Fjord1 AS

Consolidated financial statements including auditor's opinion

2016

Annual report 2016 for Fjord1 AS

Fjord1 AS is the biggest ferry company in Norway. It has 1,069 FTEs and saw total year-on-year traffic growth of 0.8% on its ferry routes in 2016.

The company's core activity is concentrated on sea transport by means of ferry and express-boat operations, as well as catering activities. The company's activities also include travel agencies, as well as financial investments and property management.

The company conducts maritime operations from Buskerud and Rogaland in the south to Sør-Trøndelag in the north. Within sea transport, ferry operations represent the company's core activity. Fjord1 AS's express-boat operations are concentrated on local express-boat routes in Sogn og Fjordane.

Via the company Kystekspressen ANS, Fjord1 AS is also involved in express-boat operations between Kristiansund and Trondheim in partnership with Fosen Namsos Sjø AS.

Fjord1 is engaged in tourism activity in the West Norwegian fjords through its ownership of The Fjords DA.

Via the company WF Holding AS, Fjord1 AS is co-owner of Widerøe's Flyveselskap AS, with a 34% holding in WF Holding AS.

The company's head office is located in Florø.

Financial statements 2016

CONSOLIDATION

Only consolidated accounts are prepared, at Fjord1 level.

GOING CONCERN BASIS

The board of directors considers that the submitted income statement and balance sheet as at 31 December 2016 provide a true and fair picture of the current status of Fjord1 AS at year-end. Nothing has happened since the closing of the accounts in the new year that has had any bearing on this assessment.

A going concern basis is in place, and the company's financial statements have been drawn up under this assumption. These assessments are based on profit forecasts for 2017 and the Group's long-term forecasts for the years ahead.

The company had an equity ratio of 30.1 percent at year-end 2016. The company's position is satisfactory in respect of both liquidity and financial strength.

EVENTS AFTER THE END OF THE FINANCIAL YEAR, AND OUTLOOK

There have not been any events since the end of the financial year that affect the assessment of the submitted financial statements, other than the circumstances referred to in the annual report.

The Group shows a positive development in results and profitability, and the outlook for 2017 is satisfactory.

CONSOLIDATED RESULTS

The pre-tax results show a profit of NOK 598.6 million for 2016, compared with NOK 258.7 million in 2015.

Stable operations have led to improved margins, which – combined with a sharp focus on safety resulting in fewer service interruptions and lower unexpected costs – have contributed to the good results in 2016.

Operating income before depreciation and amortisation (EBITDA) for 2016 was NOK 729.6 million, compared with NOK 494.4 million in 2015.

Over the year, the board of directors and management have made valuations in connection with the basis for write-downs of ship values as well as provisions for possible future losses on contracts.

The board of directors believes that the financial statements provide a fair picture of the assets, liabilities, financial position and results for Fjord1 AS.

CASH FLOW

Pre-tax profit is NOK 598.6 million, while net cash provided by operating activities in 2016 is NOK 642.6 million. Ordinary depreciation and reversal of impairment of NOK 161.5 million represents the largest variance.

Cash flow used for investing activities comes to NOK 274.1 million. Of this, NOK 379.7 million was spent on investments in property, plant and equipment. Operating assets worth NOK 83.5 million were sold in 2016.

NOK 255.9 million was paid off in instalment payments on long-term debt. There was a net change in cash of NOK 195.5 million during the year.

RESEARCH AND DEVELOPMENT

The company aims to be the most environmentally friendly and reliable operator in the transport sector. Fjord1 AS therefore has a continuous focus on developing and implementing new technology. The company has long been a world leader in the operation of natural gas-powered ferries but has now also shifted its focus to zero-emissions technology. This development work is being carried out in close cooperation with suppliers and research and development institutions.

Fjord1 AS has recently been working on development projects linked to the ferries of the future, with a particular focus on battery and hybrid ferries. The conversion of MF Fannefjord to be the world's first natural gas and battery hybrid vessel in 2015 provided valuable experience for the new low- and zeroemissions requirements in ferry contracts. This investment has paid off, with the company being successful in most of the tender competitions that required electric operation.

Through its ownership of The Fjords DA, Fjord1 AS has started using hybrid and battery technology in new areas. The experience vessel "Vision of the Fjords" on the Nærøyfjord combines battery technology and use of carbon fibre in a completely new and unique concept. Experience from this project, combined with knowledge of battery operation, means that we are now working to develop this concept into a fully electric vessel for tourist experiences on the fjords.

Going forward, the company intends to invest actively in developing and introducing new technology, with a particular focus on the demands the "green shift" makes in terms of energy efficiency and emissions reductions. Investing in technology to use hydrogen will be important, as well as other areas such as optimisation and automation of operations on board to reduce energy consumption.

MARKET RISK

Market risk, defined as the consequence of variation in market factors such as the oil price, interest rates and exchange rates, can have an impact on the company's costs. Fjord1 AS's current strategy is to use financial instruments as an element in hedging cash flows. The company's contracts with clients allow for fluctuations in the oil price and other cost components by means of a contract-adjustment mechanism.

Fjord1 AS is directly exposed to exchange rate fluctuations through shipbuilding contracts signed in EUR and USD, and indirectly by its purchase of oil priced in USD. As a result of stricter guidelines laid down by the board of directors, Fjord1 AS has hedging transactions in place to reduce the impact of changes in the market factors mentioned above.

CREDIT RISK

The risk of customers and contractual partners being unable to fulfil their financial commitments is considered low. Historically, the company's bad debts have been low. The gross credit risk for the Group as at 31.12.2016 is NOK 78.7 million. No agreements have been entered into to reduce this risk.

LIQUIDITY RISK

The board of directors considers the liquidity in the company to be satisfactory, based on the 2017 budget and long-term plans. The company has an agreement with Nordea for banking and financing services. Fjord1 AS has framework agreements with its biggest suppliers that include defined payment terms. Other than public-sector clients, the company has few large individual customers.

BUSINESS AREAS

Ferry operations

The underlying operating profit from ferry operations in 2016 was better than in the previous year. We have established stable and reliable operations. The various contract areas within our ferry operations generated varying contributions.

The company started a new contract in the Balestrand sector and on the Mannheller–Fodnes service from 1 January 2016, with a new contract for county road services in Sogn og Fjordane starting as planned on the same date. In connection with this, the company took delivery of two new ferries during the year, MF Hornelen and MF Losna, from the Ada Shipyard in Turkey.

Fjord1 took part in the competitive tender procedures to operate the Halhjem–Sandvikvåg and Arsvågen– Mortavika services from 1 January 2019, and was awarded the Arsvågen–Mortavika contract. Fjord1 was also awarded the contracts to operate the Halhjem– Sandvikvåg and Arsvågen–Mortavika services in 2017 and 2018. The Halhjem–Sandvikvåg contract will finish on 1 January 2019.

In addition, Fjord1 took part in the competitive tendering for route package 1 in Hordaland, and was awarded contracts for the following services: Krokeide–Hufthamar (from 2018), Sandvikvåg–Husavik (2018), Fedje–Sævrøy (2020), Leirvåg–Sløvåg (2020), Hatvik–Venjaneset (2020), Halhjem–Våge (2020) and Langevåg–Buavåg (2020).

The Flakk–Røyrvik contract will finish on 1 January 2019. Fjord1 took part in the competitive tender procedures to operate the Flakk–Rørvik and Brekstad– Valset services from 1 January 2019, and was awarded the Brekstad–Valset contract.

Fjord1 also took part in the tender competition to operate the Daløy–Haldorsneset service from 1 January 2019, but was not successful. Fjord1 is t he current operator of this service.

Fjord1 won the Lote–Anda contract, which starts on 1 January 2018 and will be a two-vessel service. Fjord1 is the current operator of this service.

Competitive tender procedures in 2016 and going forward have a strong focus on emissions and energy efficiency. Fjord1 has participated in many of the advertised tender procedures in Norway, and is well positioned to take part as new tendering processes are announced.

Express-boat operations

Fjord1 AS operates express-boat routes in Sogn og Fjordane.The results from the express-boat business area were satisfactory in 2016.

Catering

Catering is an important area for Fjord1. Using the Ferdamat speciality food concept, Fjord1 has concentrated on developing a high-quality offering, as well as a visual identity that customers recognise on all Fjord1 services.This targeted effort over several years has produced good results. The results for catering operations are satisfactory.

QUALITY AND OPERATIONAL MANAGEMENT SYSTEMS

Safety

A consistent focus on safety is a fundamental feature of operations at Fjord1 AS.

From 2012 to 2016, Fjord1 has achieved a reduction of almost 96% in contact damage (quay collisions and running aground). Work is continuing on a number of measures to further promote safe operations. The reduction in contact damage is a result of long-term efforts to develop the safety and control system. Work will continue to develop the company's safety culture in 2017.

Fjord1 AS works closely with its crews to implement barriers to prevent accidents and to develop operational procedures on board.

In 2016, the company's ferries and express boats carried 20.9 million passengers. A total of nine personal injuries were recorded (most being minor cuts, or pinch or fall injuries), compared with ten in 2015.

Route production and traffic management at Fjord1 AS were implemented effectively and safely in 2016.

Working environment and equality

In 2016, there were 1,191 FTEs in the Group (incl. underlying companies). The proportion of female employees in Fjord1 AS was 19.01%, compared with 18.2% in 2015.

We have good access to skilled labour, and ensuring we have sufficient skilled workers is not as challenging as in the past. We must nevertheless continue with our long-term and targeted recruitment work to ensure that we can continue to operate in a safe and stable manner.

The low proportion of female employees must be seen in the context that women have traditionally not chosen to train for maritime roles. There is still work to be done to increase the recruitment of women to these roles, and it is a long-term undertaking. Two of the eight members of the board of directors are female.

Fjord1 AS focuses on well-being and the working environment by means of systematic health, safety and environmental work. There was an increase in injuries resulting in absence in 2016 compared with 2015. In 2016, the working environment committee recorded a total of 18 injuries resulting in absence amongst its own employees, compared with 16 equivalent absences in 2015 and 14 in 2014.

Seven of the injuries in 2016 were reported to the Norwegian Maritime Authority. The majority of injuries resulting in absence are caused by falls. Reducing absence due to injuries is a priority.

The working environment within Fjord1 AS is generally good, and the workforce is stable in most areas. Absence due to illness was 7.38% in 2016, compared with 8.25% in 2015. The company has introduced effective routines for following up employees on sick leave and works constantly to implement new measures to further improve attendance.

Discrimination

The Norwegian Anti-Discrimination Act seeks to promote equality, secure equal rights, and prevent discrimination based on ethnic or national origin, ancestry, skin colour, language, religion or life stance. Fjord1 AS works actively and purposefully to promote the aims of this legislation.

Fjord1 AS is an Inclusive Working Life company (IW) and has drawn up its own IW plan. The company's goal is to be a workplace where there is no discrimination on the grounds of disability. The company strives to design and organise the physical set-up so that the various functions are open to as many people as possible. Workplaces and tasks are individually adapted to meet the needs of employees and job applicants with disabilities.

External environment

Transport operations entail pollution of the external environment. The pollutants are linked in particular to the use of fossil fuels emitting NOX and CO_2. By working with the industry, engine suppliers and the research environment, Fjord1 AS seeks to identify measures that can reduce levels of harmful emissions into the air. The company's emissions meet all formal requirements set by the authorities.

In 2016, Fjord1 became the first company in the world to use 100% renewable biofuel as an energy source for two of its ferries on normal scheduled services. Using renewable energy results in greater reductions in CO_2 emissions compared with fossil fuels.

Fjord1 AS intends to remain at the forefront of operating natural gas-powered ferries, which reduce NOX emissions by approximately 90% and CO_2 emissions by 25–30% compared with conventional diesel ferries.

In recent years, the company has invested heavily in measures to reduce NOX, including replacing old engines with new Tier II-certified engines. This has led to a significant reduction in NOX emissions of more than 40% for many of the vessels. In the period 2013–2016, engines were replaced on 15 vessels.

At the end of 2016, Fjord1 had signed contracts for six new ferries. These, and all other newbuilds in the future, will be constructed to be able to operate purely on electricity in the new contracts. This makes the company a leader in using technology that reduces CO_2emissions by 80–95% compared with conventional diesel-powered ferries. In addition, emissions of NOX, SO_2 and particles will be virtually eliminated.

As part of its environmental strategy, Fjord1 has decided to apply for certification under ISO 50001 – Energy Management. The aim is to for this to be in place by the end of 2017.

The company has entered into an agreement to deliver environmentally hazardous waste, including waste oil, to approved recipients.

ALLOCATION OF PROFITS IN THE PARENT COMPANY

Fjord1 AS's strategic plan provides for an ownerfriendly, balanced and long-term dividend policy.

The board of directors recommends the following allocation of the profit for the year:

Transferred to other reserves NOK 345,758 million.

Total allocation NOK 345,758 million.

Florø, 28 June 2017

Pål W. Lorentzen Chairman	Vidar Grønnevik Board member	Vegard Sævik Board member
Bente Nesse Board member	Janicke Driveklepp Board member	Per Sævik Board member
Arnstein Aamås Board member	Dagfinn Neteland CEO	Atle Trollebø Board member

Consolidated statement of profit or loss

Amounts in NOK thousands	Note	2016	2015
Revenue	4	1,223,970	1,326,327
Other income	4, 6	1,162,442	903,676
Cost of sales		-378,407	-429,516
Personnel expenses	7	-884,835	-889,253
Other operating expenses	8	-402,583	-428,141
Total operating expenses		**-1,665,825**	**-1,746,910**
Share of profit/(loss) from associates	5	9,055	11,343
Operating profit before depreciation and impairment (EBITDA)		**729,642**	**494,436**
Depreciation	11	-240,085	-241,961
(Impairment)/Reversal of impairment	11	78,582	25,108
Total depreciation and impairment		**-161,503**	**-216,853**
Operating profit (EBIT)		**568,139**	**277,583**
Share of profit/(loss) from associates	5	72,540	45,007
Interest income	12	5,692	4,734
Interest expense	12	-105,484	-122,955
Other financial items, net	8	57,737	54,293
Net financial income / (expenses)		**30,485**	**-18,921**
Profit/(loss) before tax		**598,624**	**258,662**
Income tax (expense) / income	9	-148,502	-39,771
Profit/(loss) for the year		**450,122**	**218,891**
Attributable to:			
Parent company owners		449,972	218,765
Non-controlling interest		150	126
Basic earnings per share (in NOK)*	10	4.50	2.19
Diluted earnings per share (in NOK)*	10	4.50	2.19

* Based on 100,000,000 shares outstanding. Reference is made to note 10 and 19 regarding share split in connection with conversion into public limited liability company (Fjord1 ASA).

Consolidated Statement of Comprehensive Income

Amounts in NOK thousands	**Note**	**2016**	**2015**
Profit/(loss) for the year		450,122	218,891
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Share of other comprehensive income of associates accounted for using the equity method	5	1,363	1,442
Actuarial gain on pension obligations	14	12,632	21,641
Total		**13,995**	**23,083**
Total other comprehensive income for the year, net of tax		**13,995**	**23,083**
Total comprehensive income for the year		**464,117**	**241,974**
Attributable to:			
Parent company owners		463,967	241,848
Non-controlling interest		150	126

Consolidated Statement of Financial Postition

Amounts in NOK thousands	Note	31.12.2016	31.12.2015	01.01.2015
Assets				
Non current assets				
Deferred tax assets	9	21,328	37,946	55,618
Property, plant and equipment	11	3,794,867	3,648,995	3,753,879
Investments in associates	5	361,709	300,755	221,932
Other non-current financial assets	12	8,284	8,417	22,193
Total non-current assets		**4,186,188**	**3,996,112**	**4,053,622**
Current assets				
Inventories		14,690	13,049	19,511
Trade receivables	12	78,660	71,705	88,397
Other current receivables	12	35,888	66,453	6,168
Cash and cash equivalents	12	553,993	358,516	334,244
Total current assets		**683,231**	**509,723**	**448,320**
Total assets		**4,869,419**	**4,505,835**	**4,501,942**
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	13	250,000	250,000	250,000
Share premium		360,924	360,924	360,924
Retained earnings		1,108,299	694,332	502,484
Total equity attributable to owners of the parent		**1,719,223**	**1,305,256**	**1,113,408**
Non-controlling interests		3,881	3,731	3,605
Total equity		**1,723,104**	**1,308,987**	**1,117,013**
Non-current liabilities				
Borrowings	12	155,000	1,822,511	2,078,441
Derivative financial instruments	12	42,403	64,898	96,486
Net employee defined benefit liabilities	14	14,605	33,111	76,424
Deferred tax liabilitites	9	382,276	250,413	219,082
Total non-current liabilites		**594,284**	**2,170,933**	**2,470,433**
Current liabilities				
Borrowings	12	1,800,511	255,930	229,855
Derivative financial instruments	12	22,775	53,714	52,099
Trade and other payables	12	110,075	94,767	56,483
Current income tax liabilities	9	2,675	301	132
Social security and other taxes		90,269	94,170	73,959
Other current liabilities	12	525,726	527,034	501,970
Total current liabilities		**2,552,031**	**1,025,916**	**914,498**
Total liabilities		**3,146,315**	**3,196,848**	**3,384,931**
Total equity and liabilities		**4,869,419**	**4,505,835**	**4,501,942**

The Board of Fjord1 AS
Florø, 28 June 2017

Pål W. Lorentzen
Chairman

Vidar Grønnevik
Board member

Vegard Sævik
Board member

Bente Nesse
Board member

Janicke Driveklepp
Board member

Per Sævik
Board member

Arnstein Åmås
Board member (Employee representative)

Atle Olav Trollebø
Board member (Employee representative)

Dagfinn Neteland
CEO

Consolidated Statement of Changes in equity

Amounts in NOK thousands	Attributable to owners of the parent					
	Share capital	Share premium	Retained earnings	**Total**	Non-controlling interest	**Total equity**
Balance at 01.01.2015	**250,000**	**360,924**	**502,484**	**1,113,408**	**3,605**	**1,117,013**
Profit/(loss) for the period			218,765	**218,765**	126	**218,891**
Other comprehensive income for the year			23,083	**23,083**		**23,083**
Total comprehensive income for the year			241,848	**241,848**	126	**241,974**
Dividends paid			-50,000	**-50,000**		**-50,000**
Transactions with owners			-50,000	**-50,000**		**-50,000**
Balance at 31.12.2015	**250,000**	**360,924**	**694,332**	**1,305,256**	**3,731**	**1,308,987**
Balance at 01.01.2016	**250,000**	**360,924**	**694,332**	**1,305,256**	**3,731**	**1,308,987**
Profit/(loss) for the period			449,972	**449,972**	150	**450,122**
Other comprehensive income for the year			13,995	**13,995**	-	**13,995**
Total comprehensive income for the year			463,967	**463,967**	150	**464,117**
Dividends paid			-50,000	**-50,000**		**-50,000**
Transactions with owners			-50,000	**-50,000**		**-50,000**
Balance at 31.12.2016	**250,000**	**360,924**	**1,108,299**	**1,719,223**	**3,881**	**1,723,104**

Consolidated Statement of Cash Flows

Amounts in NOK thousands	Note	2016	2015
Operating activities			
Profit before tax		598,624	258,662
Adjustments for:			
Depreciation and impairment		161,503	216,853
Interest expense - net		99,792	118,221
Change in fair value of financial instruments		-53,433	-20,112
Non-cash post-employment benefit expense		-1,885	-14,151
Gain on disposal of property, plant and equipment		-11,224	
Share of profit from associates		-81,595	-56,350
Changes in working capital:			
Trade receivables		-6,955	16,692
Inventories		-1,641	6,462
Trade payables		15,308	38,284
Other accruals		24,153	-14,654
Cash generated from operations		**742,647**	**549,907**
Interest paid		-105,484	-122,955
Interest received		5,692	4,734
Income tax paid		-301	-132
Net cash from operating activities		**642,554**	**431,554**
Investing activities			
Purchases of property, plant and equipment		-379,654	-110,619
Purchase of shares incl. associates		-2,400	-21,030
Proceeds from dividends from associates		24,404	
Proceeds from sale of property, plant and equipment		83,503	
Proceeds from non-current receivables			4,222
Net cash used in investing activities		**-274,147**	**-127,427**
Financing activities			
Proceeds from borrowings		133,000	-
Repayment of borrowings		-255,930	-229,855
Dividends		-50,000	-50,000
Net cash used in financing activities		**-172,930**	**-279,855**
Net change in cash and cash equivalents		**195,477**	**24,272**
Cash and cash equivalents 01.01		**358,516**	**334,244**
Cash and cash equivalents at 31.12		**553,993**	**358,516**

Notes to the consolidated financial statements

Note 1 Accounting Principles

General information
Fjord1 AS and its subsidiaries (together 'the Group') operates passenger ferries and other passenger boats in Norway. The Group is controlled by Havilafjord (67%) with Havila Holding AS as the ultimate parent company. The Group's core business is concentrated at sea transportation through its operation of ferries and express passenger boats, in addition to on-board catering operation. Fjord1 ASA is incorporated and domiciled in Norway. The address of its registered office is Strandavegen 15, 6900 Florø, Norway.

Basis of preparation
The consolidated financial statements of Fjord1 ASA for the year ended December 31, 2016, will be the first annual financial statements that comply with IFRS. In these financial statements, the term "Norwegian GAAP" or "NGAAP" refer to Norwegian GAAP in use before the adoption of IFRS.

Subject to certain transition elections and exceptions disclosed in note 2, the Group has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2015 throughout all periods presented, as if these policies had always been in effect. Note 2 discloses the impact of the transition to IFRS on the Group's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Group's consolidated financial statements for the year ended December 31, 2015 prepared under Norwegian GAAP.

Going concern
The Group has adopted the going concern basis in preparing its consolidated financial statements. When assessing this assumption, management has assessed all available information about the future. This comprises information about net cash flows from existing ferry contracts and other service contracts, debt service and obligations under existing newbuilding contracts. Forecasts take into consideration expected future net income from assets under construction. After making such assessments, management has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future.

Due to a change in the current ownership of the Group, and change in control clauses for several loan facilities resulted in a demand by the lender to carry out a refinancing within July 2017. As a result, these borrowings have been presented as current liabilities as of 31 December 2016 because the Group does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date. The Group has subsequently obtained a waiver that defer the refinancing to take place within July 2018, but since this waiver were not obtained at 31 December 2016, the borrowings are classified as current.

Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, and derivative instruments, which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 - Financial Instruments
In July 2014, the International Accounting Standards Board issued the final version of IFRS 9, and was endorsed by European Union in November 2016. The effective date for IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The standard replaces the parts of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 also introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 contains three classification categories for financial assets; (i) measured at amortised cost, (ii) fair value through other comprehensive income and (iii) fair value through profit or loss. Thus, the standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The Group is yet to assess the full impact of IFRS 9, but they are not expected to have a material impact on the financial statements.

IFRS 15 - Revenue from contract with customers
The standard replaces IAS 18 and IAS 11, and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contract with a customer.

The standard is based on the principle that revenue is recognised when control of a good or a service is tranferred to a new customer. In that way, the notion of control replaces the existing notion of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service.

The standard was endorsed by EU in October 2016 and is effective from 1 January 2018. Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage the Group is not able to estimate the impact of the new rules on the Group's financial statements. However, the Group does not expect any significant changes related to the new standard. The Group will make more detailed assessments of the impact over the next six months.

IFRS 16 Leases
IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are shortterm and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments with an annual lease expense of NOK 61.3 million, see note 16. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and lowvalue leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

Principles of consolidation and equity accounting

Subsidiaries
(i) Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates
Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) *Equity method*
Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described below in the section "Impairment of assets".

(iv) Changes in ownership interests
The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Fjord 1 ASA.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Board of Fjord 1 ASA is deemed to be the chief operating decision maker.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Norwegian kroner, which is Fjord 1 AS' functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below.

The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The specific accounting policies for the group's main types of revenue are as follows:

(i) Sale of goods: The Group offers certain catering services related to its ferry operations where revenue is recognised when the item is sold to a customer.

ii) Sale of tickets: Revenue from sale of tickets are recognised as revenue when it is sold to a customer. For prepaid travel cards, revenue is deferred and recognised when utilised.

Government contracts
Grants from governments are recognised at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all conditions. Note 6 provides further information on how the Group accounts for government grants.

The Group recognises grants related to long-term contracts with the government according to IAS 20.

Income tax
The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Leases
Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases.
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straightline basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

Impairment of assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 12 for further information about the group's accounting for trade receivables and credit risk.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business.

Investments and other financial assets
(i) Classification
The group classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See note 12 for details about each type of financial asset.

ii) Reclassification
The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.

In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively

(iii) Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(*iv) Measurement*
At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:
- for 'financial assets at fair value through profit or loss' in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in note 12.

(v) Impairment
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost
For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.
Impairment testing of trade receivables is described in note 12.

Assets classified as available-for-sale
If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Income recognition
Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends
Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Derivatives and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group has no designated hedges as the derivatives used by the Group does not qualify for hedge accounting.

The expected cash flows related to a derivative due in less than 12 months are classified as current, while the remaining part of the fair value of the derivative is classified as non-current.

Property, plant and equipment
All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The depreciation methods and periods used by the group are disclosed in note 11.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 11)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Trade and other payables
These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Further, the change in ownership on October 14, 2016 triggered a change in control clause in the loan agreements whereby the lenders demanded a refinancing to be carried out within July 2017. Due to this, borrowings are presented as current liabilities as of 31 December 2016 because the Group does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date. The Group has subsequently obtained a waiver that defer the refinancing to take place within July 2018, but since this waiver were not obtained at 31 December 2016, the borrowings are classified as current.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs
General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

Provisions
Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits
The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

Pension obligations
The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Earnings per share
(i) Basic earnings per share Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 10)

(ii) Diluted earnings per
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:
-the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Note 2 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2016, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with Norwegian generally accepted accounting principles (NGAAP).

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2016, together with comparative period date for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2015, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its NGAAP financial statements, including the statement of financial position as at 1 January 2015 and the financial statements for the year ended 31 December 2015.

Exemptions applied
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

- IFRS 3 Business combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occured before 1 January 2015. Use of this exemption means that the NGAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the NGAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2015.

- Certain items of property, plant and equipment have been measured at fair value at the date of transition to IFRS. Refer to adjustment A below.

- The Group has designated unquoted equity instruments held at 1 January 2015 as AFS financial assets.

Estimates
The estimates at 1 January 2015 and at 31 December 2015 are consistent with those made for the same dates in accordance with NGAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of NGAAP did not require estimation:
- Pensions and other postemployment benefits
- AFS financial assets - unquoted equity securities

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2015, the date of transition to IFRS and as at 31 December 2015.

Group reconciliation of equity as at 1 January 2015 (date of transition to IFRS)

NOK in thousands		1 January 2015		
	Note	NGAAP	*Adjustments*	IFRS
Assets				
Non current assets				
Deferred tax assets	H	266	55,352	55,618
Property, plant and equipment	A	3,729,277	24,602	3,753,879
Investments in associates	B	221,932		221,932
Other non-current financial assets	C	12,332	9,861	22,193
Total non-current assets		**3,963,807**	**89,815**	**4,053,622**
Current assets				
Inventories		19,511		19,511
Trade receivables		88,397		88,397
Other current receivables	F	12,168	(6,000)	6,168
Cash and cash equivalents		334,244		334,244
Total current assets		**454,320**	**(6,000)**	**448,320**
Total assets		**4,418,127**	**83,815**	**4,501,942**
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital		250,000		250,000
Share premium		360,924		360,924
Retained earnings		561,228	(58,744)	502,484
Total equity attributable to owners of the parent		**1,172,152**	**(58,744)**	**1,113,408**
Non-controlling interests	K	3,629	(24)	3,605
Total equity		**1,175,781**	**(58,768)**	**1,117,013**
Non-current liabilities				
Borrowings	D	2,308,296	(229,855)	2,078,441
Derivative financial instruments	C		96,486	96,486
Net employee defined benefit liabilities	E	13,906	62,518	76,424
Other non-current liabilities	F	32,665	(32,665)	
Deferred tax liabilitites	H	204,223	14,859	219,082
Total non-current liabilites		**2,559,090**	**(88,657)**	**2,470,433**
Current liabilities				
Borrowings	D		229,855	229,855
Derivative financial instruments	C		52,099	52,099
Trade and other payables		56,483		56,483
Current income tax liabilities		132		132
Social security and other taxes		73,959		73,959
Dividend payable	G	50,000	(50,000)	-
Other current liabilities	K	502,684	(714)	501,970
Total current liabilities		**683,258**	**231,240**	**914,498**
Total liabilities		**3,242,348**	**142,583**	**3,384,931**
Total equity and liabilities		**4,418,127**	**83,815**	**4,501,942**

Group reconciliation of equity as at 31 December 2015

NOK in thousands		31 December 2015		
	Note	NGAAP	*Adjustments*	IFRS
Assets				
Non current assets				
Deferred tax assets	H	279	37,667	37,946
Property, plant and equipment	A	3,568,631	80,364	3,648,995
Investments in associates	B	280,698	20,057	300,755
Other non-current financial assets	C	8,417		8,417
Total non-current assets		**3,858,025**	**138,088**	**3,996,112**
Current assets				
Inventories		13,049		13,049
Trade receivables		71,705		71,705
Other current receivables	A, F	100,853	(34,400)	66,453
Cash and cash equivalents		358,516		358,516
Total current assets		**544,123**	**(34,400)**	**509,723**
Total assets		**4,402,148**	**103,688**	**4,505,835**
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital		250,000		250,000
Share premium		360,924		360,924
Retained earnings		692,624	1,708	694,332
Total equity attributable to owners of the parent		**1,303,548**	**1,708**	**1,305,256**
Non-controlling interests	K	3,744	(13)	3,731
Total equity		**1,307,292**	**1,695**	**1,308,987**
Non-current liabilities				
Borrowings	D	2,078,441	(255,930)	1,822,511
Derivative financial instruments	C		64,898	64,898
Net employee defined benefit liabilities	E	1,056	32,055	33,111
Other non-current liabilities	F	26,839	(26,839)	-
Deferred tax liabilitites	H	235,911	14,502	250,413
Total non-current liabilites		**2,342,247**	**(171,314)**	**2,170,933**
Current liabilities				
Borrowings	D		255,930	255,930
Derivative financial instruments	C		53,714	53,714
Trade and other payables		94,767		94,767
Current income tax liabilities		301		301
Social security and other taxes	K	93,373	797	94,170
Dividend payable	G	50,000	(50,000)	-
Other current liabilities	K	514,168	12,866	527,034
Total current liabilities		**752,609**	**273,307**	**1,025,916**
Total liabilities		**3,094,856**	**101,993**	**3,196,849**
Total equity and liabilities		**4,402,148**	**103,688**	**4,505,835**

Group reconciliation of total comprehensive income for the year ended 31 December 2015

NOK in thousands		**31 December 2015**		
	Note	NGAAP	*Adjustments*	IFRS
Revenue	H	2,193,909	(867,582)	1,326,327
Other income	A, F	48,570	855,106	903,676
Cost of sales	I	(70,725)	(358,791)	(429,516)
Personnel expenses	E, I	(863,375)	(25,878)	(889,253)
Other operating expenses	A	(829,473)	401,332	(428,141)
Total operating expenses		**(1,763,573)**	**16,663**	**(1,746,910)**
Share of profit/(loss) from associates	J	-	11,343	11,343
Operating profit before depreciation and impairment (EBITDA)		**478,906**	**15,530**	**494,436**
Depreciation	A	(207,325)	(34,636)	(241,961)
Impairment	A	11,048	14,060	25,108
Total depreciation and impairment		**(196,277)**	**(20,576)**	**(216,853)**
Operating profit (EBIT)		**282,629**	**(5,046)**	**277,583**
Share of profit/(loss) from associates	B, J	37,735	7,272	45,007
Interest income		4,734		4,734
Interest expense	E	(121,685)	(1,270)	(122,955)
Other financial items, net	C	8,174	46,119	54,293
Net financial income / (expenses)		**(71,042)**	**52,121**	**(18,921)**
Profit/(loss) before tax		**211,587**	**47,075**	**258,662**
Income tax (expense) / income	H	(29,656)	(10,115)	(39,771)
Profit/(loss) for the year		**181,931**	**36,960**	**218,891**
Other comprehensive income:				
Share of other comprehensive income of associates accounted for using the equity method	B		1,442	1,442
Actuarial gain on pension obligations	E	-	21,641	21,641
Total other comprehensive income for the year - net of tax		**-**	**23,083**	**23,083**
Total comprehensive income for the year		**181,931**	**60,043**	**241,974**

Notes to the reconciliation of equity as at 1 January 2015 and 31 December 2015 and total comprehensive income for the year ended 31 December 2015

Adjustment A

The group has elected to measure certain items of property, plant and equipment at fair value at the date of transition to IFRS. This amount has been recognised against retained earnings.

IAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately. The cost of periodic maintenance of vessels (required to be performed every fifth year) is capitalised and depreciated separately over the period to the next periodic maintenance.

As required in IAS 36, the Group has performed an impairment tests due to identified indications of impairment. For the purpose of impairment, each government contract including vessels designated for the different ferry contracts is determined to be a cash-generating unit (CGU). When calculating net present value of expected cash flows during the contract period, taking into account expected residual vessel values at the end of the contract, the Group recognised an impairment charge as at 1 January 2015.

At the date of transition to IFRS, the following adjustments were recognised in property, plant and equipment:

NOK in thousands	31.12.2015	01.01.2015
Fair value adjustment of vessels	33,800	33,800
Capitalised periodic maintenance net of accumulated depreciation	48,324	41,819
Impairment of vessels	(36,957)	(51,017)
Net adjustment property, plant and equipment	45,167	24,602

Adjustment B

Investments in associates has been adjusted to reflect assets and liabilities of the associates not recognised under NGAAP. Further, goodwill is subject to amortisation under NGAAP. The goodwill amortisation has been reversed under IFRS.

Adjustment C

The fair value of financial instruments is recognised under IFRS, and was not recognised under NGAAP. The contracts, which were designated as hedging instruments under NGAAP, do not qualify for hedge accounting under IFRS and consequently the contracts are classified as held for trading and recognised at fair value through profit or loss.

Adjustment D

IAS 1 provide guidance on the distinction between current and non-current liabilities. In accordance with IFRS, instalment on borrowings expected to be repaid within the next twelve months after the balance sheet date has been classified as current liabilities.

Adjustment E

Post employment benefits are accounted for using IAS 19. Under IAS19 the corridor approach allowed under NGAAP is eliminated and all actuarial gains and losses are recognised in Other comprehensive income as they occur. All past service costs are recognised and interest costs and expected return on plan assets are replace with a net amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The interest expense has been reclassified as a finance item.

Adjustment F
Under NGAAP, the Group had recognised deferred revenue related to certain contracts. The deferral is not considered to be deferred revenue under IFRS and as a result, the deferred revenue is eliminated and recognised against retained earnings. In addition, the Group had recognised accrued revenue related that do not meet the recognition criterias under IFRS. Accordingly, this accrual has been reversed and other current receivables reduced accordingly.

Further, income from government contracts are deemed to be government grants and recognised in accordance with IAS 20. Under NGAAP, income from government grants were classified and recognised as revenue. As a result, NOK 855,106 thousands in 2015 has been reclassified from revenue to other income in the statement of profit or loss.

Adjustment G
Under NGAAP, proposed dividend payments are reflected in the financial statements, while under IFRS dividends must be formally approved before being recognised in the financial statements. As a result, recognised dividend liabilities are recognised in the period when the dividend is formally approved.

Adjustment H
The IFRS adjustments result in differences between accounting values and tax values, and as a result the Group has recognised deferred tax assets and deferred tax liabilities related to the IFRS adjustments.

Adjustment I
Part of the cost items included in cost of goods sold under NGAAP is reclassified to personnel expenses under IFRS.

Adjustment J
Share of profit/(Loss) from associates, except the interest in Widerøe, is included in Earnings before interest and tax since the interest in associates excepte Widerøe is considered to be operational by nature.

Adjustment K
Due to differences between NGAAP and IFRS with respect to offsetting and classification there has been recognised certain reclassifications in the IFRS financial statements.

Note 3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

1) Recognition of government grants
As described in note 15, the Group has recognised an income of NOK 87 million in 2016 (2015: NOK 92.2 million) related to received compensation to cover loss of income due to changes in the original contract assumptions such as discount and fare structures. The compensation is subject to final negotiations and as a result, the Group may receive additional compensation or may receive a claim on paid out preliminary compensation. Paid out compensation is recognised as income in the period the compensation is received, as this represents the Group's estimate of expected consideration for the services.

The Group has assessed that long-term contracts with the government fulfil the requirements to be accounted for according to IAS 20. The Group does not consider IFRIC 12 to be applicable. Option periods in government contracts are accounted for according to IAS 20, when the option is exercised, and there is reasonable assurance that the grant will be received and that the Group will comply with all conditions.

2) Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment, testing for an asset is required, the Group estimates the asset's recoverable amount.

The Group has determined that there existed impairment indicators such as operating losses for the asset, when current period amounts are aggregated with budgeted amounts for the future. Based on this, the Group has performed impairment assessments at each reporting date (1 January 2015, 31 January 2015 and 31 January 2016).

An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If this is the case, the carrying amount is increased to the recoverable amount of that asset.

Uncertainty exists in the estimated recovarable amount as the calculation is based on applied variables that implies the use of management's judgements, such as cash flow forecast in the contract period, residual values at the end of the contract period and discount rates.

3) Operating lease - the Group as a lessee
The Group lease certain express boats for use in the passenger boat segment. Based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the boats and the present value of the minimum lease payments not amounting to substantially all of the fair value of the boat, the Group
has determined to account for these agreements as operating leases.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

1) Estimated value in use of non-financial assets
For the purpose of impairment testing, each government contract including vessels designated for the different ferry contracts is determined to be a cash-generating unit (CGU). When calculating value in use, the Group use cash flow projections for the remaining contract period and estimate residual vessel values at the end of each contract. Reference is made to note 11 for further details.

2) Defined benefit plans
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at the reporting date.

Note 4 Segment information

The Group provides ferry- and passengerboat services, catering and tourism services. Operating segments are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The Board examines the Group's performance from a type of services perspective. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

The Group has four reportable segments:
- Ferry
- Passengerboat
- Catering
- Tourism

No operating segments have been aggregated to form the above reportable segments. Financing (including finance costs, finance income and profit or loss from the interest in Widerøe) and income taxes are managed on a group basis and are not allocated to operating segments. The operating segments reporting is based on Norwegian Generally Accepted Accounting principles (NGAAP).

All Group activities are carried out in Norway. There are no customers representing more than 10% of revenue.

Year ended 31 December 2016

NOK in thousands	Ferry	Passenger-boats	Catering	Tourism	Total segments	Corporate and eliminations	Consolidated
Revenue							
External customers	2,062,497	100,518	187,982	21,437	2,372,434	18,477	2,390,912
Inter-segment	-	-	-	-	-	-	-
Total revenue	2,062,497	100,518	187,982	21,437	2,372,434	18,477	2,390,912
Share of profit from associates		2,622		6,435	9,057		9,057
Operating expenses excluding depreciation and impairment	(1,444,046)	(93,715)	(149,297)	(16,912)	(1,703,970)	36,103	(1,667,867)
EBITDA	**618,451**	**9,425**	**38,685**	**10,960**	**677,521**	**54,580**	**732,102**
Depreciation	(228,785)	(5,681)	(3,442)	(101)	(238,009)	(2,077)	(240,086)
Segment profit	**389,666**	**3,744**	**35,243**	**10,859**	**439,512**	**52,503**	**492,016**

Year ended 31 December 2015

NOK in thousands	Ferry	Passenger-boats	Catering	Tourism	Total segments	Corporate and eliminations	Consolidated
Revenue							
External customers	1,905,539	103,695	189,514	20,763	2,219,511	18,492	2,238,003
Inter-segment	-				-	-	-
Total revenue	1,905,539	103,695	189,514	20,763	2,219,511	18,492	2,238,003
Share of profit from associates		2,491		8,853	11,344		11,344
Operating expenses excluding depreciation and impairment	(1,482,613)	(92,923)	(157,944)	(24,655)	(1,758,135)	34,352	(1,723,783)
EBITDA	**422,926**	**13,263**	**31,570**	**4,961**	**472,720**	**52,844**	**525,564**
Depreciation	(229,657)	(6,868)	(3,244)	(56)	(239,825)	(2,135)	(241,960)
Segment profit	**193,269**	**6,395**	**28,326**	**4,905**	**232,895**	**50,709**	**283,604**

Reconciliation to Consolidated profit/(loss) for the year		
NOK in thousands	**2016**	**2015**
Segment profit	492,016	283,604
Share of profit from other associates	72,540	45,007
Impairment/Reversal of impairment	78,582	25,108
GAAP differences	(3,737)	(5,121)
Interest income	5,692	4,734
Interest expense	(105,484)	(122,955)
Other financial items, net	59,016	28,286
Income tax (expense)	(148,502)	(39,771)
Group profit	**450,122**	**218,891**

Specification of revenue	**2016**	**2015**
Freight of passengers and cars	1,035,988	1,136,813
Catering	187,982	189,514
Total	**1,223,970**	**1,326,327**

Note 5 Interests in other entities

5.1 Material subsidiaries

The Group's principal subsidiaries at 31 December 2016 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held

Name of entity	Place of business	Ownership interest held by the Group	Ownership interest held by non-controlling interests	Principal activities
Hareid Trafikkterminal AS	Hareid	63 %	37 %	Owner of property
F1 Administrasjon AS	Florø	100 %	0 %	Group administration
Bolsønes Verft AS	Molde	100 %	0 %	Shipyard
ÅB Eigedom AS	Årdal	66 %	34 %	Owner of property
Måløy Reisebyrå AS	Måløy	100 %	0 %	Travel agency
Fanafjord AS	Florø	100 %	0 %	Holding company
Nye Fanafjord AS	Florø	100 %	0 %	10% is held by Fanafjord AS, an entity 100% controlled by the Group.

5.2 Interests in associates

Set out below are the associates of the Group as at 31 December 2016 which, in the opinion of the directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interest is the same as the proportion of voting rights held.

				Carrying amount in NOK thousands		
Name of entity	**% of ownership interest**	**Nature of relationship**	**Measurement method**	**31.12.2016**	**31.12.2015**	**01.01.2015**
The Fjords Fartøy I DA	50 %	Associate	Equity method	15,465	13,000	-
Sognefjorden Fartøy I AS	50 %	Associate	Equity method	623	3,030	-
The Fjords DA Partsrederiet	50 %	Associate	Equity method	8,426	13,853	-
Kystekspressen ANS	49 %	Associate	Equity method	22,271	19,649	17,158
WF Holding AS*	34 %	Associate	Equity method	314,927	251,224	204,774
Investments in associates				**361,709**	**300,755**	**221,932**

*WF Holding AS holds 80% of the shares in Widerøe's Flyveselskap AS. The company is controlled by Torghatten ASA, who prepare consolidated accounts where WF Holding AS is included. The consolidated accounts for Torghatten ASA is available at its head office in Havnegata 40, 8900 Brønnøysund. Consequently, Fjord1's share of underlying profit or loss in Widerøe is 27% (34% of 80%)

Profit/(loss) from associates in NOK thousands:	**2016**	**2015**
The Fjords Fartøy I DA	65	-
Sognefjorden Fartøy I AS	(9)	-
The Fjords DA Partsrederiet	6,377	8,853
Kystekspressen ANS	2,622	2,491
Profit/(loss) from associates - included in EBITDA	**9,055**	**11,343**
WF Holding	72,540	45,007
Profit/(loss) from associates - not included in EBITDA	**72,540**	**45,007**
Share of OCI from WF Holding	1,363	1,442

Share of profit/(loss) from WF holding is not included in EBITDA as the investment in WF Holding is not considered to be part of the operating activities of the Group.

Commitments and contingent liabilities in respect of associates

As an unlimited liability partner in The Fjords DA and The Fjords Fartøy DA, the Group is jointly liable with respect to all liabilities concerning these entities.

Summarised financial information for associates

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised balance sheet	**WF Holding Group**			**The Fjords DA**	
NOK thousands	**31.12.2016**	**31.12.2015**	**01.01.2015**	**31.12.2016**	**31.12.2015**
Cash and cash equivalents	124,391	13,846	13,227	16,788	10,624
Other current assets	509,040	354,432	408,681	13,634	25,438
Total current assets	**633,431**	**368,278**	**421,908**	**30,422**	**36,062**
Non-current assets	**2,137,963**	**2,127,324**	**2,053,857**	**3,786**	**928**
Trade payables	185,351	129,305	210,991	5,626	6,919
Other current liabilities	826,762	640,704	671,540	5,569	4,204
Total current liabilities	**1,012,113**	**770,009**	**882,531**	**11,195**	**11,123**
Borrowings	728,422	958,227	955,206	-	-
Other non-current liabilities	146,599	117,309	158,738	-	-
Total non-current liabilities	**875,021**	**1,075,536**	**1,113,944**	**-**	**-**
Net assets	**884,260**	**650,057**	**479,290**	**23,013**	**25,866**
Reconciliation to carrying amounts:					
Opening net assets 1 January	650,057	479,290		25,866	10,000
Profit/(loss) for the period	269,191	165,465		13,013	15,866
Other comprehensive income	5,011	5,302			
Dividends paid	(40,000)			(15,866)	
Closing net assets 31 December	**884,260**	**650,057**		**23,013**	**25,866**
Group's share in %	27.2 %	27.2 %		50 %	50 %
Group's share in NOK thousands	240,519	176,816		11,507	12,933
Goodwill	74,408	74,408			
Other adjustments				(3,081)	920
Dividends					
Carrying amount	**314,927**	**251,224**		**8,426**	**13,853**

Summarised statement of comprehensive income				
NOK thousands				
Revenue	4,559,819	3,951,573	125,821	106,856
Operating expenses	(3,913,672)	(3,450,916)	(111,882)	(90,769)
Depreciation and amortisation	(269,046)	(290,036)	(905)	(206)
Net financial items	(25,301)	11,406	(21)	(15)
Income tax expense	(82,609)	(56,563)		
Profit/(loss for the period)	**269,191**	**165,465**	**13,013**	**15,866**
Other comprehensive income	5,011	5,302	-	-
Total comprehensive income	**274,202**	**170,766**	**13,013**	**15,866**

Summarised balance sheet	The Fjords Fartøy I DA		Partsrederiet Kystekspressen ANS		
NOK thousands	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**01.01.2015**
Cash and cash equivalents	2,656		16,710	6,316	1,375
Other current assets	1,983	7	9,322	5,853	13,575
Total current assets	**4,639**	**7**	**26,032**	**12,169**	**14,950**
Non-current assets	**97,955**	**71,625**	**141,800**	**153,342**	**159,294**
Trade payables	3,046	34	7,538	6,872	15,616
Other current liabilities	6,648	45,625	21,527	15,428	12,706
Total current liabilities	**9,694**	**45,659**	**29,065**	**22,300**	**28,322**
Borrowings	61,950				
Other non-current liabilities			95,316	103,111	110,905
Total non-current liabilities	**61,950**	**-**	**95,316**	**103,111**	**110,905**
Net assets	**30,950**	**25,973**	**43,450**	**40,099**	**35,016**
Reconciliation to carrying amounts:					
Opening net assets 1 January	25,973	26,000	40,098	35,016	
Profit/(loss) for the period	177	(27)	5,351	5,083	
Other comprehensive income					
(Dividends paid)/Capital contribution	4,800		(2,000)		
Closing net assets 31 December	**30,951**	**25,973**	**43,449**	**40,098**	
Group's share in %	50 %	50 %	49 %	49 %	
Group's share in NOK thousands	15,476	12,987	21,290	19,649	
Adjustments	(11)	13	981		
Goodwill					
Dividends					
Carrying amount	**15,465**	**13,000**	**22,271**	**19,649**	

Summarised statement of comprehensive income				
NOK thousands				
Revenue	3,894		131,892	135,429
Operating expenses	(482)	(27)	(111,263)	(116,685)
Depreciation and amortisation	(2,233)		(12,591)	(10,309)
Net financial items	(1,002)		(2,687)	(3,352)
Income tax expense				
Profit/(loss for the period)	**177**	**(27)**	**5,351**	**5,083**
Other comprehensive income	-			
Total comprehensive income	**177**	**(27)**	**5,351**	**5,083**

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in Sognefjorden Fartøy I AS that is deemed individually immaterial associate, accounted for using the equity method.

	2016	**2015**
Carrying amount of immaterial associates	623	3,030
Profit/(loss) for the period	(17)	(41)

Note 6 Specification of other income and government grants

The group has recognised the following amounts relating to revenue in the statement of profit or loss

	2016	2015
Government grants related to ferry services	1,104,752	855,106
Rental income	26,274	27,858
Gain/(loss) on disposal of property, plant and equipment	11,841	1,585
NOX refund	3,832	8,094
Other income	15,743	11,033
Total other income and government grants	**1,162,442**	**903,676**

There are no unfulfilled conditions or other contingencies related to these grants, except as disclosed in note 15. The Group did not benefit from any other forms of government assistance.

Deferral and presentation of government grants
Government grants related to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants related to purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected life of the related assets.

Note 7 Personnel expenses

NOK in thousands	Note	2016	2015
Salaries		719,338	700,393
Social security		105,228	107,148
Pension expenses	14	48,280	58,601
Other benefits		11,989	23,110
Total personnel expenses		**884,835**	**889,253**
Number of employees		1,191	1,248

Pension obligations are covered through insurance companies and KLP.
Norwegian entities are obligated to establish a mandatory company pension. This obligation is fulfilled under the current pension plan.

Note 8 Other income and expense items

This note provides a breakdown of the items included in other operating expenses and other net financial items.

Other operating expenses	**2016**	**2015**
Port fees, sanitation and other route related costs	28,793	24,549
Repair and maintenance	157,632	169,385
Vessel operating expenses	153,084	155,185
Other operating expenses	63,074	79,023
Total other operating expenses	**402,584**	**428,141**

Other financial items	**Note**	**2016**	**2015**
Change in fair value derivatives	12	52,154	46,119
Foreign exchange gain/(losses)		2,061	3,632
Dividends		4,175	4,770
Other financial income		614	1,000
Other financial expenses		(1,268)	(1,228)
Total other financial items		**57,737**	**54,293**

Note 9 Income tax

Specification of tax expense recognised in stament of profit or loss

	2016	2015
Tax payable on profit for the year	2,672	300
Adjustments prior years tax payable	156	-
Tax effect Group contribution	1,222	1,313
Adjustment in deferred tax 2014	-	3,233
Change in deferred tax/(tax asset)	144,452	34,925
Tax expense recognised in statement of profit or loss	**148,502**	**39,771**

Reconciliation of statutory tax rate to effective tax rate:

	2016	2015
Profit before tax	598,624	258,662
Income tax at statutory tax rate	**149,656**	**69,839**
Tax expense recognised in statement of profit or loss	148,502	39,771
Difference	**1,154**	**30,068**
Change in tax rate	(15,186)	(17,660)
Permanent differences	15,118	46,414
Group contribution	1,222	1,313
Difference	**1,154**	**30,068**

Specification of basis for deferred tax

	2016	31.12.2015	01.01.2015
Property, plant and equipment	2,081,609	1,700,779	1,569,928
Receivables	(96,311)	(15,733)	(1,719)
Deferred capital gains	71,548	55,725	70,380
Shares in partnerships	(5,610)	11,539	25,177
Pension liabilities	(14,605)	(33,111)	(76,424)
Derivatives	(65,704)	(118,612)	(148,585)
Temporary differences	1,970,926	1,600,587	1,438,757
Tax losses carried forward	(466,978)	(750,718)	(833,333)
Basis for calculation of deferred tax/(tax assets)	1,503,948	849,869	605,424
Deferred tax/(tax asset)	360,947	212,467	163,464
Deferred tax asset recognised in statement of financial position	**21,328**	**37,946**	**55,618**
Deferred tax recognised in statement of financial position	**382,276**	**250,413**	**219,082**
Net position	*360,947*	*212,467*	*163,464*

Reconciliation of change in net deferred tax

	2016	2015
Opening balance	212,467	163,464
Changes recognised in statement of profit or loss	148,502	39,771
Changes recognised in other comprehensive income	3,989	7,214
Other adjustments	(4,011)	2,019
Closing balance	**360,947**	**212,467**

Note 10 Earnings per share

The basic and diluted earnings per share are the same, as there are no convertible bond loan or stock option plans. Earnings per share is calculated as net result allocated to shareholders for the year divided by the weighted average number of outstanding shares.

As described in note 19, the Company will transform from a private limited liability company into a public limited liability company. As part of this transformation, there will be a share split. The new number of shares outstanding will be 100,000,000 compared to 100,000 shares outstanding as at 31 December 2016 and 2015. The new number of shares of 100,000,000 is used when calculating earnings per share.

	2016	**2015**
Profit/(loss) attributable to equity holders of the company (NOK	449,972	218,765
Weighted average number of ordinary shares in issue	100,000,000	100,000,000
Earnings per share in NOK	**4.50**	**2.19**
Earnings per share in NOK when number of shares were 100,000	4,500	2,188

Note 11 Property, plant and equipment

2016	Vessels	Periodic maintenance	Vessels under construction	Property	Machinery and equipment	Total
Cost price 01.01.2016	5,865,488	200,476	47,705	128,349	169,890	6,411,908
Additions		47,902	324,499	285	4,647	377,333
Transferred from new buildings	250,100	4,404	-254,504			-
Disposals	-179,928	-47,902		-	-	-227,830
Cost price 31.12.2016	**5,935,660**	**204,880**	**117,700**	**128,634**	**174,537**	**6,561,410**
Accumulated depreciation 01.01.2016	2,189,601	109,555	-	41,889	147,548	2,488,593
Depreciation for the year	189,257	39,406	-	4,488	6,934	240,085
Disposals	-109,970	-47,902	-	-	-	-157,872
Accumulated depreciation 31.12.2016	**2,268,887**	**101,060**	**-**	**46,377**	**154,482**	**2,570,806**
Accumulated impairment losses 01.01.2016	274,320	-	-	-	-	274,320
Impairment loss	-	-	-	-	-	-
Reversal impairment	-78,582	-	-	-	-	-78,582
Accumulated impairment losses 31.12.2016	**195,738**	**-**	**-**	**-**	**-**	**195,738**
Carrying amount 31.12.2016	**3,471,034**	**103,820**	**117,700**	**82,257**	**20,055**	**3,794,867**

2015	Vessels	Periodic maintenance	Vessels under construction	Property	Machinery and equipment	Total
Cost price 01.01.2015	5,852,656	200,476	8,917	128,516	182,130	6,372,695
Additions		39,791	76,994	9	5,543	122,337
Transferred from new buildings	38,206		-38,206			-
Disposals	-25,374	-39,791		-176	-17,783	-83,124
Cost price 31.12.2015	**5,865,488**	**200,476**	**47,705**	**128,349**	**169,890**	**6,411,908**
Accumulated depreciation 01.01.2015	2,014,638	109,425	-	36,854	158,471	2,319,388
Depreciation for the year	190,569	39,921	-	5,035	6,436	241,961
Disposals	-15,607	-39,791	-	-	-17,359	-72,756
Accumulated depreciation 31.12.2015	**2,189,601**	**109,555**	**-**	**41,889**	**147,548**	**2,488,593**
Accumulated impairment losses 01.01.2015	299,428	-	-	-	-	299,428
Impairment loss	40,000	-	-	-	-	40,000
Reversal impairment	-65,108	-	-	-	-	-65,108
Accumulated impairment losses 31.12.2015	**274,320**	**-**	**-**	**-**	**-**	**274,320**
Carrying amount 31.12.2015	**3,401,567**	**90,921**	**47,705**	**86,460**	**22,342**	**3,648,995**
Useful life	*10-30 years*	*5 years*		*0-33 years*	*3-10 years*	
Depreciation method	*Straight line*	*Straight line*		*Straight line*	*Straight line*	

Additions
The two newbuilds Hornelen and Losna was delivered during the year 2016. In addition, the Group has six additional vessels under construction as of 31 December 2016.

Disposals
The Group sold 5 vessels in 2016; Tustna, Vetlefjord, Fjordprins, Brandal and Solundir. Gain on sale of these vessels is included in other income in the consolidated statement of profit or loss.

Impairment
A substantial part of the revenue in the Group is related to long term contracts as a result of public tendering processes.
As of 31 December 2016, the Group has conducted impairment tests on its fixed assets where there are impairment indicators present. Due to renegotiated terms under some contracts there has been a change in the cash flow estimates used to determine recoverable amount since the last impairment loss was recognised (on 1 January 2015). As a result, the Group has reversed part of the impairment loss in 2015 and 2016.

Key assumptions
The Group has calculated the recoverable amount based on a value-in-use calculation. The value-in-use model calculates net present value of forecasted cash flows under each government contract. Each contract together with vessels designated for use under the different contracts is deemed to be a cash-generating unit (CGU).

The forecasted cash flows are based on latest EBITDA forecast taking into account the contract terms and forecasted operating expenses, together with forecasted maintenance capital expenditures. At the end of the contract period, the Group has estimated a realisable value of each vessel. The realisable value is based on external broker estimates obtained at the balance sheet date adjusted for inflation and expected depreciation during the remaining contract period.

The cash flows are discounted using an estimated WACC.
The Group has applied an after-tax discount rate (WACC) of 7.0 % (pre-tax 8.1%) when conducting the impairment tests.

Sensitivity analysis - impairment test 2016

	Reversal impairment
Recognised in statement of profit or loss 2016	78,582

	Reversal impairment	Change
WACC increased by 1 percentage point	64,813	(13,769)
WACC increased by 2 percentage point	42,764	(35,818)
EBITDA decreased by 5%	76,973	(1,609)
EBITDA decreased by 10%	75,365	(3,217)
Residual value decreased by 5%	47,146	(31,436)
Residual value decreased by 10%	12,545	(66,037)

Note 12 Financial risk management, financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:
- an overview of all financial instruments held by the Group
- specific information about each type of financial instrument
- information about determining the fair value of the instruments, including judgements and estimatoin uncertainty involved
- financial risk management.

The Group holds the following financial instruments:

Financial assets

31.12.2016	**Assets at FVOCI**	**Assets at FVPL**	**Assets at amortised cost**	**Total**
Trade and other receivables			114,548	114,548
Available-for-sale financial assets	7,653			7,653
Employee loans			467	467
Other non-current receivables			164	164
Cash and cash equivalents			553,993	553,993
Total	**7,653**	**-**	**669,172**	**676,825**

31.12.2015	**Assets at FVOCI**	**Assets at FVPL**	**Assets at amortised cost**	**Total**
Trade and other receivables			138,158	138,158
Available-for-sale financial assets	7,085			7,085
Employee loans			1,094	1,094
Other non-current receivables			237	237
Cash and cash equivalents			358,516	358,516
Total	**7,085**	**-**	**498,005**	**505,090**

01.01.2015	**Assets at FVOCI**	**Assets at FVPL**	**Assets at amortised cost**	**Total**
Trade and other receivables			94,565	94,565
Available-for-sale financial assets	16,540			16,540
Employee loans			1,453	1,453
Other non-current receivables			4,200	4,200
Cash and cash equivalents			334,244	334,244
Total	**16,540**	**-**	**434,462**	**451,002**

Financial liabilities

31.12.2016	**Derivatives at FVPL**	**Liabilities at amortised cost**	**Total**
Derivative financial instruments	65,178		65,178
Borrowings		1,955,511	1,955,511
Trade and other payables		635,801	635,801
Total	**65,178**	**2,591,312**	**2,656,490**

31.12.2015	**Derivatives at FVPL**	**Liabilities at amortised cost**	**Total**
Derivative financial instruments	118,612		118,612
Borrowings		2,078,441	2,078,441
Trade and other payables		621,801	621,801
Total	**118,612**	**2,700,242**	**2,818,854**

01.01.2015	**Derivatives at FVPL**	**Liabilities at amortised cost**	**Total**
Derivative financial instruments	148,585		148,585
Borrowings		2,308,296	2,308,296
Trade and other payables		558,453	558,453
Total	**148,585**	**2,866,749**	**3,015,334**

Trade and other receivables

NOK in thousands	31.12.2016 Current	31.12.2016 Non-current	31.12.2016 Total	31.12.2015 Current	31.12.2015 Non-current	31.12.2015 Total
Trade receivables	80,165		80,165	73,396		73,396
Provision for impairment	(1,505)		(1,505)	(1,692)		(1,692)
	78,660	-	**78,660**	**71,705**	**-**	**71,704**
Employee loans		467	467		1,094	1,094
Prepayments	3,021		3,021	6,649		6,649
Insurance claims	10,935		10,935	14,135		14,135
Other receivables	21,931	164	22,095	45,669	237	45,906
	35,888	**631**	**36,518**	**66,453**	**1,331**	**67,784**

Trade and other receivables

NOK in thousands	01.01.2015 Current	01.01.2015 Non-current	01.01.2015 Total
Trade receivables	90,099		90,099
Provision for impairment	(1,702)		(1,702)
	88,397	-	**88,397**
Employee loans		1,453	1,453
Prepayments	5,527		5,527
Insurance claims			-
Other receivables	641	4,200	4,841
	6,168	**5,653**	**11,821**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current. Due to the short-term nature of current receivables, their carrying amount is considered to be the same as their fair value. For the non-current receivables, the fair values are also not significantly different to their carrying amounts.

Receivables past due

		Days past due			
NOK in thousands	**Not due**	**1 - 30**	**31 - 60**	**61 - 90**	**91 +**
31.12.2016	63,816	8,228	557	4,806	2,759
31.12.2015	62,342	6,950	2,405	203	1,496
01.01.2015	62,275	5,254	757	239	19,872

Available for sale financial assets

Available for sale financial assets include the following classes of financial assets:

	31.12.2016	31.12.2015	01.01.2015
Unlisted equity securities	3,522	3,322	3,222
Fuel derivatives			9,861
Other financial assets	4,131	3,763	9,110
Total	**7,653**	**7,085**	**22,193**

Classification as available for sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

Cash and cash equivalents

There were no restricted cash at 31.12.2016 or 31.12.2015. Nordea Bank has issued a guarantee of NOK 5 million related to employee payroll tax deductions.

Trade and other payables

NOK in thousands	31.12.2016	31.12.2015	01.01.2015
Trade payables	110,075	94,767	56,483
Prepayments from customers, travelcards	340,188	325,024	313,556
Accrued salary and holiday pay	120,577	133,356	129,206
Other current liabilities	51,482	55,788	59,208
Deferred revenue	13,479	12,866	-
Total	**635,801**	**622,935**	**558,453**

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amount of trade and other payables are considered to be the same as their fair values due to their short-term nature.

Borrowings

	31.12.2016			31.12.2015		
NOK in thousands	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Secured						
Bank loans	1,800,511	155,000	1,955,511	255,930	1,822,511	2,078,441

	01.01.2015		
NOK in thousands	**Current**	**Non-current**	**Total**
Secured			
Bank loans	229,855	2,078,441	2,308,296

Bank loans are secured by first mortgages over the Group's properties and vessels.

	31.12.2016	31.12.15	01.01.15
Book value of assets pledged as security	3,794,867	3,648,995	3,753,879

Financial covenants
Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:
- NIBD/EBITDA at maximum 5.25
- Equity ratio above 25%

The Group has complied with the financial covenants during the 2016 and 2015 reporting period. However, the change in ownership on October 14, 2016 triggered a change in control clause in the loan agreements whereby the lenders demanded a refinancing to be carried out within July 2017. Due to this, borrowings are presented as current liabilities as of 31 December 2016 because the Group does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date. The Group has subsequently obtained a waiver that defer the refinancing to take place within July 2018, but since this waiver were not obtained at 31 December 2016, the borrowings are classified as current. The table below show agreed contractual repayment if no change of control had occured. The NOK 1.8 billion facility is due to be refinanced July 2018.

Agreed contractual repayment of borrowings including estimated interest expenses:

NOK in thousands	2017	2018	2019	2020	2021
Agreed contractual repayment	657,022	244,628	649,050	446,322	185,397

The fair value of non-current borrowings are not significantly different from their carrying amounts as the loans have floating interest rates and credit margins have been stable from the loan raising.

Recognised fair value measurements
This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale financial assets			7,653	**7,653**
Financial liabilities				
Trading derivatives		65,178		**65,178**

Recurring fair value measurements At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale financial assets			7,085	**7,085**
Financial liabilities				
Trading derivatives		118,612		**118,612**

Recurring fair value measurements At 1 January 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available for sale financial assets			22,193	**22,193**
Financial liabilities				
Trading derivatives		148,585		**148,585**

There were no transfers between level 1 and 2 for recurring fair value measurements during the year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation techniques used to determine fair values
Specific valuation techniques used to value financial instruments include:
- the use of quoted market prices or dealer quotes for similiar instruments
- the fair value of interest rate swaps, forward foreign exchange contracts and bunker derivatives is recognised based on "Mark-to-market" estimates provided by external brokers which is based on calculation of net future cash flows on the derivatives
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, where the fair values have been determined based on present values.

Fair value measurements using significant unobservable inputs (level 3)

	Unlisted equity securities	**Other financial assets**
Opening balance 1 January 2015	3,222	9,110
Profit/(losses) recognised in other comprehensive income		
Additions	100	307
Disposals		(4,322)
Closing balance 31 December 2015	**3,322**	**5,095**
Profit/(losses) recognised in other comprehensive income		
Additions	200	368
Disposals		(700)
Closing balance 31 December 2016	**3,522**	**4,763**

Financial risk management

The Group's is exposed to a range of financial risks, including:

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	New building contracts nominated in foreign currencies	Sensitivity analysis	Forward foreign exchange contracts
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Market risk - commodity prices	Fuel consumption	Sensitivity analysis	Use of fuel derivatives
Market risk - security prices	Investments in equity securities	Not applicable	Holding of equity securities are limited and related to non-listed equity securities. The Group is indirectly exposed to security price risk through its defined employee benefit agreement where part of the plan assets are invested in securities. This risk is managed through investment in diversified portfolios and managed by external insurance companies.
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments	Aging analysis	Diversification of bank relationships and credit limits
Liquidity risk		Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is carried out by the finance department under policies approved by the Board of Directors. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, commodity price risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, changes in the fair value of the derivative instrument are recognised immediately in profit or loss and are included in other income or other expenses. The Group has the following derivative financial instruments:

	31.12.2016		**31.12.2015**		**01.01.2015**	
	Current	Non-current	Current	Non-current	Current	Non-current
Interest rate swaps	(8,967)	(31,922)	(39,778)	(56,591)	(46,003)	(96,486)
Foreign exchange rate contracts	(3,326)	-	-	-	-	-
Fuel derivatives	(10,482)	(10,481)	(13,936)	(8,306)	(6,096)	9,861
Total	**(22,775)**	**(42,403)**	**(53,714)**	**(64,898)**	**(52,099)**	**(86,625)**

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges.

Maturity of derivatives:

NOK in thousands	**2017**	**2018**	**2019**
Interest rate swaps	8,967	15,118	16,804
Foreign exchange rate contracts	3,326		
Fuel derivatives	10,482	10,481	
Total	**22,775**	**25,599**	**16,804**

Interest rate sensitivity

If interest is increased by 1%, the effect will be an increase in financing costs of NOK 14.5 million in 2016, compared to NOK 15.8 million in 2015.

Credit risk
The Group's maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The credit risk is considered limited as the major customers are the public sector.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

The Group manage liquidity risk based on 8-weeks rolling and 12-months rolling liquidity forecasts.

Note 13 Share capital

	Number of shares	Nominal	Nominal value	Voting rights
F1 Holding AS	33,000	2,500	82,500	33 %
Havilafjord AS	67,000	2,500	167,500	67 %
	100,000	**2,500**	**250,000**	**100 %**

Reference is made to note 19 regarding the process of listing on Oslo Stock Exchange, the change in ownership and the transformation the Company will initiate whereby it will transform from a private limited liability company into a public limited liability company.

Note 14 Pension liabilities

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans. All pension schemes are in accordance with the requiremens in the Norwegian Act relating to mandatory occupational pensions.

Pension obligations
A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

Defined benefit pension plans
The Group has a pension scheme covering a total of 1,143 persons, of which 189 pensioners. The scheme entitles staff to defined future benefits. These are mainly dependent on the number of years of service, the salary level at pensionable age and the size of benefits paid by the national insurance. The liabilities are covered through an insurance company (funded).

The Group also has a contractual pension agreement (CPA) covering 106 persons, of which 99 pensioners. The agreement entitles staff to benefits from the age of 62 until they are eligible for a national insurance pension when reaching the age of 67. Around 50% of this arrangement is secured through KLP. KLP is not able to separate the secured part of the liability from the unsecured part. Therefore, all liablilities related to CPA are presented as funded obligations.

The defined benefit plan's pension expenses and liabilities are presented according to IAS 19 (revised).

Risk exposure
Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below.

Asset volatility: The plan liabilities are calculated using a discount rate set with reference to OMF bonds; if plan assets underperform this yield, this will create a deficit. All plans holds a significant portion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities.

Changes in bond yields: A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Inflation risk: Some of the Group's pension obligations are linked to salary inflation, and higher inflation will lead to higher liabilities (although in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy: The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

Amounts recognised in statement of financial position:

	31 December 2016	31 December 2015	1 January 2015
Present value of funded obligations	234,466	248,069	261,117
Fair value of plan assets	227,220	218,695	189,471
Deficit of funded plans	7,246	29,374	71,646
Present value of unfunded obligations	7,359	3,737	4,778
Total deficit of defined benefit pension plans	**14,605**	**33,111**	**76,424**

2016

	Funded obligations	Non-funded obligations	Total
Current service cost	6,737	666	7,403
Recognised past service cost	(14)	4,149	4,136
Service cost	6,723	4,816	11,539
Net interest expense / (income)	459	174	633
Administrative expenses related to management of plan assets	322	0	322
Payroll tax (PT)	250	704	954
Total amount recognised in profit or loss	**7,755**	**5,693**	**13,448**

2015

	Funded obligations	Non-funded obligations	Total
Current service cost	8,368	321	8,689
Recognised past service cost	0	0	0
Service cost	8,368	321	8,689
Net interest expense / (income)	1,169	101	1,270
Administrative expenses related to management of plan assets	485	0	485
Payroll tax (PT)	520	59	580
Total amount recognised in profit or loss	**10,542**	**481**	**11,023**

Change in defined benefit obligation

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2016	**251,806**	**(218,695)**	**33,111**
Service cost	7,320		7,320
Interest expense (income)	6,395	(5,762)	633
Past service cost	3,785	350	4,136
Remeasurements	(17,721)	913	(16,808)
Benefits paid	(9,319)	8,345	(974)
Contribution		(13,487)	(13,487)
Administrative expenses		1,117	1,117
Payroll tax	(442)		
At 31 December 2016	**241,825**	**(227,220)**	**14,605**

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2015	**265,895**	**(189,471)**	**76,424**
Service cost	8,578		8,578
Interest expense (income)	6,540	(5,270)	1,270
Past service cost	-	-	-
Remeasurements	(15,421)	(10,760)	(26,181)
Benefits paid	(8,538)	7,714	(824)
Contribution		(22,256)	(22,256)
Administrative expenses		1,348	1,348
Payroll tax	(5,248)		
At 31 December 2015	**251,806**	**(218,695)**	**33,111**

Significant actuarial assumptions	**2016**	**2015**
Discount rate	2.60 %	2.70 %
Salary growth rate	2.50 %	2.50 %
Expected growth in base social security amount (G)	2.25 %	2.25 %
Estimated return on plan assets	2.60 %	2.70 %
Pension growth rate	0.00 %	0.00 %

Note 15 Contingencies

Rebate compensation
The Group has recognised an income of NOK 87 million in 2016 (2015: NOK 92.2 million) related to received compensation to cover loss of grant due to changes in the original contract assumptions such as discount and fare structures. The compensation is subject to final negotiations and as a result, the Group may receive additional compensation or may receive a claim on paid out preliminary compensation. Paid out compensation is recognised as grant in the period the compensation is received, as this represents the Group's estimate of expected consideration for the services. The recognised compensation is not deemed to represent a contingent asset.

Disputes
The Company has been involved in a dispute with Negotia (a member organization of the Norwegian Confederation of Vocational Unions) on behalf of their members regarding salary adjustments in 2016, where Negotia has claimed that the certain requirements in relation to the adjustment were not met. The matter was referred to an advisory board, which in April 2017 ruled in favour of the Company.

Note 16 Commitments

16.1 Capital commitments
Significant capital expenditure contracted but not recognised as liabilities has the following agreed payment structure:

	2017	2018	After 2018	Total
Newbuildings	694,531	1,088,974	511,197	2,294,702
Quay structures/land investments	22,000	-	-	22,000
Total	**716,531**	**1,088,974**	**511,197**	**2,316,702**

16.2 Non-cancellable operating leases
The Group leases vessels/passenger boats and other equipment from external suppliers. The operating lease contracts has the following terms:

	Annual rent	Expiry
Vessels/passenger boats	60,727	2020
Other equipment	539	2017
Total	**61,266**	

16.3 Repairs and maintenance
Periodic maintenance is related to major inspections and overhaul costs which occur at regular intervals over the life of a vessel, normally every 5 years. Thus there are commitments for the Group to maintain the vessels' operational ability and compliance with laws and regulations.

Note 17 Related party transactions

In 2015 the Group was controlled by the county council of Sogn og Fjordane with an ownership share of 59%. The remaining (41%) shares were held by Havilafjord AS. In 2016 Havilafjord AS increased its ownership share to 67% and thus becoming the controlling shareholder. The county council of Sogn og Fjordane held the remaining 33% shares outstanding.

The following transactions were carried out with related parties:

Revenue from related parties

Related party	Relation	2016	2015
Sogn og Fjordane	Owner	98,520	105,056
The Fjords DA	Associate	29,422	25,689
The Fjords Fartøy I DA	Associate	1,249	

Expenses to related parties

Related party	Relation	2016	2015
The Fjords DA	Associate	(1,104)	
H.R.Adv. Pål W Lorentzen	Chairman of the Board	(250)	

Receivables/(Liabilities) to related parties

Related party	Relation	2016	2015
Sogn og Fjordane	Owner	-	2,035
The Fjords DA	Associate	3,974	784

Note 18 Remuneration

Executive management 2016:

Amounts in NOK thousands	Salary	Bonus	Payments in kind	Other benefits	Pension costs	Total remuneration
Dagfinn Neteland (CEO until 22 January 2016)	137			1,503	6	1,640
Anne-Mari Sundal Bøe (CFO)	1,047	95			45	1,142
André Høyset (CEO from 22 January 2016)	1,908	237			47	2,145
Deon Mortensen (CTO)	1,179	107			47	1,286
Tor Vidar Kittang (Project director)	763				37	763
Total remuneration executive management 2016	**5,033**	**440**	**-**	**1,503**	**183**	**6,976**

Board of directors 2016:

Amounts in NOK thousands	Total remuneration
Pål W. Lorentzen (Chairman from 7 December 2015)	300
Reidar Jørgen Sandal (Chairman until 7 December 2015)	
Vidar Grønnevik (Board member from 7 December 2015)	54
Nils R Sandal	6
Vegard Sævik (Board member)	104
Bente Iren Nesse (Board member from 7 December 2015)	77
Janicke Westlie Driveklepp (Board member from 7 November 2016)	10
Daniel Nedrelid	42
Lars Birkeland	8
Per Sævik (Board member from 22 January 2016)	50
Øyvind Oksnes	50
Heidi Kathrin Osland (Board member until 22 January 2016)	-
Arvid Andenæs (Board member until 7 November 2016)	53
Arnstein Amås (Employee representative)	84
Atle Olav Trollebø (Employee representative)	78
Total remuneration Board of directors 2016	**916**

Executive management 2015:

Amounts in NOK thousands	Salary	Bonus	Payments in kind	Other benefits	Pension costs	Total remuneration
Dagfinn Neteland (CEO)	2,259				47	2,306
Anne-Mari Sundal Bøe (CFO)	945				42	987
Stian Hårklau	1,232				47	1,279
Arild Austrheim	945	56			42	1,043
André Høyset (COO)	981				43	1,025
Deon Mortensen (CTO)	961				43	1,003
Total remuneration executive management 2015	**7,323**	**56**	**-**	**-**	**265**	**7,644**

Board of directors 2015:

Amounts in NOK thousands	Total remuneration
Reidar Jørgen Sandal (Chairman)	210
Vegard Sævik (Board member)	102
Heidi Kathrin Osland (Board member)	49
Atle Olav Trollebø (Board member)	49
Nils Sandal (Board member until 26 December 2015)	49
Arnstein Amås (Employee representative)	49
Lars Birkeland (Board member until 15 December 2015)	73
Jan Lars Kildal (Board member until 23 December 2015)	49
Total remuneration Board of directors 2015	**629**

The CEO is entitled to a termination payment in the event of termination of the employment prior to retirement.

Audit fee

Amounts in NOK thousands	2016	2015
Statutory audit	1,016	101
Tax advisory services	22	
Other services	83	
Total	1,121	101

Note 19 Events after the reporting period

Change of ownership and listing og Merkur Market
The county council of Sogn og Fjordane sold all its remaining shares in Fjord1 AS to Havilafjord AS in May 2017, making Havilafjord AS the owner of 100 % of the shares in Fjord1 AS. Following this transaction, Havilafjord AS sold 49.5% of its shares through a private placement. The company was listed on Oslo Stock exchange's Merkur Market on May 24, 2017.

Listing on Oslo Stock Exchange
The company intends to list on Oslo Stock exchange during the third quarter of 2017. Listing on Oslo Stock Exchange requires a change in company structure. Further details follow below.

Transformation of Fjord1 AS to a public limited liability company ("allmennaksjeselskap")
In connection with the Company's process to apply for listing on Oslo Stock Exchange, the Company will initiate a transformation from a private limited liability company ("aksjeselskap") to a public limited liability company ("allmennaksjeselskap"). The effect of such transformation is that the public limited liability companies act will apply for the Company, which implies, inter alia, that:

• The minimum required share capital is NOK 1,000,000. The company's share capital is NOK 250,000,000 and thus satisfies this requirement.
• Certain requirements in respect of gender representation in the Board. Some adjustments will be required to comply with this requirement.
• Invitations to participate in share issues and issues of other financial instruments may be directed to the general public.
• Registration of the company's shares in a central depository is mandatory. The Company's shares are already registered in the Norwegian Securities Depository.
• Shares are generally freely transferable, and as a main rule shareholders do not have any pre-emptive rights in connection with transfers of shares.

The new number of shares will be 100,000,000.

Newbuilding contracts
The company has ordered eight new ferries with design from Havyard Design & Solutions, for construction at Havyard Ship Technology's shipyard in Leirvik, Sogn og Fjordane. The ferries shall be delivered in 2018 and 2019, and the total contract value is around NOK 1.5 billion.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Fjord1 AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Fjord1 AS, which comprise the financial statements for the Group. The financial statements for the Group comprise the balance sheet as at 31 December 2015 and 31 December 2016, the income statements, statements of comprehensive income, statements of cash flows and changes in equity for the years then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and 31 December 2016, and their financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Bergen, 29 June 2017
ERNST & YOUNG AS

Eirik Moe
State Authorised Public Accountant (Norway)