ANNUAL REPORT 2016

QUALITY, SAFETY, ENVIRONMENT

www.fjord1.no

CONTENTS

This is Fjord1

Fjord1 is one of the largest transportation companies in Norway, and a leader within the ferry industry. The company aims to be the most environmentally friendly and reliable transport operator, and works continuously to develop world-class newbuilds. Thanks to a number of new tender contracts, the company will assume a leading position within the “green shift” in the ferry industry.

Our nearly 21 million passengers form the bedrock of our business. By providing friendly and professional service, Fjord1's employees will make travel on the fjords a safe, comfortable and trouble-free experience.

Fjord1’s core activities focus on sea transport in the form of ferry and express-boat operations, as well as catering services. The company's activities also include travel agencies, as well as financial investments and property management. Through its holding in The Fjords DA, Fjord1 has a stake in tourism operations in the West Norwegian fjords. Fjord1 has a participating interest of 34% in WF Holding AS, making the company a part-owner of Widerøe’s Flyveselskap AS.

Fjord1 is owned by Havilafjord (67%) and Sogn og Fjordane county municipality (33%). The agreement by which Havilafjord became the majority owner in 2016 includes an option to acquire Sogn og Fjordane county municipality’s remaining shareholding.

Fjord1 is headquartered in Florø.

Key figures

• Employees	1,191
• Number of ferries	62
• Number of express boats and other vessels	4
• Number of people transported by boat and ferry	20.9 million
• Number of vehicles transported on ferries	10.2 million
• Revenue	NOK 2.4 billion
• Balance sheet total at 31.12.2016	NOK 4.7 billion
• Equity at 31.12.2016	NOK 1.4 billion
• Pre-tax profit	NOK 509.8 million
• EBITDA	NOK 680 million
• Investments	NOK 259.1 million


Fjord1

Full speed ahead

Activities in Fjord1 in 2016 show that the company has built a solid foundation for the ferry operations of the future.

During the year, Fjord1 signed three new tender contracts, all of which shine a light on how the "green shift" will impact the ferry industry. Lote–Anda was the first contract in Norway to specify requirements for purely zero- and low-emissions technology. Brekstad–Valset and the seven services in route package 1 in Hordaland will also showcase how propulsion technology is undergoing a complete change.

In the same year as Fjord1 signed these three contracts, 175 countries signed the Paris Agreement, negotiated at the UN Climate Change Conference held in the French capital in December 2015. The agreement commits the signatory countries to reduce emissions of greenhouse gases. The agreement came into force in Norway on 4 November 2016. The transport sector must play its part in Norway achieving its targets.

Fjord1 has a special responsibility within the ferry industry. When we submit tenders, we need to think in a completely different way from before, with the emphasis on requirements for propulsion technology, environmental footprint and energy consumption. Our ability to win several tenders of this kind in 2016 shows that the organisation is equipped to embrace what must be seen as a paradigm shift in the ferry industry.

Good managers are vital to an organisation's ability to adapt to external requirements. At Fjord1, we have managers on board every ferry, as well as in the land-based organisation. During 2015 and 2016, the company has implemented a comprehensive management development programme. Competence levels are now higher than ever before, benefiting passengers, employees and buyers of our services. One of the major media stories last year was the ownership issue. In 2016, it was clarified that Havilafjord AS – part of the Havila Group – would be the new majority owner. After more than 150 years when public-sector owners have had the final word, our ownership situation is another sign that times have changed. Despite the constant stream of publicity about the development, all employees in the Fjord1 organisation continue to focus on providing the best possible offer for our passengers and delivering the best possible results for the company.

Almost 21 million passengers travelled with Fjord1 in 2016, relying on us to transport them across the fjord without anything going wrong. Fjord1 has worked systematically to achieve safety improvements, and the figures for 2016 show that we've made good progress. Just before Christmas, we passed the milestone of 300 days without any contact damage. When Fjord1 passed the 200-day milestone earlier in the autumn, Terje Moe Gustavsen, Director-General of the Norwegian Public Roads Administration, visited MF Stavangerfjord and praised the company for its sterling efforts in the field of safety.

As we now embark on a new phase where we will see innovation on an unprecedented scale, we must never forget what is most important: The passengers must arrive safely!

Welcome on board!

Dagfinn Neteland
CEO


Fjord1

The management team at Fjord1

Dagfinn Neteland
CEO

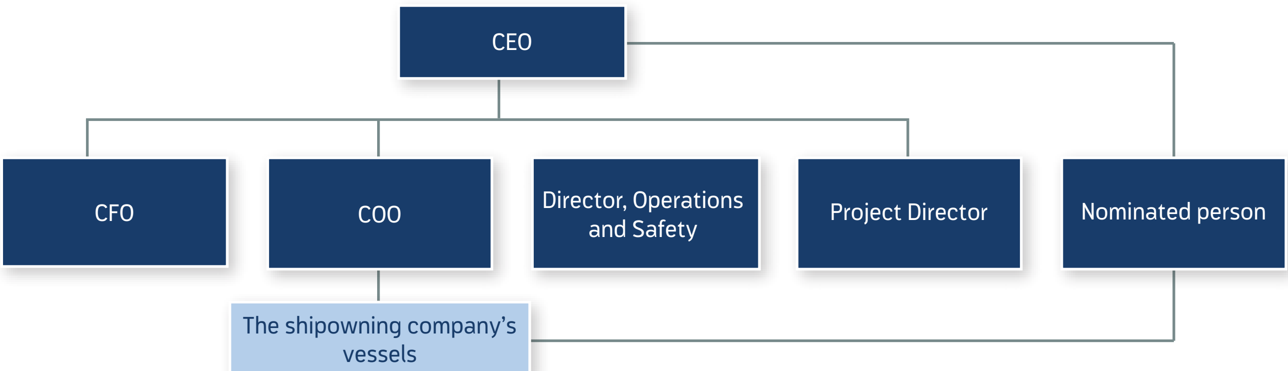
André Høyset
COO

Deon Mortensen
Director, Operations and Safety

Anne-Mari S. Bøe
CFO

Tor Vidar Kittang
Project Director

Organisational chart for Fjord1




Fjord1
BOKNAFJORD
LIVESOUND
DYKKERBIL

Vision, values and overall ambitions at Fjord1

OUR VISION

To provide the most environmentally friendly and reliable transport.

Fjord1 AS aims to be the safest and most attractive supplier of environmentally friendly ferry and express-boat transport for its customers, clients and collaboration partners.

By providing friendly and professional service, Fjord1's employees will make travel on the fjords a safe, comfortable and trouble-free experience.

GOALS AND MANAGEMENT PARAMETERS

- We aim to be the best at environmentally friendly transport
- We aim to provide our owners with stable and good returns on their invested capital
- We aim to live up to the promises we make to our customers
- We aim to treat our employees in such a way that high-calibre people want to work for us
- We aim to be a preferred collaboration partner for our clients

VALUES

Our values provide guidance for how all employees in the company should behave and act on a daily basis, towards both colleagues and passengers.

- Cheerful
- Open and sincere
- Reliable and dependable
- Profitable
- Co-operation and team spirit
- Proud

Our 20.9 million passengers are the bedrock of our business, and we want everyone who travels with us to have a trouble-free and positive travel experience. Our aim is for people to be able to plan their day, arrive on time, and feel safe and well cared-for whether they are travelling by ferry or on one of our express boats. We will achieve this by means of good information, punctual departures, correct behaviour and good service at all times.

OUR OVERALL AMBITIONS

- To become the most attractive company in the industry
- To have solid financial results, healthy business management and quality in all processes
- To win profitable tenders
- To focus on safety and good customer experiences in our daily operations
- To cultivate the Fjord1 identity and to have proud Fjord1 employees in all parts of the organisation
- To have the best employees in the industry
- To be a modern organisation
- To strengthen/develop management practices at all levels of the organisation

How the company is run

CORPORATE GOVERNANCE
The standard for corporate governance is applicable to listed companies. Fjord1 is not listed on the stock exchange, but it is large and extensive and represents major interests, both those of the owners and of the local communities it serves. It is therefore useful to explain how the company is run.

CORPORATE GOVERNANCE AT FJORD1
One of the most important tasks of the board of directors of Fjord1 is establishing clear lines and routines for the allocation of responsibilities and tasks between the board of directors and management, based on the company's ownership and corporate structure. The board of directors believes the company has established an appropriate system of corporate governance.

ACTIVITIES
The company's activities are specified in item 2 of the articles of association as follows: "The purpose of the company is, by itself or via full or partial ownership of other companies, to carry out transport, communications and tourism activities. The company may also involve itself in other business areas where this is of commercial interest and where this supports the company's main goals, or where this leads to more rational use of the company's resources." Within the framework of the articles of association, the company has also drawn up clear goals and strategies for its activities. The board of directors believes that the articles of association and the strategic plan accurately reflect the company's activities.

SHARE CAPITAL AND DIVIDENDS
Fjord1's equity is appropriate for the goals, strategy and risk profile as they are at present, though this may change in response to future investment programmes as a result of winning tender contracts. The goal of the board of directors is to have a clear and predictable dividend policy as a basis for the dividend proposals made to the annual general meeting. Another guiding principle is that the dividend policy should be seen in the context of the equity situation and the financial challenges facing the company at any time.

EQUAL TREATMENT OF SHAREHOLDERS, AND TRANSACTIONS WITH RELATED PARTIES
The company has only one class of shares. Routines have been established for handling all material transactions between the company and its shareholders, board members, senior executives or related parties. A value assessment must be performed by an independent third party. The company has guidelines to ensure that board members and senior executives notify the board if, directly or indirectly, they have a material
interest in an agreement entered into by the company.

UNRESTRICTED SELLING OF SHARES
The articles of association do not contain any restriction on the selling of shares in the company.

ANNUAL GENERAL MEETING
There are routines in place to ensure that both owners are represented at the company's annual general meetings.

Terje Moe Gustavsen, Director-General of the Public Roads Administration, visits Captain Helge Bøe and the crew of MF Stavangerfjord in recognition of Fjord1's good safety figures.

Fjord1 receives a diploma and words of praise from the Confederation of Norwegian Enterprise (NHO) in connection with the company's involvement in the "Ripples on Water" environmental project.

NOMINATION COMMITTEE
The company does not have a nomination committee, nor do the articles of association require there to be one. Nomination of candidates for the board of directors is regulated in a shareholder agreement and an agreement with the employees.

ELECTION OF BOARD OF DIRECTORS AND CHAIRMANSHIP
The board of directors is elected by the annual general meeting (shareholder representatives) and the employees (employee representatives) in accordance with the shareholder agreement. The board of directors elects its own chair and vice chair in accordance with rules set out in the shareholder agreement.

THE WORK OF THE BOARD OF DIRECTORS
The board has established an annual plan for its work, with particular emphasis on goals, strategy and execution. The board of directors also uses the annual evaluation of both its work and expertise as a starting point. The elected vice chair steps in when the chair either cannot or ought not direct the work of the board.

RISK MANAGEMENT AND INTERNAL AUDIT
The board of directors has established a risk management system appropriate to the scope of the company and its activities. The board of directors considers the company has satisfactory risk management and internal audit systems in place.

REMUNERATION OF THE BOARD OF DIRECTORS
The annual general meeting decides on the board of directors' remuneration each year. This payment reflects the board's liability, expertise, time and the complexity of the activities. The remuneration is fixed and not dependent on results. The annual report contains information on all remuneration paid to the board of directors. If remuneration is paid in addition to the usual board fees, this is specified separately.

REMUNERATION OF SENIOR EXECUTIVES
The CEO's pay and other remuneration is decided at a meeting of the board of directors. The CEO decides on the salary and other remuneration of other senior executives. The company does not have option programmes or employee share schemes.

INFORMATION AND COMMUNICATION
The board of directors has set out guidelines for how the company is to report financial and other information, which is openly communicated in interim as well as annual reports. Information is communicated to the owners by means of general meetings as well as other meetings and ongoing communication at the initiative of the board and/or senior representatives of the owners.

AUDITOR
The auditor attends board meetings at which the financial statements are discussed. At these meetings, the auditor reviews any material changes in the company's accounting policies, key accounting estimates and any material circumstances that may have been the subject of disagreement between auditor and management. In connection with this meeting, a practice has also been established by which the auditor reviews the company's internal auditing, for example any weak points that have been identified and suggested improvements. At the annual general meeting, the board of directors provides information about the auditor's fee, broken down into audit and other services. In his annual engagement letter, the auditor confirms that he is independent of the company. The engagement letter also gives a summary of services other than auditing that can be provided to the company. Both the auditor and the chair of the board confirm this in writing.

In 2015 and 2016, Fjord1 implemented a comprehensive management development programme. Here, André Høyset delivers a status report in October 2016.

Fjord1 raises its profile in Florø and other places in the area covered by the company's routes by sponsoring a range of events of all sizes.

2016: A look back over the past year

MARCH 2015 RESULTS
Fjord1 reports best-ever results, with an operating profit of NOK 212 million on revenue of NOK 2.2 billion.

APRIL: HISTORIC TENDER CONTRACT
Fjord1 signs a contract to operate the Lote–Anda route for ten years from 2018. This is the first service in Norway where the client specified purely zero- and low-emissions technology. Signing this contract is therefore seen as Fjord1's first step in the "green shift".

APRIL: BUILDING CONTRACT IN TURKEY
Fjord1 signs a contract with Tersan Shipyard in Turkey to build the two ferries for the Anda–Lote service. Both ferries will primarily use electric propulsion.

MAY: FJORD1 IS 15!
The company that evolved into Fjord1 has a long and illustrious history, but the combined company is of more recent vintage. Fjord1 celebrates its 15th birthday this month.

JUNE: CONTRACT IN SØR-TRØNDELAG
Fjord1 signs a contract to take over operation of the Brekstad–Valset service in Sør-Trøndelag county from 2019. At the same time, the company will cease operating the Flakk–Rørvik service in the same area.

AUGUST: CONTRACT IN THE BOKNAFJORD
Fjord1 signs a contract to extend operation of the Arsvågen–Mortavika service in Rogaland. The contract runs for five years from 2019, with an option to extend. In 2016, it was also clarified that Fjord1 would operate the Arsvågen–Mortavika and Halhjem–Sandvikvåg services in 2017–18. Fjord1 will cease operating the Halhjem–Sandvikvåg service on 31 December 2018.

SEPTEMBER: SAFETY ADVANCES
Between 2012 and 2016, Fjord1 has seen a 96% reduction in contact damage, and in September passed the milestone of 200 days without contact damage. To mark the occasion, MS Stavangerfjord received a visit from Terje Moe Gustavsen, Director-General of the Public Roads Administration, who took the opportunity to praise Fjord1 for its systematic work in the field of safety. By the end of 2016, Fjord1 had passed the milestone of 300 days without contact damage.

SEPTEMBER: SHIP OF THE YEAR
"Vision of The Fjords", built with the assistance of Fjord1's technical staff, is named "Ship of the Year". The passenger boat is operated by The Fjords, which is owned by Fjord1 and Flåm AS. With its innovative design and pioneering hybrid technology, the vessel uses electric propulsion in the Nærøyfjord UNESCO World Heritage area. In October, the ship was christened in Flåm, with Jenny Følling, chair of the county council, as godmother.

Through the year, Fjord1 hosts stands at various fairs for people who may be interested in working for the company in the future.

At the Safety at Sea Conference, Olav Akselsen – Director-General of Shipping and Navigation – congratulates the crew of MF Boknafjord, named the fittest in Norway!

OCTOBER: MF HORNELEN CHRISTENED

MF Hornelen, the first of two vessels that Fjord1 has had built at the Ada Shipyard in Turkey, is christened at Kalvåg in Bremanger municipality, with county governor Anne Karin Hamre as godmother. Captain Arvid Teige takes command of the ship after the ceremony. MF Hornelen has capacity for 60 cars and is quickly deployed on the Måløy–Husevågøy–Oldeide service in Nordfjord.

OCTOBER: SAFETY AT SEA CONFERENCE

The crew of MF Boknafjord are named the fittest in Norway at the Safety at Sea Conference in Haugesund. The Conference is also one of several fora at which Fjord1 presented its thoughts on technological developments in the wake of the "green shift", as well as being an arena where Fjord1 was commended for its safety work.

OCTOBER: NEW MAJORITY OWNER

Sogn og Fjordane county municipality and Havilafjord AS sign an agreement that sees Havilafjord AS take over as majority owner of Fjord1. The company is initially acquiring a 67% ownership stake, with an option to purchase the remainder of the shares held by the county municipality through F1 Holding.

OCTOBER: NEW CEO

Dagfinn Neteland is appointed the new CEO of Fjord1. He takes over the reins from André Høyset, who has been Acting CEO since December 2015, when Neteland previously resigned.

NOVEMBER: SEVEN SERVICES IN HORDALAND

Fjord1 signs a contract to take over route package 1 in Hordaland county. The seven services are to be operated using zero- and low-emissions technology, the most extensive green contract to date. Two services will be taken over from 2018, while five will be operated from 2020.

NOVEMBER: MANAGEMENT DEVELOPMENT PROGRAMME

Fjord1 concludes its management development programme, which has seen 200 ship- and land-based managers come together four times over two years.

DECEMBER: BUILDING CONTRACT IN SOGN

Fjord1 signs a contract with Havyard to build two ferries: one will be used on the Husavik–Sandvikvåg service in Hordaland, and two on the Brekstad–Valset service in Sør-Trøndelag.

County governor Anne Karin Hamre is godmother at the christening of MF Hornelen. The ceremony takes place on a beautiful autumn day at Kalvåg in Bremanger.

Per Sævik, Havilafjord AS, and Jenny Følling, chair of Sogn og Fjordane county council, sign the agreement that changes the ownership situation for Fjord1.

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 510 million for 2016, compared with NOK 212 million in 2015.

The company has seen a year-on-year improvement in its result of NOK 299 million. 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 680 million, compared with NOK 479 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 510 million, while net cash provided by operating activities in 2016 is NOK 530 million. Ordinary depreciation and amortisation of NOK 214 million represents the largest variance.

Cash flow used for investing activities comes to NOK 158 million. Of this, NOK 46 million was spent on loans to and investments in associates, while NOK 288 million was spent on investments in property, plant and equipment. Operating assets worth NOK 84 million were sold in 2016.

NOK 256 million was paid off in instalment payments on long-term debt. There was a net change in cash of NOK 199 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 zero-emissions 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 owner-friendly, 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.

Pål W. Lorentzen
Chair
Bergen

Vidar Grønnevik
Board member
Florø

Vegard Sævik
Board member
Leinøy

Bente Nesse
Board member
Hyllestad

Janicke Driveklepp
Board member
Volda

Per Sævik
Board member
Leinøy

Arnstein Åmås
Board member
(employee representative)
Ellingsøy

Atle Olav Trollebø
Board member
(employee representative)
Måløy

Dagfinn Neteland
CEO

Florø, 27. mars 2017

Pål W. Lorentzen
Chair

Vidar Grønnevik
Vice-chair

Vegard Sævik
Board member

Bente Nesse
Board member

Janicke Driveklepp
Board member

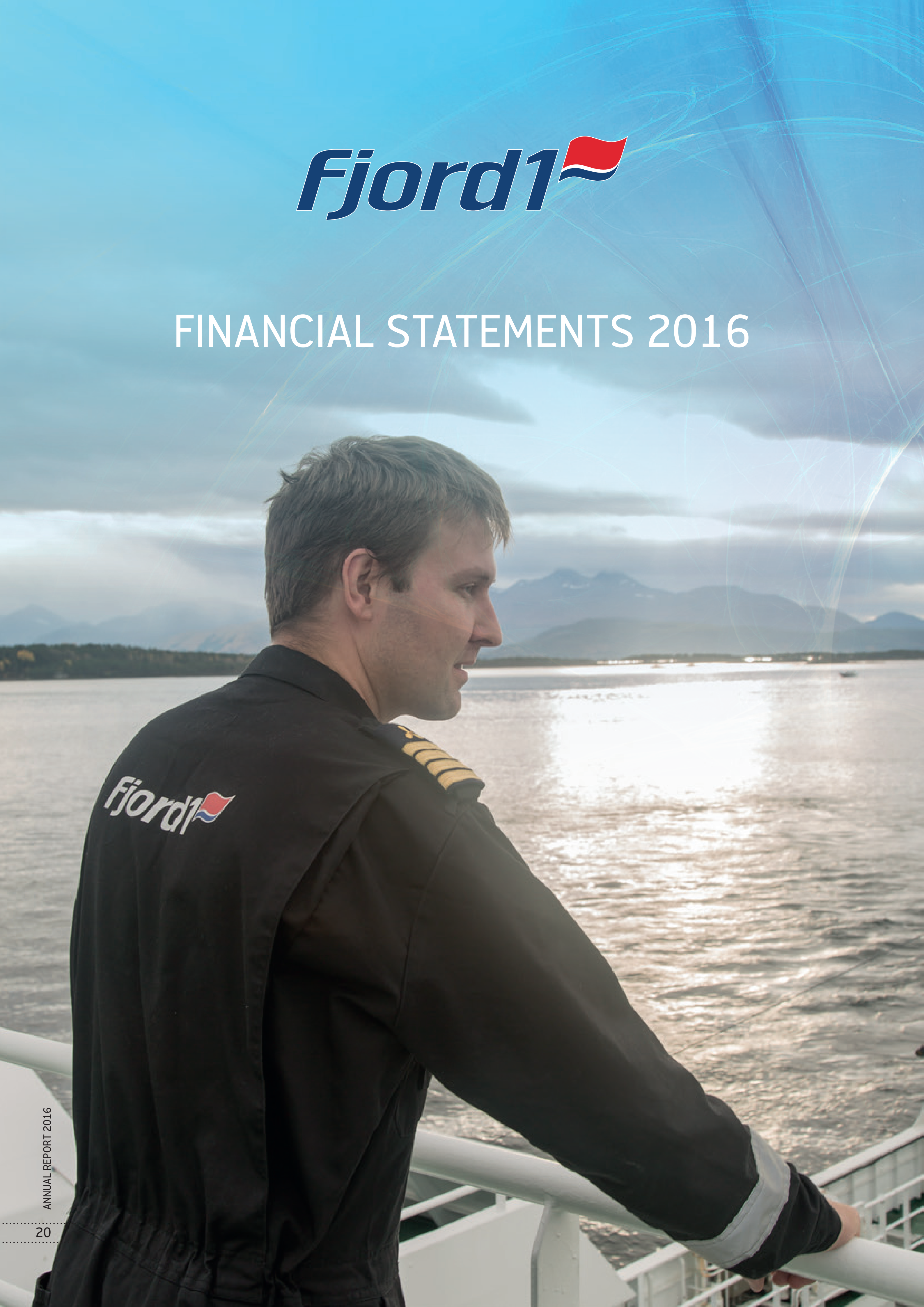
Per Sævik
Board member

Arnstein Aamås
Board member

Dagfinn Neteland
CEO

Atle Olav Trollebø
Board member

FINANCIAL STATEMENTS 2016



INCOME STATEMENT 2016

PARENT COMPANY 2015	PARENT COMPANY 2016		Notes	GROUP 2016	GROUP 2015
		OPERATING INCOME AND OPERATING EXPENSES			
		Operating income			
1 332 332	1 227 395	Sales	**26**	1 233 609	1 338 803
855 106	1 104 752	Contract income, route operations		1 104 752	855 106
47 356	54 422	Other operating income	**1/26**	57 691	48 570
2 234 794	**2 386 569**	**Total operating income**		**2 396 053**	**2 242 479**
		Operating expenses			
69 350	71 235	Cost of sales	**8**	72 545	70 725
748 060	730 634	Wages and salaries, and social security costs	**15/19**	850 391	863 375
191 462	198 223	Depreciation and amortisation	**1**	214 105	207 325
– 11 048	– 55 185	Write-down of property, plant and equipment and intangible assets	**1/24**	– 55 185	– 11 048
988 496	955 148	Other operating expenses	**9/20/22**	792 832	829 473
1 986 320	**1 900 054**	**Total operating expenses**		**1 874 689**	**1 959 850**
248 474	**486 515**	**Operating profit**		**521 364**	**282 629**
		Financial income and expenses			
6 791	4 890	Income/dividend on investments in subsidiaries	**2**	0	0
0	0	Income/dividend on investments in other Group companies		0	0
0	24 404	Income/dividend on investments in associates	**3**	82 043	37 735
4 350	5 375	Other interest income		5 692	4 734
9 402	6 851	Other financial income	**21**	6 851	9 402
528	587	Interest received from Group companies		0	0
0	0	Interest paid to Group companies		0	0
108 598	92 492	Other interest expenses	23	104 851	121 685
1 219	1 261	Other financial expenses		1 268	1 228
– 88 746	**– 51 646**	**Financial items, net**		**– 11 533**	**– 71 042**
159 728	**434 869**	**Profit on ordinary activities before tax**		**509 831**	**211 587**
30 040	89 111	Tax	**14**	126 155	29 656
129 688	**345 758**	**Net profit**		**383 676**	**181 931**
129 688	**345 758**	**Profit for the year**		**383 676**	**181 931**
		Minority interests		**150**	**126**
		Profit for the year after minority interests		**383 526**	**181 805**
		Transfers and allocations			
0	0	Revaluation reserve		0	0
50 000	0	Proposed dividend		0	0
79 687	345 758	Transferred to/from other reserves		383 526	181 805
129 687	**345 758**	**Total allocations**		**383 526**	**181 805**

BALANCE SHEET 2016

PARENT COMPANY				GROUP	
31.12.15	31.12.16		Notes	31.12.16	31.12.15
		ASSETS			
		Fixed assets			
		Intangible assets			
0	0	Deferred tax asset	14	2 015	279
0	**0**	**Total intangible assets**		**2 015**	**279**
		Property, plant and equipment			
38 345	35 485	Land, buildings and other real property	1/17	81 977	86 460
3 157 180	3 237 070	Ships	1/17/24	3 526 068	3 459 829
65	453	Means of transport	1/17	453	65
20 911	18 406	Movables, fixtures and fittings, tools, etc.	1/17	19 601	22 277
3 216 501	**3 291 413**	**Total property, plant and equipment**		**3 628 098**	**3 568 631**
		Fixed asset investments			
80 389	124 207	Investments in subsidiaries	2	0	0
213 012	215 412	Investments in associates	3	340 737	280 698
3 307	3 507	Investments in shares and units	4	3 522	3 322
1 331	631	Bonds and other receivables	5	4 762	5 095
20 482	24 036	Long-term receivables from Group companies	6/7	0	0
0	403	Pension funds	15	688	0
318 521	**368 196**	**Total fixed asset investments**		**349 709**	**289 115**
3 535 022	**3 659 610**	**Total fixed assets**		**3 979 822**	**3 858 025**
		Current assets			
12 969	14 636	Inventories	8	14 690	13 049
69 968	74 427	Accounts receivable	9	78 660	71 705
5 424	5 645	Short-term receivables from Group companies	7/10	0	0
100 472	113 389	Other short-term receivables	10	113 592	100 853
322 691	484 332	Cash at bank and at hand, etc.	17	553 993	358 516
511 524	**692 429**	**Total current assets**		**760 935**	**544 123**
4 046 546	**4 352 039**	**TOTAL ASSETS**		**4 740 757**	**4 402 148**

Fjord1

BALANCE SHEET 2016

PARENT COMPANY				GROUP	
31.12.15	31.12.16	EQUITY AND LIABILITIES	Notes	31.12.16	31.12.15
		Equity			
		Contributed equity			
250 000	250 000	Share capital	11/12	250 000	250 000
360 924	360 924	Share premium fund		360 924	360 924
610 924	**610 924**	**Total contributed equity**		**610 924**	**610 924**
		Retained earnings			
		Other reserves			
601 822	697 580	Other reserves	12	0	0
0	0	Other consolidated equity	12	827 288	692 624
601 822	**697 580**	**Total accumulated equity**		**827 288**	**692 624**
0	0	Minority interests	12/13	3 881	3 744
1 212 746	**1 308 504**	**Total equity**	12	**1 442 093**	**1 307 293**
		Liabilities			
		Provision for liabilities			
193 541	282 496	Deferred tax	14	359 791	235 911
72	0	Pension obligations	15	0	1 056
26 839	21 698	Other provisions for liabilities	16/25	21 698	26 839
220 452	**304 194**	**Total provisions for liabilities**		**381 489**	**263 806**
		Other long-term liabilities			
1 873 441	1 775 511	Debt to credit institutions	17	1 955 511	2 078 441
1 873 441	**1 775 511**	**Total other long-term liabilities**		**1 955 511**	**2 078 441**
		Short-term liabilities			
20 294	32 918	Debt to Group companies	7	0	0
85 725	78 941	Unpaid government taxes		86 671	93 373
91 961	107 546	Accounts payable		110 075	94 767
0	0	Tax payable	14	2 672	301
50 000	250 000	Dividend	12	250 000	50 000
491 927	494 426	Other short-term liabilities	18	512 247	514 168
739 907	**963 830**	**Total short-term liabilities**		**961 664**	**752 609**
2 833 800	**3 043 535**	**Total liabilities**		**3 298 664**	**3 094 856**
4 046 545	**4 352 039**	**TOTAL EQUITY AND LIABILITIES**		**4 740 757**	**4 402 148**

Florø, 27 March 2017

Pål W. Lorentzen Chair	**Vidar Grønnevik** Vice-chair	**Vegard Sævik** Board member	**Bente Nesse** Board member	**Janicke Driveklepp** Board member
Per Sævik Board member	**Arnstein Aamås** Board member	**Atle Olav Trollebø** Board member	**Dagfinn Neteland** CEO	

CASH FLOW STATEMENT 2016

PARENT COMPANY			GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
		Cash flow from operating activities		
159 728	434 869	Pre-tax profit	509 831	211 589
0	– 156	Tax paid	– 156	169
10 718	– 11 224	Gain/loss on sale of assets	– 11 224	0
– 1 000	– 61	Profit on sale of shares and units	– 61	0
0	– 24 404	Income/loss on investments in associates	– 82 043	– 37 735
191 462	198 223	Ordinary depreciation and amortisation	214 105	207 325
– 11 048	– 55 185	Write-down of fixed assets	– 55 185	– 11 048
– 10 109	– 331	Difference between pensions expensed and incoming/outgoing payments	– 368	– 12 850
21 351	15 585	Change in accounts payable	15 308	38 284
11 681	– 5 863	Change in inventories and accounts receivable	– 8 597	23 154
– 8 815	– 31 403	Change in other accruals	– 55 376	– 33 002
363 968	**520 050**	**Net cash provided by operating activities**	**526 235**	**385 885**
		Net cash provided by/used in investing activities:		
– 49 956	– 290 232	Investments in property, plant and equipment	– 288 346	– 35 630
– 21 130	– 51 599	Acquisition of shares and units	– 2 400	– 21 130
1 824	83 503	Disposal of property, plant and equipment (selling price)	83 503	0
1 000	0	Proceeds from disposal of shares/units	0	0
917	567	Cash inflow from loan receivables (short-/long-term)	567	0
0	0	Cash outflow for other loan receivables (short-/long-term)	0	0
– 25 000	25 000	Cash outflow for loans to associates	25 000	– 25 000
0	22 284	Change in other investments	23 849	0
– 92 345	**– 210 477**	**Net cash provided by investing activities**	**– 157 827**	**– 81 760**
		Net cash provided by/used in financing activities:		
0	0	Net cash outflow, bank overdraft	0	0
0	133 000	New long-term debt	133 000	0
0	0	Cash outflow, debt to Group companies	0	0
– 205 855	– 230 930	Repayment of existing debt	– 255 930	– 229 855
– 50 000	– 50 000	Dividend (paid)	– 50 000	– 50 000
– 255 855	**– 147 930**	**Net cash provided by financing activities**	**– 172 930**	**– 279 855**
15 768	**161 643**	**Net change in cash for the year**	**195 477**	**24 270**
306 923	322 691	Cash at bank and in hand at 01.01.	358 515	334 244
322 691	**484 333**	**Cash balances at 31.12**	**553 993**	**358 515**

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles.

USE OF ESTIMATES

Preparation of financial statements in accordance with the Norwegian Accounting Act requires the use of estimates. Application of the company's accounting policies further requires the management to exercise judgement. Areas involving significant estimates or a high degree of complexity, and areas where assumptions and estimates are material to the financial statements, are shown in grey in the notes.

Accounting policies for shares in subsidiaries and associates

Subsidiaries are companies where the parent company has control and thereby decisive influence on the company's financial and operational strategy, normally by owning more than half of the voting capital. Investments in companies where Fjord1 owns 20–50% of the voting capital and has significant influence are defined as associates. For a list of the companies in the Group as at 31 December 2016, see notes 2 and 3.

We assess investments in companies at the purchase price of the shares, unless write-down has been necessary. We recognise group contributions to subsidiaries, after tax, as an increase to the cost of the shares. Dividends/group contributions are recognised as income in the same year as provision is made for this in the financial statements of the subsidiary/associate. If dividends/group contributions significantly exceed the part of the profits that is retained in the company after the purchase, we consider the excess as repayment of invested capital and deduct it from the value of the investment in the balance sheet.

In the consolidated financial statements, we use the equity method to account for investments in associates. This method results in the carrying amount in the balance sheet being the same as the share of equity in the associate, corrected for any remaining excess value from the purchase and unrealised inter-group profit. The profit part of the income statement is based on the part of the net profit in the associate and corrected for any depreciation of excess value and unrealised profits. In the income statement, the profit part is shown under financial items.

Consolidation principle

Subsidiaries are consolidated from when control is transferred to the Group (acquisition date).

In the consolidated financial statements, we replace the item "Shares in subsidiary" with the subsidiary's assets and liabilities. The consolidated financial statements are prepared as if the Group were a single economic unit. Internal transactions, unrealised earnings and other balances between the companies in the Group are eliminated.

We recognise purchased subsidiaries in the consolidated financial statements at the parent company's purchase price. Purchase price is assigned to identifiable assets and liabilities in the subsidiary, and these are entered in the consolidated financial statements at fair value at the acquisition date. Any excess value beyond what can be assigned to identifiable assets and liabilities is shown in the balance sheet as goodwill. Goodwill is treated as a residual item and shown in the balance sheet at the amount that is observed in the purchase transaction. Excess value in the consolidated financial statements is depreciated over the anticipated economic life of the acquired assets.

OPERATING INCOME

Income from the sale of goods is recognised at the time of delivery. Income from services is recognised in line with provision of said services. Operating income, income from car, passenger and freight services, other operating income and contract payments from public-sector clients are recognised as income in the year in which they are earned.

Contract payments are recognised in the balance sheet as receivables if they have not been paid in full by year-end.

Sales of discount cards for passengers and vehicles on ferry routes are taken to income at the time of use, with the company being liable for unused value on the cards. Unused value is classified as other short-term liabilities in the balance sheet.

CLASSIFICATION AND ASSESSMENT OF BALANCE SHEET ITEMS

Assets intended for permanent ownership or use are classified as fixed assets. Assets linked to the operating cycle are classified as current assets. Debts receivable are classified as current assets if they will be repaid within a year of the date when disbursement was made. We apply analogous criteria to debts payable.

ACCOUNTING POLICIES, CONTINUED

Current assets are assessed at the lower of purchase price and fair value. Short-term liabilities in Norwegian kroner are recognised in the balance sheet at their nominal amounts when established.

Fixed assets are valued at purchase price. The purchase price for operating assets with long production times also includes borrowing costs associated with manufacture of the asset. Fixed assets that fall in value are depreciated using the straight-line method over the anticipated economic life.

Assets are written down to fair value in the event of a fall in value, if so required by the accounting rules. Long-term liabilities in Norwegian kroner are recognised in the balance sheet at their nominal amounts when established. Provisions are discounted if the interest component is substantial.

INTANGIBLE ASSETS

Research and development costs are recognised in the balance sheet where the criteria for this are met. This means that research and development costs are recognised in the balance sheet when we consider it likely that the future economic benefits associated with the asset will flow to the company, and we have arrived at a reliable measurement of its purchase cost. Research and development costs recognised in the balance sheet are depreciated using the straight-line method over the expected economic life.

Costs of other intangible assets are recognised in the balance sheet where the criteria for this are met. This means that costs for other intangible assets are recognised in the balance sheet when it is considered likely that the future economic benefits associated with the asset will flow to the company, and we have arrived at a reliable measurement of its purchase cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised in the balance sheet and depreciated using the straight-line method over the expected economic life if it has an expected economic life of more than 3 years and a cost price in excess of NOK 15,000. The depreciation period for investments/capital improvements/major replacements will follow the expected economic life of the operating asset.

Maintenance of operating assets is recognised as a cost under operating expenses on an ongoing basis. Capital improvements are added to the operating asset's cost price and depreciated in line with the operating asset. We calculate the difference between maintenance and capital improvements based on the operating asset's technical condition at the time of purchase.

All ships are covered by an annual maintenance programme. Classification and maintenance costs are recognised as expenses in connection with the annual maintenance programme, with the exception of thrusters and associated equipment. Costs for this are recognised in the balance sheet and depreciated over the period until the next periodic maintenance, which is normally every five years. The costs are recognised in the balance sheet under Ships and specified in Note 1. On delivery of newbuilds, part of the cost price is recognised in the balance sheet as periodic maintenance and depreciated at the time of the first periodic maintenance.

LEASES

Leases are classified as financial or operating leases depending on the specific content of the individual agreement. If the economic risk and control associated with the leased object have been substantially transferred to the lessee, the agreement is classified as a financial lease. Other lease agreements are classified as operating leases.

Operating assets subject to lease agreements considered financial leases are capitalised in the balance sheet at the value of the charge in the lease agreement, and depreciated as property, plant and equipment. The instalment component of the lease charge is shown as a long-term liability. The total charge is reduced by the lease payments made less calculated interest expenses.

For agreements that are classified as operating leases, the lease payments are treated as an operating expense and systematically allocated over the entire term of the lease.

OTHER LONG-TERM EQUITY INVESTMENTS

The cost method is applied to investments in other shares etc. Dividends are initially recognised as financial income when approved. If the dividends significantly exceed the part of accumulated equity after the purchase, the surplus is used to reduce the cost.

ACCOUNTING POLICIES, CONTINUED

INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

Investments in associates and subsidiaries are valued using the cost method in the company financial statements.

WRITE-DOWN OF FIXED ASSETS

Where there is an indication that the carrying amount of a fixed asset exceeds the fair value, we test for a decrease in value. We assess whether the recoverable amount of the fixed asset related to the associated assessment unit is greater than the carrying amount. The test is performed for the lowest level of fixed asset with independent cash flows.

Recoverable amount is calculated as the higher of the assessment unit's value in use and net sales value.

Value in use is taken to mean the present value of future cash flows that are expected to arise from the assessment unit, while net sales value is defined as the difference between market value on the balance sheet date and estimated selling costs. Where the fixed assets in the assessment unit are tied up in contracts and cannot be realised without the opposite party claiming breach of contract, we use a simple value in use as an alternative to recoverable amount. Future cash flows cover the assessment unit's cash flows from operating activities plus the terminal value of the associated fixed asset on expiry of any contracts that may have formed the basis for the assessment unit.

If the carrying amount is higher than both the sales value and recoverable amount, it is written down to the higher of the two.

Previous write-downs are reversed if the conditions for the write-down no longer exist (except for write-downs for goodwill).

HEDGING

The Group has not used fair value hedging.

Cash flow hedging

Forward contracts that hedge future incoming and outgoing payments are recognised on realisation of the forward contracts. Any change in value of the hedging instrument is not recognised. The hedging instrument is recognised at the time of the transaction.

The Group uses various hedging instruments and fixed-price contracts to secure its cash flows, especially for various kinds of fuel and interest rates. The Group assesses the use of hedging instruments relative to the regulating clauses in the relevant contracts. If the relevant regulating clauses for a contract are not thought to provide satisfactory cover for price developments for the input factor in question, the Group can use available hedging instruments to reduce or eliminate the price development risk.

Fuel

The Group uses forward contracts to reduce the price risk in the fuel market for those contracts that do not have regulating mechanisms for price changes. In months where the relevant market price is greater than the hedging price, the opposite party will pay the Group the difference. In months where the relevant market price is less than the hedging price, the Group will pay the opposite party the difference. The Group will have a fixed price for the agreed volume during an agreed period.

Interest rates

The Group uses interest rate swap agreements, where we agree interest rates and repayment periods with an opposite party. In months where the market rate is above the level for which we have a hedging agreement in place, the opposite party will pay the Group the difference calculated on the remainder of the principal sum. In months where the market rate is below the level for which we have a hedging agreement in place, the Group will pay the opposite party the difference calculated on the remainder of the principal sum. The Group will use such agreements to obtain fixed interest rates for agreed amounts and periods.

The Group will use such agreements to obtain fixed interest rates for agreed amounts and periods. The Group has made limited use of agreements whereby we are ensured a price or interest rate corridor. The purpose of such agreements is to hedge against consequences of extreme fluctuations in underlying price developments.

INVENTORIES

Stocks of bought-in goods are valued at the lower of purchase cost using the FIFO principle and fair value. Write-downs are made for anticipated obsolescence.

ACCOUNTING POLICIES, CONTINUED

RECEIVABLES
Accounts receivable and other receivables are recognised in the balance sheet at nominal value less provision for anticipated losses. Provision for losses is made on the basis of individual valuations of the specific receivables. We also make a non-specific provision to cover anticipated losses on other receivables.

Other receivables, both current and long-term, are recognised at the lower of nominal and fair value. Fair value is the present value of anticipated future incoming payments. However, there is no discounting where the effect of such discounting is not material for the financial statements. Provision for losses is valued in the same way as for accounts receivable.

SHORT-TERM INVESTMENTS
Short-term investments (shares and units that are current assets) are valued at the lower of average purchase cost and fair value on the balance sheet date. Dividends and other distributions received are recognised as other financial income.

WARRANTY COMMITMENTS
Expected expenses for future warranty work associated with sales/completed projects are recognised as a cost and shown as a provision in the balance sheet. Provisions are based on historical figures for warranties.

ONEROUS CONTRACTS/WRITE-DOWN OF FIXED ASSETS
Among other things, the Group's activities entail contracts being signed with the public sector to provide public transport services. For several of these contracts, the company bears a large part of the risk relating to developments in several types of cost (e.g. wages and salaries, interest and fuel), without a corresponding change in income. This can result in these contracts becoming unprofitable if costs increase more than income. The company therefore measures the present values of future expected cash flows from operating activities in each contract, with estimated outgoing payments covering all unavoidable future operating expenses payable. Depreciation, amortisation and write-downs and financial expenses are not included.

If the individual contract is regarded as a cash-generating unit, the cash flow is defined in the same way as the cash flow used as a basis in the impairment tests for fixed assets, except that the fixed assets' terminal value on expiry of the contracts is not included. If the calculations result in a negative present value, this amount is recognised as a provision in the balance sheet. Before any provision is made for onerous contracts, the need to write down the fixed assets is assessed. This means that there is no writing down of fixed assets until provision is made for any onerous contracts.

Any provision for onerous contracts is recognised in the balance sheet under provision for liabilities (long-term liabilities). Provision for onerous contracts that are linked to the operating cycle, or that have an expected settlement date within a year of the balance sheet date, are classified as other short-term liabilities.

The provision/write-down is reversed in line with any reduction in negative present value in subsequent periods.

If a new contract is announced for a single service as part of an existing tender package, concrete consideration is given to whether this/these services can be assessed as part of the original cash-generating unit.

On several of the tender contracts, the client has an option to continue the contracts. An assessment is made as to whether this option will be exercised and should therefore be included in the cash flows linked to the cash-generating unit.

CURRENCY
Monetary items in foreign currency are valued according to the exchange rate at the end of the financial year. Exchange rate movements are recognised under financial items in the income statement in the relevant accounting period.

PENSIONS
The Group has various pension plans. These pension plans are funded by payments into publicly or privately administered insurance policies/companies, with the exception of the AFP plans and some plans that are covered as part of operating expenses. The company has both defined contribution and defined benefit plans.

ACCOUNTING POLICIES, CONTINUED

Defined contribution plans

With defined contribution plans, the Group pays contributions into publicly or privately administered insurance plans/companies. The Group has no further payment commitments after payment of the contribution. The contribution is recognised as staff costs. Any prepaid contributions are recognised in the balance sheet as assets (pension funds) to the extent that the contribution may be refunded or used to reduce future payments.

Defined benefit plans

A defined benefit plan is a pension scheme that is not a defined contribution plan. A defined benefit plan is typically a pension scheme that defines the pension that an employee will receive on retirement. The pension paid out is usually dependent on a number of factors, such as age, years of service and salary. The carrying amount of liabilities linked to defined benefit plans is the present value of the defined benefits on the balance sheet date, less fair value of the pension funds (amounts paid to the insurance company), adjusted for unrecognised estimate differences and unrecognised costs for pension savings in previous periods. The pension obligation is calculated annually by an independent actuary using a linear accrual method.

Plan changes are amortised over the anticipated remaining qualifying time. The same applies to estimate differences as a result of new information or changes in the actuarial assumptions where these exceed 10% of the higher of the pension obligation and pension funds (corridor).

TAX

Tax in the income statement covers both the tax payable for the period and change in deferred tax. Deferred tax is calculated at the current tax rate (24%) on temporary differences between the carrying amount and tax base, and any tax loss carryforward at the end of the financial year. Temporary differences that increase or reduce tax, and that are or can be reversed in the same period, are offset. The deferred tax asset relating to net tax-reducing differences that cannot be offset and that are tax loss carryforwards is worked out from expected future income. Deferred tax and tax assets that may be capitalised are shown net in the balance sheet.

On acquisition of companies, an assessment is made of whether to use the present value of the deferred tax on the temporary differences. Tax on group contributions paid that are recognised as an increase in the cost of shares in other companies and tax on group contributions received that are entered directly against equity are entered directly against tax in the balance sheet (the entry is made against tax payable if the group contribution has an effect on tax payable and against deferred tax if the group contribution has an effect on deferred tax).

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash and cash equivalents comprise cash at bank and in hand, and other short-term, liquid investments that can be converted into known cash amounts immediately and with negligible exchange-rate risk and that have a due date less than three months from the start date. On disposal of a subsidiary, the balance sheet changes resulting from the sale are handled in the same way as other balance sheet changes in the Group (in the consolidated cash flow statement). The net cash receipt from the disposal is therefore not shown.

Fjord1

NOTES 2016

Note 1. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT, PARENT COMPANY	Buildings, property and land	Ships	Ships under construction	Means of transport	Movables, tools, fixtures and fittings etc.	Total property, plant and equipment
Cost and ordinary depreciation						
Cost at 01.01.	65 933	5 625 160	12 508	2 150	163 873	5 869 624
+ additions during the year	0	254 504	283 415	445	4 050	542 412
+ additions transferred from completed property, plant and equipment	0	0	0	0	0	0
– disposals during the year	0	179 928	254 504	0	0	434 432
Cost at 31.12.	**65 933**	**5 699 736**	**41 419**	**2 595**	**167 923**	**5 977 604**
Accumulated ordinary depreciation at 31.12.	30 448	2 321 906	0	2 141	149 518	2 504 013
Accumulated write-downs at 31.12.	0	182 178	0	0	0	182 178
Carrying amount at 31.12.	**35 485**	**3 195 652**	**41 419**	**453**	**18 406**	**3 291 413**
Depreciation for the year	2 860	188 752	0	56	6 555	198 223
Write-downs for the year	0	– 55 185	0	0	0	– 55 185
Ordinary straight-line depreciation (%)	10 %	3,33 %–20%	10–20%	10–20%	20 –33,33 %	

PROPERTY, PLANT AND EQUIPMENT, GROUP	Buildings, property and land	Ships	Ships under construction	Means of transport	Movables, tools, fixtures and fittings etc.	Total property, plant and equipment
Cost and ordinary depreciation						
Cost at 01.01.	128 071	5 997 729	12 508	2 150	167 740	6 308 197
+ additions during the year	285	254 504	283 415	445	4 202	542 850
+ additions transferred from completed property, plant and equipment	0	0	0	0	0	0
– disposals during the year	0	179 928	254 504	0	0	434 432
Cost at 31.12.	**128 356**	**6 072 305**	**41 419**	**2 595**	**171 941**	**6 416 615**
Accumulated ordinary depreciation at 31.12.	46 379	2 405 478	0	2 141	152 338	2 606 335
Accumulated write-downs at 31.12. *	0	182 178	0	0	0	182 178
Carrying amount at 31.12.	**81 977**	**3 484 649**	**41 419**	**453**	**19 601**	**3 628 098**
Depreciation for the year	4 488	202 683	0	60	6 874	214 105
Write-downs for the year	0	– 55 185	0	0	0	– 55 185
Ordinary straight-line depreciation (%)	3–20%	3,33 –10%	10–20%	10–20%	13–33,33 %	

A large part of the company's income is and will remain linked to long-term contracts (tenders).
On 31 December 2016, an assessment was made of the value of Fjord1 AS's property, plant and equipment based on future EBITDA for each individual tender contract where there is an indication of a decrease in value.
The residual value used is the company's best estimate of the value of property, plant and equipment at the end of the tender period.
Unsettled options for contract extension have not been taken into account in the impairment tests.
A weighted required rate of return on the total assets of 5.7% after tax has been used in the calculation. Sensitivity analyses were performed where there was an indication of a decrease in value, and a write-down was made.
Several of the contracts are sensitive to changes in estimates.
Gains on disposals of operating assets are classified as other operating income.

Note 1. PROPERTY, PLANT AND EQUIPMENT, CONTINUED

Investments and disposals (selling price) of property, plant and equipment (Group)

	2016		2015		2014		2013		2012	
	Investment	**Disposal**	**Investment**	**Disposal**	**Investment**	**Disposal**	**Investment**	**Disposal**	**Investment**	**Disposal**
Goodwill										
Machinery, fixtures and fittings, and means of transport	4 494	94	5 210	322	13 043	1 878	13 781	0	5 808	24
Ships	254 504	83 409	38 206	1 000	19 497	20 400	367 788	20 001	275 224	67 012
Buildings	0	0	9	600	2 900	0	4 746	28 000	7 598	970
Total	**258 998**	**83 503**	**43 425**	**1 922**	**35 440**	**22 278**	**386 315**	**48 001**	**288 630**	**68 006**

Note 2. INFORMATION ABOUT SUBSIDIARIES

Subsidiary	Domicile	Equity interest	Voting right
Hareid Trafikkterminal AS	Hareid	63 %	63 %
F1 Administrasjon AS	Florø	100 %	100 %
Bolsønes Verft AS	Molde	100 %	100 %
ÅB Eigedom AS	Årdal	66 %	66 %
Måløy Reisebyrå AS	Måløy	100 %	100 %
Fanafjord AS	Florø	100 %	100 %
Nye Fanafjord AS	Florø	90 %	90 %

Subsidiary	Share capital	Total number of shares	Our holding of shares	Equity in subsidiary	Profit/ loss in subsidiary	Book value	Declared dividend	Declared group contribution
Hareid Trafikkterminal AS	1 200	1 200	710	3 532	347	768		0
F1 Administrasjon AS	1 500	15 000	15 000	4 463	3 685	4 082		3 721
Bolsønes Verft AS	100	100	100	4 433	684	23 000		0
ÅB Eigedom AS	2 750	2 750	1 814	7 156	140	6 038		0
Måløy Reisebyrå AS	300	50	50	1 942	877	1 777		1 169
Fanafjord AS	400	400	400	8 117	3 256	4 407		0
Nye Fanafjord AS	30 000	30 000	30 000	120 868	– 21 589	84 135		0
				150 510	**– 12 600**	**124 207**		**4 890**

Note 3. SHARES IN ASSOCIATES

Associate	Registered office	Equity interest / voting share	Cost	Profit/loss in 2016	Share of profit	Book equity 31.12.2016
The Fjords Fartøy I DA	Flåm	50,0 %	15 400	177	65	30 950
Sognefjorden Fartøy I AS	Flåm	50,0 %	3 030	(17)	(9)	1 172
The Fjords DA	Flåm	50,0 %	5 000	13 013	6 377	23 013
Partsrederiet Kystekspressen ANS	Trondheim	49,0 %	13 382	5 351	2 622	43 450
WF Holding AS*	Bodø	34,0 %	178 600	99 472	72 988	517 128
Total			**215 412**	**117 996**	**82 043**	**615 712**

* This company is a subsidiary of Torghatten ASA and is included in that company's consolidated financial statements. The parent company has its head office at Havnegata 40, 8900 Brønnøysund. The consolidated financial statements are available at this address.

	2016						2015					
Change in book value of associate	**Sognefjorden Farty I AS**	**The Fjords Farty I DA**	**The Fjords DA**	**WF Holding**	**Others**	**Total**	**Sognefjorden Farty I AS**	**The Fjords Farty I DA**	**The Fjords DA**	**WF Holding**	**Others**	
Book value 01.01.	3 030	13 000	13 853	231 167	19 649	280 698	0	0	0	204 775	17 158	221 933
Net purchase	0	0	0	0	0	0	3 030	13 000	5 000	0	0	21 030
Additions resulting from change in agreement	0	2 400	0	0	0	2 400	0	0	0	0	0	0
Share of profit	– 9	65	6 377	72 988	2 622	82 043	0	0	8 853	26 392	2 491	37 735
Dividend	2 400	0	11 804	10 200		24 404	0	0	0	0	0	0
Disposal of company	0	0	0	0	0	0	0	0	0	0	0	0
Book value at 31.12.	**622**	**15 465**	**8 426**	**293 955**	**22 271**	**340 737**	**3 030**	**13 000**	**13 853**	**231 167**	**19 649**	**280 698**

Note 4. INVESTMENTS IN SHARES AND UNITS

	Parent company		Group companies			
Company	**Market value**	**Book value**	**Number of shares / units**	**Equity interest**	**Cost**	**Book value**
Fjord Invest AS		100	9 134		9 075	100
Fjord Invest Sørvest AS		400			300	400
Fjord Invest Industri AS		0	6 160		100	0
Møre og Romsdal Såkornfond AS		0	20 000		2 000	0
BookNorway AS		0			0	0
Norway Bussekspress AS		0		12 %	1 000	0
Fergebo AS		0		50 %	533	0
Fjord Tours AS		1 231	230	31 %	1 327	1 231
Geiranger Fjordservice AS		1 100			1 600	1 100
Other shares and units		676			1 126	691
Total shares and units		**3 507**			**17 061**	**3 522**

Note 5. BONDS AND OTHER RECEIVABLES

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Employee loans	467	1 094	467	1 094
Capital contribution to KLP	0	0	4 131	3 763
Other long-term receivables	164	237	164	237
Total other receivables	**631**	**1 331**	**4 762**	**5 095**

Note 6. LONG-TERM RECEIVABLES FROM GROUP COMPANIES, PARENT COMPANY

	2016	2015
Internal loans, drawdowns on the Group account	1 336	1 636
Loans to subsidiaries	22 699	18 845
Total long-term receivables from Group companies	**24 036**	**20 482**

Note 7. INTERCOMPANY BALANCES

	PARENT COMPANY			
	Short-term receivables		Long-term receivables	
	2016	2015	2016	2015
Group companies	5 645	5 424	24 036	20 482
	Kortsiktig gjeld		Langsiktig gjeld	
	2016	2015	2016	2015
Group companies	32 918	20 294	0	0

Note 8. INVENTORIES

Inventories comprise goods bought in for onward sale. No write-downs have been made for obsolescence.

Note 9. ACCOUNTS RECEIVABLE

	PARENT COMPANY		GROUP COMPANIES	
	2016	2015	2016	2015
Accounts receivable at nominal value 31.12.	75 932	71 660	80 165	73 396
Provision for bad debts 31.12.	– 1 505	– 1 692	– 1 505	– 1 692
Accounts receivable 31.12.	**74 427**	**69 968**	**78 660**	**71 705**
Actual loss for the year on receivables	510	246	510	246
Loss on receivables	**510**	**246**	**510**	**246**

Loss on receivables is included in “Other operating expenses”.

Note 10. OTHER SHORT-TERM RECEIVABLES

	PARENT COMPANY	
	2016	2015
Group contributions received	4 890	4 863
Other receivables from Group companies	755	561
Short-term receivables from Group companies	**5 645**	**5 424**

	PARENT COMPANY		GROUP COMPANIES	
	2016	2015	2016	2015
Prepayments	79 302	38 466	79 302	38 786
Other receivables	21 729	48 714	21 931	48 731
Other accruals – income	5 021	0	5 021	0
Sea damage claims	10 935	14 135	10 935	14 135
VAT receivables	– 3 598	– 843	– 3 598	– 797
Other short-term receivables 31.12.	**113 389**	**100 472**	**113 592**	**100 853**

NOTE 11. SHARE CAPITAL AND OWNERSHIP STRUCTURE

	Number	Nominal value of share	Nominal value of holding	Share of votes
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 %**

Note 12. EQUITY

Change in equity during the year:

	GROUP					PARENT COMPANY			
	Share capital	Share premium fund	Other consolidated capital	Minority interests	Total equity capital	Share capital	Share premium fund	Other equity capital	TOTAL
Equity 01.01.2016	250 000	360 924	692 624	3 744	1 307 292	250 000	360 924	601 822	1 212 746
Profit for the year			383 526	150	383 676			345 758	345 758
Provision for dividends			– 250 000		– 250 000			– 250 000	– 250 000
Other			1 138	– 13	1 125				0
Equity 31.12.2016	**250 000**	**360 924**	**827 288**	**3 881**	**1 442 093**	**250 000**	**360 924**	**697 580**	**1 308 504**

Note 13. MINORITY INTERESTS

	2016	2015
Minority interests 1.1.	3 744	3 629
Minority interests' share of profit	150	126
Additions/disposals, minority interests	– 13	– 11
Minority interests 31.12.	**3 881**	**3 744**

Note 14. ACCOUNTING TREATMENT OF TAX

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Tax payable is made up as follows:				
Profit on ordinary activities before tax	434 869	159 728		
Permanent differences	– 26 842	8 655		
Tax base	408 027	168 382		
Change in temporary differences	– 131 396	– 94 576		
+/- group contributions received/paid	4 890	4 863		
Loss carryforward	– 740 121	– 821 269		
Taxable income (tax base)	**– 458 600**	**– 742 600**		
Tax for the year is made up as follows:				
Tax payable on profit for the year	0	0	2 672	300
Change in tax payable on profit for previous year	156	0	156	0
Tax effect of group contribution	0	0	1 222	1 313
Adjustment of deferred tax 2014	0	3 233	0	3 233
Change to deferred tax/tax asset in the balance sheet	88 955	26 807	122 105	24 810
Total tax for the year	**89 111**	**30 040**	**126 155**	**29 656**
Tax payable in the balance sheet is made up as follows:				
Tax payable on profit for the year	0	0	2 672	301
Tax effect of group contribution	0	0	0	0
Total tax payable	**0**	**0**	**2 672**	**301**
Specification of deferred tax base:				
Differences offset:				
Operating assets	1 592 482	1 491 892	1 745 552	1 496 820
Receivables	– 1 505	– 1 692	– 1 530	– 1 733
Profit and loss account	71 592	55 779	71 548	55 725
Accrued contract payment	– 21 698	– 26 839	– 21 698	– 26 839
Pensions	403	– 72	688	– 1 056
Interest swap	0		– 526	0
Units in general partnerships	– 5 610	– 2 306	– 5 610	11 539
Loss carryforward as a result of merger	0	0	0	0
Loss and compensation carried forward	– 458 599	– 742 599	– 466 978	– 750 718
Deferred tax base/tax asset in the balance sheet	**1 177 065**	**774 163**	**1 321 446**	**783 737**
Deferred tax asset/deferred tax	282 496	193 541	317 147	195 934
Elimination of deferred tax on depreciation of excess value	0	0	40 629	39 698
Deferred tax asset in the financial statements	**0**	**0**	**2 015**	**279**
Deferred tax	**282 496**	**193 541**	**359 791**	**235 911**

Fjord1

Note 15. PENSION OBLIGATIONS

PARENT COMPANY/GROUP

Occupational pension schemes
Fjord1 AS and F1 Administrasjon AS have group occupational pension schemes covering all employees.
The schemes meet the requirements of the Norwegian Mandatory Occupational Pensions Act.

Defined benefit pension schemes
Group occupational pension schemes
For accounting purposes, group defined benefit pension schemes are handled in accordance with the Norwegian pensions standard.
The schemes provide a right to defined future benefits. These mainly depend on the number of qualifying years, salary, salary at pension age and the level of any payments from the national insurance scheme. The obligation is covered by a scheme with KLP and schemes with other insurance companies. Pension cost and obligation/funds are shown in the note under insured pension schemes.

Defined contribution pension schemes
Defined contribution pension
Defined contribution pensions are schemes where the company commits to pay an annual premium. The pension is dependent on the funds paid in and the return on these. For the company, the cost for the year is equal to the year's premiums.

Pension schemes for land-based employees with F1 Administrasjon AS
A defined benefit pension scheme for land-based employees with F1 Administrasjon AS covers retirement pension from the age of 67.
The scheme includes disability pension, and provides waiver of premium in the event of disability.
The obligations in the defined benefit plans are covered by schemes with KLP and other insurance companies.
The defined benefit schemes, which are closed to new members as of 31 December 2010, covered 24 active employees and 121 pensioners in 2016.

Pension schemes for maritime employees with Fjord1 AS
Maritime personnel have their own negotiated occupational pension scheme.
The scheme is insured and covers 930 active employees and 68 pensioners.

In addition to the negotiated occupational pension, a defined contribution scheme has also been established for maritime employees in accordance with the Mandatory Occupational Pensions Act.
The scheme pays out a pension from the age of 67, based on a 2% annual contribution for each member.

The company's maritime employees can retire at the age of 60. They are then entitled to a seaman's pension.
This is financed by deductions from pay and by contributions from the company. The company's component is classified as a defined contribution pension.

Contractual early retirement pension
Most employees, apart from maritime employees, are signed up to the contractual early retirement pension (AFP) from ages 62 to 67.
The AFP scheme for seven employees and 99 pensioners is administered by KLP. Approximately 50% of this scheme is insured through KLP and approximately 50% is financed by the company as part of operating expenses. KLP is not able to separate the insured part from the uninsured obligation of the AFP portion. This is why it is not possible to distinguish between insured and uninsured defined benefit pension schemes, and they are therefore presented together as an insured scheme.

The new AFP scheme, which came into force on 1 January 2011, must be regarded as a defined benefit multi-enterprise scheme, though it is recorded in the financial statements as a defined contribution scheme until there is sufficient reliable information to allow the company to recognise in the financial statements its proportional share of the pension costs, obligations and funds in the scheme. The Group's obligation is therefore not capitalised as a liability.

AFP obligations arising from the old scheme were capitalised as a liability (defined benefit scheme) and recognised as income in 2010, with the exception of obligations relating to former employees who are now in receipt of a pension from this scheme. In the note on pension costs, the scheme is shown as an uninsured pension scheme, as it is not insured with an insurance company.

NOTE 15. PENSION OBLIGATIONS, continued

Pensions as part of operating expenses

There are three people in the Group who are paid pensions as part of operating expenses. The costs and liabilities associated with this are shown in the note under uninsured pension schemes. The Group has an early retirement pension agreement with the former Group CEO, which pays out 66% of salary from ages 65 to 67. This scheme is not insured and is covered as part of the company's operating expenses.

Pension costs, defined benefit schemes

	PARENT COMPANY				GROUP				TOTAL	
	Insured		Uninsured		Insured		Uninsured			
Pension cost	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Present value of pension contributions for the year	4 739	6 005	0	0	6 654	8 208	666	319	7 320	8 527
Interest expense on pension obligations	1 555	1 347	0	0	6 295	5 816	175	77	6 470	5 893
Expected return on pension funds	- 1 711	- 1 283	0	0	- 6 309	- 5 153	0	0	- 6 309	- 5 153
Recognised change to plan	0	0	0	0	- 14	0	4 729	0	4 715	0
Recognised estimate differences	0	0	0	0	1 157	2 682	- 3	32	1 154	2 715
Employer's contribution	0	0	0	0	110	325	119	56	228	380
Net pension costs	**4 583**	**6 069**	**0**	**0**	**7 893**	**11 878**	**5 685**	**484**	**13 578**	**12 362**
Change in accrued obligation										
Accrued obligation at the start of the year	58 233	59 037	0	0	244 335	252 678	3 275	3 774	247 610	256 452
Present value of pension contributions for the year	4 739	6 005	0	0	6 654	8 208	666	319	7 320	8 527
Interest expense on pension obligations	1 555	1 347	0	0	6 295	5 816	175	77	6 470	5 893
Change to plan			0	0	458	- 11 384	4 144	0	4 602	- 11 384
Estimate changes	- 8 640	- 7 247	0	0	- 18 049	- 9 377	- 900	- 70	- 18 949	- 9 448
Cessation of scheme/transfer of obligation from subsidiary			0	0	0	0	0	0	0	0
Benefits paid from the scheme	- 1 259	- 910	0	0	- 1 966	- 1 606	- 911	- 824	- 2 877	- 2 430
Accrued obligation at the end of the year	**54 627**	**58 233**	**0**	**0**	**237 727**	**244 335**	**6 450**	**3 275**	**244 176**	**247 610**
Change in pension funds										
Fair value of the pension funds at the start of the year	60 110	46 899	0	0	219 326	189 471	0	0	219 326	189 471
Upward adjustment of pension funds, accumulated equity in pension fund	0	0	0	0	0	0	0	0	0	0
Estimate changes	- 2 454	- 5 103	0	0	- 13 201	2 979	0	0	- 13 201	2 979
Return on pension funds	1 711	1 283	0	0	6 618	5 609	0	0	6 618	5 609
Cessation of scheme/transfer of funds from subsidiaries	0	0	0	0	0	0	0	0	0	0
Funds taken over from subsidiaries following organisational change	0	0	0	0	0	0	0	0	0	0
Funds at change of plan/ scaling down	0	0	0	0	- 659	- 394	0	0	- 659	- 394
Paid in	5 058	17 941	0	0	13 487	23 267	0	0	13 487	23 267
Pensions paid out from schemes	- 1 259	- 910	0	0	- 2 428	- 1 606	0	0	- 2 428	- 1 606
Fair value of pension funds at year-end	**63 165**	**60 110**	**0**	**0**	**223 144**	**219 326**	**0**	**0**	**223 144**	**219 326**

NOTE 15. PENSION OBLIGATIONS, continued

Reconciliation of the pension schemes' funded status against amounts in the balance sheet

	PARENT COMPANY				GROUP					
	Insured		Uninsured		Insured		Uninsured		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net pension obligation	8 539	1 878	0	0	- 14 582	- 25 008	- 6 450	- 3 275	- 21 031	- 28 283
Employer's contribution	0	0	0	0	- 3 429	- 3 791	- 909	- 462	- 4 339	- 4 253
Unrecognised estimate differences	- 8 136	- 1 950	0	0	27 437	31 836	0	0	27 437	31 836
Unrecognised plan changes	0	0	0	0	0	0	- 1 379	- 356	- 1 379	- 356
Total net pension funds (+)/ obligation (–)	**403**	**- 72**	**0**	**0**	**9 426**	**3 037**	**- 8 738**	**- 4 093**	**688**	**- 1 056**
Total net pension funds (+)/ obligation (–) are/is capitalised in the financial statements as										
Overfunded schemes	403	0	0	0	9 426	3 037	0	0	9 426	3 037
Underfunded schemes	0	- 72	0	0	0	0	- 8 738	- 4 093	- 8 738	- 4 093
Total net pension funds (+)/ obligation (–)	**403**	**- 72**	**0**	**0**	**9 426**	**3 037**	**- 8 738**	**- 4 093**	**688**	**- 1 056**
Number of active employees in the scheme included in the pension calculations:	930	853	0	0	954	1 075	30	30		
Number of pensioners in the scheme included in the pension calculations:	68	184	0	0	189	292	2	1		

The Group's total pension costs (defined benefit and defined contribution)

	2016	2015	2016	2015
Cost of defined benefit schemes according to note	4 583	6 069	13 578	12 362
Cost of defined contribution schemes	31 684	32 789	35 098	36 486
Total pension cost	**36 267**	**38 858**	**50 692**	**48 848**

Reconciliation of the Group's pension funds/obligation against the balance sheet

	INSURED		UNINSURED			
Funds	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Overfunded defined benefit schemes	403	0	0	0	9 426	0
Total pension funds shown as asset in the balance sheet	403	0	0	0	9 426	0
Liability						
Underfunded schemes	0	- 72	0	0	- 8 738	- 1 056
Total pension obligation shown as a liability in the balance sheet	**0**	**- 72**	**0**	**0**	**- 8 738**	**- 1 056**

Financial assumptions for calculating defined benefit pension

	2016 i %	2015 i %
Discount rate	2,60 %	2,70 %
Expected pay adjustment	2,50 %	2,50 %
Expected increase in pensions currently paid	0,00 %	0,00 %
Expected base amount adjustment	2,25 %	2,25 %
Expected return on pension funds	3,60 %	3,30 %

Note 16. OTHER PROVISIONS

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Provision for contract payment	21 698	26 839	21 698	26 839
Total other provisions	**21 698**	**26 839**	**21 698**	**26 839**

Provision for contract payment is accrued based on the difference between the repayment period for operating assets used in contracts with the public sector and the depreciation for accounting purposes.

Note 17. PLEDGES, GUARANTEE LIABILITIES, ETC.

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Claims maturing after more than one year:				
Other long-term claims	0	0	0	0
Total	**0**	**0**	**0**	**0**
Debt				
Debt to credit institutions	1 775 511	1 873 441	1 955 511	2 078 441
Total debt	**1 775 511**	**1 873 441**	**1 955 511**	**2 078 441**
Total debt with term longer than 5 years	0	361 225	0	462 225
Total guarantee liabilities, surety, guarantee for transport licences etc.	873 617	374 613	880 717	379 613
Book value of assets pledged as security:				
Buildings and land	35 485	38 345	53 385	56 696
Ships	3 238 405	3 157 180	3 508 468	3 459 829
Total	**3 273 890**	**3 195 525**	**3 561 853**	**3 516 525**

The Fjord1 Group’s liquidity is organised in a three-way split between a group account arrangement, a long-term loan commitment to look after older loans with Group companies, and a long-term commitment to look after the financing of new borrowing in connection with new equipment in general and the gas-powered ferries in particular. All of these commitments are held with Nordea.

The subsidiaries’ detail accounts are formally treated as claims and liabilities with the parent company, Fjord1 AS. Contributions to the Group account are classified as claims in the balance sheet, while drawdowns from the group account are classified in the balance sheet as debt to Group companies. The company's claims are pledged as security for total debts in the group account scheme. Total receivables in the Group’s group account scheme at 31.12.2016 were NOK 477.4 million.

With regard to tax-withholding accounts, Nordea has issued a guarantee to the respective tax offices for the tax liability of NOK 5 million. Other than this arrangement, there are no tied-up amounts for tax deductions at 31.12.2016.

The long-term liability in connection with the Group agreement is NOK 1,775.5 million at 31.12.2016. Liabilities relating to individual ferries and express boats have been collateralised. For other long-term liabilities, the security is linked to property and other assets in the individual companies in the Group.

Note 18. OTHER SHORT-TERM LIABILITIES

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Map database, maritime companies	340 188	325 024	340 188	325 024
Pay and holiday pay owing/accrued	120 577	123 484	120 577	133 356
Accrued interest/hedging transactions	3 774	10 513	3 774	11 937
Other short-term liabilities	29 887	32 907	47 708	43 851
Total other short-term liabilities	**494 426**	**491 927**	**512 247**	**514 168**

Note 19. WAGES, SALARIES AND SOCIAL SECURITY COSTS

	PARENT COMPANY		GROUP	
	2016	2015	2016	2015
Wages and salaries	592 068	592 985	684 131	684 268
Employer's contribution	89 871	93 217	105 228	107 148
Pension costs	37 066	38 885	49 043	48 848
Other payments	11 628	22 972	11 989	23 110
Total wages and salaries	**730 634**	**748 060**	**850 391**	**863 375**
Number of FTEs employed	1 069	1 119	1 191	1 248

The schemes are covered via insurance companies and KLP. The total pension cost recognised as a cost in Fjord1 AS is NOK 39,552.

The Group's pension plans meet the requirements of the Mandatory Occupational Pensions Act.

No loans have been provided/security put up for the CEO, chair of the board or other related parties.

No loans have been provided/security put up representing more than 5 pre cent of the company's equity.

Payments to senior executives	**CEO**	**Board of directors/corporate assembly**
Wages and salaries	1 725 580	916 400
Pension costs including actuarial costs for 2016	52 768	
Other remuneration	211 840	

The CEO is employed by and receives a salary from F1 Administrasjon AS.
In 2016, a fee of NOK 250,000 was paid to H.R. ADV Pål W. Lorentsen, which is owned by the chair of the board of directors.

	PARENT COMPANY		GROUP	
Auditor (in NOK thousand)	2016	2015	2016	2015
Statutory audit (including technical assistance with financial statements)	819	1 235	1 016	101
Tax advice (including technical assistance with tax declaration)	22	6	22	0
Attestation services	0	0	0	0
Other services	73	168	83	18
Purchased auditor's services	**914**	**1 409**	**1 121**	**119**

Note 20. ITEMS THAT HAVE BEEN COMBINED IN THE FINANCIAL STATEMENTS

	PARENT COMPANY		GROUP	
Other operating expenses	**2016**	**2015**	**2016**	**2015**
Service costs	26 096	21 113	23 729	21 113
Ship costs	556 265	581 287	554 102	532 244
Other operating expenses	372 787	386 097	215 002	276 117
Total other operating expenses	**955 148**	**988 496**	**792 832**	**829 473**

Note 21. OTHER FINANCIAL INCOME

	PARENT COMPANY		GROUP	
	2016	**2015**	**2016**	**2015**
Foreign exchange gains	2 061	3 632	2 061	3 632
Share/customer dividends	4 175	4 770	4 175	4 770
Other financial income	614	1 000	614	1 000
Total other financial income	**6 851**	**9 402**	**6 851**	**9 402**

Note 22. LEASES

	Duration	Lease payment recognised as cost
At the end of 2016, the Group had various leases for ships and other operating assets		
Leases for ships	2020	65 558
The Group also leases the ferry MS Fanafjord	2020	41 358
Vehicle leases	2017	539

Note 23. HEDGING CONTRACTS

Interest rate:	**2016**	**2015**
Fixed-rate interest-bearing debt (cash-flow hedging)	504 000	1 355 851

The fixed rate on the Group's agreements varies, and the agreements have varying terms up to and including 2019.

Unrealised, unrecognised loss on interest swaps is as follows:	44 607	63 395

Oil and LNG:	**2016**	**2015**
Average hedged volume of oil and LNG in the period 2013–2019	22 %	22 %
Unrealised, unrecognised gain/loss on hedging transactions is as follows:	– 20 963	– 22 242

Note 24. TENDER CONTRACTS

	GROUP	
	2016	2015
Write-down of property, plant and equipment	0	40 000
Reversal of write-downs on property, plant and equipment	– 55 185	– 51 048
Total costs linked to tender contracts	**– 55 185**	**– 11 048**

Note 25. OTHER INFORMATION

Fjord1 AS is entitled to compensation for loss of transport revenue as a consequence of the client changing the conditions for the discount structure and fare zones beyond what was set out in the tender.

As of 2010, no final settlement by the client has been made for a number of contracts. Annual compensation, recognised as income, is paid for these contracts.

As of 2010, payments from the client have been made subject to conditions. The choice of model used could have an effect on the final level of compensation.

The company's best estimate has been used, i.e. that discount compensation paid out is mainly recognised as income.

Note 26. FINANCIAL STATEMENTS FOR THE GROUP'S BUSINESS AREAS

	Ferries		Passenger boats		Catering	
	2016	2015	2016	2015	2016	2015
Operating income	2 056 577	1 907 939	100 518	103 695	187 982	189 744
Operating expenses	1 620 296	1 657 716	99 396	99 791	152 739	161 188
Ordinary depreciation/ write-downs	131 272	176 843	5 681	6 868	3 442	3 244
Operating profit	**436 281**	**250 223**	**1 122**	**3 903**	**35 243**	**28 556**
Operating assets						
Investments	283 415	38 206		5 913		1 829
Book value	3 499 843	3 422 471	26 224	109 728	6 338	8 519

	Tourism		Other business areas / eliminations		Total, Norway	
	2016	2015	2016	2015	2016	2015
Operating income	21 437	20 763	29 539	20 338	2 396 053	2 242 479
Operating expenses	17 013	24 711	– 14 755	16 443	1 874 689	1 959 849
Ordinary depreciation/ write-downs	101	56	18 424	9 266	158 920	196 277
Operating profit	**4 424**	**– 3 948**	**44 294**	**3 895**	**521 364**	**282 630**
Operating assets						
Investments	0	0	4 931	3 991	288 346	43 425
Book value	0	0	95 693	188 559	3 628 098	3 568 631

Note 27. KEY FIGURES

GROUP		2016	2015
Return on total assets (1)	%	10,5 %	6,9 %
Operating margin (2)	%	20,4 %	12,6 %
Equity ratio (3)	%	30,1 %	29,7 %
Return on equity (4)	%	8,3 %	13,9 %
Liquidity ratio (5)	%	71,8 %	72,0 %
Debt-servicing capacity (6)	this year	2,9	5,3
Market funding (7)	%	53,7 %	61,9 %

1) Return on total assets	Profit for the year + financial expenses/average total assets
2) Operating margin	Profit after depreciation/total operating income
3) Equity ratio	Equity/total assets
4) Return on equity	Profit for the year/average equity
5) Liquidity ratio	Current assets/short-term liabilities
6) Debt-servicing capacity	Average net interest-bearing debt/profit of the year + ordinary depreciation
7) Market funding	Total operating income – contract income from route operations/total operating income

Auditor's report

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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 parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2016, the income statement and statements of cash flows for the year 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 Company and the Group as at 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.

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.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Bergen, 8 May 2017
ERNST & YOUNG AS

Eirik Moe
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

List of vessels

VESSEL NAME	BUILT	CAPACITY
Driva	1963	29
Ørsta	1964	25
Goma	1968	29
Nårasund	1968	11
Bolsøy	1971	38
Tingvoll	1972	35
Fanaraaken	1973	29
Veøy	1974	50
Sykkylvsfjord	1975	36
Kvernes	1976	35
Aurland	1977	35
Solnør	1977	36
Aukra	1978	36
Eid	1978	35
Nordmøre	1978	52
Sunnfjord	1978	46
Bjørnsund	1979	61
Geiranger	1979	36
Stordal	1979	51
Stryn	1979	81
Solskjel	1981	35
Sogn	1982	110
Sognefjord	1984	64
Dalsfjord	1986	28
Selje	1987	58
Rauma	1988	73
Romsdal	1988	87
Gulen	1989	83
Tresfjord	1991	124
Svanøy	1992	89
Ivar Aasen	1997	76
Lærdal	1997	77
Glutra	2000	120
Åfjord	2000	35
Nordfjord	2001	54
Eira	2002	100
Hålogaland	2002	75
Volda	2002	100
Julsund	2004	99
Dryna	2005	35

VESSEL NAME	BUILT	CAPACITY
Harøy	2006	35
Lote	2006	120
Bergensfjord	2006	212
Fanafjord	2007	212
Mastrafjord	2007	212
Raunefjord	2007	212
Stavangerfjord	2007	212
Årdal	2008	108
Davik	2009	45
Vågsøy	2009	42
Moldefjord	2009	128
Fannefjord	2010	128
Korsfjord	2010	128
Lifjord	2010	110
Norangsfjord	2010	120
Romsdalsfjord	2010	128
Boknafjord	2011	242
Hjørundfjord	2011	122
Storfjord	2011	122
Edøyfjord	2012	50
Hornelen	2016	60
Losna	2016	60

PASSENGER BOATS	BUILT	PASSENGERS
Skagastøl	1970	384
Fjordglytt	2000	81
Sylvarnes	2000	70
Tansøy	2007	96

SHIPS UNDER CONSTRUCTION	PLANNED DELIVERY	CAR CAPACITY
TBN 1	Q4 2017	120
TBN 2	Q4 2017	120
TBN 3	Q4 2017	130
TBN 4	Q4 2018	45
TBN 5	2018	50
TBN 6	2018	50

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