category at the Securities Investors Association (Singapore) (SIAS) 16th Investors' Choice Awards. The award aims to honour and recognize publicly listed companies for their exemplary corporate governance and transparency practices. The commendation is testimony to VARD's consistent commitment towards good corporate governance.

Shipbuilding milestones

TROMS MIRA AND TROMS HERA, both PSVs of VARD 1 08 design, were delivered from Vard Vung Tau to Troms Offshore, bringing the number of ships delivered earlier than the contractual delivery date from Vard Vung Tau to nine out of fourteen deliveries. The remaining five vessels were all delivered according to contract, demonstrating of the efficiency and operational excellence of our shipyard in Vietnam.

THE NEW SURVEILLANCE VESSEL MARJATA, contracted by the Norwegian Defence Logistics Organisation and operated by the Norwegian Intelligence Service, was delivered from Vard Langsten. Specially equipped for surveillance activity in the Barents Sea and the High North, Marjata is one of the most technologically advanced of its kind worldwide.

VARD LANGSTEN delivered the first construction vessels of VARD design to Farstad – Far Sleipner and Far Sentinel, both of VARD 3 07 design. They are also the first vessels with the new SeaQ Cabins from Vard Accommodation, offering accommodation for a total of 130 persons on each of the two sister ships.

SKANDI ANGRA, the second of three vessels in a series of AHTS for DOF, was delivered from Vard Niterói. All three vessels have already secured long term contracts with Petrobras.

THE OFFSHORE TUG BB POWER, which was built and fully outfitted at Vard Braila, was delivered to Bukser and Berging. Representing a first in VARD's history, BB Power was immediately put into service for the towing of another newbuild vessel from Vard Tulcea to Vard Søviknes for final outfitting.

SOLSTAD'S NEWBUILD, an OSCV of VARD 3 19 design, arrived in Brattvaag after undergoing fabrication at Vard Tulcea. The vessel is the largest in the Solstad fleet, the largest ever constructed by VARD, as well as the largest OSCV ever built in Norway. It will have a 550-ton top tension vertical lay system, enabling the installation of large diameter flexible pipes in ultra-deep water and harsh environments. The vessel will be approximately 180 meters long with a beam of 33 meters and a deck area of more than 2,500 m^2.

VARD PROMAR completed its first vessel, an LPG carrier named Barbosa Lima Sobrinho for our Brazilian client Transpetro, marking an important milestone for VARD's operations in Brazil and the development of the new shipyard. A sister vessel, named Oscar Niemeyer, had earlier been delivered from Vard Niterói.

Orderbook

SEAONICS, a VARD subsidiary, secured its largest contract to date for a complete package of winches, deck cranes, and over boarding systems including A-frames and Launch and Recovery Systems (LARS) for a polar research vessel currently under construction at FINCANTIERI.

KREUZ SUBSEA, a Singapore-based provider of integrated offshore subsea services, appointed VARD as the designer and builder of a diving support and construction vessel for use in the Asia-Pacific region. Through this new collaboration, VARD continues to expand its reach into new markets and proves that its technology and design are applicable to diverse offshore environments globally.

VARD ELECTRO entered into several contracts with FINCANTIERI. In addition to the first contract for electrical installation on board cruise vessels, Vard Electro will also be producing a total of three kilometres of main switchboards for FINCANTIERI projects. In order to deliver better turnkey projects and derive operational synergies with FINCANTIERI, Vard Electro has established its own subsidiary, Vard Electro Italy, in Genova.

IN EXPANDING OUR DESIGN PORTFOLIO, the VARD 8-series of vessels for the fisheries and aquaculture industries was introduced in 2015. As a response to increasing demand for new generation vessels from the fishing sector, VARD embarked on a drive to explore new market opportunities and

establish new customer relations. During 2015, VARD secured one contract for a stern trawler of own design for a new Canadian client, and several smaller vessels for clients in the aquaculture sector.

DUBAI-BASED TOPAZ ENERGY AND MARINE, another new client, ordered two light construction vessels that are scheduled to be delivered in 2017. The contracts mark a first success in VARD's efforts to secure more business from the Middle East region.

Innovation and business development

"A STEP FORWARD", VARD's latest innovation project, was launched in the summer of 2015. The project is a result of a collaboration between three of VARD's specialized subsidiaries, Vard Accommodation, Vard Electro and Vard Design, and industrial designer Per Ivar Selvaag and his California- and Norway-based design agency, Montaag. Featuring a set of concepts and ideas developed specifically to meet future challenges and demands as well as range of stand-alone products, "A step forward" creates a new total concept for the industry.

EQUIPMENT AND SOLUTIONS offered by VARD, comprising the products and services offered by Vard Marine, Vard Electro, SEAONICS and Vard Accommodation, received a boost through closer cooperation and a joint initiative to increase the share of business with third-party clients. VARD also enhanced its portfolio through the acquisition of ICD Software AS, a leading provider of automation and control system software for the offshore and marine sectors.

1. *VARD's latest innovation project, "A step forward" was launched at the Nor-Shipping exhibition. Pictured visiting VARD's booth are His Majesty King Harald V of Norway, and Minister of Trade, Industry and Fisheries, Monica Mæland.*

2. *From the Naming Ceremony of Far Sentinel in Ålesund, Norway.*

3. *The VARD 8-series consists of vessels and barges developed for fisheries and aquaculture.*

4. *VARD was appointed as designer and builder of a diving support and construction vessel for Singapore-based Kreuz Subsea.*

5. *The LNG powered offshore supply vessel Harvey Energy, designed by Vard Marine, was recognized as "Workboat of the Year" at the 2015 International Workboat Show.*

RISK MANAGEMENT

We focus on risk management as an essential aspect of our operations. At VARD, we categorize risk across four main areas: Market risk, operational risk, financial and regulatory risk, and human resources risk.

Market risk

Operating on a project-based business model, VARD is dependent on consistently maintaining an order book of projects with an adequate risk-return profile. With both the shipbuilding sector and the oil and gas industry – which VARD traditionally depends on for contracts – being inherently volatile and cyclical in nature, the Group must actively manage market risk in order to avoid too large swings in the order book. Over time, new order intake must match revenues in order to secure a stable business.

While VARD entered the industry downturn with a strong orderbook, the shortfall of new orders from its core markets in the wake of sustained lower oil prices has been more pronounced than expected at the beginning of 2015. During the year, the Group secured only six newbuilding contracts. In order to mitigate market risk, VARD has focused on diversification and internationalization of its client base since early 2015. All new contracts in 2015 were secured either from clients outside VARD's core market or in new vessel segments, a strategy that was formalized in the new business plan developed at the end of the year.

Besides the risk to new order intake, market risk also encompasses risks related to the existing order book. As the oversupply situation makes it increasingly unattractive for clients to take delivery of newbuild vessels, and with some clients facing financial difficulties as a result of the challenging operating environment, the focus on counterparty risk has increased. During the year, VARD received multiple requests from shipowners to delay delivery of vessels, most of which could be accommodated in order to maintain the contractual relationship. Two contracts were terminated by VARD as the respective clients filed for insolvency, while another client terminated two more contracts, putting further stress on the order book. The risk of additional postponements and cancellations persists in the current market environment.

Operational risk

Fixed-price contracts are the norm in the shipbuilding industry, and these contracts are agreed up to three years before the vessel is delivered. It is the Group's responsibility to ensure that all contract terms are met, and therefore a tough quality-screening process is essential to reduce risk. The costs of labor, materials, machinery and equipment may change during the building process, while contract terms remain stable. To mitigate these risks, VARD procures as many as 60% of key components at the time of contract signing. Risk management is an integral part of our wider project management disciplines, and well-established processes and project management tools are in place. VARD relies on our ability to calculate and manage the complexity of all project components and stages, including man-hours, scheduling, and workload. During periods of low activity, cost overruns may be incurred resulting from lower capacity utilization. It is therefore essential that both direct and indirect staffing levels are continuously adapted to the changing workload at the yards. As orderbook development is inherently difficult to predict, and especially so in a period of sporadic order intake, frequent postponements and risk of cancellations, there is a risk of underutilization, which may impact project performance and financial results.

Financial and regulatory risk

Designing and building a large, advanced vessel entails the commitment of significant amounts of capital. Yet, under standard European shipbuilding contracts, only around 10-20% of the contract price is paid during the design and construction phases, with the remainder due upon delivery. This payment model requires VARD to access large bank loans, which are approved on a project-by-project basis. Customers and projects are carefully screened before contracts are signed, and the Group's financial exposure is constantly monitored. As the industry outlook in the offshore sector has deteriorated, banks are actively trying to reduce their exposure to the sector, which may limit access to new construction loans. At the same time, the postponement of the delivery of projects requires an unusually high working capital balance. Together, these factors contribute to heightened financing and liquidity risk, which the Group needs to manage in the current market situation.

Shipbuilding contracts require significant guarantees. From VARD's perspective, 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. To operate its business, VARD is dependent on its ability to secure such guarantees.

Although VARD hedges most of its transactional currency risk, the Group is nonetheless exposed to shifts in its competiveness due to more permanent currency changes. The main currency for VARD's cost base is NOK, and a permanent, long-term change in the NOK relative to other relevant currencies will change VARD's cost position. During 2015, the weakening of the NOK in relation to the USD has worked in VARD's favor and increased its competitiveness internationally. At the same time, VARD has invested significantly in its Brazilian and Romanian operations in recent years, with long-term financing arrangements still in place. Where these loans are denominated in foreign currencies, VARD is exposed to exchange rate volatility, as seen especially in relation to the USD loan taken up for the construction of the new shipyard, Vard Promar, in Brazil.

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. With ten shipyards and operations in eleven countries on four continents, VARD aims to be an attractive employer in the communities where we operate. VARD has made significant efforts to ensure that learnings are transferred from project to project across shipyards. For instance, a number of project managers move from location to location to ensure that methodology and systems are used according to best practices across markets.

During periods of lower activity when the workforce needs to be reduced to adjust for lower workload, there is a risk of losing skilled personnel. VARD aims to maintain a core number of key talent at each yard, in order to maintain its knowhow and expertise. In Norway, temporary layoffs are used to mitigate the effects of fluctuating capacity utilization.

Most of VARD's workers are members of labor unions. Management sees this as positive, and enjoys a cooperative relationship with these unions. VARD aims to secure early involvement and establish a constructive dialogue with all stakeholders concerning issues related to the workforce and its development.

INVESTOR RELATIONS

Mr. Robson Lee, Asst. Honorary Secretary, SIAS, Mr. Chew Sutat, Head of Equities & Fixed Income, Singapore Exchange, and Mr. Holger Dilling at the SIAS Investors' Choice Awards.

"MAINTAINING TRANSPARENT COMMUNICATIONS WITH OUR INVESTORS REMAINS OUR KEY PRIORITY."

Mr. Holger Dilling
EVP Investor Relations and Business Development Asia

The prolonged industry downturn resulting from the sharp fall in oil prices weighed on all oil and gas and offshore marine sector players in 2015. With investments in deep water and harsh environments particularly hard hit, companies primarily catering to this sector saw their businesses come under pressure. For the first time in its history as a listed company, VARD had to announce the termination of contracts. To compound the situation, the Group's Brazilian operations continued to face an uphill battle during the year, further undermining investor confidence in a quick turnaround.

To increase investor awareness and understanding of the profound changes that have taken place, VARD focused its investor relations activities on addressing the key market shifts and ensuing risks, the challenging socio-political climate in Brazil, and the implications of operating amidst a depressed oil price environment. At the end of the year, VARD announced that a new business plan and strategy were under development, focusing on diversification and increased cooperation with the parent group, FINCANTIERI, in order to reduce the Group's dependency on the oil and gas market.

Notwithstanding the upheavals in the market, VARD remains committed in its communication efforts by keeping investors and the broader financial community abreast of the latest corporate developments in a timely and transparent manner, while adhering to the highest standards of corporate governance.

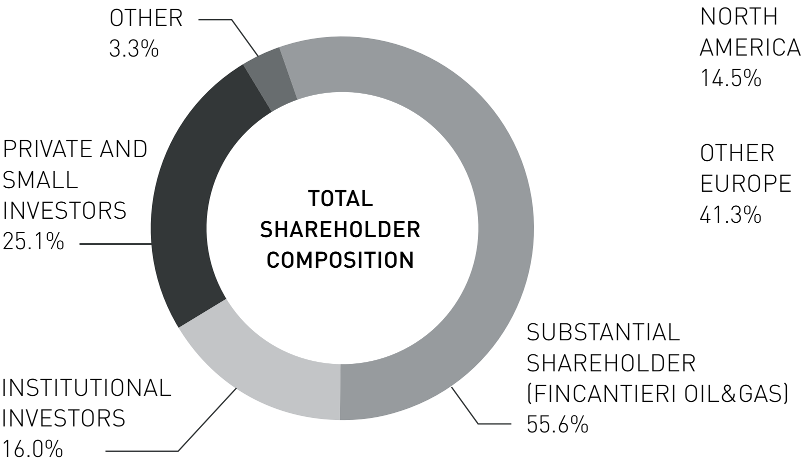
Strong investor communications and corporate governance practice

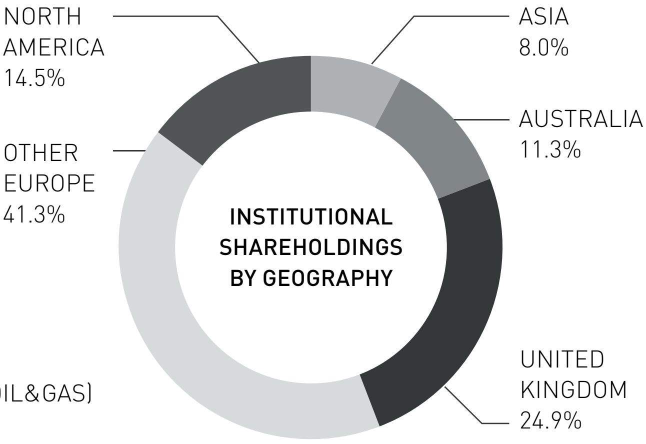
In 2015, VARD was recognized once again for its long-standing effort in the field of investor communications and corporate governance. For the second consecutive year, VARD was honored at the prestigious Securities Investors Association (Singapore) Investors' Choice Awards (SIAS Investors' Choice Awards), this time clinching the Most Transparent Company Award (MTCA) under the Foreign Listings category. The year before, VARD was named runner-up for the MTCA under the same category.

Conducted on an annual basis, the SIAS Investors' Choice Awards aims to honour and recognise public-listed companies for their exemplary corporate governance and transparency practices and is supported by the Singapore Exchange, Institute of Certified Public Accountants of Singapore, CFA Singapore, Investment Management Association of Singapore, Securities Association of Singapore, The Straits Times, The Business Times, Today and Lianhe Zaobao. The selection committee for the award includes a panel of senior representatives from these highly reputable organizations.

Established network with the financial community

With an emphasis on maintaining sustained communications with the international financial community, VARD's investor relations outreach once again spanned across multiple geographies, segments and channels in 2015. Led by key management personnel dedicated to investor relations, VARD actively engages with equity research analysts and fund managers on an ongoing basis, fostering a strong network of relationships developed since the Group's listing in 2010. From its headquarters in Norway, VARD works towards bridging the geographical gap between its global operations





and its international shareholder base by promptly responding to information requests via email and teleconferencing modes. The regular presence of senior management in Singapore for quarterly results announcements also allowed for meetings to be held here throughout 2015 not only with institutional investors, but also with groups of remisiers from various brokerages, in an effort to reach out to private investors and serve their informational needs.

Also addressing the demands of individual shareholders, VARD continued to partner with leading Singapore-based investor lobby group Securities Investors Association (Singapore), or SIAS, to disseminate company information through the investor group's electronic newsletters, and website – which features a VARD-dedicated section. The Group also promptly publishes press releases and announcements via Singapore Exchange's online portal, SGXNET, prior to distribution to international newswires, and financial and local media.

VARD constantly explores new ways to improve corporate transparency. During the launch of its major innovation project in the summer of 2015, VARD added an extension to its company website, www.vard.com. Titled "A step forward", the new section was designed to share more about the Group's vision towards innovation going forward, promoting a greater understanding of VARD's competitive strengths. Similarly, when the Group developed its new business plan and strategy at the end of the year, cornerstones of the new plan were announced and explained to the market in connection with full-year results, highlighting opportunities and prospects beyond the offshore oil and gas market.

Growing investor interest from Europe

VARD's majority shareholder, Fincantieri Oil&Gas, holds 55.6% of the total share capital. The free float is divided between institutional shareholders, including hedge funds, and private and small investors, with no other single shareholder controlling more than 5% of outstanding shares.

Since the listing of its parent company, FINCANTIERI S.p.A., on the Milan stock exchange in 2014, VARD has seen a steady increase in investor interest from Europe, and this trend continued throughout 2015. Notably, at the end of 2015, almost two thirds of the institutional shareholder base stemmed from Europe, including the United Kingdom. Overall investor interest from Asia has declined, with institutional holdings from the region totaling only 8% at the end of the year, surpassed in number by both North America and Australia.

Despite the distribution changes in institutional holdings, management continues actively engaging the investment community in Singapore. A large part of the private and small shareholders, who hold approximately one quarter of all outstanding shares, are domiciled here, and all investors are equally important to VARD.

Towards Excellence in Corporate Governance 2015

OUTLOOK

VARD's core market for offshore and specialized vessels catering to the oil and gas and oil services industries continues to be weak in the short term. Oil prices and OSV fleet utilization have hit ten-year lows, and despite cautious optimism about a possible oil price recovery, newbuild demand in the sector is expected to remain lackluster during 2016 and 2017 on the back of reduced spending in Exploration and Production (E&P), an oversupply of vessels in the market, and a large order book yet to be delivered from shipyards around the world.

Confronted with a bearish outlook for its core market and a rapidly shrinking order book, VARD has embarked on a strategy of diversification into other engineering- and technology-intensive shipbuilding segments in order to reduce its dependency on the offshore oil and gas business during the downturn.

A new business plan has been developed based on this diversification strategy, in addition to an update of the production footprint, a way forward for the operations in Brazil, and initiatives to increase competitiveness of the operations. With the combined effect of these measures, VARD expects to see its top line bottom out in 2016 at NOK 8-9 billion in revenue, and recover to previous highs of NOK 12-13 billion by 2020. Despite the impact of restructuring costs and the market entry into new segments on margins in the short term, the Group expects to record a positive EBITDA margin for 2016.

In the short term, the existing portfolio of contracts in the offshore sectors still presents challenges, with an elevated counterparty risk as shipowners request delivery postponements amid sluggish vessel utilization rates, while banks are aiming to reduce their offshore exposure. At the same time, VARD has set itself ambitious goals with its new business plan.

The market entry into several new market segments, including passenger vessels, Offshore Patrol Vessels (OPVs), offshore wind, and aquaculture, requires building dedicated resources and know-how in concept development, design, and sales and marketing for these vessel segments. An increased focus on the offshore market in the Middle East also entails establishing a local presence in the region. With the signing of a Letter of Intent for the design and construction of four exploration cruise vessels, VARD has demonstrated that leading ship owners recognize and put their trust in the Group's capabilities. Notwithstanding this early success, other vessel segments may require more time and effort to develop.

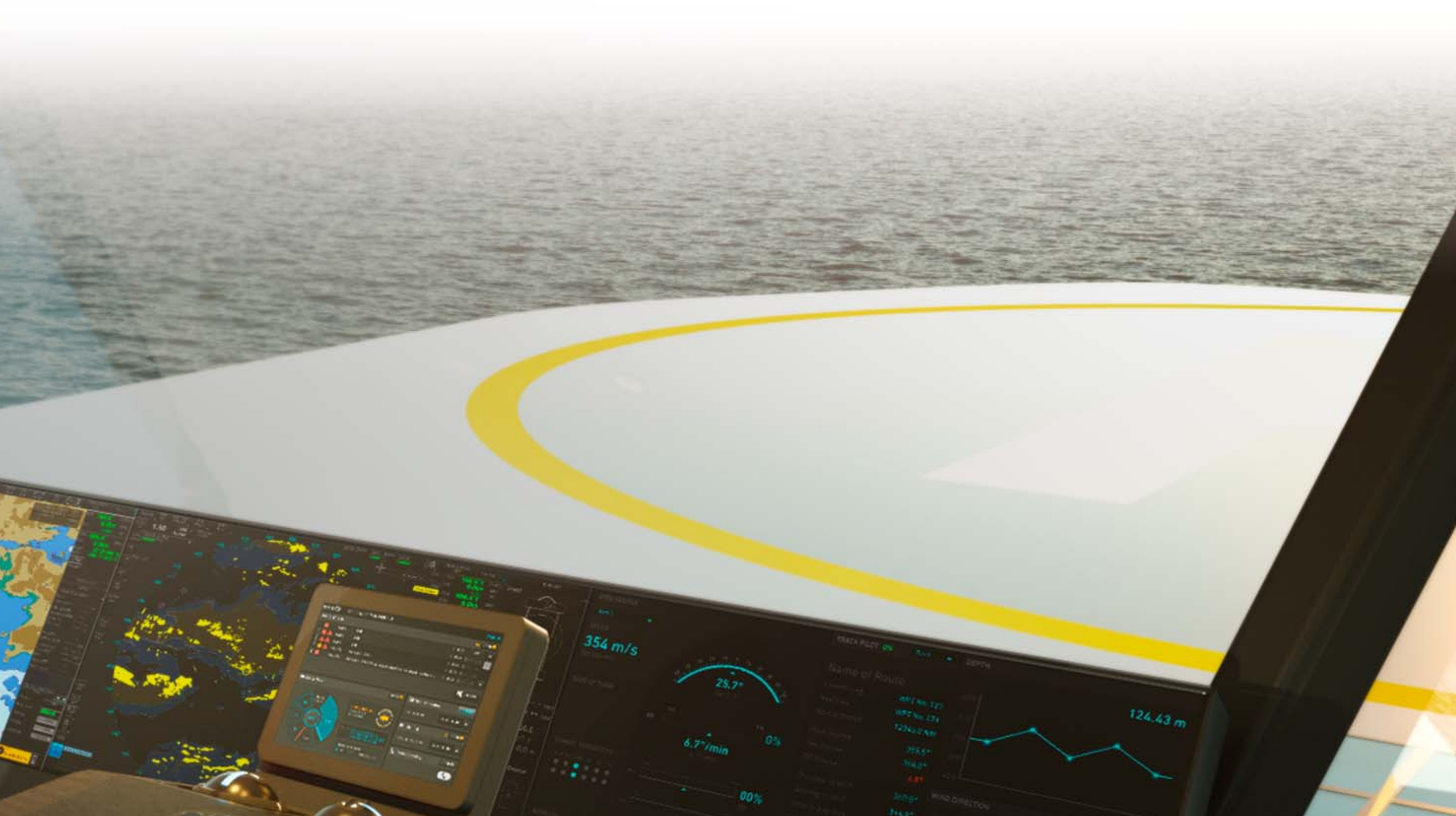
Improving cost competitiveness is critical for VARD to succeed in both core and new markets. Continued focus is placed on the rightsizing of the organization, while cost and efficiency improvement programs are being accelerated. Further optimization of the design and engineering processes is required in order to increase efficiency and quality, while the sourcing model is being reviewed with the goal of strengthening procurement efficiency.

An update of the production footprint is part of the new strategy and business plan, which re-designates Vard Aukra in Norway to focus on new business opportunities in the aquaculture sector. Three of the other yards in Norway, Vard Brattvaag, Vard Langsten and Vard Søviknes, will continue to concentrate on highly specialized vessels, while Vard Brevik will also focus on developing new business opportunities.

Both Romanian yards, Vard Tulcea and Vard Braila, will develop capabilities to deliver complete vessels of lower complexity, while Vard Tulcea will also maintain its key role as a highly cost-effective hull production facility, catering both to VARD and to the construction of hull sections for FINCANTIERI cruise projects. The hull production for FINCANTIERI is expected to secure a base load utilization for the Romanian yards in the years to come. Both yards will also gradually assume an increased scope of work for VARD's European projects, in order to lower the Group's average cost position. Developing the organization and managing the comprehensive change program to implement the strategic shift sketched out in the new business plan will be the key to success for VARD going forward.

As in prior years, the performance of the Brazilian shipyards is crucial to the Group's overall performance. VARD has a long-term ambition to remain a key player in the Brazilian shipbuilding industry, supporting the local oil and gas sector. Vard Promar is one of the most modern shipbuilding facilities in South America, and with a proven expertise to build complex OSVs locally and few yards remaining in Brazil with similar capabilities, the Group is well positioned to win new contracts.

Local content requirements are expected to continue driving demand for Brazilian built vessels. With a short-term focus on completion of the current challenging order book, and the phasing out of shipbuilding operations in Niterói, VARD is laying the groundwork for a continued presence in Brazil with operations adapted to local market demand in a stabilizing local environment.



CORPORATE INFORMATION

BOARD OF DIRECTORS
Giuseppe Bono, Chairman and Non-Executive Director
Roy Reite, Chief Executive Officer and Executive Director
Vittorio Zane, Executive Director (appointed on 28 April 2015)
Keen Whye Lee, Lead Independent Director
Sung Hyon Sok, Independent Director
Pier Francesco Ragni, Non-Executive Director

AUDIT COMMITTEE
Keen Whye Lee, Chairman
Sung Hyon Sok
Pier Francesco Ragni

NOMINATING COMMITTEE
Sung Hyon Sok, Chairman
Keen Whye Lee
Vittorio Zane (Appointed on 28 April 2015)

REMUNERATION COMMITTEE
Sung Hyon Sok, Chairman
Keen Whye Lee
Pier Francesco Ragni (Appointed on 1 June 2015)

SECRETARY
Elizabeth Krishnan

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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 FY2015 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)]	8	6	N/A	N/A	0	0	3	2
Roy Reite	8	8	N/A	N/A	N/A	N/A	N/A	N/A
Fabrizio Palermo[2)]	2	1	N/A	N/A	2	1	N/A	N/A
Vittorio Zane[3)]	5	5	N/A	N/A	N/A	N/A	1	1
Pier Francesco Ragni[4)]	8	8	6	6	1	1	N/A	N/A
Sung Hyon Sok	8	8	6	6	3	3	4	4
Keen Whye Lee	8	8	6	6	3	3	4	4

N/A: Not Applicable

1) Mr. Giuseppe Bono ceased to be a member of the NC w.e.f. 28 April 2015. He was a member of the RC from 28 April 2015 to 1 June 2015.
2) Mr. Fabrizio Palermo retired as a director at the Annual General Meeting held on 28 April 2015.
3) Mr Vittorio Zane was appointed as a director and a member of the NC w.e.f 28 April 2015.
4) Mr. Pier Francesco Ragni was appointed as a member of the RC w.e.f. 1 June 2015.

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 auditing and financial reporting matters 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, who was appointed on 28 April 2015, is also an executive director of the Company. The other members of the Board, Messrs Giuseppe Bono and Pier Francesco Ragni, are non-executive non-independent directors. Mr. Giuseppe Bono 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 to 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 (appointed on 28 April 2015). 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 appointment of Mr. Vittorio Zane as an executive director. 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 will provide 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. Pier Francesco Ragni (appointed on 1 June 2015). 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.

The objective of the Company's share option scheme (the "Scheme") is to enable the Company to use share options as part of a compensation plan for attracting quality employees as well as promoting staff retention by providing an opportunity for eligible Group employees to participate in the equity of the Company. The Scheme is administered by the RC. There are no outstanding share options granted under the Scheme. Details on the Scheme are provided in the Directors' Statement.

DISCLOSURE OF REMUNERATION PAID TO DIRECTORS AND KEY EXECUTIVES

A breakdown showing the level and mix of each individual director's remuneration paid for FY2015 (in percentage terms) is as follows:

Name of Director	Remuneration[1]	Fees[2] (%)	Salary[3] (%)	Bonus[3] (%)	Other Benefits[4] (%)	Total (%)
Roy Reite	S$953,000	0%	74%	20%	6%	100%
Giuseppe Bono	S$524,000*	100%	0%	0%	0%	100%
Vittorio Zane[5]	S$203,000	0%	99%	0%	1%	100%
Pier Francesco Ragni	S$66,000	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 FY2015. Bonus disclosed in relation to FY2014 paid in 2015.
4) Other benefits are inclusive of allowances and pensions.
5) Mr. Vittorio Zane was appointed as an executive director on 28 April 2015.

* 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	85%	12%	3%	100%
Magne Håberg	86%	12%	2%	100%
Knut Ola Tverdal	86%	12%	2%	100%
Stig Bjørkedal	86%	12%	2%	100%
Holger Dilling	87%	12%	1%	100%
Geir Ingebrigtsen	94%	5%	1%	100%

a) Salary relates to FY2015. Bonus disclosed in relation to FY2014 paid in 2015.
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$2,855,647. Non-executive directors are not entitled to such benefits. The total remuneration paid to the Top Six Executives in FY2015 amounted to S$2,382,077.

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 2015. 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. Pier Francesco Ragni 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 had reviewed all non-audit services provided by PricewaterhouseCoopers LLP and is of the view that fees for non-audit services provided are immaterial and would not affect the independence of the external auditors.

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 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 recognises 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 2015 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 FY2015.

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 ("IPTS")

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		
Agreement for construction of hull blocks to FINCANTIERI	-	45,743,047
Service agreement	-	2,296,560
Sale of electrical equipment to FINCANTIERI	-	93,675,000
Sale of electrical package to FINCANTIERI	-	4,100,000
Secondment of personnel to VARD	-	6,463,768
Secondment of personnel to FINCANTIERI	-	6,591,799
Rental of barge from FINCANTIERI	-	7,461,733
Agreement regarding extension of barge	-	201,400,000
Support service to yard management in VARD	-	2,079,308
Total	**-**	**369,811,215**

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	57	8	-
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**	**566**	**8**	**32**

The total amount utilized as at 31 December 2015 is NOK 574 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 PwC AS, Ernst & Young AS, BDO AS, Deloitte AS, Revisjonsselskapet AS 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 2015. 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 Bono, Chairman
Mr. Roy Reite, Chief Executive Officer and Executive Director
Mr. Vittorio Zane, Executive Director
Mr. Pier Francesco Ragni, Non-Executive Director
Mr. Keen Whye Lee, Lead Independent Director
Mr. Sung Hyon Sok, Independent Director

In the opinion of the directors:

a) the financial statements and the consolidated financial statements set out on pages 54 to107 are drawn up so as to give a true and fair view of the financial position and performance of the Group and of the Company as at 31 December 2015 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; 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 Bono		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	80,000	88,000
Mr. Pier Francesco Ragni		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	16,000	17,600
Mr. Vittorio Zane (appointed on 28 April 2015)		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	8,000	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 2016.

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

At the Extraordinary General Meeting held on 27 April 2011, a share option scheme (the "Scheme") for employees (including the Chief Executive Officer) of the Company and its subsidiaries, was approved by the shareholders.

The Scheme is administered by the Remuneration Committee (the "Committee") comprising Mr. Sung Hyon Sok, Mr. Keen Whye Lee and Mr. Pier Francesco Ragni (appointed on 1 June 2015).

There were no outstanding options as at 1 January 2015. No options were granted during FY2015.

5. AUDIT COMMITTEE

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

- Mr. Keen Whye Lee (Chairman), Lead Independent Director
- Mr. Sung Hyon Sok, Independent Director
- Mr. Pier Francesco Ragni, Non-Executive Director

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

Giuseppe Bono

Mr Giuseppe Bono
Chairman of the Board

Mr. Roy Reite
Chief Executive Officer and Executive Director

29 March 2016

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Vard Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 107, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

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.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 29 March 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in NOK millions unless otherwise stated)

		Group		Company	
	Note	2015	2014	2015	2014
ASSETS					
Non-current assets					
Property, plant and equipment	4	2,382	2,535	-	-
Intangible assets	5	429	338	-	-
Investment in subsidiary	6	-	-	2,142	2,142
Investment in associates	7	341	327	-	-
Other investments	8	39	61	-	-
Interest-bearing receivables, non-current	9	492	336	656	632
Non-current derivatives	31	-	1	-	-
Other non-current assets	10	35	55	-	-
Deferred tax assets	11	42	133	-	-
Total non-current assets		**3,760**	**3,786**	**2,798**	**2,774**
Current assets					
Inventories	14	752	466	-	-
Construction WIP in excess of prepayments	15	12,451	9,200	-	-
Trade and other receivables	16	878	1,599	79	49
Current derivatives	31	331	400	-	-
Other current assets	16	1,316	1,466	-	-
Interest-bearing receivables, current	9	488	530	129	70
Cash and cash equivalents	17	919	2,002	4	10
Total current assets		**17,135**	**15,663**	**212**	**129**
Total assets		**20,895**	**19,449**	**3,010**	**2,903**
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	531	262	-	-
Retained earnings	18	2,319	2,922	280	170
Total equity attributable to equity holders of the Company		**3,798**	**4,132**	**3,007**	**2,897**
Non-controlling interests	12	(837)	(268)	-	-
Total equity		**2,961**	**3,864**	**3,007**	**2,897**
Non-current liabilities					
Loans and borrowings, non-current	19,31	1,200	1,204	-	-
Deferred tax liabilities	11	79	72	-	2
Non-current derivatives	31	12	47	-	-
Other non-current liabilities	20	22	3	-	-
Provisions, non-current	21	96	126	-	-
Total non-current liabilities		**1,409**	**1,452**	**-**	**2**
Current liabilities					
Loans and borrowings, current	19,31	834	406	-	-
Construction loans	19,31	9,435	7,663	-	-
Prepayments in excess of construction WIP	15	392	848	-	-
Trade and other payables	22	2,141	2,418	2	1
Current derivatives	31	3,238	2,180	-	-
Income tax payable		26	192	1	2
Provisions, current	21	116	171	-	-
Other current liabilities	23	343	255	-	1
Total current liabilities		**16,525**	**14,133**	**3**	**4**
Total liabilities		**17,934**	**15,585**	**3**	**6**
Total equity and liabilities		**20,895**	**19,449**	**3,010**	**2,903**

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	2015	2014
Revenue	24,30	11,307	12,923
Materials and subcontract costs		(8,561)	(9,457)
Salaries and related costs	25,35	(2,461)	(2,486)
Other operating expenses	26	(606)	(551)
Depreciation, impairment and amortization	4,5	(235)	(189)
Restructuring cost	13	(77)	-
Operating profit/(loss)		**(633)**	**240**
Financial income	27	295	204
Financial costs	27	(866)	(241)
Net		**(571)**	**(37)**
Share of results of associates, net of tax	7	-	35
Profit/(loss) before tax		**(1,204)**	**238**
Income tax expense	28	(88)	(188)
Profit/(loss) for the year		**(1,292)**	**50**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		417	120
Income tax on other comprehensive income	28	(42)	1
Items that may not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in associated companies	7	(3)	(25)
Other comprehensive income for the year, net of income tax		**372**	**96**
Total comprehensive income/(loss) for the year		**(920)**	**146**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		(603)	349
Non-controlling interests	12	(689)	(299)
Profit/(loss) for the year		**(1,292)**	**50**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(334)	444
Non-controlling interests	12	(586)	(298)
Total comprehensive income/(loss) for the year		**(920)**	**146**
Earnings/(loss) per share (expressed in NOK)			
Attributable to Equity holders of the Company			
Basic	29	(0.51)	0.30
Diluted	29	(0.51)	0.30

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	Currency translation reserve	Fair value 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**

Group	Paid up capital	Restructuring reserve	Currency translation reserve	Fair value reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
At 1 January 2014	**4,138**	**(3,190)**	**-**	**167**	**2,573**	**3,688**	**20**	**3,708**
Comprehensive income								
Profit for the year	-	-	-	-	349	349	(299)	50
Other comprehensive income/(loss)	-	-	120	(25)	-	95	1	96
Total comprehensive income/(loss)	**-**	**-**	**120**	**(25)**	**349**	**444**	**(298)**	**146**
Transactions with owners								
Cash subscribed by non-controlling shareholders	-	-	-	-	-	-	10	10
Total transaction with owners	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**10**
At 31 December 2014	**4,138**	**(3,190)**	**120**	**142**	**2,922**	**4,132**	**(268)**	**3,864**

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

CONSOLIDATED STATEMENT OF CASH FLOW

(All amounts in NOK millions unless otherwise stated)

		Group	
	Note	2015	2014
Operating activities			
Profit before tax		(1,204)	238
Adjustments for:			
Net interest expense/(income)		51	(14)
Gain on disposal of property, plant and equipment and shares, net		(1)	(15)
Unrealized foreign exchange loss		380	64
Depreciation, impairment and amortization		235	189
Change in pension assets and liabilities		(1)	1
Share of results of associates, net of tax		-	(35)
Operating cash flows before movements in working capital		**(540)**	**428**
Inventories		(286)	(85)
Construction work in progress		(3,079)	(2,801)
Proceeds from construction loans		5,415	9,678
Repayment of construction loans		(4,053)	(7,083)
Other assets		933	(1,435)
Other liabilities		738	2,283
Provisions		(85)	(97)
Cash generated from/(used in) operations		**(957)**	**888**
Interest received		23	18
Interest paid		(61)	(7)
Income tax paid		(189)	(209)
Cash flows from/(used in) operating activities		**(1,184)**	**690**
Investing activities			
Proceeds from disposal of property, plant and equipment		2	1
Purchase of property, plant and equipment		(246)	(367)
Purchase of intangible assets		(30)	(17)
Issuance of new non-current interest bearing receivables		(8)	(40)
Proceeds from repayment of non-current interest bearing receivables		1	-
Issuance of new short-term interest-bearing receivables		(3)	(467)
Proceeds from repayment of short-term interest-bearing receivables		30	119
Acquisition of subsidiary, net of cash acquired	32	(45)	(61)
Investment in equity interest in associates		(12)	(33)
Cash flows used in investing activities		**(311)**	**(865)**
Financing activities			
Proceeds from loans and borrowings		604	682
Repayment of loans and borrowings		(385)	(259)
Cash subscribed by non-controlling shareholders		-	10
Cash flows from financing activities		**219**	**433**
Net increase in cash and cash equivalents		**(1,276)**	**258**
Effects of currency translation difference on cash and cash equivalents		30	45
Cash and cash equivalents at beginning of financial year		1,966	1,663
Cash and cash equivalents at end of financial year		**720**	**1,966**
Restricted cash at end of financial year		199	36
Cash and cash equivalents at end of financial year including restricted cash	**17**	**919**	**2,002**

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 authorised for issue by the Board of Directors on 29 March 2016.

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 2015 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 upon considering the post balance sheet events in Note 38, including the conclusion of the slot reservation agreement with the intermediate holding corporation.

(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.

The Group has eight construction projects at the Brazilian yards. At both the yards, there has been significant cost overruns because of additional man-hours and postponed delivery dates compared with the forecast at the beginning of the year. One of the vessels is delivered after the balance sheet date, and additional three vessels are near completion when these financial statements are authorised for issue. For these projects the remaining uncertainty is limited. For the remaing four projects, management considers the estimates as more uncertain than estimates 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, goodwill is tested annually for impairment or more frequently when there is an indication of a possible impairment. The recoverable amount of a cash generating unit is estimated each year at the same time. The recoverable amount of a cash generating unit 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 losses at the Brazilian yards, impairment indicators have been identified for property, plant and equipment. At Vard Niterói, impairment charges of NOK 28 million have been recognised. The impaired assets are expected to be sold, and the recoverable amount has been estimated based on fair value less cost to sell.

For Vard Promar, an impairment test has been performed for the carrying amount of all property plant and equipment. 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 approved business plan for the period 2016 – 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. The recoverable amount has been estimated to NOK 1,185 million, compared to a carrying amount of NOK 957 million.

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: 5%
- Weighted average cost of capital (WACC) 15% (Pre tax discount rate:18%)

The estimated recoverable amount is most sensitive to changes in the assumed margin in the terminal year. If the assumed margin was reduced to 4.0%, an impairment charge of approximately NOK 80 million would be required.

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. The carrying amount of income tax payable at 31 December 2015 is NOK 26 million.

Vard Niterói SA has received a tax claim of appoximately NOK 200 million pluss 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 recognised 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 project risks and uncertainties, 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.

Changes in accounting policies
With effect from 1 January 2015, 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 2015. 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 recognised 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 recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

Any contingent consideration payable is recognised 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 recognised 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 recognised 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 recognised 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 recognised at the carrying amounts recognised 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 recognised directly in equity.

NOTES

(All amounts in NOK millions unless otherwise stated)

Loss of control

Upon the loss of control, the Group derecognises 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 recognised 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 recognised 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 recognised in profit or loss, except for the following differences which are recognised 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 recognised 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 recognised 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 recognised in other comprehensive income, and are presented in the translation reserve in equity.

(C) FINANCIAL INSTRUMENTS
Non-derivative financial assets
The Group initially recognises 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 recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises 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 recognised 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 recognised 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 recognised 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
If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale. It would also prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

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 recognised 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-flows, 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 recognised 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 recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, 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 recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises 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 recognised 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 recognised 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 recognised 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 recognised initially at fair value; attributable transaction costs are recognised 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 recognised in profit or loss. The fair value changes on the effective portion of currency forwards designated as fair value hedges are recognised 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 recognised 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 recognised 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 recognised.

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

There are no cash flow hedges at the reporting date.

NOTES

(All amounts in NOK millions unless otherwise stated)

Intra-group financial guarantees in the separate financial statemements
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 recognised 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 recognised 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.

(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 labour;
- 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 recognised net within other income/other expenses in profit or loss.

Vessels
Vessels and vessels under construction owned by associated companies are initially recognised 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 recognised in other comprehensive income, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in profit or loss as results from investments in associated companies. Decreases in carrying amounts that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases in carrying amounts are recognised in profit or loss.

Subsequent costs
The cost of replacing a component of an item of property, plant and equipment is recognised 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 derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised 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 recognised 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 recognised 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 25-30 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 recognised 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 labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognised 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 recognised in profit or loss as incurred.

NOTES

(All amounts in NOK millions unless otherwise stated)

Amortization

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

Amortization is recognised 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:

- 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 recognised 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 labour, 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 recognised 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 recognised 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 recognised 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 recognised as an expense immediately.

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

Where progress billings exceed the cumulative costs incurred plus recognised profits (less recognised 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 recognised in profit or loss and reflected in an allowance account against loans and receivables or securities. Interest on the impaired asset continues to be recognised. 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 recognised 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 recognised 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 recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised 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 recognised 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (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 recognised 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 recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised 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 recognised in profit or loss. Gains are not recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised as finance cost.

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

Restructuring
A provision for restructuring is recognised 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 recognised 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 recognised as follows:

Revenue from construction contracts
Contract revenue is recognised 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 recognised 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 recognised when risk and rewards is transferred to the customer.

Rendering of services
Revenue from rendering of services is recognised 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 recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

NOTES

(All amounts in NOK millions unless otherwise stated)

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 finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised 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 recognised using the Group's incremental borrowing rate.

Contingent rents are recognised 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 or 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 recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised 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 recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

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

(Q) TAX
Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:
- 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 recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be 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 dilluted 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. Dilluted 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 2016 or later periods and which the Group has not early adopted:

FRS 115 *Revenue from contracts with customers*
The core principle of FRS 115 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The standard is applicable for all revenue contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). The Group has not finalized the analysis of the consequences of the new standard. The new standard will be implemented on the effective date 1 January 2017.

FRS 109 *Financial intruments,* will replace FRS 39 Financial Instrument: Recognition and Measurement. The Group has not finalized the analysis of the consequences of the new standard. The new standard will be implemented on the effective date 1 January 2018.

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 2014	979	963	63	234	960	3,199
Additions	190	51	8	2	121	372
Acquisitions through business combinations	3	-	-	-	-	3
Disposals	(44)	(11)	(1)	-	-	(56)
Reclassifications	293	551	44	256	(1,144)	(0)
Currency translation differences	82	74	5	12	86	259
At 31 December 2014	**1,503**	**1,628**	**119**	**504**	**23**	**3,777**
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**
Accumulated depreciation and impairment						
At 1 January 2014	582	395	2	53	-	1,032
Depreciation	128	44	1	9	-	182
Disposals	(43)	(6)	-	-	-	(49)
Currency translation differences	48	32	-	(3)	-	77
At 31 December 2014	**715**	**465**	**3**	**59**	**-**	**1,242**
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	(53)	16	-	(1)	-	(38)
At 31 December 2015	**790**	**560**	**4**	**71**	**-**	**1,425**
Carrying amounts						
At 1 January 2014	**397**	**568**	**61**	**181**	**960**	**2,167**
At 31 December 2014	**788**	**1,163**	**116**	**445**	**23**	**2,535**
At 31 December 2015	**667**	**1,096**	**109**	**405**	**105**	**2,382**

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

At 31 December 2015, PPE of the Group with the carrying amount of NOK 1,518 million (2014: NOK 2,133 million) are pledged as security to secure the Group's borrowings (see Note 19). This involves all categories of PPE for the Norwegian, and Brazilian yards and parts of PPE for Vard Tulcea.

Included within the addition in 2015 is NOK 0 million (2014: NOK 18 million) of borrowing costs capitalized for the construction of the new yard.

Impairment loss
In FY2015, the impairment loss of NOK 28 million in Machinery and Vehicles was related to asset write-down of assets in Niterói, Brazil. The assets written down are assets that are expected to be sold with a loss, as the shipbuilding activities at the yard will be phased out.

5 Intangible assets

Group	Goodwill	Other intangibles	Total
Cost			
At 1 January 2014	470	39	509
Additions acquired separately	-	21	21
Acquisition of subsidiaries	15	5	20
Currency translation differences	(1)	3	2
At 31 December 2014	**484**	**68**	**552**
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**
Accumulated amortization and impairment losses			
At 1 January 2014	176	28	204
Amortization for the year	-	8	8
Currency translation differences		2	2
At 31 December 2014	**176**	**38**	**214**
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**
Carrying amounts			
At 1 January 2014	**294**	**11**	**305**
At 31 December 2014	**308**	**30**	**338**
At 31 December 2015	**334**	**95**	**429**

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

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**

Business entities	CGU:	Balance at 01.01.14	Additions	Currency translation differences	Balance at 31.12.14
Vard Group AS including the Romanian sub-group	CGU 1	294	-	-	294
Vard Marine	CGU 2	-	15	(1)	14
Total		**294**	**15**	**(1)**	**308**

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(All amounts in NOK millions unless otherwise stated)

IMPAIRMENT TESTS FOR GOODWILL

The Group has defined three CGUs with goodwill which are its shipyards in Norway and Romania (CGU 1) and Vard Marine (CGU 2), and ICD Software (CGU 3). 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 2016 to 2020 (2014: 2015 to 2019). 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 2015 are 7.6% (at 31 December 2014: 8.1%). Terminal growth rate of 2.0% (2014: 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 2016, 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 2015 are 7.7%. Terminal growth rate of 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 2016, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

With regards of CGU 3, ICD Software, no impairment test 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	
	2015	**2014**
Unquoted shares, at cost		
At 1 January and end of financial year	2,142	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	
	2015	2014	2015	2014	2015	2014
Share of profit or loss from continuing operations.	**2**	**32**	**(2)**	**3**	**-**	**35**
Share of other comprehensive income	(3)	(25)	-	-	(3)	(25)
Share of total comprehensive income	**(1)**	**7**	**(2)**	**3**	**(3)**	**10**
Opening balance	**296**	**365**	**31**	**18**	**327**	**383**
Share of total comprehensive income	(1)	7	(2)	3	(3)	10
Shares in associated companies aquired/capital contributions made	11	22	1	10	12	32
Shares in associated companies sold	-	(98)	-	-	-	(98)
Reclassifications	5	-	-	-	5	-
Balance period end	**311**	**296**	**30**	**31**	**341**	**327**

		Ownership interest	
Associated companies	**Industry**	**31.12.15**	**31.12.14**
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%	0%
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

	Group	
Non-current investments	**2015**	**2014**
Available for sale financial assets:		
- Equity securities	39	61
Total	**39**	**61**

	Share %	2015	Share %	2014
REM Offshore ASA	5%	30	5%	52
Moldekraft AS	8%	5	8%	5
Klosterøya Vest Holding AS	6%	3	6%	3
Shares in other companies		1		1
Total		**39**		**61**

The equity securities have been subject to a fair value assessment, and an impairment of the shares in REM Offshore ASA of NOK 22 million has been recognised.

9 Interest-bearing receivables

	Group					
	2015			2014		
	Lowest interest rate	Highest interest rate	Amounts	Lowest interest rate	Highest interest rate	Amounts
Non-current						
Interest-bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR + 2%	82	NIBOR + 2%	NIBOR + 2%	58
- Third parties	NIBOR + 2%	NIBOR + 3%	410	NIBOR + 2%	NIBOR + 3%	278
Total			**492**			**336**
Current						
Interest-bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR +2%	4	NIBOR + 2%	NIBOR + 3,75%	22
- Third parties	EURIBOR + 1%	NIBOR + 3%	484	EURIBOR + 1%	NIBOR + 3%	508
Total			**488**			**530**

The non-current receivables due from third parties relates to seller credits to customers. NOK 481 million (2014: NOK 452 million) of the current receivables relates to a cash collateral placed with Nordea as security for negative MtM value related to FX derivatives. The majority of the remaing current receivables relates to seller credits.

	Company			
	2015		2014	
	Interest rate	Amounts	Interest rate	Amounts
Non-current				
Non-current interest–bearing receivables due from Vard Group AS	3m NIBOR + 2%	656	3m NIBOR + 2%	632
Current interest–bearing receivables due from Vard Group AS	3m NIBOR + 2%	120	3m NIBOR + 2%	70
Current interest–bearing receivables due from Vard Shipholding Singapore Pte Ltd	3m NIBOR + 2%	9	N/A	-

The non-current interest-bearing receivables consists of a loan that is repayable based on 3 months (2014: 3 months) written notice. The loan is not expected to be repaid in 2016.

10 Other current and non-current assets

	Group	
Other non-current assets	**2015**	**2014**
Prepayments	2	17
Deposits	12	3
VAT, taxes & other social expenses	10	18
Pension assets	-	1
Other assets	11	16
Total	**35**	**55**

	Group	
Other current assets	**2015**	**2014**
Firm commitments hedge accounting	1,281	1,427
Prepayments	35	39
Total	**1,316**	**1,466**

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

Group	Property, plant and equipment	Project under construction	Tax losses	Receivables	Provisions	Others	Total
At 1 January 2014	8	(125)	83	1	55	(4)	18
(Charged)/credited to profit or loss	19	3	29	(1)	(10)	(1)	39
Currency translation differences	-	-	4	-	-	-	4
At 31 December 2014	**27**	**(122)**	**116**	**-**	**45**	**(5)**	**61**

Of which presented as assets	133
Of which presented as liabilities	(72)
Total	**61**

B) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of unreocognised tax losses amounting to NOK 685 million (2014: NOK 389 million), which do not have expiry dates. Deferred tax assets have not been recognised 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 summarised 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**	
	2015	**2014**	**2015**	**2014**
Ownership interest/voting rights held by non-controlling interests	49.5%	49.5%	49.0%	49.0%
Profit/(loss) allocated to non-controlling interests	(683)	(268)	(5)	(12)
Accumulated non-controlling interest at period end	(856)	(274)	18	6
Revenues	1,989	1,186	221	159
Profit/(loss)	(1,380)	(542)	(24)	(24)
Total comprehensive income/(loss)	(1,172)	(540)	(24)	(24)
Cash flow operations*	(1,287)	238	17	(17)
Cash flow investing	(129)	(178)	(56)	(9)
Cash flow financing	1,264	241	49	19
Non-current assets	981	1,258	105	36
Current assets	2,637	1,673	133	133
Non-current liabilities**	942	861	50	12
Current liabilities***	4,406	2,626	135	145

* Cash flow operations for Vard Promar include NOK 972 million (2014: NOK 1195 million) in increased contructions loans.

** Non-current liabilities for Seaonics includes NOK 23 million (2014: NOK 12 million) in loans from other Group companies.

*** Current liabilities includes NOK 705 million (2015: NOK 175 million) in short term loans and payables from other Group companies.

The non controlling interests in Vard Promar S.A. and 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

Restructuring cost	**Group** **2015**	**2014**
Termination benefits	58	-
Statutory payments for temporary lay-offs	10	-
Other expenses related to reduced capacity	9	-
Total	**77**	**-**

NOTES

(All amounts in NOK millions unless otherwise stated)

14 Inventories

	Group	
Inventories comprise the following items:	**2015**	**2014**
Raw materials	337	414
Work in progress	182	50
Finished goods	233	2
Total	**752**	**466**

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. Finished goods includes one completed vessel. No inventories are pledged as security for borrowings.

15 Construction work in progress

	Group	
	2015	**2014**
Aggregate costs incurred and attributable profits recognised (less losses recognised) to-date	15,120	12,460
Progress billings	(3,061)	(4,108)
Total	**12,059**	**8,352**
Presented as:		
Current asset	12,451	9,200
Current liability	(392)	(848)
Total	**12,059**	**8,352**
Advances received on construction contracts	3,061	4,108
Provisions for loss on contracts	(1,468)	(1,004)

No retention sums are included in progress billings.

	Group	
Provisions for loss on contracts	**2015**	**2014**
At 1 January	1,004	924
Additional provisions	1,076	976
Amounts used	(487)	(705)
Currency translation differences	(125)	-
Unused amounts reversed during the year	-	(191)
At 31 December	**1,468**	**1,004**

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	
	2015	**2014**
Trade receivables (a)	220	310
Allowance for impairment of trade receivables	(8)	(45)
Total	**212**	**265**
Advances to suppliers	337	1,034
VAT and tax receivables	208	259
Receivables from related parties (b)	62	23
Other receivables (c)	59	18
Total	**878**	**1,599**

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 79 million (2014: NOK 49 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	
	2015	**2014**	**2015**	**2014**
Short-term investments with maturity less than three months	4	66	-	-
Cash and bank deposits	716	1,900	4	10
Cash and cash equivalents reported in statement of Cash Flows	**720**	**1,966**	**4**	**10**
Restricted cash	199	36	-	-
Cash and cash equivalents reported in Statement of Financial Position	**919**	**2,002**	**4**	**10**

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 2015		2014	
	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 FY2015. 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 derecognised or impaired.

Share option reserve
Share option reserve represents the equity-settled share options. The reserve is made up of the cumulative value of services received from employees relating to such awards.

COMPANY
Restructuring reserve
The restructuring reserve presented in the Company's statement of financial position at 31 December 2015 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 FY2015 the Company did not pay any dividends to owners of the company (NOK 0 million in FY2014). The Directors have not recommended a payment of a dividend for FY2015.

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	
	2015	**2014**
Current		
Current facilities (A)	595	257
First year installment non-current term loans (B)	239	149
Current loans and borrowings	**834**	**406**
Construction loans (C)	9,435	7,663
Total current loans and borrowings	**10,269**	**8,069**
Non-current		
Non-current term loans (B)	**1,200**	**1,204**
Total loans and borrowings	**11,469**	**9,273**

(A) CURRENT FACILITIES

	Interest rates 2015		2015		2014	
	Lowest	**Highest**	**Total facility**	**Drawn amount**	**Total facility**	**Drawn Amount**
Current facilities						
- Norway	2.45%	5.45%	154	154	6	6
- Romania	2.80%	2.80%	95	66	-	-
- Brazil	4.30%	16.00%	375	375	251	251
Total			**624**	**595**	**257**	**257**
Fixed interest rates	4.30%	5.90%	147	147	161	161
Variable interest rates	2.45%	16.00%	477	448	96	96
Total			**624**	**595**	**257**	**257**

Norway
Vard Group AS has a EUR 15 million uncommitted facility with Santander, with a 3 month rolling period, 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 2016, while Vard Braila SA has a EUR 1 million facility with Garanti Bank.

Brazil
Vard Promar SA has a BRL 100 million facility with Santander, with a 6 month rolling period (January and June), that in January 2016 has been renewed until July 2016. Vard Niteroi SA has a USD 15 million loan with Banco Itau, which will be repaid at delivery of the vessel PRO33 (2Q 2016).

NOTES

(All amounts in NOK millions unless otherwise stated)

(B) TERM LOANS

	Interest rates 2015		2015		2014	
	Lowest	Highest	Non-current portion	Current portion	Non-current portion	Current portion
Term loans						
- Norway	3.13%	4.10%	165	72	201	32
- Singapore	1.38%	1.38%	40	13	56	-
- Romania	2.75%	2.75%	66	66	120	60
- Brazil	2.50%	8.70%	929	88	827	57
Total			**1,200**	**239**	**1,204**	**149**
Fixed interest rates	2.50%	8.70%	1,070	179	981	82
Variable interest rates	1.38%	3.85%	130	60	223	67
Total			**1,200**	**239**	**1,204**	**149**

Norway

Vard Group AS has seven secured loans with Innovation Norway as of 31 December 2015 (2014: seven), for the total amount of NOK 160 million (2014: NOK 177 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 37 million with Nordea maturing in 2017. The loan is secured by collateral of fixed assets in Vard Group AS. In addition during 2015 Vard Electro secured a loan with SMN for an overall amount of NOK 85 million, that was partially drawn at NOK 41 million by year end 2015. The loan is aimed at funding the investment of the new headquarter for Vard Electro and has an amortizing repayment schedule with maturity in 2032.

Singapore

The long term Nordea Bank credit, currently at USD 6 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 13 million term loan with Unicredit. The loan matures in 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 115 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 2015		2015			2014		
	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	2.93%	3.23%	5,992	-	7,110	4,624	-	7,110
- Singapore	2.43%	2.43%	115	-	705	137	-	297
- Brazil	2.50%	9.40%	3,328	-	3,825	2,902	-	5,044
Total			**9,435**	**-**	**11,640**	**7,663**	**-**	**12,451**
Fixed interest rates	2.40%	4.45%	2,110			2,472		
Variable interest rates	2.43%	9.40%	7,325			5,191		
Total			**9,435**			**7,663**		

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 7.11 billion (2014: 7.11 billion) comprises a facility of NOK 4.95 billion (2014: NOK 4.95 billion) with Nordea, NOK 1.20 billion (2014: NOK 1.20 billion) with DNB, and NOK 0.96 billion (2014: NOK 0.96 billion) with Sparebank 1 SMN. The construction loan facility with Sparebank 1 SMN can be extended to NOK 1.86 billion (2014: NOK 1.86 billion), if there are GIEK guarantees available for the projects.

The construction loan facility for Singapore is with Nordea and equals USD 80 million (2014: USD 40 million).

The Brazilian construction loans are with Banco do Brasil SA and BNDES on a project-by-project basis. For Vard Promar, the Banco do Brasil SA project financing facilities were limited to BRL 577 million (2014: BRL 536 million) for local content and USD 141 million (2014: USD 140 million) for imported content, while the facility with BNDES were limited to BRL 247 million (2014: BRL 247 million) for local content and USD 68 million (2014 USD 68 million) for imported content. For Vard Niterói, BNDES project financing is limited to USD 87 million (2014: USD 176 million).

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

(D) COVENANTS

	Minimum consolidated working capital*	Minimum consolidated equity	Term loans (A) with covenant	Construction loan (B) with covenant
Nordea (Norway)	1,000	2,700	38	4,318
Nordea (Singapore)	1,000	2,700	53	115
DNB (Norway)	1,000	2,100	0	1,126
SMN (Norway)	1,000	2,100	40	628
Innovasjon Norge (Norway)	1,000	2,100	160	-

* 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 working capital covenants before year-end 2015, exept for one loan amounting to NOK 41 million which is presented as current portion of term loans above. The Group has also obtained waivers for all the current facilities and construction loan facilities with working capital covenants for Q4 2015 (Note 38).

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	
	2015	2014	2015	2014
Shareholders loan in subsidiary from non controlling interest	22	-	-	-
Pension liabilities	-	1	-	-
Other liabilities	-	2	-	-
Total	**22**	**3**	**-**	**-**

NOTES

(All amounts in NOK millions unless otherwise stated)

21 Provisions

Group	Warranties	Other provisions	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**

Group	Warranties	Other provisions	Total
At 1 January 2014	179	184	363
Provisions made during the year	145	37	182
Provisions utilized during the year	(110)	(2)	(112)
Provisions reversed during the year	(86)	(67)	(153)
Currency translation differences	11	6	17
At 31 December 2014	**139**	**158**	**297**
Representing:			
Non-current	4	122	126
Current	135	36	171
Total	**139**	**158**	**297**

Other provisions include environmental clean-up costs of NOK 75 million (2014: NOK 75 million), legal claims of NOK 25 million (2014: NOK 19 million), restructuring provisions of NOK 16 million (2014: 0 million), as well as several other liabilities faced during the normal course of business, and provided for according to FRS 37, totalling NOK 22 million (2014: NOK 64 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 recognised based on past experience for corresponding projects.

22 Trade and other payables

	Group		Company	
	2015	**2014**	**2015**	**2014**
Trade payables	1,053	1,635	1	-
Accrued expenses	808	431	1	1
Salary and social costs	178	182	-	-
VAT	102	170	-	-
Total	**2,141**	**2,418**	**2**	**1**

23 Other current liabilities

	Group		Company	
	2015	2014	2015	2014
Firm commitments hedge accounting	149	248	-	-
Liabilities to FINCANTIERI	194	7	-	-
Others	-	-	-	1
Total	**343**	**255**	**-**	**1**

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

24 Revenue

	Group	
	2015	2014
Construction contract revenue	11,091	12,709
Sale of goods	38	55
Rendering of services	178	159
Total revenue	**11,307**	**12,923**

25 Salaries and related costs

	Group	
	2015	2014
Salaries and wages	2,002	2,013
Social security contributions	366	334
Pension costs	48	48
Other employee benefits	45	91
Total	**2,461**	**2,486**

Directors fees amounting to NOK 2.4 million (2014:NOK 3.5 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 recognised in the accounts as a defined contribution plan, until reliable and sufficient information is available for the Group to recognise its proportional share of pension cost, liabilities and assets.

The Group's companies outside Norway have pension plans based on local practice and regulations. None of these pension plans are defined as defined benefit plans.

NOTES

(All amounts in NOK millions unless otherwise stated)

26 Other operating expenses

	Group	
Other operating expenses include:	**2015**	**2014**
Auditors' remuneration:		
- auditors of the Company	1	1
- other auditors*	8	7
Non-audit fees:		
- other auditors*	1	1
Rent and leasing expenses (Note 34)	52	52
Office and administration expenses	113	96
Research and development	4	11
Travel and employee expenses	48	66
Marketing and communication	33	35
Repair and maintenance	57	66
IT expenses	37	51
Consultants and other external sevices	39	47
Sundry operating expenses	213	118
Total	**606**	**551**

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

27 Financial income and financial costs

	Group	
	2015	**2014**
Financial income		
Interest income on loan and receivables, including bank deposits	28	33
Dividend income	-	2
Foreign exchange gain	260	141
Other financial income	7	28
Total	**295**	**204**
Financial costs		
Interest expense on loans and borrowings	(79)	(19)
Foreign exchange loss	(734)	(198)
Bank charges	(3)	(4)
Change in fair value of available for sale financial assets	(22)	-
Other financial expenses	(28)	(20)
Total	**(866)**	**(241)**
Net financial items	**(571)**	**(37)**

The Group has a net foreign exchange loss of NOK 473 million for FY2015, of which NOK 380 million are unrealized. NOK 315 million of the unrealized loss are related to the yard construction loan in Vard Promar denominated in USD, while NOK 28 million of realized losses relate to instalments paid in 2015 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 RECOGNISED IN PROFIT OR LOSS

	Group	
	2015	**2014**
Current tax expense:		
Current year	(2)	(230)
Over/(under) provision in respect of prior years	(3)	3
Total	**(5)**	**(227)**
Deferred tax expense:		
Origination and reversal of temporary differences	(41)	20
Over provisions in respect of prior years	31	-
Changes in tax rates	4	-
Tax assets previously not recognised/(written off)	(77)	19
Total	**(83)**	**39**
Total income tax expense	**(88)**	**(188)**

(B) INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

	2015			2014		
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	281	-	281	84	-	84
Income tax on translation exchange difference on monetary items considered as part of the Group's net investment in foreign subsidiary	136	(42)	94	36	1	37
Total	**417**	**(42)**	**375**	**120**	**1**	**121**

Tax expense related to other comprehensive income is current tax.

NOTES

(All amounts in NOK millions unless otherwise stated)

(C) RECONCILIATION OF EFFECTIVE TAX RATE

	2015		2014	
	%	Amount	%	Amount
Profit/(loss) before tax		**(1,204)**		**238**
Tax at the domestic rates applicable to profits in the countries where the Group operates	-19.1%	230	34.9%	(83)
Over/(under) provision in respect of prior years	-2.3%	28	-1.3%	3
Income not subject to tax	-3.7%	44	-18.1%	43
Non deductible expenses	0.6%	(7)	24.4%	(58)
Utilization of previously unrecognised tax assets	-0.3%	4	-8.0%	19
Tax asssets written off	6.4%	(77)	0.0%	-
Tax losses and temporary differences for which no deferred income tax asset was recognised	26.1%	(314)	47.1%	(112)
Change in tax rates	-0.3%	4	0.0%	-
Total income tax expense in profit or loss	**7.3%**	**(88)**	**79.0%**	**(188)**

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

29 Earnings per share and diluted earnings per share

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

	Group	
	2015	2014
Net profit/(loss) attributable to ordinary shareholders of the Company	**(603)**	**349**
Net profit/(loss) attributable to ordinary shareholders of the Company (SGD million)	(97)	62
Weighted average number of shares (million)	1,180	1,180
Basic earnings/(loss) per share (NOK per share)	(0.51)	0.30
Basic earnings/(loss) per share (SGD cents per share)	**(8.22)**	**5.25**
Adjusted weighted average number of shares (million) (in millions)	1,180	1,180
Diluted earnings per share (NOK per share)	(0.51)	0.30
Diluted earnings per share (SGD cents per share)	**(8.22)**	**5.25**
Exchange rates:	31.12.15	31.12.14
SGD/NOK	6.2390	5.6218

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. Since the shipbuilding projects have similar characteristics, management is of the view that the whole Group should be considered as one segment.

(B) GEOGRAPHICAL INFORMATION

The Group has activity in 13 (2014: 10) 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	
	2015	**2014**	**2015**	**2014**
Norway	7,628	10,249	1,336	1,485
Romania*	189	127	1,108	718
Singapore	890	681	-	1
Vietnam**	-	-	283	245
Brazil	2,438	1,812	999	1,298
Canada	144	43	33	37
USA	12	9	-	1
Other countries	6	2	1	1
Total	**11,307**	**12,923**	**3,760**	**3,786**

* 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:

	%	**2015**	**%**	**2014**
Customer 1	30%	3,358	10%	1,296
Customer 2	12%	1,303	5%	634
Customer 3	10%	1,164	13%	1,720
Customer 4	10%	1,090	8%	1,090
Customer 5	6%	623	11%	1,395
Total revenue		**7,538**		**6,135**

NOTES

(All amounts in NOK millions unless otherwise stated)

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 and receivables.

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	
	2015	**2014**	**2015**	**2014**
Interest-bearing receivables (Note 9)	980	866	785	702
Other receivables less derivative financial instruments, non-current (Note 10)	12	4	-	-
Trade and other receivables less advances to suppliers, VAT and tax receivables (Note 16)	333	306	79	49
Derivative financial instruments	331	401	-	-
Construction WIP in excess of prepayments (Note 15)	12,451	9,200	-	-
Cash and cash equivalents (Note 17)	919	2,002	4	10
Total	**15,026**	**12,779**	**868**	**761**

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

	Group	
	2015	**2014**
Not Due	108	190
0 - 30 days	31	27
31 - 120 days	30	35
121 - 365 days	35	12
More than 365 days	8	1
TOTAL	**212**	**265**

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

Allowance for impairment losses for trade receivables:

	Group	
	2015	2014
Gross amount	220	310
Less: Allowance for impairment losses	(8)	(45)
TOTAL	**212**	**265**
At 1 January	45	55
Allowance made/(written back)	-	(4)
Utilized	(37)	(6)
At 31 December	**8**	**45**

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 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	
	2015	2014	2015	2014
Fixed rate instruments				
Financial assets (cash and cash equivalents)	-	1,031	-	-
Financial liabilities (loans and borrowings)	3,506	3,696	-	-
Variable rate instruments				
Financial assets (cash and cash equivalents)	919	971	4	10
Financial assets (Interest bearing receivables)	980	866	785	702
Financial liabilities (loans and borrowings)	7,963	5,577	-	-

NOTES

(All amounts in NOK millions unless otherwise stated)

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
31 December 2015				
Variable rate instruments (net)	(22)	22	3	(3)
Cash flow sensitivity (net)	**(22)**	**22**	**3**	**(3)**
31 December 2014				
Variable rate instruments (net)	(13)	13	2	(2)
Cash flow sensitivity (net)	**(13)**	**13**	**2**	**(2)**

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 purposes.

Overview of derivatives

	Group	
	2015	2014
Fair-value hedges		
Forward foreign currency contracts	-	1
Non-current derivatives (assets)	**-**	**1**
Fair-value hedges		
Forward foreign currency contracts	303	400
Non-hedging instruments		
Forward foreign currency contracts	28	-
Current derivatives (assets)	**331**	**400**
Fair-value hedges		
Forward foreign currency contracts	(12)	(47)
Non-current derivatives (liabilities)	**(12)**	**(47)**
Fair-value hedges		
Forward foreign currency contracts	(3,139)	(2,180)
Non-hedging instruments		
Forward foreign currency contracts	(99)	-
Current derivatives (liabilities)	**(3,238)**	**(2,180)**

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.

	2015	2014
USD/NOK (5% strengthening)	1	8
EUR/NOK (5% strengthening)	14	4
Total (Functional currency NOK)	**15**	**12**
USD/BRL (5% Strengthening)	**(55)**	**(53)**
EUR/RON (5% Strengthening)	**(5)**	**6**

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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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. Information about operational liquidity risk is disclosed in note 2(B).

Group	**Carrying amount**	**Total contractual cash flow**	**Within 1 year**	**Within 1 – 5 years**	**> 5 years**
At 31 December 2015					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(1,231)	(1,231)	(1,231)	-	-
Construction loans (Note 19)	(9,435)	(9,798)	(6,675)	(3,123)	-
Term loans and current facilities (Note 19)	(2,034)	(2,425)	(914)	(661)	(850)
Other non-current liabilities	(22)	(22)	(22)	-	-
Total	**(12,722)**	**(13,476)**	**(8,842)**	**(3,784)**	**(850)**
At 31 December 2014					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(1,817)	(1,817)	(1,817)	-	-
Construction loans (Note 19)	(7,663)	(8,024)	(8,024)	-	-
Term loan facilities (Note 19)	(1,610)	(1,950)	(509)	(669)	(772)
Total	**(11,090)**	**(11,791)**	**(10,350)**	**(669)**	**(772)**

Company	**Carrying amount**	**Total contractual cash flow**	**Within 1 year**	**Within 1 – 5 years**	**> 5 years**
At 31 December 2015					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(2)	(2)	(2)	-	-
Total	**(2)**	**(2)**	**(2)**	**-**	**-**
At 31 December 2014					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(1)	(1)	(1)	-	-
Other current liabilities (Note 23)	(1)	(1)	(1)	-	-
Total	**(2)**	**(2)**	**(2)**	**-**	**-**

The Company has issued financial guarantees in relation to certain of the Group's activities which involves advance payment guarantees (customers, suppliers), foreign exchange guarantees, construction loan guarantees and minor performance bonds. However, based on materiality, none of these have been recognised and included in the above table, given that the counterparties are not gaining access to a new asset pool or significant enhanced creditworthiness.

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 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		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		(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)**
31 December 2014							
Financial assets							
Other investments	8	-	61	-	-	61	61
Interest-bearing receivables	9	-	-	866	-	866	866
Trade and other receivables	16	-	-	310	-	310	310
Current and non-current derivatives		401	-	-	-	401	401
Cash and cash equivalents	17	-	-	2,002	-	2,002	2,002
Total		**401**	**61**	**3,178**	**-**	**3,640**	**3,640**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(1,204)	(1,204)	(1,122)
Current and non-current derivatives		(2,227)	-	-	-	(2,227)	(2,227)
Trade and other payables	22	-	-	-	(1,817)	(1,817)	(1,817)
Current loans and borrowings	19	-	-	-	(8,069)	(8,069)	(8,072)
Total		**(2,227)**	**-**	**-**	**(11,090)**	**(13,317)**	**(13,238)**

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%.

NOTES

(All amounts in NOK millions unless otherwise stated)

Fair value hierarchy
The table below analyses financial instruments carried out at fair value, by valuation methods as at 31 December 2015 and 2014.

Group	Level 1	Level 2	Level 3	Total
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)**
At 31 December 2014				
Assets				
Available-for-sale financial assets	-	-	61	61
Derivatives	-	401	-	401
Total assets	**-**	**401**	**61**	**462**
Liabilities				
Derivatives	-	(2,227)	-	(2,227)
Total liabilities	**-**	**(2,227)**	**-**	**(2,227)**
Total	**-**	**(1,826)**	**61**	**(1,765)**

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.

32 Acquisition of subsidiary and non-controlling interests

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 recognised		**26**
Goodwill recognised in the transaction		**27**

The goodwill is attributable mainly to the competence and knowhow 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 recognised is expected to be deductible for tax purposes. The goodwill calculation and purchase price allocation is not completed year end 2015. Goodwill attributable to the non-controlling shareholders has not been recognised.

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

NOTES

(All amounts in NOK millions unless otherwise stated)

Acquisition of subsidiary in 2014

STX Marine Inc.
On 4 July 2014, the Group acquired 100 percent of STX Marine Inc.
Consequent to the acquisition, STX Marine became a subsidiary of Vard Marine Inc., which is wholly-owned by Vard Group AS, a 100 percent held subsidiary of the Company. STX Marine is a leading marine engineering and design company located in Vancouver, Canada, with branch offices in Ottawa and Houston.

Consideration transferred
The consideration for the transaction was NOK 65 million, fully paid, at closing in cash.

Fair value of identifiable assets acquired and liabilities assumed

	Note	2014
Property, plant and equipment	4	3
Customer contracts (other intangible assets)	5	5
Shares in associated companies (CSS)		5
Trade and other receivables		43
Work in progress		24
Cash and cash equivalents		4
Trade and other payables		(34)
Total identifiable net assets and book value		**50**
Consideration transferred		65
Goodwill identified		**15**

The goodwill is attributable mainly to the competence and knowhow of the company's employees, which cannot be separately valued, and hence allocated to goodwill. This represents future economic benefits accruing to the Group. None of the goodwill recognised is expected to be deductible for tax purposes.

There has not been any subsequent changes in the purchase price allocation compared to the intitial purchase price allocation done in 2014.

Cash flows	**2014**
Total consideration for acquisition of subsidiary	65
Cash acquired	(4)
Net cash outflows	**61**

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

Non-cancellable operating lease rentals are payable as follows:

Group	2015	2014
Within one year	36	50
Between one and five years	56	89
More than five years	39	35
Total	**131**	**174**

Vard Holdings Limited did not have any lease commitments as of 31 December 2015 and 2014.

The Group's non-cancellable operating lease relate primarily to yard lease which has a remaining lease period of one and two years. The leases have options for renewal.

During the financial year, an amount of NOK 100 million was recognised as an expense in profit or loss in respect of operational leases (2014: NOK 96 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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

	Group	
Numbers in NOK thousand	**2015**	**2014**
Base salary	18,594	17,532
Variable pay	2,989	8,757
Other benefits	258	377
Pension benefit	402	573
Total	**22,243**	**27,239**

(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	**2015**	**2014**
Sales of construction contracts and engineering services to parent company	142	4
Guarantee commission, associates	5	5
Interest income, associates	3	3
Sales of vessels and services to associates	55	57
Total sales of goods and services	**205**	**69**
Purchases of goods and services		
Cost of goods and services from associates	-	(5)
Other operating expenses, parent company	(30)	(17)
Total purchases of goods and services	**(30)**	**(22)**
Agreements entered into without impact on cost or revenues in the period		
Agreement regarding extension of barge	201	-
Sale of electro eqiupment package to FINCANTIERI	-	14
Sale of eqiupment package to FINCANTIERI	-	54
Design support to VARD	-	(5)
Total agreements entered into without impact on cost or revenues in the period	**201**	**63**

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.

The agreement regarding extension of barge owned by FINCANTIERI is a construction contract which will be delivered from Vard Tulcea. The construction work will start in 2Q 2016.

Outstanding balances receivable from/payable to related parties are disclosed in Notes 9, 16 and 19 accordingly.

36 Group of companies

The subsidiaries included in the Vard Holdings Limited Group at 31 December 2015 were as follows:

Name of the company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2015 %	2014 %
Vard Group AS	Norway	Shipbuilding	100	100
Vard Shipholding Singapore Pte. Ltd [1]	Singapore	Shipowner	100	n/a
Subsidiaries of Vard Group AS				
Vard Electro AS	Norway	Electrical/automation installation	100	100
Vard RO Holding SRL	Romania	Holding company	100	100
Vard Niterói SA	Brazil	Shipbuilding	100	100
Vard Promar SA	Brazil	Shipbuilding	51	51
Estaleiro Quissamã Ltda	Brazil	Dormant	51	51
Vard Singapore Pte. Ltd	Singapore	Sales, trading 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	Norway	Holding and parent company	100	100
Seaonics AS	Norway	Ship automation systems	51	51
Vard Marine Inc	Canada	Project development and ship design	100	100
Aakre Eigendom AS	Norway	Accommodation facilities	100	100
Vard Contracting AS [2]	Norway	Yard construction work	100	n/a
Vard Seaonics Holding AS [3]	Norway	Dormant	100	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 [4]	Romania	Electrical installation	100	100
Vard Electro Brazil (Instalações Elétricas) Ltda [5]	Brazil	Electrical installation	100	100
Vard Electro Braila SRL	Romania	Electrical installation	100	100
Vard Electrical Installation and Engineering (India) Private Limited [6]	India	Electrical installation	100	100
Vard Electro Italy SRL [7]	Italy	Electrical installation	100	n/a
Subsidiaries of Vard RO Holding SRL				
Vard Tulcea SA [8]	Romania	Shipbuilding	100	100
Vard Braila SA [9]	Romania	Shipbuilding	100	100
- Vard Ship Repair Braila SA [10]	Romania	Ship repair and maintenance	100	100
- AJA Ship Design SA	Romania	Dormant	60	60
Vard Engineering Constanta SRL [11]	Romania	Engineering	100	100
Subsidiary of Seaonics AS				
- Seaonics Polska sp. z o.o. [12]	Poland	Ship automation systems	51	51
- ICD Software AS [13]	Norway	Automation and control system software	51	n/a
- ICD Polska sp. z o.o. [14]	Poland	Automation and control system software	51	n/a
- ICD Industries Estonia oü [15]	Estonia	Automation and control system software	51	n/a
- SIA ICD Industries Latvia [16]	Latvia	Automation and control system software	51	n/a
- Faster Imaging AS [17]	Norway	Automation and control system software	51	n/a
- Industrial Control Design AS [18]	Norway	Automation and control system software	51	n/a
Subsidiary of Vard Marine Inc				
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 [19]	Romania	Accommodation installation	100	100
Subsidiaries of Vard Brevik Holding AS				
Multifag AS	Norway	Onshore industrial services and installation	100	100
- Brevik Elektro AS	Norway	Electrical installation	100	100
Vard Engineering Brevik AS	Norway	Engineering	70	70
- Vard Engineering Gdansk sp. z o.o. [20]	Poland	Engineering	70	70
Vard Offshore Brevik AS	Norway	Offshore industrial services and installation	100	100

1) Established in FY2015
2) Established in FY2015
3) Established in FY2015
4) Vard Electro AS 99.96%, Håvard Sætre 0.04%
5) Vard Electro AS 99%, Vard Group AS 1%
6) Vard Electro AS 99%, Vard Electro Tulcea SRL 1%
7) Established in FY2015
8) Vard RO Holding 99.996%, Vard Group, 0.004%
9) Vard RO Holding SRL 94.12%, Vard Group AS 5.88%
10) Vard Braila SA 68.58%, Vard Brevik Holding AS 31.42%
11) Vard RO Holding SRL 70%, Vard Braila SA 30%
12) 100% owned by Seaonics AS, 51% indirectly owned by Vard Group AS
13) 100% owned by Seaonics AS, 51% indirectly owned by Vard Group AS. Aquired in FY2015
14) 100% owned by ICD Industries AS, 51% indirectrly owned by Vard Group AS. Aquired in FY2015
15) 100% owned by ICD Industries AS, 51% indirectrly owned by Vard Group AS. Aquired in FY2015
16) 100% owned by ICD Industries AS, 51% indirectrly owned by Vard Group AS. Aquired in FY2015
17) 100% owned by ICD Industries AS, 51% indirectrly owned by Vard Group AS. Aquired in FY2015
18) 100% owned by ICD Industries AS, 51% indirectrly owned by Vard Group AS. Aquired in FY2015
19) Vard Accommodation AS 99.77%, Vard Electro Tulcea SRL 0.23%
20) 100% owned by Vard Engineering Brevik AS, 70% indirectly owned by Vard Brevik Holding AS

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. The counterparty risk has increased during the financial year. Management has assessed that there will not be additional terminations related to the current order book, except for the project discussed in Note 38. 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 favourable 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 also subject to judicial review and is under discussion in the State Court of Rio de Janeiro. The Group has not recognised 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.

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 favourable 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 equity participation. Some construction contracts contain a commitment to provide seller credit. The total capital commitments are summarized in the table below, also showing the expected timing of the related cash outflows:

Capital and other commitments	**2016**	**2017**	**2018**
Equity participation	17	17	17
Seller credit	10	54	-
Total capital and other commitments	**27**	**71**	**17**

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 have 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

Subsequent to balance sheet date:

The Group obtained all waivers from the relevant banks on the breach of the loan covenants as of 31 December 2015 for its current facilities and construction loan facilities.

Previously announced technical discussions for construction of large outfitted hulls section between the Group and FINCANTIERI have resulted in a slot reservation agreement ("SRA") between the parties, with a slot reservation fee paid by FINCANTIERI, which released cash for the Group's immediate operating needs in 2016. The SRA provides a basis for significant transaction volumes for the Group towards FINCANTIERI for the period between 2016 and 2020 in relation to vessels contracted by FINCANTIERI, that will entail advance payments for orders placed in relation to SRA. The first orders under this agreement are in the process of being formalized

A bank provisionally granted the Group new construction loans of approximately a total amount of MNOK 590 for two existing construction projects which were without any financing as of 31 December 2015, subject to approval from a government authority department in Norway in May 2016. Management remains confident that an approval will be successfully granted

The Group was informed that a customer was targeting a financial restructuring and that the customer wishes to negotiate for an amicable termination of the shipbuilding contract. If the parties fail to agree on a friendly termination and the shipbuilding contract is unlawfully terminated by the customer, the Group will contractually be entitled to retain the advance payments already received, amounting to MNOK 207. In addition, the Group is entitled to resell the vessel, with a right to claim compensation from the customer should a discount in excess of the retained advance payments be necessary. The bank that has provided the construction loan for this project has been informed about the situation, and has granted the Group an extension of the construction loan for a further five months, from April 2016 to September 2016. The extension will subsist a cancellation event.

STATISTICS OF SHAREHOLDINGS

As at 10 March 2016

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	8	0.10	159	0.00
100 - 1,000	177	2.30	168,800	0.01
1,001 - 10,000	4,064	52.77	26,574,810	2.25
10,001 - 1,000,000	3,430	44.53	176,015,971	14.92
1,000,001 and above	23	0.30	977,240,260	82.82
	7,702	**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.	656,471,268	55.63	-	-
FINCANTIERI S.p.A.[1]	-	-	656,471,268	55.63
Fintecna S.p.A. [1]	-	-	656,471,268	55.63
Cassa Depositi e Prestiti S.p.A. [1]	-	-	656,471,268	55.63

Note:

(1) 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	706,529,680	59.88
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	69,451,498	5.89
3.	BNP PARIBAS SECURITIES SERVICES SINGAPORE BRANCH	67,934,302	5.76
4.	DBS NOMINEES (PRIVATE) LIMITED	42,059,124	3.56
5.	DBSN SERVICES PTE LTD	17,171,468	1.46
6.	RAFFLES NOMINEES (PTE) LIMITED	12,262,780	1.04
7.	OCBC SECURITIES PRIVATE LIMITED	8,462,000	0.72
8.	UOB KAY HIAN PRIVATE LIMITED	7,827,700	0.66
9.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	7,105,414	0.60
10.	MAYBANK KIM ENG SECURITIES PTE LTD	6,360,711	0.54
11.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	5,778,745	0.49
12.	DB NOMINEES (SINGAPORE) PTE LTD	4,117,861	0.35
13.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	3,382,600	0.29
14.	PHILLIP SECURITIES PTE LTD	3,128,900	0.27
15.	KOH WOON PUAY OR TAN CHWEE GUAN	2,534,000	0.21
16.	HL BANK NOMINEES (SINGAPORE) PTE LTD	2,234,800	0.19
17.	YAP MUI CHENG,ANGELA	2,071,000	0.18
18.	CIMB SECURITIES (SINGAPORE) PTE LTD	2,013,177	0.17
19.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,909,000	0.16
20.	CITIBANK CONSUMER NOMINEES PTE LTD	1,383,200	0.12
	TOTAL	**973,717,960**	**82.54**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately, 44.37% 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 55 Market Street #03-01, Singapore 048941, on Saturday, 30 April 2016 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 2015 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. Roy Reite (Article 94) **(Resolution 2a)**
Mr. Keen Whye Lee (Article 94) **(Resolution 2b)**
Mr. Vittorio Zane (Article 100) **(Resolution 2c)**

Mr. Roy Reite will, upon re-election as a Director of the Company, remain as the Chief Executive Officer of the Company and will be considered non-independent.

Mr. Keen Whye Lee will, upon re-election as a Director of the Company, remain as the Lead Independent Director, the Chairman of the Audit Committee, a member of the Nominating Committee and the Remuneration Committee, and will be considered independent.

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.

3. To approve the payment of Directors' fees of S$420,000 for the financial year ending 31 December 2016, to be paid quarterly in arrears. (2015: S$500,000.) **(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) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) 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 twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares (excluding treasury 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 of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority 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 Letter to Shareholders dated 8 April 2016 (the "Letter")) with any of the Mandated Interested Persons (as defined in the Letter), 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 Letter (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)**

8. Proposed Adoption of the New Constitution

To consider and if thought fit, to pass the following resolution as a Special Resolution, with or without any modifications:

That the regulations contained in the New Constitution submitted to this meeting and, for the purpose of identification, subscribed to by the Company Secretary, be approved and adopted as the constitution of the Company in substitution for, and to the exclusion of, the Existing Constitution.

[See Explanatory Note (iii)] **(Resolution 7)**

By Order of the Board

Elizabeth Krishnan
Company Secretary
Singapore, 8 April 2016

Explanatory Notes:

(i) The Ordinary Resolution 5 in item 6 above, if passed, will empower the Directors of the Company, effective 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 or such authority is varied or revoked by the Company in a general meeting, whichever is the 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, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For 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) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(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 Letter to Shareholders 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 Letter for further details.

(iii) The Special Resolution proposed in item 8 above is to adopt a New Constitution following the wide-ranging changes to the Companies Act, Chapter 50 (the "Companies Act") introduced pursuant to the Companies (Amendment) Act 2014 (the "Amendment Act"). The New Constitution will consist of the memorandum and articles of association of the Company which were in force immediately before 3 January 2016, and incorporate amendments to, inter alia, take into account the changes to the Companies Act introduced pursuant to the Amendment Act. Please refer to the Letter for more 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 the Registered Office of the Company at Six Battery Road #10-01, Singapore 049909 not less than forty-eight (48) 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.

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