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THIRD QUARTER 2016

FINANCIAL STATEMENTS

Published 11 November 2016

VARDTM
a **Fincantieri** company

Vard Holdings Limited

Incorporated in Singapore | Company Registration No. 201012504K
Unaudited results for the third quarter ended 30 September 2016

Third Quarter 2016 Financial Statements

UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

(All amounts in NOK millions unless otherwise stated)

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS

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

	Group			Group		
	3Q-2016 ended 30/09/16	3Q-2015 ended 30/09/15	Change %	9 months ended 30/09/16	9 months ended 30/09/15	Change %
Revenue	1,503	2,271	-34%	5,744	7,823	-27%
Materials, subcontract costs and others	(860)	(2,009)	-57%	(3,633)	(5,861)	-38%
Salaries and related costs	(466)	(547)	-15%	(1,596)	(1,849)	-14%
Other operating expenses	(144)	(182)	-21%	(414)	(469)	-12%
EBITDA before restructuring cost	33	(467)	n/m	101	(356)	n/m
Restructuring cost	(27)	(36)	-25%	(76)	(56)	36%
Depreciation, impairment and amortization	(51)	(51)	0%	(153)	(154)	-1%
Operating profit/(loss)	(45)	(554)	-92%	(128)	(566)	-77%
Financial income	16	152	-89%	284	282	1%
Financial costs	(45)	(410)	-89%	(240)	(761)	-68%
Net	(29)	(258)	-89%	44	(479)	n/m
Share of results of associates	(9)	-	n/m	(18)	4	n/m
Profit (loss) before tax	(83)	(812)	-90%	(102)	(1,041)	-90%
Income tax expense	(21)	(33)	-36%	(26)	(81)	-68%
Profit (loss) for the period	(104)	(845)	-88%	(128)	(1,122)	-89%
Profit (loss) for the period attributable to:						
Equity holders of the Company	(80)	(486)	-84%	(96)	(520)	-82%
Non-controlling interest	(24)	(359)	-93%	(32)	(602)	-95%
Profit (loss) for the period	(104)	(845)	-88%	(128)	(1,122)	-89%
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	(12)	272	n/m	(305)	474	n/m
Net fair value change in cash flow hedge	42	-	n/m	24	-	n/m
Income tax on other comprehensive income	(11)	-	n/m	(6)	-	n/m
Items that may not be reclassified subsequently to profit or loss:						
Net fair value changes of associated companies	(9)	-	n/m	(31)	-	n/m
Other comprehensive income for the period, net of income tax	10	272	-96%	(318)	474	n/m
Total comprehensive income for the period	(94)	(573)	-84%	(446)	(648)	-31%
Total comprehensive income attributable to:						
Equity holders of the Company	(59)	(214)	-72%	(233)	(193)	21%
Non-controlling interest	(35)	(359)	-90%	(213)	(455)	-53%
Total comprehensive income for the period	(94)	(573)	-84%	(446)	(648)	-31%

Notes:

(*) N/M - Not meaningful.

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

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

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

	Group			Group		
	3Q-2016 ended 30/09/16	3Q-2015 ended 30/09/15	Change %	9 months ended 30/09/16	9 months ended 30/09/15	Change %
Interest income	10	8	n/m	27	21	29%
Foreign exchange gain	5	146	-97%	253	257	-2%
Other financial income	1	(2)	n/m	4	4	n/m
Financial income	16	152	-89%	284	282	1%
Interest expense	(17)	(19)	-11%	(61)	(51)	20%
Foreign exchange loss	(13)	(385)	-97%	(123)	(698)	-82%
Other financial expenses	(15)	(6)	n/m	(56)	(12)	367%
Financial expenses	(45)	(410)	-89%	(240)	(761)	-68%
Net financial items	(29)	(258)	-89%	44	(479)	n/m
Depreciation of property, plant and equipment	(49)	(50)	-2%	(146)	(146)	0%
Amortization of intangibles	(2)	(1)	n/m	(7)	(3)	n/m
Impairment charges	-	-	n/m	-	(5)	n/m
Depreciation, impairment charges and amortization	(51)	(51)	0%	(153)	(154)	-1%
Provisions for doubtful debts	-	-	n/m	7	-	n/m
Allowance for doubtful debts and bad debts written off	-	-	n/m	7	-	n/m

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(b)(i) Statement of Financial Position

	Group			Company		
	As at 30/09/16	As at 31/12/15	Change %	As at 30/09/16	As at 31/12/15	Change %
Property, plant and equipment	2,429	2,382	2%	-	-	n/m
Intangible assets	440	429	3%	-	-	n/m
Investment in subsidiary	-	-	n/m	2,142	2,142	0%
Investment in associates	310	341	-9%	-	-	n/m
Other investments	10	39	-74%	-	-	n/m
Interest-bearing receivables, non-current	481	492	-2%	679	656	4%
Other non-current assets	28	35	-20%	-	-	n/m
Deferred tax assets	44	42	5%	-	-	n/m
TOTAL NON-CURRENT ASSETS	3,742	3,760	0%	2,821	2,798	1%
Inventories	1,834	752	144%	-	-	n/m
Construction WIP in excess of prepayments	7,751	12,451	-38%	-	-	n/m
Trade and other receivables	1,390	878	58%	114	79	44%
Current derivatives	391	331	18%	-	-	n/m
Other current assets	1,061	1,316	-19%	-	-	n/m
Interest-bearing receivables, current	595	488	22%	147	129	14%
Cash and cash equivalents	525	919	-43%	2	4	n/m
TOTAL CURRENT ASSETS	13,547	17,135	-21%	263	212	24%
TOTAL ASSETS	17,289	20,895	-17%	3,084	3,010	2%
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	(694)	531	n/m	-	-	n/m
Retained earnings	2,223	2,319	-4%	356	280	27%
Total equity attributable to equity holders of the Comp.	2,477	3,798	-35%	3,083	3,007	3%
Non-controlling interest	32	(837)	n/m	-	-	n/m
TOTAL EQUITY	2,509	2,961	-15%	3,083	3,007	3%
Loans and borrowings, non-current	1,056	1,200	-12%	-	-	n/m
Deferred tax liabilities	132	79	67%	-	-	n/m
Non-current derivatives	-	12	n/m	-	-	n/m
Other non-current liabilities	380	22	1627%	-	-	n/m
Provisions, non-current	94	96	-2%	-	-	n/m
TOTAL NON-CURRENT LIABILITIES	1,662	1,409	18%	-	-	n/m
Loans and borrowings, current	625	834	-25%	-	-	n/m
Construction loans	7,483	9,435	-21%	-	-	n/m
Prepayments in excess of construction WIP	954	392	143%	-	-	n/m
Trade and other payables	1,857	2,141	-13%	1	2	n/m
Current derivatives	1,383	3,238	-57%	-	-	n/m
Income tax payable	18	26	-31%	-	1	n/m
Provisions, current	114	116	-2%	-	-	n/m
Other current liabilities	684	343	99%	-	-	n/m
TOTAL CURRENT LIABILITIES	13,118	16,525	-21%	1	3	n/m
TOTAL LIABILITIES	14,780	17,934	-18%	1	3	n/m
TOTAL EQUITY AND LIABILITIES	17,289	20,895	-17%	3,084	3,010	2%

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(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 30.09.16		As at 31.12.15	
	Secured	Unsecured	Secured	Unsecured
Loans and borrowings, current	249	376	446	388
Construction loans *	7,483	-	9,435	-
Total Amount repayable in one year or less, or on demand	7,732	376	9,881	388

* Construction loans are in general treated as short term maturing on vessel delivery, and are secured by the vessels under construction

Loans and borrowings, non-current	1,056	-	1,200	-
Total Amount repayable after one year	1,056	-	1,200	-
Total	8,788	376	11,081	388

Details of debt secured by collaterals

Currency	Drawn amount in currency	Drawn amount in NOK	Current portion in NOK	Non-current portion in NOK
NOK	229	229	32	197
USD	114	917	73	844
EUR	18	159	144	15
BRL	-	-	-	-
Total		1,305	249	1,056

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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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(c) Statement of Cash Flows (Group)

	Group		Group	
	3Q-2016 ended 30/09/16	3Q-2015 ended 30/09/15	9 months ended 30/09/16	9 months ended 30/09/15
OPERATING ACTIVITIES				
Profit (loss) before tax	(83)	(812)	(102)	(1,041)
Adjustments for:				
Net interest expense	7	11	34	30
(Gain)/loss on disposal of property, plant and equipment, net	(2)	-	(2)	-
Unrealised foreign exchange gain/loss	(3)	245	(185)	386
Depreciation, impairment and amortization	51	51	153	154
Other non-cash items in the statement of comprehensive income	-	-	29	-
Share of results of associates	9	-	18	(4)
<i>Operating cash flows before movements in working capital</i>	<i>(21)</i>	<i>(505)</i>	<i>(55)</i>	<i>(475)</i>
Inventories	18	124	(55)	(41)
Construction work in progress	1,876	(1,412)	4,089	(769)
Proceeds from construction loans	288	1,357	2,767	4,469
Repayment of construction loans	(1,288)	(571)	(4,775)	(3,806)
Other working capital assets	(1,423)	(139)	(2,098)	51
Other working capital liabilities	344	1,045	344	(319)
Provisions	(3)	16	(4)	(44)
<i>Cash generated from / (used in) operations</i>	<i>(209)</i>	<i>(85)</i>	<i>213</i>	<i>(934)</i>
Interest received	10	-	27	6
Interest paid	(13)	(11)	(59)	(35)
Income tax paid	(9)	-	(37)	(170)
<i>Cash flows from/ (used in) operating activities</i>	<i>(221)</i>	<i>(96)</i>	<i>144</i>	<i>(1,133)</i>
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	10	-	11	1
Purchase of property, plant and equipment	(71)	(66)	(154)	(200)
Purchase of intangible assets	(3)	(5)	(20)	(12)
Issuance of new non-current interest bearing receivables	-	-	-	(3)
Proceeds from repayment of non-current interest bearing receivables	-	-	-	20
Proceeds from repayment of short-term interest-bearing receivables	-	-	-	7
Acquisition of subsidiary, net of cash acquired	-	-	-	(45)
Acquisition of equity interest in associates	5	-	6	(11)
Issuance of new short-term interest-bearing receivables	-	(1)	-	(2)
<i>Cash flows used in investing activities</i>	<i>(59)</i>	<i>(72)</i>	<i>(157)</i>	<i>(245)</i>
FINANCING ACTIVITIES				
Proceeds from loans and borrowings	-	165	44	520
Repayment of loans and borrowings	(90)	35	(327)	(293)
Transactions with non-controlling interests	(16)	-	(16)	-
<i>Cash flows from/ (used in) financing activities</i>	<i>(106)</i>	<i>200</i>	<i>(299)</i>	<i>227</i>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(386)	32	(312)	(1,151)
Effects of currency translation difference on cash and cash equivalents	(15)	(62)	13	(50)
Cash and cash equivalents excl. restricted cash at beginning of financial period	822	795	720	1,966
Cash and cash equivalents excl. restricted cash at end of financial period	421	765	421	765
Restricted cash at end of financial period	104	141	104	141
Cash and cash equivalents at end of financial period	525	906	525	906

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(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 1 January 2016	4,138	(3,190)	392	139	-	2,319	3,798	(837)	2,961
<i>Comprehensive income</i>									
Profit (loss) for the period	-	-	-	-	-	(96)	(96)	(32)	(128)
Other comprehensive income	-	-	(124)	(13)	-	-	(137)	(181)	(318)
Total comprehensive income	-	-	(124)	(13)	-	(96)	(233)	(213)	(446)
<i>Transactions with owners</i>									
Equity subscribed by non-controlling shareholders	-	-	-	-	-	-	-	22	22
Transactions with non-controlling interests	-	-	(87)	-	(1,001)	-	(1,088)	1,060	(28)
Total transaction with owners	-	-	(87)	-	(1,001)	-	(1,088)	1,082	(6)
At 30 September 2016	4,138	(3,190)	181	126	(1,001)	2,223	2,477	32	2,509
At 1 January 2015	4,138	(3,190)	120	142	-	2,922	4,132	(268)	3,864
<i>Comprehensive income</i>									
Profit (loss) for the period	-	-	-	-	-	(520)	(520)	(602)	(1,122)
Other comprehensive income	-	-	327	-	-	-	327	147	474
Total comprehensive income	-	-	327	-	-	(520)	(193)	(455)	(648)
<i>Transactions with owners</i>									
Effect of business combinations	-	-	-	-	-	-	-	16	16
Total transaction with owners	-	-	-	-	-	-	-	16	16
At 30 September 2015	4,138	(3,190)	447	142	-	2,402	3,939	(707)	3,232

Company

	Paid up Capital	Restructuring Reserve	Retained Earnings	Total Equity
At 1 January 2016	4,138	(1,411)	280	3,007
<i>Comprehensive income</i>				
Profit (loss) for the period	-	-	76	76
Total comprehensive income for the period	-	-	76	76
At 30 September 2016	4,138	(1,411)	356	3,083
At 1 January 2015	4,138	(1,411)	170	2,897
<i>Comprehensive income</i>				
Profit (loss) for the period	-	-	80	80
Total comprehensive income for the period	-	-	80	80
At 30 September 2015	4,138	(1,411)	250	2,977

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(All amounts in NOK millions unless otherwise stated)

1 UNAUDITED FINANCIAL STATEMENTS (cont.)

(d)(ii) Share Capital

There were no ordinary shares issued in 3Q 2016. There are no treasury shares as at 30 September 2016 and as at 30 September 2015.

Share Options

There were no outstanding options to subscribe for shares as at 30 September 2016 (30 September 2015: 0).

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

The number of issued shares (excluding treasury shares) as at 30 September 2016 is 1,180,000,000 ordinary shares (31 December 2015: 1,180,000,000 ordinary shares).

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

Not applicable. The Company has no treasury shares.

2 AUDIT

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

3 AUDITORS' REPORT

Not applicable.

4 ACCOUNTING POLICIES

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

5 CHANGES IN ACCOUNTING POLICIES

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

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6 EARNINGS PER ORDINARY SHARE

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

	Group			Group		
	3Q-2016 ended 30/09/16	3Q-2015 ended 30/09/15	Change %	9 months ended 30/09/16	9 months ended 30/09/15	Change %
(i) Earnings for the period (in NOK millions)	(80)	(486)	-84%	(96)	(520)	-82%
Earnings for the period (in SGD millions)	(14)	(81)	-83%	(16)	(87)	-82%
Weighted average number of shares (in millions)	1,180	1,180	0%	1,180	1,180	0%
(ii) Earnings per share (NOK)	(0.07)	(0.41)	-83%	(0.08)	(0.44)	-82%
Earnings per share (SGD cents)	(1.19)	(6.86)	-83%	(1.36)	(7.37)	-82%
(iii) Diluted earnings per share (NOK)	(0.07)	(0.41)	-83%	(0.08)	(0.44)	-82%
Diluted earnings per share (SGD cents)	(1.19)	(6.86)	-83%	(1.36)	(7.37)	-82%
Adjusted weighted average number of shares (in millions)	1,180	1,180	0%	1,180	1,180	0%
Exchange rates:	30/09/16	30/09/15		30/09/16	30/09/15	
SGD/NOK	5.899	5.982	-1%	5.899	5.982	-1%

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

7 NET ASSETS VALUE PER ORDINARY SHARE

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

	Group			Company		
	As at 30/09/16	As at 31/12/15	Change %	As at 30/09/16	As at 31/12/15	Change %
Net assets value at the end of the period (NOK millions)	2,477	3,798	-35%	3,083	3,007	3%
Net assets value at the end of the period (SGD millions)	420	609	-31%	523	482	9%
Number of shares (millions)	1,180	1,180	0%	1,180	1,180	0%
Net assets value per ordinary share (NOK)	2.10	3.22	-35%	2.61	2.55	2%
Net assets value per ordinary share (SGD)	0.36	0.52	-31%	0.44	0.41	7%
Exchange rates:	30/09/16	31/12/15		30/09/16	31/12/15	
SGD/NOK	5.899	6.239	-5%	5.899	6.239	-5%

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

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

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8 REVIEW OF GROUP PERFORMANCE

(a) Statement of comprehensive income:

Revenues for 3Q 2016 were NOK 1.50 billion, down from NOK 2.27 billion in 3Q 2015. Revenues for the nine months ended 30 September 2016 were NOK 5.74 billion, down from NOK 7.82 billion. The reduction is caused by reduced activity especially at the European yards and the cessation of operations in Vard Niterói during the third quarter. The reduction is both related to own and subcontractor production.

EBITDA before restructuring cost was NOK 33 million for 3Q 2016 (3Q 2015: NOK 467 million negative) and NOK 101 million on a year to date basis (2015: NOK 356 million negative). The EBITDA margin turned to positive both in 3Q 2016 (2.2%) and for the period ended 30 September 2016 (1.8%). The improvement reported is primarily due to the loss provisions accrued in Q3 2015 and related to projects at the Brazilian yards.

VARD's diversification strategy has yielded strong order intake during 3Q 2016, with the confirmation of four cruise vessel orders already communicated during 1H 2016 and the signing of two new ones during the quarter. In addition, the Module Carrier Vessel (MCV) project was expanded with five vessels to 20.

As a consequence, the yards in Romania are again well utilized with the MCV project, cruise vessel hull sections under construction for FINCANTIERI, and VARD cruise vessel projects coming up. The MCV project is progressing as planned; first steel has been cut for all vessels, and keel laying has taken place for several. Investments in increased capacity and capabilities in Tulcea are under way to support the new business plan, and both Tulcea and Braila yards are now hiring again.

In Norway, the completion of large OSCV projects results in reduced offshore exposure. Several projects have either been delivered or are in final stages of outfitting. Utilization at the Norwegian yards is generally low however. Repair, conversion and upgrade work has been taken on to support activity level at the yards, and temporary layoffs are being used to buffer the effects of the low and volatile workload.

Operations in Vietnam are stable and utilization good, with one OSCV soon ready for delivery and seven MCVs to be built at the Vung Tau yard. Investments in the extension of the yard's hull factory were completed during a period of lower activity. The Vietnam and Romanian yards are cooperating closely on the MCV project through joint project management in order to leverage on the exchange of experience and best practice.

In Brazil, the Niterói yard was closed down during 3Q 2016, and key resources were relocated to Vard Promar. The Company increased its ownership stake in Vard Promar to 95.15% through conversion of shareholder loans, resulting in more balanced financial structure and greater strategic flexibility. A major rightsizing process is ongoing at the yard with a strong focus on cost reduction and organizational development. The production is progressing, with the fourth LPG carrier for Transpetro delivered, and two more are under construction for delivery in 2017. Also the PLSV project for DOF and Technip is progressing, with both vessels now launched.

The Equipment & Solutions business recorded important order wins for Vard Electro, with projects for electrical engineering, installation and equipment in the UK and India. In addition, Vard Marine achieved a breakthrough when its design was selected for the US Coast Guard's new Offshore Patrol Cutter (OPC) program.

Vard Aukra, the base for VARD's growing aquaculture business, delivered fish feeding and live fish treatment barges during the quarter to clients in Norway, and secured new orders. After the end of the quarter, the acquisition of Storvik Aqua was completed, a leading equipment supplier to the aquaculture industry with production facilities in Norway and subsidiaries in Chile and Scotland.

Restructuring cost of NOK 27 million in the quarter and NOK 76 million for the nine months ended 30 September 2016 are related to termination benefits and statutory payments for temporary redundancies, and are mainly due to the closure of the Niterói shipyard.

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

(All amounts in NOK millions unless otherwise stated)

(a) Statement of comprehensive income (cont.)

Depreciations in the quarter and in the first nine months of 2016 are stable compared with 3Q 2015 and first nine months of 2015.

As a consequence of the items discussed above, the operating loss is equal to NOK 45 million for 3Q 2016 and NOK 128 million on a year to date basis, recovering from a loss of NOK 554 million for 3Q 2015 and NOK 566 million for the nine months ended 30 September 2015.

The net financial items went from NOK 258 million negative in 3Q 2015 to NOK 29 million negative in 3Q 2016 and from NOK 479 million negative for the nine months ended 30 September 2015 to NOK 44 million positive for the nine months ended 30 September 2016. The impairment of the shareholding in Rem Offshore ASA and the losses on firm commitment derivatives following the reclassification to inventory of the vessel originally under construction for Harkand, have been more than offset by the unrealized foreign exchange gains recorded in the first nine months of 2016.

Income tax expense was NOK 21 million in 3Q 2016 and NOK 26 million for the nine months period ended 30 September 2016, compared to NOK 33 million and NOK 81 million in the corresponding periods last year. The effective tax rate is still relatively high because no deferred tax asset has been recognized related to entities generating losses in Brazil.

Because of the aforementioned reasons, the loss for the period was NOK 104 million in 3Q 2016 and NOK 128 million for the nine months period ended 30 September 2016, compared to a loss of NOK 845 million in 3Q 2015 and NOK 1.12 billion for the nine months period ended 30 September 2015.

(b) Statement of financial position:

Total non-current assets are stable when comparing 30 September 2016 with 31 December 2015.

Total current assets have decreased from NOK 17.14 billion as of 31 December 2015 to NOK 13.55 billion as of 30 September 2016. NOK 4.70 billion of the reduction is due to a decrease of Construction WIP in excess of prepayments. Such decrease is generated by the significant number of deliveries in the first nine months as well as the cancellation of the vessel under construction for Rem Offshore, and the reclassification to inventory of the vessel originally under construction for Harkand.

Total equity attributable to equity holders of the Company decreased from NOK 3.80 billion to 2.48 billion when comparing 30 September 2016 with 31 December 2015 of which NOK 1.09 billion is related to the increase in ownership stake in Vard Promar from 50.5% to 95.15%. The increase in shareholdings results from a capital increase of BRL 532 million in Promar that, not being underwritten by minorities, is entirely taken up by Vard Group AS through the conversion of shareholder loans into newly issued equity, with no cash consideration. As part of the overall agreement between VARD and its long term partner in Brasil, PJMR Empreendimentos Ltda. ("PJMR"), and providing for an amicable termination of the partnership, the parties have agreed (i) a consideration of BRL 6 million (NOK 16 million) to terminate the shareholders agreement and for the assignment of the preemptive rights that was satisfied in cash and (ii) put and call options for PJMR's remaining 4.85% shareholding in Vard Promar. Hence, from the date of the agreement the remaining non-controlling interest in Vard Promar has been derecognized from equity.

Total non-current liabilities have increased by 18% from NOK 1.41 billion as of 31 December 2015 to NOK 1.66 billion as of 30 September 2016, primarily due to the slot reservation fee received from FINCANTIERI related to the multi-year program with FINCANTIERI entered into during 1Q 2016.

Total current liabilities have decreased from NOK 16.52 billion end of 31 December 2015 to NOK 13.12 billion end of 30 September 2016. The reduction is mainly caused by (i) a reduction of construction loans as a consequence of the significant number of deliveries mentioned above, (ii) a reduction of the trade payables due to the lower production volumes compared to the previous year, and (iii) by a decrease of the fair value of the current derivatives following the delivery of two vessels with contract denominated in USD and the strengthening of the NOK vs USD.

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(All amounts in NOK millions unless otherwise stated)

(c) Statement of cash flows:

Cash flows from operating activities were NOK 221 million negative in 3Q 2016 compared to NOK 96 million negative in 3Q 2015. In the first nine months of 2016 cash flows from operating activities were NOK 144 million positive, compared to NOK 1.13 billion negative in the corresponding period in 2015. Cash flows from operating activities can fluctuate significantly from period to period due to changes in working capital. The negative cash flow in the quarter is mainly driven by the delayed delivery of the OSCV Normand Maximus one month after the end of the quarter. On a year to date basis the cash flow from operating activities remains positive thanks to vessel deliveries and instalments and fees received on other projects during the period.

Cash flows used in investing activities were NOK 59 million in 3Q 2016, compared to NOK 72 million in the corresponding period of 2015. Cash flows used in investing activities were NOK 157 million in the first nine months of 2016, compared to NOK 245 million in the corresponding period of 2015.

Cash flows from financing activities were NOK 106 million negative in 3Q 2016, compared to NOK 200 million positive in 3Q 2015. Cash flows from financing activities were NOK 299 million negative for the first nine months of 2016, compared to NOK 227 million positive in the corresponding period of 2015. The Group has not obtained any new loans during the quarter. NOK 49 million of the repayments during the third quarter relate to instalments paid on non-current loans.

Because of the aforementioned reasons, the cash and cash equivalents at the end of financial period are equal to NOK 525 million for the period ended 30 September 2016 (NOK 906 million as at 30 September 2015).

(d) Post balance sheet events

On 13 October 2016, the Group announced the acquisition of Storvik Aqua AS, a leading supplier of equipment within feeding, measurement and control solutions to the aquaculture industry, with operations in Norway, Chile and Scotland. The consideration for the transaction is approximately NOK 35 million. The consideration was satisfied in cash. The book value and the net tangible asset value of the transaction are NOK 14.5 million. Closing date for the transaction was 2 November 2016.

On 28 October 2016, Solstad Offshore ASA took delivery of the OSCV, Normand Maximus, from Vard Brattvaag. The vessel was built by VARD in Romania and Norway and is the largest offshore subsea construction vessel ever built by VARD.

9 VARIANCE FROM FORECAST STATEMENT

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

10 PROSPECTS

At the end of 3Q 2016, the order book value amounted to NOK 14.08 billion, significantly higher compared to NOK 11.93 billion at the end of 2Q 2016 and NOK 10.23 billion at the end of 2015. New order intake¹ during the quarter was equal to NOK 3.29 billion. Aggregate order value at the end of the quarter was NOK 26.04 billion, and the order book comprised 45 vessels, of which 37 will be of VARD's own design.

VARD continues to pursue its diversification strategy launched at the beginning of 2016, and seek market opportunities outside its traditional core market for offshore vessels. In the market for expedition cruise vessels, the Group has already made significant inroads. Leads are also being pursued in the fishery sector and in the offshore wind and Offshore Patrol Vessel (OPV) market. Complementing its shipbuilding activities, the Group sees opportunities for its Equipment & Solutions business, including the sale of design, electrical engineering and installation, and equipment. The Group's aquaculture business is expected to grow, albeit from a low level, on the back of the recent acquisition of equipment provider Storvik Aqua.

With yard utilization secured in Romania and Vietnam, the focus is on cooperation across yards and operational excellence. Investments in Romania will be accelerated in order to realize the full potential of the new business plan. In Norway, the yards continue to experience low utilization in the near term, while gearing up for outfitting of cruise vessels. Arrival of the first cruise vessel hull in Norway is scheduled for 2H 2017. VARD's Brazil operations are now concentrated on Promar yard and stabilizing, but operational risk remains elevated.

In the offshore oil & gas market, the Group works with clients on developing cost-effective solutions to meet the industry's challenges in a low-oil-price environment without compromising innovation, performance, quality and safety. Market opportunities are continuously being monitored, but no significant rebound in demand is expected in the short term.

¹The order intake in 3Q 2016 includes contracts for two cruise vessels signed in 3Q 2016 and confirmed in 4Q 2016. The order intake in 3Q 2016 was adjusted to reflect the new Group accounting policy on owners' supply included in certain cruise contracts.

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016

(All amounts in NOK millions unless otherwise stated)

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)	
3Q-2016 ended 30/09/16	9M-2016 ended 30/09/16	3Q-2016 ended 30/09/16	9M-2016 ended 30/09/16
Fincantieri Group			
Production Service to FINCANTIERI at Italian facilities	-	-	3
Secondment of personnel to VARD	-	-	1
Secondment of personnel to FINCANTIERI	-	-	2
Support service to Yard Management in Vard	-	-	-
Contract for manufacturing and outfitting of a ship-part to FINCANTIERI	-	-	522
Contract between Marine Interiors S.p.A. and VARD for accomodation modules	-	-	295
Contract for sale of spare parts to FINCANTIERI	-	-	1
Slot reservation agreement *	-	-	584
Total	-	-	1,418

* VARD Tulcea has entered into a new agreement with FINCANTIERI to increase the reserved capacity at the yard to produce steel blocks for cruise vessels in the period 2016 to 2021. The new agreement substitutes the one previously signed during the first quarter of 2016, and provides for a total slot reservation fee of EUR 62 million (NOK 584 million), of which EUR 42 million was already included in the first agreement. The reservation fee cannot be repaid or offset against instalments on steel blocks before September 2018. The reservation fee is presented as other non-current liabilities in the statement of financial position.

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

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

14 CONFIRMATION BY THE BOARD

The Board of Directors hereby confirms that, to the best of its knowledge, nothing has come to its attention which may render the unaudited financial results for the third quarter ended 30 September 2016 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Mr Roy Reite
Executive Director & CEO
11 November 2016