Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Vard Holdings Limited

Security: Vard Holdings Limited

Meeting details:
Date: 29 June 2018
Time: 1.00 p.m.
Venue: Shine Auditorium, 100 Beach Road, #03-01, Shaw Tower, Singapore 189702

Company Description

Vard Holdings Limited, an investment holding company, engages in the shipbuilding business in Norway and internationally. The company engages in electrical engineering and installation, project development and ship design, accommodation and pipe installation, and ship equipment design and manufacturing businesses. It is also involved in the offshore industrial services and installation, equipment supply aquaculture industry, and automation and control system software businesses; and provision of shipyard support, and ship repair and maintenance services. The company was formerly known as STX OSV Holdings Limited and changed its name to Vard Holdings Limited in April 2013. The company was incorporated in 2010 and is based in Ålesund, Norway. Vard Holdings Limited is a subsidiary of Fincantieri Oil & Gas S.p.A.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=MS7)

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1. As noted in the CEO Letter, the group is executing on its turnaround plans to overcome the severe and prolonged downturn. The strategy/achievements of the group included:

- diversify into engineering- and technology-intensive vessels in new market segments and geographies
- increasing the order book to NOK 13.2 billion, a higher level than 2015 and 2016 (comprises 48 newbuildings, in addition to maintenance and conversion of vessels, and other assignments within ship design, equipment and solutions)
- contract of the research expedition vessel for Rosellinis Four-10 and the very first electric hybrid cruise icebreaker with LNG propulsion for PONANT

Although the group reported revenue of NOK 8.6 billion (up 9% year-on-year), it still reported a net loss of NOK 233 million attributable to equity holders of the company, up from NOK 163 million in FY2016.

The group has 9 shipyards (5 in Norway, 2 in Romania, 1 in Vietnam and 1 in Brazil).

(i) **Can management help shareholders understand how cost efficient are the group's shipyards?**

(ii) **Are there differences in the technical capability and the cost structure of the group's nine yards in the different regions?**

(iii) **What are the utilisation rates of the group's nine shipyards?**

In addition, the group has reported EBITDA of 1.9% and 2.1% in FY2017 and FY2016 respectively.

(iv) **How does management intend to significantly improve the group's profitability?**

(v) **Has the board set any operational and financial targets for management to achieve in the next 2-3 years?**

(vi) At the end of 2017, the group's order book stood at NOK 13.2 billion, comprising 48 vessels. **What is the projected/minimum profit margin when the group takes on new orders?**

Separately, the group has interested person transactions amounting to NOK 1.9 billion in FY2017 (2016: NOK 1.5 billion).

(vii) **Can the audit committee explain its efforts in the oversight and review of such interested person transactions to ensure that the transactions are carried out at arm's length, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders?**

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2. From the Consolidated Statement of Comprehensive Income (page 63), it is shown that materials and subcontract costs amounted to NOK 5.6 billion, salaries and related costs added up to NOK 2.3 billion while other operating expenses was NOK 541 million.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in NOK millions unless otherwise stated)

		Group	
	Note	2017	2016
Revenue	24,30	8,603	7,894
Materials and subcontract costs		(5,601)	(5,049)
Salaries and related costs	25,35	(2,298)	(2,162)
Other operating expenses	26	(541)	(515)
Depreciation, impairment and amortization	4,5	(221)	(205)
Restructuring cost	13	(33)	(105)
Operating profit/(loss)		**(91)**	**(142)**

(Source: Company annual report)

In FY2017, material and subcontract costs accounted for 65% of revenue while salaries and related costs accounted for a further 27%.

The group's revenue and salaries and related costs over the past financial years are shown below:

	2017 NOK millions	2016 NOK millions	2015 NOK millions	2014 NOK millions	2013 NOK millions	2012 NOK millions
Revenue	8,603	7,894	11,307	12,923	11,155	11,129
Salaries and related costs	2,298	2,162	2,461	2,486	2,129	1,953
Remuneration to key management	18.8	18.5	22.2	27.2	31.9	21.7

In FY2013, the group had 10,696 employees. As at 31 December 2017, the group still has 9,172 employees worldwide even though revenue has fallen by about 25% from the 2012/2013 levels.

(i) **Would management help shareholders understand the group's efforts in streamlining its operations in view of the difficult market conditions in the recent years?**

(ii) **How agile has the group been in its restructuring efforts? Other than the rightsizing being carried out in Vard Promar in Brazil, has management reviewed how it could further rightsize the shipyards with higher cost base?**

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(iii) Specifically, salaries and related costs over the years have remained fairly stable despite the market conditions and the severe drop in revenue. Even with the smaller labour force, the group's salary costs in FY2017 is nearly 20% than the salary costs in FY2012. **Would management explain why this is so?**

(iv) **Can the remuneration committee also help shareholders understand how it determines the discretionary bonus to be paid to key management (including the CEO)? What are the performance targets and the criteria used in the determination of executive bonuses?** The CEO and key management personnel continue to receive discretionary bonus as high as 15% of their annual packages when the group has been reporting losses for the last three financial years.

3. Guideline 2.2 of the 2012 Code of Corporate Governance (CG Code) states that independent directors should make up at least half of the Board where, inter alia, the chairman of the board is not an independent director.

As Mr. Coronella, the chairman of the board is considered a non-independent non-executive director of the company, Guideline 2.2 of the CG Code applies to the company.

The company has stated the following:

> *"On 13 November 2017, Fincantieri Oil & Gas S.p.A., the parent company of Vard Holdings Limited, presented a proposal to the Board of Directors of the Company, to seek the privatization of the Company by way of a voluntary delisting from SGX-ST. In view of this development, the Company has not yet implemented Guideline 2.2(d) of the Code which requires that independent directors should make up at least half of the Board where the Chairman is not an independent director. The composition of the Board will be re-assessed in due course."*

The board presently consists of six directors, with only two independent directors.

(i) **Are there any other reasons for the delay in implementing Guideline 2.2 of the Code?**

(ii) **Would a strong(er) independence element on the board be more crucial in view of the proposal to privatise the company by the parent company?**

(iii) **Would the board, especially the nominating committee and the independent directors, reconsider the deviation from the CG Code and to reconstitute the board to have independent directors make up at least half of the board since the company remains listed and should comply with the CG Code?**