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CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2018

VARD™
a Fincantieri company

Vard Holdings Limited
Incorporated in Singapore | Company Registration No. 201012504K

Vard Holdings Limited and its subsidiaries
(Incorporated in Singapore)

VARD a Fincantieri company

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2018
(All amounts in NOK millions unless otherwise stated)

		Group		Company	
	Note	As at 31/03/18	As at 31/12/17 *Restated*	As at 31/03/18	As at 31/12/17
ASSETS					
Non-current assets					
Property, plant and equipment	3	2,529	2,629	-	-
Intangible assets	4	474	477	-	-
Investment in subsidiary		-	-	3,518	3,518
Investment in associates		192	192	-	-
Other investments		12	12	-	-
Interest-bearing receivables, non-current		579	581	-	-
Non-current derivatives		2	-	-	-
Other non-current assets		155	158	-	-
Deferred tax assets		150	128	-	-
Total non-current assets		**4,093**	**4,177**	**3,518**	**3,518**
Current assets					
Inventories	5	2,091	2,100	-	-
Contract assets	6	7,246	6,529	-	-
Trade and other receivables		913	834	109	92
Current derivatives		16	84	-	-
Other current assets		52	62	-	-
Interest-bearing receivables, current		316	322	-	-
Cash and cash equivalents		632	810	1	1
Total current assets		**11,266**	**10,741**	**110**	**93**
Total assets		**15,359**	**14,918**	**3,628**	**3,611**
EQUITY AND LIABILITIES					
Equity					
Paid up capital		4,138	4,138	4,138	4,138
Restructuring reserve		(3,190)	(3,190)	(1,411)	(1,411)
Other reserves		(847)	(841)	-	-
Retained earnings		1,841	1,955	463	450
Total equity attributable to equity holders of the Company		**1,942**	**2,062**	**3,190**	**3,177**
Non-controlling interests		38	25	-	-
Total equity		**1,980**	**2,087**	**3,190**	**3,177**
Non-current liabilities					
Loans and borrowings, non-current	7	967	1,045	-	-
Deferred tax liabilities		92	89	-	-
Non-current derivatives		137	168	-	-
Other non-current liabilities		817	831	-	-
Provisions, non-current	9	88	87	-	-
Total non-current liabilities		**2,101**	**2,220**	**-**	**-**
Current liabilities					
Loans and borrowings, current	7	1,054	872	432	431
Construction loans	7	6,131	5,652	-	-
Contract liabilities	6	848	715	-	-
Trade and other payables		2,158	2,051	2	1
Current derivatives		258	363	-	-
Income tax payable		53	51	-	-
Provisions, current	9	98	98	-	-
Other current liabilities		678	809	4	2
Total current liabilities		**11,278**	**10,611**	**438**	**434**
Total liabilities		**13,379**	**12,831**	**438**	**434**
Total equity and liabilities		**15,359**	**14,918**	**3,628**	**3,611**

The accompanying notes form an integral part of the condensed consolidated interim financial information.
The Group has adopted 'Singapore Financial Reporting Standards International' (SFRS(I)s) on 1 January 2018. Please refer to note 2 (e) for the details on the impact from the adoption with respect to the restated full year ended 31 December 2017 financial statements.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the first quarter ended 31 March 2018

(All amounts in NOK millions unless otherwise stated)

	Note	1Q-2018 ended 31/03/18	1Q-2017 ended 31/03/17
Revenue	10	2,266	1,777
Materials and subcontract costs		(1,550)	(1,057)
Salaries and related costs	11	(585)	(540)
Other operating expenses		(130)	(140)
Depreciation, impairment and amortization		(58)	(53)
Restructuring cost	18	(11)	(6)
Operating profit / (loss)		**(68)**	**(19)**
Financial income	8	163	96
Financial costs	8	(160)	(100)
Net		**3**	**(4)**
Share of results of associates, net of tax		-	-
Profit / (loss) before tax		**(65)**	**(23)**
Income tax expense		(31)	(4)
Profit / (loss) for the period		**(96)**	**(27)**
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(62)	(4)
Net fair value change in cash flow hedge		58	6
Income tax on other comprehensive income		(2)	(9)
Items that may not be reclassified subsequently to profit or loss:			
Share of other comprehensive income in associated companies		-	-
Other comprehensive income for the period, net of income tax		**(6)**	**(7)**
Total comprehensive income / (loss) for the period		**(102)**	**(34)**
Profit / (loss) for the period attributable to:			
Equity holders of the Company		(109)	(25)
Non-controlling interests		13	(2)
Profit / (loss) for the period		**(96)**	**(27)**
Total comprehensive income / (loss) attributable to:			
Equity holders of the Company		(115)	(31)
Non-controlling interests		13	(3)
Total comprehensive income / (loss) for the period		**(102)**	**(34)**
Earnings / (loss) per share (expressed in NOK)			
Attributable to Equity holders of the Company			
Basic	12	(0.09)	(0.02)
Diluted	12	(0.09)	(0.02)

The accompanying notes form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the first quarter ended 31 March 2018

(All amounts in NOK millions unless otherwise stated)

			Other reserves						
	Paid up Capital	Restructu-ring Reserve	Currency Translation Reserve	Fair Value Reserve	Other Reserves	Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non-controlling Interest	Total Equity
At 1 January 2017	**4,138**	**(3,190)**	**159**	**2**	**(1,002)**	**1,961**	**2,068**	**25**	**2,093**
Adoption of SFRS(I) 15 - *note 2 (e)*	-	-	-	-	-	(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 - *note 2 (e)*	-	-	-	-	-	(5)	(5)	-	(5)
At 1 January 2018 (as restated)	**4,138**	**(3,190)**	**159**	**2**	**(1,002)**	**1,950**	**2,057**	**25**	**2,082**
Comprehensive income									
Loss for the period	-	-	-	-	-	(109)	(109)	13	(96)
Other comprehensive income / (loss)	-	-	(50)	44	-	-	(6)	-	(6)
Total comprehensive income / (loss)	**-**	**-**	**(50)**	**44**	**-**	**(109)**	**(115)**	**13**	**(102)**
At 31 March 2018	**4,138**	**(3,190)**	**109**	**46**	**(1,002)**	**1,841**	**1,942**	**38**	**1,980**

			Other reserves						
	Paid up Capital	Restructu-ring Reserve	Currency Translation Reserve	Fair Value Reserve	Other Reserves	Retained Earnings	Total Equity Attributable To Equity Holders of the Company	Non-controlling Interest	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 period	-	-	-	-	-	(25)	(25)	(2)	(27)
Other comprehensive income / (loss)	-	-	(3)	(3)	-	-	(6)	(1)	(7)
Total comprehensive income / (loss)	**-**	**-**	**(3)**	**(3)**	**-**	**(25)**	**(31)**	**(3)**	**(34)**
At 31 March 2017	**4,138**	**(3,190)**	**160**	**(41)**	**(1,002)**	**2,169**	**2,234**	**27**	**2,261**

The accompanying notes form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the first quarter ended 31 March 2018

(All amounts in NOK millions unless otherwise stated)

	Note	1Q-2018 ended 31/03/18	1Q-2017 ended 31/03/17
Operating activities			
Profit (loss) before tax		(65)	(23)
Adjustments for:			
Net interest expense		14	5
Unrealised foreign exchange gain/loss		(52)	(13)
Depreciation, impairment and amortization		58	53
Operating cash flows before movements in working capital		**(45)**	**22**
Inventories		9	(103)
Contract assets and liabilities		(621)	520
Proceeds from construction loans		747	285
Repayment of construction loans		(160)	(129)
Other working capital assets		28	(233)
Other working capital liabilities		(174)	(90)
Provisions		1	(17)
Cash generated from / (used in) operations		**(215)**	**255**
Interest received		9	8
Interest paid		(15)	(11)
Income tax paid		(45)	(9)
Cash flows from/ (used in) operating activities		**(266)**	**243**
Investing activities			
Purchase of property, plant and equipment		(40)	(88)
Purchase of intangible assets		(2)	(4)
Issuance of new non-current interest bearing receivables		4	-
Acquisition of subsidiary, net of cash acquried		-	(1)
Cash flows used in investing activities		**(38)**	**(93)**
Financing activities			
Proceeds from loans and borrowings		444	103
Repayment of loans and borrowings		(284)	(47)
Cash flows from financing activities	7	**160**	**56**
Net increase in cash and cash equivalents		**(144)**	**206**
Effects of currency translation difference on cash and cash equivalents		(10)	3
Cash and cash equivalents at beginning of financial year		708	618
Cash and cash equivalents at end of the period		**554**	**827**
Restricted cash at end of the period		78	81
Cash and cash equivalents at end of the period including restricted cash		**632**	**908**

The accompanying notes form an integral part of the condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the first quarter ended 31 March 2018
(All amounts in NOK millions unless otherwise stated)

These notes form an integral part of and should be read in conjunction with the accompanying condensed consolidated interim financial information.

The condensed consolidated interim financial information were authorized for issue by the Board of Directors on 3 June 2018.

1. Corporate information

(a) General information

The Company (Registration No. 201012504K) is a company incorporated in Singapore. The address of its registered office is at 6 Battery Road, #10-01, Singapore 049909.

The condensed consolidated interim financial information of the Group as at and for the three months ended 31 March 2018 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 period 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.

2. Basis of preparation of condensed interim financial report

(a) Statement of compliance

The Condensed Consolidated Interim Financial Information have been prepared in accordance with SFRS(I) 1-34 - Interim Financial Reporting. SFRS(I) 1-34 allows the preparation of interim financial statements in a condensed format, therefore the Condensed Consolidated Interim Financial Information must be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017.

Except for changes in accounting policies disclosed in note 2 (e) below, the Group has applied the same accounting policies and methods of computation in the financial information for the current financial period compared with those of the audited financial statements for the year ended 31 December 2017.

(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

A full description of the use of accounting estimates can be found in the Consolidated Financial Statements as at 31 December 2017. Certain valuation processes, particularly the more complex ones, such as the determination of any impairment of non-current assets, are generally carried out in full only at the time of preparing the annual financial statements when all the necessary information is available, unless there are indicators of impairment that require the immediate assessment of any impairment losses.

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.

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 March 2018 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.

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.

During the three months ended 31 March 2018 there was no changes in the key assumption on which management has based its cash flow projections and in the discount rates used for the impairment assessments of goodwill performed as at 31 December 2017. In the first quarter 2018 there was no changes in the assumptions based on which the recoverable amount of the property, plant and equipment at Vard Promar was assessed as at 31 December 2017.

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. During first quarter 2018 no events occurred that would have required further reductions of the net relizable value.

(e) 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 first set of financial information under SFRS(I)s 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. Further information on impacts from the adoption of the new SFRS(I)s are disclosed below.

<u>Adoption of SFRS(I) equivalent of IFRS 9</u>

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.

<u>SFRS(I) 9 Financial Instruments – Accounting policies applied from 1 January 2018</u>

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets
Under SFRS(I) 9, on initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") – debt investment, FVOCI – equity investment, or fair value through profit or loss ("FVTPL"). The classification of financial assets under SFRS (I) 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.
– Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
– Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
– Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
– Equity investments at FVOCI are subsequently measured at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

ii. Impairment of financial assets
Under SFRS(I) 9, loss allowances are measured on either of the following bases:
– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:
– debt securities that are determined to have low credit risk at the reporting date; and
– other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

iii. Hedge accounting
The Group has elected to adopt the new general hedge accounting model in SFRS (9). This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases.

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 1Q 2017, hence the Group's Statement of Comprehensive Income was not restated.

SFRS(I) 15 Revenue from Contracts with Customers – Accounting policies

Revenue is recognised upon the satisfaction of performance obligations, which occurs when control of the good or service transfers to the customer. Control can be transferred at a point in time or over time. The Group has determined that for construction-type contracts, the customer controls all of the work in progress as the products are being manufactured. This is because under those contracts the assets are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Therefore, revenue from these contracts and the associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises.

The progress toward satisfaction of a performance obligation that is satisfied over time is measured generally by reference to the ratio of contract costs incurred to date to the estimated total costs for the contract.

Contracts that are entered into at or near the same time with the same customer are combined into a one single contract when at least one of the following criteria are met: (i) the contracts are negotiated as a package with a single commercial objective, (ii) the amount of consideration to be paid in one contract depends on the price or performance of the other contract, (iiI) the goods or services promised in the contracts are a single performance obligation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the first quarter ended 31 March 2018
(All amounts in NOK millions unless otherwise stated)

3. Property, plant and equipment

Group	Machinery and vehicles	Buildings	Land and land leasehold improvements	Quays/ docks	Assets under construction	Total
Cost						
At 1 January 2018	1,695	1,914	121	537	116	4,383
Additions	32	2	-	-	-	34
Disposals	-	-	-	-	-	-
Reclassifications	50	1	-	-	(49)	2
Currency translation differences	(46)	(60)	(3)	(15)	1	(123)
At 31 March 2018	**1,731**	**1,857**	**118**	**522**	**68**	**4,296**
Accumulated depreciation and impairment						
At 1 January 2018	982	669	4	99	-	1,754
Depreciation	32	15	-	4	-	51
Impairment losses	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Currency translation differences	(22)	(15)	-	(1)	-	(38)
At 31 March 2018	**992**	**669**	**4**	**102**	**-**	**1,767**
Carrying amounts						
At 1 January 2018	**713**	**1,245**	**117**	**438**	**116**	**2,629**
At 31 March 2018	**739**	**1,188**	**114**	**420**	**68**	**2,529**

Because of the continued challenging market conditions and historical operating losses at Vard Promar an impairment test has been performed as of 31 December 2017 for the carrying amount of all property plant and equipment at the Brazilian yard. 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. The recoverable amount assessed by the appraiser as of 31 December 2017 is higher than the book value of the property, plant and equipment as of 31 March 2018 by NOK 117 million. During first quarter 2018 no events occurred that would have affected the conclusions reached as of 31 December 2017.

4. Intangible assets

Group	Goodwill	Other intangibles	Total
Cost			
At 1 January 2018	524	209	733
Additions acquired separately	-	3	3
Acquisition of subsidiaries	-	-	-
Currency translation differences	(1)	(2)	(3)
At 31 March 2018	**523**	**210**	**733**
Accumulated amortization and impairment losses			
At 1 January 2018	179	77	256
Amortization for the year	-	7	7
Impairment	-	-	-
Currency translation differences	-	(4)	(4)
At 31 March 2018	**179**	**80**	**259**
Carrying amounts			
At 1 January 2018	**345**	**132**	**477**
At 31 March 2018	**344**	**130**	**474**

In accordance with the provisions of SFRS(I) 36 the value of goodwill has been tested for impairment at year-end 2017. The Group is of the opinion that no evidence of further impairment has emerged in the three months ended 31 March 2018 which would indicate a reduction in the recoverable value determined as of 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the first quarter ended 31 March 2018
(All amounts in NOK millions unless otherwise stated)

5. Inventories

Inventories comprise the following items:	Group	
	31/03/18	**31/12/17**
Raw materials	558	561
Work in progress	1,325	1,324
Finished goods	208	215
Total	**2,091**	**2,100**

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. During first quarter 2018 no events occurred that would have required further reductions of the net relisable value.

6. Contract assets and liabilities

	Group	
	31/03/18	**31/12/17** ***Restated***
Aggregate costs incurred and attributable profits recognized (less losses recognized) to-date	10,544	10,190
Progress billings	(4,146)	(4,376)
Total	**6,398**	**5,814**
Contract assets	7,246	6,529
Contract liabilities	(848)	(715)
Total	**6,398**	**5,814**
Advances received on construction contracts	4,146	4,376
Provisions for loss on contracts	(412)	(308)

No retention sums are included in progress billings.
Contract assets as of 31.12.2017 was restated following the adoption of SFRS(I) 15. Further details of the impacts from the adoption of the new standard are disclosed in Note 2 (e).

Provisions for loss on contracts	**Group**
At 1 January 2018	308
Additional provisions	403
Amounts used	(106)
Unused amounts reversed during the period	(181)
Currency translation differences	(12)
At 31 March 2018	**412**

The contract assets (NOK 7,246 million) and contract liabilities (NOK 848 million) have been reduced by the provision for loss on onerous contracts.

(All amounts in NOK millions unless otherwise stated)

7. Loans and borrowings

This note provides information about the contractual terms of the Group's interest–bearing loans and borrowings.

	Group	
	31/03/18	**31/12/17**
Current		
Current facilities (A)	889	705
First year installment non-current term loans (B)	165	167
Current loans and borrowings	**1,054**	**872**
Construction loans (C)	6,131	5,652
Total current loans and borrowings	**7,185**	**6,524**
Non-current		
Non-current term loans (B)	967	1,045
Total loans and borrowings	**8,152**	**7,569**

For the Company, current loans and borrowings consists of short-term interest bearing receivable towards Vard Group AS of NOK 432 million (FY2017: NOK 431 million).

Current facilities (A) increased during first quarter 2018 mainly due to the signing and draw down of a short term cash facility with Bayerische Landesbank for an overall amount of EUR 20 million (NOK 193 million).

The increase in the construction loan (C) balance in the same period is related to the drawdowns of existing facilities utilized to finance the working capital of the vessels under construction, while the reduction in the non-current loans (B) is due to the amortization plan of the outstanding facilities.

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

	Loans and borrowings
Current facilities(A) and term loans(B) at 1 January 2018	1,917
Cash Flows	160
Foreign exchange movements	(58)
Other non-cash changes	2
Current facilities(A) and term loans(B) at 31 March 2018	**2,021**

8. Financial income and financial costs

	Group	
	1Q-2018	**1Q-2017**
Financial income		
Interest income on loan and receivables, including bank deposits	9	8
Foreign exchange gain	153	88
Other financial income	1	-
Total	**163**	**96**
Financial costs		
Interest expense on loans and borrowings	(23)	(13)
Foreign exchange loss	(130)	(74)
Bank charges	(1)	(1)
Other financial expenses	(6)	(12)
Total	**(160)**	**(100)**
Net financial items	**3**	**(4)**

The change in net financial items from NOK 4 million negative in 1Q 2017 to NOK 3 million positive in 1Q 2018 is primarily related to foreign exchange gains and losses. For 1Q 2018 there is a net foreign exchange gain of NOK 23 million, of which NOK 3 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 gain of NOK 14 million.

(All amounts in NOK millions unless otherwise stated)

9. Provisions

Group	**Warranties**	**Others**	**Total**
At 1 January 2018	68	117	185
Provisions made during the period	18	1	19
Provisions utilized during the period	(7)	(3)	(10)
Provisions reversed during the period	-	(5)	(5)
Currency translation differences	(1)	(2)	(3)
At 31 March 2018	**78**	**108**	**186**
Representing:			
Non–current	5	83	88
Current	73	25	98
Total	**78**	**108**	**186**

Other provisions include environmental clean-up costs of NOK 74 million, legal claims of NOK 9 million, restructuring provisions of NOK 9 million, as well as several other liabilities faced during the normal course of business, and provided for according to FRS 37, totalling NOK 16 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 recognised based on past experience for corresponding projects.

Provision for losses on onerous contracts are presented as reduction of the contract assets and liabilites (note 6).

10. Revenue

	Group	
	1Q-2018	**1Q-2017**
Construction contract revenue	2,196	1,675
Sale of goods	13	14
Rendering of services	57	88
Total revenue	**2,266**	**1,777**

11. Salaries and related costs

	Group	
	1Q-2018	**1Q-2017**
Salaries and wages	526	454
Social security contributions	43	66
Pension costs	12	11
Other employee benefits	4	9
Total	**585**	**540**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
For the first quarter ended 31 March 2018
(All amounts in NOK millions unless otherwise stated)

12. Earnings per share and diluted earnings per share

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

	Group	
	1Q-2018	**1Q-2017**
Net profit /(loss) attributable to ordinary shareholders of the Company (NOK million)	**(109)**	**(25)**
Net profit /(loss) attributable to ordinary shareholders of the Company (SGD million)	(18)	(4)
Weighted average number of shares (in millions)	1,180	1,180
Basic earnings / (loss) per share (NOK per share)	(0.09)	(0.02)
Basic earnings / (loss) per share (SGD cents per share)	(1.53)	(0.34)
Adjusted weighted average number of shares (million)	1,180	1,180
Diluted earnings per share (NOK per share)	(0.09)	(0.02)
Diluted earnings / (loss) per share (SGD cents per share)	(1.53)	(0.34)
Exchange rates:	1Q-2018	1Q-2017
SGD/NOK	5.9470	6.1370

There were no outstanding options to subscribe for shares as at 31 March 2018.
The SGD amounts are translated from NOK based on the exchange rates prevailing at the reporting date as shown above.

13. 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 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	
Group	**1Q-2018**	**1Q-2017**	**1Q-2018**	**2017**
Norway	1,650	1,392	1,459	1,458
Romania*	440	102	1,403	1,405
Singapore	28	26	1	-
Vietnam**	-	-	227	243
Brazil	91	206	970	1,037
Canada	41	41	28	30
USA	7	5	1	1
Italy	-	1	1	1
Other countries	9	4	3	2
Total	**2,266**	**1,777**	**4,093**	**4,177**

** 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.*

(All amounts in NOK millions unless otherwise stated)

14. Financial risk management objectives and policies

Fair value hierarchy

The table below analyses financial instruments carried out at fair value, by valuation methods as at 31 March 2018.

Group	Level 1	Level 2	Level 3	Total
At 31 March 2018				
Assets				
Financial assets at fair value through profit an loss	6	-	6	12
Derivatives	-	18	-	18
Total assets	**6**	**18**	**6**	**30**
Liabilities				
Derivatives	-	(395)	-	(395)
Total liabilities	**-**	**(395)**	**-**	**(395)**
Total	**6**	**(377)**	**6**	**(365)**

See note 31 in the Financial Statements for the year ended 31 December 2017 for valuation methodologies.

15. Related parties

AGREEMENTS WITH RELATED PARTIES ENTERED INTO IN THE QUARTER

	Group	
	1Q-2018	**1Q-2017**
Secondment of personnel to VARD	3	2
Supply of consultancy service to VARD	-	2
Contract for delivery of electro package to FINCANTIERI	18	-
Total agreements entered into in the period	**21**	**4**

Subsequent to the period end, FINCANTIERI and VARD agreed a number of variation orders under the provisions of existing contracts due to technical scope changes resulting in cost overruns for deliveries completed and ongoing as of 31 March. The parties agreed to amend the contract prices in order to reflect the changed conditions and to maintain the margin of the contracts. The impact of the variation orders to Q1 revenue was an increase of NOK 302 million.

16. Contingencies and capital commitments

There are no material changes in contingencies disclosed as at 31 December 2017.

17. Post balance sheet events

The following events and transactions occurred subsequent to 31 March 2018:

1. In May 2018 the Company successfully completed negotiation of revised contract prices with FINCANTIERI for projects being developed by Vard Group AS, Vard Tulcea, Vard Electro and Seaonics. Refer to note 15 for further information.

2. In May 2018 the company successfully delivered an OSCV vessel . In order to ensure delivery and avoid potential cancellation exposure, the Group agreed a discount of USD 45 million (NOK 354 million). This amount affects revenue negatively in the first quarter in an amount of NOK 354 million as the settlement has been classified as variable consideration.

18. Significant changes in the current reporting period

Condensed consolidated statement of comprehensive income

Revenue for 1Q 2018 were NOK 2.27 billion, up 28% from NOK 1.78 billion in 1Q 2017. The growth compared to the 1Q 2017 reflects the increased activity, especially at the Romanian yards, mainly due to the progress of the six expedition cruise vessels currently under construction.

Materials, subcontract costs and others were NOK 1.55 billion in 1Q 2018 up 47% from NOK 1.06 billion in 1Q 2017 while salaries and related costs were NOK 585 million in 1Q 2018 up 8% from NOK 540 in 1Q 2017. Thus reflecting the increase in subcontractor and headcounts, primarily related to the high activity at the yards located in Romania.

EBITDA before restructuring cost for the quarter were NOK 1 million, compared to NOK 40 million in the corresponding period last year. The EBITDA margin decreased from 2.3% in 1Q 2017 to nil in 1Q 2018.

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 1Q 2018. Vard Søviknes delivered one stern trawler to Havfisk in the beginning of the quarter and saw high activity as the first cruise hull for Ponant arrived in the beginning of the quarter. At Vard Langsten construction on the pelagic trawler which was contracted in 2017 is ongoing. Vard Brattvaag and Vard Electro have mounted and delivered all four upgrades to "Battery Power" on offshore vessels supplemented by conversion, repair and maintenance work on several vessels.

During the quarter, Vard Group AS has secured a contract for the design and construction of two additional luxury expedition cruise vessels for the French cruise company Ponant to be delivered from Vard Søviknes in 1Q and 2Q 2020 respectively. In addition, during the quarter VARD secured a contract for the construction of one fishing vessel for Remøybuen AS, and one fully electrical battery-powered car- and passenger ferry for Boreal. After the closing of Q1 Vard Group AS signed a Letter of Intent ("LOI") for the design and construction of two cruise vessels for the cruise company Viking and secured a new contract for the design and construction of one stern trawler for Havfisk.

Romanian yards continue to record a very high workload, and is improving the load situation by increase of headcount and adapting the organization. After delivering the hull of the second PONANT vessel to Vard Søviknes, Vard Tulcea is progressing with the construction of the other four expedition cruise vessels contracted in 2016. During the quarter, Vard Tulcea successfully launched and delivered a 8,900 tons hull section to Fincantieri and is progressing with the additional three hull sections under construction. During 1Q 2018 the Romanian yards successfully delivered four MCV vessels to Topaz Energy and Marine and one MCV vessel to Kazmortransflot.

Operations at the shipyard in Vung Tau remained stable as a result of good progress on the MCV projects. One MCV was delivered to Topaz Energy and Marine during 1Q 2018, while one more was delivered in April 2018. The last vessel in the series to be delivered from Vietnam is under construction, as well as the construction of the expedition cruise vessel for Coral Expeditions of Australia, contracted during 2017.

Vard Promar in Brazil registered good progress on the Pipelay Support Vessels (PLSV) under construction for Dofcon Navegação (DOF and TechnipFMC) and on 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.

The strengthened position in the fisheries and aquaculture market, yielded again results in 1Q 2018 with the already mentioned contract for the construction of one fishing vessel for Remøybuen AS. These achievements continue to strengthen the market position and reflective of the appreciation for VARD's innovative approach to these market segments.

The Group recognized restructuring cost of NOK 11 million during the quarter, related to termination benefits and statutory payments for temporary redundancies, mainly in Norway and Brazil.

Depreciations and amortization increased from NOK 53 million in 1Q 2017 to NOK 58 million in 1Q 2018 reflecting an increase of the amortization of capitalized development costs.

As a consequence of the items discussed above, the operating loss was equal to 68 million in 1Q 2018 compared to a loss of NOK 19 million in 1Q 2017.

The change in net financial items from NOK 4 million negative in 1Q 2017 to NOK 3 million positive in 1Q 2018 is primarily related to foreign exchange gains and losses. For the quarter there is a net foreign exchange gain of NOK 23 million, of which NOK 3 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 gain of NOK 14 million.

For the aforementioned reasons, the loss for the period was NOK 96 million in 1Q 2018 compared to a loss of NOK 27 million in 1Q 2017.

18. Significant changes in the current reporting period

Condensed consolidated statement of financial position

Total assets were NOK 15.36 billion as of 31 March 2018, up from NOK 14.92 billion as of 31 December 2017.

Total non-current assets were NOK 4.09 billion as of 31 March 2018 marginally down from NOK 4.18 as of 31 December 2017 mainly due to reduction of book value of property, plant and equipment.

Total current assets were NOK 11.27 billion as of 31 March 2018, up from NOK 10.74 billion as of 31 December 2017, as a result of increase in construction WIP in excess of prepayments stemming from the progress of the vessel under construction, partially offset by decrease in the positive fair value of current derivatives and by decrease of cash and cash equivalents.

Total non-current liabilities were NOK 2.10 billion as of 31 March 2018 down from NOK 2.22 billion as of 31 December 2017 due to the effect of decrease in loans and borrowings, non-current.

Total current liabilities have increased from NOK 10.61 billion end of 31 December 2017 to NOK 11.28 billion end of 31 March 2018. The increase was mainly driven by the utilization of construction loans and current loans and borrowings, partially offset by the decrease in current derivatives and other current liabilities.

Condensed consolidated statement of cash flows

Cash flows from operating activities were NOK 266 million negative in 1Q 2018, compared to NOK 243 million positive in 1Q 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 38 million in 1Q 2018, compared to NOK 93 million in 1Q 2017. Investments in property, plant and equipment during 1Q 2018 were mainly related to the expansion of facilities at Vard Tulcea.

Cash flows from financing activities were NOK 160 million positive in 1Q 2018, compared to NOK 56 million positive in 1Q 2017. The Group has not obtained any new non-current loans during the quarter. During 1Q 2018 the net proceeds from short-term facilities (NOK 194 million) were mainly related to a new cash line granted by Bayerische Landesbank for EUR 20 million. Out of NOK 284 million in repayments of loans and borrowings during the first quarter of 2018, NOK 34 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 632 million for the period ended 31 March 2018 (31 March 2017: NOK 908 million).

Prospects

At the end of 1Q 2018, the order book value amounted to NOK 13.13 billion, stable compared to NOK 13.23 billion at the end of 2017. Aggregate order value at the end of the quarter was NOK 25.10 billion, and the order book comprised 46 vessels, of which 33 will be of VARD's own design. Order intake in the period was NOK 2.09 billion.

VARD is well positioned in the growing expedition cruise vessel market.

Risks are still inherent in the Group's existing offshore project portfolio. The Group has postponed delivery of some projects amid ongoing financial restructurings of clients in the offshore segment.

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

Negotiations are continuing with the Norwegian Government for the construction of three Coast Guard vessels.