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SECOND QUARTER 2016

FINANCIAL STATEMENTS

Published 21 July 2016

VARD™
a **Fincantieri** company

Vard Holdings Limited

Incorporated in Singapore | Company Registration No. 201012504K
Unaudited results for the second quarter ended 30 June 2016

Second Quarter 2016 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

(All amounts in NOK millions unless otherwise stated)

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1 UNAUDITED FINANCIAL STATEMENTS

(a)(i) Statement of Comprehensive Income (Group)

	2Q-2016 ended 30/06/16	Group 2Q-2015 ended 30/06/15	Change %	1H-2016 ended 30/06/16	Group 1H-2015 ended 30/06/15	Change %
Revenue	2,218	2,489	-10.9%	4,241	5,552	-23.6%
Materials, subcontract costs and others	(1,500)	(1,663)	-9.8%	(2,773)	(3,852)	-28.0%
Salaries and related costs	(566)	(639)	-11.4%	(1,130)	(1,302)	-13.2%
Other operating expenses	(141)	(141)	0.0%	(270)	(287)	-5.9%
EBITDA before restructuring cost	11	46	-76.1%	68	111	-38.7%
Restructuring cost	(38)	(14)	171.4%	(49)	(20)	145.0%
Depreciation, impairment and amortization	(51)	(53)	-3.8%	(102)	(103)	-1.0%
Operating profit/(loss)	(78)	(21)	271.4%	(83)	(12)	591.7%
Financial income	146	55	165.5%	268	130	106.2%
Financial costs	(121)	(60)	101.7%	(195)	(351)	-44.4%
Net	25	(5)	n/m	73	(221)	n/m
Share of results of associates	(9)	3	n/m	(9)	4	n/m
Profit (loss) before tax	(62)	(23)	169.6%	(19)	(229)	-91.7%
Income tax expense	(5)	(28)	-82.1%	(5)	(48)	-89.6%
Profit (loss) for the period	(67)	(51)	31.4%	(24)	(277)	-91.3%
Profit (loss) for the period attributable to:						
Equity holders of the Company	(53)	58	n/m	(16)	(34)	-52.9%
Non-controlling interest	(14)	(109)	-87.2%	(8)	(243)	-96.7%
Profit (loss) for the period	(67)	(51)	31.4%	(24)	(277)	-91.3%
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	(153)	29	n/m	(293)	202	n/m
Net fair value change in cash flow hedge	(18)	-	n/m	(18)	-	n/m
Income tax on other comprehensive income	5	-	n/m	5	-	n/m
Items that may not be reclassified subsequently to profit or loss:						
Net fair value changes of associated companies	(22)	-	n/m	(22)	-	n/m
Other comprehensive income for the period, net of income tax	(188)	29	n/m	(328)	202	n/m
Total comprehensive income for the period	(255)	(22)	1059.1%	(352)	(75)	369.3%
Total comprehensive income attributable to:						
Equity holders of the Company	(121)	87	n/m	(174)	95	n/m
Non-controlling interest	(135)	(109)	23.9%	(179)	(170)	5.3%
Total comprehensive income for the period	(256)	(22)	1063.6%	(353)	(75)	370.7%

Notes:

(*) N/M - Not meaningful.

(**) As a result of rounding differences, numbers or percentages may not add up to the total.

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(a)(ii) Notes to the Statement of Comprehensive Income

	Group			Group		
	2Q-2016 ended 30/06/16	2Q-2015 ended 30/06/15	Change %	1H-2016 ended 30/06/16	1H-2015 ended 30/06/15	Change %
Interest income	7	6	n/m	17	13	30.8%
Foreign exchange gain	135	44	206.8%	248	111	123.4%
Other financial income	4	5	n/m	3	6	n/m
Financial income	146	55	165.5%	268	130	106.2%
Interest expense	(21)	(17)	23.5%	(44)	(32)	37.5%
Foreign exchange loss	(65)	(39)	66.7%	(110)	(313)	-64.9%
Other financial expenses	(35)	(4)	n/m	(41)	(6)	n/m
Financial expenses	(121)	(60)	101.7%	(195)	(351)	-44.4%
Net financial items	25	(5)	n/m	73	(221)	n/m
Depreciation of property, plant and equipment	(48)	(47)	2.1%	(97)	(96)	1.0%
Amortization of intangibles	(3)	(1)	n/m	(5)	(2)	n/m
Impairment charges	-	(5)	n/m	-	(5)	n/m
Depreciation, impairment charges and amortization	(51)	(53)	-3.8%	(102)	(103)	-1.0%
Provisions for doubtful debts	7	-	n/m	7	-	n/m
Allowance for doubtful debts and bad debts written off	7	-	n/m	7	-	n/m

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(i) Statement of Financial Position

	Group			Company		
	As at 30/06/16	As at 31/12/15	Change %	As at 30/06/16	As at 31/12/15	Change %
Property, plant and equipment	2,491	2,382	4.6%	-	-	n/m
Intangible assets	441	429	2.8%	-	-	n/m
Investment in subsidiary	-	-	n/m	2,142	2,142	0.0%
Investment in associates	311	341	-8.8%	-	-	n/m
Other investments	10	39	-74.4%	-	-	n/m
Interest-bearing receivables, non-current	493	492	0.2%	679	656	3.5%
Other non-current assets	30	35	-14.3%	-	-	n/m
Deferred tax assets	54	42	28.6%	-	-	n/m
TOTAL NON-CURRENT ASSETS	3,830	3,760	1.9%	2,821	2,798	0.8%
Inventories	1,792	752	138.3%	-	-	n/m
Construction WIP in excess of prepayments	9,601	12,451	-22.9%	-	-	n/m
Trade and other receivables	960	878	9.3%	87	79	10.1%
Current derivatives	112	331	-66.2%	-	-	n/m
Other current assets	340	1,316	-74.2%	-	-	n/m
Interest-bearing receivables, current	780	488	59.8%	149	129	15.5%
Cash and cash equivalents	908	919	-1.2%	2	4	n/m
TOTAL CURRENT ASSETS	14,493	17,135	-15.4%	238	212	12.3%
TOTAL ASSETS	18,323	20,895	-12.3%	3,059	3,010	1.6%
Paid up capital	4,138	4,138	0.0%	4,138	4,138	0.0%
Restructuring reserve	(3,190)	(3,190)	0.0%	(1,411)	(1,411)	0.0%
Other reserves	373	531	-29.8%	-	-	n/m
Retained earnings	2,303	2,319	-0.7%	331	280	18.2%
Total equity attributable to equity holders of the Comp.	3,624	3,798	-4.6%	3,058	3,007	1.7%
Non-controlling interest	(994)	(837)	18.8%	-	-	n/m
TOTAL EQUITY	2,630	2,961	-11.2%	3,058	3,007	1.7%
Loans and borrowings, non-current	1,127	1,200	-6.1%	-	-	n/m
Deferred tax liabilities	153	79	93.7%	-	-	n/m
Non-current derivatives	-	12	n/m	-	-	n/m
Other non-current liabilities	390	22	1672.7%	-	-	n/m
Provisions, non-current	95	96	-1.0%	-	-	n/m
TOTAL NON-CURRENT LIABILITIES	1,765	1,409	25.3%	-	-	n/m
Loans and borrowings, current	703	834	-15.7%	-	-	n/m
Construction loans	8,712	9,435	-7.7%	-	-	n/m
Prepayments in excess of construction WIP	660	392	68.4%	-	-	n/m
Trade and other payables	1,535	2,141	-28.3%	1	2	n/m
Current derivatives	1,856	3,238	-42.7%	-	-	n/m
Income tax payable	5	26	-80.8%	-	1	n/m
Provisions, current	116	116	0.0%	-	-	n/m
Other current liabilities	341	343	-0.6%	-	-	n/m
TOTAL CURRENT LIABILITIES	13,928	16,525	-15.7%	1	3	n/m
TOTAL LIABILITIES	15,693	17,934	-12.5%	1	3	n/m
TOTAL EQUITY AND LIABILITIES	18,323	20,895	-12.3%	3,059	3,010	1.6%

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(ii) Aggregate amount of Group's Borrowings and Debt Securities

	As at 30.06.16		As at 31.12.15	
	Secured	Unsecured	Secured	Unsecured
Loans and borrowings, current	283	420	446	388
Construction loans *	8,712	-	9,435	-
Total Amount repayable in one year or less, or on demand	8,995	420	9,881	388

* Construction loans are in general treated as short term maturing on vessel delivery, and are secured by the vessels under construction

Loans and borrowings, non-current	1,127	-	1,200	-
Total Amount repayable after one year	1,127	-	1,200	-
Total	10,122	420	11,081	388

Details of debt secured by collaterals

Currency	Drawn amount in currency	Drawn amount in NOK	Current portion in NOK	Non-current portion in NOK
NOK	232	232	32	200
USD	116	988	93	895
EUR	20	190	158	32
Total		1,410	283	1,127

The following assets have been pledged as security for the loans:

- Property plant and equipment in Vard Group AS
- Property plant and equipment in Vard Promar SA
- Property plant and equipment in Vard Tulcea SA
- Shares in Vard Vung Tau Ltd.
- Shares in Vard Promar SA

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UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(c) Statement of Cash Flows (Group)

	Group		Group	
	2Q-2016 ended 30/06/16	2Q-2015 ended 30/06/15	1H-2016 ended 30/06/16	1H-2015 ended 30/06/15
OPERATING ACTIVITIES				
Profit before tax	(62)	(23)	(19)	(229)
Adjustments for:				
Net interest income	14	11	27	19
Unrealised foreign exchange gain/loss	(85)	(33)	(182)	141
Depreciation, impairment and amortization	51	53	102	103
Other non-cash items in PL	29	-	29	-
Share of results of associates	9	(3)	9	(4)
<i>Operating cash flows before movements in working capital</i>	<i>(44)</i>	<i>5</i>	<i>(34)</i>	<i>30</i>
Inventories	(73)	(77)	(73)	(165)
Construction work in progress	936	92	2,213	643
Proceeds from construction loans	970	1,458	2,479	3,112
Repayment of construction loans	(1,589)	(1,501)	(3,487)	(3,235)
Other working capital assets	(259)	461	(675)	190
Other working capital liabilities	135	(758)	-	(1,364)
Provisions	(1)	(51)	(1)	(60)
<i>Cash generated from / (used in) operations</i>	<i>75</i>	<i>(371)</i>	<i>422</i>	<i>(849)</i>
Interest received	7	1	17	6
Interest paid	(28)	(22)	(46)	(24)
Income tax paid	(4)	(89)	(28)	(170)
<i>Cash flows from/ (used in) operating activities</i>	<i>50</i>	<i>(481)</i>	<i>365</i>	<i>(1,037)</i>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	1	-	1	1
Purchase of property, plant and equipment	(55)	(74)	(83)	(134)
Purchase of intangible assets	(10)	(3)	(17)	(7)
Issuance of new short-term interest-bearing receivables	-	-	-	(11)
<i>Cash flows used in investing activities</i>	<i>(63)</i>	<i>(109)</i>	<i>(96)</i>	<i>(173)</i>
FINANCING ACTIVITIES				
Proceeds from loans and borrowings	33	159	44	355
Repayment of loans and borrowings	(174)	(302)	(237)	(327)
<i>Cash flows from/ (used in) financing activities</i>	<i>(141)</i>	<i>(143)</i>	<i>(193)</i>	<i>27</i>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(154)	(733)	76	(1,183)
Effects of currency translation difference on cash and cash equivalents	23	71	26	12
Cash and cash equivalents excl. restricted cash at beginning of financial period	953	1,457	720	1,966
Cash and cash equivalents excl. restricted cash at end of financial period	822	795	822	795
Restricted cash at end of financial period	86	109	86	109
Cash and cash equivalents at end of financial period	908	904	908	904

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UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(i) Statements of
Changes in Equity

	Paid up Capital	Restructu-ring Reserve	Currency Translation Reserve	Fair Value Reserve	Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non-controlling Interest	Total Equity
At 1 January 2016	4,138	(3,190)	392	139	2,319	3,798	(837)	2,961
<i>Comprehensive income</i>								
Profit for the period	-	-	-	-	(16)	(16)	(8)	(24)
Other comprehensive income	-	-	(122)	(36)	-	(158)	(171)	(329)
Total comprehensive income	-	-	(122)	(36)	(16)	(174)	(179)	(353)
<i>Transactions with owners</i>								
Equity subscribed by non-controlling shareholders	-	-	-	-	-	-	22	22
Total transaction with owners	-	-	-	-	-	-	22	22
At 30 June 2016	4,138	(3,190)	270	103	2,303	3,624	(994)	2,630
At 1 January 2015	4,138	(3,190)	120	142	2,922	4,132	(268)	3,864
<i>Comprehensive income</i>								
Profit for the period	-	-	-	-	(34)	(34)	(243)	(277)
Other comprehensive income	-	-	129	-	-	129	73	202
Total comprehensive income	-	-	129	-	(34)	95	(170)	(75)
<i>Transactions with owners</i>								
Effect of business combinations	-	-	-	-	-	-	16	16
Total transaction with owners	-	-	-	-	-	-	16	16
At 30 June 2015	4,138	(3,190)	249	142	2,888	4,227	(422)	3,805

Company

	Paid up Capital	Restructu-ring Reserve	Retained Earnings	Total Equity
At 1 January 2016	4,138	(1,411)	280	3,007
<i>Comprehensive income</i>				
Profit for the period	-	-	51	51
Total comprehensive income for the period	-	-	51	51
At 30 June 2016	4,138	(1,411)	331	3,058
At 1 January 2015	4,138	(1,411)	170	2,897
<i>Comprehensive income</i>				
Profit for the period	-	-	57	57
Total comprehensive income for the period	-	-	57	57
At 30 June 2015	4,138	(1,411)	227	2,954

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(ii) Share Capital

There were no ordinary shares issued in 2Q 2016. There are no treasury shares as at 30 June 2016 and as at 30 June 2015.

Share Options

There were no outstanding options to subscribe for shares as at 30 June 2016 (30 June 2015: 0).

(d)(iii) Number of Issued Shares excluding Treasury Shares

The number of issued shares (excluding treasury shares) as at 30 June 2016 is 1,180,000,000 ordinary shares (31 December 2015: 1,180,000,000 ordinary shares).

(d)(iv) Sales, Transfers, Disposals, Cancellations and/or use of Treasury Shares

Not applicable. The Company has no treasury shares.

2 AUDIT

The figures have not been audited nor reviewed by the auditors.

3 AUDITORS' REPORT

Not applicable.

4 ACCOUNTING POLICIES

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements for the year ended 31 December 2015.

5 CHANGES IN ACCOUNTING POLICIES

The Group has not implemented any new or revised financial reporting standards in 2016.

Second Quarter 2016 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

(All amounts in NOK millions unless otherwise stated)

6 EARNINGS PER ORDINARY SHARE

Earnings per ordinary share (attributable to Equity holders of the Company) for the current financial period reported on and the corresponding period of the immediately preceding financial year:

	Group			Group		
	2Q-2016 ended 30/06/16	2Q-2015 ended 30/06/15	Change %	1H-2016 ended 30/06/16	1H-2015 ended 30/06/15	Change %
(i) Earnings for the period (in NOK millions)	(53)	58	n/m	(16)	(34)	-52.9%
Earnings for the period (in SGD millions)	(8)	10	n/m	(3)	(6)	n/m
Weighted average number of shares (in millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
(ii) Earnings per share (NOK)	(0.04)	0.05	-180.0%	(0.01)	(0.03)	-66.7%
Earnings per share (SGD cents)	(0.68)	0.85	-180.0%	(0.25)	(0.51)	-51.0%
(iii) Diluted earnings per share (NOK)	(0.04)	0.05	-180.0%	(0.01)	(0.03)	-66.7%
Diluted earnings per share (SGD cents)	(0.68)	0.85	-180.0%	(0.25)	(0.51)	-51.0%
Adjusted weighted average number of shares (in millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
Exchange rates:	30/06/16	30/06/15		30/06/16	30/06/15	
SGD/NOK	6.289	5.834	7.8%	6.289	5.834	7.8%

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

7 NET ASSETS VALUE PER ORDINARY SHARE

Net assets value (for the Issuer and Group) per ordinary share based on issued share capital of the issuer at the end of the current financial period reported on and immediately preceding financial year:

	Group			Company		
	As at 30/06/16	As at 31/12/15	Change %	As at 30/06/16	As at 31/12/15	Change %
Net assets value at the end of the period (NOK millions)	3,624	3,798	-4.6%	3,058	3,007	1.7%
Net assets value at the end of the period (SGD millions)	576	609	-5.4%	486	482	0.8%
Number of shares (millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
Net assets value per ordinary share (NOK)	3.07	3.22	-4.7%	2.59	2.55	1.6%
Net assets value per ordinary share (SGD)	0.49	0.52	-5.8%	0.41	0.41	0.0%
Exchange rates:	30/06/16	31/12/15		30/06/16	31/12/15	
SGD/NOK	6.289	6.239	0.8%	6.289	6.239	0.8%

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

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UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

(All amounts in NOK millions unless otherwise stated)

8 REVIEW OF GROUP PERFORMANCE

(a) Statement of comprehensive income:

Revenues for 2Q 2016 were NOK 2.2 billion, down from NOK 2.5 billion in 2Q 2015. Revenues for 1H 2016 were NOK 4.2 billion, down from NOK 5.6 billion. As also stated in the 1Q 2016 report, the reduction is caused by reduced activity, especially at the European yards and Vard Niterói. The reduction is both related to own and subcontractor production.

EBITDA before restructuring was NOK 11 million for 2Q 2016 and NOK 68 million for 1H 2016, down from NOK 46 million for 2Q 2015 and NOK 111 million for 1H 2015. The EBITDA margin was reduced from 1.8% in 2Q 2015 to 0.5% in 2Q 2016, and from 2.0% in 1H 2015 to 1.6% in 1H 2016. The margin is significantly affected by a provision for the assumed cancellation of one vessel by a subsidiary of Rem Offshore as part of a restructuring plan under discussion between Rem Offshore and its bank lenders, major bondholders, and main stakeholders.

The Norwegian shipyards are seeing varying degrees of utilization. Three vessels were delivered in the quarter, including the first Pipelay Support Vessel (PLSV) for Techdof Brasil. With several projects in advanced stages of construction, and the contract with a subsidiary of Rem Offshore assumed to be terminated, a gap has to be bridged until the arrival of hulls for new projects from Romania. Temporary layoffs are used extensively in order to manage the impact of the low workload. At Vard Brevik, the entire workforce has been temporarily laid off, while new business opportunities are being explored to utilize the idle capacity. Vard Aukra, with its focus on the aquaculture market, delivered one fish feed barge and two live fish treatment barges so far and is actively following various commercial leads in the sector.

In Romania the yards are expected to be well utilized going forward. Nine of the Module Carrier Vessels (MCV) for Topaz Energy and Marine are to be built entirely in and delivered from Romania, including five from Vard Braila and four from Vard Tulcea. Another contract has been entered into for the construction of a large cruise ship hull section for subdelivery to FINCANTIERI, in addition to the one already signed in 1Q 2016, part of a multi-year program to supply partially outfitted hull sections to FINCANTIERI. The hulls of four cruise vessels for PONANT, if confirmed, are to be built at Vard Tulcea. Following a period of downsizing and restructuring at the Romanian yards in 2015, the focus is now on increasing throughput and effectiveness in order to handle an increasing workload.

Operations at the yard in Vietnam are stable. The yard is currently in the outfitting phase of one OSCV, which is on track for delivery by end-2016. Work has started for the construction of six of the MCVs for Topaz Energy and Marine. With the MCV order secured during 2Q 2016, yard utilization is secured throughout 2016 and 2017.

Vard Niterói delivered the last vessel from its order book, an AHTS for DOF, in April, and completed outfitting of an LPG carrier for Transpetro from the order book of Vard Promar in June. Yard operations have been shut down, clean-up works completed and the leased land area was returned to owners in mid-July. The workforce has been terminated with few exceptions, and some key resources have been transferred to Vard Promar.

Vard Promar is still experiencing a high overall activity level, but there will be some unused capacity in the early production phases for the rest of the year. One LPG carrier is in the final stages of outfitting, while the remaining two in the series are under construction, in addition to two PLSVs. Work on the projects progressed in line with forecasts and no significant cost overruns were identified during the quarter. The management team has been strengthened by the transfer of key personnel from Vard Niterói.

Restructuring cost of NOK 38 million in the quarter and NOK 49 million for 1H 2016 are related to termination benefits and statutory payments for temporary redundancies, and are mainly due to the Niterói shipyard being in the final stages of phasing out shipbuilding activities.

Depreciations in the quarter and in the first six months of 2016 are stable compared with 2Q 2015 and 1H 2015.

As a consequence of the items discussed above, the operating loss is equal to NOK 78 million for 2Q and NOK 83 million for 1H, down from a loss of NOK 21 million for 2Q 2015 and NOK 12 million for 1H 2015.

The net financial items went from NOK 5 million negative in 2Q 2015 to NOK 25 million positive in 2Q 2016 and from NOK 221 million negative in 1H 2015 to NOK 73 million positive in 1H 2016. The impairment of the shareholding in Rem Offshore ASA and the losses on firm commitment derivatives following the reclassification to inventory of the vessel originally under construction for Harkand, have been more than offset by the unrealized foreign exchange gains recorded in the period.

Income tax expense was NOK 5 million in 2Q 2016 and NOK 5 million in 1H 2016, compared to NOK 28 million and NOK 48 million in the corresponding periods last year. The effective tax rate is still relatively high because no deferred tax asset has been recognized related to entities generating losses in Brazil.

Because of the aforementioned reasons, the loss for the period was NOK 67 million in 2Q 2016 and NOK 24 million in 1H 2016, compared to a loss of NOK 51 million in 2Q 2015 and NOK 277 million in 1H 2015.

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(All amounts in NOK millions unless otherwise stated)

8 REVIEW OF GROUP PERFORMANCE (cont.)

(b) Statement of financial position:

Total non-current assets are slightly higher as at 30 June 2016 vis-à-vis the situation as at 31 December 2015. This is mainly due to the exchange rate effect from Brazilian subsidiaries due to the significant strengthening of the BRL vs the NOK.

Total current assets have decreased from NOK 17.14 billion as of 31 December 2015 to NOK 14.49 billion as of 30 June 2016. NOK 2.7 billion of the reduction are caused by a decrease of Construction WIP in excess of prepayments. Such decrease is generated by the significant number of deliveries in the first six months as well as the assumed cancellation of the vessel under construction for a subsidiary of Rem Offshore and the reclassification to inventory of the vessel originally under construction for Harkand. The increase of the inventory deriving from the reclassification is compensated for by the decrease of other current assets, which are reduced due to the decrease of the firm commitments on derivatives following the delivery of one vessel with contract denominated in USD as well as the strengthening of the NOK vs the USD.

Total non-current liabilities have increased by 25% from NOK 1.41 billion as of 31 December 2015 to NOK 1.77 billion as of 30 June 2016, primarily due to the slot reservation fee received from FINCANTIERI related to the multi-year program with FINCANTIERI already mentioned.

Total current liabilities have decreased from NOK 16.53 billion end of 31 December 2015 to NOK 13.93 billion end of 30 June 2016. The reduction is mainly caused by (i) a reduction of construction loans as a consequence of the significant number of deliveries mentioned above, (ii) a reduction of the trade payables due to the lower production volumes vis-à-vis the previous year, and (iii) by a decrease of the fair value of the current derivatives following the delivery of one vessel with contract denominated in USD and the strengthening of the NOK vs the USD.

(c) Statement of cash flows:

Cash flow from operating activities was NOK 50 million positive in 2Q 2016 compared to NOK 481 million negative in 2Q 2015. In 1H 2016 cash flow from operating activities was NOK 365 million positive, compared to NOK 1.04 billion negative in the corresponding period in 2015. Cash flow from operating activities can fluctuate significantly from period to period due to changes in working capital. The positive cash flow in the quarter and for the first six months are driven by vessel deliveries and instalments and fees received on other projects.

Cash flow used in investing activities was NOK 63 million in 2Q 2016, compared to NOK 109 million in the corresponding period of 2015. Cash flow used in investing activities was NOK 96 million in 1H 2016, compared to NOK 173 million in 1H 2015. Currently the group does not have any significant investment programs.

Cash flow used in financing activities was NOK 141 million in 2Q 2016, compared to NOK 143 million in 2Q 2015. For 1H 2016 the Group had a negative cash flow from financing activities of NOK 193 million, compared to NOK 27 million positive in 1H 2015. The Group has not obtained any new loans during the quarter. Part of the repayment for the period was related to a short-term loan settled in connection with the delivery of one of the vessels at the Niterói yard.

Because of the aforementioned reasons, the cash and cash equivalents at the end of financial period for the period ended 30 June 2016 are equal to NOK 908 million and broadly in line with the amount as at 30 June 2015.

(d) Post balance sheet events

On 12 July 2016, the Group announced that its subsidiary Vard Electro has secured a new contract for the delivery of an engineering and electrical installation package for the UK's new polar research vessel under construction for the Natural Environmental Research Council. The value of the contract is approximately NOK 100 million.

On 7 July 2016, Vard Aukra delivered a live fish treatment barge to Dalseide Shipping Services. This project for the aquaculture market is part of the diversification strategy in the business plan communicated by the Group.

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9 VARIANCE FROM FORECAST STATEMENT

The financial results are in line with the forecast statement provided in the report for the fourth quarter and full year 2015.

10 PROSPECTS

At the end of 2Q 2016, the order book value amounted to NOK 11.93 billion, significantly higher vis-à-vis the value as at 1Q 2016 (NOK 8.58) and the value at the end of 2015 (NOK 10.23 billion). New order intake during the quarter was equal to NOK 6.22 billion. Aggregate order value at the end of the quarter was NOK 23.05 billion, and the order book comprised 39 vessels, of which 30 will be of VARD's own design.

The offshore oil and gas market continues to be challenging, with limited opportunities for new contracts in the near term. As several offshore players are undergoing financial restructuring, the Group will continue to focus on counterparty risk by working with clients to ensure the delivery of its current order book.

The conversion¹ of the first LOI for four cruise vessels into contracts, if confirmed, signals VARD's successful entry into this market segment. Another LOI for two vessels has already been secured and is expected to be converted into contracts in 3Q 2016. Additional projects in this market segment are under discussion. Development of other new market segments is in progress. In the aquaculture market, the Group recorded first successful deliveries of innovative projects, and is receiving positive client feedback. In other non-offshore segments, the Group is pursuing active leads.

Following the new orders for MCV and cruise vessels, workload at the Romanian and Vietnam yards is secured, while Norway is going through a phase of low workload with extensive use of temporary layoffs. The focus in Romania is on increasing throughput and effectiveness in order to be able to handle the expected high workload going forward.

In Brazil, operations are being concentrated in one yard, Vard Promar. With a recent strengthening of the management team, the full focus is on the delivery of the remaining LPG carriers and two PLSVs. Execution risk in Brazil remains high, although the exit from Niterói yard reduces VARD's overall exposure in Brazil.

11 DIVIDEND

(a) Current financial period reported on:

Any dividend declared for the current financial period reported on?

No

(b) Corresponding period of preceding financial year:

Any dividend declared for the corresponding period of the immediately preceding financial year?

No

¹ The contract was signed on 27 June 2016 and follows the LOI signed during 1Q 2016. Although the contract still includes certain conditions yet to be fulfilled, the Company has included the vessels in the Order Intake of the period.

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12 INTERESTED PERSON TRANSACTIONS

	Aggregate value of all interested person transactions during the financial period under review(excluding transactions less than \$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 \$100,000)	
	2Q-2016 ended 30/06/16	1H-2016 ended 30/06/16	2Q-2016 ended 30/06/16	1H-2016 ended 30/06/16
Fincantieri Group				
Production Service to FINCANTIERI at italian facilities	-	-	2	2
Secondment of personnel to VARD	-	-	1	2
Secondment of personnel to FINCANTIERI	-	-	2	4
Support service to Yard Management in Vard	-	-	1	2
Contract for manufacturing and outfitting of a ship-part to FINCANTIERI	-	-	270	522
Slot reservation agreement	-	-	-	399
Total	-	-	276	931

13 CONFIRMATION THAT THE ISSUER HAS PROCURED UNDERTAKINGS UNDER RULE 720(1) OF THE LISTING MANUAL

The Company has procured undertakings required under Rule 720(1) of the Listing Manual from all its directors and executive officers in the format set out in Appendix 7.7.

14 CONFIRMATION BY THE BOARD

The Board of Directors hereby confirms that, to the best of its knowledge, nothing has come to its attention which may render the unaudited financial results for the second quarter ended 30 June 2016 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Mr Roy Reite
Executive Director & CEO
21 July 2016