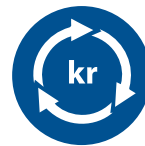


FJORD1 BOARD OF DIRECTORS' REPORT 2019



GROUP OVERVIEW - INTRODUCTION

Fjord1 Group ASA's ("Fjord1", "the Group" or "the Company") vision is to be the safest and most attractive provider of environmentally friendly ferry and passenger boat transport for customers, contractors and other partners.

Fjord1's values reflect the Company, and how it operates. The values are an important part of the Company's identity. The values are used as a management tool that guides all employees in their daily tasks internally and externally. The values are selected by the employees and are anchored at every level of the Company. Fjord1's values are: cheerful, open and honest, reliable and keeping all promises, profitable, proud, working together and team spirit.

The values guide the Company to continuously work to achieve its six primary objectives:

- be the best at environmentally friendly transport
- provide our owners with stable, good returns on their invested capital
- keep the promises we make to customers
- treat our employees in a way that makes people want to work for us
- be a preferred collaboration partner for our clients
- have solid financial results, healthy business management, and quality in all processes

Fjord1 already plays a very important role in the coastal transportation infrastructure in Norway, tying local communities together with safe, reliable and environmentally friendly transportation solutions. From 1 January 2020 Fjord1 operates thirteen ferry contracts with associated catering services on Norwegian fjord crossings. The connections are operated with a growing fleet of 79 owned vessels, with a high and increasing share of fully electric vessels. Fjord1 also provides regional passenger boat services and has a growing engagement in environmentally friendly tourism in Norway.

In 2019, Fjord1 transported a total of 19.9 million passengers and 9.9 million vehicles and made 752 thousand port calls without any serious incidents. At the end of 2019, the total value of the Group's contract portfolio was NOK 24.5 billion for the period 2020-2033, excluding options and index regulation.

Headquartered in Florø, Vestland, Fjord1 also has regional offices in Molde and Bergen.

2019 was a transitional year for the Group, with preparations for start-up of connections in six contracts 1 January 2020, the follow-up of an extensive newbuild and upgrade programme set for completion in 2020, as well as significant onshore infrastructure investments to facilitate the ongoing electrification of the coastal transportation system.

Fjord1 and subsidiaries ("the Group") reported total income of NOK 2,724 million in 2019, 12 % lower than in 2018 and within the original guided range of a 10-20 % revenue decline for 2019. The operating profit (EBITDA) was NOK 818 million, corresponding to an EBITDA margin of 30%. The Group profit for the year was NOK 209 million. More information on the 2019 financial results is to be found in the financial review of this report and in the consolidated financial statements in the annual report.

OPERATIONAL REVIEW

The Group has four reporting segments; Ferry, Passenger Boats, Catering, and Tourism. A brief presentation of the segments and key financials follows, and additional details can be found in Note 3 Segment information in the consolidated financial statements.

FERRY

Fjord1 continues to be the leading operator in the Norwegian ferrymarket. The market share was roughly unchanged from 50% in 2018, despite the loss of the high traffic connection Halhjem-Sandvikvåg.

In February 2019, Fjord1 was awarded the contract for operating the connection Halså-Kanestråum for the period 2021-2030 with an option to extend for an additional 18 months. This added to an overall solid ferry contract portfolio expected to generate predictable revenue streams going forward. An overview of the Company's contract portfolio at the end of 2019 can be found on page 19 in the annual report.

On 1 January 2020, Fjord1 started four new contracts: Rutepakke 2 Hordaland, Nordmørspakken, Indre Sunnmøre and the partial start-up of Romdalspakken. A total of nine new connections were added, involving 11 vessels. In the next few years, several tenders are expected on contracts in North Norway which Fjord1 does not operate today.

Fjord1 took delivery of 12 hybrid vessels in connection with the ongoing newbuild and upgrade programme. The vessels have been built at Havyard Ship Technology in Norway and at the Sefine, Tersan and Cemre shipyards in Turkey. Fjord1 secured vessels for rental for the interim period, and the delays had limited impact on the start-up of new contracts on 1 January 2020. Three vessels were sold during 2019.

The ferry industry and Fjord1 are contributing to the technological shift from fossil fuels to zero emissions by introducing battery solutions for ferries in Norway. At the end 2019, the Company's ferry fleet counted 76 vessels in total. Fjord1's vessel fleet is gradually transitioning to low- and zero emission technology, reducing direct emissions and fuel costs as new and upgraded vessels are fully operational. At the end of 2019, approximately 36% of Fjord1's capacity was low- or zero-emission vessels, with further deliveries of electric and converted hybrid-electric vessels set to reduce CO₂ and NO_x emissions further in 2020. The fleet renewal and upgrade programme are expected to significantly improve the Group's environmental footprint in the years to come.

Ferry	2019	2018
Revenue	2 445	2 760
EBITDA	739	985
EBITDA-margin	30 %	36 %
EBIT	380	691
EBIT-margin	16%	25 %

The ferry segment results in 2019 were impacted by changes in the contract portfolio with temporarily lower volumes, and preparatory work for start-up

of new connections and contracts from 1 January 2020. Ferry volumes and revenues are set to increase with the start-up of the new contracts.

PASSENGER BOATS

The Passenger Boats segment consists of three passenger boats and 10 passenger and combi-boats leased from subcontractors. The main focus is on passenger traffic, although a few boats also transport vehicles.

The contracts for the local express boat connections were awarded for eight years, starting 1 May 2012, and client in 2019 exercised options extending the contracts until 1 May 2022. Fjord1 ASA is also involved in express boat

operations between Kristiansund and Trondheim in collaboration with Fosen Namsos Sjø AS, through its 49% shareholding in Partsrederiet Kystekspresen ANS.

Tenders on passenger boat contracts on the West coast of Norway are expected to be announced during 2020. Fjord1 expects the trend seen in the ferry segment with regards to environmental requirements to have an influence on passenger boat tenders.

Passenger Boats	2019	2018
Revenue	115	105
Associated co's	2	3
EBITDA*	56	7
EBITDA-margin	49%	7%
EBIT	2	1
EBIT-margin	2%	1%

*EBITDA incl. associated companies

The higher revenue in 2019 mainly reflects price adjustments due to index regulation, whereas

the changes in EBITDA and EBIT mainly reflect accounting changes under IFRS 16 on leasing.

CATERING

The Company's catering business provides catering services to passengers travelling with ferries or passenger boats. The 'Ferdamat' catering brand offers high-quality food based on local ingredients,

striving to fulfil customer expectations in terms of selection and quality. During 2019, the segment has shifted to self-service concepts on several routes, both to expand service hours and contain costs.

Catering	2019	2018
Revenue	135	192
EBITDA	15	34
EBITDA-margin	11%	18 %
EBIT	11	31
EBIT-margin	8%	16 %

The lower revenues in Catering mainly reflect lower volumes due to changes in the ferry contract structure. The Company has

strengthened the cost focus in response to the lower volumes and weaker results.

TOURISM

Fjord1's tourism activities are carried out both through fully owned and partly owned companies, with associated companies making up a significant part of the overall activities and revenues. An overview of the Group's ownership positions can be found in Note 4 Interest in other entities in the consolidated financial statements.

In June 2019, Fjord1 and Vy (previously NSB) formed the 50/50 joint venture Vy Fjord1 Reiseliv AS ("Vy Fjord1") in line with the letter of intent signed between the parties last year. The company's name was later changed to Fjord Tours Group AS. Fjord Tours Group shall offer sustainable tourism in Norway through accessible environmentally friendly transport via train, bus and boat to popular destinations in Norway all year round. Kristian B. Jørgensen commenced as CEO for the new company from 1 January 2020.

Tourism	2019	2018
Revenue	18	23
Associated co's	0	8
EBITDA*	0	18
EBITDA-margin	0%	58%
EBIT	-1	7
EBIT-margin	0%	23%

*EBITDA incl. associated companies

Fjord1 continues to see tourism as an interesting area with a long-term growth potential but the 2020 season is expected to be challenging due to the

consequences of the coronavirus. More information in the section for Events after the reporting period.

FINANCIAL REVIEW

DECLARATIONS REGARDING THE FINANCIAL STATEMENTS

The Board of Directors confirms that the financial statements provide a fair and correct view of the Group's and the Parent company's result for 2019 and the financial position at year end. It is the Group's results which are reported in the interim reporting. The following sections provide an overview of the Group's 2019 results.

GOING CONCERN

In accordance with IAS1 Presentation of Financial Statements and the Norwegian Accounting Act, the Board of Directors confirm that the prerequisites for continued operations as a going concern have been met. This assumption is based on the preparations of the accounts, forecast and budgets for 2020 and the Group's long term forecast for the coming years.

Financial review - Group

PROFIT AND LOSS

In 2019, the Group's total income amounted to NOK 2,724 million in 2019 (NOK 3,102 million). The EBITDA was NOK 818 million (NOK 1,051 million), resulting in an EBITDA margin of 30% (34%). The EBIT was NOK 396 million (NOK 745 million). Profit for the year was NOK 209 million (NOK 540 million).

The total revenue decline of 12% compared to 2018 was in line with the Company's original guidance of a 10-20% decline, presented in late 2018. The revenue and results for the year were impacted by changes in the contract portfolio with temporarily lower volumes, and activities related to preparations of the start-up of new connections from 1 January 2020.

FINANCIAL POSITION

At the end of 2019, total assets amounted to NOK 9,240 million (NOK 6,731 million). The increase was explained by an increase in non-current assets due to delivery of new vessels, investments in newbuild and capitalised investments in quays and other infrastructure.

The total equity ratio was 24.6% (34.6%) at year end. The equity decreased by NOK 62 million to NOK 2,270 million (NOK 2,331 million).

At the end of the year, the Group had non-current liabilities of NOK 4,912 million (NOK 3,101 million), and current liabilities of NOK 2,059 million (NOK 1,299 million). The increase in total liabilities reflects investments in vessel newbuilds and upgrades, quays and other infrastructure which mainly have been financed by bank debt. The Group has secured necessary financing to complete the newbuild and upgrade programme. The net interest-bearing debt is set to decline towards the end of 2020 due to improved cash flow, lower investments and sale of infrastructure. More information in Note 15 Borrowings.

The Boards of Directors considers the Group's financial position to be satisfactory.

CASH FLOW

In 2019, net cash flow from operating activities was NOK 324 million in 2019 (NOK 983 million). The Lower cash flow is mainly explained by lower contributions from operations due to lower volumes and higher costs in a year with high activity related to preparations for new contracts and related infrastructure.

Net cash flow used in investing activities was NOK 2,359 million in 2019 (NOK 1,864 million). Investing activities consisted of newbuildings, upgrades and infrastructure and were impacted by progress on the vessel renewal and upgrade programme in 2019.

Net cash flow used in financing activities was NOK 2,247 million (NOK 680 million). The change in financing activities was mainly explained by increased debt in order to finance the vessel renewal and upgrade programme.

In 2019, the total net change in cash and cash equivalents was positive NOK 212 (-202) million. Cash and cash equivalents at year end were NOK 484 million (NOK 272 million).

The Boards of Directors considers the Group's liquidity to be satisfactory.

Financial review – Parent Company

PROFIT AND LOSS

In 2019, the Parent's total revenue amounted to NOK 2,737 billion in 2019 (NOK 3,094 billion). The EBIT was NOK 369 million (NOK 781 million). Profit for the year was NOK 240 million (NOK 581 million).

FINANCIAL POSITION

At the end of 2019, total assets amounted to NOK 8,967 million (NOK 6,425 million). The increase was explained by an increase in non-current assets due to delivery of new vessels, investments in newbuildings and capitalised investments in quays and other infrastructure.

The total equity of the Parent company was NOK 2,059 million (NOK 1,820 million). The total equity ratio was 23.0% (28.3%) at year end.

At the end of the year, the Parent company had non-current liabilities of NOK 6,006 million (NOK 3,234 million), and current liabilities of NOK 902 million (NOK 1,372 million).

The Boards of Directors considers the Parent's financial position to be satisfactory.

CASH FLOW

In 2019, net cash flow from operating activities was NOK 189 million in 2019 (NOK 895 million). Net cash flow used in investing activities was NOK 2,246 million in 2019 (NOK 1,986 million). Net cash flow used in financing activities was NOK 2,323 million (NOK 887 million).

In 2019, the total net change in cash and cash equivalents was positive NOK 266 (-204) million. Cash and cash equivalents at year end were NOK 465 million (NOK 200 million).

The Boards of Directors considers the Parent's liquidity to be satisfactory.

OTHER INVESTMENTS

Fjord1 has a 34% ownership in WF Holding AS. This is a financial interest in Widerøe's Flyveselskap AS.

Widerøe is the largest regional airline in the Nordic countries, with both commercial and PSO (public service obligation) connections in Norway. The airline owns and operates 44 aircraft, serving 49 destinations.

DIVIDEND

Fjord1's underlying long-term business provides for a balanced, owner-friendly and long-term dividend policy.

The Company's dividend policy is to pay dividends of up to 50% of the Group's profit for the year after tax. The dividend payment is evaluated considering the Group's financial position. The Company's capital structure is adapted to the Group's strategy and risk profile. Decisions regarding dividend payments will be made by the General Meeting based on a proposal by the Board of Directors.

ALLOCATION OF PROFIT IN THE PARENT COMPANY

In 2019, Fjord1 ASA, the parent company reported an income of NOK 2,737 million (NOK 3,094 million). Operating profit was NOK 369 million (NOK 781 million) while the after-tax profit was NOK 240 million (NOK 581 million). The parent company's financial statements are disclosed in the annual report.

The impact of the coronavirus on Fjord1's operations and financials over the coming months will depend on the magnitude and length of the extraordinary measures. Therefore, the Board of Directors believes it is prudent to postpone the dividend recommendation for 2019 until further notice. In the meantime, the Board of Directors recommends allocating the profit of NOK 240 million from the parent company to other equity to further strengthen liquidity and balance sheet. See separate chapter in this report for more information about Fjord1 and the coronavirus.

CORPORATE SOCIAL RESPONSIBILITY

Fjord1 is committed to corporate social responsibility and lives up to this through its values and ethical guidelines. The Company's corporate social responsibility reports follow the guidelines issued by the Oslo Stock Exchange for corporate social responsibility reporting and Section 3-3 of the Norwegian Accounting Act. Fjord1 ASA's report on corporate social responsibility is available in the company's annual report for 2019.

SAFETY

Fjord1's vision is to be the safest and most attractive provider of environmentally friendly ferry and passenger boat transport for customers, contractors and other partners. The vision sets the ambition for safety within the Group. The Group has high safety standards and expectations which are clearly communicated through the Company's procedures, policies and safety targets.

Reference to made to Safety section in Annual Report 2019 page 66.

ENVIRONMENT

Fjord1's vision sets the Group's ambition for environment: to provide the most environmentally friendly ferry and passenger boat transportation. Fjord1 took a significant step towards its vision during the year of 2019 with 9 deliveries of new hybrid vessels, and 3 vessels upgraded for the use of electricity as the main source of power. The Group expects the transition to zero- and low emission fuel to continue.

Fjord1 monitors its emissions to sea and air closely. The Group operates within all environmental legislation and regulations. The Group's main source of greenhouse gas emissions is fuel combustion. In Fjord1's new contracts there are strict requirements for low- or zero emission fuel. As the low- or zero emission fuel vessels get fully operational, average emissions per passenger transported are expected to be reduced. In 2020, the Company expects necessary charging infrastructure to be gradually completed, allowing new and upgraded hybrid vessels to run on electricity. As is the case for most electricity in Norway, the electricity for the vessels are generated from renewables. The Group expects to continue to upgrade existing vessels for electricity use.

PEOPLE

The employees are the Group's most important resource. Fjord1's ambition is to have the most satisfied employees in the industry. At the end of 2019, Fjord1 had 1,066 full-time equivalents compared to 1,264 in 2018. Fjord1's culture is built on its values: cheerful, open and honest, reliable and keeping our promises, profitable, working together and team spirit and proud.

Fjord1 focus on employee well-being. The Group has continuous and systematic focus on and follow-up of employee health and the working environment. In 2019, the sickness absence rate was 6.9% compared to 5.9% last year. The Group will continue with a close follow-up of the absence rate due to sickness, aiming to turn the negative development around by focusing on preventive activities, on the psychosocial working environment, work adaption and close follow-up of employees on sick leave. An employee survey is planned in 2020.

In terms of equality opportunities, the Group continues to aim for more diversity including a better gender balance. The proportion of female employees was 14.9% at the end of 2019 (18.5%). The proportion of females working onboard the vessels was 12.2% in 2019 (14.4%). A low proportion of female employees must be seen in connection with fewer females choosing a maritime career. The Group is aware of the importance of treating men and women equally in terms of salary and salary adjustments. Fjord1 ASA is an Inclusive Working Life company (IWL) and has drawn up its own IWL plan. The Groups' goal is to be a workplace where there is no discrimination.

CORPORATE GOVERNANCE

Reference to separate Corporate Governance report included in the Annual Report of 2019 page 39.

SHAREHOLDER INFORMATION

Fjord1 ASA had 100.0 million issued shares at 31 December 2019, divided between 3,724 (3,786) shareholders. Fjord1's own shareholding amounted to 90 402 shares at the end of the year, corresponding to 0.09% of total shares outstanding.

The 20 largest shareholders controlled 91.4% (85.9%) of the total number of issued shares at year end. Havila Holding AS, through Havilafjord AS and Havilafjord Holding AS, represented 66.5% of the outstanding share capital at year end. An updated list of the top 20 shareholders is available under Investor Relations on Fjord1's website.

During the year 2019, the Fjord1 share varied in price from NOK 32.70 to NOK 44.60. The closing price at 30 December was NOK 36.60, compared with NOK 43.00 at the end of 2018.

A total of 33.6 million shares, or 33.6% of the overall number outstanding, were traded during the period. Share turnover totalled NOK 1,393 million during the year, corresponding to an average daily figure of roughly NOK 5.6 million.

RISK AND UNCERTAINTY FACTORS

The Group is exposed to various types of operational, financial and market risk which are monitored and assessed on a continuous basis.

Fjord1's operational risk is managed through daily operations and adherence to the Group's management system. Risk of delayed vessel deliveries has been an important operational risk in 2019. The Group has been in close dialogue with key suppliers and monitored the progress on the yards closely. Five vessels under construction at the Havyard Ship Technology (HST) have been delayed as a consequence of a challenging financial situations at the yard. Through close dialogue with HST, the Group and HST were able to find a solution. HST delivered 3 vessels during the first quarter of 2020. The remaining two vessels are scheduled for delivery in May 2020. The delay had no impact the start-up of new contracts from 1 January 2020. Replacement vessels for the interim period have been secured. Project progress on remaining newbuilds will be closely monitored to manage and mitigate remaining delivery risk.

The counterparts in the Group's contracts are the Norwegian county authorities (Fylkeskommuner) and the Directorate of Public Roads (Statens Vegvesen). The Board of Directors considers the risk of potential future losses related to contracts with these customers to be low.

Financial risk includes market risk (foreign exchange risk, interest rate risk, commodity price risk, security prices), credit risk and liquidity risk. The financial risk is managed by the Group's finance department via daily monitoring, and monthly forecasts. The Group is exposed to currency risk through USD and EUR contracts for vessels newbuilds. The Group uses financial derivatives to reduce currency risk.

Fuel price risk is a market risk which is mainly managed through client contracts. The contracts are typically regulated according to a cost index for domestic transport which reduces the Group's market risk to a minimum. For contracts without index regulation mechanisms, the Group utilises financial derivatives to partly hedge fuel prices. As the Group's vessels fleet is transitioning to low- and zero emission fuel, the risk associated with price will to a larger extent be related to power price fluctuations. Fjord1 manages risk associated with power prices through long-term power price agreements in EUR.

More information on the Group's financial risk management can be found in Note 12 Financial risk management, financial assets and financial liabilities.

EVENTS AFTER THE REPORTING PERIOD

Risk and uncertainty related to the coronavirus (Covid-19)

Recently, the coronavirus has been declared a national emergency by the Norwegian government and a global emergency by the World Health Organisation (WHO). The coronavirus continues to progress, and the effects of the measures imposed by the Government and local authorities are still uncertain. The impact of the coronavirus on Fjord1's operations and financials over the coming months will depend on the magnitude and length of the extraordinary measures.

Fjord1 has taken necessary measures to protect the safety of passengers and employees and to limit the ongoing spread of the coronavirus. Fjord1's primary concern is the safety and well-being of the company's employees and customers, and their families and local communities. The Group complies fully with the requirements and recommendations by the Norwegian government and the Norwegian Institute of Public Health.

Fjord1 remains vigilant about the ongoing pandemic and see the following risks potentially impacting operations or financials, or both:

- Connection schedules may be distorted if crew members get infected by the coronavirus. Mitigating actions have been taken to protect the health of ferry and passenger boat crews, which are vital for our transport service offering and contract fulfilment.
- Delivery of 2 remaining vessels in the vessel renewal program, and ongoing work to complete onshore infrastructure projects related to the electrification of ferry connections, will be delayed due to restrictions, people becoming sick or put into quarantine.
- Financial implications are expected to be linked to the duration of travel restrictions. If national and international travel restrictions are upheld, significant revenue loss within Tourism and Catering. Employees within these segments are already on temporary leave to reduce operational cost are expected. Fjord1's associated companies, where the most significant position is, WF Holding AS which holds 100% of the shares in Widerøe's Flyveselskap AS, will be materially impacted as result of the restrictions in the aviation traffic.
- The Ferry and Passenger segments have long-term contracts mainly linked to traffic

schedules rather than the number of vehicles or passengers, or ticket prices. Fjord1's ferry service is viewed as a vital part of the infrastructure along the Norwegian west coast and a certain level of ferry service are expected to be upheld regardless of the coronavirus development.

- The default risk related to the contract counterparties, the Norwegian county authorities (Fylkeskommuner) and the Directorate of Public Roads (Statens Vegvesen), continues to be low. However, the contract counterparties have requested a reduction in the number of departures due to the currently significant drop in demand for ferry and passenger boat services as a result of travel restrictions and social distancing recommendations. Fjord1 is in dialogue with the contract counterparties to find reasonable financial compensation schemes in these cases.
- Fjord1 has various agreements for different types of fuel. These may be negatively impacted by the recent changes in foreign exchange rates and the oil price drop.

Due to the current market uncertainties related to the coronavirus, the Board of Directors believes it is prudent to postpone the dividend recommendation for 2019 until further notice, to further strengthen liquidity and balance sheet. Fjord1 will monitor the financial development of the company closely and act accordingly.

Other events

Four ferry contracts were initiated 1 January 2020. In addition, there were extensions on three routes. In January 2020, MF «Florøy» was delivered from Sefine and MF «Grip» from Cemre. MF «Bømlafjord» was delivered from Havyard Ship Technology AS in February 2020, and MF «Smøla» in March 2020. MF «Sildafjord» was delivered from Sefine in March 2020.

For more details on events after the balance sheet date see Note 20 Events after the reporting period.

OUTLOOK

Fjord1' long-term strategy and business model is robust and unchanged. The current uncertainties related the coronavirus outbreak are addressed in a separate chapter above in this report.

Fjord1's ferry service is viewed as a vital part of the infrastructure along the Norwegian west coast and regarded as a critical function by the Government in this situation. Although Fjord1 and its principle counterparties are adjusting ferry schedules due to the lower traffic volumes, this means that a certain level of production will be upheld.

The Group has during 2019 taken a significant step towards its vision of becoming the most environmentally friendly transportation company. The Group will continue along this path as the vessel renewal and upgrade programme finishes during 2020. New contracts started 1 January 2020 and the numbers of ferries in service is expected to increase further. As the new hybrid vessels are fully operational and running on electricity, the Group expects to see lower fuel costs on average per vessel and lower relative emissions from its operations.

The fleet renewal and upgrade programme and associated onshore infrastructure investments have entailed significant investments and a higher debt position over the past few years. The net interest-bearing debt is set to decline towards the end of 2020 due to improved cash flow, lower investments and sale of infrastructure.

The shift from fossil fuel to low- and zero emission fuels is expected to continue going forward, and Fjord1 expects future tenders to include strict requirements with regards to energy usage and environmental impact. Fjord1 has a proven track record of operating low- and zero emission connections and considers itself well positioned to win future tenders in a competitive environment.

In the next few years, several tenders are expected on contracts in northern Norway which Fjord1 does not operate today. In addition, tenders on passenger boat contracts on the west coast of Norway are expected. The Group is also considering its options for international expansion based on its experiences from the ongoing shift towards more environmentally friendly coastal transport solutions in the Norwegian market.

The year 2020 will be an important year for the Group with new vessels and the start-up of several new contracts. New contracts and connections are expected to generate a 10-15% Group revenue increase compared to 2019.