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SECOND QUARTER 2018

FINANCIAL STATEMENTS

Published 27 July 2018

VARDTM
a **Fincantieri** company

Vard Holdings Limited

Incorporated in Singapore | Company Registration No. 201012504K
Unaudited results for the second quarter ended 30 June 2018

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Second Quarter 2018 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS

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

	Group			Group		
	2Q-2018 ended 30/06/18	2Q-2017 ended 30/06/17	Change %	1H-2018 ended 30/06/18	1H-2017 ended 30/06/17	Change %
Revenue	2,958	2,128	39%	5,224	3,905	34%
Materials, subcontract costs and others	(2,261)	(1,355)	67%	(3,811)	(2,412)	58%
Salaries and related costs	(636)	(587)	8%	(1,221)	(1,127)	8%
Other operating expenses	(123)	(126)	-2%	(253)	(266)	-5%
EBITDA before restructuring cost	(62)	60	n/m	(61)	100	n/m
Restructuring cost	(14)	(4)	n/m	(25)	(10)	n/m
Depreciation, impairment and amortization	(57)	(60)	-5%	(115)	(113)	2%
Operating profit/(loss)	(133)	(4)	n/m	(201)	(23)	774%
Financial income	13	9	n/m	176	84	110%
Financial costs	(177)	(58)	205%	(337)	(137)	146%
Net financial items	(164)	(49)	235%	(161)	(53)	204%
Share of results of associates	(17)	(17)	0%	(17)	(17)	0%
Profit/(loss) before tax	(314)	(70)	349%	(379)	(93)	308%
Income tax expense	19	1	n/m	(12)	(3)	n/m
Profit/(loss) for the period	(295)	(69)	328%	(391)	(96)	307%
Profit/(loss) for the period attributable to:						
Equity holders of the Company	(291)	(69)	322%	(400)	(94)	326%
Non-controlling interest	(4)	-	n/m	9	(2)	n/m
Profit/(loss) for the period	(295)	(69)	328%	(391)	(96)	307%
Other comprehensive income/(loss):						
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange differences on translation of foreign operations	2	7	n/m	(60)	3	n/m
Net fair value change in cash flow hedge	(53)	25	n/m	5	31	-84%
Income tax on other comprehensive income	27	13	108%	25	4	n/m
<i>Items that may not be reclassified subsequently to profit or loss:</i>						
Share of other comprehensive income/(loss) in associated companies	-	(2)	n/m	-	(2)	n/m
Other comprehensive income/(loss) for the period, net of income tax	(24)	43	-156%	(30)	36	n/m
Total comprehensive income/(loss) for the period	(319)	(26)	1127%	(421)	(60)	602%
Total comprehensive income/(loss) attributable to:						
Equity holders of the Company	(315)	(27)	1067%	(430)	(58)	641%
Non-controlling interest	(4)	1	n/m	9	(2)	n/m
Total comprehensive income/(loss) for the period	(319)	(26)	1127%	(421)	(60)	602%

Notes:

(*) N/M - Not meaningful.

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

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	Group			Group		
	2Q-2018 ended 30/06/18	2Q-2017 ended 30/06/17	Change %	1H-2018 ended 30/06/18	1H-2017 ended 30/06/17	Change %
Interest income	8	9	-11%	17	17	0%
Foreign exchange gain	6	-	n/m	159	67	137%
Other financial income	(1)	-	n/m	-	-	n/m
Financial income	13	9	n/m	176	84	110%
Interest expense	(24)	(15)	60%	(47)	(28)	68%
Foreign exchange loss	(139)	(35)	297%	(269)	(88)	206%
Other financial expenses	(14)	(8)	n/m	(21)	(21)	0%
Financial expenses	(177)	(58)	205%	(337)	(137)	146%
Net financial items	(164)	(49)	235%	(161)	(53)	204%
Depreciation of property, plant and equipment	(51)	(51)	0%	(102)	(101)	1%
Amortization of intangibles	(6)	(6)	0%	(13)	(9)	n/m
Impairment charges	-	(3)	n/m	-	(3)	n/m
Depreciation, impairment charges and amortization	(57)	(60)	-5%	(115)	(113)	2%
Provisions for doubtful debts	-	-	n/m	-	-	n/m
Allowance for doubtful debts and bad debts written off	-	-	n/m	-	-	n/m

Second Quarter 2018 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(i) Statement of Financial Position

	Group			Company		
	As at 30/06/18	As at 31/12/17 <i>Restated</i>	Change %	As at 30/06/18	As at 31/12/17	Change %
Property, plant and equipment	2,420	2,629	-8%	-	-	n/m
Intangible assets	466	477	-2%	-	-	n/m
Investment in subsidiary	-	-	n/m	3,518	3,518	0%
Investment in associates	249	192	30%	-	-	n/m
Other investments	13	12	8%	-	-	n/m
Interest-bearing receivables, non-current	620	581	7%	-	-	n/m
Non-current derivatives	21	-	n/m	-	-	n/m
Other non-current assets	37	158	-77%	-	-	n/m
Deferred tax assets	190	128	48%	-	-	n/m
TOTAL NON-CURRENT ASSETS	4,016	4,177	-4%	3,518	3,518	0%
Inventories	1,975	2,100	-6%	-	-	n/m
Contract assets	6,387	6,529	-2%	-	-	n/m
Trade and other receivables	895	834	7%	123	92	34%
Current derivatives	21	84	-75%	-	-	n/m
Other current assets	94	62	52%	-	-	n/m
Interest-bearing receivables, current	274	322	-15%	-	-	n/m
Cash and cash equivalents	758	810	-6%	1	1	n/m
TOTAL CURRENT ASSETS	10,404	10,741	-3%	124	93	33%
TOTAL ASSETS	14,420	14,918	-3%	3,642	3,611	1%
Paid up capital	4,138	4,138	0%	4,138	4,138	0%
Restructuring reserve	(3,190)	(3,190)	0%	(1,411)	(1,411)	0%
Other reserves	(871)	(841)	-4%	-	-	n/m
Retained earnings	1,550	1,955	-21%	471	450	5%
Total equity attributable to equity holders of the Comp.	1,627	2,062	-21%	3,198	3,177	1%
Non-controlling interest	34	25	36%	-	-	n/m
TOTAL EQUITY	1,661	2,087	-20%	3,198	3,177	1%
Loans and borrowings, non-current	1,059	1,045	1%	-	-	n/m
Deferred tax liabilities	87	89	-2%	-	-	n/m
Non-current derivatives	25	168	-85%	-	-	n/m
Other non-current liabilities	823	831	-1%	-	-	n/m
Provisions, non-current	87	87	0%	-	-	n/m
TOTAL NON-CURRENT LIABILITIES	2,081	2,220	-6%	-	-	n/m
Loans and borrowings, current	1,451	872	66%	432	431	0%
Construction loans	4,645	5,652	-18%	-	-	n/m
Contract liabilities	867	715	21%	-	-	n/m
Trade and other payables	2,482	2,051	21%	3	1	n/m
Current derivatives	364	363	0%	-	-	n/m
Income tax payable	45	51	-12%	-	-	n/m
Provisions, current	104	98	6%	-	-	n/m
Other current liabilities	720	809	-11%	9	2	n/m
TOTAL CURRENT LIABILITIES	10,678	10,611	1%	444	434	2%
TOTAL LIABILITIES	12,759	12,831	-1%	444	434	2%
TOTAL EQUITY AND LIABILITIES	14,420	14,918	-3%	3,642	3,611	1%

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	As at 30.06.18		As at 31.12.17	
	Secured	Unsecured	Secured	Unsecured
Loans and borrowings, current	329	1,122	325	547
Construction loans *	4,645	-	5,652	-
Total Amount repayable in one year or less, or on demand	4,974	1,122	5,977	547

* 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	965	94	1,045	-
Total Amount repayable after one year	965	94	1,045	-
Total	5,939	1,216	7,022	547

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	171	171	19	152
USD	99	810	77	733
EUR	33	313	233	80
Total		1,294	329	965

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

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

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UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(c) Statement of Cash Flows (Group)

	Group		Group	
	2Q-2018 ended 30/06/18	2Q-2017 ended 30/06/17	1H-2018 ended 30/06/18	1H-2017 ended 30/06/17
OPERATING ACTIVITIES				
Profit/(loss) before tax	(314)	(70)	(379)	(93)
Adjustments for:				
Net interest expense	16	6	30	11
(Gain)/loss on disposal of property, plant and equipment, net	-	3	-	3
Unrealised foreign exchange gain/loss	112	20	60	7
Depreciation, impairment and amortization	57	60	115	113
Change in pension assets and liabilities	-	1	-	1
Other non-cash items in the statement of comprehensive income	121	6	121	6
Share of results of associates	17	17	17	17
Operating cash flows before movements in working capital	9	43	(36)	65
Inventories	(6)	(2)	3	(105)
Construction work in progress	955	(500)	334	20
Proceeds from construction loans	713	342	1,460	627
Repayment of construction loans	(2,368)	(168)	(2,528)	(297)
Other working capital assets	58	235	86	2
Other working capital liabilities	362	(101)	192	(191)
Provisions	5	(16)	6	(33)
Cash generated from / (used in) operations	(272)	(167)	(483)	88
Interest received	8	9	17	17
Interest paid	(18)	(9)	(33)	(20)
Income tax paid	(22)	(5)	(67)	(14)
Cash flows from/ (used in) operating activities	(304)	(172)	(566)	71
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	-	2	-	2
Proceeds from disposal of subsidiary	-	7	-	7
Purchase of property, plant and equipment	(40)	(68)	(80)	(156)
Purchase of intangible assets	(2)	(13)	(4)	(17)
Issuance of new non-current interest bearing receivables	(6)	-	(6)	-
Acquisition of subsidiary, net of cash acquired	-	-	-	(1)
Increase in ownership interest in subsidiaries	-	(14)	-	(14)
Cash flows used in investing activities	(48)	(86)	(90)	(179)
FINANCING ACTIVITIES				
Proceeds from loans and borrowings	513	204	957	307
Repayment of loans and borrowings	(55)	(174)	(339)	(221)
Cash flows from/ (used in) financing activities	458	30	618	86
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	106	(228)	(38)	(22)
Effects of currency translation difference on cash and cash equivalents	(3)	(1)	(13)	2
Cash and cash equivalents excl. restricted cash at beginning of financial period	554	827	708	618
Cash and cash equivalents excl. restricted cash at end of financial period	657	598	657	598
Restricted cash at end of financial period	101	96	101	96
Cash and cash equivalents at end of financial period	758	694	758	694

Second Quarter 2018 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(i) Statements of Changes in Equity	Other reserves					Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non-controlling Interest	Total Equity
	Paid up Capital	Restructuring Reserve	Currency Translation Reserve	Fair Value Reserve	Other reserves				
At 31 December 2017	4,138	(3,190)	159	2	(1,002)	1,961	2,068	25	2,093
Adoption of SFRS(I) 15	-	-	-	-	-	(6)	(6)	-	(6)
At 31 December 2017 (as restated)	4,138	(3,190)	159	2	(1,002)	1,955	2,062	25	2,087
Adoption of SFRS(I) 9	-	-	-	-	-	(5)	(5)	-	(5)
At 1 January 2018 (as restated)	4,138	(3,190)	159	2	(1,002)	1,950	2,057	25	2,082
<i>Comprehensive income</i>									
Profit/(loss) for the period	-	-	-	-	-	(400)	(400)	9	(391)
Other comprehensive income/(loss)	-	-	(34)	4	-	-	(30)	-	(30)
Total comprehensive income/(loss)	-	-	(34)	4	-	(400)	(430)	9	(421)
At 30 June 2018	4,138	(3,190)	125	6	(1,002)	1,550	1,627	34	1,661
At 1 January 2017	4,138	(3,190)	163	(38)	(1,002)	2,194	2,265	30	2,295
<i>Comprehensive income</i>									
Profit/(loss) for the period	-	-	-	-	-	(94)	(94)	(2)	(96)
Other comprehensive income/(loss)	-	-	15	21	-	-	36	-	36
Total comprehensive income/(loss)	-	-	15	21	-	(94)	(58)	(2)	(60)
At 30 June 2017	4,138	(3,190)	178	(17)	(1,002)	2,100	2,207	28	2,235
Company									
	Paid up Capital	Restructuring Reserve	Retained Earnings	Total Equity					
At 1 January 2018	4,138	(1,411)	450	3,177					
<i>Comprehensive income</i>									
Profit/(loss) for the period	-	-	21	21					
Total comprehensive income/(loss) for the period	-	-	21	21					
At 30 June 2018	4,138	(1,411)	471	3,198					
At 1 January 2017	4,138	(1,411)	375	3,102					
<i>Comprehensive income</i>									
Profit/(loss) for the period	-	-	36	36					
Total comprehensive income/(loss) for the period	-	-	36	36					
At 30 June 2017	4,138	(1,411)	411	3,138					

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(ii) Share Capital

There were no ordinary shares issued in 2Q 2018. There are no treasury shares, nor subsidiary holdings, as at 30 June 2018 and as at 30 June 2017.

Share Options

There were no outstanding options to subscribe for shares as at 30 June 2018 (30 June 2017: 0).

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

The number of issued shares (excluding treasury shares) as at 30 June 2018 is 1,180,000,000 ordinary shares (31 December 2017: 1,180,000,000 ordinary shares).

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

Not applicable. The Company has no treasury shares.

(d)(v) Sales, Transfers, Cancellations and/or use of Subsidiary Holdings

Not applicable. The Company has no Subsidiary Holdings.

2 AUDIT

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

3 AUDITORS' REPORT

Not applicable.

4 ACCOUNTING POLICIES

Except as disclosed in paragraph 5 below, 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 2017.

5 CHANGES IN ACCOUNTING POLICIES

The Group has adopted a new financial reporting framework, 'Singapore Financial Reporting Standards International' ("SFRS(I)s"), on January 2018 and has prepared its set of financial information under SFRS(I)s for the second quarter and half year ended 30 June 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. Further information on impacts from the adoption of the new SFRS(I)s are disclosed below.

Adoption of SFRS(I) equivalent of IFRS 9

SFRS(I) 9 is effective for financial years beginning on or after 1 January 2018. The Group has elected to apply the short-term exemption under SFRS(I) 1, which exempt the Group from applying SFRS(I) 9 to comparative information. Accordingly, requirements of FRS 39 Financial Instruments: Recognition and Measurement will continue to apply to financial instruments up to the financial year ended 31 December 2017. SFRS(I) 9 introduces new 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 standard introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, SFRS(I) 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity.

Because of assessing the allowances for impairment of financial assets under the expected-loss model ("ECL") introduced in SFRS(I) 9, the retained earnings at 1 January 2018 has been decreased by a net amount of NOK 5 million, with a corresponding decrease by NOK 6 million of interest-bearing receivables, non-current and an increase of deferred tax assets by NOK 1 million. Due to the increased credit risk since the original inception, the allowances were assessed based on the lifetime ECLs. The adoption of SFRS(I) 9 had no impacts on the classification and measurement of the financial assets and liabilities.

Adoption of SFRS(I) equivalent of IFRS 15

SFRS(I) 15 is effective for financial years beginning on or after 1 January 2018. In accordance with the requirements of SFRS(I) 1, the Group will adopt SFRS(I) 15 retrospectively. According to SFRS(I) 15, 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. SFRS(I) 15 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.

The retrospective adoption of the SFRS(I) 15 resulted in a reduction of the restated retained earnings at 31 December 2017 by a net amount of NOK 6 million because of the different timing of revenue recognition in certain contracts. Correspondingly the restated value at 31 December 2017 of contract assets has been reduced by NOK 8 million while restated deferred tax assets has been increased by NOK 2 million. No material impacts were assessed on 2Q 2017, hence the Group's Statement of Comprehensive Income was not restated.

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UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

(All amounts in NOK millions unless otherwise stated)

6 EARNINGS PER ORDINARY SHARE

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

	Group			Group		
	2Q-2018 ended 30/06/18	2Q-2017 ended 30/06/17	Change %	1H-2018 ended 30/06/18	1H-2017 ended 30/06/17	Change %
(i) Earnings for the period (in NOK millions)	(291)	(69)	322%	(400)	(94)	326%
Earnings for the period (in SGD millions)	(49)	(11)	345%	(67)	(15)	347%
Weighted average number of shares (in millions)	1,180	1,180	0%	1,180	1,180	0%
(ii) Earnings per share (NOK)	(0.25)	(0.06)	317%	(0.34)	(0.08)	325%
Earnings per share (SGD cents)	(4.15)	(0.93)	346%	(5.68)	(1.27)	347%
(iii) Diluted earnings per share (NOK)	(0.25)	(0.06)	317%	(0.34)	(0.08)	325%
Diluted earnings per share (SGD cents)	(4.15)	(0.93)	346%	(5.68)	(1.27)	347%
Adjusted weighted average number of shares (in millions)	1,180	1,180	0%	1,180	1,180	0%
Exchange rates:	30/06/18	30/06/17		30/06/18	30/06/17	
SGD/NOK	5.984	6.093	-2%	5.984	6.093	-2%

The SGD amounts

7 NET ASSETS VALUE PER ORDINARY SHARE

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

	Group			Company		
	As at 30/06/18	As at 31/12/17	Change %	As at 30/06/18	As at 31/12/17	Change %
Net assets value at the end of the period (NOK millions)	1,627	2,062	-21%	3,198	3,177	1%
Net assets value at the end of the period (SGD millions)	272	336	-19%	534	517	3%
Number of shares (millions)	1,180	1,180	0%	1,180	1,180	0%
Net assets value per ordinary share (NOK)	1.38	1.75	-21%	2.71	2.69	1%
Net assets value per ordinary share (SGD)	0.23	0.28	-18%	0.45	0.44	2%
Exchange rates:	30/06/18	31/12/17		30/06/18	31/12/17	
SGD/NOK	5.984	6.141	-3%	5.984	6.141	-3%

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

8 REVIEW OF GROUP PERFORMANCE

(a) Statement of comprehensive income:

Revenue for 2Q 2018 were NOK 2.96 billion, up 39% from NOK 2.13 billion in 2Q 2017. Revenues for 1H 2018 were NOK 5.22 billion up from NOK 3.91 billion in 1H 2017. The growth compared to the corresponding periods of 2017 reflects the increased activity, especially at the Romanian yards but also gradually in Norway, mainly due to the progress of the expedition cruise vessels currently under construction.

Materials, subcontract costs and others were NOK 2.26 billion in 2Q 2018 up 67% from NOK 1.36 billion in 2Q 2017 while salaries and related costs were NOK 636 million in 2Q 2018 up 8% from NOK 587 million in 2Q 2017. Thus reflecting the increase in subcontractor and headcounts, primarily related to the higher activity at the yards located in Romania and Norway.

EBITDA before restructuring cost were negative NOK 62 million and NOK 61 million for 2Q 2018 and 1H 2018 respectively, down from positive NOK 60 million and NOK 100 million in the corresponding periods last year. The decrease is largely due to the reassessment of the net realisable value (NRV) of vessels held in inventory. The inventory includes two vessels classified as work in progress and one vessel classified as finished goods. The Group measures inventories at the lower of cost and NRV, where the NRV is the estimated selling price less the cost of completion and selling expenses. At 30 June 2018 the value of the vessels was reassessed to align the book value with the estimated NRV, with a negative impact on EBITDA before restructuring cost of NOK 122 million. The estimated NRV of the vessels is derived from ongoing negotiations to conclude a sale of one or more of the assets.

For the Group's shipyards in Norway, while workload in engineering and procurement remained high, yard utilization is gradually increasing as hulls from Romania started to arrive in 2018. In June 2018 Vard Sjøviknes successfully delivered the first luxury cruise vessel for Ponant and continue to maintain high workload as the second cruise hull for Ponant arrived in April 2018. At Vard Langsten construction on the pelagic trawler which was contracted in 2017 is ongoing. During the month of June, Vard Brevik delivered a modified PSV tailored to the Offshore Wind segment, and originally scheduled for delivery in 2016, to Island Diligence AS, an associated company of Island Offshore.

During 2Q 2018, Vard Group AS secured a new contract for the construction of three coast guard vessels for the Norwegian Defence Materiel Agency ("NDMA") in Norway to be delivered from Vard Langsten in 1Q 2022, 1Q 2023 and 1Q 2024 respectively. In addition during the quarter Vard Group AS secured a contract for the design and construction of one cable laying vessel for Prysmian Group, as well as two contracts for the design and construction of one stern trawler for Havfisk AS and one stern trawler for Nergård Havfiske AS. Furthermore at the beginning of the quarter, Vard Group AS signed a LOI for the design and construction of two cruise vessels for the cruise company Viking.

Romanian yards continue to record a very high workload, and are facing the high load situation by increasing headcount and adapting the organization. After delivering the first two hulls of the PONANT vessels to Vard Sjøviknes, Vard Tulcea is progressing with the construction of the other four expedition cruise vessels contracted in 2016. During the quarter, Vard Tulcea saw good progress with the four hull sections under construction for Fincantieri. During 2Q 2018 the Romanian yards successfully delivered three MCV vessels to Topaz Energy and Marine and are progressing with the construction of the last two vessel in the series.

Operations at the shipyard in Vung Tau continued to be stable as a result of good project execution on the MCV projects, and during the quarter Vard Vung Tau delivered the last two vessels in the series to Topaz Energy and Marine. The yard is also progressing with the construction of the expedition cruise vessel for Coral Expeditions of Australia, contracted during 2017.

During the quarter, Vard Promar in Brazil delivered one Pipelay Support Vessels (PLSV) to Dofcon Navegação (DOF and TechnipFMC). Following the delivery the yard has two projects under construction; the second PLSV for the same client as well as the sixth LPG Carrier for Transpetro. Rightsizing of the organization continued during the quarter, reflective of the continuing lack of work in early stages of production.

(a) Statement of comprehensive income (cont.)

The Group recognized restructuring cost of NOK 14 million during the quarter and NOK 25 million in 1H 2018, related to termination benefits and statutory payments for temporary redundancies, mainly in Norway and Brazil. The increase compared to the corresponding period last year is a consequence of the rightsizing of the Brazilian organization.

Depreciations and amortization were NOK 57 million in 2Q 2018 and NOK 115 million in 1H 2018 fairly stable compared to the corresponding periods of the previous year (2Q 2017: NOK 60 million, 1H 2017: NOK 113 million).

As a consequence of the items discussed above, the operating loss was equal to NOK 133 million in 2Q 2018 and NOK 201 million in 1H 2018 down from a loss of NOK 4 million in 2Q 2017 and NOK 23 million in 1H 2017.

The net financial items went down from negative NOK 49 million in 2Q 2017 to negative NOK 164 million in 2Q 2018 and from negative NOK 53 million in 1H 2017 to negative NOK 161 million in 1H 2018. The change is primarily related to foreign exchange gains and losses. In 1H 2018 there is a net foreign exchange loss of NOK 110 million, of which NOK 112 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 21 million.

For the aforementioned reasons, the loss for the period was NOK 295 million in 2Q 2018 and NOK 391 million in 1H 2018 (of which NOK 102 million represents the impact from the adjustment of NRV and NOK 112 million relates to the above mentioned foreign exchange loss on the USD loan in Vard Promar) compared to a loss of NOK 69 million in 2Q 2017 and NOK 96 million in 1H 2017.

(b) Statement of financial position:

Total assets were NOK 14.42 billion as of 30 June 2018, down from NOK 14.92 billion as of 31 December 2017.

Total non-current assets were NOK 4.02 billion as of 30 June 2018 marginally down from NOK 4.18 billion as of 31 December 2017 mainly due to reduction of book value of property, plant and equipment primarily because of the foreign exchange effects on the translation of the Brazilian operation from functional currency (BRL) to reporting currency (NOK) and due to the reduction of other non-current assets caused by the decreased value of non-current firm commitment on hedging derivatives related to certain projects in foreign currencies.

Total current assets were NOK 10.40 billion as of 30 June 2018, down from NOK 10.74 billion as of 31 December 2017, as a result of (i) decrease in inventory due to the previously mentioned reassessment of the net realisable value of vessels held in inventory and (ii) a marginal decrease of contract assets following delivery of a large vessel in 2Q 2018 offset by the progress of vessels under construction, as well as (iii) decrease in the positive fair value of current derivatives partially offset by increase of other current assets mainly stemming from increased prepayments.

Total non-current liabilities were NOK 2.08 billion as of 30 June 2018 down from NOK 2.22 billion as of 31 December 2017 due to the decrease in the negative fair value of non-current derivatives.

Total current liabilities have marginally increased from NOK 10.61 billion end of 31 December 2017 to NOK 10.68 billion end of 30 June 2018 as a net result of the decrease of construction loans (due to vessel deliveries in the period) offset by the increase of the loans and borrowings, current (as a result of the new short term cash lines signed in the period as further explained in the next section) and trade and other payables (mainly explained by the change in accrued expenses, related to the increased activity at the yards located in Romania and Norway).

(c) Statement of cash flows:

Cash flows from operating activities were NOK 304 million negative in 2Q 2018, compared to NOK 172 million negative in 2Q 2017. For 1H 2018 Cash flows from operating activities were NOK 566 million negative, compared to NOK 71 million positive for 1H 2017. Cash flows from operating activities can fluctuate significantly from period to period due to changes in working capital.

Cash flows used in investing activities amounted to NOK 48 million in 2Q 2018, compared to NOK 86 million in 2Q 2017. Cash flows used in investing activities were NOK 90 million in 1H 2018, compared to NOK 179 million in 1H 2017. Investments in property, plant and equipment during 2Q 2018 were mainly related to the continued expansion of facilities at Vard Tulcea.

Cash flows from financing activities were NOK 458 million positive in 2Q 2018, compared to NOK 30 million positive in 2Q 2017. For 1H 2018 the Group had a positive cash flow from financing activities of NOK 618 million, compared to positive NOK 86 million in 1H 2017. During 2Q 2018 the Group obtained a new EUR 10 million 3 years long term loan. The net proceeds from short-term facilities (NOK 363 million) during the quarter were mainly related to new cash lines totalling EUR 40 million and granted by both existing and new commercial banking relationships. Out of NOK 55 million in repayments of loans and borrowings during the first quarter of 2018, NOK 49 million relate to instalments paid on non-current loans.

Because of the aforementioned reasons, the cash and cash equivalents at the end of the financial period were equal to NOK 758 million for the period ended 30 June 2018 (30 June 2017: NOK 694 million).

9 VARIANCE FROM FORECAST STATEMENT

The Company has not disclosed any forecast to the market.

10 PROSPECTS

At the end of 2Q 2018, the order book value amounted to NOK 19.09 billion, up from NOK 13.23 billion at the end of 2017 and NOK 12.88 billion at the end of 2Q 2017. Aggregate order value at the end of the quarter was NOK 28.95 billion, and the order book comprised 44 vessels, of which 29 will be of VARD's own design. Order intake in the period was NOK 10.61 billion driven by the contract signed for the three coast guard vessels with NDMA.

VARD has received several contracts in the expedition cruise vessel market, however the competition remains strong.

Risks are still inherent in the Group's existing offshore project portfolio. The Group has postponed delivery of some projects and the Group currently holds three vessels in inventory as a result of clients that entered into bankruptcy proceedings in 2015 and 2016.

The difficult political and economic context and complex regulatory environment in Brazil, still represents a challenge to the Brazilian operation.

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

No

12 INTERESTED PERSON TRANSACTIONS

	Aggregate value of all interested person transactions during the financial period under review(excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
	2Q-2018 ended 30/06/18	1H-2018 ended 30/06/18	2Q-2018 ended 30/06/18	1H-2018 ended 30/06/18
Fincantieri Group				
Secondment of personnel to VARD	-	-	2	5
Contracts for manufacturing and outfitting of ship-parts to FINCANTIERI	-	-	730	730
Contract for delivery of accommodation package from Marine Interiors S.p.A.	-	-	301	301
Contract for delivery of equipment to FINCANTIERI	-	-	32	32
Contract for post-delivery activities for Vessel Kronprins Haakon to FINCANTIERI	-	-	19	19
Contract for delivery of electro package to FINCANTIERI	-	-	23	41
Total	-	-	1,108	1,129

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

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

14 CONFIRMATION BY THE BOARD

The Board of Directors hereby confirms that, to the best of its knowledge, nothing has come to its attention which may render the unaudited financial results for the second quarter ended 30 June 2018 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Mr Roy Reite
Executive Director & CEO
27 July 2018