ANNUAL REPORT 2014

built on trust™

VARD™
a Fincantieri company

VARD OPERATES ON A GLOBAL SCALE

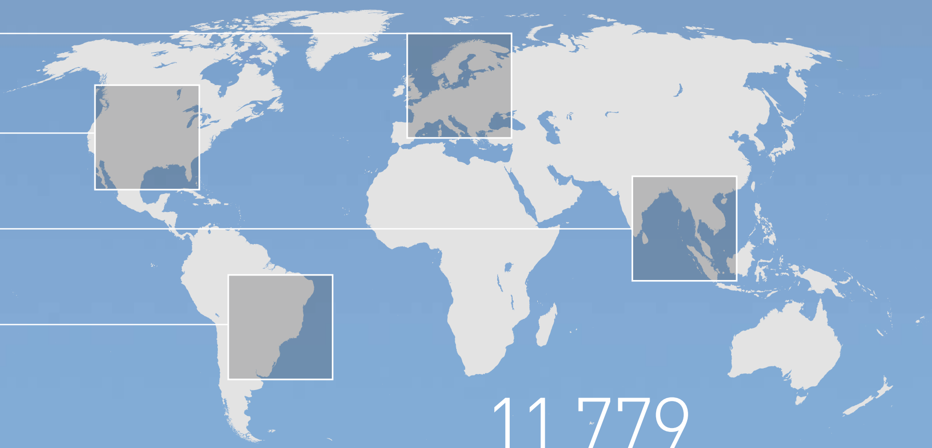
Ten modern shipyards and several specialized subsidiaries strategically located across four continents.

EUROPE
8,228 employees

NORTH AMERICA
84 employees

ASIA
822 employees

SOUTH AMERICA
2,645 employees



EMPLOYEES WORLDWIDE

11 779

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
Customers satisfaction is everyone's responsibility.

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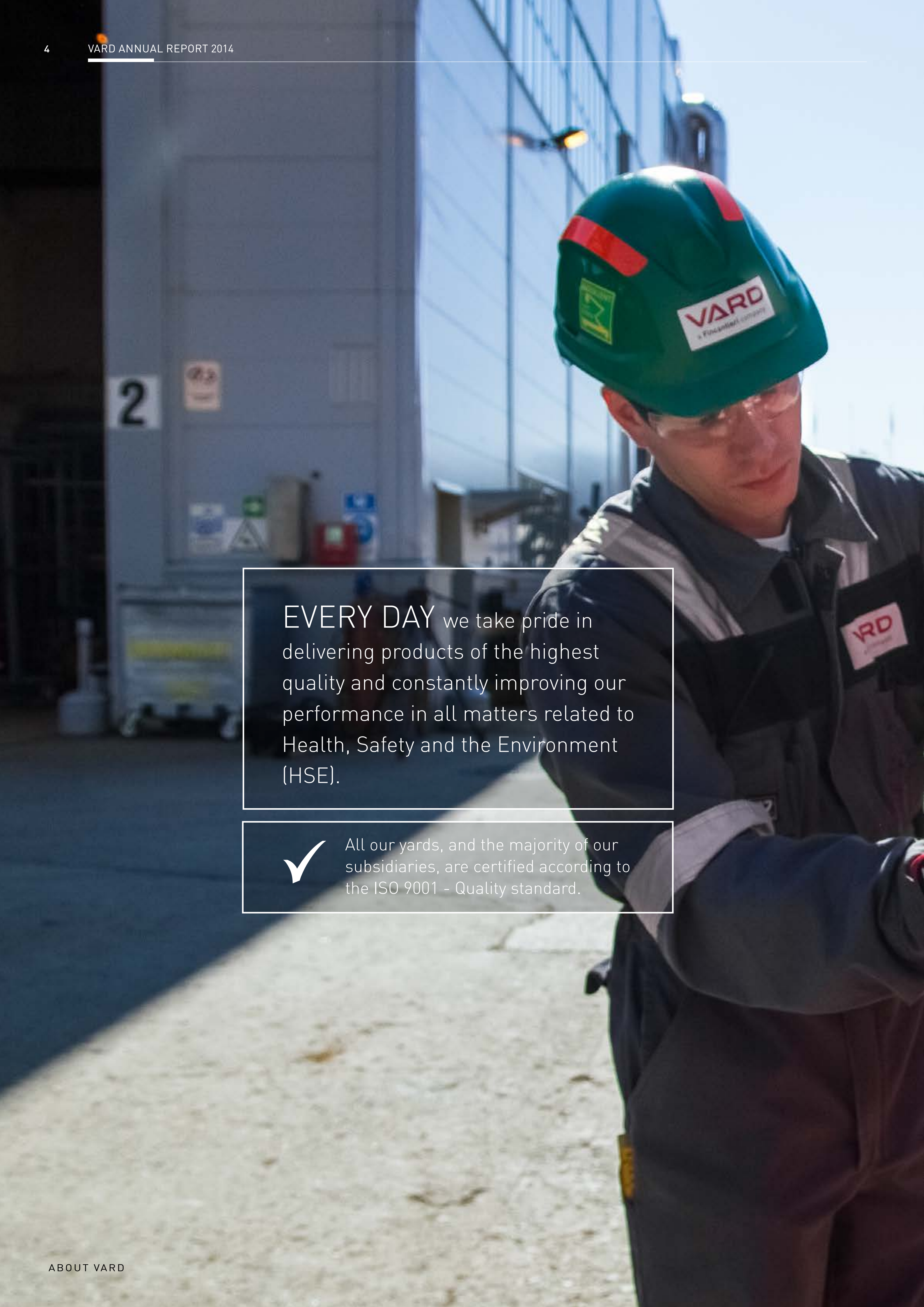


EVERY DAY we take pride in delivering products of the highest quality and constantly improving our performance in all matters related to Health, Safety and the Environment (HSE).

✓ All our yards, and the majority of our subsidiaries, are certified according to the ISO 9001 - Quality standard.


VARD
CRESTO

EVERY HOUR we strive to combine our passion for shipbuilding with our compassion for the environment.

Our total level of recycling stands at 89%.

EVERY MINUTE we focus on the safety of everybody involved in our projects, all over the world.

We increased our safety observation by 33%, reflecting our focus on HSE.

WE TAKE PRIDE IN EVERY SHIP

ALL OF OUR VESSELS ARE DEVELOPED IN PARTNERSHIP WITH OUR CUSTOMERS, AND ARE BUILT TO MEET THEIR SPECIFIC NEEDS. TOGETHER, WE MAKE IMPORTANT CHOICES RELATING TO DESIGN, OUTFITTING, SYSTEMS AND SOLUTIONS. JOINTLY, WE PUSH BOUNDARIES AND IN CLOSE COOPERATION WE CREATE SUSTAINABLE OPERATIONS AND JOBS – BOTH AT SEA AND ONSHORE.

PIERRE DE FERMAT
The first Cable Laying Vessel of VARD 9 01 design.

As the first Cable Laying Vessel with a dedicated ROV hangar, both safety and comfort on board the Pierre de Fermat have been improved. We've had a good cooperation with VARD in the building of this modern vessel, which operates with excellent maneuverability, low fuel consumption and comfortable working and living conditions.

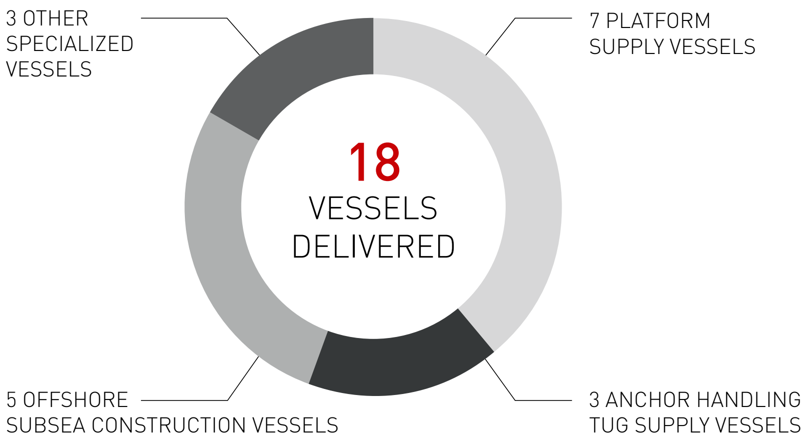
Emmanuel Décugis
Technical Director
Orange Marine

NORMAND REACH
Offshore Construction Vessel (OSCV) of VARD 3 03 design.
Built to operate in the world-wide subsea market.

Normand Reach and Normand Vision, amongst our largest and most sophisticated vessels, stand out as leading examples of the remarkable accomplishments made possible through close cooperation in an integrated maritime industry.

Through cooperation with VARD and our clients we are able to develop and build highly advanced vessels, such as the Normand Reach and Normand Vision, to meet the highest requirements of the global subsea market.

Lars Peder Solstad
CEO
Solstad Offshore



SIEM STINGRAY

The last in a series of 4 modern Offshore Subsea Construction Vessels (OSCV) built and equipped for world-wide operations.

We are very pleased with the building of this series of complex vessels at VARD. The project organization has been both very professional and cooperative throughout the building process.

Terje Sørensen
CEO
Siem Offshore

MARJATA

The vessel was contracted by the Norwegian Defence Logistics Organisation and will be operated by the Norwegian Intelligence Service.

The vessel is especially equipped for surveillance activity in the Barents Sea and the High North, and is one of the most technologically advanced of its kind world-wide.

The new Marjata will be an important element in the continuation of the Norwegian Intelligence Service's mission in the High North, and represents a modern resource which will contribute to secure Norway's information needs for the next 30 years.

We appreciate the cooperation with VARD's management, project team and employees.

Kjell Grandhagen
Director
Norwegian Intelligence Service

CEO LETTER

Mr. Roy Reite
Chief Executive Officer
and Executive Director

> *Our focus remains on R&D and innovation to differentiate ourselves from our competitors.*

Dear Shareholders,

2014 was yet another eventful year for VARD. We registered a record high order intake early in the year that brought our order book to 45 vessels. We also secured our largest single vessel order to date for the design and construction of a newly developed offshore subsea construction vessel. During the year, we expanded our footprint in North America with the establishment of Vard Marine, and strengthened our presence there through the acquisition of a market leading marine engineering and design company.

Our yards experienced high activity throughout 2014 and we successfully delivered a wide-ranging portfolio of 18 offshore and specialized vessels, including various types of multifunctional offshore service vessels, a fishing vessel, a survey vessel and a cable laying & repair vessel. Customers who took delivery of our vessels were pleased with the final product, and this bears testament to VARD's expertise in building quality vessels of many types.

Amid the positives in the past year, there is room for improvement in our financial and operational performance, particularly in Brazil. We also met an increasingly challenging environment in the offshore market. At VARD, we work together with our customers to find new solutions and tailor each vessel to their needs. We believe that the market will recover, and we are determined to improve efficiency and reduce costs company-wide to meet the demands of the market.

Our focus remains on R&D and innovation to differentiate ourselves from our competitors. We demonstrate both commitment to our clients and faith in the future by continuing our product development. In 2015, we will invite our customers on board our new innovation project – a stepping stone to a future where elements of artificial and human intelligence combine in new and more effective ways. This project will further strengthen our competitive edge and solidify our position in the future.

We remain strongly committed to delivering sustainable results to all our stakeholders, backed by our core values of Craftsmanship, Fellowship, and Salesmanship, and our dedication to maintain high standards for Health, Safety and the Environment. We seek your continued support as we journey on to build our Company on trust.

Sincerely,

Mr. Roy Reite
Chief Executive Officer and Executive Director

CHAIRMAN'S STATEMENT

Dear Valued Shareholders,

The past year was a challenging one for the offshore oil and gas industry as oil prices dropped to their lowest level since 2009. Oil majors slowed down exploration and production activities and related spending as they look to trim costs. This has in turn affected newbuilding orders in the OSV sector.

VARD is familiar to such difficult situations, having been through a number of oil price cycles and periods of fluctuating demand. VARD has built a robust platform which will enable us to face such challenging situations. In the years spent building strong relationships with our customers, developing new technologies and know-how, and investing in people development, we have established ourselves as a globally recognised shipbuilder, renowned for our expertise and track record.

Two years since FINCANTIERI became a major shareholder of VARD, I am pleased to report that we are seeing increased cooperation and synergies between VARD and FINCANTIERI. Sharing of best practices, as well as the growing scope of deliveries from VARD's specialized subsidiaries to other parts of the FINCANTIERI Group are of benefit to both companies.

Despite the global headwinds, we are confident of the industry's prospects and fundamentals. Moreover, I have every confidence that the management team at VARD, who see long-term potential in the industry, is optimising operations and driving efficiencies to lead the company out of the down cycle strengthened. These challenging times provide us with the opportunity to regroup and emerge stronger and more agile.

On behalf of the Board of Directors, I would like to thank our customers and shareholders for their confidence and continued support. As a company built on trust, we value our strong reputation and relationships. We look forward to creating further value to protect the interests of all our stakeholders.

Sincerely,

Giuseppe Bono

Mr. Giuseppe Bono
Chairman of the Board

Mr. Giuseppe Bono
Chairman of the Board

Despite the global headwinds, we are confident of the industry's prospects and fundamentals.

BOARD OF DIRECTORS

Mr. Roy Reite
Chief Executive Officer and Executive Director

Mr. Sung Hyon Sok
Independent Director

Mr. Fabrizio Palermo
Non-Executive Director

MR. ROY REITE is the chief executive officer and serves as executive director of VARD. He has served as president of the Company since 2001.

Prior to that, he 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. Mr. Reite was also a business consultant at Intentia International AS from 1995 to 1999.

He is presently the vice chairman of the board of Sparebanken Møre, a Norway-based bank.

Mr. Reite holds a Master of Science degree from the Norwegian University of Science and Technology.

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

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.

Mr. Sok holds a Master of Science in Finance degree from the University of Lancaster, United Kingdom, and a Master of Business Administration Degree from the University of Hull, United Kingdom.

MR. FABRIZIO PALERMO is chief financial officer of Cassa Depositi e Prestiti S.p.A. since October 2014. He served as non-executive director of the Company. He has been deputy general manager and chief financial officer of FINCANTIERI S.p.A and also served as director of Fincantieri USA Inc.

Mr. Palermo joined the Fincantieri Group in 2005 as head of business development and corporate finance and was appointed chief financial officer in 2006 and deputy general manager in 2011.

Prior to that, he was a strategic consultant with McKinsey & Co. in Milan from 1998 to 2005, specializing in business combinations, restructuring and reorganizations for major Italian and European industrial and financial groups.

Mr. Palermo started his career in 1995 as a financial analyst in London in the Investment Banking Division of Morgan Stanley. Mr. Palermo graduated in Business Economics with honors at La Sapienza University of Rome, Italy.

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

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

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.

Mr. Bono holds a degree in Business and Economics, and an honorary degree in Naval Engineering.

Mr. Keen Whye Lee
Independent Director

MR. KEEN WHYE LEE serves as the lead independent director of the Company. Mr. Lee is the managing director of Strategic Alliance Capital Pte. Ltd., a venture capital and investment management advisory company.

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.

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

Mr. Lee holds a Master in Business Administration degree from the Harvard Graduate School of Business Administration in the U.S.

Mr. Pier Francesco Ragni
Non-Executive Director

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

Mr. Ragni joined the Fincantieri Group in 2005 and was appointed head of business development in 2006.

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.

Mr. Ragni graduated in Business Economics at L. Bocconi University of Milan, Italy.

EXECUTIVE MANAGEMENT

Roy Reite
Chief Executive Officer and Executive Director

MR. ROY REITE is the chief executive officer and serves as executive director of VARD. He has served as president of the Company since 2001.

Prior to that, 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.

Mr. Reite was also a business consultant at Intentia International from 1995 to 1999.

Mr. Reite is presently the vice chairman of the board of Sparebanken Møre, a Norway-based bank.

Mr. Reite holds a Master of Science degree from the Norwegian University of Science and Technology.

Stig Bjørkedal
Executive Vice President Business Development and Strategy

MR. STIG BJØRKEDAL serves as the head of business development and strategy of VARD.

Mr. Bjørkedal has held this position since 2006. Prior to that, he was the 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.

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

Jan Ivar Nielsen
Executive Vice President and Chief Financial Officer

MR. JAN IVAR NIELSEN is the chief financial officer of VARD. He joined the Company in 2007 as vice president of finance for VARD's operations in Brazil.

Previously, Mr. Nielsen was chief financial officer and head of investor relations for Aker American Shipping from 2005 to 2007, and its predecessor Aker Philadelphia Shipyard from 2002 to 2005. From 1998 to 2002 he was CFO for Kværner Shipbuilding in London, and had CFO assignments for Kværner Masa Yards In Finland and Warnow Werft in Germany. Mr. Nielsen held various finance positions in the process industry from 1990 to 1997.

Mr. Nielsen holds a Master of Science in Business degree from Bodø Graduate School of Business and an Executive MBA degree from Temple University in the U.S.A.

MR. MAGNE HÅBERG heads marketing and sales in VARD.

Mr. Håberg first joined VARD as a project manager at Vard Langsten in 2001, 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.

Mr. Håberg holds a diploma in Engineering from the Ålesund Maritime College in Norway.

Magne Håberg
Executive Vice President
Marketing and Sales

MR. KNUT OLA TVERDAL is responsible for the Brazil operation in VARD. 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. He 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.

Mr. Tverdal holds a Master of Science degree from the Norwegian University of Science and Technology in Trondheim.

Knut Ola Tverdal
Executive Vice President
Brazil

MR. MAGNE O. BAKKE is the head of shipyard operations at VARD and oversees the Norway, Romania and Vietnam operations.

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.

Mr. Bakke holds a Bachelor of Science in Marine Technology degree from the Aust-Agder State College of Engineering in Norway.

Magne O. Bakke
Executive Vice President and
Chief Operating Officer

MR. HOLGER DILLING is responsible for investor relations at VARD, having held that role since the time of the Company's listing in Singapore. He 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 joining STX Europe, Mr. Dilling has worked in the areas of market analysis, business development and strategy in industrial and energy related companies in Norway, including Statkraft, Dyno Nobel and Elkem.

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

Mr. Dilling holds a Master of Science in Economics degree from University of Würzburg, Germany.

Holger Dilling
Executive Vice President
Investor Relations

SHAREHOLDING AND CORPORATE STRUCTURE

Fintecna S.p.A. (Italy) 72.51%

Other shareholders (free float) 27.49%

FINCANTIERI S.p.A. (Italy)

100%

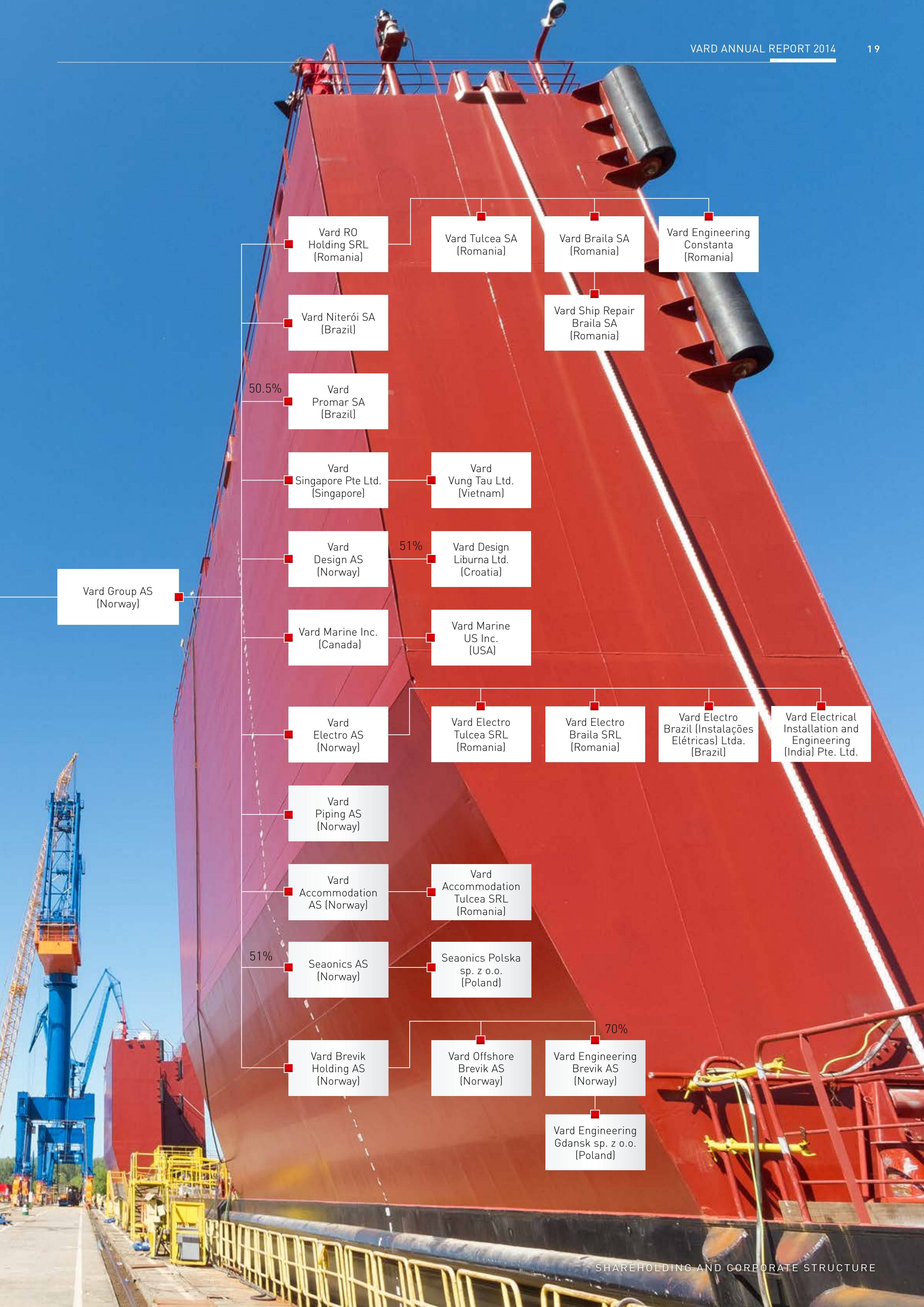
Fincantieri Oil & Gas S.p.A. (Italy) 55.63%

Other shareholders (free float) 44.37%

Vard Holdings Limited (Singapore)

100%

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 17 March 2015.



- Vard Group AS (Norway)
  - Vard RO Holding SRL (Romania)
    - Vard Tulcea SA (Romania)
    - Vard Braila SA (Romania)
      - Vard Ship Repair Braila SA (Romania)
    - Vard Engineering Constanta (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 (India) Pte. Ltd.
  - Vard Piping AS (Norway)
  - Vard Accommodation AS (Norway)
    - Vard Accommodation Tulcea SRL (Romania)
  - 51% Seaonics AS (Norway)
    - Seaonics Polska sp. z o.o. (Poland)
  - Vard Brevik Holding AS (Norway)
    - Vard Offshore Brevik AS (Norway)
    - 70% Vard Engineering Brevik AS (Norway)
      - Vard Engineering Gdansk sp. z o.o. (Poland)

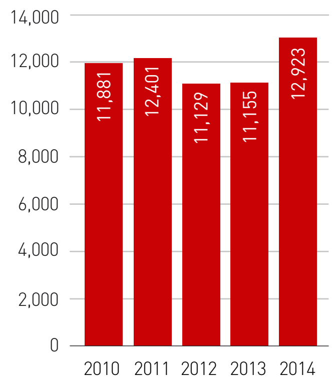
FINANCIAL HIGHLIGHTS

Statement of Income

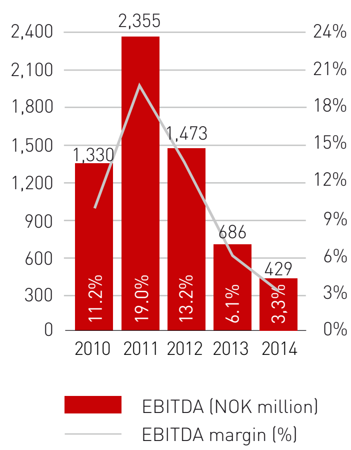
VARD reported consolidated revenues of NOK 12.92 billion for the financial year 2014, up from NOK 11.16 billion in 2013. The increase in revenues partly relates to the new shipyard Vard Promar in Brazil ramping up operations, and partly to the generally high activity level at all the yards during the year following strong order intake in the second half of 2013 and the first half of 2014. It also reflects an increasing share of large contracts including turn-key delivery of advanced topside equipment from external suppliers.

The FY 2014 EBITDA margin was 3.3%, down from 6.1% in FY2013, mainly due to operational challenges at the Brazilian yards and losses related to some projects in Europe. Operating margin (operating profit to total revenues) came in at 1.9%, down from 4.3% for the full year 2013. Higher unrealized currency losses resulted in reduced net financial items compared with the previous year.

REVENUE (NOK MILLION)



EBITDA AND EBITDA MARGIN



Summary Statement of Income

Amounts in NOK Millions	2014	2013
Revenue	**12 923**	**11 155**
Materials and subcontract costs	(9 457)	(7 778)
Salaries and related costs	(2 486)	(2 129)
Other operating expenses	(551)	(562)
EBITDA*	**429**	**686**
Depreciation, impairment and amortization	(189)	(206)
Operating Profit	**240**	**480**
Financial income	204	123
Financial costs	(241)	(115)
Share of results of associates, net of tax	35	9
Profit before tax	**238**	**497**
Income tax expense	**(188)**	**(197)**
Profit for the year	**50**	**300**

** Earnings before Interest (but including Interest on construction loans), Tax, Depreciation and Amortization.*

Balance Sheet

Total assets increased by 42% from NOK 13.67 billion at the end of 2013 to NOK 19.45 billion at year end 2014. This was mainly due to an increase in projects under construction and firm commitments related to hedge accounting.

Non-current interest bearing receivables saw an increase from NOK 201 million to NOK 336 million representing an increase in seller's credits to clients. Current interest bearing receivables increased from NOK 51 million to NOK 530 million, mainly because of cash collateral placed with a bank as security for FX derivatives.

Our cash position increased from NOK 1.75 billion to NOK 2.00 billion year-on-year; mainly due to long term financing that was established for the investments made in Brazil and Romania in recent years.

Total equity increased by 4.2% to NOK 3.86 billion, mainly due to the profit for the year of NOK 50 million and a positive effect from translation of foreign operations of NOK 121 million.

Construction loans taken on in lieu of progress payments from our customers represent the major part of financing of vessels under construction. Both work in progress and construction loans increased as a consequence of the generally high activity level, and the trend towards larger and more complex projects including turn-key delivery of high-value equipment. Construction loans, together with other current loans and borrowings of NOK 406 million, make up the total of "loans and borrowings, current" of NOK 8.07 billion.

Summary Balance Sheet

Amounts in NOK million	**2014**	**2013**
ASSETS		
Property, plant and equipment	2 535	2 167
Intangible assets	338	305
Interest-bearing receivables, non-current	336	201
Other non-current assets	577	608
Total non-current assets	**3 786**	**3 281**
Inventories	466	382
Construction WIP in excess of prepayments	9 200	6 136
Trade and other receivables	1 638	1 619
Interest-bearing receivables, current	530	51
Other current assets	1 827	457
Cash and cash equivalents	1 827	1 745
Total current assets	**15 663**	**10 390**
Total Assets	**19 449**	**13 671**
EQUITY AND LIABILITIES		
Total equity	**3 864**	**3 708**
Loans and borrowings, non-current	1 204	673
Other-non current liabilities	248	210
Total non-current liabilities	**1 452**	**883**
Loans and borrowings, current	8 069	5 012
Prepayments in excess of construction WIP	848	991
Trade and other payables	2 418	2 181
Other current liabilities	2 798	896
Total current liabilities	**14 133**	**9 080**
Total liabilities	**15 585**	**9 963**
Total equity and liabilities	**19 449**	**13 671**

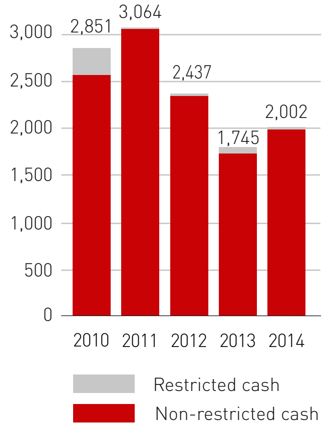
Cash Flows

Cash flows from operating activities increased by NOK 1.03 billion year-on-year, to positive NOK 690 million for the full year 2014. The main reasons for the increase were a positive change in working capital (including construction loans), and reduced tax payments.

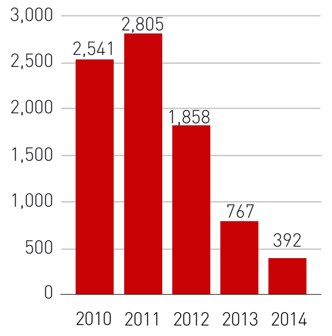
Cash flows used for investing activities amounted to NOK 865 million for the year, in line with the NOK 853 million used in 2013.

Cash flows from financing activities at NOK 433 million were also stable compared with the NOK 419 million reported 2013. The positive cash flow from financing activities mainly relates to increased non-current loans and borrowings.

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	**2014**	**2013**
Cash flows from operating activities	690	(341)
Cash flow from investing activities	(865)	(853)
Cash flow from financing activities	433	419
Net change in cash and cash equivalents	**258**	**(775)**
Cash and cash equivalents at the beginning of financial year	1 663	2 418
Effects of currency translation differences	45	20
Cash and cash equivalents excluding restricted cash at the end of financial year	1 966	1 663
Restricted cash at the end of financial year	36	82
Cash and cash equivalents at the end of financial year	**2 002**	**1 745**

NORWEGIAN PRIME MINISTER Mrs. Erna Solberg named the new surveillance vessel contracted by the Norwegian Defence Logistics Organisation, and operated by the Norwegian Intelligence Service, here represented by Director Kjell Grandhagen. The vessel is one of the most technologically advanced of its kind worldwide, and is proof of VARD's cutting-edge technological capabilities.

SIGNIFICANT EVENTS

The captains and godmothers of the two sister ships Far Sygna and Far Sun, accompanied with the ships crew during their double naming ceremony in Bergen, Norway.

The Norwegian Minister of Defence, Mrs. Ine Eriksen Søreide, and the Prime Minister, Mrs. Erna Solberg, attended the naming ceremony of the new surveillance vessel "Marjata" at Vard Langsten.

Q1

VARD ACADEMY, our in-house training department, was established in Norway. This will contribute to enabling a more streamlined training and development throughout the Company which now counts more than 11,000 employees worldwide.

VARD SECURED THE LARGEST SINGLE VESSEL ORDER for the design and construction of a OSCV for Solstad Offshore, one of the largest shipping companies in Norway. The vessel is of VARD 3 19 design, and will have a 550 ton top tension vertical lay system, a 900 ton Active Heave Compensated (AHC) offshore crane and a 4,000 ton under-deck carousel. It will measure approximately 180 meters long with a beam spanning 33 meters.

VARD RECORDED AN EXCEPTIONALLY HIGH ORDER INTAKE during the first quarter, securing eight new vessel contracts, making the order book value amount to a five-year high of NOK 21.8 billion. Compared to the same quarter in the preceding year, this was an increase of 41%.

Q2

WE ESTABLISHED OUR FIRST FOOTHOLD IN NORTH AMERICA with Vard Marine, a new subsidiary for ship design, engineering and sales activities in Canada and the US. Through a subsequent acquisition, Vard Marine gained a strong position within the field of engineering and design, complementing VARD's existing product portfolio.

VARD BREVIK and Island Offshore arranged an "Open Ship" event at the yard prior to the naming ceremony of the supply vessel "Island Dragon". Visitors were welcomed on board for a tour guided by the ship's crew. The yard also arranged for a barbeque and family activities.

VARD NITERÓI delivered the first AHTS of VARD 3 11 design, Skandi Urca, to DOF. The following month the PSV Siem Giant was delivered to Siem Offshore. Both vessels are operating in Brazilian waters.

The captain of Pierre de Fermat, Cristelle Palpacuer, and the godmother, Dorothee De Almeida from Vard Brattvaag, together with representatives from Orange Marine and VARD during the naming ceremony of the new cable laying vessel.

Our new HSE training film was launched, reflecting our high focus on HSE and aspiration towards "Vision Zero".

Q3

VARD VUNG TAU delivered the PSV Far Sygna to Farstad Shipping, representing the eighth consecutive vessel delivery prior to contractual delivery date. Far Sygna and its sister ship Far Sun, built at Vard Langsten, were named in a double naming ceremony in Bergen.

VARD PROMAR LAUNCHED THE FIRST VESSEL built at the new yard, an LPG carrier for Transpetro, Brazil's largest oil and gas transportation company.

VARD TULCEA successfully launched its largest hull to date, an OSCV for DOF. The vessel is 161 meters long with a beam of 32 meters, and accommodation for 140 persons.

ISO 9001 2008 CERTIFICATION was achieved through the hard work and common dedication of the team at Vard Promar. This certifies our quality management system, and all of our ten yards and several specialized subsidiaries are now certified.

Q4

"VISION ZERO" is our aspiration, and at VARD we have a high focus on HSE. In 2014, we launched our new HSE training film. This emphasizes to all employees the importance of using the right protective gear at all times. Throughout the year, special focus was placed on communicating initiatives to reduce long-term health impacts.

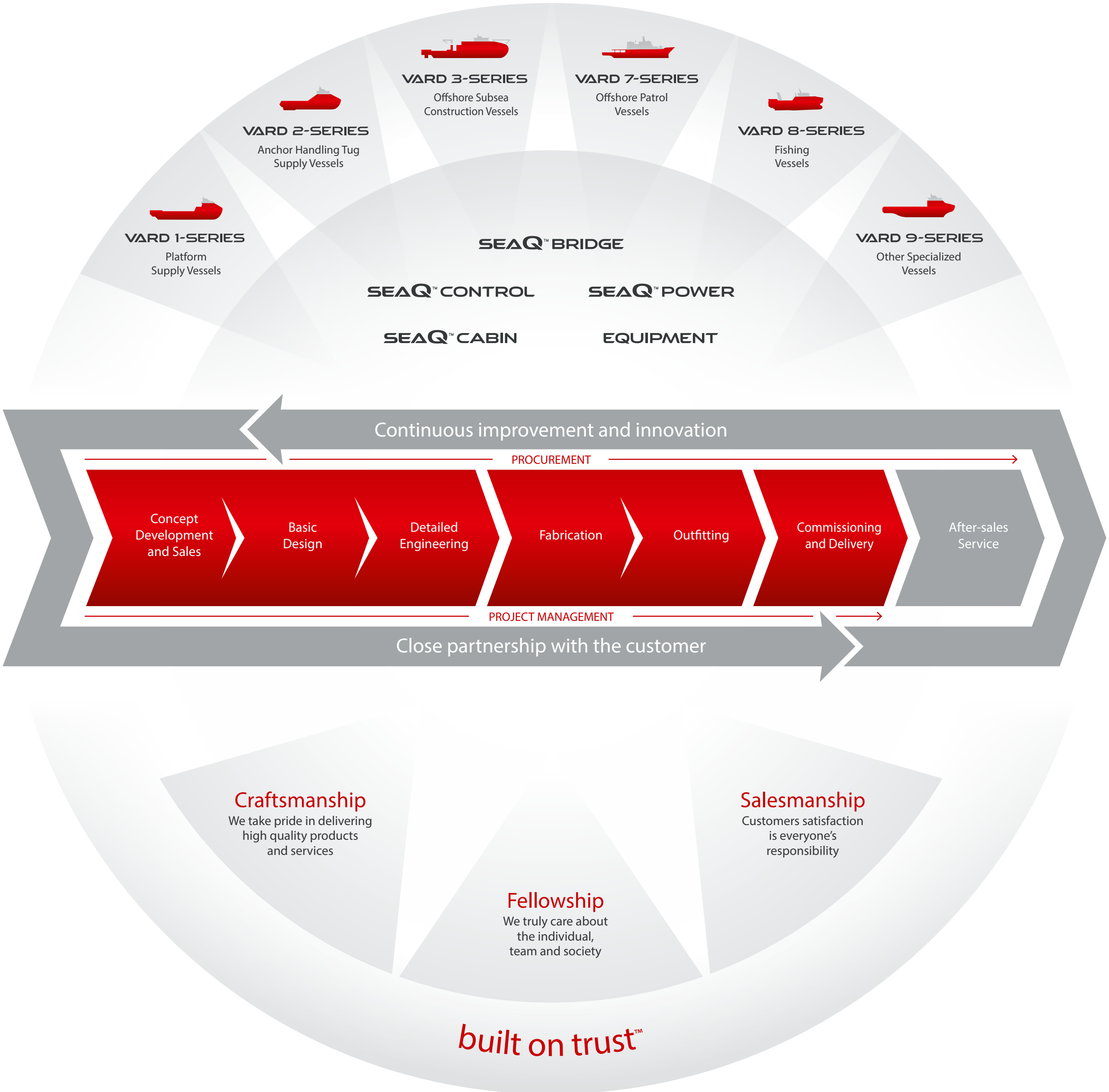
VARD ELECTRO embarked on an inaugural contract with FINCANTIERI for switchboards. Synergies between VARD and FINCANTIERI also came in the exchange of best practices and specialist personnel from within the Fincantieri Group.

AT THE WORKBOAT SHOW in New Orleans two PSVs designed by Vard Marine, a VARD 1 300 and a VARD 1 310 design, were recognized with the "Significant Boats of 2014" award.

VARD LANGSTEN was honoured by a visit from the Norwegian Prime Minister Mrs. Erna Solberg, who named the new surveillance vessel contracted by the Norwegian Defence Logistics Organisation and operated by the Norwegian Intelligence Service. The ceremony was also attended by high-ranking representatives of the Norwegian Armed Forces and Norwegian Intelligence Service.

THE CABLE LAYING VESSEL, Pierre de Fermat, was delivered to Orange Marine from Vard Brattvaag. The vessel is intended for subsea operations and cable installations, and is the first of the new VARD 9 01 design ever delivered.

VARD BRAILA delivered the survey vessel Kanysh Satpaev, named after the founder of the Geological Institute of the Republic in Kazakhstan, to Circle Maritime Invest. This 46-meter vessel will be used to research the water quality in the Caspian Sea.


VARD 1-SERIES
Platform Supply Vessels
VARD 2-SERIES
Anchor Handling Tug Supply Vessels
VARD 3-SERIES
Offshore Subsea Construction Vessels
VARD 7-SERIES
Offshore Patrol Vessels
VARD 8-SERIES
Fishing Vessels
VARD 9-SERIES
Other Specialized Vessels
SEAQ™ BRIDGE
SEAQ™ CONTROL
SEAQ™ POWER
SEAQ™ CABIN
EQUIPMENT
Continuous improvement and innovation
PROCUREMENT
Concept Development and Sales
Basic Design
Detailed Engineering
Fabrication
Outfitting
Commissioning and Delivery
After-sales Service
PROJECT MANAGEMENT
Close partnership with the customer
Craftsmanship
We take pride in delivering high quality products and services
Fellowship
We truly care about the individual, team and society
Salesmanship
Customers satisfaction is everyone's responsibility
built on trust™

OPERATIONAL REVIEW

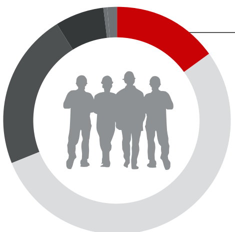
DESIGNING AND BUILDING ADVANCED OFFSHORE SUPPORT VESSELS AND OTHER SPECIALIZED VESSELS REQUIRES SOLVING NEW TECHNOLOGICAL CHALLENGES EVERY DAY THROUGH COOPERATION ACROSS BORDERS AND PROFESSIONAL DISCIPLINES.

NORWAY

- Vard Group (HQ)

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

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



1 797
EMPLOYEES

VARD truly operates on a global scale, with ten modern shipyards and several specialized subsidiaries providing a range of products and services, strategically located across four continents. Our common integrated project management system allows us to share knowledge and experience internationally and along the entire value chain, making VARD one of few full-service offshore shipbuilders operating world-wide.

Five of the Group's ten shipyards, as well as the Company's headquarters, are located in Norway. VARD also operates two shipyards in Romania, two in Brazil and one in Vietnam, giving us access to favorable labour cost levels, as well as a presence in key growth markets. Our major subsidiaries delivering products and services to the shipbuilding projects also operate globally. The collaboration between all of VARD's disciplines and locations, combined with an international network of specialists and suppliers, provides us with the ability to offer tailor-made solutions, and ensures that our customers receive consistent and high quality products and services in all markets we serve.

Procurement is central throughout VARD's value chain. The major equipment such as the main engines, propellers, generators, thrusters and the vessel-specific equipment like the powerful winches on an anchor handler make up over 50% of the total cost of a vessel. Achieving the required functionality, at the right cost, and with optimum performance, reliability, and safety are essential for every project's success. Our strong market position helps us negotiate favorable purchase terms, and VARD also cooperates closely with key suppliers on new developments.

A dedicated project team – often comprising members from several countries – is assigned to every shipbuilding project, and all project teams benefit from a free flow of know-how, skills and information. The way our production systems are set up at each of our yards enables VARD to operate as a cohesive and integrated multinational business able to understand and tap into the strengths of each location.

The new high capacity pipe shop at Vard Tulcea is one of the most advanced fully-automated workshops in the shipbuilding industry.

Concept Development and Sales

Our long shipbuilding tradition and the close relationships we enjoy with our customers provide us with a solid foundation for developing high quality vessels customized according to clients' needs. VARD's design concepts are all developed with an emphasis on safety, cost optimization, functionality, operability, fuel economy and environmental performance. These characteristics are found both in our more standardized designs and in one-off, tailor-made prototype vessels.

Research and development are central to our business strategy. Through comprehensive research studies and testing of new solutions, we continuously improve our vessels' specifications. We perceive innovation as a dynamic process, compelling us to constantly evolve. This enables us to always offer innovative solutions and thereby creating business opportunities for our customers.

Design concepts are typically developed or adapted to a customer's specific requirements prior to a contract being entered into. During this process, our design and sales teams cooperate closely with the customer, making each new vessel a unique product. Developing state-of-the-art designs, which provide increased performance and value for our customers, is always our main priority. In cases where a ship owner has a preference for an external design or for niche products where VARD may not be able to provide a solution on short notice, we work together with clients on implementing concepts developed by reputable third-party designers.

Our main design office and sales team are located in the city of Ålesund, Norway. The area around the city is a traditional maritime stronghold of Norway, and a number of shipyards, leading ship owners, world-class offshore marine service companies, vessel equipment manufacturers and oil service companies have their operations in the nearby areas and offshore on the Norwegian Continental Shelf. There are many benefits of being located within the "cluster". We enjoy a large network which provides for close cooperations, and also gives a strong position in the field of research and development for new maritime innovations.

While most of the concept development and sales effort as a whole are managed from Norway, these activities are also supplemented by resources close to the customer. The Singapore office plays an important role in building relationships with potential clients in the Asia Pacific region. It has secured contracts both for the Vietnam yard and for sales of design and equipment packages to other yards in the region. In Brazil, our colleagues closely follow the dynamics of this particular offshore market, and are involved in the customization of concepts and sales of projects to clients operating under the country's strict "local contents" rules. In Romania, smaller projects are occasionally developed locally, building on the long shipbuilding tradition of those yards prior to them becoming primarily hull suppliers for VARD's Norwegian yards.

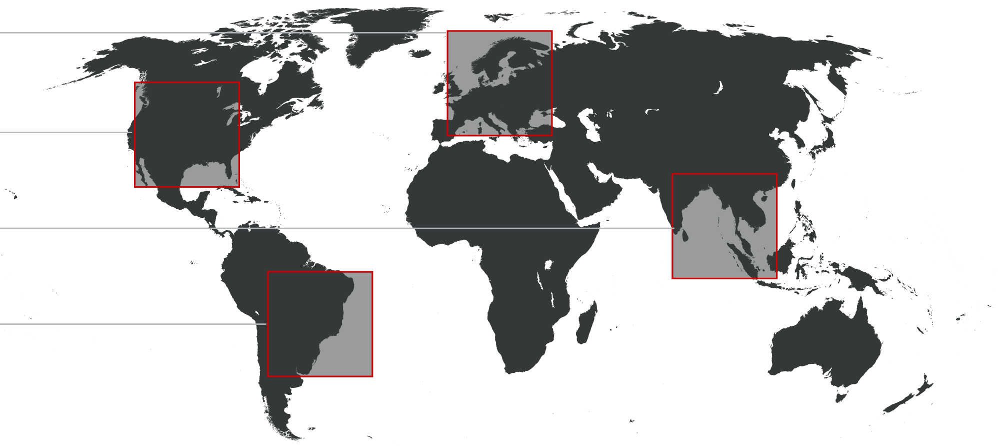
Finally, the Group's most recent acquisition, Vard Marine, entails its own concept development, design, and sales resources, targeted towards complementary markets. Vard Marine, headquartered in Canada and with a US subsidiary, provides marine engineering and design services to the offshore, commercial and naval shipbuilding segments, primarily in North America but also to other selected international markets. Tighter integration into the wider VARD family and opportunities for increased cooperation with other parts of the Group are currently being explored.

EUROPE
8,228 employees

NORTH AMERICA
84 employees

ASIA
822 employees

SOUTH AMERICA
2,645 employees



Basic Design

In carrying out basic design, we develop and provide drawings and documentation on the overall design of our vessels. Based on this, approval by the client, the chosen classification society, and the relevant authorities are obtained.

Ship design is an innovative and iterative process that utilizes advanced model testing, analyses and calculations. It includes establishing the required drawings that define the shape of the ship, its different main arrangements and deck layouts, incorporating and taking into consideration all major ship equipment. The technical documentation and drawings produced during this stage describes the vessel's capacities, performance, features, structural strength and the functionalities of its machinery and electrical systems.

Basic design is carried out mostly by Vard Design in Ålesund, Norway, in collaboration with our design office in Croatia, Vard Design Liburna, which assists with structure and system drawings. The entire process is closely interlinked with other processes in our value chain - from conceptual development to the integration of VARD's own specialized equipment such as power and automation systems. Feedback from our customers based on their operational experience, and the production process at our yards provide us with valuable knowledge that flows directly back into the design process. This enables us to constantly enhance our design capabilities and continuously develop improved and innovative solutions.

Detailed Engineering

A wide range of engineering disciplines are involved in the detailed engineering of a vessel. Before physical construction, we build a virtual three-dimensional (3D) model of the vessel using 3D software tools which are central in VARD's design and engineering processes. This shared model provides our designers and engineers with a complete view of the entire vessel and real-time status of the project. All production information is harvested from the 3D model and enables all our personnel who are involved in the project - irrespective of whether they are at one

ROMANIA

SHIPYARDS
- Vard Tulcea
- Vard Braila

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

6 398
EMPLOYEES

With fully-integrated facilities, vessels are completed on-site at Vard Promar in Brazil.

BRAZIL

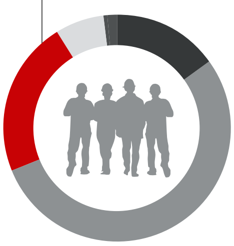
SHIPYARDS

- Vard Niterói
- Vard Promar

SPECIALIZED SUBSIDIARY

- Vard Electro Brazil

2 645
EMPLOYEES



of our yards or in one of our specialized subsidiaries - to share the same data and collaborate flexibly. In taking this 3D modeling approach we are able to increase efficiency and quality, as well as achieve a higher level of control throughout the process. This reduces the margin for mistakes or delays, and has a positive effect on overall cost efficiency.

Our highly trained engineers are strategically located at our yards, and work closely with the project teams. In addition, we also have engineering divisions in Ålesund, Norway and Constanta, Romania. These divisions provide engineering resources on demand, reducing the need for external subcontractors, whilst ensuring consistency and quality.

Through joint projects of different scale and scope, our engineering resources have the opportunity to work closely together. We also have put in place exchange programs across locations, and they contribute to our engineers' training outside Norway.

One of our joint projects currently under construction by teams located in Brazil and Norway is the construction of four Pipe-Lay Support Vessels (PLSVs) for the joint venture between DOF and Technip. Two of these vessels will be delivered from Vard Promar in Brazil and two from Vard Søviknes in Norway. This requires close cooperation between the Norwegian and Brazilian project teams throughout the engineering and production phases. As the vessels are very large and highly complex for the newly-established Vard Promar, team members from Norway will support the Brazilian team through the entire project.

In addition, engineers at our yard in Vietnam, Vard Vung Tau, participate in project-based cooperation on vessels that are to be delivered from other VARD shipyards. This additional capacity offers VARD much-needed flexibility that benefits the entire Group.

Fabrication

When a sufficient part of design and detailed engineering is complete, we commence fabrication of the vessel's hull. During this important project phase, a wide range of disciplines are engaged simultaneously, requiring close cooperation.

At VARD, the construction process, which comprises hull fabrication and outfitting, follows one of two main approaches. In Europe, the design and some of the engineering are handled from Norway. Our man-hour intensive operations are more cost efficient in Romania, where two yards specialize in hull manufacturing and early stage outfitting. Once these production steps are completed, the vessels are towed over a three-to-four week period to one of our Norwegian yards for further outfitting. In contrast, our yards in Vietnam and Brazil have fully-integrated facilities, and the vessels are completed at a single site.

The start of steel cutting marks the kick-off in the fabrication phase. Steel parts and panels are pre-fabricated before assembly into units. An increasing share of the assembly welding is now handled by semi- and fully-automated welding robots. This results in improved quality and overall cost reduction. Units are thereafter assembled into blocks. The semi-finished and finished steel blocks are then transported to our state-of-the-art modern facilities for surface treatment. To the extent the construction schedule permits, large equipment and components such as main engines, generators, thrusters, pumps and switchboards are typically installed before the blocks are connected. Once the blocks are connected and welded together, the installation of pipes, ventilation ducts and cables can be completed. With all the blocks assembled, the hull itself is complete, and is launched before further outfitting. The launching method depends on the specific yard's launch facilities; by a Syncrolift ("elevator") at Vard Tulcea, transverse slipway at Vard Braila, longitudinal slipway at Vard Niterói, or floating docks at Vard Promar and Vard Vung Tau.

We continuously seek to improve all of our facilities to ensure increased efficiency and consistent high quality, without compromising on cost. Recent investments and improvements at our facilities in Romania were made to increase VARD's competitiveness both in terms of quality and price. These include the completion of five fully-enclosed facilities for sandblasting and painting, improved steel cutting areas, as well as upgraded pre-fabrication and assembly halls. The largest single investment was a new high capacity pipe shop at Vard Tulcea, one of the most advanced fully-automated pipe workshops in the shipbuilding industry. This factory comprises pipe-bending, welding, cutting and sandblasting, as well as automated pipe storage racks and conveyor belts – all operated via the same 3D software used in the design phases. It produces work of high accuracy, and significantly shortens the time from design to production. At Vard Promar, we are in the process of doubling the capacity of the block erection shop in order to increase the amount of work performed in an enclosed area.

Global integrated planning throughout VARD facilitates efficient work load distribution and cost optimization. The Group's overall estimated steel fabrication capacity ranges from 100,000 to 130,000 tons annually, depending on the size and complexity of the projects. This represents a total of about 20 to 30 small, 15 to 20 medium or 12 to 15 large sized OSVs, or a mix of different sizes and types. Of these capacities, our Romanian yards can build 70,000 to 100,000 tons, our yard in Vietnam 8,000 to 12,000 tons, and our yards in Brazil 18,000 to 30,000 tons per year.

Far Sygna being launched by floating dock from Vard Vung Tau in Vietnam.

VIETNAM

SHIPYARD
- Vard Vung Tau

SINGAPORE

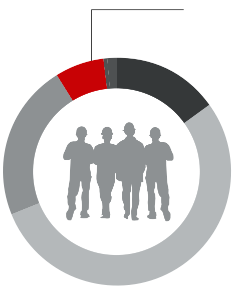
REGISTERED OFFICE
- Vard Holdings

SALES OFFICE
- Vard Singapore

INDIA

SPECIALIZED SUBSIDIARY
- Vard Electrical Installation & Engineering

822
EMPLOYEES



Outfitting

During the outfitting phase, the remaining equipment, components and systems are installed, including highly complex power, automation and vessel control systems. Mechanical completion is carried out, and piping and cables are installed. In parallel, interior outfitting of the wheel house and accommodation areas are completed. Our subsidiaries Vard Electro, Vard Piping and Vard Accommodation play a central role as internal suppliers in our overall value chain, and are closely involved in the outfitting phase. Equipment, components and systems are commissioned, and the remaining paint work is finished. The vessel is then ready to have its stability tested through an inclination test, before the sea trial can commence.

Hulls completed in Brazil and Vietnam remain on-site for outfitting and until delivery, whereas the majority of the vessels built at our Romanian yards are completed in our Norwegian yards. One of our yards in Norway is located southwest of the capital, Oslo, whilst the remaining four are located on the west coast in the vicinity of the city of Ålesund, where the Company's headquarters is located. Many of our employees engaged in the outfitting phase have operational experience from other parts of the industry, helping us to understand our clients' objectives and tailor solutions to their needs. The Norwegian yards' close proximity to each other also gives VARD the flexibility to transfer workers between different locations, depending on the progress of their respective projects. During 2014, for example, staff normally based at Vard Aukra worked on projects at Vard Langsten. This exchange helps to balance varying capacity requirements as the projects move through different stages, and fosters inter-yard learning. We also utilize a mix of permanent and subcontracted workers to achieve flexibility in adapting our workforce size and expertise to our different projects.

Our flexibility and ability to execute modifications through the entire value chain, including the final stages of outfitting, provides the best solutions and latest updates on equipment, technology and solutions. This is one of VARD's key strengths, which is valued highly by our clients.

Commissioning and Delivery

During the commissioning phase, all the systems on board a vessel, such as main machinery and electrical systems, are checked for defects or irregularities. Each piece of equipment and each function is thoroughly tested, calibrated and approved for operations. During sea trials, the interplay of all components under realistic operating conditions is tested, and key performance parameters such as fuel consumption and speed are established. The vessel and its equipment are tested under realistic conditions to ensure safe operations at all times.

Once final testing is completed and all certifications have been acquired, the vessel is ready for delivery – the transfer of ownership to the customer. By that time, the first crew is usually already on board and has familiarized itself with the vessel, which often enters into service straight from the yard. This is why on-time delivery is extremely important for our clients, and a key selling point for VARD.

The pride and dedication we share with our customers are evident every time a new vessel is delivered. At the completion of each project, we organize a naming ceremony in close cooperation with the customer to honor the process and those involved, and to celebrate our joint effort. According to age-old shipbuilding traditions, each vessel has a sponsor or "godmother" to bestow good luck and protection over the vessel and all that sail aboard.

After-sales Service

After the delivery, a warranty period, normally of 12 months, is provided. During and after the warranty period we provide services to repair any problems that may arise from construction defects and maintainance of equiptment installed on board.

CANADA

SPECIALIZED SUBSIDIARY
- Vard Marine

USA

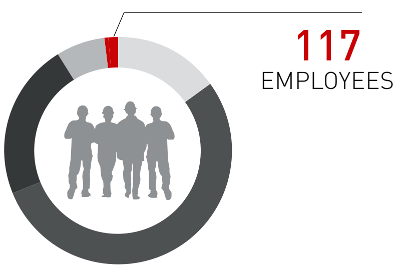
SPECIALIZED SUBSIDIARY
- Vard Marine US

CROATIA

SPECIALIZED SUBSIDIARY
- Vard Design Liburna

POLAND

SPECIALIZED SUBSIDIARY
- Seaonics Polska



CORE PRODUCTS

SELECTED DELIVERIES 2014

Troms Arcturus for Troms Offshore

Siem Giant for Siem Offshore

* Vessels delivered with VARD's former design names.

SELECTED ORDERS 2014

Nordic American Offshore

Mermaid Marine Australia

We design and build a complete range of Platform Supply Vessels (PSV). PSVs are commonly referred to as the "trucks of the sea", as they are designed to transport cargo to and from offshore oil rigs and platforms. PSVs are able to perform a variety of tasks to support offshore operations; our PSVs are designed with focus on cargo capacity and excellent manoeuvering capabilities combined with low fuel consumption.

Far Sygna for Farstad Shipping

VARD has delivered ship designs in the VARD 1-SERIES* 103

*Ship designs sold by Vard Design and Vard Marine in the period 2005-2014.

VARD 1-SERIES

DELIVERY 2014

Skandi Urca for DOF

ORDERS 2014

Rem Offshore

Bourbon

We design and build technologically advanced Anchor Handling Tug Supply vessels (AHTS) capable of operations in the harshest environments. AHTS vessels mainly perform anchor handling duties and towage of offshore drilling units and floating production units. AHTS vessels need free deck space to run necessary operations, but they have the flexibility to carry cargo and bulk in tanks placed below deck.

Skandi Urca for DOF

VARD has delivered ship designs in the VARD 2-SERIES* **35**

*Ship designs sold by Vard Design and Vard Marine in the period 2005-2014.

VARD 2-SERIES

ANCHOR HANDLING TUG SUPPLY VESSELS

SELECTED DELIVERIES 2014

Siem Spearfish for Siem Offshore

Normand Reach for Solstad Offshore

ORDERS 2014

Solstad Offshore

Technip

Farstad Shipping

We design and build highly advanced Offshore Subsea Construction Vessels (OSCV) for the oil and gas industry. These complex vessels perform subsea operations and maintenance work, and include pipelaying, subsea construction, diving support, ROV support, well intervention and well stimulation vessels.

Normand Vision for Solstad Offshore

VARD has delivered ship designs in the VARD 3-SERIES* **43**

*Ship designs sold by Vard Design and Vard Marine in the period 2005-2014.

VARD 3-SERIES

OFFSHORE SUBSEA
CONSTRUCTION VESSELS

SELECTED DESIGNS

*VARD 7-SERIES is designed by Vard Marine. All reference projects to date have been built at shipyards outside VARD.

We design highly capable offshore patrol vessels, using a commercial approach, that can withstand some of the toughest ocean conditions in the world. Experienced staff work closely with our 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 has delivered
ship designs in the VARD 7-SERIES* 13

*Ship designs sold by Vard Marine in the period 2005-2014.

VARD 7-SERIES

OFFSHORE PATROL VESSELS
BY VARD MARINE

DELIVERY 2014

Gadus Neptun for Havfisk

SELECTED DESIGNS

We design and build advanced fishing vessels like stern trawlers. These vessels are developed for the best balance between energy consumption and catch efficiency. They are tailor-made for the fish species caught and may operate worldwide. With ice strengthened hulls they may also catch species along the ice rim, both in Arctic and Antarctic waters.

Gadus Neptun for Havfisk

VARD has delivered
ship designs in the VARD 8-SERIES* 3

*Ship designs sold by Vard Design in the period 2011-2014.

VARD 8-SERIES

FISHING VESSELS

SELECTED DESIGNS

Cable Laying Vessel

Icebreaking Support Vessel

Large Extent Oil Recovery Vessel

Seismic Research Vessel

We design and build other specialized vessels, such as research and coast guard vessels, special purpose cable layers, seismic vessels and icebreakers. We deliver different types of vessels and ship designs, most of them adapted to customer-specific requirements.

Pierre de Fermat for Orange Marine

VARD has delivered
ship designs in the VARD 9-SERIES* 11

*Ship designs sold by Vard Design and Vard Marine in the period 2005-2014.

VARD 9-SERIES

SEAQ™ - QUALITY AT SEA

SeaQ harnesses our experience as shipbuilders and is VARD's product and solutions trademark. VARD builds complex and advanced vessels with a wide variety of specialized components. As a system integrator, our core competencies are in selecting, configuring and testing the different components to address our customer's needs. Amidst the rigorous demands of our clients at the high end of the market, we constantly seek to develop new, innovative and flexible solutions with a green profile. We take pride in delivering the required functionality, at the right cost, that present performance, reliability, and safety standards which are compliant with classification rules and international standards.

The SeaQ line of products, encompassing design, integrated systems, marine electronics and electrical systems, and accommodation were launched in 2013. The high quality SeaQ products conform to the highest industry standards.

In line with VARD's approach to shipbuilding projects, all our solutions are of high quality, meeting the most stringent industry standards.

Every SeaQ product can be delivered individually or as part of a larger, integrated package contributing to the competitiveness of VARD and meeting the needs and expectations of the market.

The SeaQ solutions cover five main categories:

SEAQ POWER™

The SeaQ Power product area includes a complete set of intelligent power systems that generate, distribute and control power on board vessels. Within this category, you will find, among others, switchboards, drives, propulsion systems, starters, converters, electrical motors, generators and transformers.

Vard Electro has a long track record working with all elements of power systems for vessels, developing reliable power system solutions and components adapted to various types of vessels and in line with customers' preferences.

SEAQ CONTROL™

The SeaQ Control product area is a set of seamlessly integrated control systems, designed to improve usability and enhance the vessel's performance at sea. Systems in this product category include integrated automation systems, power management systems, energy management systems, and blackout prevention systems. Working closely with our customers, we select the optimal components to produce the best performance for each assignment, whilst overcoming all engineering and integration challenges.

We are proud that more than one hundred vessels currently in operation in various parts of the world are equipped with the SeaQ Integrated Automation System (IAS). These solutions are delivered by Vard Electro.

SEAQ BRIDGE™

The SeaQ Bridge product area includes a wide selection of navigation and communication products controlled and operated from the vessel's bridge, such as radar plants and electronic chart displays, bridge alert management, fixed and wireless communication systems etc. All systems can be integrated with our maneuvering chairs and bridge consoles. We also provide ship-wide information systems such as computer networks, alarms systems, Public Address systems, and infotainment packages for the crew. Our solutions are based on a strong understanding of industry standards and classification requirements. A complete package delivery from Vard Electro means that the customer has a single point of contact for the delivery, maintenance and service.

SEAQ CABIN™

Our vessels have custom-made cabins. The new and innovative SeaQ cabin system is fit for today's crew expectations. The focus is on silent cabins to ensure high-quality living while away from home. We are also able to fit two one-person cabins into the space of a traditional two-person cabin.

The production and installation of these cabins is standardized and modularized. Our concept offers optimal utilization of the available space and has led to a more standardized cabin area layout, with a highly efficient design and building process. These solutions are delivered by Vard Accommodation.

OTHER EQUIPMENT

Another solution category is our high-end integrated equipment and solutions for subsea construction, which are delivered by our subsidiary company, Seaonics.

The products provide simplified handling operations for the marine and offshore industry. They include module handling and well intervention systems, deck cranes and AHC subsea construction cranes, launch and recovery systems, active heave compensated winches, deck machinery, and drilling and tensioning systems.

VESSELS DELIVERED

DURING 2014, VARD DELIVERED 18 INNOVATIVE VESSELS FROM OUR SHIPYARDS ACROSS THE WORLD. DELIVERIES RANGED FROM OUR CORE PRODUCTS AHTS, PSV AND OSCV TO OTHER SPECIALIZED VESSELS SUCH AS A SURVEY VESSEL, A FISHING TRAWLER AND A CABLE LAYER.

Platform Supply Vessels (PSV)

Island Dawn	797	Island Offshore	UT 717	Vard Brevik
Island Dragon	798	Island Offshore	UT 717	Vard Brevik
Island Condor	814	Island Offshore	UT 776	Vard Brevik
Far Sun	815	Farstad Shipping	VARD 1 07	Vard Langsten
Far Sygna	816	Farstad Shipping	VARD 1 07	Vard Vung Tau
Troms Arcturus	817	Troms Offshore	PSV 07	Vard Aukra
Siem Giant	PRO 32	Siem Offshore	PSV 09	Vard Niterói

Anchor Handling Tug Supply Vessels (AHTS)

Far Sigma	809	Farstad Shipping	UT 731	Vard Langsten
Far Sirius	810	Farstad Shipping	UT 731	Vard Langsten
Skandi Urca	PRO 30	DOF	VARD 2 11	Vard Niterói

Offshore Subsea Construction Vessels (OSCV)

Island Pride	785	Island Offshore	UT 737	Vard Brevik
Normand Vision	811	Solstad Offshore	VARD 3 06	Vard Søviknes
Siem Spearfish	820	Siem Offshore	VARD 3 03	Vard Brattvaag
Siem Stingray	821	Siem Offshore	VARD 3 03	Vard Brattvaag
Normand Reach	825	Solstad Offshore	VARD 3 03	Vard Aukra

Other Specialized Vessels

Kanysh Satpayev	717	Circle Maritime Invest	SVC03	Vard Braila
Gadus Neptun	790	Havfisk	FV 01	Vard Brattvaag
Pierre De Fermat	819	Orange Marine	VARD 9 01	Vard Brattvaag

1. TROMS ARCTURUS
2. NORMAND VISION
3. ISLAND PRIDE
4. FAR SYGNA
5. PIERRE DE FERMAT
6. SIEM STINGRAY
7. KANYSH SATPAYEV
8. SKANDI URCA

ORDER BOOK DEVELOPMENT

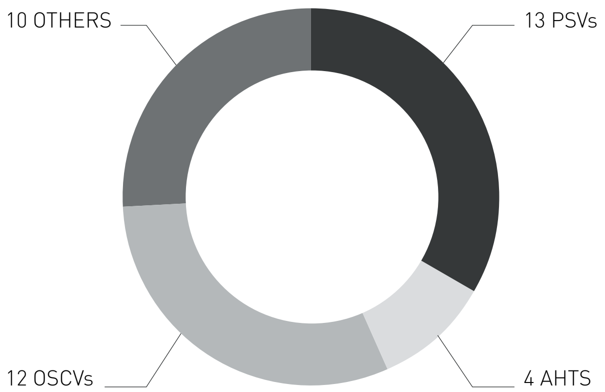
At the end of 2014, VARD's order book stood at NOK 17.7 billion, down from NOK 19.4 billion a year earlier. The order book comprised 39 vessels, 24 of which are of VARD's own design. Deliveries are scheduled mostly for 2015 and 2016, with three vessels due in 2017.

During the year, 18 vessels were delivered from the Group's shipyards – 14 from Norway, one from Romania, two from Brazil and one from Vietnam. The number of projects completed was lower than anticipated at the beginning of the year, primarily due to additional delays incurred at the Brazilian yards. Deliveries spanned a broad range of different vessel types and sizes, from PSVs to AHTS and different kinds of OSCVs. Including a telecoms cable layer and a fishing trawler, these deliveries also showcased VARD's expertise in building specialized vessels for non-oil and gas related market segments.

While in 2013, the majority of new orders were for OSCVs, PSVs dominated in number in 2014, with 10 out of 16 contracts secured. Consequently, the average contract value decreased from over NOK 900 million per vessel to below NOK 600 million. Even though the number of new contracts increased to 16, the total order intake declined from NOK 14.2 billion to NOK 9.5 billion. At the end of the year, the order book was well diversified with 13 PSVs, 4 AHTS, 12 OSCVs and 10 other vessels, including 8 LPG carriers under construction at the new shipyard in Brazil.

ORDERBOOK BY SEGMENT

Per 31 December 2014

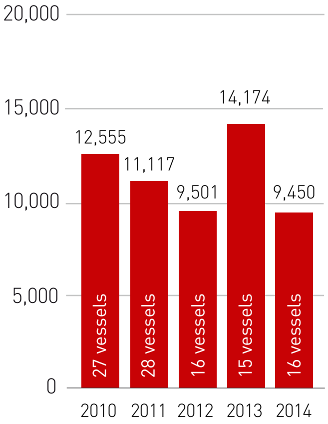


ORDERBOOK BY DELIVERY YEAR

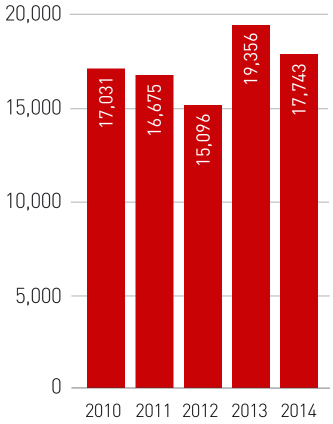
Per 31 December 2014

VARD was also successful in its continued drive to diversify the order book away from its core market, the North Sea, and a dominance of Norwegian clients, while maintaining its long-standing relationships there. The proportion of customers domiciled in Norway decreased from more than 50% of contracts at the end of 2013, to just over 40% by the end of last year. In particular, the number of contracts for clients based in Europe (outside Norway) and in North America increased significantly. Two new contracts were also secured for an Australian client, increasing VARD's exposure to different oil and gas markets in diverse geographies.

ORDER INTAKE (NOK MILLION)



ORDER BOOK (NOK MILLION)

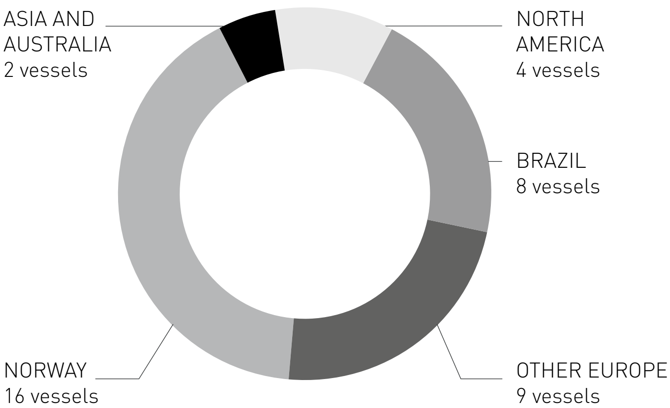


ORDERBOOK BY YARD LOCATION

Per 31 December 2014

ORDERBOOK BY CUSTOMER DOMICILE

Per 31 December 2014



SUSTAINABILITY AND SOCIAL RESPONSIBILITY

VARD has a strong commitment to sustainable and responsible operations towards our stakeholders, including our employees, shareholders, customers, partners, suppliers and subcontractors, and the local communities in which we operate.

This commitment is also reflected in the three core values at VARD, namely, Craftsmanship, Fellowship and Salesmanship.

- Craftsmanship is about the quality of our products and services.
- Fellowship is about truly caring for the individual, team and society.
- Salesmanship is about our responsibility to the customer and ensuring that their expectations are met.

Towards Vision Zero

"Vision Zero" is an aspiration VARD has focused on since 2005.

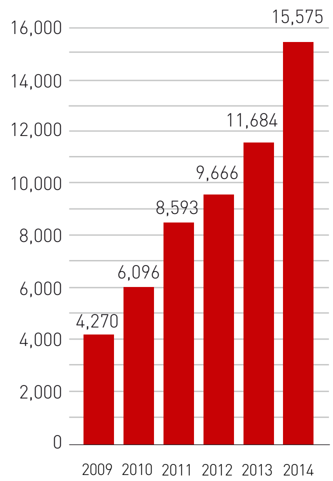
Each day, thousands of employees at VARD work in potentially hazardous situations. The Company's systematic work with health, safety and the environment (HSE) has resulted in industry-leading low HSE indicators throughout our locations. It could therefore be argued that VARD has already come as close as possible to achieving its aspiration. Even so, the goal remains to avoid all fatal accidents, personal injuries, unplanned incidents and damage to the environment.

VARD benefits from a clear company-wide commitment to HSE, which cascades down to each employee. This means that it has top management 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 management at all shipyards to run proactive HSE initiatives as well as encourage a culture for reporting incidents and safety observations. An example of this proactivity is the "Internal Week of Labor Accident Prevention – SIPAT" held in October 2014 at VARD's newest shipyard, Vard Promar in Brazil. With 700 new employees joining the yard during the year, this gave the management the opportunity to emphasize the importance of VARD's HSE culture.

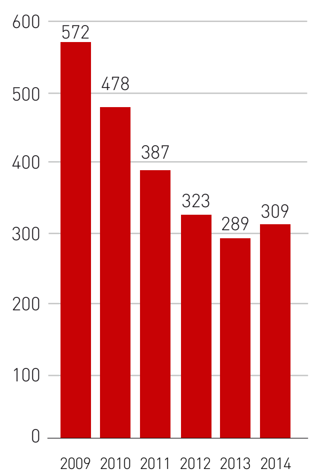
Since 2005, VARD's HSE performance has seen a remarkable improvement. Our everyday HSE routines are captured and updated in a system called "Synergi", re-launched specifically for VARD in December 2013. This enables us to continuously monitor and have a consistent and transparent view of the Group's HSE performance.

During 2014, we continued to encourage everyone to report hazardous conditions, which resulted in a 33% increase in the number of safety observations. In spite of this proactive approach, the number of accidents increased approximately 7%.

SAFETY OBSERVATIONS REPORTED AND HANDLED



ACCIDENTS



We are working actively on several initiatives to reduce accidents and focus especially on the few locations which are contributing to the increase. We are still of the opinion that there is a parallel development in these two important HSE indicators, and that the improvements we put in place have had a tangible impact in reducing number of accidents.

A new HSE training film was launched in 2014 and translated into all relevant languages. This emphasized to all employees the importance of using the right protective gear at all times. Throughout the year, special focus was placed on communicating initiatives to reduce long-term health impacts.

One of our shipyards in Romania witnessed a fatal incident in April, and since then, rules regarding protective clothing have been further emphasized in our monthly HSE inductions to remind all workers of its importance.

VARD's most important allies in implementing a range of HSE initiatives are the trade unions and, judging by the feedback from employees and local societies, our efforts are appreciated and positively noticed. Strict key performance indicators (KPIs) relating to our safety culture have been implemented at all operational units. This proactive approach contributed to an outstanding HSE performance for a business of our type. In addition, we share best practices in our HSE work with our parent company, FINCANTIERI.

Environmental Sustainability

We continually strive to tighten policies and improve procedures in order to minimize our environmental impact, and we believe that the sound co-existence of our business and the environment is important.

Our focus areas are the construction of eco-friendly vessels, minimal emissions, waste management and noise abatement. We promote an open dialogue on environmental issues with employees, regulatory authorities, our local communities, and other stakeholders. For example, VARD is in close dialogue with public authorities on issues such as avoidance of pollution resulting from our operations, and inspections are conducted on a regular basis. Remarks have generally been minor and have been handled locally as part of our everyday business.

Since 2008, VARD has been a member of the Confederation of Norwegian Enterprises' NOx-Fund. This means that we pay a charge on all diesel fuel used in building our vessels. Recycling of waste from shipbuilding and maintenance is a key priority. In 2011, a comprehensive waste management framework was put in place, and we have experienced a steady increase in the level of recycling to 89% by the end of 2014.

Employees – Our Most Valuable Resource

VARD is widely regarded as an employer-of-choice, and enjoys strong brand recognition in our key markets.

Throughout 2014, the Group has had a stable workforce in Europe and Vietnam. In Norway, VARD launched a successful campaign to increase the number of apprentices by 25%. At year-end, the Norwegian operation had 120 such employees engaged under various types of training contracts.

The resourcing for VARD's new Brazilian shipyard, Vard Promar, was a significant undertaking, involving the recruitment and training of some 700 new employees. Brazil is a challenging market with a shortage of shipbuilding skills. The need for training was therefore most important. Having completed the recruitment process by the year-end, the yard now employs 1,500 people.

New training and development program "Vard Academy"
With more than 11,000 people on board and more than 800 new hires globally during 2014, there was a need to streamline training and development. Vard Academy was established in February 2014 as our in-house training department, offering training to both customers and employees.

Vard Academy has three main areas of focus:

- **Competence programs:** Employee training relating to internal policies, procedures, routines and the renewal of professional certifications. These programs are available both as classroom and e-learning courses.

Participants at a Vard Academy course in Brazil.

First aid training at Vard Brattvaag.

Close to 700 employees have taken courses through Vard Academy in 2014. Courses are held at all five shipyards in Norway. The courses encompass HSE, safety regulations related to the maintenance and operation of electrical installations, quality, onboarding for new employees, various certifications, first aid training and technical classes on SeaQ products.

- **Leadership programs:** The development and delivery of leadership programs for coordinators, procurement and for first line managers and project managers for Vard Electro. The roll-out of these leadership programs is set to take place in 2015.

- **Customer programs:** Training offered to VARD's customers for products, equipment and systems. This training is primarily delivered by Vard Electro and relates to SeaQ products, and six shipping companies had participated by the end of 2014. The program is offered in Norway, Brazil and Singapore, and some training is also conducted on board vessels. Instructors are trained based on the principle of "train the trainer".

Focus on absenteeism

Over several years, VARD has worked determinedly to reduce the level of absenteeism by continuous monitoring and follow-up at all locations. This led to a decline from 4.5% in 2007 to a record low of 2.7% in 2013. During 2014, this figure increased slightly to 3.2%. Even so, the level remains low, both in comparison with the communities we operate in, and our industry specifically. It is, however, a constant reminder that we need to continue our efforts to keep absenteeism consistently low.

Constructive dialogue with trade unions

A large majority of VARD employees are members of trade unions. At VARD, the relationship between management, employees and their trade union representatives has in general been positive and built on trust. VARD's management aims to strengthen constructive relationships with all of its stakeholders, and employees represent one of the key stakeholder groups.

All negotiations between trade union representatives and VARD's management follow established rules and regulations and common practices in each of the markets where VARD operates. In 2014, the only conflict was a two-week strike at one of the Group's Brazilian shipyards related to the annual salary negotiations.

Activities during the Environment Week at Vard Promar.


Employees from Vard Vung Tau participate in a naming ceremony.

Compliance with International Standards

The international standards which VARD complies with fall within the areas of quality (ISO 9001), social accountability (SA8000), occupational health and safety (OHSAS 18001), and environmental management (ISO 140001).

ISO 9001 – QUALITY
All ten yards in Norway, Brazil, Romania and Vietnam are certified according to this important standard, as are Vard Electro in Norway and Romania, Vard Marine in the US and Canada, Vard Design in Croatia, and Vard Accommodation and Vard Piping in Norway. 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 improvement. We will continue to roll out this standard to all our specialized subsidiaries.

VARD's newest shipyard, Vard Promar in Brazil, achieved ISO 9001 compliance in 2014 following a ten-month certification process. This process ran parallel with the construction of the new yard, and the hiring and training of its personnel – the advantage being that all procedures and best practices are established from the outset.

SA 8000 – SOCIAL ACCOUNTABILITY
The SA 8000 standard is based on guidelines from the International Labor Organization and draws on various international human rights declarations, and is thus particularly relevant in emerging economies. It covers issues such as child labor, discrimination, working hours and remuneration.

Vard Vung Tau in Vietnam implemented the SA 8000 standard in 2013, and underwent customer audits of this standard during 2014 with very positive feedback from clients.

All of our yards operate according to this standard.

OHSAS 18001 – OCCUPATIONAL HEALTH AND SAFETY
Compliance with the OHSAS 18001 standard demonstrates VARD's commitment to safe and healthy working conditions. So far, VARD's Romanian and Vietnamese shipyards have been officially certified.

The combination of SA 8000 and OHSAS 18001 is increasingly used to measure the overall performance of VARD in this field by our clients.

During 2014, VARD was subject to numerous customer audits. These gave VARD valuable input into potential areas of improvement. They also indicate that VARD runs a sound and ethical business with safe and healthy working conditions.

ISO 14001 – ENVIRONMENTAL MANAGEMENT
VARD devotes great attention to minimizing the impact of its activities on the environment. The ISO 14001 standard is the world's most recognized standard for environmental management.

Emergency Response

During 2014, the Company revised and updated its emergency response procedures, in order to ensure quick response and appropriate action in case of emergency situations or other threats to the safety and security of VARD's facilities, its employees and their families, and the communities where we operate.

Scenario-based notification procedures and individual checklists for all members of the emergency response- and executive management team were established. Individual plans to deal with any kind of emergencies and to assist with next-of-kin handling were developed, and external specialists ran training sessions for relevant personnel.

VARD also implemented an IT system for the notification, logging and management of emergency situations. This enables a swift and efficient communication process both internally and between all locations and headquarters. Personnel at all ten yards received training. In addition, the VARD HSE teams, supported by external specialists, ran a two-day training session for more than 40 delegates of the internal next-of-kin organization, which consists of personnel with expertise in attending to the relatives of those affected in case of an emergency.


7490
VARD

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; FINANCE, INVESTMENT AND REGULATORY RISK; 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 largely depends on for sales – being inherently volatile and cyclical in nature, the Company 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.

The dramatic oil price decline in the second half of 2014 has changed the landscape for oil companies' Exploration and Production (E&P) spending plans, with direct consequences for the oil services industry including the offshore support vessel operators. While the extent of the fundamental changes in the market has taken the entire industry by surprise, VARD has access to some of the industry's best market intelligence through its extensive network and deep client relationships, and was able to build a very strong order book of attractive projects in the first half of 2014.

In order to mitigate market risk, the Company has focused actively on growth, diversification and internationalization of its client base, while at the same time maintaining long-standing relations. At the end of 2014, almost 60% of projects in the order book were for clients domiciled outside Norway, and many vessels were designed to operate in diverse oil and gas markets globally. VARD continues to work with existing and new clients on innovative solutions addressing the changed market environment. Also, projects outside the offshore oil and gas sector are being pursued to make up for the expected potential shortfall in orders from the Company's core markets. Nevertheless, a net decrease in the order book is expected for 2015.

Besides the risk to new order intake, market risk also encompasses risks related to the existing order book. As markets have deteriorated, the focus on counterparty risk has increased. VARD is actively working with clients to adjust delivery schedules where doing so is both mutually beneficial, and reduces cost and risk. Outright cancellation risk is limited by the contract structure, downpayments and guarantees put in place, and many vessel projects have already secured employment after delivery. Still, in some instances the risk mitigating measures put in place may not be sufficient. Historically, in most instances where clients could not uphold their contractual obligations, VARD succeeded in finding alternative buyers for the vessel under construction in cooperation with the original client.

Operational Risk

Fixed-price contracts are the norm in the shipbuilding industry. These contracts are agreed up to three years before the vessel is delivered. It is our responsibility to ensure that all contract terms are met. A tough quality-screening process is therefore essential to reduce risk. The costs of labor, materials, machinery and equipment may change during the building process, while the contract terms always remain stable. To mitigate these risks, VARD procures as many as 60% of key components at the time the contract is signed. Vital parts such as engines, winches and propulsion systems are procured early.

As VARD secures prices early to reduce financial risks, we also need to remain agile and flexible. Cost flexibility is maintained by engaging subcontractors in periods of high activity. Also, our position as a global leader in building advanced vessels gives us certain economies of scale.

Risk management is an integral part of our wider project management disciplines. VARD relies on our ability to calculate and manage the complexity of all project components and stages, including man-hours, scheduling, and workload. Well-established processes and project management tools are in place, and they progressively refine how we operate.

The cost cutting and restructuring program launched in 2013 is running according to plan, and will continue in 2015. The aim is to improve efficiency and productivity in our operations. To further increase standardization and reduce number of mistakes and cost, a new 3D modelling, design and engineering system was implemented at all shipyards to ensure better work flow from engineering to production. Also, a new method for launching bigger vessels has been implemented. While the introduction of new production methodologies caused some disruptions in the production system in the second half of 2014, these challenges have since been overcome.

A significant investment program at VARD's shipyards in Romania and Vietnam was successfully completed in 2014, leading to more efficient and environmentally-friendly production as well as increased capacity.

Finance, Investment 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 being due on 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 Company's financial exposure is constantly monitored.

The contracts require significant guarantees and financing. From VARD's perspective, guarantees mainly relate to the advance payments received from clients, payments owed to suppliers, and the shipyard's contractual performance. Meanwhile, from the client's perspective, they relate to the payments for the vessel and typically comprise a combination of corporate and bank guarantees. To operate its business, VARD is dependent on its ability to secure such guarantees.

Typically, VARD engages in fixed-price, long-term construction contracts. To mitigate the risk of cost overruns, it is therefore necessary for VARD to use its considerable experience to accurately estimate its outgoings and to allow for any unforeseen eventualities. By its nature, this entails some calculated risks.

In recent years, VARD has invested significantly in its Brazilian and Romanian operations and long-term financing arrangements relating to these assets are still in place. VARD intends to continue to invest in Brazil, and will need to secure additional long-term financing in order to do so. To the extent these loans are denominated in foreign currencies, VARD is also exposed to exchange rate volatility.

Although VARD hedges most of its transactional currency risk, the Company 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 2014, the weakening of the NOK in relation to the USD has worked in VARD's favor and increased its competitiveness internationally.

Operating in multiple jurisdictions, including some emerging economies, VARD is also subject to regulatory risk. In August 2014, VARD announced that it had received a claim from Brazilian tax authorities. VARD has disputed the claim, and is of the opinion that it has no merit, and has not made any provisions related 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 such regulatory risk.

Human Resources Risk

Shipbuilding as an industry depends heavily on the availability of skilled personnel. With ten shipyards and operations in ten countries on four continents, VARD aims to maintain a strong and consistent employer brand in order to attract and retain skilled personnel.

VARD wants to stand out as an attractive employer in our regions in which we operate, securing the future of the operations through a robust intake of new apprentices each year. In 2014 alone, VARD recruited and trained more than 100 apprentices in Norway. VARD is often a significant employer in smaller communities. Training and educating personnel is a major responsibility for the human resources department where the required skills and qualifications cannot always be found locally in sufficient numbers.

VARD has also 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.

Career development and succession planning are just as important as successful recruitment and training. A company-wide succession project has identified replacement candidates for all key positions, and employees with the potential to excel and grow into key positions.

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.


VARD

INVESTOR RELATIONS

The strong network of relationships developed since the Company's listing in 2010 helps VARD reach out to investors even during trying times.

Mr. Holger Dilling
Executive Vice President
Investor Relations

During 2014, perceptions of the oil and gas services and offshore marine sectors underwent quite dramatic changes. The year started out on a positive note, but the accelerating oil price decline from the middle of the year triggered a much more critical stance towards the industry.

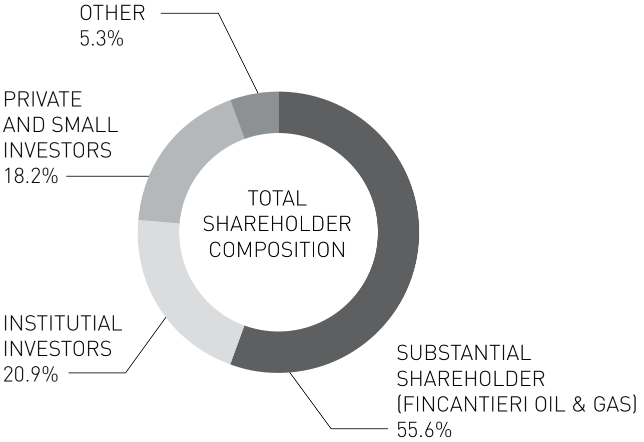
VARD was no exception to this broader trend, and investor relations activities focused on addressing the market shifts and explaining its implications for the Group. While the first half of the year was characterized by strong order intake, and the order book reached a five-year high of almost NOK 22 billion at the end of the first quarter, or more than 50% higher than just nine months before, the second half saw only three newbuilding orders in total for VARD. Similarly, the gradual recovery in margins recorded in the first half was followed by a set-back with weaker operational performance in the second half.

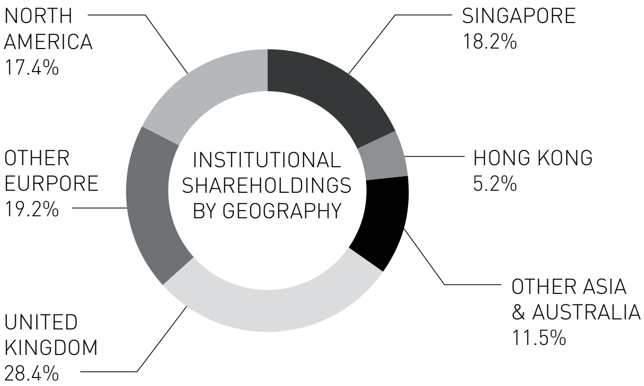
What stayed constant during the year, however, was the Company's commitment to inform financial markets of corporate developments in a timely and transparent manner, as well as its aim to adhere to the highest standards of corporate governance.

Multiple Channel of Interaction with the Investment Community

In line with prior years' practices, VARD's investor relations outreach in 2014 spanned multiple segments, channels and geographies. Personal dialogue and close interaction with equity research analysts continued to form the backbone of our work. The strong network of relationships developed since the Company's listing in 2010 helps VARD reach out to investors even during trying times. Non-deal roadshows and conferences in Singapore, Hong Kong, London and New York enabled us to meet institutional investors face-to-face. In our daily work, we strive to bridge geographical gaps between the Group's operations and the diverse global shareholder base by quickly responding to requests electronically, via email or teleconferencing. Our company website, www.vard.com, offers a broad array of information about VARD and our operations. Press releases and announcements are published via Singapore Exchange's online portal, SGXNET, prior to distribution to international newswires, and financial and local media. A team of experienced investor relations advisors supports us in Singapore to ensure around-the-clock accessibility for investors, media and other interested parties.

VARD has a large constituency of smaller shareholders, and we understand that it is particularly demanding for some of these investors to keep abreast of a rapidly changing market environment, and analyze the consequences for their investment decisions. This is especially true as independent research tends to be accessible only to registered institutional investors. In order to better serve the needs of individual shareholders, VARD has partnered with leading investor lobby group Securities Investors Association (Singapore), or SIAS. The Company's announcements are available not only through SIAS' regular electronic newsletters, but also on a dedicated section of SIAS' website. In November, VARD also participated in a SIAS Corporate Profile Seminar, where we





* *Shareholder composition as of 31 December 2014.*

presented the Company and addressed questions from over 200 audience members including SIAS' experts.

New Interest in VARD Through Parent Company IPO

Total shareholder composition remained largely the same in 2014, with 55.6% of shares held by the controlling shareholder, Fincantieri Oil&Gas, and the remainder divided almost equally between institutional shareholders including hedge funds, and private and small investors.

While private shareholders are almost exclusively domiciled in Singapore, the institutional holdings cover all areas of the world. During the year, VARD gained extra visibility in the international investment community, particularly in Europe, due to the IPO and listing of its parent company, FINCANTIERI S.p.A., on the Milan stock exchange. The exposure to an entirely new set of investors in markets previously not covered actively has undoubtedly benefitted VARD, and contributed to the institutional shareholder base at the end of the year being almost 50% domiciled in Europe, including the United Kingdom, up from 15-20% in previous years.

Award-winning Investor Communications

VARD's work with investor communications and corporate governance was once again recognized by prominent independent bodies. For the second time in its short history as a listed company, VARD was honored at the prestigious Singapore Corporate Awards (SCA), this time with the Silver award in the category of Best Annual Report (companies from S$300 million to S$1 billion market capitalization). The SCA is jointly organized by the Institute of Singapore Chartered Accountants, Singapore Institute of Directors, and The Business Times, and supported by the Accounting and Corporate Regulatory Authority, and the Singapore Exchange.

Later during the year, VARD was named runner-up for the Most Transparent Company Award (MTCA) 2014, foreign listings category, at the 15th SIAS Investors' Choice Awards. The MTCA is supported by the Singapore Exchange, and endorsed by the Institute of Singapore Chartered Accountants, CFA Society Singapore, Investment Management Association of Singapore, Securities Association of Singapore, The Straits Times, The Business Times, TODAY, and Lianhe Zaobao. The selection committee included senior representatives from these highly reputable organizations.

OUTLOOK

An industry at the crossroads

2015 will be decisive year for the oil & gas and oil services industries, as well as for VARD, which derives most of its business from these industries.

The rapid oil price decline of the second half of 2014 took the sector by surprise, and industry participants are grappling with the consequences, trying to adjust to new realities. Major investments are being put on hold, both by oil majors in exploration and production, and by the OSV owners serving them, as uncertainties over the recovery of oil prices persist.

In the meantime, there is still a large number of vessels coming onto the market, in an environment where demand is depressed, and expected to be further reduced in the near term. This impacts fleet utilization and charter rates, especially for PSVs and AHTS in the North Sea. Ship owners have taken to the drastic measure of laying up vessels to improve the market balance as they struggle to cover operating cost.

For VARD, it will be a test of the Company's ability to quickly react to changing circumstances, adjust capacity and cost levels, and continue to deliver superior solutions to old and new clients as the market evolves.

Turning every stone

VARD enters into this phase of market turmoil from a position of strength. At the start of the downturn in the middle of 2014, our order book stood at a five-year high. Despite the termination of two contracts in the first quarter of 2015, we have a solid client portfolio, with limited risk to the existing order book. Our core operations in Europe deliver stable performance and are profitable. Our products are in demand, not only from our core North Sea clients, but from ship owners and oil service companies serving diverse oil and gas markets from Brazil and Australia to the Gulf of Mexico, West Africa and Arctic waters. We command a leading market share for large OSCVs[1], with one out of every five vessels on order worldwide being built by VARD. Nevertheless, in the current market situation, we are faced with formidable challenges that affect every aspect of our organization.

On the cost side, VARD has embarked on a comprehensive program to streamline operations. All capital expenditures are being critically reviewed and scaled down to a minimum to maintain safe and efficient operations. We are reassessing our organizational structure with a focus on reducing overheads where possible. Direct operating costs are being addressed through measures to increase efficiency and improve cost control in each and every project. Suppliers and subcontractors will have to contribute their part to bring cost down and improve our overall competitiveness.

On the capacity side, VARD is currently still seeing very high activity levels at all its shipyards. This will however quickly give way to lower utilization as the slowdown in new order intake begins to impact the business. We have taken a first step in balancing

[1] As percentage of the global order book – OSCVs over 6,000 dwt including dynamic positioning (as of 31.12.2014). Source: RS Platou

our workload through delaying some project deliveries, with the agreement of our clients. Reduced use of outsourcing and subcontracted labor allows us to adjust our capacity significantly. Where necessary, preparations are being made to also adjust our own staffing levels to the expected volume of throughput, without putting at risk the competencies and experience built up over many years.

On the market side, VARD continues to pursue a sizeable number of contract opportunities, but overall new order intake for 2015 is expected to be weak. In addition to working with our core clients on customizing solutions to suit the new market environment, we have also intensified our efforts to diversify and broaden our outreach to new clients, geographies and market segments. This includes specialized vessel types not related to the oil & gas industry, but utilizing our know-how from the offshore sector. Our focus on research and development and innovation is undiminished, and we continue to introduce new concepts and solutions to the market that will differentiate VARD from its competitors.

To complement our core shipbuilding operations, we are drawing on the strengths of our design and engineering units and the capabilities of our specialized subsidiaries, such as Vard Electro, to develop new areas of business. We aim to further strengthen our position in key areas of equipment, components and services, catering not only to VARD's own projects but also selling these products and services to third parties. Our most recently acquired unit, Vard Marine, with a large portfolio of proven ship designs in various segments, is expected to contribute to the growth of our design business and open up other opportunities for VARD in North America and internationally. The volume of business we realize with other parts of the Fincantieri Group is on the increase, and our dedicated efforts at deriving synergies from the relationship with the parent group are beginning to yield results.

Brazil still key

While adjusting to the overall market trends is our overriding challenge for 2015, VARD's Brazilian business is still key to our operational and financial performance. We are encouraged by recent developments at the new yard, Vard Promar, which is seeing improvements in productivity and throughput. As the operations in Niterói are being scaled down with the delivery of the final two AHTS under contract there, Vard Promar has asserted its role as a major revenue contributor to the Group. With production reaching target throughput levels during the course of the year, we concentrate our efforts on improving operational efficiency at all stages of the shipbuilding process. The upcoming delivery of the first project from the new shipyard is a major milestone not only for our Brazilian operations, but for VARD as a whole.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Giuseppe Bono, Chairman and Non-Executive Director
Roy Reite, Chief Executive Officer and Executive Director
Sung Hyon Sok, Independent Director
Keen Whye Lee, Lead Independent Director
Fabrizio Palermo, Non-Executive 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
Giuseppe Bono

REMUNERATION COMMITTEE
Sung Hyon Sok, Chairman
Keen Whye Lee
Fabrizio Palermo

SECRETARY
Elizabeth Krishnan

REGISTERED OFFICE
Vard Holdings Limited
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Telephone: +65 6536 5355
Fax: +65 6536 1360

HEAD OFFICE
Vard Group AS
P.O. Box 76
NO-6001 Ålesund, Norway
Tel. +47 70 21 06 00
mail@vard.com
www.vard.com

Visiting address
Molovegen 6,
NO-6004 Ålesund, Norway

SHARE REGISTRAR/SHARE TRANSFER AGENT
Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Telephone: +65 6536 5355
Fax: +65 6536 1360

AUDITORS
PricewaterhouseCoopers LLP
8 Cross Street #17-00
PWC Building
Singapore 048424

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

INVESTOR RELATIONS ADVISORS
Newgate Communications Singapore
24 Raffles Place
#16-03A Clifford Centre
Singapore 048621
Telephone: +65 6532 0606
Email: vard@newgatecomms.com.sg

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 Articles of Association of the Company. The attendance of the directors at meetings of the Board and Board Committees for FY2014 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	7	6	N/A	N/A	N/A	N/A	1	1
Roy Reite	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Fabrizio Palermo	7	6	N/A	N/A	2	2	N/A	N/A
Pier Francesco Ragni	7	7	6	6	N/A	N/A	N/A	N/A
Sung Hyon Sok	7	7	6	6	2	2	1	1
Keen Whye Lee	7	7	6	6	2	2	1	1

N/A: Not Applicable

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 and requirements of the Code of Corporate Governance conducted by relevant professionals at a specially convened meeting. The directors are also briefed on 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. The other members of the Board, Messrs Giuseppe Bono, Pier Francesco Ragni and Fabrizio Palermo, 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 14 to 15. 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. Giuseppe Bono and Mr. Keen Whye Lee. 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 regard 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) making recommendations to the Board for the continuation (or otherwise) in services of any director who has reached the age of seventy;
6) 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;
7) overseeing the management, development and succession planning of the Group; and
8) identifying training and professional development programs for directors.

The NC assessed and recommended to the Board, the directors to be re-elected pursuant to the Company's Articles of Association 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. Fabrizio Palermo and Mr. Keen Whye Lee. 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.

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' Report.

DISCLOSURE OF REMUNERATION PAID TO DIRECTORS AND KEY EXECUTIVES

A breakdown showing the level and mix of each individual director's remuneration paid for FY2014 (in percentage terms) is as follows:

Name of Director	Remuneration[1)]	Fees[2)] (%)	Salary[3)] (%)	Bonus[3)] (%)	Other Benefits[4)] (%)	Total (%)
Roy Reite	S$1,493,000	-	55%	40%	5%	100%
Giuseppe Bono	S$443,750*	100%	-	-	-	100%
Fabrizio Palermo	S$66,000	100%	-	-	-	100%
Pier Francesco Ragni	S$66,000	100%	-	-	-	100%
Keen Whye Lee	S$85,000	100%	-	-	-	100%
Sung Hyon Sok	S$66,000	100%	-	-	-	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 FY2014. Bonus disclosed in relation to FY2013 paid in 2014.
4) Other benefits are inclusive of allowances and pensions.

* 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$500,000 to S$749,999				
Jan Ivar Nielsen	68%	29%	3%	100%
Magne Bakke	68%	29%	3%	100%
Magne Håberg	67%	31%	2%	100%
Stig Bjørkedal	67%	31%	2%	100%
Knut Ola Tverdal	65%	31%	4%	100%
Holger Dilling	72%	24%	4%	100%

a) Salary relates to FY2014. Bonus disclosed in relation to FY2013 paid in 2014.
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 CEO and the Top Six Executives is S$3,532,000. Directors (other than the CEO) are not entitled to such benefits. The total remuneration paid to the Top Six Executives in FY2014 amounted to S$3,995,000.

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 2014. His remuneration was in the band of S$250,000 to S$300,000.

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, 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.

The Board, in concurrence of the AC, is of the view that the existing internal controls 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 2014 planned and, supported by the internal audit function of its parent company, carried out internal audit activities, concluding with a report with specific re-commendations for further improvements to be implemented.

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 Articles of the Company permit a shareholder to appoint one or two proxies to attend and vote in his stead. The Company has not amended its Articles 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.

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		
Secondment of personnel to VARD	-	3,149,337
Design support to VARD	-	5,284,028
Sale of electro equipment package to FINCANTIERI	-	16,633,727
Sale of equipment package to FINCANTIERI	-	53,994,533
Total	**-**	**79,061,625**

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 accounts.

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 2010 (NOK million)	Amount utilized in 2011 (NOK million)	Amount utilized in 2012 (NOK million)	Amount utilized in 2013 (NOK million)	Amount utilized in 2014 (NOK million)	Balance (NOK million)
Construction of a second shipyard in Brazil	84	-	35	39	10	-	-
Expansion of yard capabilities in Norway	19	-	19	-	-	-	-
Improvement of manufacturing capacity and equipment at Vung Tau (Vietnam) and Tulcea (Romania)	227	-	10	99	118	-	-
Expansion of power and automation capabilities at Vard Electro AS, including potential acquisitions	65	-	5	-	22	30	8
Investments in emerging markets, including potential acquisitions	65	30	-	2	-	1	32
R&D, including potential acquisitions of design/engineering companies	61	-	8	22	16	15	-
General corporate purposes and working capital	85	-	85	-	-	-	-
Total net proceeds	**606**	**30**	**162**	**162**	**166**	**46**	**40**

The total amount utilized as at 31 December 2014 is NOK 566 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.

Associated companies are audited by PwC AS, Ernst & Young AS, BDO AS, Deloitte AS and Revisjonsselskapet AS.

The Company is in compliance with Rules 712 and 716 of the Listing Manual.

DIRECTORS' REPORT

The Directors present this report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2014. The consolidated financial statements have been presented on the basis described in note 1 to the audited financial statements.

1. DIRECTORS

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

Mr. Giuseppe Bono, Chairman
Mr. Roy Reite, Chief Executive Officer and Executive Director
Mr. Fabrizio Palermo, Non-Executive Director
Mr. Pier Francesco Ragni, Non-Executive Director
Mr. Keen Whye Lee, Lead Independent Director
Mr. Sung Hyon Sok, Independent Director

Mr. Fabrizio Palermo will be due to retire at the forthcoming Annual General Meeting pursuant to Article 94 of the Company's Articles of Association. He has not offered himself for re-election.

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	Holdings at end of the year
Mr Giuseppe Bono		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	-	80,000
Mr Fabrizio Palermo		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	-	20,000
Mr Pier Francesco Ragni		
Intermediate Holding Company – FINCANTIERI S.p.A.		
- Number of shares	-	16,000

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 2015.

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. DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements or in this report.

5. 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. Fabrizio Palermo.

There were no outstanding options as at 1 January 2014. No options were granted during FY2014.

6. AUDIT COMMITTEE

The members of the Audit Committee during the year were:

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

The Audit Committee as at the date of this report comprises Mr. Keen Whye Lee, Mr. Sung Hyon Sok and Mr. Pier Francesco Ragni. 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;
- 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.

7. 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

13 March 2015

STATEMENT BY DIRECTORS

IN OUR OPINION:

a) the financial statements set out on pages 80 oo 134 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 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.

The Board of Directors has, on the date of this statement, authorized these financial statements for issue.

On behalf of the Board of Directors

Mr Giuseppe Bono
Chairman of the Board

Mr. Roy Reite
Chief Executive Officer and Executive Director

13 March 2015

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 80 to 134, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2014, 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. (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 profit and loss accounts and balance sheets 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 state of affairs of the Group and of the Company as at 31 December 2014, and of the results, 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 the subsidiary 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, 13 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in NOK millions unless otherwise stated)

		Group		Company	
	Note	2014	2013	2014	2013
ASSETS					
Non-current assets					
Property, plant and equipment	4	2,535	2,167	-	-
Intangible assets	5	338	305	-	-
Investment in subsidiary	6	-	-	2,142	2,142
Investment in associates	7	327	383	-	-
Other investments	8	61	62	-	-
Interest-bearing receivables, non-current	9	336	201	632	600
Non-current derivatives	31	1	32	-	-
Other non-current assets	10	55	52	-	-
Deferred tax assets	11	133	79	-	-
Total non-current assets		**3,786**	**3,281**	**2,774**	**2,742**
Current assets					
Inventories	14	466	382	-	-
Construction WIP in excess of prepayments	15	9,200	6,136	-	-
Trade and other receivables	16	1,638	1,619	49	47
Current derivatives	31	400	210	-	-
Other current assets	16	1,427	247	-	-
Interest-bearing receivables, current	9	530	51	70	-
Cash and cash equivalents	17	2,002	1,745	10	67
Total current assets		**15,663**	**10,390**	**129**	**114**
Total assets		**19,449**	**13,671**	**2,903**	**2,856**
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	262	167	-	-
Retained earnings	18	2,922	2,573	170	116
Total equity attributable to equity holders of the Company		**4,132**	**3,688**	**2,897**	**2,843**
Non-controlling interests	12	(268)	20	-	-
Total equity		**3,864**	**3,708**	**2,897**	**2,843**
Non-current liabilities					
Loans and borrowings, non-current	19, 31	1,204	673	-	-
Deferred tax liabilities	11	72	61	2	2
Non-current derivatives	31	47	32	-	-
Other non-current liabilities	20	3	3	-	-
Provisions, non-current	21	126	114	-	-
Total non-current liabilities		**1,452**	**883**	**2**	**2**
Current liabilities					
Loans and borrowings, current	19, 31	8,069	5,012	-	-
Prepayments in excess of construction WIP	15	848	991	-	-
Trade and other payables	22	2,418	2,181	1	6
Current derivatives	31	2,180	229	-	-
Income tax payable		192	202	2	5
Provisions, current	21	171	249	-	-
Other current liabilities	23	255	216	1	-
Total current liabilities		**14,133**	**9,080**	**4**	**11**
Total liabilities		**15,585**	**9,963**	**6**	**13**
Total equity and liabilities		**19,449**	**13,671**	**2,903**	**2,856**

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	**2014**	**2013**
Revenue	24, 30	12,923	11,155
Materials and subcontract costs		(9,457)	(7,778)
Salaries and related costs	25, 35	(2,486)	(2,129)
Depreciation, impairment and amortization	4,5	(189)	(206)
Other operating expenses	26	(551)	(562)
Operating profit		**240**	**480**
Financial income	27	204	123
Financial costs	27	(241)	(115)
Net		**(37)**	**8**
Share of results of associates, net of tax	7	35	9
Profit before tax		**238**	**497**
Income tax expense	28	(188)	(197)
Profit for the year		**50**	**300**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		120	181
Income tax on other comprehensive income	28	1	(3)
Items that may not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in associated companies	7	(25)	(6)
Defined benefit plan actuarial gains and losses	25	-	7
Other comprehensive income for the year, net of income tax		**96**	**179**
Total comprehensive income for the year		**146**	**479**
Profit for the year attributable to:			
Equity holders of the Company		349	357
Non-controlling interests	12	(299)	(57)
Profit for the year		**50**	**300**
Total comprehensive income attributable to:			
Equity holders of the Company		444	535
Non-controlling interests	12	(298)	(56)
Total comprehensive income for the year		**146**	**479**
Earnings per share (expressed in NOK)			
Attributable to Equity holders of the Company			
Basic	29	0.30	0.30
Diluted	29	0.30	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 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	-	-	120	(25)	95	1	96	
Total comprehensive income	**-**	**-**	**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**

Group	Paid up capital	Restructuring reserve	Currency translation reserve	Fair value reserve	Share option reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
At 1 January 2013	**4,138**	**(3,190)**	**(177)**	**173**	**19**	**2,188**	**3,151**	**65**	**3,216**
Comprehensive income									
Profit for the year	-	-	-	-	-	357	357	(57)	300
Other comprehensive income	-	-	177	(6)	-	7	178	1	179
Total comprehensive income	**-**	**-**	**177**	**(6)**	**-**	**364**	**535**	**(56)**	**479**
Transactions with owners									
Cost of share-based payments	-	-	-	-	9	-	9	-	9
Cancellation of option scheme	-	-	-	-	(28)	20	(8)	-	(8)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Cash subscribed by non-controlling shareholders	-	-	-	-	-	-	-	14	14
Changes in non-controlling interests	-	-	-	-	-	1	1	(2)	(1)
Total transaction with owners	**-**	**-**	**-**	**-**	**(19)**	**21**	**2**	**11**	**13**
At 31 December 2013	**4,138**	**(3,190)**	**-**	**167**	**-**	**2,573**	**3,688**	**20**	**3,708**

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	2014	2013
Operating activities			
Profit before tax		238	497
Adjustments for:			
Net interest income		(14)	(42)
Gain on disposal of property, plant and equipment and shares, net		(15)	(2)
Unrealized foreign exchange loss		64	4
Depreciation, impairment and amortization		189	206
Change in pension assets and liabilities		1	(28)
Share-based payment expenses		-	9
Share of results of associates, net of tax		(35)	(9)
Operating cash flows before movements in working capital		**428**	**635**
Inventories		(85)	(2)
Construction work in progress		(2,801)	(1,172)
Proceeds from construction loans		9,678	6,076
Repayment of construction loans		(7,083)	(4,720)
Other assets		(1,435)	(283)
Other liabilities		2,283	(182)
Provisions		(97)	(320)
Cash generated from operations		**888**	**32**
Interest received		18	46
Interest paid		(7)	(7)
Income tax paid		(209)	(412)
Cash flows from/(used in) operating activities		**690**	**(341)**
Investing activities			
Proceeds from disposal of property, plant and equipment		1	6
Purchase of property, plant and equipment		(367)	(811)
Purchase of intangible assets		(17)	(6)
Issuance of new non-current interest bearing receivables		(40	(60)
Issuance of new short-term interest bearing receivables		(467)	(46)
Proceeds from repayment of short term interest-bearing receivables		119	90
Acquisition of subsidiary, net of cash acquired	32	(61)	(11)
Acquisition of equity interest in associates		(33)	(15)
Cash flows used in investing activities		**(865)**	**(853)**
Financing activities			
Proceeds from loans and borrowings		682	447
Repayment of loans and borrowings		(259)	(30
Cash subscribed by non-controlling shareholders		10	14
Purchase of non-controlling interest in subsidiary		-	(2)
Cash settlement of employee share options		-	(9)
Dividends paid, net of withholding tax		-	(1)
Cash flows from financing activities		**433**	**419**
Net increase in cash and cash equivalents		**258**	**(775)**
Effects of currency translation difference on cash and cash equivalents		45	20
Cash and cash equivalents at beginning of financial year		1,663	2,418
Cash and cash equivalents at end of financial year		**1,966**	**1,663**
Restricted cash at end of financial year		36	82
Cash and cash equivalents at end of financial year including restricted cash	**17**	**2,002**	**1,745**

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 13 March 2015.

1 Corporate information

GENERAL INFORMATION

The Company (Registration No. 201012504K) is a company incorporated in Singapore. The address of its registered office is at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623.

The financial statements of the Group as at and for the year ended 31 December 2014 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.

(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 that are considered loss contracts. For all of these projects, the original estimated loss has increased in subsequent project reviews. Most of the projects will be delivered in 2015. Management consider estimates related to these eight projects as more uncertain than estimates related to other construction projects in the Group. The main driver for the additional losses recognised, and the main uncertainty for the current estimate are the remaining man-hours to complete the vessels. If actual man-hours required to complete the eight vessels are 30% higher than assumed, additional losses of approximately NOK 133 million will be recognised in 2015.

Impairment assessment of goodwill
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.

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 2014 is NOK 192 million.

Vard Niterói SA has received a tax claim of appoximately NOK 200 million. No provision for the claim has been made. Further infomation about the claim is given in note 38.

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 38 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. During the year, there were revisions made to useful lives of certain items of property, plant and equipment resulting in reduced depreciation of NOK 15 million.

NOTES

(All amounts in NOK millions unless otherwise stated)

Changes in accounting policies
With effect from 1 January 2014, 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 2014. Except as disclosed below, 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.

FRS 112 Diclosures of Interest in Other Entities
The Group has adopted the new FRS on 1 January 2014. It sets out the required disclosures for entities reporting under the new FRS 110 Consolidated Financial Statements and FRS 111 Joint Arrangements, and replaces the disclosure requirements currently found in FRS 27 and FRS 28.

The Group has applied FRS 112 retrospectively in accordance with the transitional provisions in FRS 112. The Group has incorporated the additional required disclosures into the financial statements.

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.

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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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.

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).

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(All amounts in NOK millions unless otherwise stated)

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.

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

Financial guarantees are 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 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;

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(All amounts in NOK millions unless otherwise stated)

- 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.

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.

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(All amounts in NOK millions unless otherwise stated)

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.

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(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

The Group has both defined contribution plans and benefit plans.

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.

Defined benefit plans

Defined benefit plans are post-employment benefit benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have tenures approximating to that of the related post-employment benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period when they arise.

Past service costs are recognised immediately in profit or loss.

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.

Share-based payment transactions
The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(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:

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(All amounts in NOK millions unless otherwise stated)

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" 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.

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) FINANCE INCOME AND FINANCE COSTS

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

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

(P) 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.

(Q) 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.

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(All amounts in NOK millions unless otherwise stated)

(R) SEGMENT REPORTING

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

(S) 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 2015 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.

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 2013	749	767	57	206	471	2,250
Additions	229	127	-	19	471	846
Acquisitions through business combinations	-	22	-	-	-	22
Disposals	(19)	(1)	-	(1)	-	(21)
Other	-	(1)	-	-	-	(1)
Reclassifications	1	-	2	(2)	(1)	-
Currency translation differences	19	49	4	12	19	103
At 31 December 2013	**979**	**963**	**63**	**234**	**960**	**3,199**
At 1 January 2014	979	963	63	234	960	3,199
Additions	190	51	8	2	121	371
Acquisitions through business combinations	3	-	-	-	-	3
Disposals	(44)	(11)	(0)	-	-	(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**	**120**	**504**	**23**	**3,776**
Accumulated depreciation						
At 1 January 2013	492	332	1	41	-	866
Depreciation	81	36	1	6	-	124
Impairment losses	7	-	-	-	-	7
Disposals	(15)	(1)	-	-	-	(16)
Currency translation differences	17	28	-	6	-	51
At 31 December 2013	**582**	**395**	**2**	**53**	**-**	**1,032**
At 1 January 2014	582	395	2	53	-	1,032
Depreciation	128	44	1	9	-	181
IDisposals	(43)	(6)	-	-	-	(50)
Currency translation differences	48	32	-	(3)	-	78
At 31 December 2014	**715**	**465**	**3**	**59**	**-**	**1,241**
Carrying amounts						
At 1 January 2013	**257**	**435**	**56**	**165**	**471**	**1,384**
At 31 December 2013	**397**	**568**	**61**	**181**	**960**	**2,167**
At 31 December 2014	**788**	**1,163**	**117**	**445**	**23**	**2,535**

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

At 31 December 2014, PPE of the Group with the carrying amount of NOK 2 133 million (2013: NOK 700 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

Investments in 2014 mainly relates to completion of the Vard Promar yard, and modernization of the Romanian yards. Included within is NOK 18 million (2013: NOK 60 million) of borrowing costs capitalized for the construction of the new yard.

The estimated useful lives of certain fixed assets at the yard in Tulcea were revised during the year. The effect of the change in useful lives, is reduced depreciation of approximately NOK 15 million for FY2014.

Impairment loss
In FY2013, the impairment loss of NOK 7 million in Machinery and Vehicles was related to asset write-down of a steel processing shop and a floating dock at the yard in Niterói, Brazil, as the assets were no longer in use.

5 Intangible assets

Group	Goodwill	Other intangibles	Total
Cost			
At 1 January 2013	470	32	502
Additions acquired separately	-	6	6
Disposals and other adjustments	-	(1)	(1)
Currency translation differences	-	2	2
At 31 December 2013	**470**	**39**	**509**
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**
Accumulated amortization and impairment losses			
At 1 January 2013	104	24	128
Amortization for the year	-	2	2
Impairment loss	72	1	73
Currency translation differences	-	1	1
At 31 December 2013	**176**	**28**	**204**
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**
Carrying amounts			
At 1 January 2013	**366**	**8**	**374**
At 31 December 2013	**294**	**11**	**305**
At 31 December 2014	**308**	**30**	**338**

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

Business entities	CGU:	Balance at 01.01.14	Additions	Other adjust-ments*	Impair-ment loss	Currency translation differences	Balance at 31.12.14
Vard Group AS including the Romanian sub-group	CGU 1	294	-	-	-	-	294
Vard Marine inc	CGU 3	-	15	-	-	(1)	14
Total		**294**	**15**	**-**	**-**	**(1)**	**308**

Business entities	CGU:	Balance at 01.01.13	Additions	Other adjust-ments*	Impair-ment loss	Currency translation differences	Balance at 31.12.13
Vard Group AS including the Romanian sub-group	CGU 1	295	-	1	(2)	-	294
Vard Niterói SA	CGU 2	71	-	(1)	(70)	-	-
Total		**366**	**-**	**-**	**(72)**	**-**	**294**

* Other adjustments due to roundings.

IMPAIRMENT LOSS

FY2013

In 2013, impairment loss of NOK 70 million represented a write-down of the remaining goodwill in the subsidiary Vard Niterói SA, a wholly owned subsidiary of Vard Group AS. During the first six months of FY 2013 the margins were impacted by further delays and cost overruns at the yard due to lower than expected productivity and additional costs for outsourcing of hull construction activities to subcontractors. The adverse development triggered an updated impairment test of goodwill resulting in the write-down to zero of the remaining goodwill for the yard.

Loss of NOK 2 million represented impairment loss of goodwill due to liquidation of AJA Ship Design SA, a partly owned subsidiary of Vard Braila SA in Romania.

IMPAIRMENT TESTS FOR GOODWILL

The Group has defined two CGUs with goodwill which are its shipyards in Norway and Romania (CGU 1) and Vard Marine Inc (CGU 3), and 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.

An impairment test has been performed for the CGU at 31 December 2014 and 31 December 2013 to assess whether impairment existed. Based on the calculations performed, there is no impairment in the value of goodwill for CGU 1.

The recoverable amount of the entities within 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, business plans and strategic figures approved by senior management covering the period of 2015 to 2019 (2013: 2014 to 2018). 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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 2014 are 8.1% (at 31 December 2013: 8.1%). Terminal value is based on long term strategic figures, however adjusted for cyclical fluctuations, and using a growth rate of 2.0% in the terminal year (2013: 2.0%).

Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2015, realistic sensitivity calculations do not indicate any additional significant impairment in value of goodwill.

With regards of CGU 3, Vard Marine inc, no impairment test has been performed, since the goodwill allocation is not completed at the balance sheet date, and no triggering events have been noted.

6 Investment in subsidiary

	Company	
	2014	2013
Unquoted shares, at cost		
At 1 January	2,142	2,140
Deemed contribution (Note 13)	-	2
At 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 32. 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	
	2014	2013	2014	2013	2014	2013
Share of profit or loss from continuing operations	**32**	**9**	**3**	**-**	**35**	**9**
Share of other comprehensive income	(25)	6	-	-	(25)	6
Share of total comprehensive income	**7**	**15**	**3**	**-**	**10**	**15**
Opening balance	**365**	**401**	**18**	**17**	**383**	**418**
Share of total comprehensive income	7	15	3	-	10	15
Shares in associated companies aquired/capital contributions made	23	14	10	1	33	15
Shares in associated companies sold	(98)	(65)	-	-	(98)	(65)
Balance period end	**296**	**365**	**31**	**18**	**327**	**383**

Associated companies	Industry	Ownership interest 31.12.14	31.12.13
Olympic Challenger KS	Shipping	35%	35%
DOF Iceman AS	Shipping	50%	50%
REM Supply AS	Shipping	27%	27%
Olympic Green Energy KS (assoc)	Shipping	30%	30%
Island Offshore LNG KS (assoc)	Shipping	0%	27%
Island Offshore LNG AS (assoc)	Shipping	0%	30%
Møkster Supply KS (assoc)	Shipping	36%	36%
Møkster Supply AS (assoc)	Shipping	40%	40%
AS Dameco (assoc)	Other	34%	34%
Taklift AS (assoc)	Other	25%	25%
Castor Drilling Solution AS (assoc)	Other	34%	34%
Bridge Eiendom (assoc)	Other	50%	50%
Brevik Technology AS	Other	34%	34%
CSS Design Inc	Other	31%	0%

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.

8 Other investments

Non-current investments	Group 2014	2013
Available for sale financial assets:		
- Equity securities	61	62
Total	**61**	**62**

Unquoted equity securities which have no market prices and whose fair value cannot be reliably measured using valuation techniques are carried at cost less impairment loss. As of the reporting date, these are summarized as follows:

	Share %	2014	Share %	2013
REM Offshore ASA	5%	52	5%	52
Moldekraft AS	8%	5	8%	5
Klosterøya Vest Holding AS	6%	3	6%	3
Shares in other companies	n/m	1	n/m	2
Total		**61**		**62**

The equity securities have been subject to a fair value assessment and no significant changes to fair values were identified.

NOTES

(All amounts in NOK millions unless otherwise stated)

9 Investments-bearing receivables

	Group					
	2014			2013		
	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%	58	NIBOR + 2%	NIBOR + 3%	144
- Third parties	NIBOR + 2%	NIBOR + 3%	278	NIBOR + 2%	NIBOR + 3%	57
Total			**336**			**201**
Current						
Interest-bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR + 3,75%	22	NIBOR + 2%	NIBOR + 3%	51
- Third parties	NIBOR + 1%	NIBOR + 3%	508	NIBOR + 2%	NIBOR + 3%	-
Total			**530**			**51**

The non-current receivables relates to seller credits to customers. 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			
	2014		2013	
	Interest rate	Amounts	Interest rate	Amounts
Non-current				
Non-current interest-bearing receivables due from Vard Group AS	3m NIBOR + 2%	632	3m NIBOR + 2%	600
Current interest-bearing receivables due from Vard Group AS	3m NIBOR + 2%	70		-

The non-current interest-bearing receivables consists of a loan that is repayable based on 3 months written notice. The loan is not expected to be repaid in 2015.

10 Other non-current assets

	Group	
	2014	2013
Prepayments	17	24
Deposits	3	2
VAT, taxes & other social expenses	18	17
Pension assets	1	4
Other receivables	16	5
Total	**55**	**52**

This is not applicable for the Company.

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. Deferred tax assets and deferred tax liabilities are related to the following items:

	Assets		Liabilities	
Group	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	24	3	3	5
Projects under construction	(52)	(7)	(70)	(118)
Tax losses	120	83	(4)	-
Receivables	-	-	-	1
Provisions	40	-	5	55
Others	1	-	(6)	(4)
Total	**133**	**79**	**(72)**	**(61)**

(B) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

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**

Group	**Property, plant and equipment**	**Employee benefits**	**Construction work in progress**	**Tax losses**	**Trade Receivables**	**Provisions**	**Others**	**Total**
At 1 January 2013	4	5	(85)	8	2	161	(59)	36
(Charged)/credited to profit or loss	4	(5)	(40)	80	(1)	(106)	55	(13)
Other adjustments	-	-	-	(5)	-	-	-	(5)
At 31 December 2013	**8**	**-**	**(125)**	**83**	**1**	**55**	**(4)**	**18**

(Charged)/credited to profit or loss in the 2013 specification has been adjusted to because of a classification error. NOK 67 million that was reported as credited to property plant and equipment has been reclassified to tax losses. The table in (a) has been adjusted accordingly.

(C) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of unreocognised tax losses amounting to NOK 389 million (2013: NOK 226 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

12 Non-controlling interest

Group

Set out below are the summarised financial information for each subsidiary that has a non-controlling interest that are material to the group.	**Vard Promar SA Brazil 2014**	**Vard Promar SA Brazil 2013**	**Seaonics AS Norway 2014**	**Seaonics AS Norway 2013**
Ownership interest/voting rights held by non-controlling interests	49.5%	49.5%	49.0%	49.0%
Profit/(loss) allocated to non-controlling interests	(268)	(71)	(12)	(1)
Accumulated non-controlling interest at period end	(274)	2	6	18
Revenues	1,186	396	159	171
Profit/(loss)	(542)	(143)	(24)	(3)
Total comprehensive income	(540)	(141)	(24)	(3)
Cash flow operations*	238	143	(17)	(24)
Cash flow investing	(178)	(369)	(9)	(3)
Cash flow financing	241	227	19	20
Non-current assets	1,258	987	36	24
Current assets	1,673	656	133	69
Non-current liabilities**	861	518	12	1
Current liabilities***	2,626	1,120	145	54

* Cash flow operations for Vard Promar include NOK 1,195 million (2013: NOK 226 million) in increased contructions loans. The corresponding figures for Seaonics AS is an increase of NOK 20 million (2013: NOK 0 million)

** Non-current liabilities for Seaonics in 2014 includes NOK 12 million (2013: NOK 0 million) in loans from other Group companies.

*** Current liabilities for Vard Promar includes NOK 175 million (2013: NOK 276 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. Vard Promar S.A. has 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. These do not affect the assessment of control.

13 Share-based payment arrangements

Description of the share-based payment arrangements

After all outstanding options under the share option scheme expired on 13 August 2013, the Group does not have any active share based payment arrangements.

On 9 May 2011, the Company granted 17,070,000 options to a number of employees out of the total 17,700,000 options available within the Scheme. The share option scheme had been accounted for according to FRS 102. During 2013 a total number of 10,940,000 options were exercised and settled by payment of equivalent value in cash, amounting to NOK 9 million, in lieu of issuing shares. The remaining share options expired on 13 August 2013.

Employee expenses	**2014**	**2013**
Equity-settled share-based payment:		
Share options	-	9
Total employee expenses	**-**	**9**

14 Inventories

	Group	
Inventories comprise the following items:	**2014**	**2013**
Raw materials	414	362
Work in progress	50	18
Finished goods	2	2
Total	**466**	**382**

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. No inventories are pledged as security for borrowings.

15 Construction work in progress

	Group	
	2014	**2013**
Aggregate costs incurred and attributable profits recognised (less losses recognised) to-date	12,460	8,236
Progress billings	(4,108)	(3,091)
Total	**8,352**	**5,145**
Presented as:		
Current asset	9,200	6,136
Current liability	(848)	(991)
Total	**8,352**	**5,145**
Advances received on construction contracts	4 108	3 091
Provisions for loss on contracts	(1,004)	(924)

No retention sums are included in progress billings.

	Group	
Provisions for loss on contracts	**2014**	**2013**
At 1 January	924	357
Provisions made	976	1,004
Amounts used	(705)	(340)
Unused amounts reversed during the period	(191)	(97)
At 31 December	**1,004**	**924**

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

NOTES

(All amounts in NOK millions unless otherwise stated)

16 Trade and other receivables, and other current assets

Trade and other receivables consist of the following items:

	Group	
	2014	**2013**
Trade receivables (a)	310	263
Allowance for impairment of trade receivables	(45)	(55)
Total	**265**	**208**
Advances to suppliers	1,034	1,019
VAT and tax receivables	259	323
Receivables from related parties (b)	23	19
Other receivables (c)	57	49
Total	**1,638**	**1,619**

For the Company, trade and other receivables consists of short term intercompany receivables mainly toward Vard Group AS, Vard Promar SA, Vard Electro AS, Vard Tulcea SA and Vard Singapore Pte Ltd of NOK 49 million (2013: NOK 47 million).

(a) At 31 December 2014, 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.

Other current assets consist of accumulated change in fair value related to hedged FX risk for hedged firm commitments.

17 Cash and cash equivalents

	Group		Company	
	2014	**2013**	**2014**	**2013**
Short-term investments with maturity less than three months	66	188	-	-
Cash and bank deposits	1,936	1,557	10	67
Cash and cash equivalents	**2,002**	**1,745**	**10**	**67**

Of the total cash and bank balances as of 31 December 2014, an amount of NOK 36 million (2013: NOK 82 million) is held in fully restricted escrow accounts, which is mainly security for guarantees made to customers on prepaid installments and restricted bank accounts for employees' tax deductions.

18 Capital and reserves

GROUP AND COMPANY

	Ordinary shares			
Paid up capital	**2014**		**2013**	
	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 FY2014. There are no treasury shares.

The Group issued share options in FY2011 (see Note 13). No shares or share options were issued in FY2013. A total number of 10,940,000 share options were exercised during FY2013 with settlement in cash (see Note 13).

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 2014 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 FY2014 the Company did not pay any dividends to owners of the company (NOK 0 million in FY2013). The Directors have not recommended a payment of a dividend for FY2014.

NOTES

(All amounts in NOK millions unless otherwise stated)

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	
Current	**2014**	**2013**
Overdraft	6	-
Construction loan facilities (b)	7,663	4,707
Term loan facilities (a)	400	305
Total	**8,069**	**5,012**

Non-current	**2014**	**2013**
Term loan facilities (a)	1,204	673
Total	**1,204**	**673**

This is not applicable for the Company.

	Non-current		Current	
Term loan facilities	**2014**	**2013**	**2014**	**2013**
- Norway	201	171	31	19
- Singapore	55	-	-	-
- Romania	120	-	60	-
- Brazil	828	502	309	286
Total	**1,204**	**673**	**400**	**305**

(A) TERM LOAN FACILITIES

Norway

Vard Group AS has seven secured loans with Innovation Norway as of 31 December 2014 (2013: six). The three most material loans are NOK 70 million, NOK 33 million and NOK 32 million and mature respectively in 2024, 2024 and 2023. All of the loans, totalling NOK 177 million (2013: NOK 125 million), have fixed interest rates. The fixed rate loans carry rates between 3.6% and 4.4%. All Innovation Norway loans are considered low risk secured loans. The loans are secured by investments and fixed assets such as property, plant and equipment.

Vard Group AS has term loan at NOK 45 million with Nordea maturing in 2017. The loan is secured by collateral of fixed assets in Vard Group AS. The interst rate for the loan is NIBOR 3M + 2.4%. In addition the Norwegian subsidiaries have loans totalling NOK 10 million with different banks.

Singapore

The long term Nordea Bank credit facility agreement is an originally USD 15 million 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 and interest rate is LIBOR + 1.125% p.a.

Romania

Vard Tulcea SA has a EUR 20 million term loan with Unicredit. The loan matures in 2017 and has a floating interest, currently at 2.57%. Property, plant and equipment in Vard Tulcea SA is pledged as security for the loan.

Brazil

With the purpose of modernization of the shipyard in Niterói, the Brazilian entity has a USD 2.5 million loan from the Brazilian Development Bank (BNDES). In addition the company has several smaller loans totalling USD 1.0 million loan from FINAME, one of more integral subsidiaries of BNDES, is used for equipment investments. The final installments of the loans mature in 2016. These facilities carry interest rates between 2.5% and 10.0%, and are secured by fiduciary of shipyard equipment and machines.

In addition, Vard Niterói SA has two short term credit facilities totalling USD 30 million with Itaú BBA SA. The facilities carries interest rates between 5.2% and 5.5%.

Vard Promar SA has a long term financing agreement of USD 141.9 million maturing in 2029 (interest rate is 3.5% for local content and 4.5% on imported content). The loan is secured by mortgage and statutory lien of ownership of land, machinery and equipment.

In addition Vard Promar SA has short term credit facilities with Itau BBA Nassau totalling USD 5.1 million with interest rates between 4.3% and 4.6%. Also, Vard Promar SA has a short term facility with Bradesco of BRL 14 million, with floating interest (CDI + 1.7%), and short term facility with Santander of BRL 30 million, with floating interest (CDI + 2.0%).

(B) CONSTRUCTION LOAN FACILITIES

Construction loan facilities	**2014**	**2013**
- Vard Group AS	4,603	2,453
- Seaonics	21	-
- Vard Niterói SA	1,305	1,852
- Vard Promar SA	1,597	402
- Vard Singapore/Vietnam	137	-
Total	**7,663**	**4,707**

Construction loan facilities	**Interest rates 2014**			
	Lowest	*Highest*	**2014**	**2013**
Fixed rates	2.50%	5.55%	2,472	2,254
Variable rates	2.43%	7.40%	5,191	2,453
Total			**7,663**	**4 ,07**

Construction loan facilities are project specific and these borrowings are secured by the vessels under construction. The facilities are drawn down as the construction of the projects progresses. The loans will be fully repaid from the proceeds received from the client upon the delivery of the completed vessels. More specifically, the Group's construction loan facilities consist of the following (by entity):

Vard Group AS
Vard Holdings Ltd Group's Norwegian shipyards have established framework agreements with.Norwegian banks stipulating loan terms, conditions, and structures. Construction financing for projects is established on a project-by-project basis within the agreed-upon frameworks. The Romanian yards are largely financed via the Group's Norwegian yards in the form of partial payments on hull building contracts.

Nordea Bank Norge ASA is the main bank for the Vard Group AS. As of 31 December 2014 the Nordea facility consisted of a construction facility, a guarantee facility and a flexible facility (e.g. to bridge financing pending approval of a construction loan) of NOK 4,800, NOK 1,050 and NOK 150 million, respectively. The NOK 1,050 million facility includes guarantees in connection with sale of design and equipment packages in the aggregate amount of up to NOK 200 million. In addition to the maximum drawdown within the NOK 6,000 million frame, restrictions to minimum working capital of NOK 1,000 million and minimum equity of NOK 2,100 million apply per 31 December 2014. Each construction loan is due at delivery of the vessel.

DnB ASA has provided a construction facility of NOK 1,200 million for construction loans, guarantees and FX-trades, with the same covenants as the Nordea facility.

NOTES

(All amounts in NOK millions unless otherwise stated)

Sparebank1 Midt Norge has provided a construction facility of NOK 900 million for construction loans, guarantees and FX-trades. The facility can be extended to NOK 1,800 million if GIEK guarantees are available for the projects. Covenants are the same as for the Nordea facility.

Vard Niterói SA
Vard Niterói SA has a construction financing with BNDES on a project-by-project basis. Vard Holdings Ltd. provide guarantees related to these agreements.

As of 31 December 2014, the BNDES construction financing applies to two shipbuildings. The construction loans are due at delivery of the vessel. At 31 December 2014, the BNDES project financing facilities were limited to USD 176 million.

Vard Vung Tau Ltd
Vard Vung Tau Ltd. has a construction financing agreement with Nordea Bank in Singapore established by the holding company Vard Singapore Pte. Ltd. Vard Holdings Ltd and Vard Group AS provides guarantees related to this agreement. This construction facility function as working capital facility and for specific projects being the shipbuilding projects in Vard Vung Tau Ltd. This is a revolving multi-currency facility subject to approval by Nordea and limited to USD 40 million as of 31 December 2014. In addition the company has a guarantee facility with Nordea Bank in Singapore of USD 19,7 million for refundment guarantees to customers.

Vard Promar SA
Vard Promar SA has construction financing with Banco do Brasil SA and BNDES on a project-by-project basis. Vard Holdings Limited provides guarantees related to these agreements. At 31 December 2014, Banco do Brasil SA project financing facilities were limited to BRL 536 million (local content) and USD 140 million (imported content), while the facility with BNDES were limited to BRL 247 million (local content) and USD 68 million (imported content).

The fair values of the loans and borrowings are disclosed in Note 31. The carrying amounts of current borrowings and non-current borrowings bearing variable market rates approximate.their fair values. Interest expense on the borrowings are recorded within Materials and Subcontract cost.

(C) COVENANTS
Some of the Group's loan agreements are subjected to covenant clauses, whereby the Group is required to meet certain key financial ratios on working capital and book value of equity. The Group complied with the borrowing covenants throughout each of the periods presented in the financial statements.

20 Other payables (non-current)

Other non-current liabilities consist of pension liability of NOK 1 million (2013; NOK 2 million), and other liabilities of NOK 2 million (2013; NOK 1 million).

21 Provisions

Group	Warranties	Other provisions	Total
At 1 January 2014	179	184	363
Provisions made during the year	145	37	181
Provisions utilized during the year	(110)	(2)	(112)
Provisions reversed during the year	(86)	(67)	(152)
Currency translation differences	11	6	17
At 31 December 2014	**139**	**158**	**297**
Representing:			
Non-current	4	123	126
Current	135	35	171
Total	**139**	**158**	**297**

Group	Warranties	Other provisions	Total
At 1 January 2013	281	402	683
Provisions made during the year	142	-	142
Provisions utilized during the year	(84)	(112)	(196)
Provisions reversed during the year	(169)	(112)	(281)
Currency translation differences	9	6	15
At 31 December 2013	**179**	**184**	**363**
Representing:			
Non-current	18	96	114
Current	161	88	249
Total	**179**	**184**	**363**

Other provisions include environmental clean-up costs of NOK 75 million (2013: NOK 75 million) and legal claims of NOK 19 million (2013: NOK 21 million), as well as several other liabilities faced during the normal course of business, and provided for according to FRS 37, totalling NOK 64 million (2013: NOK 89 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

22 Trade and other payables

	Group		Company	
	2014	2013	2014	2013
Trade payables	1,635	1,386	-	4
Accrued expenses	417	434	-	-
Salary and social costs	182	158	-	-
VAT	170	167	-	-
Other liabilities	14	36	1	2
Total	**2,418**	**2,181**	**1**	**6**

23 Other current liabilities

NOK 248 million (2013: NOK 215 million) relates to accumulated change in fair value related to hegded FX risk for hedged firm commitments. NOK 7 million of other current liabilities for the year 2014 represents liability to FINCANTIERI. At 31 December 2013, other current liabilities consisted of NOK 1 million in sundry liability to external parties.

24 Revenue

	Group	
	2014	2013
Construction contract revenue	12,709	10,944
Sale of goods	55	66
Rendering of services	159	145
Total revenue	**12,923**	**11,155**

25 Salaries and related costs

	Group	
	2014	2013
Salaries and wages	2,013	1,679
Social security contributions	334	314
Pension costs	48	27
Other employee benefits	91	109
Total	**2,486**	**2129**

Directors fees amounting to NOK 3.5 million are included in salaries and related costs paid to directors of the Company during the financial year (2013: NOK 0.6 million). Remuneration to key management personnel are disclosed in Note 35.

All employees in Norway are included in a 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 pension assets and liabilities recognised in the balance sheet year end 2014 and 2013 relates to previous employees who are now retirees under the previous AFP plan. 2015 will be the last year with payments related to this pension plan. In addition, there are a few remaining members in another closed defined benefit plan. This benefit plans are considered immaterial for disclosure. Any cost related to these plans are included as part of pension costs.

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.

26 Other operating expenses

	Group	
Other operating expenses include:	**2014**	**2013**
Auditors' remuneration:		
- auditors of the Company	1	1
- other auditors	7	7
Non-audit fees:		
- auditors of the Company		
- other auditors	1	2
Rent and leasing expenses (Note 34)	52	52
Office and administration expenses	96	107
Research and development	11	7
Travel and employee expenses	66	57
Marketing and communication	35	42
Repair and maintenance	66	87
IT expenses	51	63
Consultants and other external sevices	47	48
Sundry operating expenses	118	89
Total	**551**	**562**

NOTES

(All amounts in NOK millions unless otherwise stated)

27 Financial income and financial costs

	Group	
	2014	2013
Financial income		
Interest income on loan and receivables, including bank deposits	33	51
Dividend income	2	-
Foreign exchange gain	141	70
Other financial income	28	2
Total	**204**	**123**
Financial costs		
Interest expense on loans and borrowings	(19)	(9)
Foreign exchange loss	(198)	(79)
Losses on financial receivables	-	(20)
Bank charges	(4)	(6)
Other financial expenses	(20)	(1)
Total	**(241)**	**(115)**
Net financial items	**(37)**	**8**

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	
	2014	2013
Current tax expense:		
Current year	(230)	(217)
Over provision in respect of prior years	3	33
Total	**(227)**	**(184)**
Deferred tax expense:		
Origination and reversal of temporary differences	20	(27)
Over provisions in respect of prior years	-	3
Changes in tax rates	-	(1)
Changes in recognised tax losses	19	12
Total	**39**	**(13)**
Total income tax expense	**(188)**	**(197)**

(B) INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

Group	2014 Before tax	2014 Tax (expense)/ benefit	2014 Net of tax	2013 Before tax	2013 Tax (expense)/ benefits	2013 Net of tax
Other comprehensive income						
Exchange differences on translation of foreign operations	84	-	84	101	-	101
Income tax on translation exchange difference on monetary items considered as part of the Group's net investment in foreign subsidiary	36	1	37	80	(3)	77
Total	**120**	**1**	**121**	**181**	**(3)**	**178**

(C) RECONCILIATION OF EFFECTIVE TAX RATE

	2014 %	2014 Amount	2013 %	2013 Amount
Profit before tax		238		497
Tax at the domestic rates applicable to profits in the countries where the Group operates	34.7%	83	5.2%	26
Over provision in respect of prior years	-1.4%	(3)	-7.2%	(36)
Income not subject to tax	-18.1%	(43)	-14.1%	(70)
Non deductible expenses	25.1%	60	8.2%	41
Utilization of previously unrecognised tax assets	-8.0%	(19)	-0.6%	(3)
Tax losses for which no deferred income tax asset was recognised	47.0%	112	48.1%	239
Withholding tax	0.0%	-	0.2%	1
Change in tax rates	0.0%	-	-0.2%	(1)
Total income tax expense in profit or loss	**79.3%**	**188**	**39.6%**	**197**

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

NOTES

(All amounts in NOK millions unless otherwise stated)

29 Earnings per share and diluted earnings per share

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

	Group	
	2014	2013
Net profit attributable to ordinary shareholders of the Company	**349**	**357**
Weighted average number of shares (million)	1,180	1,180
Basic earnings per share (NOK per share)	0.30	0.30
Basic earnings per share (SGD cents per share)	**5.25**	**6.27**
Adjusted weighted average number of shares (million) (in millions)	1,180	1,180
Diluted earnings per share (NOK per share)	0.30	0.30
Diluted earnings per share (SGD cents per share)	**5.26**	**6.27**
Exchange rates:	31.12.14	31.12.13
SGD/NOK	5.6218	4.8089

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 ten (2013: eight) 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	
	2014	2013	2014	2013
Norway	10,249	9,444	1,485	1,399
Romania*	127	90	718	584
Singapore	681	383	1	30
Vietnam**	-	-	245	201
Brazil	1,812	1,232	1,298	1,067
Canada	43	-	37	-
USA	9	-	1	-
Other countries	2	6	1	-
Total	**12,923**	**11,155**	**3,786**	**3,281**

* 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:

	%	2014	%	2013
Customer 1	23%	3,016	14%	1,556
Customer 2	11%	1,395	19%	2,136
Customer 3	8%	1,090	12%	1,363
Customer 4	5%	634	15%	1,719
Total revenue		**6,135**		**6,774**

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 risks 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	
	2014	**2013**	**2014**	**2013**
Interest-bearing receivables (Note 9)	865	252	632	600
Other receivables less derivative financial instruments, non-current (Note 10)	54	48	-	-
Trade and other receivables less advances to suppliers, VAT and tax receivables (Note 16)	345	228	48	47
Derivative financial instruments (Note 10, 16)	401	242	-	-
Cash and cash equivalents (Note 17)	1,936	1,745	10	67
Total	**3,601**	**2,515**	**690**	**714**

Cash and cash equivalents are placed in banks and financial institutions which are regulated. Trade and other receivables that are not past due are with counterparties with good collection track record and credit rating with the Group.

NOTES

(All amounts in NOK millions unless otherwise stated)

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

	Group	
	2014	**2013**
Not Due	190	80
0 - 30 days	27	48
31 - 120 days	35	39
121 - 365 days	12	41
More than 365 days	1	-
Total	**265**	**208**

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

Allowance for impairment losses for trade receivables:

	Group	
	2014	**2013**
Gross amount	310	263
Less: Allowance for impairment losses	(45)	(55)
Total	**265**	**208**
At 1 January	55	29
Allowance made/(written back)	(4)	37
Utilized	(6)	11)
At 31 December	**45**	**55**

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	
	2014	2013	2014	2013
Fixed rate instruments				
Financial assets (cash and cash equivalents)	1,031	470	-	-
Financial liabilities (loans and borrowings)	3,785	3,048	-	-
Variable rate instruments				
Financial assets (cash and cash equivalents)	971	1,275	10	67
Financial assets (Interest bearing receivables)	866	252	632	600
Financial liabilities (loans and borrowings)	5,488	2,637	-	-

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 2014				
Variable rate instruments (net)	(13)	13	2	(2)
Cash flow sensitivity (net)	**(13)**	**13**	**2**	**(2)**
31 December 2013				
Variable rate instruments (net)	(4)	4	2	(2)
Cash flow sensitivity (net)	**(4)**	**4**	**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 EUR/NOK and USD/NOK currency rates as well as local (functional) currency versus foreign currencies. Where contract prices and costs are in the same foreign currency, there is an economic hedge and the currency exposure of such contracts is mitigated.

The Group utilizes forward foreign currency contracts to hedge its currency risk for contracts in foreign currencies where exposure is significant. The Group uses forward contracts purely as a hedging tool and does not use forward foreign currency contracts for trading purposes.

NOTES

(All amounts in NOK millions unless otherwise stated)

The Group's and Company's exposure to foreign currency risk when compared to functional currencies are as follows:

	31 December 2014			31 December 2013		
Group	**EUR**	**USD**	**SGD**	**EUR**	**USD**	**SGD**
Financial assets						
Interest-bearing receivables	-	13				
Trade and other receivables	543	494	1	17	30	-
Cash and cash equivalents	103	5	46	159	73	-
Total financial assets	**646**	**512**	**47**	**176**	**103**	**-**
Financial liabilities						
Loans and borrowings	(56)	(3,491)	-	-	(2,768)	-
Trade and other payables	(268)	(432)	(1)	(92)	(280)	-
Total financial liabilities	**(324)**	**(3,923)**	**(1)**	**(92)**	**(3,048)**	**-**
Net financial assets / (liabilities)	**322**	**(3,411)**	**46**	**84**	**(2,945)**	**-**

Amounts in the table are in NOK million and recalculated with foreign currency rate as of 31.12.

	31 December 2014			31 December 2013		
Company	**EUR**	**USD**	**SGD**	**EUR**	**USD**	**SGD**
Financial assets						
Cash and cash equivalents	-	-	-	-	1	-
Total financial assets	**-**	**-**	**-**	**-**	**1**	**-**

Amounts in the table are in NOK million and recalculated with foreign currency rate as of 31.12.

The assessment of the foreign currency exposure is based on the Group´s and Company´s monetary items.

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.

	2014	**2013**
USD/NOK (5% strengthening)	8	-
EUR/NOK (5% strengthening)	4	1
Total (Functional currency NOK)	**12**	**1**
USD/BRL (5% Strengthening)	**(53)**	**(46)**
EUR/RON (5% Strengthening)	**6**	**3**

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.

Currency derivatives

The Group utilizes forward contracts to hedge currency risk. The table below summarizes the notional amounts (calculated with year end exchange rate) of all the contracts in the Group separated into the relevant currencies. All the derivatives are designated to fair value hedges.

Group	2014 Buy	2014 Sell	2014 Net	2013 Buy	2013 Sell	2013 Net
NOK	10,260	4,058	6,202	9,525	4,372	5,153
USD	1,119	12,831	(11,712)	612	9,934	(9,322)
EUR	3,369	705	2,664	3,996	1,345	2,650
Other	1,102	-	1,102	1,730	-	1,730
Total buy	**15,850**	**17,594**	**(1,744)**	**15,863**	**15,651**	**211**

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 and construction financing.

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

Group	Carrying amount	Total contractual cash flow	Within 1 year	Within 1 – 5 years	> 5 years
At 31 December 2014					
Non-derivative financial liabilities					
Trade payables (Note 22)	(1,635)	(1,635)	(1,635)	-	-
Construction loans (Note 19)	(7,663)	(8,024)	(8,024)	-	-
Term loan facilities (Note 19)	(1,604)	(1,950)	(509)	(669)	(772)
Other liabilities	(7)	(7)	(7)	-	-
Total	**(10,909)**	**(11,616)**	**(10,175)**	**(669)**	**(772)**
At 31 December 2013					
Non-derivative financial liabilities					
Trade payables (Note 22)	(1,386)	(1,386)	(1,386)	-	-
Construction Loans (Note 19)	(4,707)	(4,909)	(4,909)	-	-
Term loan facilities (Note 19)	(978)	(1,152)	(380)	(319)	(453)
Other current liabilities (Note 23)	(1)	(1)	(1)	-	-
Total	**(7,072)**	**(7,448)**	**(6,676)**	**(319)**	**(453)**

Company	Carrying amount	Total contractual cash flow	Within 1 year	Within 1 – 5 years	> 5 years
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)**	**-**	**-**
At 31 December 2013					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(6)	(6)	(6)	-	-
Total	**(6)**	**(6)**	**(6)**	**-**	**-**

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.

NOTES

(All amounts in NOK millions unless otherwise stated)

Accounting classification and fair values

Fair value disclosures

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

Group	Note	Fair value – Hedging instruments	Fair value – Available-for-sale	Amortized cost – Loans and receivables	Amortized cost – Financial liabilities	Total carrying amount	Fair value
31 December 2014							
Financial assets							
Other investments	8	-	61	-	-	61	61
Non-current interest-bearing receivables	9	-	-	336	-	336	336
Other non-current receivables	10	-	-	54	-	54	54
Trade and other receivables	16	-	-	265	-	265	265
Interest-bearing receivables	9	-	-	530	-	530	530
Current and non-current derivatives		401	-	-	-	401	401
Cash and cash equivalents	17	-	-	2,002	-	2,002	2,002
Total		**401**	**61**	**3,187**	**-**	**3,649**	**3,649**
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	-	-	-	(1,635)	(1,635)	(1,635)
Current loans and borrowings	19	-	-	-	(8,069)	(8,069)	(8,072)
Other current liabilities	23	-	-	-	(7)	(7)	(7)
Total		**(2,227)**	**-**	**-**	**(10,915)**	**(13,142)**	**(13,063)**
31 December 2013							
Financial assets							
Other investments	8	-	62	-	-	62	62
Non-current interest-bearing receivables	9	-	-	201	-	201	201
Other non-current receivables	10	-	-	48	-	48	48
Trade and other receivables	16	-	-	208	-	208	208
Current interest-bearing receivables	9	-	-	51	-	51	51
Current and non-current derivatives		242	-	-	-	242	242
Cash and cash equivalents	17	-	-	1,745	-	1,745	1,745
Total financial assets		**242**	**62**	**2,253**	**-**	**2,557**	**2,557**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(673)	(673)	(575)
Current and non-current derivatives		(261)	-	-	-	(261)	(261)
Trade and other payables	22	-	-	-	(1,386)	(1,386)	(1,386)
Current loans and borrowings	19	-	-	-	(5,012)	(5,012)	(5,012)
Other current liabilities	23	-	-	-	(1)	(1)	(1)
Total financial liabilities		**(261)**	**-**	**-**	**(7,072)**	**(7,333)**	**(7,235)**

Interest rates used for determining fair value

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

Fair value hierarchy

The table below analyses financial instruments carried out at fair value, by valuation methods as at 31 December 2014 and 2013.

Group	Level 1	Level 2	Level 3	Total
At 31 December 2014				
Assets				
Available-for-sale financial assets	-	-	61	61
Derivatives designated as hedging instruments (non-current)	-	1	-	1
Derivatives designated as hedging instruments (current)	-	400	-	400
Total assets	**-**	**401**	**61**	**462**
Liabilities				
Derivatives designated as hedging instruments (non-current)	-	(47)	-	(47)
Derivatives designated as hedging instruments (current)	-	(2,180)	-	(2,180)
Total liabilities	**-**	**(2,227)**	**-**	**(2,227)**
Total	**-**	**(1,826)**	**61**	**(1,765)**
At 31 December 2013				
Assets				
Available-for-sale financial assets	-	-	62	62
Derivatives designated as hedging instruments (non-current)	-	32	-	32
Derivatives designated as hedging instruments (current)	-	210	-	210
Total assets	**-**	**242**	**62**	**304**
Liabilities				
Derivatives designated as hedging instruments (non-current)	-	(32)	-	(32)
Derivatives designated as hedging instruments (current)	-	(229)	-	(229)
Total liabilities	**-**	**(261)**	**-**	**(261)**
Total	**-**	**19**	**62**	**43**

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).

There were no transfers between levels 2 and 3 during the year. The only change in the fair value of the level 3 available-for-sale equity investment relates to a NOK 1 million decrease in fair value.

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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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 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, such as discounted cash flow analysis.

32 Acquisition of subsidiary and non-controlling interests

Acquisition of subsidiaries 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. and immediately amalgamated into it's parent company, which is wholly-owned by Vard Group AS a 100 percent held subsidiary of the Company. The acquired 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.

The goodwill calculation and purchase price allocation is not completed year end 2014.

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

ACQUISITION OF SUBSIDIARIES IN 2013

Johangarden AS
On 28 June 2013, the Group acquired 100 percent of Johangarden AS ("JGAS"), a company incorporated in Norway. The new subsidiary is based in Tennfjord, outside Ålesund and has two employees. Consequent to the acquisition, JGAS became a subsidiary of Vard Electro AS, which is wholly-owned by Vard Group AS, a 100 percent held subsidiary of the Company. JGAS owns busines premises in Tennfjord and Vard Electro AS will consolidate part of its operations at the facilities owned by JGAS.

Consideration transferred
The consideration for the transaction was NOK 12.4 million, fully paid at closing, the consideration was satisfied in cash.

Identifiable assets acquired and liabilities assumed

	Note	2013
Property, plant and equipment	4	11
Trade and other receivables		1
Cash and cash equivalents		1
Non-current liabilities incl. long term loan		(10)
Trade and other payables		(2)
Total identifiable net assets and book value		**2**

Purchase price allocation
An excess value related to land and premises was recognised as a result of the acquisition as follows:

	Note	2013
Total consideration transferred		12
Book value of identifable net assets		(2)
Excess value related to land and premises	4	10

The allocation of excess value to land and premises is based on a fair value appraisal of the property obtained in relation to the acquisition of the company.

Acquisition of non-controlling interests
In January 2013 the Group continued to acquire minority shares in Vard Tulcea SA. In total an additional 0.55 percent interest was aquired for a total of NOK 1,4 million in cash, increasing the ownership from 99.44 percent to 99.99 percent. The shares were acquired at a fixed price of RON 5 per share.

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.

All companies in the Group shall have net working capital that is sufficient to finance construction projects during a normal to high level activity period. 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

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. There are no breach of covenants as of 31 December 2014.

34 Operational lease commitments

Non-cancellable operating lease rentals are payable as follows:

Group	2014	2013
Within one year	50	49
Between one and five years	89	132
More than five years	35	26
Total	**174**	**206**

Vard Holdings Limited did not have any lease commitments as of 31 December 2014 and 2013.

The Group's non-cancellable operating lease relate primarily to yard lease which has a remaining lease period of four years. The subsidiary Vard Brevik Holding AS leases yard and office premises and the lease has a non-cancellable remaining period of four years. The leases have options for renewal.

During the financial year, an amount of NOK 52 million was recognised as an expense in profit or loss in respect of operational leases (NOK 52 million in FY2013).

35 Related parties

(A) PARENT AND ULTIMATE HOLDING COMPANY

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

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

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

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

	Group	
Numbers in NOK thousand	**2014**	**2013**
Base salary	17,532	16,375
Variable pay	8,757	14,548
Other benefits	377	345
Pension benefit	573	681
Total	**27,239**	**31,949**

(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	**2014**	**2013**
Sales of construction contracts and engineering services to other related parties	-	2
Sales of construction contracts and engineering services to parent company	4	-
Guarantee commission, associates	5	1
Interest income, Associates	3	-
Sales of vessels and services to associates	57	462
Total sales of goods and services	**69**	**465**

Purchases of goods and services	**2014**	**2013**
Cost of goods and services from associates	(5)	(5)
Other operating expenses, parent company	(17)	(4)
Total purchases of goods and services	**(22)**	**(9)**
Agreements entered into without impact on cost or revenues in the period		
Barge rental agreement with FINCANTIERI	-	(26)
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 at cost or revenues in the period	**63**	**(26)**

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.

For FY2013, the transactions with other related parties refer to companies in the group of the former parent company, STX Europe AS. Entities which are controlled or significantly influenced by the Group's key management personnel and their close family members are also considered as other related parties.

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 2014 were as follows:

Name of the company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2014 %	Effective equity held by the Group 2013 %
Vard Group AS	Norway	Shipbuilding	100	100
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 [1)]	Canada	Project development and ship design	100	n/a
Aakre Eigendom AS	Norway	Accommodation facilities	100	100
Subsidiaries of Vard Piping AS				
Vard Piping Tulcea SRL [2)]	Romania	Pipe installation	n/a	100
Subsidiaries of Vard Design AS				
Vard Design Liburna Ltd	Croatia	Ship design	51	51
Subsidiaries of Vard Electro AS				
Vard Electro Tulcea SRL [3)]	Romania	Electrical installation	100	100
Vard Electro Brazil (Instalações Elétricas) Ltda [4)]	Brazil	Electrical installation	100	100
Vard Electro Braila SRL	Romania	Electrical installation	100	100
Vard Electrical Installation and Engineering (India) Private Limited [5)]	India	Electrical installation	100	100
Johangarden AS [6)]	Norway	Real Estate	n/a	100
STX Brevik Philadelphia [7)]	USA	Dormant	n/a	100
Subsidiaries of Vard RO Holding SRL				
Vard Tulcea SA	Romania	Shipbuilding	99	99
Vard Braila SA [8)]	Romania	Shipbuilding	100	100
- Braila Ship Repair SA [9)]	Romania	Ship repair and maintenance	100	100
- AJA Ship Design SA	Romania	Dormant	60	60
Vard Engineering Constanta SRL [10)]	Romania	Engineering	100	100
Subsidiary of Seaonics AS				
- Seaonics Polska sp. z o.o. [11)]	Poland	Ship automation systems	51	51
Subsidiary of Vard Marine Inc				
Vard Marine US Inc [12)]	USA	Project development and ship design	100	n/a
Subsidiary of Vard Singapore Pte. Ltd				
Vard Vung Tau Ltd	Vietnam	Shipbuilding	100	100
Subsidiary of Vard Accommodation AS				
Vard Accommodation Tulcea SRL [13)]	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
Brevik Support AS [14)]	Norway	Ship services	n/a	100
Vard Engineering Brevik AS	Norway	Engineering	70	70
- Vard Engineering Gdansk sp. z o.o. [15)]	Poland	Engineering	70	n/a
Vard Offshore Brevik AS	Norway	Offshore industrial services and installation	100	100
Ronor AS [16)]	Norway	Dormant	n/a	100

1) Aquired in FY 2014
2) Liquidated in FY 2014. Operations continued in Vard Tulcea SA and Vard Engineering Constanta SRL
3) Vard Electro AS 99.73%, Vard Accommodation Tulcea 0.23%
4) Vard Electro AS 99%, Vard Group AS 1%
5) Vard Electro AS 99%, Vard Electro Tulcea SRL 1%
6) Merged with Vard Electro AS FY 2014
7) Liquidated in FY 2014
8) Vard RO Holding SRL 94.12%, Vard Group AS 5.88%
9) Vard Braila SA 68.58%, Vard Brevik Holding AS 31.42%
10) Vard RO Holding SRL 70%, Vard Braila SA 30%
11) 100% owned by Seaonics AS, 51% indirectly owned by Vard Group AS
12) Aquired in FY 2014
13) Vard Accommodation AS 98.18%, Vard Electro Tulcea SRL 1.82%
14) Merged with Vard Brevik Holding FY 2014
15) Established in FY 2014. 100% owned by Vard Engineering Brevik AS, 70% indirectly owned by Vard Brevik Holding A
16) Merged with Vard Brevik Holding FY 2014

PricewaterhouseCoopers LLP are the auditors of the Singapore-incorporated subsidiary. Other member firms of PWC International are auditors of all significant foreign-incorporated subsidiaries.

37 Post balance sheet events

On 12 March 2015 the Group was informed that the companies Nordmoon Schiffahrts GmbH & Co and KG and Nordlight Schiffahrts GmbH & Co have filed for insolvency at the local court of Neumünster, Germany. The Group is currently constructing one PSV for each of these companies at the yard in Vietnam. The Group has received a 10% instalment for one of the vessels. On 13 March 2015 the Group terminated the two shipbuilding contracts. The Group does not expect to repay the prepayment received, and expects to be able to sell the vessels at a price that will cover the expected construction cost less the prepayment received.

38 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.

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.

Tax claim Brazil
On 5 August 2014, VARD informed about a tax claim received from tax authorities in Brazil, relating to transfer pricing of goods and services delivered from the Group's Norwegian entities to Vard Niterói in FY2010. The claim amounts to approximately NOK 200 million, including penalties and interest accrued. An appeal was filed, and further documentation supporting VARD's case has been compiled and submitted. The decision of the first out of three levels of appeal within the administrative Brazilian tax authorities has been received, and the decision maintains the original tax assessment carried out for FY2010. This was not unexpected and had been advised to be the most likely outcome, due to the nature of the appeals process. VARD intends to continue to defend its position through further appeals and by all legal means at its disposal. The Company has in cooperation with its legal counsel assessed the likelihood of a favorable ruling in the second or third appeal as more likely than not, and hence no provision for the claim has been made as of year-end 2014.

NOTES

(All amounts in NOK millions unless otherwise stated)

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	2015	2016	2017
Equity participation	21	10	17
Seller credit	126	-	-
Total capital and other commitments	**147**	**10**	**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 our 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.

APPENDIX – IPT MANDATE

Appendix in relation to the proposed renewal of the IPT Mandate

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

Directors:

Mr. Giuseppe Bono	(Chairman of the Board and Non-Executive Director)
Mr. Roy Reite	(Chief Executive Officer and Executive Director)
Mr. Fabrizio Palermo	(Non-Executive Director)
Mr. Pier Francesco Ragni	(Non-Executive Director)
Mr. Keen Whye Lee	(Independent Director)
Mr. Sung Hyon Sok	(Independent Director)

REGISTERED OFFICE:
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

2 April 2015

To the Shareholders of Vard Holdings Limited

1. Introduction
The Company has issued the Notice of AGM in relation to the AGM of the Company to be held on 28 April 2015, which is set out on pages 152 to 154 of the 2014 Annual Report. Ordinary Resolution 7 under the heading "Special Business" as set out in the Notice of AGM is an ordinary resolution relating to the renewal of the IPT Mandate.

The purpose of this Letter is to provide Shareholders with information relating to the proposed renewal of the IPT Mandate and to seek Shareholders' approval for the proposal at the 2015 AGM. All defined terms in this Letter have their meanings as ascribed in the Definitions section on pages 138 and 139, unless otherwise stated.

Further details of the IPT Mandate are set out in the Annex to this Letter.

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

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

2. The proposed renewal of the IPT mandate
2.1 The Existing IPT Mandate

The IPT Mandate was adopted at the extraordinary general meeting of the Company on 3 October 2013, and renewed at the AGM on 7 April 2014 to allow the Company, its subsidiaries and its associated companies which are considered to be "entities at risk" within the meaning of Rule 904 of the Listing Manual, to enter into certain Mandated Transactions with the interested persons set out in the IPT Mandate. The IPT Mandate is subject to annual renewal.

As at the Latest Practicable Date, Fincantieri O&G holds approximately 55.63% of the Company's Shares.
Fincantieri O&G is a wholly owned subsidiary of FINCANTIERI. The aforementioned companies are accordingly controlling shareholders of the Company and are therefore, together with their respective associates, interested persons for the purposes of Chapter 9 of the Listing Manual.

2.2 Duration of the Renewed IPT Mandate

The rationale for the IPT Mandate, the scope of the IPT Mandate, the benefit of the IPT Mandate to Shareholders, the classes of Mandated Interested Persons, the categories of Mandated Transactions and the Review Procedures in respect of which the IPT Mandate is sought to be renewed remain unchanged and are as set out in the Annex to this Letter.

The Directors propose that the IPT Mandate be renewed at the 2015 AGM on the terms of ordinary Resolution 7 to be proposed at the 2015 AGM and (unless revoked or varied by the Company in a general meeting) to continue in force until the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier. Approval from Shareholders will be sought for the renewal of the IPT Mandate at the next and each subsequent AGM of the Company, subject to satisfactory review by the Audit Committee of its continued application to the Mandated Transactions.

2.3 Audit Committee's Statements

Pursuant to Rule 920(1)(c) of the Listing Manual, the Audit Committee, comprising Mr. Keen Whye Lee, Mr. Sung Hyon Sok and Mr. Pier Francesco Ragni, confirms that:

(a) the Review Procedures have not changed since Shareholders last renewed the IPT Mandate at the annual general meeting of the Company held on 7 April 2014; and

(b) the Review Procedures are sufficient to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

If, during the periodic reviews by the Audit Committee, the Audit Committee is of the view that the Review Procedures are inadequate or inappropriate to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, or in the event of any amendment to Chapter 9 of the Listing Manual, it will in consultation with the Board of Directors take such action as it deems proper in respect of such procedures and/or modify or implement such procedures as may be necessary and direct the Company to revert to Shareholders for a fresh mandate based on new guidelines and procedures for transactions with Mandated Interested Persons.

2.4 Disclosures

Disclosures will be made in the Company's 2014 Annual Report of the aggregate value of all interested person transactions conducted with interested persons pursuant to the IPT Mandate during the current financial year, and in the annual reports for subsequent financial years during which the IPT Mandate continues in force, in accordance with the requirements of Chapter 9 of the Listing Manual. The Company will also announce the aggregate value of transactions conducted pursuant to the IPT Mandate for the financial periods that it is required to report on pursuant to Rule 705 of the Listing Manual (which relates to quarterly reporting by listed companies) within the time required for the announcement of such report.

3. Directors' recommendations

The Independent Directors, having considered, *inter alia*, the terms, rationale for and benefits of the IPT Mandate and taken into account the Audit Committee's statements in paragraph 2.3 above, are of the opinion that the proposed renewal of the IPT Mandate is in the best interests of the Company. Accordingly, the Independent Directors recommend that Shareholders vote in favour of ordinary Resolution 7 relating to the proposed renewal of the IPT Mandate as set out in the Notice of AGM.

Mr. Giuseppe Bono, Mr. Fabrizio Palermo and Mr. Pier Francesco Ragni are nominees of Fincantieri O&G. Accordingly, they are not considered independent for the purposes of the IPT Mandate.

4. Absention from voting

In accordance with the requirements of Chapter 9 of the Listing Manual, Fincantieri O&G, being a controlling shareholder, is regarded as an interested person in relation to the IPT Mandate and will abstain from voting and has undertaken to ensure that its respective associates will abstain from voting on ordinary Resolution 7 in relation to the renewal of the IPT Mandate at the 2015 AGM. Such persons will also decline to accept nominations to act as proxy to attend and vote at the 2015 AGM in respect of the said ordinary resolution unless the Shareholders appointing them have given specific instructions as to the manner in which their votes are to be cast in respect of the said resolution.

5. Inspection of documents

The following documents are available for inspection at the registered office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, during normal business hours on any weekday (public holidays excluded) from the date of this Letter up to and including the date of the 2015 AGM:

(a) the 2014 Annual Report; and

(b) the Memorandum and Articles of Association of the Company.

6. Directors' responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Letter constitutes full and true disclosure of all material facts about the IPT Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Letter misleading.

Where information in this Letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from these sources and/or reproduced in this Letter in its proper form and context.

Yours faithfully
For and on behalf of the Board of Directors of
Vard Holdings Limited

Roy Reite
Chief Executive Officer and Executive Director
Vard Holdings Limited

Definitions

In this Letter, the following definitions apply throughout unless otherwise stated:

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

"2014 Annual Report"	The annual report of the Company for the financial year ended 31 December 2014
"2015 AGM"	The forthcoming annual general meeting of the Company to take place at NTUC Centre, No.1 Marina Boulevard, Level 7, Room 701, Singapore 018989, on Tuesday, 28 April 2015 at 10:00 a.m.
"Act"	The Companies Act, Chapter 50 of Singapore, as amended from time to time
"AGM"	An annual general meeting of the Company
"Audit Committee"	The audit committee of the Company for the time being
"Board" or "Board of Directors"	The board of directors of the Company for the time being
"CDP"	The Central Depository (Pte) Limited
"Chief Executive Officer"	The chief executive officer of the Company for the time being
"Chief Financial Officer"	The chief financial officer of the Company for the time being
"Chief Operating Officer"	The chief operating officer of the Company for the time being
"Company"	Vard Holdings Limited
"Compliance Committee"	Has the meaning ascribed to it in paragraph 5(a) of the Annex to this Letter
"Director"	A director of the Company for the time being
"Executive Officer"	An executive officer of the Company for the time being
"FINCANTIERI"	FINCANTIERI S.p.A.
"Fincantieri Group"	FINCANTIERI, its subsidiaries and associated companies, excluding the Group
"Fincantieri O&G"	Fincantieri Oil & Gas S.p.A.
"Group"	The Company and its subsidiaries
"HVAC"	Has the meaning ascribed to it in paragraph 3 of the Annex to this Letter
"Independent Directors"	Directors who are deemed independent for the purposes of the IPT Mandate being Mr. Roy Reite, Mr. Keen Whye Lee and Mr. Sung Hyon Sok
"IPT Mandate"	The general mandate approved by Shareholders pursuant to Chapter 9 of the Listing Manual for the Group to enter into the Mandated Transactions

"Latest Practicable Date"	The latest practicable date prior to the printing of this Letter, being 17 March 2015
"Listing Manual"	The listing manual of the SGX-ST, as may be amended, varied or supplemented from time to time
"Mandated Interested Persons"	Has the meaning ascribed to it in paragraph 2 of the Annex to this Letter
"Mandated Transactions"	Has the meaning ascribed to it in paragraph 3 of the Annex to this Letter
"Notice of AGM"	The notice of the AGM dated 2 April 2015
"Review Procedures"	The methods or procedures for determining the transaction prices for Mandated Transactions as set out in the IPT Mandate
"Securities and Futures Act"	The Securities and Futures Act, Chapter 289 of Singapore, as amended from time to time
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Shareholders"	Registered holders of Shares except that where the registered holder is CDP, the term "Shareholders" shall, in relation to such Shares, mean the persons whose direct securities accounts maintained with CDP are credited with the Shares
"Shares"	Ordinary shares in the capital of the Company
"subsidiary"	Has the meaning ascribed to it in Section 5 of the Act
"S$"	Singapore dollars
"%" or "per cent."	Per centum or percentage

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter gender and vice versa. References to persons shall, where applicable, include corporations.

Any reference in this Letter to any enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any term defined under the Act, the Securities and Futures Act or the Listing Manual or any statutory modification thereof and used in this Letter shall, where applicable, have the meaning assigned to it under the Act, the Securities and Futures Act or the Listing Manual or any statutory modification thereof, as the case may be, unless otherwise provided.

Any reference to a time of day in this Letter shall be a reference to Singapore time unless otherwise stated.

Annex – IPT mandate

1. Introduction

1.1 Chapter 9 of the Listing Manual

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

1.2 Definitions under Chapter 9 of the Listing Manual

The following definitions are contained in the Listing Manual:

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

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

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

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

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

(a) the listed company;

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

(c) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s), has or have control over the associated company.

An **"interested person"** means a director, chief executive officer or controlling shareholder of the listed company or an associate of any such director, chief executive officer or controlling shareholder.

An **"interested person transaction"** means a transaction between an entity at risk and an interested person.

1.3 General requirements

Rule 905 of the Listing Manual states that a listed company must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3% of the group's latest audited consolidated net tangible assets, or if the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited consolidated net tangible assets, the listed company must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.

Rule 906 of the Listing Manual states that a listed company must also obtain Shareholder approval for any interested person transaction of a value equal to, or more than (a) 5% of the group's latest audited consolidated net tangible assets; or (b) 5% of the group's latest audited consolidated net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. However, a transaction which has been approved by Shareholders, or is the subject of aggregation with another transaction that has been approved by Shareholders, need not be included in any subsequent aggregation.

In line with the rules set out in Chapter 9 of the Listing Manual, a transaction with a value of less than S$100,000 is not considered material and is not taken into account for the purposes of this Annex.

1.4 Shareholders' general mandate

Rule 920 of the Listing Manual also permits a listed company to seek a mandate from its shareholders for recurrent transactions with interested persons of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses, that may be carried out with the interested persons. Transactions conducted under such a mandate are not subject to Rules 905 and 906 of the Listing Manual. The general mandate is subject to annual renewal.

2. Classes of mandated interested persons

The IPT Mandate which will apply to the Group's interested person transactions set out below, will be carried out with FINCANTIERI and its associates (the **"Mandated Interested Persons"**). The Mandated Interested Persons are deemed to be interested persons pursuant to Chapter 9 of the Listing Manual and any transaction between the Group and any of them will, subject to the exceptions provided in Chapter 9 of the Listing Manual, be an interested person transaction.

3. Mandated transactions

The IPT Mandate will cover the following categories of interested person transactions:

(a) the sale of goods to the Group, including:

- (i) blocks, sections, hulls, pre-outfitted units and vessels;
- (ii) raw materials such as steel, piping and electrical cables;
- (iii) engines, marine systems components and equipment and other components, including heating, ventilation and air conditioning (**"HVAC"**) systems and accommodation units and components for interior outfitting of vessels;
- (iv) spare parts and other minor equipment in respect of sub-paragraphs (a)(i), (ii) and (iii) above; and
- (v) installation and commissioning of the components under sub-paragraphs (a)(i), (ii), (iii) and (iv) above.

(b) the provision of services to the Group, including:

- (i) corporate services, such as finance, treasury, business development, tax, legal, internal audit, IT support services, HR management and staff training, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;
- (ii) ship design and engineering consultancy services provided by Fincantieri Group personnel both within and without the Group's premises;
- (iii) software licensing;
- (iv) repair, modification, maintenance, servicing, overhaul and other technical and after sales services;

(v) lease of equipment or assets;

(vi) procurement services for equipment and raw materials;

(vii) exchange of personnel; and

(viii) docking services;

(c) the entry into financial, treasury and insurance transactions, including:

(i) borrowing of funds by the Group on a short-term or medium term basis;

(ii) placement of funds by the Group on a short-term or medium term basis;

(iii) entry into any foreign exchange, interest rate, commodity or any other derivative transaction for hedging purposes; and

(iv) provision of insurance cover for the Group's business;

(d) the sale of goods by the Group, including:

(i) block, sections, hulls, pre-outfitted units and vessels;

(ii) marine systems components and equipment, offshore handling systems, electrical systems and automation software and systems;

(iii) piping equipment, HVAC systems and accommodation units and components for interior outfitting of vessels;

(iv) spare parts and other minor equipment related to sub-paragraphs (d)(i), (ii) and (iii) above; and

(v) installation and commissioning of the components under sub-paragraphs (d)(i), (ii), (iii) and (iv) above;

(e) the provision of services by the Group, including:

(i) corporate services, such as business development, HR management and staff training, IT support services, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(ii) vessels design and engineering consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(iii) procurement services for equipment packages and raw materials;

(iv) software licensing;

(v) lease of equipment and assets;

(vi) exchange of personnel; and

(vii) docking services; and

(f) the provision of corporate guarantees and other credit support for the benefit of the Group, including:

(i) refund guarantees;

(ii) performance guarantees including but not limited to performance bonds and guarantees given in connection with the sale of vessels; and

(iii) security for credit facilities,

(collectively, the **"Mandated Transactions"**.)

The Mandated Transactions are transactions of a revenue or a trading nature or those necessary for the Group's day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. Non-Mandated Transactions will remain subject to the requirements under Chapter 9 of the Listing Manual, in particular, Rules 905 and 906 of the Listing Manual.

4. Rationale for the IPT Mandate and benefits to the Group

The Mandated Transactions are entered into or to be entered into by the Group in the ordinary course of business. They are recurring transactions which are likely to occur with some degree of frequency or arise at any time and from time to time.

The IPT Mandate and subsequent renewal on an annual basis will eliminate the need to convene separate general meetings from time to time to seek Shareholders' approval as and when potential interested person transactions arise, thereby reducing substantially the administrative time and expenses in convening such meetings, without compromising the corporate objectives and adversely affecting the business opportunities available to the Group.

The IPT Mandate is intended to facilitate these transactions, provided that they are carried out on normal commercial terms and are not prejudicial to the Company and its minority Shareholders. The Directors are of the view that the Group will be able to benefit from such transactions with the Mandated Interested Persons.

The Group will benefit from having access to competitive quotes from, or transacting with, the Mandated Interested Persons in respect of services and goods procured. The IPT Mandate will also allow the Group to enjoy economies of scale in the procurement of services and goods. Further, it will facilitate a more lean and efficient administrative set-up as the Group will be able to utilise the personnel of the Mandated Interested Persons for certain corporate services.

Disclosure will be made in the Company's annual report of the aggregate value of transactions conducted pursuant to the IPT Mandate and otherwise during the financial year under review, and in the annual reports for the subsequent financial years during which the IPT Mandate is renewed and remains in force.

5. Guidelines and review procedures for the Mandated Transactions

(a) To ensure that the Mandated Transactions are carried out at arm's length, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Group has put in place the following procedures for the review and approval of interested person transactions under the IPT Mandate:

(i) sale of goods and provision of services to the Group

In relation to any transaction proposed to be carried out with the Mandated Interested Persons for:

(1) the sale of goods to the Group, including:

(A) blocks, sections, hulls, pre-outfitted units and vessels;

(B) raw materials such as steel, piping and electrical cables;

(C) engines, marine systems components and equipment and other components, including HVAC systems and accommodation units and components for interior outfitting of vessels;

(D) spare parts and other minor equipment in respect of sub-paragraphs (i)(1)(A), (B) and (C) above; and

(E) installation and commissioning of the components in sub-paragraphs (i)(1)((A), (B), (C) and (D) above, and

(2) the provision of services to the Group, including:

(A) corporate services, such as finance, treasury, business development, tax, legal, internal audit, IT support services, HR management and staff training, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(B) ship design and consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(C) software licensing;

(D) repair, modification, maintenance, servicing, overhaul and other technical and after services;

(E) lease of equipment or assets;

(F) procurement services for equipment and raw materials;

(G) exchange of personnel; and

(H) docking services; and

(3) the entry into financial, treasury and insurance transactions including:

(A) borrowing of funds by the Group on a short-term or medium term basis;

(B) placement of funds by the Group on a short-term or medium term basis;

(C) entry into any foreign exchange, interest rate, commodity or any other derivative transaction for hedging purposes; and

(D) provision of insurance cover,

the Group will satisfy itself that the actual fees paid or payable for the services provided or goods sold are fair and reasonable and that the terms extended by the Mandated Interested Person to the Group are no less favourable than the terms offered by the Mandated Interested Person to third parties.

For services provided and goods supplied to the Group in relation to shipbuilding, such as hulls, pre-outfitted units and vessels, ship design services, docking services and the sale of shipbuilding parts, the project team in charge of that particular shipbuilding project will obtain quotations from the Mandated Interested Person and at least two (2) unrelated third party service providers or suppliers.

For placement of funds with any Mandated Interested Person by the Group of its funds, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties for terms offered by such counterparties for deposits of an amount and currency and for a period equivalent to that of the funds to be placed by the Group. The Group will only place its funds with such Mandated

Interested Person if the terms quoted are no less favourable than the terms quoted by the other potential counterparties for equivalent amounts.

For borrowing of funds from any Mandated Interested Person by a Company within the Group, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) potential counterparties of the borrowing company within the Group for terms offered by such counterparties for loans of an amount and currency and for a period equivalent to that of the funds to be borrowed by such borrowing company within the Group. The Group will only borrow funds from such Mandated Interested Person provided that the terms quoted are no less favourable than the terms quoted by the other potential counterparties for equivalent amounts.

For forex, swaps and options transactions with any Mandated Interested Person by the Group, the Company will require that rate quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties. The Group will only enter into such forex, swaps or options transactions with such Mandated Interested Person provided that such terms quoted are no less favourable than the terms quoted by the other potential counterparties.

For the provision of insurance cover by any Mandated Interested Person to the Group, the Company will require that quotations be obtained from such Mandated Interested Person and at least two (2) other potential counterparties. The Group will only enter into such insurance transactions with such Mandated Interested Person if the terms quoted by the Mandated Interested Person are no less favourable than the terms quoted by the other potential counterparties.

For other services, such as corporate services, and goods, the Chief Financial Officer or a senior management executive from the relevant department will obtain quotations from the Mandated Interested Person(s) and at least two (2) unrelated third party service providers or suppliers. Such third party service providers or suppliers will include those which have provided or supplied similar services or goods to the Group previously, or any service provider or supplier which is able to provide or supply similar services or goods.

Quotations from these third party service providers and suppliers are obtained in order to provide a basis of comparison to ensure that the price and terms offered by the Mandated Interested Person(s) are comparable to those offered by unrelated parties for the same or substantially similar type of services or goods, and the price and terms offered by unrelated parties are not more favourable than the price and terms offered by the Mandated Interested Person(s).

The project team, Chief Financial Officer or senior management executive will select the quotation received from the Mandated Interested Person(s) if the terms (including price) of such quotation are not less favourable than those offered by unrelated third party service providers or suppliers. The transaction will then be subject to the approval of the relevant authority based on the quantum of the transaction. Please refer to paragraph 5(b) for further details.

As some of the shipbuilding-related services and goods are of a specialized nature, and have to comply with specific technical requirements and standards, there may, from time to time and depending on the specific transaction, be few unrelated third party service providers or suppliers of such services or goods. All employees who procure such specialized goods and services and who search for quotations of the same must have the relevant expertise, experience and knowledge to review the quotations and make recommendations. Such quotations shall be subject to the selection process and approvals set out in the paragraphs above.

For certain corporate services, it may be impracticable to obtain third party quotations as the Mandated Interested Persons are staffed by employees with the relevant experience and expertise for the provision of these services and the intention of the Company is not to outsource such services and for such services to be provided by personnel within the Group, if such services are not provided by the Mandated Interested Persons. Such corporate services will be typically charged on a cost plus basis.

Where it is impracticable to obtain such third party quotations, or where such third party quotations are not available, or where it is not practicable or appropriate in the circumstances to make reference to prevailing market rates or prices, the Group may enter into transactions for the provision of services or sale of goods by Mandated Interested Persons provided that the terms (including price) received from the Mandated Interested Person(s) have been reviewed and approved by a committee comprised of three (3) senior management executives who do not have any interest, whether direct or indirect, in relation to the transaction and who are familiar with the operations of the Group (the "**Compliance Committee**").

The Compliance Committee as at the Latest Practicable Date is made up of (I) Chief Financial Officer, Mr. Jan Ivar Nielsen, (II) Chief Operating Officer, Mr. Magne O. Bakke, and (III) General Counsel, Mr. Stian S. Tennfjord. The Compliance Committee will evaluate and weigh the commercial benefits of, and rationale for, transacting with the Mandated Interested Person(s) before proceeding with the transactions.

In reviewing the terms of the transaction, the Compliance Committee will evaluate such terms in accordance with prevailing industry norms (including the reasonableness of the terms), and will take into account the Group's usual business practices and pricing policies and all relevant factors including the circumstances relating to the need to obtain such services or goods.

The Compliance Committee may at its discretion defer the approval of the transactions to the Audit Committee where such transactions fall within the threshold limits set out in paragraph 5(b)(iii) of this Annex or where any of the members of the Compliance Committee (I) are interested persons in respect of the Mandated Transactions, (II) have an interest, whether direct or indirect, in relation to those Mandated Transactions, and/or (III) are not considered independent in relation to those Mandated Transactions.

The factors which (I) the project team, Chief Financial Officer or senior management executive from the relevant department will take into account when considering quotations from the Mandated Interested Person(s) and unrelated third parties or (II) the Compliance Committee will take into account when reviewing the terms received from the Mandated Interested Person(s) when third party quotes are not available, include, but are not limited to, the following: price, delivery and payment criteria, accessibility of the service providers or suppliers, past performance of service providers or suppliers, quality of the services or goods and compliance of the services or goods with industry standards;

(ii) sale of goods and provision of services by the Group

In relation to any transaction proposed to be carried out with Mandated Interested Persons for:

(1) the sale of goods by the Group, including:

(A) blocks, sections, hulls, pre-outfitted units and vessels;

(B) marine systems components and equipment, offshore handling systems, electrical systems and automation software and systems;

(C) piping and HVAC systems and accommodation units and components for interior outfitting of vessels;

(D) spare parts and other minor equipment in respect of sub-paragraphs (ii)(1)(A), (B) and (C) above; and

(E) installation and commissioning of the components in respect of sub-paragraphs (ii)(1)(A), (B), (C) and (D) above; and

(2) the provision of services by the Group, including:

(A) corporate services, such as business development, HR management and staff training, IT support services, quality, industrial and engineering development, communications and public relations and provision of office space and other spaces in fairs, exhibitions and trade shows;

(B) vessels design and engineering consultancy services provided by Group personnel both within and without Fincantieri Group's premises;

(C) procurement services for equipment packages and raw materials;

(D) software licensing;

(E) lease of equipment and assets;

(F) exchange of personnel; and

(G) docking services,

such transactions shall where possible, be made at the prevailing rates or prices and carried out on normal commercial terms that are no more favourable than those extended to unrelated third persons or otherwise in accordance with industry norms. Where available, two (2) comparable third party quotes shall be obtained in determining the prevailing market rates or prices.

Where prevailing market rates or prices are not available, whether due to the nature of the services or goods to be provided, or the unavailability or impracticability of obtaining comparable third party quotes or otherwise, or it is not practicable or appropriate in the circumstances to make reference to prevailing market rates or prices, the Group's pricing for such services or goods will be determined by the Compliance Committee in accordance with the Group's usual business practices and pricing policies and taking into account all relevant factors including the circumstances relating to the need to provide such services or goods and any other direct or incidental benefit or detriment to the Group in providing such services or goods to the Mandated Interested Persons.

The Compliance Committee may at its discretion defer the approval of the transactions to the Audit Committee where such transactions fall within the threshold limits set out in paragraph 5(b)(iii) of this Annex or where any of the members of the Compliance Committee (I) are interested persons in respect of the Mandated Transactions, (II) have an interest, whether direct or indirect, in relation to those Mandated Transactions, and/or (III) are otherwise not considered independent in relation to those Mandated Transactions; and

(iii) provision of corporate guarantees and other credit support for the benefit of the Group

In relation to the provision of corporate guarantees or other credit support (such as security interests, indemnities or letters of comfort) by the Mandated Interested Persons, such transactions shall only be entered into if the members of the Board (other than those who are not independent of the relevant Mandated Interested Persons) are of the view that it is in the interests of the Group to do so.

In particular, the fee charged by the Mandated Interested Persons for the provision of corporate guarantees or other credit support shall not be more than the lowest of the rates quoted by the Group's principal bankers for guarantees or credit support of an equivalent amount and tenure. The Company shall also take into consideration other factors, including but not limited to the terms of the relevant corporate guarantees or credit support, processing requirements, operation requirements and risks and other pertinent factors.

(b) Threshold limits

In addition to the review procedures, the Group will review and approve the Mandated Transactions as follows:

(i) transactions amounting from S$100,000 to 1.5% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by a Director, Chief Financial Officer or an Executive Officer of the Group (who has relevant experience and authority);

(ii) transactions amounting from above 1.5% to 3% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by the Board of Directors; and

(iii) transactions exceeding 3% of the latest audited consolidated net tangible assets of the Group will be reviewed and approved by the Audit Committee.

Any of the persons referred to in paragraphs 5(b)(i), (ii) and (iii) of this Annex may, as he deems fit, request for additional information pertaining to the transaction from independent sources or advisors, including the obtaining of valuations from independent professional valuers. If any of the persons referred to in paragraphs 5(b)(i), (ii) and (iii) of this Annex (I) is an interested person in respect of that particular Mandated Transaction to be reviewed, (II) has an interest, whether direct or indirect, in relation to that particular Mandated Transaction, and/or (III) is otherwise not considered independent in relation to that particular Mandated Transaction, he will, and will undertake to ensure that his associates will, abstain from any decision-making in respect of that particular Mandated Transaction.

The threshold limits stated in paragraphs 5(b)(i), (ii) and (iii) of this Annex apply to Mandated Transactions only. Non-mandated interested person transactions will be subject to the review procedures stated in paragraph 5(c) of this Annex and Rules 905 and 906 of the Listing Manual.

(c) Other review procedures

The Audit Committee will also review all interested person transactions including Mandated Transactions to ensure that the prevailing rules and regulations of the SGX-ST (in particular, Chapter 9 of the Listing Manual) are complied with. Interested person transactions which are not within the ambit of the IPT Mandate will be subject to Rules 905 and 906 of the Listing Manual.

The Group has also implemented the following procedures for the identification of interested person transactions (including Mandated Transactions) and interested persons (including Mandated Interested Persons) and the recording of all interested person transactions:

(i) the Compliance Committee will maintain two (2) registers of all transactions (including all transactions below S$100,000) carried out with interested persons including Mandated Interested Persons (recording the basis and the quotations, if any, obtained to support such basis on which these transactions are entered into, whether mandated or non-mandated). One register is maintained to record Mandated Transactions and the other register is maintained to record interested person transactions which are not classified as Mandated Transactions. The registers shall be submitted to the Audit Committee for review on a quarterly basis;

(ii) by the end of each month, each member of the Group will submit details of all interested person transactions entered into or existing interested person transactions that are renewed or revised during that month to the Compliance Committee. The Compliance Committee will reconcile the registers of interested person transactions based on the submissions by the various members of the Group. On a quarterly basis, the Compliance Committee will submit a report to the Audit Committee of all recorded interested person transactions, and the basis of such transactions, entered into by the Group. The Audit Committee shall review such interested person transactions at its quarterly meetings subject to the requirement under the review procedures for any such interested person transactions to be approved by the Audit Committee prior to the entry thereof. The outcome of such review shall be documented and filed in the registers of interested person transactions; and

(iii) the Company's annual internal controls plan shall incorporate a review of all interested person transactions, including the established review procedures for the monitoring of all such transactions including transactions with Mandated Interested Persons, whether they are new interested person transactions or existing interested person transactions that have been renewed or revised during the relevant financial year pursuant to the IPT Mandate.

In addition, the Audit Committee shall also review from time to time such internal controls and review procedures for interested person transactions to determine if they are adequate and/or commercially practicable in ensuring that the transactions between the Group and interested persons are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders. In conjunction with such review, the Audit Committee will also ascertain whether the established review procedures have been complied with. Further, if during these reviews the Audit Committee is of the view that the internal controls and review procedures for interested person transactions are inappropriate or not sufficient to ensure that the interested person transactions will be on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders, the Audit Committee will take such actions as it deems appropriate and/or institute additional procedures as necessary to ensure that the interested person transactions will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, and pursuant to Rule 920(1)(b)(vii) of the Listing Manual, seek a fresh Shareholders' mandate based on new internal controls and review procedures for transactions with the Mandated Interested Persons. The Board of Directors and the Audit Committee will have overall responsibility for determining the review procedures with the authority to delegate to individuals or committees within the Group as they deem appropriate.

6. Validity period of the IPT Mandate

If approved at the 2015 AGM, the IPT Mandate will take effect from the date of the passing of the ordinary resolution in respect of the IPT Mandate to be voted on by the Shareholders at the 2015 AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM, or the expiration of the period within which the next AGM is required by law to be held, whichever is the earlier. The Company intends to seek the approval of Shareholders for the renewal of the IPT Mandate annually. The renewal of such general mandate shall be subject to the satisfactory review by the Audit Committee of its continued application to any interested person transactions.

7. Disclosure to Shareholders

Pursuant to Rule 920(1)(a) of the Listing Manual:

(a) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all interested person transactions conducted with interested persons pursuant to the IPT Mandate during the financial year under review and in the annual reports for the subsequent financial years during which the IPT Mandate is in force, as required by the provisions of the Listing Manual;

(b) announcements will be made with regard to the aggregate value of interested person transactions conducted pursuant to the IPT Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report; and

(c) the names of the interested persons and the corresponding aggregate value of the interested person transactions will be presented in the following format (pursuant to Rule 907 of the Listing Manual):

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under the IPT Mandate)	Aggregate value of all interested person transactions conducted under the IPT Mandate (excluding transactions less than S$100,000)

STATISTICS OF SHAREHOLDINGS

As at 17 March 2015

Class of equity securities	Number of equity securities	Voting Rights
Ordinary shares	1,180,000,000	One vote for each share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 99	7	0.09	149	0.00
100 - 1,000	184	2.28	181,800	0.01
1,001 - 10,000	4,540	56.16	29,568,410	2.51
10,001 - 1,000,000	3,331	41.20	145,408,871	12.32
1,000,001 and above	22	0.27	1,004,840,770	85.16
	8,084	**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 72.51% 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	717,360,768	60.79
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	81,884,708	6.94
3.	BNP PARIBAS SECURITIES SERVICES SINGAPORE BRANCH	64,575,007	5.47
4.	DBSN SERVICES PTE. LTD.	40,054,337	3.39
5.	DBS NOMINEES (PRIVATE) LIMITED	25,028,755	2.12
6.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	20,664,549	1.75
7.	RAFFLES NOMINEES (PTE) LIMITED	9,673,901	0.82
8.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	7,613,214	0.65
9.	UOB KAY HIAN PRIVATE LIMITED	5,261,900	0.45
10.	MAYBANK KIM ENG SECURITIES PTE. LTD.	5,143,083	0.44
11.	OCBC SECURITIES PRIVATE LIMITED	4,513,200	0.38
12.	ABN AMRO NOMINEES SINGAPORE PTE LTD	2,990,000	0.25
13.	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	2,771,400	0.23
14.	KOH WOON PUAY OR TAN CHWEE GUAN	2,534,000	0.21
15.	HL BANK NOMINEES (SINGAPORE) PTE LTD	2,294,000	0.19
16.	PHILLIP SECURITIES PTE LTD	2,257,600	0.19
17.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	2,197,000	0.19
18.	CIMB SECURITIES (SINGAPORE) PTE. LTD.	2,191,487	0.19
19.	YAP MUI CHENG,ANGELA	2,071,000	0.18
20.	CITIBANK CONSUMER NOMINEES PTE LTD	1,310,000	0.11
	TOTAL	**1,002,389,909**	**84.94**

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 NTUC Centre, No.1 Marina Boulevard, Level 7, Room 701, Singapore 018989, on Tuesday, 28 April 2015 at 10:00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the financial year ended 31 December 2014 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect Mr. Sung Hyon Sok, Director of the Company retiring pursuant to Article 94 of the Articles of Association of the Company. **(Resolution 2)**

Mr. Sung Hyon Sok will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and the Remuneration Committee and a member of the Audit Committee, and will be considered independent.

3. To re-appoint Mr. Giuseppe Bono pursuant to Section 153(6) of the Companies Act, Chapter 50, to hold office from the date of this Annual General Meeting until the next Annual General Meeting. **(Resolution 3)**

Mr. Giuseppe Bono will, upon re-appointment as a Director of the Company, remain as the Chairman of the Board of Directors and a member of the Nominating Committee and will be considered non-independent.

[See Explanatory Note (i)]

4. To approve the payment of Directors' fees of S$500,000 for the financial year ending 31 December 2015, to be paid quarterly in arrears. (2014: S$500,000.) **(Resolution 4)**

5. To re-appoint PricewaterhouseCoopers LLP as the Auditors of the Company and to authorize the Directors of the Company to fix their remuneration. **(Resolution 5)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

7. 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 Articles of Association 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 (ii)] **(Resolution 6)**

8. Renewal of Shareholders' Mandate for Interested Person Transactions

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

That for the purposes of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited:

(a) approval be and is hereby given for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of Mandated Transactions (as defined in the Appendix to the Annual Report dated 2 April 2015 (the "Appendix")) with any of the Mandated Interested Persons (as defined in the Appendix), provided that such transactions are carried out on normal commercial terms and in accordance with the review procedures of the Company for such Mandated Transactions as set out in the Appendix (the "Shareholders' Mandate");

(b) the Shareholders' Mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier; and

(c) the Directors of the Company and/or any of them be and are hereby authorized to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable or expedient, incidental or in the interests of the Company to give effect to the Shareholders' Mandate and/or this Resolution as they may deem fit.

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

By Order of the Board

Elizabeth Krishnan
Company Secretary
Singapore, 2 April 2015

Explanatory Notes:

(i) The effect of Ordinary Resolution 3 in item 3 above, is to re-appoint a director of the Company who is over 70 years of age and if passed, he will hold office until the next Annual General Meeting. Such re-appointment of a director will no longer be subject to shareholders' approval under Section 153(6) of the Companies Act, Cap. 50 as repealed when the Companies (Amendment) Act 2014 comes into force. The director will then be subject to retirement by rotation under the Company's Articles of Association.

(ii) The Ordinary Resolution 6 in item 7 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.

(iii) The Ordinary Resolution 7 proposed in item 8 above, if passed, will renew the mandate authorizing the Company, its subsidiaries and associated companies, or any of them, for the purposes of Chapter 9 of the Listing Manual, to enter into certain interested person transactions as described in the Appendix to the Annual Report and will empower the Directors of the Company to do all acts necessary to give effect to the Shareholders' Mandate. This authority will, unless previously revoked or varied by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. Please refer to the Appendix for further details.

Notes:

1. A Member 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. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

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) for the purpose of the processing and administration by the Company (or its agents) 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) 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), 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) 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.

CONTACT INFORMATION

REGISTERED OFFICE

Vard Holdings Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

HEAD OFFICE

Vard Group AS
P.O. Box 76, NO-6001 Ålesund, Norway
Tel. +47 70 21 06 00
mail@vard.com

Visiting address:
Molovegen 6
NO-6004 Ålesund, Norway

SHIPBUILDING

Vard Aukra
Nerbøvegen 104
NO-6480 Aukra, Norway
Tel: + 47 70 21 06 00
aukra@vard.com

Vard Brattvaag
Strandgata 74
NO-6270 Brattvåg, Norway
Tel: + 47 70 21 06 00
brattvaag@vard.com

Vard Brevik
P.O. Box 15
NO-3991 Brevik, Norway
Tel: + 47 35 51 87 00
brevik@vard.com

Vard Langsten
Fjordvegen 420
NO-6393 Tomrefjord, Norway
Tel: + 47 70 21 06 00
langsten@vard.com

Vard Søviknes
NO-6280 Søvik, Norway
Tel: + 47 70 21 06 00
soviknes@vard.com

Vard Braila SA
Celuozei Street 1A
RO-810282 Braila, Romania
Tel: + 40 239 607 000
braila@vard.com

Vard Tulcea SA
22, Ing. Dumitru Ivanov Street
RO-820242 Tulcea, Romania
Tel: + 40 240 534 918
tulcea@vard.com

Vard Vung Tau Ltd.
No. 6, Dong Xuyen IP,
Rach Dua Ward,
VN-76999 Vung Tau, Vietnam
Tel: + 84 (0)64 3615 600
vungtau@vard.com

Vard Niterói SA
Praça Alcides Pereira
1 - Parte Ilha da Conceiçâo
- Niterói - RJ
CEP: 24.050-350, Brazil
Tel: + 55 212 7189 090
niteroi@vard.com

Vard Promar SA
AE Zona Industrial Portuária
Ilha de Tatuoca, SN
Ipojuca, PE
CEP: 55590-000, Brazil
Tel: +55 81 3561-2500
promar@vard.com

ELECTRICAL ENGINEERING, INSTALLATION, POWER & AUTOMATION

Vard Electro AS
Keiser Wilhelms gt. 22
NO-6003 Ålesund, Norway
Tel: + 47 70 21 06 00
electro@vard.com

Vard Electro AS
NO-6280 Søvik, Norway
Tel: + 47 70 21 07 50
electro@vard.com

Vard Electro Brazil
Instalacoes Eletricas Ltda.
Rua José Figueiredo, 5- Centro
24030-055 Niterói-RJ, Brazil
Tel: + 5521 3628 5087
electro.brazil@vard.com

Vard Electro Braila SRL
Celuozei Street 1A
RO-810282 Braila, Romania
Tel: + 40 239 607 336
electro.braila@vard.com

Vard Electro Tulcea SRL
22, Ing. Dumitru Ivanov Street
Electrical Section
RO-820242 Tulcea, Romania
Tel: + 40 240 534 026
electro.tulcea@vard.com

Vard Electrical Installation and Engineering (India) Pte. Ltd.
3-B, 3rd Floor
K G Oxford Business Centre
39/4609, Sreekandath Road
Ravipuram, Ernakulam
Kochi-682 016, India
Tel: + 91 484 2355 430
electro.india@vard.com

DESIGN & ENGINEERING

Vard Design AS
P.O. Box 76
NO-6001 Ålesund, Norway

Vard Design Liburna Ltd.
Fiorella La Guardie
51000 Rijeka, Croatia
Tel: + 385 51 344 237
design.liburna@vard.com

Vard Marine Inc.
180-2930 Virtual Way
Vancouver, BC V5M 0A5
Canada
Tel: +1 604 216 3360
marine@vard.com
vancouver.marine@vard.com

Vard Marine Inc.
Houston Office
1880 South Dairy Ashford,
Suite 425,
Houston, TX 77077, USA
Tel: +1 713 981 2012
houston.marine@vard.com

Vard Marine Inc.
Ottawa Office
85 Albert Street, Suite 1502
Ottawa, ON K1P 6A4, Canada
Tel: +1 613 238 7979
ottawa.marine@vard.com

Vard Engineering Ålesund
P.O. Box 76
NO-6001 Ålesund, Norway
Tel: + 47 70 21 06 00
engineering.alesund@vard.com

Vard Engineering Brevik AS
Strømtangvn. 19
NO-3950 Brevik, Norway
Tel: + 47 35 51 87 00
engineering.brevik@vard.com

Vard Engineering Constanta SRL
Mamaia Boulevard
NO 243 – 245
900540 Constanta, Romania
Tel: +40 241 515 558
engineering.constanta@vard.com

TRADING

Vard Trading
P.O. Box 76
NO-6001 Ålesund, Norway
Tel: + 47 70 21 06 00
trading@vard.com

ACCOMMODATION

Vard Accommodation AS
Johangarden Næringspark
Tennfjordvegen 113
NO-6264 Tennfjord, Norway
Tel: + 47 70 21 06 00
accommodation@vard.com

Vard Accommodation
Tulcea SRL
22, Ing. Dumitru Ivanov Street
RO-820 242 Tulcea, Romania
Tel: + 40 240 534 542
accommodation.tulcea@
vard.com

PIPE SYSTEMS AND SERVICES

Vard Piping AS
Terøy
NO-6280 Søvik, Norway
Tel: + 47 70 21 06 00
piping@vard.com

HANDLING SYSTEMS

Seaonics AS
Nedre Strandgt. 29
NO-6004 Ålesund, Norway
Tel: + 47 71 39 16 00
mail@seaonics.com

Seaonics Polska Sp. Z o.o
Ul. Trzy Lipy 3
80-172, Gdansk
Polska
Tel: +48 58 739 64 60
poland@seaonics.com

ADDITIONAL ACTIVITIES

Vard Singapore Pte. Ltd.
3 Temasek Avenue
#20-03 Centennial Tower
Singapore 039190
Tel: + 65 6836 0813
singapore@vard.com

Vard Brevik Holding AS
P.O. Box 15
NO-3991 Brevik, Norway
Tel: + 47 35 51 87 00

Vard Offshore Brevik AS
Industrivn. 12
NO-3940 Porsgrunn, Norway
Tel: + 47 35 93 20 20
offshore.brevik@vard.com

Multifag AS
Frednesøya 21
NO-3933 Porsgrunn, Norway
Tel: + 47 800 35 500
post@multifag.no
www.multifag.no

Design: I&M Kommunikasjon AS
Circulation: 9,550
Printed by: Equal Brand Design

Photos/3D: VARD, Harald M. Valderhaug, Peder Otto Dybvik, Johan Holmquist, Bogdan Vasilescu, Irish Naval Service, NZ Defence Force, Forsvaret/EPJ, Ocean Visuals, Brandlab, Kristoffer Archetti, Ben Fylling, Alan Thomas Wilkie, Newgate, Fuglefjellet, FINCANTIERI.

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