VARD
a Fincantieri company

Vard Holdings Ltd.

(Registration No. 201012504K)

Directors' Statement and Financial Statements

Year Ended 31 December 2017

Vard Holdings Ltd.

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(Registration No. 201012504K)

Directors' Statement and Financial Statements[1]

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[1] The Directors' Statement and Financial Statements for the year ended 31 December 2017 was prepared in conjunction with the preparation of Vard Holdings Limited's (the "**Company**") 2017 annual report. As stated in the announcement made by the Company on 5 April 2018 (the "**5 April Announcement**"), the Company has sought, and obtained, SGX-ST's confirmation that it has no objection to the extension of timelines for, inter alia, the issuance of the Company's 2017 annual report under Rule 707(2) of the Listing Manual of the SGX-ST, subject to fulfilment of the conditions set out in paragraph 2.3 of the 5 April Announcement.

DIRECTORS' STATEMENT

The directors present this statement to the members of the Company together with the audited financial statements for the financial year ended 31 December 2017. The consolidated financial statements have been presented on the basis described in Note 2 to the audited financial statements.

1. DIRECTORS

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

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

In the opinion of the directors:

a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 62-115 are drawn up as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and

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

2. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

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

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

As at 21 January 2018, Mr. Claudio Cisilino was interested in 4,000 shares of FINCANTIERI S.p.A. There were no other changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2018.

3. ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

4. SHARE OPTIONS

a) Options to take up unissued shares

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

b) Options exercised

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

c) Unissued shares under option

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

5. AUDIT COMMITTEE

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

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

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

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

The Audit Committee also reviewed the following:

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

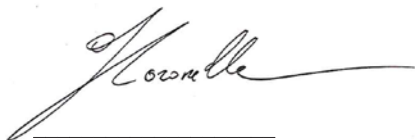
The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors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

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

6. INDEPENDENT AUDITORS

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

On behalf of the Board of Directors



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

Mr. Roy Reite
Chief Executive Officer and Executive Director

22 March 2018

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

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of Vard Holdings Limited ("the Company") and its subsidiaries ("the Group") and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the statements of financial position of the Group and of the Company as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Our Opinion

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

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

Independence

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

Our Audit Approach

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters

1. Contract revenue recognition using the percentage-of-completion method

Refer to Note 2D *Construction Contracts*, 3H, 3M and 24 to the financial statements.

Revenue from construction contracts amounted to NOK 8,328 million, representing 96.8 % of the Group's total revenue for the financial year ended 31 December 2017.

Revenue from construction contracts is recognized based on the stage of completion of the construction contract (the "POC" method), which is measured generally by reference to contract costs incurred to date, as compared to the estimated total costs for the contracts.

The revenue from construction contracts using the POC method is key to our audit because of the use of significant management judgements to estimate the total contract costs that could arise, including uncertainties occurring during the execution of the projects.

- Obtained an understanding of the status of the work-in-progress contracts and the project contingencies and risks associated with those customer contracts;
- Evaluated the effectiveness of management's control over the preparation and revision to the budgeted total costs, and the recording of the actual costs;
- Assessed the reliability of management's estimates of the budgeted total costs by comparing these against the actual costs;
- Tested, on a sample basis, the actual material and subcontractor costs incurred to suppliers' invoices and project job sheets,
- Tested, on a sample basis, the basis of overhead allocation;
- Performed, on a sample basis, inspection of job sites and performed physical verification of the existence of the work-in-progress hulls; and
- Recomputed the revenues and costs recognized for the year and traced these to the accounting records.

Based on our audit procedures, we found management's judgements in relation to estimating the total costs in respect of the construction contracts to be appropriate.

2. Impairment assessment of property, plant and equipment in Brazil

Refer to Note 2D *Impairment assessment of goodwill and property plant and equipment*, 3D, 3I and 4 to the financial statements.

The Group owns shipyards, plant and machinery used in shipbuilding activities. As at 31 December 2017, the carrying value of the property, plant and equipment relating to the shipbuilding activities in Brazil was NOK 1,022 million, representing 6.8% of the Group's total assets.

In Brazil, the Group continue to experience an overall market downturn and demanding operations. Management has performed an impairment assessment, including analyzing the recoverable amount of the yard assets in Brazil. Based on the impairment test, no impairment charge was required to be recorded.

- Assessed the competence and objectivity of the independent valuation advisor;
- Involved our valuation specialist to assess the reasonableness of valuation techniques and assumptions applied by the independent valuation advisor supporting the estimated fair value of yard assets;
- Ascertained that the independent valuation advisor had adequate and precise knowledge about the assets that they valued;
- Assessed the reasonableness of significant assumptions related to yard assets valued based on our knowledge of the business and the industry;
- Recomputed selected calculations of estimated fair values of yard assets; and
- Corroborated applied market data assumptions to other external sources.

Based on our audit procedures, we found management's assumptions in relation to the fair value less cost of disposal calculation to be reasonable.

The impairment assessment was significant to our audit because of the significant judgements made in the valuation techniques and assumptions applied when calculating the recoverable amount of the assets.

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

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

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

As at 31 December 2017, the construction work-in-progress balance, including the offshore sector, was NOK 6,537 million.

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

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

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

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

Other Information

Management is responsible for the other information. The other information comprises all the sections of the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Management and Directors 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 Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 22 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in NOK millions unless otherwise stated)

		Group		Company	
	Note	2017	2016	2017	2016
ASSETS					
Non-current assets					
Property, plant and equipment	4	2,629	2,555	-	-
Intangible assets	5	477	475	-	-
Investment in subsidiary	6	-	-	3,518	2,983
Investment in associates	7	192	222	-	-
Other investments	8	12	19	-	-
Interest-bearing receivables, non-current	9	581	473	-	-
Non-current derivatives	31	-	28	-	-
Other non-current assets	10	158	38	-	-
Deferred tax assets	11	126	82	-	-
Total non-current assets		**4,175**	**3,892**	**3,518**	**2,983**
Current assets					
Inventories	14	2,100	1,949	-	-
Construction WIP in excess of prepayments	15	6,537	5,594	-	-
Trade and other receivables	16	834	801	92	112
Current derivatives	31	84	53	-	-
Other current assets	10	62	161	-	-
Interest-bearing receivables, current	9	322	289	-	7
Cash and cash equivalents	17	810	722	1	3
Assets classified as held for sale	32	-	57	-	-
Total current assets		**10,749**	**9,626**	**93**	**122**
Total assets		**14,924**	**13,518**	**3,611**	**3,105**
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	(841)	(877)	-	-
Retained earnings	18	1,961	2,194	450	375
Total equity attributable to equity holders of the Company		**2,068**	**2,265**	**3,177**	**3,102**
Non-controlling interests	12	25	30	-	-
Total equity		**2,093**	**2,295**	**3,177**	**3,102**
Non-current liabilities					
Loans and borrowings, non-current	19,31	1,045	1,049	-	-
Deferred tax liabilities	11	89	109	-	-
Non-current derivatives	31	168	32	-	-
Other non-current liabilities	20	831	582	-	-
Provisions, non-current	21	87	96	-	-
Total non-current liabilities		**2,220**	**1,868**	**-**	**-**
Current liabilities					
Loans and borrowings, current	19,31	872	443	431	-
Construction loans	19,31	5,652	5,248	-	-
Prepayments in excess of construction WIP	15	715	763	-	-
Trade and other payables	22	2,051	1,636	1	2
Current derivatives	31	363	591	-	-
Income tax payable		51	85	-	-
Provisions, current	21	98	141	-	-
Other current liabilities	23	809	404	2	1
Liabilities directly associated with assets classified as held for sale	32	-	44	-	-
Total current liabilities		**10,611**	**9,355**	**434**	**3**
Total liabilities		**12,831**	**11,223**	**434**	**3**
Total equity and liabilities		**14,924**	**13,518**	**3,611**	**3,105**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in NOK millions unless otherwise stated)

	Note	Group 2017	2016
Revenue	24,30	8,603	7,894
Materials and subcontract costs		(5,601)	(5,049)
Salaries and related costs	25,35	(2,298)	(2,162)
Other operating expenses	26	(541)	(515)
Depreciation, impairment and amortization	4,5	(221)	(205)
Restructuring cost	13	(33)	(105)
Operating profit/(loss)		**(91)**	**(142)**
Financial income	27	233	323
Financial costs	27	(339)	(282)
Net		**(106)**	**41**
Share of results of associates, net of tax	7	(47)	(58)
Profit/(loss) before tax		**(244)**	**(159)**
Income tax expense	28	6	(38)
Profit/(loss) for the year		**(238)**	**(197)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(22)	(404)
Net fair value change in cash flow hedge		56	(49)
Income tax on other comprehensive income	28	4	93
Items that may not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in associated companies	7	(2)	(102)
Other comprehensive income for the year, net of income tax		**36**	**(462)**
Total comprehensive income / (loss) for the year		**(202)**	**(659)**
Profit/(loss) for the year attributable to:			
Equity holders of the Company		(233)	(163)
Non-controlling interests	12	(5)	(34)
Profit/(loss) for the year		**(238)**	**(197)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(197)	(444)
Non-controlling interests	12	(5)	(215)
Total comprehensive income/(loss) for the year		**(202)**	**(659)**
Earnings/(loss) per share (expressed in NOK)			
Attributable to Equity holders of the Company			
Basic	29	(0.20)	(0.14)
Diluted	29	(0.20)	(0.14)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in NOK millions unless otherwise stated)

Group	Paid up capital	Restructuring reserve	Other reserves: Currency translation reserve	Other reserves: Fair value reserve	Other reserves: Other reserve	Retained earnings	Total equity attributable to equity holders of the Company	Non-controlling interests	Total equity
At 1 January 2017	**4,138**	**(3,190)**	**163**	**(38)**	**(1,002)**	**2,194**	**2,265**	**30**	**2,295**
Comprehensive income									
Loss for the year	-	-	-	-	-	(233)	(233)	(5)	(238)
Other comprehensive income/(loss)	-	-	(4)	40	-	-	36	-	36
Total comprehensive income/(loss)	**-**	**-**	**(4)**	**40**	**-**	**(233)**	**(197)**	**(5)**	**(202)**
At 31 December 2017	**4,138**	**(3,190)**	**159**	**2**	**(1,002)**	**1,961**	**2,068**	**25**	**2,093**

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

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

CONSOLIDATED STATEMENT OF CASH FLOW

(All amounts in NOK millions unless otherwise stated)

	Note	Group	
		2017	2016
Operating activities			
Profit (loss) before tax		(244)	(159)
Adjustments for:			
Net interest expense		48	42
(Gain)/loss on disposal of property, plant and equipment, net		3	-
Unrealized foreign exchange gain/loss		(102)	(193)
Depreciation, impairment and amortization		221	205
Change in pension assets and liabilities		1	-
Other non-cash items in the statement of comprehensive income		90	17
Share of results of associates		47	58
Operating cash flows before movements in working capital		**64**	**(30)**
Inventories		(205)	(129)
Construction work in progress		(844)	5,921
Proceeds from construction loans		1,410	3,296
Repayment of construction loans		(1,089)	(7,414)
Other working capital assets		(203)	975
Other working capital liabilities		991	(1,814)
Provisions		(52)	25
Cash generated from/(used in) operations		**72**	**830**
Interest received		34	36
Interest paid		(60)	(77)
Income tax paid		(73)	(25)
Cash flows from/(used in) operating activities		**(27)**	**764**
Investing activities			
Proceeds from disposal of property, plant and equipment		2	19
Proceeds from disposal of subsidiary		7	-
Purchase of property, plant and equipment		(317)	(245)
Purchase of intangible assets		(25)	(45)
Issuance of new non-current interest bearing receivables		-	(3)
Proceeds from repayment of non-current interest bearing receivables		-	6
Proceeds from repayment of short-term interest-bearing receivables		5	-
Acquisition of subsidiary, net of cash acquried	32	(1)	(32)
Acquisition of equity interest in associates		-	(11)
Increase in ownership interest in subsidiaries		(14)	-
Cash flows used in investing activities		**(343)**	**(311)**
Financing activities			
Proceeds from loans and borrowings		825	44
Repayment of loans and borrowings		(358)	(615)
Transactions with non-controlling interests	32	-	(16)
Cash flows from financing activities	**19**	**467**	**(587)**
Net increase in cash and cash equivalents		**97**	**(134)**
Effects of currency translation difference on cash and cash equivalents		(7)	32
Cash and cash equivalents at beginning of financial year		618	720
Cash and cash equivalents at end of financial year		**708**	**618**
Restricted cash at end of financial year		102	104
Cash and cash equivalents at end of financial year including restricted cash	**17**	**810**	**722**

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

NOTES

(All amounts in NOK millions unless otherwise stated)

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

The financial statements were authorized for issue by the Board of Directors on 22 March 2018.

1 Corporate information

GENERAL INFORMATION

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

The financial statements of the Group as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates.

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

2 Basis of preparation

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF MEASUREMENT

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

Going concern basis

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

(C) FUNCTIONAL AND PRESENTATION CURRENCY

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

(D) USE OF ESTIMATES AND JUDGEMENTS

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

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

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

Contruction contracts

The Group uses the percentage-of-completion (POC) method to account for construction work in progress. The use of this method requires the Group to estimate the stage of completion of contract activity and also estimate the outcome of a contract at each reporting date. Revenue recognition depends on variables such as development in steel prices, cost of other factor inputs, extent of calculated contingencies, developments in projects and shipyard capacity and efficiency.

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(All amounts in NOK millions unless otherwise stated)

The scope of variation orders and acceptance of claims by customers may affect revenue estimates. Uncertainties about revenue estimates will also be affected by the Group's previous experience from similar construction projects. Generally, there are greater uncertainties related to revenue estimates of new constructions, new designs and new yards. Events, changes in assumptions and management's judgement will affect recognition of revenue in the current period.

Based on the current ongoing work to reduce the significant counterparty risk in the offshore project portfolio, and the current status of negotiations ongoing, management's assessment as of 31 December 2017 is still that it is probable that the economic benefits from the construction contracts will flow to the Group. When arriving at this conclusion, management is also considering the possibilities of reconfiguring or rebuilding the vessels for other purposes.

The Group has currently three construction projects ongoing at the Brazilian yard, Vard Promar. During 2017 the yard was able to successfully deliver two vessels, and hence effectively reducing the overall operational risk. While the production environment still remains challenging and management considers the estimates as more uncertain than those related to other construction projects in the Group, the remaining projects are rapidly reaching delivery reducing the risks in estimating the final results of the said projects compared to the previous year.

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

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

Because of the continued challenging market conditions and historical operating losses at Vard Promar, impairment indicators have been identified for property, plant and equipment. At the Brazilian yard an impairment test has been performed for the carrying amount of all property plant and equipment (31 December 2017: NOK 1,022 million). The recoverable amount has been estimated based on a fair value less costs of disposal. The fair value of the property, plant and equipment was determined by an external, independent valuation advisor using methodology in compliance with the principles of the standards of the International Valuation Standards Committee (IVSC). This methodology included a cost method (depreciated replacement cost method) in combination with a market approach for certain assets within the equipment and machinery asset category. The recoverable amount assessed by the appraiser as of 31 December 2017 is higher than the book value of the property, plant and equipment by NOK 117 million. The fair value measurement of the property, plant and equipment has been categorized as a Level 3 fair value measurement in the FRS 113 fair value hierarchy based on the use of unobservable inputs in the valuation technique. Management and the independent appraiser has assumed that the asset types (customized) Machinery and equipment, floating dock, buildings and improvements constitutes on unit. Inputs to the valuation models include the remaining useful life of the assets, estimated cash price of replacing the asset, budgets and an assumption of continuity of use.

In prior years the Group has estimated the recoverable amount based on a value in use calculation. Due to the persisting uncertainties and risks in the future order intake due to the current market situation in Brazil, the Group has considered more reliable to assess the recoverable amount using the fair value less cost of disposal effective from 2017.

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 tax claim received by Vard Niterói SA in previous years was cancelled during 2017. Further infomation is given in Note 37.

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

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

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

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

Inventories
Following the termination of two shipbuilding contracts during 2015 and the reclassification of the vessel previously under construction for Harkand during 2016, the inventories includes two vessels within work in progress and one vessel within finished goods. The Group measures inventories at the lower of cost and net realizable value, where the net realizable value is the estimated selling price less the cost of completion and selling expenses. At 31 December 2017 the value of the vessels was reassessed to align the book value with the net realizable value and a loss of NOK 54 million was recognized. The estimated net realisable value of the assets is based on different tangible scenarios to sell the vessels as well on ship broker valuations reports obtained.

Changes in accounting policies
With effect from 1 January 2017, 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 2017. The adoption of the new or revised FRSs and INT FRSs did not result in any significant changes to the accounting policies of the Group and the Company, and has no material effect on the amounts reported for the current or prior periods.

3 Significant accounting policies

(A) BASIS OF CONSOLIDATION

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group takes into consideration potential voting rights that are currently exercisable.

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

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(All amounts in NOK millions unless otherwise stated)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B) FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

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

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

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

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

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary,

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(All amounts in NOK millions unless otherwise stated)

then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or jointly controlled entity that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

(C) FINANCIAL INSTRUMENTS

Non-derivative financial assets

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

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

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

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

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets designated at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognized in profit or loss.

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 recognized 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash-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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities.

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

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

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

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

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

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

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

Derivative financial instruments, including hedge accounting
The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

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(All amounts in NOK millions unless otherwise stated)

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flow that could ultimately affect reported profit or loss.

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

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

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

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

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

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

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

(D) PROPERTY, PLANT AND EQUIPMENT

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:
- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

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

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

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

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

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

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

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

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

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

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

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

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(All amounts in NOK millions unless otherwise stated)

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 recognized in profit or loss as incurred.

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortization

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

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

▪ Other intangible assets	4-10 years

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

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

(F) LEASED ASSETS

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

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

(G) INVENTORIES

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out (FIFO) principle and includes expenditure in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. The cost of finished goods and work in progress comprises raw materials, direct 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 recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the reporting date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

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

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

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

(I) IMPAIRMENT

Non-derivative financial assets

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

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(All amounts in NOK millions unless otherwise stated)

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

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

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

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using an after tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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

(J) NON-CURRENT ASSETS HELD FOR SALE

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

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

(K) EMPLOYEE BENEFITS

Defined contribution plans

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

Termination benefits

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

Short-term employee benefits

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

(L) PROVISIONS

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

Warranties

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

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(All amounts in NOK millions unless otherwise stated)

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

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

(M) REVENUE

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

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

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

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

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

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

(N) LEASE PAYMENTS

Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

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

At inception of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

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

(O) RESTRUCTURING COST

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

(P) FINANCE INCOME AND FINANCE COSTS

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

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

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

(Q) TAX

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

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

The measurement of deferred taxes reflects the tax consequenses that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying of its assets or liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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(All amounts in NOK millions unless otherwise stated)

(R) EARNINGS PER SHARE

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

(S) SEGMENT REPORTING

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

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

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2018 or later periods and which the Group has not early adopted:

FRS 115 *Revenue from contracts with customers*

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

FRS 109 *Financial instruments*

The new standard replace FRS 39, Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The new FRS 109 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. The Group expects a slight increase in allowances on long-term receivables. In addition, FRS 109 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted. The Group decided to not adopt the new standard before the effective date. The adoption of the standard will not result in a significant impact on the Group's consolidated financial statements.

FRS 116 *Leases*

The new standard replaces the previous standard FRS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. FRS 116, defines a lease as a contract that conveys to the customer (lessee) the right to use an asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases for the lessee as either operating leases or finance leases as required by FRS 17 and instead, introduces a single lessee accounting model whereby a lessee is required to recognize assets and liabilities for all leases with a term that is greater than 12 months, unless the underlying asset is of low value, and to recognize depreciation of lease assets separately from interest on lease liabilities in the income statement. FRS 116 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. The Group is in the process of evaluating the impact that FRS 116 may have on the Group's consolidated financial statements

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

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 2016	1,457	1,656	113	476	105	3,807
Additions	67	44	1	34	98	244
Acquisitions through business combinations	1	-	-	-	-	1
Disposals	(60)	-	-	-	-	(60)
Reclassifications	6	54	2	7	(69)	-
Currency translation differences	20	55	4	31	4	114
At 31 December 2016	**1,491**	**1,809**	**120**	**548**	**138**	**4,106**
At 1 January 2017	1,491	1,809	120	548	138	4,106
Additions	200	119	2	-	-	321
Acquisitions through business combinations	-	-	-	-	-	-
Disposals	(7)	(5)	-	(4)	-	(16)
Reclassifications	(2)	16	-	7	(21)	-
Currency translation differences	13	(25)	(1)	(14)	(1)	(28)
At 31 December 2017	**1,695**	**1,914**	**121**	**537**	**116**	**4,383**
Accumulated depreciation and impairment						
At 1 January 2016	790	560	4	71	-	1,425
Depreciation	124	55	-	14	-	193
Impairment losses	-	-	-	-	-	-
Disposals	(49)	-	-	-	-	(49)
Currency translation differences	(12)	(8)	-	2	-	(18)
At 31 December 2016	**853**	**607**	**4**	**87**	**-**	**1,551**
At 1 January 2017	853	607	4	87	-	1,551
Depreciation	124	60	-	16	-	200
Impairment losses	-	-	-	-	-	-
Disposals	(10)	(2)	-	(2)	-	(14)
Currency translation differences	15	4	-	(2)	-	17
At 31 December 2017	**982**	**669**	**4**	**99**	**-**	**1,754**
Carrying amounts						
At 1 January 2016	**667**	**1,096**	**109**	**405**	**105**	**2,382**
At 31 December 2016	**638**	**1,202**	**116**	**461**	**138**	**2,555**
At 31 December 2017	**713**	**1,245**	**117**	**438**	**116**	**2,629**

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

At 31 December 2017, PPE of the Group with the carrying amount of NOK 1,922 million (2016: NOK 1,817 million) are pledged as security to secure the Group's borrowings (see Note 19). This involves all categories of PPE for Vard Electro, the Norwegian and Brazilian yards, and parts of PPE for Vard Tulcea and Vard Braila.

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(All amounts in NOK millions unless otherwise stated)

5 Intangible assets

Group	Goodwill	Other intangibles	Total
Cost			
At 1 January 2016	510	140	650
Additions acquired separately	-	44	44
Acquisition of subsidiaries	13	4	17
Disposals and other adjustments	-	(3)	(3)
Currency translation differences	-	(2)	(2)
At 31 December 2016	**523**	**183**	**706**
At 1 January 2017	523	183	706
Additions acquired separately	-	25	25
Acquisition of subsidiaries	1	-	1
Currency translation differences	-	1	1
At 31 December 2017	**524**	**209**	**733**
Accumulated amortization and impairment losses			
At 1 January 2016	176	45	221
Amortization for the year	-	12	12
Currency translation differences	-	(2)	(2)
At 31 December 2016	**176**	**55**	**231**
At 1 January 2017	176	55	231
Amortization for the year	-	18	18
Impairment	3	-	3
Currency translation differences	-	4	4
At 31 December 2017	**179**	**77**	**256**
Carrying amounts			
At 1 January 2016	**334**	**95**	**429**
At 31 December 2016	**347**	**128**	**475**
At 31 December 2017	**345**	**132**	**477**

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

Business entities	CGU:	Balance at 01.01.17	Additions	Impairment	Balance at 31.12.17
Vard Group AS including the Romanian sub-group	CGU 1	295	-	(3)	292
Vard Marine	CGU 2	12	-	-	12
ICD Software	CGU 3	27	-	-	27
Vard Aqua Sunndal	CGU 4	13	1	-	14
Total		**347**	**1**	**(3)**	**345**

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

IMPAIRMENT TESTS FOR GOODWILL

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

The recoverable amount of the goodwill allocated to the CGUs has been determined based on value in use calculations. Value in use is calculated based on cash flow projections derived from financial budgets and business plans approved by the Board of Directors covering the period of 2018 to 2022 (2016: 2017 to 2020). The determination of budget and strategic figures are based on long-term construction contracts and their expected margins, and expectations of new contracts. This is reflected in the budget and business plan figures.

The discount rate for CGU 1, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2017 are 5.7% (at 31 December 2016: 6.6%). Terminal growth rate of 2.4% (2016: 2.5%) is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2018, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

The discount rate for CGU 2, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2017 are 5.7% (at 31 December 2016: 6.6%). Terminal growth rate of 2.4% (2016: 2.5%) is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2018, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

The discount rate for CGU 3, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2017 are 5.7% (at 31 December 2016: 6.6%). Terminal growth rate of 2.4% (2016: 2.5%) is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2018, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

The discount rate for CGU 4, which is based on the CGU's weighted average cost of capital (WACC), applied to cash flows for the impairment test at 31 December 2017 are 5.7%. Terminal growth rate of 2.4% is based on a rate not higher than the long-term industry average growth rate. Unless a long lasting situation occurs with low capacity utilisation or significantly lower margins than what has been assumed for the period after 2018, realistic sensitivity calculations do not indicate any significant impairment in value of goodwill.

6 Investment in subsidiary

	Company	
	2017	**2016**
Unquoted shares, at cost		
At 1 January	2,983	2,142
Conversion of Current and Non-current interest–bearing receivables	535	841
At end of financial year	**3,518**	**2,983**

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(All amounts in NOK millions unless otherwise stated)

7 Investment in associates

	Group					
	Ship owning associated companies		Other companies		Total associated companies	
	2017	2016	2017	2016	2017	2016
Share of profit or loss from continuing operations	**(45)**	**(48)**	**(2)**	**(10)**	**(47)**	**(58)**
Share of other comprehensive income.	(2)	(102)	-	-	(2)	(102)
Share of total comprehensive income	**(47)**	**(150)**	**(2)**	**(10)**	**(49)**	**(160)**
Opening balance	**197**	**311**	**25**	**30**	**222**	**341**
Share of total comprehensive income	(47)	(150)	(2)	(10)	(49)	(160)
Shares in associated companies acquired/capital contributions made	-	18	(1)	1	(1)	19
Shares in associated companies sold	-	-	-	-	-	-
Reclassifications	20	18	-	4	20	22
Balance period end	**170**	**197**	**22**	**25**	**192**	**222**

		Ownership interest	
Associated companies	**Industry**	**31.12.17**	**31.12.16**
Olympic Challenger KS	Shipping	35%	35%
DOF Iceman AS	Shipping	50%	50%
REM Supply AS	Shipping	27%	27%
Olympic Green Energy KS	Shipping	30%	30%
Møkster Supply KS	Shipping	36%	36%
Møkster Supply AS	Shipping	40%	40%
Canadian Subsea Shipping Company AS	Shipping	0%	45%
AS Dameco	Other	34%	34%
Taklift AS	Other	25%	25%
Castor Drilling Solution AS	Other	34%	34%
Bridge Eiendom AS	Other	50%	50%
Brevik Technology AS	Other	34%	34%
CSS Design Inc	Other	31%	31%

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

8 Other investments

Non-current investments	Group 2017	Group 2016
Available for sale financial assets:		
- Equity securities	12	19
Total	**12**	**19**

	Note	Share%	2017	Share%	2016
Solstad Farstad ASA		1%	6	-	13
Moldekraft AS		8%	5	8%	5
Shares in other companies		n/m	1	n/m	1
Total			**12**		**19**

The equity securities have been subject to a fair value assessment. It has been recognized a negative change in fair value through profit or loss of the Solstad Farstad ASA shares based on the listed values at year end.

9 Interest-bearing receivables

	Group 2017			Group 2016		
	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%	46	NIBOR + 2%	NIBOR + 2%	62
- Third parties	NIBOR + 2%	NIBOR +6%	535	NIBOR + 2%	NIBOR + 3%	411
Total			**581**			**473**
Current						
Interest–bearing receivables due from:						
- Related parties	NIBOR + 2%	NIBOR +2%	2	NIBOR + 2%	NIBOR + 2%	1
- Third parties	EURIBOR + 1%	NIBOR + 1%	320	EURIBOR + 1%	NIBOR + 3%	288
Total			**322**			**289**

The non-current receivables due from third parties of NOK 535 million (2016: NOK 411 million) relates to seller credits to customers. The receivables from related parties of NOK 46 million (2016: NOK 62 million) refers to seller credits to associated companies. The current receivables due to third parties of NOK 320 million (2016: NOK 288 million) relates to a cash collateral placed with Nordea as security for negative MtM value related to FX derivatives.

NOTES

(All amounts in NOK millions unless otherwise stated)

	Company			
	2017		2016	
	Interest rate	Amounts	Interest rate	Amounts
Current				
Current interest-bearing receivables due from Vard Group AS	n/m	-	3m NIBOR + 3%	7

10 Other current and non-current assets

	Group	
Other non-current assets	**2017**	**2016**
Prepayments	1	1
Deposits	7	7
VAT, taxes & other social expenses	12	12
Firm commitments hedge accounting	138	17
Other assets	-	1
Total	**158**	**38**

	Group	
Other current assets	**2017**	**2016**
Firm commitments hedge accounting	29	122
Prepayments	33	39
Total	**62**	**161**

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

This is not applicable for the Company.

11 Deferred tax assets and liabilities

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

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

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

Group	Property, plant and equipment	Project under construction	Tax losses	Receivables	Provisions	Others	Total
At 1 January 2017	26	(182)	89	2	37	1	(27)
(Charged)/credited to profit or loss	1	42	33	(1)	(5)	(10)	60
(Charged)/credited to equity	-	-	-	-	-	5	5
Currency translation differences	-	(1)	-	-	-	-	(1)
Effect of business combination	-	-	-	-	-	-	-
At 31 December 2017	**27**	**(141)**	**122**	**1**	**32**	**(4)**	**37**

Of which presented as deferred tax assets	126
Of which presented as deferred tax liabilities	(89)
Total	**37**

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

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

B) UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets in the amount of NOK 937 million(2016: NOK 871 million) have not been recognized in respect of unrecognized tax losses, where NOK 909 million relates to Brazil, NOK 6 million relates to Italy and NOK 21 million relates to Norway. There is no expiry dates on the tax losses. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits in certain of the Group's subsidiaries will be available against which the Group can utilize the benefit therefrom. The tax losses are subject to agreement by the tax authorities and compliance with the tax regulations in the respective countries in which the entities of the Group operate.

NOTES

(All amounts in NOK millions unless otherwise stated)

12 Non-controlling interest

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

Company name Principal place of business	Vard Promar SA* Brazil		Seaonics AS consolidated Norway	
	2017	2016	2017	2016
Ownership interest/voting rights held by non-controlling interests*	0.0%	0.0%	43.6%	43.6%
Profit/(loss) allocated to non-controlling interests	n/a	(23)	(4)	(8)
Accumulated non-controlling interest at period end	-	-	25	29
Revenues	n/a	1,353	182	151
Profit/(loss)	n/a	(261)	(12)	(19)
Total comprehensive income/(loss)	n/a	(665)	(12)	(19)
Cash flow operations	n/a	(762)	(5)	(4)
Cash flow investing	n/a	(46)	(1)	(9)
Cash flow financing	n/a	788	-	16
Non-current assets	n/a	1,154	115	117
Current assets	n/a	3,035	45	59
Non-current liabilities	n/a	846	8	8
Current liabilities	n/a	4,342	70	74

* Non-controlling interest in Vard Promar was derecognized during 2016.

The non-controlling interests in Seaonics AS have no commitments to make any further capital contribution to the companies.

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 Restructuring cost

Restructuring cost	Group 2017	2016
Termination benefits	22	36
Statutory payments for temporary lay-offs	7	7
Other expenses related to reduced capacity	4	62
Total	**33**	**105**

14 Inventories

Inventories comprise the following items:	Group 2017	Group 2016
Raw materials	561	412
Work in progress	1,324	1,310
Finished goods	215	227
Total	**2,100**	**1,949**

Raw materials comprise mainly steel plates and steel profiles, pipes and pipe fittings, tools and consumables which are used in the Group's construction projects. Work in progress includes one vessel under construction in Vietnam and the vessel previously under construction for Harkand. Finished goods includes one completed vessel. At 31 December 2017, the value of the vessels in inventories was reassessed to align the book value with the net realizable value and a loss of NOK 54 million was recognized. NOK 1,068 million of the work in progress inventories are pledged as security for borrowings.

15 Construction work in progress

	Group 2017	Group 2016
Aggregate costs incurred and attributable profits recognized (less losses recognized) to-date	10,198	7,894
Progress billings	(4,376)	(3,063)
Total	**5,822**	**4,831**
Presented as:		
Current asset	6,537	5,594
Current liability	(715)	(763)
Total	**5,822**	**4,831**
Advances received on construction contracts	4,376	3,063
Provisions for loss on contracts	(308)	(538)

No retention sums are included in progress billings.

Group Provisions for loss on contracts	2017	2016
At 1 January	538	1,468
Additional provisions	477	369
Amounts used	(685)	(1,305)
Unused amounts reversed during the year	(7)	(87)
Currency translation differences	(15)	93
At 31 December	**308**	**538**

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

Trade and other receivables consist of the following items:

	Group	
	2017	2016
Trade receivables (a)	378	174
Allowance for impairment of trade receivables	(7)	(7)
Total	**371**	**167**
Advances to suppliers	196	302
VAT and tax receivables	127	170
Receivables from related parties (b)	118	92
Other receivables (c)	22	70
Total	**834**	**801**

For the Company, trade and other receivables consists of short-term intercompany receivables mainly towards Vard Group AS, Vard Promar SA, Vard Electro AS, Vard Tulcea SA and Vard Singapore Pte Ltd. of NOK 92 million (2016: NOK 112 million).

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

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

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

17 Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
Short-term investments with maturity less than three months	-	3	-	-
Cash and bank deposits	708	615	1	3
Cash and cash equivalents reported in statement of Cash Flows	**708**	**618**	**1**	**3**
Restricted cash	102	104	-	-
Cash and cash equivalents reported in Statement of Financial Position	**810**	**722**	**1**	**3**

Restricted cash is held on escrow accounts, which is mainly security for letters of credit issued in favor of suppliers and restricted bank accounts for employees' tax deductions.

18 Capital and reserves

GROUP AND COMPANY

Paid up capital	Ordinary shares 2017		2016	
	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.

There were no ordinary shares issued in FY2017. There are no treasury shares.

GROUP

Restructuring reserve

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

Currency translation reserve

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

Fair value reserve

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

Other reserve

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

COMPANY

Restructuring reserve

The restructuring reserve presented in the Company's statement of financial position at 31 December 2017 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 FY2017 the Company did not pay any dividends to owners of the company (NOK 0 million in FY2016). The directors have not recommended a payment of a dividend for FY2017.

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	
	2017	2016
Current		
Current facilities (A)	705	245
First year installment non-current term loans (B)	167	198
Current loans and borrowings	**872**	**443**
Construction loans (C)	5,652	5,248
Total current loans and borrowings	**6,524**	**5,691**
Non-current		
Non-current term loans (B)	1,045	1,049
Total loans and borrowings	**7,569**	**6,740**

For the Company, current loans and borrowings consists of short-term interest bearing receivable towards Vard Group AS of NOK 431 million (2016: NOK 0 million).

Net debt reconciliation of liabilities included in cash flows from financing activities

Group	**Loans and borrowings**
Current facilities(A) and term loans(B) at 1 January 2017	1,492
Cash Flows	467
Foreign exchange movements	(38)
Other non-cash changes	(4)
Current facilities (A) and term loans (B) at 31 December 2017	**1,917**

(A) CURRENT FACILITIES

	Interest rates 2017		2017		2016	
	Lowest	Highest	Total facility	Drawn amount	Total facility	Drawn Amount
Current facilities						
- Norway	2.45%	3.34%	459	454	382	245
- Romania	1.65%	2.80%	275	251	118	-
- Brazil			-	-	-	-
Total			**734**	**705**	**500**	**245**
Fixed interest rates					-	-
Variable interest rates	1.65%	3.34%	734	705	500	245
Total			**734**	**705**	**500**	**245**

Norway

Vard Group AS has a EUR 40 million uncommitted facility with Santander, a EUR 5 million uncommitted facility with Raiffeisen Bank International and a EUR 2 million overdraft facility with UniCredit.

Romania

Vard Tulcea SA has a EUR 15 million facility with UniCredit and a EUR 10 million facility with BRD-Groupe Société Générale both with maturity date in December 2018, while Vard Braila SA has a EUR 1.6 million facility with Garanti Bank and a EUR 1.3 million facility with Piraeus Bank.

(B) TERM LOANS

	Interest rates 2017		2017		2016	
	Lowest	Highest	Non-current portion	Current portion	Non-current portion	Current portion
Term loans						
- Norway	3.14%	3.70%	160	18	177	51
- Singapore	2.82%	2.82%	12	12	26	12
- Romania	2.75%	2.75%	115	66	-	62
- Brazil	3.50%	4.50%	758	71	846	73
Total			**1,045**	**167**	**1,049**	**198**
Fixed interest rates	3.20%	4.50%	814	82	903	88
Variable interest rates	2.75%	3.40%	231	85	146	110
Total			**1,045**	**167**	**1,049**	**198**

Norway
Vard Group AS has five secured loans with Innovation Norway as of 31 December 2017 (2016: six), for the total amount of NOK 110 million (2016: NOK 129 million). The loans are secured by investments and fixed assets such as property, plant and equipment. Vard Electro AS has a loan with SMN for an overall amount of NOK 53 million (2016: 59 million). The loan is funding the investment of the new headquarter for Vard Electro AS and has an amortizing repayment schedule with maturity in 2032. In addition to this, Vard Aqua Sunndal AS has NOK 9 million in long-term loans.

Singapore
The long-term Nordea Bank credit, currently at USD 3.0 million, is an investment facility to Vard Singapore Pte. Ltd. The loan was used towards financing of investments with the purpose of building the Vietnam shipyard. The loan is secured by pledge of shares and a parent guarantee issued by the Company, and matures in 2019.

Romania
Vard Tulcea SA has a EUR 18.3 million term loan with Unicredit. The loan matures in September 2020 and is secured by pledge in the property, plant and equipment of Vard Tulcea SA.

Brazil
Vard Promar SA has a long-term financing agreement of USD 101 million maturing in 2029. The loan is secured by mortgage and statutory lien of ownership of land, machinery and equipment.

(C) CONSTRUCTION LOANS

	Interest rates 2017		2017			2016		
	Lowest	Highest	Drawn amount	Undrawn amount year end	Total construction loan facility	Drawn amount	Undrawn amount year end	Total construction loan facility
Construction loans								
- Norway	2.30%	3.75%	2,726	281	4,977	2,511	-	7,949
- Singapore			-	-	-	-	-	-
- Brazil	2.50%	9.40%	2,926	-	3,279	2,737	-	3,413
Total			**5,652**	**281**	**8,256**	**5,248**	**-**	**11,362**
Fixed interest rates	2.50%	4.45%	2,844	-	3,206	2,558	-	3,206
Variable interest rates	2.30%	9.40%	2,808	281	5,050	2,690	-	8,156
Total			**5,652**	**281**	**8,256**	**5,248**	**-**	**11,362**

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

NOTES

(All amounts in NOK millions unless otherwise stated)

The total construction loan facility for Norway totalling NOK 4.98 billion (2016: 7.95 billion) comprises a facility of NOK 1.32 billion (2016: NOK 4.94 billion) with Nordea, NOK 1.20 billion (2016: NOK 1.20 billion) with DNB, NOK 0.9 billion (2016: NOK 0.9 billion) with Sparebank 1 SMN and EUR 67 million with Deutsche Bank. The construction loan facility with Sparebank 1 SMN can be extended to NOK 1.8 billion (2016: NOK 1.81 billion), if there are GIEK guarantees available for the projects.

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

The Brazilian construction loans are with Banco do Brasil SA and BNDES on a project-by-project basis. The project financing facilities were limited to BRL 46 million (2016: BRL 78 million) and USD 386 million (2016: USD 365 million).

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

(D) COVENANTS

Covenant	Minimum consolidated liquidity	Minimum consolidated equity	Term loans (A) with covenant	Construction loan (B) with covenant
Nordea (Vard Group AS)	500	1,500	-	1,318
Nordea (Vard Singapore Pte Ltd)	500	1,500	25	-
DNB (Vard Group AS)	500	1,500	-	255
SMN (Vard Group AS)	500	1,500	-	839
Innovasjon Norge (Vard Group AS)	500	1,500	110	-
SMN (Vard Electro AS)*	16	-	53	-

* Minimum consolidated cash calculated on Vard Electro stand alone

During the last quarter of 2017 Vard Group AS successfully negotiated a change in the financial covenants applied to its liabilities, obtaining a reduction of the Minimum Consolidated Equity from NOK 2,700 million to NOK 1,500 million and a replacement of the Consolidated Working Capital covenant with a Minimum Consolidated Liquidity covenant, with threshold at NOK 500 million. The DNB constrution loans only maintain the Consolidated Working Capital covenant but with minimum level lowered from the previous NOK 1,000 million to NOK 0 million. The covenants applied to the SMN long-term loan in favor of Vard Electro AS were negotiated as well, and the previous Consolidated Working Capital and Equity were replaced by a minimum liquidity level to be calculated on Vard Electro AS stand alone, with threshold set at NOK 16 million. The Group complied with all its covenant at the end of 2017.

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

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

20 Other non-current liabilities

	Group		Company	
	2017	2016	2017	2016
Non-current firm commitments hedge accounting	-	27	-	-
Slot reservation agreement	831	555	-	-
Total	**831**	**582**	**-**	**-**

The slot reservation agreement refers to the agreement entered into between Vard Tulcea and FINCANTIERI during 2016 to reserve capacity at the yard to produce steel blocks for cruise vessels in the period 2016 to 2021. In order for FINCANTIERI to secure Vard Tulcea's production capacity for an extended period of time and for Vard Tulcea to further secure its order book in the cruise production, during 2017 the orignial agreement was further extended to increase the reserved capacity until 2023.

The new agreement provides for a total slot reservation fee of EUR 87 million, of wich EUR 62 million was already included in the previous agreement. The reservation fee cannot be offset against instalments on steel blocks before September 2019. For the Consolidated statement of cash flow, it has been determined that a presentation within cash flows from operating activities is the most appropriate taking into account the nature of this agreement.

21 Provisions

Group	Warranties	Other	Total
At 1 January 2017	70	167	237
Provisions made during the year	50	8	58
Provisions utilized during the year	(25)	(35)	(60)
Provisions reversed during the year	(27)	(22)	(49)
Currency translation differences	-	(1)	(1)
At 31 December 2017	**68**	**117**	**185**
Representing:			
Non-current	4	83	87
Current	64	34	98
Total	**68**	**117**	**185**

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

Other provisions include environmental clean-up costs of NOK 74 million (2016: NOK 75 million), legal claims of NOK 11 million (2016: NOK 29 million), restructuring provisions of NOK 9 million (2016: 23 million), as well as several other liabilities faced during the normal course of business, and provided for according to FRS 37, totalling NOK 23 million (2016: NOK 40 million).

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

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

22 Trade and other payables

	Group		Company	
	2017	**2016**	**2017**	**2016**
Trade payables	1,096	1,045	-	1
Accrued expenses	678	339	1	1
Salary and social costs	149	150	-	-
VAT	128	102	-	-
Total	**2,051**	**1,636**	**1**	**2**

NOTES

(All amounts in NOK millions unless otherwise stated)

23 Other current liabilities

	Group		Company	
	2017	**2016**	**2017**	**2016**
Firm commitments hedge accounting	24	10	-	-
Liabilities to FINCANTIERI	785	394	-	-
Others	-	-	2	1
Total	**809**	**404**	**2**	**1**

Liabilities to FINCANTIERI relates to cost incurred for services, and advance payments received on projects. The cost incurred for services is 28 million and due within a year.

24 Revenue

	Group	
	2017	**2016**
Construction contract revenue	8,328	7,673
Sale of goods	47	31
Rendering of services	228	190
Total revenue	**8,603**	**7,894**

25 Salaries and related costs

	Group	
	2017	**2016**
Salaries and wages	1,933	1,823
Social security contributions	291	244
Pension costs	48	43
Other employee benefits	26	52
Total	**2,298**	**2,162**

Directors' fees amounting to NOK 2.5 million (2016:NOK 2.5 million) are included in salaries and related costs paid to directors of the Company during the financial year. Remuneration to key management personnel are disclosed in Note 35.

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

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

26 Other operating expenses

Other operating expenses include:	Group 2017	2016
Auditors' remuneration:		
- auditors of the Company	1	1
- other auditors*	7	8
Non-audit fees:		
- other auditors*	2	2
Rent and leasing expenses (Note 34)	42	32
Office and administration expenses	143	86
Research and development	7	7
Travel and employee expenses	56	54
Marketing and communication	23	28
Repair and maintenance	59	43
IT expenses	43	41
Consultants and other external sevices	75	52
Sundry operating expenses	83	161
Total	**541**	**515**

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

27 Financial income and financial costs

	Group 2017	2016
Financial income		
Interest income on loan and receivables, including bank deposits	34	36
Dividend income	-	-
Foreign exchange gain	194	281
Other financial income	5	6
Total	**233**	**323**
Financial costs		
Interest expense on loans and borrowings	(82)	(78)
Foreign exchange loss	(168)	(133)
Bank charges	(13)	(5)
Change in fair value of available for sale financial assets	(7)	(29)
Other financial expenses	(69)	(37)
Total	**(339)**	**(282)**
Net financial items	**(106)**	**41**

The Group has a net foreign exchange income of NOK 26 million for FY2017, of which NOK 80 million are net unrealized income and NOK 54 million net realized loss. NOK 25 million of the unrealized income are related to the long-term loan in Vard Promar denominated in USD, while NOK 36 million of realized losses relate to instalments paid in 2017 on the same loan.

NOTES

(All amounts in NOK millions unless otherwise stated)

28 Income tax expenses

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

(A) INCOME TAX RECOGNIZED IN PROFIT OR LOSS

	Group	
	2017	**2016**
Current tax expense:		
Current year	(70)	(118)
Over/(under) provision in respect of prior years	16	3
Total	**(54)**	**(115)**
Deferred tax expense:		
Origination and reversal of temporary differences	58	74
Over provisions in respect of prior years	-	-
Changes in tax rates	2	3
Tax assets previously not recognized/(written off)	-	-
Total	**60**	**77**
Total income tax expense	**6**	**(38)**

(B) INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	2017			2016		
Group	**Before tax**	**Tax expense**	**Net of tax**	**Before tax**	**Tax benefit**	**Net of tax**
Other comprehensive income						
Exchange differences on translation of foreign operations	89	-	89	(122)	-	(122)
Income tax on translation exchange difference on monetary items considered as part of the Group's net investment in foreign subsidiary	(111)	18	(93)	(282)	81	(201)
Income tax on cash flow hedge	56	(14)	42	(49)	12	(37)
Total	**34**	**4**	**38**	**(453)**	**93**	**(360)**

Tax expense related to other comprehensive income is current tax.

(C) RECONCILIATION OF EFFECTIVE TAX RATE

	2017		2016	
	%	Amount	%	Amount
Profit/(loss) before tax		**(244)**		**(159)**
Tax at the domestic rates applicable to profits in the countries where the Group operates	-23.8%	58	-23.9%	38
Over/(under) provision in respect of prior years	-6.6%	16	-1.9%	3
Income not subject to tax	-1.6%	4	-8.8%	14
Non deductible expenses	4.9%	(12)	3.8%	(6)
Utilization of previously unrecognized tax assets	-0.4%	1	-1.9%	3
Tax asssets written off	0.0%	-	0.0%	-
Tax losses and temporary differences for which no deferred income tax asset was recognized	25.8%	(63)	58.5%	(93)
Change in tax rates	-0.8%	2	-1.9%	3
Total income tax expense in profit or loss	**-2.5%**	**6**	**23.9%**	**(38)**

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

29 Earnings per share and diluted earnings per share

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

	Group	
	2017	**2016**
Net profit/(loss) attributable to ordinary shareholders of the Company (NOK million)	**(233)**	**(163)**
Net profit /(loss) attributable to ordinary shareholders of the Company (SGD million)	(38)	(27)
Weighted average number of shares (in millions)	1,180	1,180
Basic earnings / (loss) per share (NOK per share)	(0.20)	(0.14)
Basic earnings/(loss) per share (SGD cents per share)	**(3.22)**	**(2.32)**
Adjusted weighted average number of shares (million) (in millions)	1,180	1,180
Diluted earnings per share (NOK per share)	(0.20)	(0.14)
Diluted earnings per share (SGD cents per share)	**(3.22)**	**(2.32)**
Exchange rates:	31.12.17	31.12.16
SGD/NOK	6.1410	5.9645

There were no outstanding options to subscribe for shares as at 31 December 2017 (31 December 2016: 0).

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

30 Operating segments

(A) REPORTABLE SEGMENTS

The CEO is considered as the chief operating decision maker. The CEO reviews the results of all projects related to design and construction of vessels as a basis for resource allocation decisions to the shipbuilding activities. The Group is not involved in any other significant activities. As the CODM reviews the shipbuilding activities as a whole, management is of the view that the activity of the group is considered as one reporting segment.

(B) GEOGRAPHICAL INFORMATION

The Group has activity in 14 (2016: 14) 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	
	2017	**2016**	**2017**	**2016**
Norway	6,713	5,267	1,458	1,256
Romania*	578	528	1,405	1,151
Singapore	53	384	-	-
Vietnam**	-	-	243	270
Brazil	988	1,484	1,037	1,157
Canada	175	138	28	30
USA	40	19	1	-
Italy	35	66	1	1
Other countries	21	8	2	27
Total	**8,603**	**7,894**	**4,175**	**3,892**

* 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.

NOTES

(All amounts in NOK millions unless otherwise stated)

(C) MAJOR CUSTOMERS

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

	%	2017	%	2016
Customer 1	21%	1,829	3%	248
Customer 2	10%	898	1%	95
Customer 3	10%	826	22%	1,718
Total revenue		**3,553**		**2,061**

31 Financial risk management objectives and policies

Overview

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

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

Credit risk

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

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

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

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

	Group		Company	
	2017	2016	2017	2016
Interest-bearing receivables (Note 9)	903	762	-	7
Other receivables less derivative financial instruments, non-current (Note 10)	7	7	-	-
Trade and other receivables less advances to suppliers, VAT and tax receivables (Note 16)	511	329	92	112
Derivative financial instruments	84	81	-	-
Construction WIP in excess of prepayments (Note 15)	6,537	5,594	-	-
Cash and cash equivalents (Note 17)	810	722	1	3
Total	**8,852**	**7,495**	**93**	**122**

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

	Group		Company	
	2017	2016	2017	2016
Not Due	235	102	2	2
0 - 30 days	46	24	2	7
31 - 120 days	36	23	21	26
121 - 365 days	40	8	15	49
More than 365 days	14	10	52	28
Total	**371**	**167**	**92**	**112**

For the Company, trade and other receivables consists of short-term intercompany receivables mainly towards Vard Group AS, Vard Promar SA, Vard Electro AS, Vard Tulcea SA and Vard Singapore Pte Ltd.

Allowance for impairment losses for trade receivables:

	Group	
	2017	2016
Gross amount	378	174
Less: Allowance for impairment losses	(7)	(7)
TOTAL	**371**	**167**
At 1 January	7	8
Allowance made/(written back)	-	-
Utilized	-	(1)
At 31 December	**7**	**7**

This is not applicable for the Company.

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

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

Interest rate risk

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

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

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

No derivative financial instruments are entered into to manage the interest rate risks of the Group and the construction contracts do not transfer the interest rate risk to the customer.

NOTES

(All amounts in NOK millions unless otherwise stated)

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

	Group		Company	
	2017	2016	2017	2016
Fixed rate instruments				
Financial assets (Interest bearing receivables)	95	-	-	-
Financial liabilities (loans and borrowings)	3,740	3,549	-	-
Variable rate instruments				
Financial assets (cash and cash equivalents)	810	722	1	3
Financial assets (interest bearing receivables)	808	762	-	7
Financial liabilities (loans and borrowings)	3,829	3,191	431	-

Sensitivity analysis

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

	Group Profit and loss		Company Profit and loss	
	50bp increase	50bp decrease	50bp increase	50bp decrease
At 31 December 2017				
Variable rate instruments (net)	(8)	8	(1)	1
Cash flow sensitivity (net)	**(8)**	**8**	**(1)**	**1**
At 31 December 2016				
Variable rate instruments (net)	(19)	19	2	(2)
Cash flow sensitivity (net)	**(19)**	**19**	**2**	**(2)**

Foreign currency risk

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

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

Overview of derivatives

	Group 2017	2016
Fair value hedges		
Forward foreign currency contracts	-	28
Non-current derivatives (assets)	**-**	**28**
Fair value hedges		
Forward foreign currency contracts	48	25
Non-hedging instruments		
Forward foreign currency contracts	36	28
Current derivatives (assets)	**84**	**53**
Fair value hedges		
Forward foreign currency contracts	(168)	(32)
Non-current derivatives (liabilities)	**(168)**	**(32)**
Fair value hedges		
Forward foreign currency contracts	(50)	(247)
Cash flow hedges		
Forward foreign currency contracts	(294)	(332)
Non-hedging instruments		
Forward foreign currency contracts	(19)	(12)
Current derivatives (liabilities)	**(363)**	**(591)**

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.

	2017	2016
USD/NOK (5% strengthening)	(2)	(6)
EUR/NOK (5% strengthening)	(15)	(23)
Total (Functional currency NOK)	**(17)**	**(29)**
USD/BRL (5% strengthening)	**(42)**	**(46)**
EUR/RON (5% strengthening)	**12**	**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.

NOTES

(All amounts in NOK millions unless otherwise stated)

Liquidity risk

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

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

Group	Carrying amount	Total contractual cash flow	Within 1 year	Within 1 – 5 years	> 5 years
At 31 December 2017					
Non-derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1,245)	(1,245)	(1,245)	-	-
Derivative liabilities (Note 31)	(531)	(531)	(363)	(168)	-
Construction loans (Note 19)	(5,652)	(5,770)	(5,298)	(472)	-
Term loans and current facilities (Note 19)	(1,917)	(2,137)	(927)	(718)	(492)
Total	**(9,345)**	**(9,683)**	**(7,833)**	**(1,358)**	**(492)**
At 31 December 2016					
Non-derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1,195)	(1,195)	(1,195)	-	-
Derivative liabilities (Note 31)	(623)	(623)	(591)	(32)	-
Construction loans (Note 19)	(5,248)	(5,386)	(2,924)	(2,462)	-
Term loans and current facilities (Note 19)	(1,492)	(1,757)	(488)	(656)	(613)
Total	**(8,558)**	**(8,961)**	**(5,198)**	**(3,150)**	**(613)**

Company	Carrying amount	Total contractual cash flow	Within 1 year	Within 1 – 5 years	> 5 years
At 31 December 2017					
Non-derivative financial liabilities					
Trade and other payables (Note 22)	(1)	(1)	(1)	-	-
Other current liabilities (Note 23)	(2)	(2)	(2)	-	-
Total	**(3)**	**(3)**	**(3)**	**-**	**-**
At 31 December 2016					
Non-derivative financial liabilities					
Trade payables, salary and social costs (Note 22)	(1)	(1)	(1)	-	-
Total	**(1)**	**(1)**	**(1)**	**-**	**-**

ACCOUNTING CLASSIFICATION AND FAIR VALUES

Fair value disclosures

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

Group	Note	Fair value – Hedging instruments	Fair value – Available-for-sale	Loans and receivables	Amortized cost – Financial liabilities	Total carrying amount	Fair value
31 December 2017							
Financial assets							
Other investments	8	-	12	-	-	12	12
Interest-bearing receivables	9	-	-	903	-	903	901
Trade and other receivables	16	-	-	371	-	371	371
Current and non-current derivatives		84	-	-	-	84	84
Cash and cash equivalents	17	-	-	810	-	810	810
Total		**84**	**12**	**2,084**	**-**	**2,180**	**2,178**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(1,045)	(1,045)	(1,037)
Other non-current liabilities	20	-	-	-	(831)	(831)	(831)
Current and non-current derivatives		(531)	-	-	-	(531)	(531)
Trade and other payables	22	-	-	-	(1,245)	(1,245)	(1,245)
Current loans and borrowings	19	-	-	-	(6,524)	(6,524)	(6,524)
Total		**(531)**	**-**	**-**	**(9,645)**	**(10,176)**	**(10,168)**
31 December 2016							
Financial assets							
Other investments	8	-	19	-	-	19	19
Interest-bearing receivables	9	-	-	762	-	762	644
Trade and other receivables	16	-	-	174	-	174	174
Current and non-current derivatives	31	81	-	-	-	81	81
Cash and cash equivalents	17	-	-	722	-	722	722
Total		**81**	**19**	**1,658**	**-**	**1,758**	**1,640**
Financial liabilities							
Non-current loans and borrowings	19	-	-	-	(1,049)	(1,049)	(1,063)
Other non-current liabilities	20	-	-	-	(582)	(582)	(582)
Current and non-current derivatives	31	(623)	-	-	-	(623)	(623)
Trade and other payables	22	-	-	-	(1,195)	(1,195)	(1,195)
Current loans and borrowings	19	-	-	-	(5,691)	(5,691)	(5,691)
Total		**(623)**	**-**	**-**	**(8,517)**	**(9,140)**	**(9,154)**

Interest rates used for determining fair value

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

NOTES

(All amounts in NOK millions unless otherwise stated)

Fair value hierarchy
The table below analyses financial instruments carried out at fair value, by valuation methods as at 31 December 2017 and 2016.

Group	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Assets				
Available-for-sale financial assets	6	-	6	12
Derivatives	-	84	-	84
Total assets	**6**	**84**	**6**	**96**
Liabilities				
Derivatives	-	(531)	-	(531)
Total liabilities	**-**	**(531)**	**-**	**(531)**
Total	**6**	**(447)**	**6**	**(435)**
At 31 December 2016				
Assets				
Available-for-sale financial assets	13	-	6	19
Derivatives	-	81	-	81
Total assets	**13**	**81**	**6**	**100**
Liabilities				
Financial liabilities at fair value through profit an loss	-	-	(13)	(13)
Derivatives	-	(623)	-	(623)
Total liabilities	**-**	**(623)**	**(13)**	**(636)**
Total	**13**	**(542)**	**(7)**	**(536)**

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

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

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

DETERMINATION OF FAIR VALUES

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

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

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

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

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

Acquisition of subsidiary in 2016

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

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

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

Consideration transferred

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

Fair value of identifiable assets acquired and liabilities assumed

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

The excess value is attributable mainly to the competence and knowhow of the company's employees and synergies with other group companies. This cannot be separately valued, and hence allocated to goodwill. This represents future economic benefits accruing to the Group. None of the goodwill recognized is expected to be deductible for tax purposes. Goodwill attributable to the non-controlling shareholders has not been recognized. The expected synergies with other Group companies relates to different cash generating units. There has not been any subsequent changes in the purchase price allocation compared to the intitial purchase price allocation done in 2016.

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

Transactions with non-controlling interests in 2016

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

NOTES

(All amounts in NOK millions unless otherwise stated)

On 26 May 2017 PJMR exercised its put option, making Vard Promar a wholly-owned subsidiary of Vard Group AS. The consideration for the transaction was BRL 5.5 million (NOK 14 million), satisfied in cash.

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

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

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

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

On 10 April 2017 Vard Group AS has divested its entire shareholding stake in Multifag AS for a consideration of NOK 12 million. The divestment had no material impacts on the earnings per share or the net tangible assets per share of the Group for the current financial year.

33 Capital management

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

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

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

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

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

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

34 Operational lease commitments

Operating lease rentals are payable as follows:

Group	2017	2016
Within one year	44	53
Between one and five years	86	88
More than five years	103	106
Total	**233**	**247**

Vard Holdings Limited did not have any lease commitments as of 31 December 2017 and 2016.

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

During the financial year, an amount of NOK 56 million was recognized as an expense in profit or loss in respect of operational leases (2016: NOK 91 million).

35 Related parties

(A) PARENT AND ULTIMATE HOLDING COMPANY

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

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

The Group's principles relating to remuneration to the Group's key management personnel are to cultivate a performance-based corporate culture based on the Group's values, and to motivate contribution to good financial performance and greater value creation for the shareholders of the Group. The Group's key management personnel participate in the Group's collective pension plan, under which all employees are entitled to a pension contribution amounting to 5.0% 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	**2017**	**2016**
Base salary	16,761	17,923
Variable pay	1,404	-
Other benefits	151	193
Pension benefit	458	433
Total	**18,774**	**18,549**

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:

NOTES

(All amounts in NOK millions unless otherwise stated)

TRANSACTIONS AND AGREEMENTS WITH RELATED PARTIES

Sales of goods and services	**2017**	**2016**
Sales of construction contracts and engineering services to parent company	561	413
Sale of electrical eqiupment and electrical package to parent company	62	107
Secondment of personnel to parent company	-	8
Guarantee commission, associates	5	4
Interest income, associates	4	3
Sales of vessels and services to associates	157	317
Total sales of goods and services	**789**	**852**
Purchases of goods and services		
Secondment of personnel from parent company	(8)	(5)
Other operating expenses, parent company	(32)	(10)
Total purchases of goods and services	**(40)**	**(15)**
Agreements entered into without impact on cost or revenues in the period		
Agreement regarding extension of barge owned by FINCANTIERI	-	-
Slot reservation agreement*	240	584
Contract between Marine Interiors S.p.A. and VARD for accomodation modules	-	295
Contract for manufacturing and outfitting of a ship-part to parent company	-	248
Total agreements entered into without impact on cost or revenues in the period	**240**	**1,127**

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.

* Vard Tulcea has entered into a new agreement with FINCANTIERI to increase the reserved capacity at the yard to produce steel blocks for cruise vessels until 2023. The new agreement substitutes the one previously signed in 2016, and provides for a total slot reservation fee of EUR 87 million (NOK 831 million), of which EUR 62 million was already included in the previous agreement. The reservation fee is presented as other non-current liabilities in the statement of financial position.

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

36 Group of companies

The subsidiaries included in the Vard Holdings Limited Group at 31 December 2017 were as follows:

Name of the company	Place of incorporation and business	Principal activities	Effective equity held by the Group 2017 %	2016 %
Vard Group AS	Norway	Shipbuilding	100	100
Vard Shipholding Singapore Pte. Ltd.	Singapore	Shipowner	100	100
Subsidiaries of Vard Group AS				
Vard Vard Electro AS	Norway	Electrical engineering and installation	100	100
Vard RO Holding SRL	Romania	Holding company	100	100
Vard Niterói SA	Brazil	Dormant	100	100
Vard Promar SA [1]	Brazil	Shipbuilding	100	95
Estaleiro Quissamã Ltda.	Brazil	Dormant	51	51
Vard Singapore Pte. Ltd.	Singapore	Project development and engineering	100	100
Vard Design AS	Norway	Project development and ship design	100	100
Vard Accommodation AS	Norway	Accommodation installation	100	100
Vard Piping AS	Norway	Pipe installation	100	100
Seaonics AS	Norway	Ship equipment design and manufacturing	56	56
Vard Marine Inc.	Canada	Project development and ship design	100	100
Vard Contracting AS	Norway	Shipyard support services	100	100
Vard Seaonics Holding AS	Norway	Dormant	100	100
Vard Engineering Brevik AS [2]	Norway	Engineering	100	70
Vard Offshore Brevik AS	Norway	Offshore industrial services and installation	100	100
Multifag AS [3]	Norway	Offshore industrial services and installation	n/a	100
Vard Aqua Sunndal AS [4]	Norway	Equipment supply aquaculture industry	96	95
Subsidiaries of Vard Design AS				
Vard Design Liburna Ltd.	Croatia	Ship design	51	51
Subsidiaries of Vard Electro AS				
Vard Electro Tulcea SRL [5]	Romania	Electrical engineering and installation	100	100
Vard Electro Brazil (Instalações Elétricas) Ltda. [6]	Brazil	Electrical engineering and installation	100	100
Vard Electro Braila SRL	Romania	Electrical engineering and installation	100	100
Vard Electrical Installation and Engineering (India) Private Limited [7]	India	Electrical engineering and installation	100	100
Vard Electro Italy S.r.l.	Italy	Electrical engineering and installation	100	100
Vard Electro Canada Inc.	Canada	Electrical engineering and installation	100	100
Subsidiaries of Vard RO Holding SRL				
Vard Tulcea SA [8]	Romania	Shipbuilding	100	100
Vard Braila SA [9]	Romania	Shipbuilding	100	100
- Vard Ship Repair Braila SA [10]	Romania	Ship repair and maintenance	100	100
Vard Engineering Constanta SRL [11]	Romania	Engineering	100	100
Subsidiary of Seaonics AS				
ICD Software AS	Norway	Automation and control system software	56	56
- Seaonics Polska sp. z.o.o.	Poland	Ship equipment design	56	56
- SIA ICD Industries Latvia	Latvia	Automation and control system software	56	56
- Industrial Control Design AS	Norway	Automation and control system software	56	56
CDP Technologies AS	Norway	Automation and control system software	56	56
- CDP Technologies Estonia OÜ	Estonia	Automation and control system software	56	56
Subsidiary of Vard Marine Inc.				
Vard Marine US Inc.	USA	Project development and ship design	100	100
Subsidiary of Vard Singapore Pte. Ltd.				
Vard Vung Tau Ltd.	Vietnam	Shipbuilding	100	100
Subsidiary of Vard Accommodation AS				
Vard Accommodation Tulcea SRL [12]	Romania	Accommodation installation	100	100
Subsidiaries of Vard Engineering Brevik AS				
Vard Engineering Gdansk sp. z o.o. [13]	Poland	Engineering	100	70
Subsidiaries of Multifag AS				
Brevik Elektro AS [14]	Norway	Electrical installation	n/a	100
Subsidiaries of Vard Aqua Sunndal AS				
Vard Aqua Chile SA [15]	Chile	Equipment supply aquaculture industry	92	90
Vard Aqua Scotland Ltd. [16]	United Kingdom	Equipment supply aquaculture industry	96	95

NOTES

(All amounts in NOK millions unless otherwise stated)

1) Increased shareholding from 95.15% to 100%
2) Increased shareholding from 70% to 100%
3) Company sold FY2017
4) Increased shareholding from 94.64% to 96.42%. Previous name Storvik Aqua AS
5) Vard Electro AS 99.96%, Stig Bjørkedal 0.04%
6) Vard Electro AS 99%, Vard Group AS 1%
7) Vard Electro AS 99%, Vard Electro Tulcea SRL 1%
8) Vard RO Holding 99.996%, Vard Group, 0.004%
9) Vard RO Holding SRL 94.12%, Vard Group AS 5.88%
10) Company is under Liquidation
11) Vard RO Holding SRL 70%, Vard Braila SA 30%
12) Vard Accommodation AS 99.77%, Vard Electro Tulcea SRL 0.23%
13) Increased indirect shareholding to 100% due to increased shareholding in Vard Engineering Brevik AS
14) Company sold FY2017
15) Previous name: Storvik SA. Vard Aqua Sunndal AS 95%, David Antonio Ulloa Walker 5%
16) Previous name: Storvik Aqua Ltd.

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

37 Contingencies and capital commitments

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

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

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

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

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

On 11 September 2015, the Group filed a judicial claim requesting compensation for the losses incurred and the re-establishment of the economic balance of the agreements. The claim amounts to BRL 244 million (NOK 543 million). Preliminary advisers evidence has confirmed the existence of imbalances, but the quantification of compensation and the likelihood of a favourable ruling are subject to the final expert examination to be determined by the Court. In December 2015, Transpetro sought to terminate the contracts for the construction of EP 07 and EP 08 and requested the return of the advance payments made in connection with such agreements. This issue was also subjected to judicial review and is under discussion in the State Court of Rio de Janeiro, and a sum equivalent to the advance payments was deposited in an escrow account, and the amount was released to Transpetro in September 2016. The Group has not recognized any assets related to the claims against Transpetro in the statement of financial position as of 31 December 2017, as this is considered a contingent asset that do not qualify for recognition.

The claim is now in expert analysis phase, as the Court nominated expert is examining the evidence produced by both parties to support their respective claims.

NOTES

(All amounts in NOK millions unless otherwise stated)

Tax claim Brazil

The previously reported tax claim in Brazil received from Vard Niterói in FY2014, was cancelled during 2017 by the Brazilian authorities, which have ruled that the original claim was without substance. This decision cannot be appealed any further and is thus definite. No provision had been made for the tax claim as an unfavorable assessment was deemed to be highly unlikely. Hence, the decision had no material impact on the financial accounts of the Group.

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

Clean-up costs

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

38 Post balance sheet events

No significant post balance sheet events have occured in the period from 31 December 2017 up to the date of issuing these financial statements.

39 Adoption of Singapore Financial Reporting Standards (International)

The Singapore Accounting Standards Council has introduced a new Singapore financial reporting framework that is equivalent to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The new framework is referred to as 'Singapore Financial Reporting Standards International' ("SFRS(I)s") hereinafter.

As required by the listing requirements of the Singapore Exchange, the Group has adopted SFRS(I)s on 1 January 2018 and will be issuing its first set of financial information prepared under SFRS(I) for the quarter ended 31 March 2018.

In adopting SFRS(I)s, the Group is required to apply all of the specific transition requirements in SFRS(I)s 1 First-time Adoption of Singapore Financial Reporting Standards (International).The current Group accounting policies under the Financial Reporting Standards ("FRSs") are already aligned with the new SFRS(I)s. The only effects from the adoption of the new SFRS(I)s stemming from the concurrent application of the new major SFRS(I)s equivalents of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. As disclosed in note 3 (T) "New or revised accounting standards and interpretations not adopted", the estimated impact arising from the adoption of new SFRS(I)s on the Group's financial statements is not significant.