

built on trust™



SECOND QUARTER 2014

FINANCIAL STATEMENTS

Published 22 July 2014

VARD™
a **Fincantieri** company

Vard Holdings Limited

Incorporated in Singapore | Company Registration No. 201012504K | Unaudited results for the second quarter ended 30 June 2014

TABLE OF CONTENTS

Paragraph	Description	Page
1	UNAUDITED FINANCIAL STATEMENTS	3
(a)(i)	Statement of Comprehensive Income (Group)	3
(a)(ii)	Notes to the Statement of Comprehensive Income	4
(b)(i)	Statement of Financial Position	5
(b)(ii)	Aggregate amount of Group's Borrowings and Debt Securities	6
(c)	Statement of Cash Flows (Group)	7
(d)(i)	Statements of Changes in Equity	8
(d)(ii)	Share Capital	9
(d)(iii)	Number of Issued Shares excluding Treasury Shares	9
(d)(iv)	Sales, Transfers, Disposals, Cancellations and/or use of Treasury Shares	9
2	AUDIT	10
3	AUDITORS' REPORT	10
4	ACCOUNTING POLICIES	10
5	CHANGES IN ACCOUNTING POLICIES	10
6	EARNINGS PER ORDINARY SHARE	11
7	NET ASSETS VALUE PER ORDINARY SHARE	11
8	REVIEW OF GROUP PERFORMANCE	12
9	VARIANCE FROM FORECAST STATEMENT	14
10	PROSPECTS	14
11	DIVIDEND	14
12	INTERESTED PERSON TRANSACTIONS	15
13	CONFIRMATION BY THE BOARD	15

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS

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

	Group			Group		
	2Q-2014 ended 30/06/14	2Q-2013 ended 30/06/13	Change %	1H-2014 ended 30/06/14	1H-2013 ended 30/06/13	Change %
Revenue	2,942	2,945	-0.1%	5,614	5,692	-1.4%
Materials, subcontract costs and others	(1,993)	(2,163)	-7.9%	(3,792)	(3,986)	-4.9%
Salaries and related costs	(611)	(518)	18.0%	(1,163)	(1,003)	16.0%
Other operating expenses	(149)	(143)	4.2%	(299)	(278)	7.6%
EBITDA	189	121	56.2%	360	425	-15.3%
Depreciation, impairment and amortization	(49)	(101)	-51.5%	(97)	(130)	-25.4%
Operating profit	140	20	600.0%	263	295	-10.8%
Financial income	11	15	-26.7%	44	37	18.9%
Financial costs	(1)	1	n/m	(40)	(33)	21.2%
Net	10	16	-37.5%	4	4	n/m
Share of results of associates	5	(1)	n/m	7	-	n/m
Profit before tax	155	35	342.9%	274	299	-8.4%
Income tax expense	(50)	(79)	-36.7%	(84)	(163)	-48.5%
Profit for the period	105	(44)	n/m	190	136	39.7%
Profit for the period attributable to:						
Equity holders of the Company	140	(20)	n/m	232	168	38.1%
Non-controlling interest	(35)	(24)	45.8%	(42)	(32)	31.3%
Profit for the period	105	(44)	n/m	190	136	39.7%
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	(46)	36	n/m	(60)	54	n/m
Income tax on other comprehensive income	-	(1)	n/m	-	(1)	n/m
Other comprehensive income for the period, net of income tax	(46)	35	n/m	(60)	53	n/m
Total comprehensive income for the period	59	(9)	n/m	130	189	-31.2%
Total comprehensive income attributable to:						
Equity holders of the Company	94	15	526.7%	179	221	-19.0%
Non-controlling interest	(35)	(24)	45.8%	(49)	(32)	53.1%
Total comprehensive income for the period	59	(9)	n/m	130	189	-31.2%

Notes:

(*) N/M - Not meaningful.

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

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(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-2014 ended 30/06/14	2Q-2013 ended 30/06/13	Change %	1H-2014 ended 30/06/14	1H-2013 ended 30/06/13	Change %
Interest income	6	9	n/m	16	18	-11.1%
Dividend income	2	-	n/m	2	-	n/m
Foreign exchange gain	(1)	5	n/m	19	18	5.6%
Other financial income	4	1	n/m	7	1	n/m
Financial income	11	15	-26.7%	44	37	18.9%
Interest expense	(1)	(5)	n/m	(2)	(6)	n/m
Foreign exchange loss ¹⁾	(1)	6	n/m	(38)	(26)	46.2%
Other financial expenses	1	-	n/m	-	(1)	n/m
Financial expenses	(1)	1	n/m	(40)	(33)	21.2%
Net financial items	10	16	-37.5%	4	4	n/m
Depreciation of property, plant and equipment	(48)	(30)	1	(95)	(59)	61.0%
Amortization of intangibles	(1)	(1)	n/m	(1)	(1)	n/m
Impairment charges	-	(70)	n/m	(1)	(70)	-98.6%
Depreciation, impairment charges and amortization	(49)	(101)	-51.5%	(97)	(130)	-25.4%
Bad debt	(3)	11	n/m	(3)	10	n/m
Provisions for doubtful debts	(2)	(14)	-85.7%	2	(7)	n/m
Allowance for doubtful debts and bad debts written off / -back	(5)	(3)	n/m	(1)	3	n/m

¹⁾ Due to a reduction in foreign unrealized loss as of Q2 2013 compared to as of Q1 2013 the net change in the quarter represents a "negative loss".

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(i) Statement of Financial Position

	Group			Company		
	As at 30/06/14	As at 31/12/13	Change %	As at 30/06/14	As at 31/12/13	Change %
Property, plant and equipment	2,313	2,167	6.7%	-	-	n/m
Intangible assets	305	305	0.0%	-	-	n/m
Investment in subsidiary	-	-	n/m	2,142	2,142	0.0%
Investment in associates	412	383	7.6%	-	-	n/m
Other investments	62	62	0.0%	-	-	n/m
Interest-bearing receivables, non-current	124	201	-38.3%	632	600	5.3%
Other receivables	79	80	-1.3%	-	-	n/m
Deferred tax assets	83	79	5.1%	-	-	n/m
Pension assets	2	4	n/m	-	-	n/m
TOTAL NON-CURRENT ASSETS	3,380	3,281	3.0%	2,774	2,742	1.2%
Inventories	441	382	15.4%	-	-	n/m
Construction WIP in excess of prepayments	5,441	6,136	-11.3%	-	-	n/m
Trade and other receivables	2,545	2,076	22.6%	22	34	-35.3%
Interest-bearing receivables, current	70	51	37.3%	-	-	n/m
Cash and cash equivalents	1,825	1,745	4.6%	77	49	57.1%
TOTAL CURRENT ASSETS	10,322	10,390	-0.7%	99	83	19.3%
TOTAL ASSETS	13,702	13,671	0.2%	2,874	2,825	1.7%
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	167	167	0.0%	-	19	n/m
Retained earnings	2,752	2,573	7.0%	137	68	101.5%
Total equity attributable to equity holders of the Comp.	3,867	3,688	4.9%	2,864	2,814	1.8%
Non-controlling interest	(29)	20	n/m	-	-	n/m
TOTAL EQUITY	3,838	3,708	3.5%	2,864	2,814	1.8%
Loans and borrowings, non-current	713	673	5.9%	-	-	n/m
Deferred tax liabilities	60	61	-1.6%	2	-	n/m
Pension liability	3	3	n/m	-	-	n/m
Other payables	32	32	0.0%	-	-	n/m
Provisions, non-current	108	114	-5.3%	-	-	n/m
TOTAL NON-CURRENT LIABILITIES	916	883	3.7%	2	-	n/m
Loans and borrowings, current	276	305	-9.5%	-	-	n/m
Construction loans	4,944	4,707	5.0%	-	-	n/m
Prepayments in excess of construction WIP	1,036	991	4.5%	-	-	n/m
Trade and other payables	2,320	2,625	-11.6%	5	8	n/m
Income tax payable	129	202	-36.1%	3	3	n/m
Provisions, current	238	249	-4.4%	-	-	n/m
Other current liabilities	5	1	n/m	-	-	n/m
TOTAL CURRENT LIABILITIES	8,948	9,080	-1.5%	8	11	-27.3%
TOTAL LIABILITIES	9,864	9,963	-1.0%	10	11	-9.1%
TOTAL EQUITY AND LIABILITIES	13,702	13,671	0.2%	2,874	2,825	1.7%

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	As at 30.06.14		As at 31.12.13	
	Secured	Unsecured	Secured	Unsecured
Loans and borrowings, current	276	-	305	-
Construction loans *	4,944	-	4,707	-
Other current liabilities	-	5	-	1
Total Amount repayable in one year or less, or on demand	5,220	5	5,012	1
* Construction loans are in general treated as short term maturing on vessel delivery.				
Loans and borrowings, non-current	713	-	673	-
Total Amount repayable after one year	713	-	673	-
Total	5,933	5	5,685	1

Details of debt secured by collaterals¹⁾

The secured portion of the Group's borrowings and debt securities includes the long term loans from "Innovation Norway" (a state-owned entity which promotes industrial development in Norway) which are secured by mortgages of an aggregate value of NOK 250 million. The loans are secured by investments, fixed assets such as property, plant and equipment as well as the dock at the Langsten yard.

Vard Singapore Pte Ltd has a long term loan investment facility of USD 15 million (NOK 90 million). The loan is used towards financing of investments in its Vietnam subsidiary. The loan is secured by pledge of the shares in Vard Vung Tau Ltd.

Vard Promar SA has a long term yard construction loan facility of USD 83.6 million (NOK 500 million). The loan is secured by mortgage in non-current assets, plant and equipment as well as the pledge of Vard Promar shares and parent company guarantees.

Vard Niteroi SA has credit facilities denominated in USD totalling 18 million (NOK 108 million) and credit facilities denominated in BRL totalling 27 million (NOK 72 million). The loans are secured by fiduciary lien of equipment.

Vessels under construction generally have a construction loan where the vessel itself functions as security.

¹⁾Facilities have been translated to NOK based on the exchange rates prevailing at the reporting date.

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(c) Statement of Cash Flows (Group)

	Group		Group	
	2Q-2014 ended 30/06/14	2Q-2013 ended 30/06/13	1H-2014 ended 30/06/14	1H-2013 ended 30/06/13
OPERATING ACTIVITIES				
Profit before tax	155	35	274	299
Adjustments for:				
Net interest income	(5)	(4)	(14)	(12)
Unrealised foreign exchange gain/loss	(35)	40	(66)	34
Depreciation, impairment and amortization	49	101	97	130
Change in pension assets and liabilities	-	(1)	1	-
Share-based payment expenses	-	8	-	10
Share of results of associates	(5)	1	(7)	-
Operating cash flows before movements in working capital	159	180	285	461
Inventories	(42)	34	(59)	77
Construction work in progress	1,177	(150)	740	(334)
Proceeds from construction loans	1,002	1,515	5,007	3,929
Repayment of construction loans	(1,842)	(1,110)	(4,769)	(4,037)
Trade and other receivables, incl. other interest bearing receivables	(298)	224	(537)	93
Trade and other payables, incl. other liabilities	(177)	(251)	(301)	194
Provisions	(16)	(193)	(17)	(238)
Cash generated from / (used in) operations	(37)	249	349	145
Interest received	3	13	7	15
Interest paid	(1)	-	(2)	-
Income tax paid	(88)	(204)	(166)	(437)
Cash flows from/ (used in) operating activities	(123)	58	188	(277)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(116)	(166)	(188)	(312)
Purchase of intangible assets	(2)	-	(3)	-
Issuance of new non-current interest bearing receivables	(10)	(1)	(20)	(1)
Proceeds from repayment of non-current interest bearing receivables	19	-	96	-
Issuance of new short-term interest-bearing receivables	(13)	-	(19)	-
Acquisition of equity interest in associates	(11)	-	(22)	-
Changes in other investments	-	(9)	-	(15)
Cash flows used in investing activities	(133)	(176)	(156)	(328)
FINANCING ACTIVITIES				
Proceeds from loans and borrowings	92	153	116	189
Repayment of loans and borrowings	(107)	(9)	(133)	(19)
Cash subscribed by non-controlling shareholders	-	4	-	4
Purchase of non-controlling interest in subsidiary	-	(2)	-	(2)
Cash settlement of employee share options	-	(7)	-	(7)
Cash flows from/ (used in) financing activities	(15)	139	(17)	165
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(271)	21	15	(440)
Effects of currency translation difference on cash and cash equivalents	(2)	(4)	(4)	9
Cash and cash equivalents excl. restricted cash at beginning of financial period	1,947	1,969	1,663	2,418
Cash and cash equivalents excl. restricted cash at end of financial period	1,674	1,986	1,674	1,986
Restricted cash at end of financial period	151	54	151	54
Cash and cash equivalents at end of financial period	1,825	2,040	1,825	2,040

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

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	Share option reserve	Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non- controlling Interest	Total Equity
At 1 January 2014	4,138	(3,190)	-	167	-	2,573	3,688	20	3,708
<i>Comprehensive income</i>									
Profit for the period	-	-	-	-	-	232	232	(42)	190
Other comprehensive income	-	-	-	-	-	(53)	(53)	(7)	(60)
Total comprehensive income	-	-	-	-	-	179	179	(49)	130
At 30 June 2014	4,138	(3,190)	-	167	-	2,752	3,867	(29)	3,838
At 1 January 2013	4,138	(3,190)	(177)	173	19	2,188	3,151	65	3,216
<i>Comprehensive income</i>									
Profit for the period	-	-	-	-	-	168	168	(32)	136
Other comprehensive income	-	-	53	-	-	-	53	-	53
Total comprehensive income	-	-	53	-	-	168	221	(32)	189
<i>Transactions with owners</i>									
Cost of share-based payments	-	-	-	-	9	-	9	-	9
Cancellation of option scheme	-	-	-	-	(19)	12	(7)	-	(7)
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	(1)	(1)
Cash subscribed by non- controlling shareholders	-	-	-	-	-	-	-	4	4
Changes in non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Total transaction with owners	-	-	-	-	(10)	12	2	2	4
At 30 June 2013	4,138	(3,190)	(124)	173	9	2,368	3,374	35	3,409

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(i) Statements of
Changes in Equity

Company	Paid up Capital	Restructu- ring Reserve	Share option reserve	Retained Earnings	Total Equity
At 1 January 2014	4,138	(1,411)	0	118	2,845
<i>Comprehensive income</i>					
Profit for the period	-	-	-	19	19
Total comprehensive income for the period	-	-	-	19	19
At 30 June 2014	4,138	(1,411)	0	137	2,864
At 1 January 2013	4,138	(1,411)	17	60	2,804
<i>Comprehensive income</i>					
Profit for the period	-	-	-	16	16
Total comprehensive income for the period	-	-	-	16	16
<i>Transactions with owners</i>					
Cancellation of option scheme	-	-	(17)	10	(7)
Cost of share-based payments	-	-	9	-	9
Total transactions with owners	-	-	(8)	10	2
At 30 June 2013	4,138	(1,411)	9	86	2,822

(d)(ii) Share Capital

There were no ordinary shares issued in 2Q 2014. There are no treasury shares.

Share Options

All outstanding options expired on 13 August 2013. Consequently there were no outstanding options to subscribe for shares as at 30 June 2014 (30 June 2013: 6,130,000).

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

The number of issued shares (excluding treasury shares) as at 30 June 2014 is 1,180,000,000 ordinary shares (31 December 2013: 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

Except as disclosed in paragraph 5, 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 2013.

5 CHANGES IN ACCOUNTING POLICIES

On 1 January 2014, the Group adopted the following new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

FRS 110 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

FRS 110 replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". The same criteria are now applied to all entities to determine control. Additional guidance is also provided to assist in the determination of control where this is difficult to assess.

FRS 112 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

FRS 112 requires disclosure of information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in (1) subsidiaries, (2) associates, (3) joint arrangements and (4) unconsolidated structured entities.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

Second Quarter 2014 Financial Statements

UNAUDITED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

(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-2014 ended 30/06/14	2Q-2013 ended 30/06/13	Change %	1H-2014 ended 30/06/14	1H-2013 ended 30/06/13	Change %
(i) Earnings for the period (in NOK millions)	140	-20	n/m	232	168	38.1%
Earnings for the period (in SGD millions)	28	-4	n/m	47	36	30.6%
Weighted average number of shares (in millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
(ii) Earnings per share (NOK)	0.12	-0.02	n/m	0.20	0.14	42.9%
Earnings per share (SGD cents)	2.37	-0.34	n/m	3.98	3.05	30.5%
(iii) Diluted earnings per share (NOK)	0.12	-0.02	n/m	0.20	0.14	42.9%
Diluted earnings per share (SGD cents)	2.37	-0.34	n/m	3.98	3.05	30.5%
Adjusted weighted average number of shares (in millions)	1,180	1,181	-0.1%	1,180	1,181	-0.1%
Exchange rates:	30/06/14	30/06/13		30/06/14	30/06/13	
SGD/NOK	4.930	4.606	7.0%	4.930	4.606	7.0%

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

7 NET ASSETS VALUE PER ORDINARY SHARE

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

	Group			Company		
	As at 30/06/14	As at 31/12/13	Change %	As at 30/06/14	As at 31/12/13	Change %
Net assets value at the end of the period (NOK millions)	3,867	3,688	4.9%	2,864	2,843	0.7%
Net assets value at the end of the period (SGD millions)	784	767	2.2%	581	591	-1.7%
Number of shares (millions)	1,180	1,180	0.0%	1,180	1,180	0.0%
Net assets value per ordinary share (NOK)	3.28	3.13	4.8%	2.43	2.41	0.8%
Net assets value per ordinary share (SGD)	0.66	0.65	1.5%	0.49	0.50	-2.0%
Exchange rates:	30/06/14	31/12/13		30/06/14	31/12/13	
SGD/NOK	4.930	4.809	2.5%	4.930	4.809	2.5%

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:

The revenues for the second quarter 2014 were NOK 2.94 billion, in line with the NOK 2.95 billion in the corresponding period of 2013. VARD delivered seven vessels during the second quarter and secured contracts for five newbuildings. For the half year ended 30 June 2014 revenues were slightly down ending at NOK 5.61 billion compared to NOK 5.69 billion for the corresponding period of 2013.

Compared to the same quarter in the previous year, the profitability of the group has recovered, and is in line with the results recorded in the previous quarter. Operating profit for the second quarter was NOK 140 million, up from NOK 20 million in the corresponding period of 2013. The operating margin for the quarter, representing operating profit to total revenues, was 4.8%. The EBITDA margin, representing EBITDA to total revenues was 6.4%. For the corresponding period last year, the operating margin and EBITDA margin were 0.7% and 4.1% respectively. On a year to date basis operating profit was NOK 263 million down from NOK 295 million in first half of 2013. The operating margin and EBITDA margin was 4.7% and 6.4% respectively compared to 5.2% and 7.5% in the corresponding period of 2013.

Profit before tax was NOK 155 million, up from NOK 35 million in the corresponding period of 2013. With an effective tax rate of 32.3%, profit after tax came in at NOK 105 million. For the second quarter of 2013, the profit after tax was negative NOK 44 million. For the half year period ended 30 June 2014 profit before tax was 274 million, down from 299 million in the corresponding period of 2013. The profit after tax was 190 million, up from 136 million in the prior year. The prior year after tax profit was impacted by the very high effective tax rate resulting from the loss in Brazil, and impairment of goodwill which did not have a tax effect.

At NOK 2.70 billion, new order intake during the quarter was at a healthy level, ensuring that the order book length and overall activity levels remain strong. Both Romania and Norwegian shipyards display generally stable operations, with continued efforts to drive down cost and increase competitiveness especially in Romania. Yard utilization in Norway is subject to variations though due to an uneven project flow. The yard in Vietnam is experiencing high activity and expanding operations.

While Vard Niterói has successfully delivered two vessels during the quarter, operations in Brazil continue to be challenging. At Niterói, two more delayed vessels remain to be delivered from the original order book, while two LPG tankers from the Vard Promar orderbook have been moved to Niterói for outfitting. The workforce in steel fabrication and hull construction is being reduced as the production profile at the yard changes and some activities are scaled down. At the same time, the new Vard Promar yard has seen a rapid increase in its workforce, adding about 500 employees between February and May, many of which are still in training and not yet fully integrated into the work flow, resulting in temporarily lower productivity. Additional resources are being mobilized to support the ramp-up of operations and implement measures to improve productivity. Throughput and productivity development in 2Q 2014 were hampered by adverse climatic conditions and country-wide protests in Brazil, triggering additional cost to mitigate impact on the delivery schedule.

8 REVIEW OF GROUP PERFORMANCE (cont.)

(b) Statement of financial position:

Total assets at the end of second quarter 2014 in line with total assets at the end of 2013 of NOK 13.7 billion.

With the delivery of seven vessels during the quarter construction work in progress decreased by 11.3% from NOK 6.14 billion to NOK 5.44 billion when comparing 30 June 2014 to 31 December 2013. At the same time trade and other receivables increased by 22.6% from NOK 2.08 billion to NOK 2.55 billion. Cash and cash equivalents increased by NOK 80 million to NOK 1.83 billion at the end of second quarter 2014. Of the total cash and bank deposits as of 30 June 2014, NOK 151 million relates to restricted bank deposits and restricted bank accounts for employees' tax deduction compared to NOK 82 million as of 31 December 2013.

Construction loans increased by 5.0% to NOK 4.94 billion from NOK 4.71 billion when comparing year end 2013 to end of second quarter 2014. Trade and other payables decreased by 11.6% to NOK 2.32 billion and construction work in progress have increased by 4.5% to NOK 1.04 billion versus NOK 2.63 billion and NOK 1.0 billion respectively as of year-end 2013. The movements in these items relates to on-going projects and ordinary business in general.

Total interest-bearing liabilities, excluding construction loans amounted to NOK 989 million at 30 June 2014, up from NOK 978 million at year end 2013. The construction of the new shipyard in Brazil is now complete with only the mounting of the gantry crane remaining.

(c) Statement of cash flows:

The cash flow from operating activities was negative NOK 123 million for the second quarter of 2014, compared to positive NOK 58 million in the corresponding period of 2013. However, year to date 2014 cash flow from operating activities was positive NOK 188 million compared to negative NOK 277 million year to date 2013. Cash flow from operating activities can fluctuate significantly from period to period due to changes in working capital.

Cash flows used for investing activities for the second quarter of 2014 amounted to NOK 133 million, down from NOK 176 million in the corresponding period of 2013. The reduction is in line with the completion of the investments in Romania, as well as the new shipyard in Brazil.

Cash flows from financing activities for the first quarter of 2014 amounted to negative NOK 15 million which is the net effect of proceeds and repayments of loans and borrowings. The corresponding amount in the first quarter of 2013 was positive NOK 139 million.

During the second quarter of 2014, the net decrease in cash and cash equivalents by NOK 271 million was due to the aforementioned reasons.

9 VARIANCE FROM FORECAST STATEMENT

The Company has not disclosed any forecast to the market. The result for this quarter is in line with the commentary made in paragraph 10 of the previous quarter.

10 PROSPECTS

At the end of second quarter 2014, the order book value amounted to NOK 21.61 billion, slightly down from NOK 21.84 billion at the end of first quarter 2014. At the end of the quarter, the aggregate order value was NOK 29.63 billion, and the order book comprised 43 vessels, of which 27 will be of VARD's own design.

Against the backdrop of an industry-wide trend towards more cost efficient assets, in the near to medium term VARD sees strongest demand for highly specialized OSCVs and subsea support vessels, while day rates in the North Sea – the Group's core market for offshore support vessels – are under pressure. VARD's order flow is supported by a growing and more international client base, but new order intake in the second half of 2014 is expected to be slower than in 1H 2014. However, the existing order book ensures high visibility and good yard utilization.

The Group's focus in Europe will be on cost efficiency in order to retain competitiveness amid strong international competition. In Brazil, an improvement in throughput and productivity development is critical to reach production targets at the new yard Vard Promar.

The recent acquisition, and integration into Vard Marine, of the leading ship design and engineering company in North America is a key step for VARD towards expansion in that market, and also strengthens its capabilities to serve clients world-wide through sales of design and equipment packages.

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

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-2014 ended 30/06/14	1H-2014 ended 30/06/14	2Q-2014 ended 30/06/14	1H-2014 ended 30/06/14
Fincantieri Group				
Secondment of personell to VARD	1	1	-	-
Total	1	1	-	-

13 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 2014 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Mr Roy Reite
Executive Director & CEO
22 July 2014