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FIRST QUARTER 2016

FINANCIAL STATEMENTS

Published 12 May 2016

VARD™
a **Fincantieri** company

Vard Holdings Limited

Incorporated in Singapore | Company Registration No. 201012504K
Unaudited results for the first quarter ended 31 March 2016

First Quarter 2016 Financial Statements

UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2016

(All amounts in NOK millions unless otherwise stated)

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1 UNAUDITED FINANCIAL STATEMENTS

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

	Group		
	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15	Change %
Revenue	2,023	3,063	-34.0%
Materials, subcontract costs and others	(1,273)	(2,189)	-41.8%
Salaries and related costs	(564)	(663)	-14.9%
Other operating expenses	(129)	(146)	-11.6%
EBITDA before restructuring cost	57	65	-12.3%
Restructuring cost	(11)	(6)	n/m
Depreciation, impairment and amortization	(51)	(50)	2.0%
Operating profit/(loss)	(5)	9	n/m
Financial income	122	75	62.7%
Financial costs	(74)	(291)	-74.6%
Net	48	(216)	n/m
Share of results of associates	-	1	n/m
Profit (loss) before tax	43	(206)	n/m
Income tax expense	-	(20)	n/m
Profit (loss) for the period	43	(226)	n/m
Profit (loss) for the period attributable to:			
Equity holders of the Company	37	(92)	n/m
Non-controlling interest	6	(134)	n/m
Profit (loss) for the period	43	(226)	n/m
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(140)	173	n/m
Other comprehensive income for the period, net of income tax	(140)	173	n/m
Total comprehensive income for the period	(97)	(53)	83.0%
Total comprehensive income attributable to:			
Equity holders of the Company	(53)	8	n/m
Non-controlling interest	(44)	(61)	-27.9%
Total comprehensive income for the period	(97)	(53)	83.0%

Notes:

(*) N/M - Not meaningful.

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

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	Group		
	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15	Change %
Interest income	10	7	n/m
Dividend income	-	-	n/m
Foreign exchange gain	113	67	68.7%
Other financial income	(1)	1	n/m
Financial income	122	75	62.7%
Interest expense	(23)	(15)	53.3%
Foreign exchange loss	(45)	(274)	-83.6%
Other financial expenses	(6)	(2)	n/m
Financial expenses	(74)	(291)	-74.6%
Net financial items	48	(216)	n/m
Depreciation of property, plant and equipment	(49)	(48)	2.1%
Amortization of intangibles	(2)	(2)	n/m
Impairment charges	-	-	n/m
Depreciation, impairment charges and amortization	(51)	(50)	2.0%
Bad debt	-	-	n/m
Provisions for doubtful debts	-	-	n/m
Allowance for doubtful debts and bad debts written off	-	-	n/m

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(i) Statement of Financial Position

	Group			Company		
	As at 31.03.16	As at 31.12.15	Change %	As at 31.03.16	As at 31.12.15	Change %
Property, plant and equipment	2,362	2,382	-0.8%	-	-	n/m
Intangible assets	433	429	0.9%	-	-	n/m
Investment in subsidiary	-	-	n/m	2,142	2,142	0.0%
Investment in associates	342	341	0.3%	-	-	n/m
Other investments	39	39	0.0%	-	-	n/m
Interest-bearing receivables, non-current	493	492	0.2%	679	656	3.5%
Non-current derivatives	28	-	n/m	-	-	n/m
Other non-current assets	-	35	n/m	-	-	n/m
Deferred tax assets	44	42	4.8%	-	-	n/m
TOTAL NON-CURRENT ASSETS	3,741	3,760	-0.5%	2,821	2,798	0.8%
Inventories	752	752	0.0%	-	-	n/m
Construction WIP in excess of prepayments	10,888	12,451	-12.6%	-	-	n/m
Trade and other receivables	973	878	10.8%	66	79	-16.5%
Current derivatives	142	331	-57.1%	-	-	n/m
Other current assets	482	1,316	-63.4%	-	-	n/m
Interest-bearing receivables, current	477	488	-2.3%	145	129	12.4%
Cash and cash equivalents	1,027	919	11.8%	3	4	n/m
TOTAL CURRENT ASSETS	14,741	17,135	-14.0%	214	212	0.9%
TOTAL ASSETS	18,482	20,895	-11.5%	3,035	3,010	0.8%
Paid up capital	4,138	4,138	0.0%	4,138	4,138	0.0%
Restructuring reserve	(3,190)	(3,190)	0.0%	(1,411)	(1,411)	0.0%
Other reserves	441	531	-16.9%	-	-	n/m
Retained earnings	2,356	2,319	1.6%	306	280	9.3%
Total equity attributable to equity holders of the Comp.	3,745	3,798	-1.4%	3,033	3,007	0.9%
Non-controlling interest	(859)	(837)	2.6%	-	-	n/m
TOTAL EQUITY	2,886	2,961	-2.5%	3,033	3,007	0.9%
Loans and borrowings, non-current	1,145	1,200	-4.6%	-	-	n/m
Deferred tax liabilities	84	79	6.3%	-	-	n/m
Non-current derivatives	-	12	n/m	-	-	n/m
Other non-current liabilities	395	22	n/m	-	-	n/m
Provisions, non-current	95	96	-1.0%	-	-	n/m
TOTAL NON-CURRENT LIABILITIES	1,719	1,409	22.0%	-	-	n/m
Loans and borrowings, current	770	834	-7.7%	-	-	n/m
Construction loans	8,956	9,435	-5.1%	-	-	n/m
Prepayments in excess of construction WIP	304	392	-22.4%	-	-	n/m
Trade and other payables	1,581	2,141	-26.2%	1	2	n/m
Current derivatives	1,927	3,238	-40.5%	-	-	n/m
Income tax payable	9	26	-65.4%	-	1	n/m
Provisions, current	117	116	0.9%	-	-	n/m
Other current liabilities	213	343	-37.9%	1	-	n/m
TOTAL CURRENT LIABILITIES	13,877	16,525	-16.0%	2	3	n/m
TOTAL LIABILITIES	15,596	17,934	-13.0%	2	3	n/m
TOTAL EQUITY AND LIABILITIES	18,482	20,895	-11.5%	3,035	3,010	0.8%

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	As at 31.03.16		As at 31.12.15	
	Secured	Unsecured	Secured	Unsecured
Loans and borrowings, current	310	460	446	388
Construction loans *	8,956	-	9,435	-
Total Amount repayable in one year or less, or on demand	9,266	460	9,881	388
* Construction loans are in general treated as short term maturing on vessel delivery, and are secured by the vessels under construction				
Loans and borrowings, non-current	1,145	-	1,200	-
Total Amount repayable after one year	1,145	-	1,200	-
Total	10,411	460	11,081	388

Details of debt secured by collaterals

Currency	Drawn amount in currency	Drawn amount in NOK	Current portion in NOK	Non-current portion in NOK
NOK	237	237	32	205
USD	134	1,104	212	892
EUR	12	113	65	48
BRL	0	1	1	-
Total		1,455	310	1,145

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

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

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(c) Statement of Cash Flows (Group)

	Group	
	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15
OPERATING ACTIVITIES		
Profit before tax	43	(206)
Adjustments for:		
Net interest income	13	8
Unrealised foreign exchange gain/loss	(97)	174
Depreciation, impairment and amortization	51	50
Share of results of associates	-	(1)
<i>Operating cash flows before movements in working capital</i>	10	25
Inventories	-	(88)
Construction work in progress	1,277	551
Proceeds from construction loans	1,509	1,654
Repayment of construction loans	(1,898)	(1,734)
Other working capital assets	(414)	(271)
Other working capital liabilities	(135)	(606)
Provisions	-	(9)
<i>Cash generated from / (used in) operations</i>	349	(478)
Interest received	10	5
Interest paid	(18)	(2)
Income tax paid	(24)	(81)
<i>Cash flows from/ (used in) operating activities</i>	317	(556)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	-	1
Purchase of property, plant and equipment	(28)	(60)
Purchase of intangible assets	(7)	(4)
Issuance of new short-term interest-bearing receivables	-	(1)
<i>Cash flows used in investing activities</i>	(35)	(64)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	11	196
Repayment of loans and borrowings	(63)	(26)
<i>Cash flows from/ (used in) financing activities</i>	(52)	170
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	230	(450)
Effects of currency translation difference on cash and cash equivalents	3	(59)
Cash and cash equivalents excl. restricted cash at beginning of financial period	720	1,966
Cash and cash equivalents excl. restricted cash at end of financial period	953	1,457
Restricted cash at end of financial period	74	235
<i>Cash and cash equivalents at end of financial period</i>	1,027	1,692

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(i) Statements of
Changes in Equity

Group	Paid up Capital	Restructu- ring Reserve	Currency Translation Reserve	Fair Value Reserve	Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non- controlling Interest	Total Equity
At 1 January 2016	4,138	(3,190)	392	139	2,319	3,798	(837)	2,961
<i>Comprehensive income</i>								
Profit for the period	-	-	-	-	37	37	6	43
Other comprehensive income	-	-	(90)	-	-	(90)	(50)	(140)
Total comprehensive income	-	-	(90)	-	37	(53)	(44)	(97)
<i>Transactions with owners</i>								
Equity subscribed by non-controlling shareholders	-	-	-	-	-	-	22	22
Total transaction with owners	-	-	-	-	-	-	22	22
At 31 March 2016	4,138	(3,190)	302	139	2,356	3,745	(859)	2,886
At 1 January 2015	4,138	(3,190)	120	142	2,922	4,132	(268)	3,864
<i>Comprehensive income</i>								
Profit for the period	-	-	-	-	(92)	(92)	(134)	(226)
Other comprehensive income	-	-	100	-	-	100	73	173
Total comprehensive income	-	-	100	-	(92)	8	(61)	(53)
At 31 March 2015	4,138	(3,190)	220	142	2,830	4,140	(329)	3,811

Company	Paid up Capital	Restructu- ring Reserve	Retained Earnings	Total Equity
At 1 January 2016	4,138	(1,411)	280	3,007
<i>Comprehensive income</i>				
Profit for the period	-	-	26	26
Total comprehensive income for the period	-	-	26	26
At 31 March 2016	4,138	(1,411)	306	3,033
At 1 January 2015	4,138	(1,411)	170	2,897
<i>Comprehensive income</i>				
Profit for the period	-	-	33	33
Total comprehensive income for the period	-	-	33	33
At 31 March 2015	4,138	(1,411)	203	2,930

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1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(ii) Share Capital

There were no ordinary shares issued in 1Q 2016. There are no treasury shares as at 31 March 2016 and as at 31 March 2015.

Share Options

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

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

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

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

Not applicable. The Company has no treasury shares.

2 AUDIT

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

3 AUDITORS' REPORT

Not applicable.

4 ACCOUNTING POLICIES

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

5 CHANGES IN ACCOUNTING POLICIES

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

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6 EARNINGS PER ORDINARY SHARE

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

	Group		
	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15	Change %
(i) Earnings for the period (in NOK millions)	37	-92	n/m
Earnings for the period (in SGD millions)	6	-16	n/m
Weighted average number of shares (in millions)	1,180	1,180	0.0%
(ii) Earnings per share (NOK)	0.03	-0.08	-137.5%
Earnings per share (SGD cents)	0.51	-1.36	-137.5%
(iii) Diluted earnings per share (NOK)	0.03	-0.08	-137.5%
Diluted earnings per share (SGD cents)	0.51	-1.36	-137.5%
Adjusted weighted average number of shares (in millions)	1,180	1,180	0.0%
Exchange rates:	31.03.16	31.03.15	
SGD/NOK	6.152	5.891	4.4%

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

7 NET ASSETS VALUE PER ORDINARY SHARE

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

	Group			Company		
	As at 31.03.16	As at 31.12.15	Change %	As at 31.03.16	As at 31.12.15	Change %
Net assets value at the end of the period (NOK millions)	3,745	3,798	-1.4%	3,033	3,007	0.9%
Net assets value at the end of the period (SGD millions)	609	609	0.0%	493	482	2.3%
Number of shares (millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
Net assets value per ordinary share (NOK)	3.17	3.22	-1.6%	2.57	2.55	0.8%
Net assets value per ordinary share (SGD)	0.52	0.52	0.0%	0.42	0.41	2.4%
Exchange rates:	31.03.16	31.12.15		31.03.16	31.12.15	
SGD/NOK	6.152	6.239	-1.4%	6.152	6.239	-1.4%

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

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8 REVIEW OF GROUP PERFORMANCE

(a) Statement of comprehensive income:

Revenues for 1Q 2016 were NOK 2.02 billion, down from NOK 3.06 billion in 1Q 2015. The reduction of 34% is caused by reduced activity, especially at the European yards and VARD Niterói. The reduction is both related to own and subcontractor production.

EBITDA before restructuring cost for the quarter was NOK 57 million, compared to NOK 65 million in the corresponding period last year. The EBITDA margin increased from 2.1% in 1Q 2015 to 2.8% in 1Q 2016.

The Norwegian shipyards saw stable operations, with several large and complex project in the final stages of completion during the quarter. There is a continued strong focus on minimizing cost related to lower capacity utilization. One vessel was delivered in the quarter, and one firm contract for a fishing vessel was secured. One letter of intent for the construction of four expedition cruise vessels was signed. Vard Aukra, which targets opportunities in the aquaculture market, delivered its first feed barge in the beginning of 2Q 2016, and orders for additional work have been secured.

In Romania, work is ongoing for the enlargement of the launching barge in Tulcea. A first contract has been entered into for the construction of a large cruise ship hull section, part of a multi-year program to supply partially outfitted hull sections to FINCANTIERI. Workload at the Romanian yards is increasing rapidly with the ramp-up of production for FINCANTIERI, targeted own cruise vessel contracts, and a major contract for Module Carrier Vessels for Topaz Energy and Marine signed on 11 May 2016.

Operations at the yard in Vietnam are stable. The yard delivered one vessel in the quarter. The contract signed with Topaz Energy and Marine secures utilization of the yard throughout 2016 and 2017.

Vard Niterói delivered the last AHTS vessel in its order book in April 2016. In line with the communicated business plan, downsizing continues and shipbuilding activities at the yard will be phased out after the completion of the LPG carrier from the Promar order book currently undergoing outfitting at Niterói, and scheduled for delivery in 2Q 2016.

Vard Promar delivered the first LPG carrier built at the yard during the quarter. The overall activity level at the yard is still high, but as a consequence of the cancellation of two LPG carriers in 4Q 2016, there will be some unused capacity in the early production phases for the rest of the year. Work on the remaining projects progressed in line with forecasts and no significant cost overruns were identified during the quarter, but execution risk remains high.

The Group recognised restructuring cost of NOK 11 million during the quarter. The costs are related to reduction of the workforce in Europe and Brazil.

Depreciations in the quarter are stable compared with 1Q 2015.

As a consequence of the items discussed above, the operating result decreased from a profit of NOK 9 million in 1Q 2015 to an operating loss of 5 million in 1Q 2016

The change in net financial items from NOK 216 million negative in 1Q 2015 to NOK 48 million positive in 1Q 2016 is primarily related to foreign exchange gains and losses. For the quarter there is a net foreign exchange gain of NOK 68 million, of which NOK 91 million relates to the yard construction loan in Vard Promar denominated in USD. In the corresponding period last year, the group had a net foreign exchange loss of NOK 207 million.

For the aforementioned reasons, the loss of NOK 226 million in 1Q 2015 turned to a profit of NOK 43 million in 1Q 2016.

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8 REVIEW OF GROUP PERFORMANCE (cont.)

(b) Statement of financial position:

Total non-current assets were stable when comparing 31 March 2016 with 31 December 2015.

Total current assets have decreased from NOK 17.14 billion to NOK 14.74 billion. The reduction is driven by vessel deliveries and reduced impact of hedge accounting.

Total non-current liabilities have increased by 22% when comparing 31 March 2016 with 31 December 2015. Loans and borrowings has decreased because of instalments paid and foreign exchange gains, while other non-current liabilities have increased as a consequence of a slot reservation fee received from Fincantieri, as disclosed in Note 12.

Total current liabilities have decreased from NOK 16.53 billion to NOK 13.88 billion. The reduction is driven by vessel deliveries, and reduced negative value on derivatives. The change in value for derivatives is driven both by reduced volume and changes in foreign exchange rates.

(c) Statement of cash flows:

Cash flows from operating activities were NOK 317 million positive in 1Q 2016 compared to NOK 556 million negative in 1Q 2015. Cash flows from operating activities can fluctuate significantly from period to period due to changes in working capital. The positive cash flows in this quarter are driven by vessel deliveries and instalments and fees received on other projects.

Cash flows used in investing activities amounted to NOK 35 million in 1Q 2016 compared to NOK 64 million in 1Q 2015. Currently the group does not have any significant investment programs.

Cash flows from financing activities was NOK 52 million negative in 1Q 2016 compared to NOK 170 million positive in 1Q 2015. The group has not obtained any new loans during the quarter. NOK 44 million of the repayments relate to instalments paid on non-current loans.

(d) Post balance sheet events

On 6 May 2016, VARD was notified that Harkand Group ("Harkand") has entered into administration. Harkand has one Diving Support and Construction Vessels under construction at VARD, originally contracted in December 2013 for delivery from Vard Søviknes in 2Q 2016. The vessel is in an advanced stage of construction. The Company is currently evaluating its position towards Harkand. If the shipbuilding contract is unlawfully terminated by the customer, VARD will contractually be entitled to retain the advance payments already received, equivalent to 20% of the original contract price, and to resell the vessel. The payments already received could facilitate a resale of the vessel.

In the annual report for 2015, VARD disclosed that a bank had provisionally approved two construction loans amounting to approximately NOK 590 million combined, subject to approval of a government authority department. This approval was granted on 10 May 2016, and consequently the loans are expected to be available from the end of May 2016.

9 VARIANCE FROM FORECAST STATEMENT

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

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10 PROSPECTS

At the end of 1Q 2016, the order book value amounted to NOK 8.58 billion, down from NOK 10.23 billion at the end of 2015 and NOK 15.63 billion at the end of 1Q 2015. Aggregate order value at the end of the quarter was NOK 23.00 billion, and the order book comprised 27 vessels, of which 17 will be of VARD's own design. Order intake in the period was NOK 651 million.

The offshore oil and gas market continues to be challenging, both for shipyards and ship owners. Several ship owners are undergoing financial restructuring. As a consequence, VARD has increased its focus on counterparty risk, and is working actively with clients and financial institutions to secure delivery of the current order book. This includes management of working capital financing needs, guarantees and foreign exchange exposure. Even though the oil and gas market is challenging, there are still opportunities for new projects in niche markets and for highly specialized vessels.

Implementation of the new business plan is underway, with important breakthroughs in the expedition cruise vessel and aquaculture markets, and the major contract secured for Topaz Energy and Marine. Market sentiment in the expedition cruise vessel market is positive, and VARD is well positioned to secure more orders. Conversion of the Letters of Intent signed into firm contracts is key to ensuring that the workload does not fall below critical level at some of the Norwegian yards. An increasing number of temporary layoffs will be necessary until the diversification of the order book begins to have an impact. Capacity utilization in Romania is expected to increase rapidly on the back of a large volume of cruise ship hull sections to be delivered to FINCANTIERI, targeted own cruise vessel contracts, and the contract for Module Carrier Vessels for Topaz Energy and Marine. While operations in Europe and Vietnam are expected to be stable, execution risk in Brazil remains high. There is a high focus on lowering of the cost position throughout the organization in order to succeed in core and new markets.

11 DIVIDEND

(a) Current financial period reported on:

Any dividend declared for the current financial period reported on?

No

(b) Corresponding period of preceding financial year:

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

No

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12 INTERESTED PERSON TRANSACTIONS

	Aggregate value of all interested person transactions during the financial period under review(excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15	1Q-2016 ended 31.03.16	1Q-2015 ended 31.03.15
Fincantieri Group				
Sale of electrical equipment to FINCANTIERI	-	-	-	27
Sale of electrical package to FINCANTIERI	-	-	-	4
Secondment of personnel to VARD	-	-	1	2
Secondment of personnel to FINCANTIERI	-	-	2	-
Support service to Yard Management in Vard	-	-	1	1
Contract for manufacturing and outfitting of a ship-part to FINCANTIERI	-	-	252	-
Slot reservation agreement*	-	-	399	-
Total	-	-	655	34

* VARD Tulcea has entered into an agreement with Fincantieri, that reserves capacity at the yard to produce steel blocks for cruise vessels in the period 2016 to 2021. The agreement reserves production capacity equivalent to approximately 70,000 steel tons in the period. The terms and condition will be set out in contracts for each individual steelblock. As part of the agreement VARD Tulcea has received a slot reservation fee of EURO 42 million (NOK 399 million). The reservation fee can not be repaid or offset against instalments on the steel blocks before September 2018. The reservation fee is presented as other non-current liabilities in the statement of financial position.

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

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

14 CONFIRMATION BY THE BOARD

The Board of Directors hereby confirms that, to the best of its knowledge, nothing has come to its attention which may render the unaudited financial results for the first quarter ended 31 March 2016 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Mr Roy Reite
Executive Director & CEO
12 May 2016