2016

ANNUAL REPORT

Color Group

Principal figures and key figures

Color Group AS

ACCOUNTING STANDARD	IFRS					
CONSOLIDATED	2016	2015	2014	2013	2012	2016
DEVELOPMENT IN TRAFFIC						
Passengers	3 850 947	3 860 663	3 957 407	4 018 082	4 120 110	
Cars	913 676	919 697	939 821	974 249	1 001 613	
Freight units (12m–equivalents)	175 680	169 335	165 773	171 385	174 098	
INCOME STATEMENT (in NOK mill.) 1)						(in EUR mill.)
Operating revenues	4 896	4 587	4 594	4 552	4 512	539
Operating expenses	–3 747	-3 753	-3 859	-3 780	-3 684	-412
Operating profit before depreciation, amortisation, charter and leasing costs	1 149	833	735	772	828	126
Ordinary depreciation and amortisation	–319	-343	-345	-318	-326	-35
Other exceptional items	0	-5	-39			0
Charter, leasing costs	–214	-208	-202	-204	-118	-24
Earnings before interest and taxes (EBIT)	616	277	149	249	384	68
Net financial items	–101	-145	-285	-223	-263	-11
Pre-tax income	516	132	-136	27	121	57
Tax expenses	–89	23	37	29	-33	-10
Net profit/loss for the year	426	155	-99	56	88	47
BALANCE SHEET (in NOK mill.)						
Current assets	1 837	1 625	1 548	1 950	1 559	202
Non-current assets	5 641	5 896	6 055	6 341	6 771	621
Total assets	7 478	7 522	7 603	8 291	8 330	823
Current liabilities	1 488	2 123	1 672	1 285	987	164
Non-current liabilities	3 087	3 027	3 629	4 243	4 505	340
Liabilities	817	735	799	888	988	90
Equity	2 087	1 637	1 502	1 875	1 850	230
Total liabilities and equity	7 478	7 522	7 603	8 291	8 330	823
LIQUIDITY (in NOK mill.) / FINANCIAL STRENGTH (%)						
Cash and cash equivalents as at 31 Dec. 2)	1 438	972	966	1 306	1 257	158
Cash flow from operations	799	314	438	341	348	88
Equity ratio %	28	22	20	23	22	
Net interest-bearing debt	3 326	3 913	3 934	4 116	4 113	366
EMPLOYEES / SUNDRY EXPENSES						
Number of man-years	2 283	2 242	2 365	2 413	2 485	
Cost of wages	1 278	1 285	1 315	1 304	1 322	141
Port dues	157	153	148	144	140	17

Definitions:
1) Translated into Euro, exchange rate as at 31 Dec. 2016
2) Including non-utilized credit facilities

About Color Line

Color Line is Norway's largest - and one of Europe's leading – companies in the field of European short-sea shipping. The company operates six vessels on four services between Norway, Sweden, Denmark and Germany. The operations of the company include passenger traffic, freight shipment, conference facilities, hotel accommodation, restaurants, shops, entertainment and travel and tourism concepts. Color Line employs some 2 300 man-years and is now the only shipping company headquartered in Norway operating international freight and passenger traffic to and from Norway using Norwegian-registered ships.

Color Group AS is the parent company of Color Line AS and is wholly-owned by the limited company O.N. Sunde AS. In 2016, the Group recorded a turnover of approximately NOK 4.9 billion and earnings before interest, taxes, depreciation, amortisation, and charter/leasing costs of approximately NOK 1.1 billion. This result reflects efficiency-enhancing measures put in place on shore and at sea, as well as a lower oil price, favourable exchange rates for the Norwegian currency and the strengthening of the subsidy scheme for employing Norwegian seafarers.

Every year, just under 4 million passengers sail on Color Line ships to and from Norway. In addition, the ships carry approximately 900 000 cars and 175 000 trailers (12 m). The number of trailers carried on Color Line's ships corresponds to about 23 per cent of the freight traffic moved by road into Norway across the Svinesund border crossing. Seaborne transportation is a priority area in the work to achieve national and international climate targets, and Color Line has invested heavily in environmental measures, including shore-based power supplies in ports and scrubber technology on board the ships, with the aim of minimising emissions of environmentally harmful substances to air and water. The company supports the environmental vision formulated by the Norwegian Shipowners' Association of zero emissions of harmful substances to the air and sea and has established an investment programme to pursue this goal.

Investment in technology

Color Line's strategy is to be an industry leader in the efficient transportation of people and the distribution of goods. This has involved the introduction of digital booking systems with integrated travel and tourism packages on shore, as well as forwarding in order to enhance the efficiency of the handling of goods. The primary objective of the Group is to continue to improve and strengthen the excellent development in results by maintaining an unceasing focus on increased profitability and cost-effective operations. In recent years, the company has invested in new technology, which has paid substantial dividends in the form of efficiency gains, as well as creating new digital platforms to be better able to serve the needs of the markets. In addition, the company has invested in the facilities offered on board the ships

Standardisation to achieve cost-effective operations

Color Line's vision is to be Europe's best cruise and freight shipping company. In recent years, Color Line has strengthened the company's market position by operating a clear strategy of differentiation, with high-quality cruises on the service between Oslo and Kiel in Germany and the efficient shipment of freight and passengers on the shorter routes between Norway and Hirtshals in Denmark, and on the Sandefjord-Strømstad service.

To a large extent, the cruise ships plying between Norway and Germany and the transport ferries operating between Norway and Denmark all offer identical onboard concepts and facilities. The standardisation of functions, delivery and passenger experiences enhances cost-effectiveness and gives the ships a distinct profile based on efficiently-functioning, well-reputed and attractive concepts. ■

Skagerrak seen from the bridge of the M/S SuperSpeed 2.

Color Line's role in society

Color Line works systematically within the areas in which an extensive degree of social responsibility is required, including safety and environmental factors, working conditions, health and privacy. The company is the only shipowner headquartered in Norway operating international freight and passenger traffic to and from Norway using Norwegian-registered ships.

Diversity and responsibility

Color Line is Norway's second-largest maritime training organisation, with close to 60 apprentices and cadets on deck and in the engine room and just under 40 apprentices in the shipboard hotel operations. Color Line works systematically to make a career at sea an attractive option. The company makes an important contribution to Norwegian maritime expertise. Under the net pay scheme, Color Line has committed itself to making fixed monthly payments to the Foundation for Norwegian Maritime Expertise, which was established to give apprentices and cadets opportunities in the Norwegian maritime sector. The funds of the Foundation are also used for skills building and recruitment programmes, as well as for projects in the areas of health, environment and safety in the maritime industries.

Color Line is committed to a diverse working environment. The bedrock of the company's personnel policy is equality of treatment and non-discrimination. The working environment is good. A continuous dialogue is conducted with the employees of the company, both through information meetings and in discussions on the Board of Directors of the shipping company, where the employee representatives meet the management of the company.

Zero-tolerance of corruption

Color Line does not tolerate corruption or dishonesty in any form. Guidelines have been drawn up as a support in the company's personnel in their day-to-day interactions with guests, suppliers and colleagues. The company has procedures for following up and giving notice of inappropriate actions. The company's personnel undergo a mandatory e-learning programme and rigorous procedures have been put in place to ensure compliance with the company's policies.

Safety

The safety of employees and customers is of paramount importance to Color Line and for this reason regular exercises are conducted in collaboration with the emergency services and other operators. These exercises have confirmed the high quality of Color Line's safety procedures. The company conducts regular training sessions and courses on safety work, both for shipboard and shore-based employees.

Data protection and information security

Color Line takes data protection seriously and the company has a duty to ensure that personal data are handled safely. The company has established a dedicated data protection officer to assist in promoting awareness about and competence in the processing of personal data. The data protection officer operates as part of a team comprising the IT Security Manager and the company's Technical Security Manager in ensuring that the necessary knowledge about the correct processing of personal data goes out to all parts of the organisation. Most of Color Line's processing of personal data is done in connection with travel administration, and each year the company processes substantial quantities of digital information. The company's personal data policy statement describes the ways in which compliance with the Norwegian Personal Data Act is safeguarded.

Responsible gambling

In 2009, Color Line was granted a licence by the Norwegian authorities to organise casino and gambling operations on board its ships. These operations are overseen by the Norwegian Gaming and Foundation Authority. Each year, the company distributes a statutorily-determined percentage of profits from onboard gambling to cultural, sporting and other voluntary organisation in Norway.

In the period 2010 to 2016, NOK 115 million was donated to non-profit organisations, including the Bellona Foundation, the children's choir of the Norwegian Opera and Ballet, the Norwegian Association of the Blind and a wide variety of sports clubs, which play a key role in promoting wellbeing and social development at local level.

With the aim of counteracting gambling addiction and inappropriate gambling behaviour, Color Line has put in place efficient control mechanisms and training programmes.

Travel and tourism and the maritime industry

Color Line's operations and role in society affect a broad range of interests. The operations of the company have far-reaching ripple effects on Norwegian travel and tourism, arts and culture and local communities. According to the REISEPOL research project, NOK 1 spent on board ship by foreign tourists generates NOK 5 on land in Norway. If ripple-effects are included, NOK 1 spent with Color Line creates NOK 12 in value for the Norwegian economy.

As a key player in the travel and tourism and maritime industry, the company conducts an active and ongoing dialogue with representatives of the most important interest groupings. Color Line is represented on amongst other forums: the Norwegian Shipowners' Association's boards and committees, the board of Interferry Europe, DNV GL's Ferry Committee, Norwegian Logistics and Freight Association, the Foundation for Norwegian Maritime Expertise, the Norwegian-German Chamber of Commerce, the Norwegian Travel Forum, NCE Tourism, as well as a range of other industry organisations at local, national and international level. ■

Color Line has invested substantial sums in environmental measures, including shore-based power supplies.

Seaborne transportation is environmentally-friendly

Efficient and environmentally-friendly transportation of people and goods is an important part of the solution to the climate challenges facing the planet. Color Line supports the work of the Norwegian authorities and the international community to reduce greenhouse gas emissions, and has signed up to the zero-emissions vision of the Norwegian Shipowners' Association, committing the company to contributing to the development of an environmentally-friendly maritime sector. Bringing about a reduction in greenhouse gas emissions will be contingent on an increase in shipborne transportation and on this transportation being conducted in as environmentally friendly way as possible. Color Line is therefore committed to taking a lead role in introducing new and climate-friendly technology on board the ships and in the ports.

Moving more goods from road to sea

Seaborne transportation is substantially more beneficial for the climate and environment than shipment by road. The goal of the European Union is that 50 per cent of goods traffic should be switched from road to sea and rail by 2050. The Norwegian authorities too have set ambitious goals for reducing greenhouse gas emissions, involving reductions of close to 40 per cent by the non-quota sector, in which transport is the main source of emissions. The report entitled Effects on climate of transferring goods shipment from road to sea (DNV-GL 2016) estimates that almost 30 per cent of all goods traffic currently shipped by road could be transferred to seaborne transportation. The National Transport Plan for Norway for 2018-2027 argues that 5-7 million tonnes of goods currently carried by road could be transferred to sea or rail.

Color Line carries a substantial part of the freight shipped by sea between Norway, Sweden, Denmark and Germany, each year shipping approximately 175 000 freight units or trailers (12m). The number of trailers carried on Color Line's ships corresponds to about 23 per cent of the freight traffic moved by road into Norway across the Svinesund border crossing

Color Line invests in climate-friendly technology

The favourable attention that Color Line attracts for its investments in measures to reduce greenhouse gas emissions on board it ships and in the ports the fleet uses is the result of a long-term and systematic effort over a period of many years. The company has been a driving force behind the installation of shore-based power supplies in Norwegian ports, with the first system being introduced in Oslo in 2011. Other important milestones include the opening of shore-based power supply systems in Kristiansand in 2014 and Larvik in 2016. Shore-based power saves local communities from heavy point source pollution because the auxiliary engines of the vessels are connected to a source of renewable electrical power while they are in port. Connecting SuperSpeed to shore-based power will for example cut annual CO_2 emissions by some 1900 tonnes in the ports of Larvik or Kristiansand, and the local environments are spared from emissions of particulate matter, gases and dust.

In 2016, the Port of Sandefjord received a grant to help finance the construction of a shore-based power supply system. As a result, Color Line ships will soon be able to connect to shore-based power supplies in all the Norwegian ports in which the company operates. These investments represent an important contribution to the process of green change, at the same time as which they will improve the profitability of the company in the longer term.

In order to meet statutory environmental requirements, Color Line has installed exhaust gas treatment systems («scrubbers») on the main engines of all of its new vessels. This equipment cuts emissions of sulphur dioxides by more than 90 per cent, making for an annual reduction of over 500 tonnes per ship. For the company as a whole, this reduction amounts to approximately 2 500 tonnes of sulphur dioxides per year. In addition, the treatment technology has brought down emissions of particulates such as soot by some 50 per cent.

As a consequence of these environmental investments, Color Line is well-prepared for the green change in Europe. As well as other benefits, these investments improve the fuel economy of the company, giving Color Line an important competitive advantage.

The world's largest plug-in hybrid ship

As part of its fleet-renewal programme, Color Line signed a contract in February 2017 with shipbuilders Ulstein Verft for the building of the world's largest plug-in hybrid ship, with delivery to take place in high season 2019. The new vessel will be 160 metres in length and have the capacity to carry 2 000 passengers and 500 cars. In addition, the ship will offer an extended and improved range of shipboard services. The new, environmentally-friendly vessel formed part of the tendering competition for the awarding of sailing times from Sandefjord from 2020 in which Color Line was allotted the attractive 10 am departure slot. The ship has been given the working name «Color Hybrid» and will operate exclusively under battery power when sailing down the fjord leading into and out of the inner harbour at Sandefjord. ■

A changing market

Each year, some four million people travel on Color Line ships between Norway, Germany, Denmark and Sweden, making the company one of the biggest operators in the Norwegian travel and tourism industry. In recent years, Norway has seen a major upswing in the number of foreign tourists visiting the country. At the same time, the travel and tourism sector is expecting to see a substantial increase in employment and value creation in the years leading up to 2025. The REISEPOL research project forecasts that employment numbers will rise by over 50 per cent and value creation by over 70 per cent, leading to a substantial increase in demand for qualified personnel in the next few years.

German tourists represent the largest group of foreign visitors both to Norway and for Color Line.

Customers' expectations when it comes to new and exciting facilities on board ship and ashore are increasing all the time. Color Line works continuously to improve its shipboard offerings, as well as developing packaged land-based adventure products in collaboration with partners on the company's most important markets.

Digitising for the future

Technology, industrialisation and consolidation have given the travel and tourism industry a substantial boost over the last 15 years, and Color Line has been a driving force behind this development. In recent years the company has invested substantial funds in new technology, reorganisation and product development. These investments include a new digital booking and check-in platform that simplifies and enhances the efficiency of operations, amongst other reasons to enable customers to book their entire journey themselves, including hotel accommodation and travel and tourism products on land.

Color Line has installed Wi-Fi networks on board all the ships to meet the needs of customers, thereby enabling guests to share their experiences of their voyages on digital and social media. In addition this technology provides valuable information about customer preferences, enabling the company to offer steadily improved experiences and concepts on board ship and on shore.

Taken as a totality, these technological and organisational measures bring increased profitability, greater flexibility and enhanced competitiveness. The technology will be further developed over the coming years.

Strategic alliances

As part of its efforts to improve the experience of travelling, Color Line has entered into long-term, strategic collaboration agreements with key Norwegian actors such as the Norwegian Opera and Ballet and the Munch Museum in Oslo. Total travel experiences, in which customers are able to combine travel with entertainment, fine dining and cultural attraction on shore are important, both in the development of the company's own products and in synergistic collaborations with the travel and tourism industry in Norway, Sweden, Denmark and Germany. ■

Automatic check-in in the departure hall at Hjortneskaien in Oslo.

Color Line gives priority to activities for children and young people. Pictured here is the children's pool onboard the M/S Color Magic and M/S Color Fantasy.

Increased Norwegian competitiveness

Norway is a peninsula in Europe, and seen from this perspective Color Line represents an important bridge to and from the Continent. It is essential for Color Line to renew and develop its own organisation and operations, in line with society's requirements and expectations. Color Line's business is characterised by high operating revenues but also by heavy operating expenses and costs associated with investment, charter hire and leasing. Over a period of 10 years the company has invested substantial amounts in new digital systems and platforms to enable the company's passengers to book tickets and check in efficiently. This technology will be of decisive importance in safeguarding our competitiveness in a future that will be increasingly digital. The company has also implemented a number of necessary, organisational efficiency measures.

Increased earnings per customer, higher production, improved framework conditions, low oil price and a favourable rate of exchange for the Norwegian currency combined, gave the company a good result in 2016. The financial results of the company are also influenced by external factors. Color Line is dependent upon internationally competitive framework conditions and therefore conducts a continuous dialogue with the relevant authorities on the subject of the framework conditions that impact on the operations of the company at any given time.

Improved framework conditions

With effect from 1 March 2016, the Norwegian Government has put in place a number of important measures designed to strengthen the competitiveness of the Norwegian maritime sector. These measures form part of the Government's maritime strategy launched on 29 May 2015, which in turn was based on the recommendations submitted by the Commission on Trade Areas in the autumn of 2014. The strategy represents an important step in the direction of improving the competitiveness of both Norwegian seafarers and maritime operators flying the Norwegian flag and operating in open competition in Europe.

The enactment in law of the net wage scheme was decided by the Norwegian Storting in March 2017, and represents a strengthening of the subsidy scheme for the entire crews of ships registered in the Norwegian Ship Register.

In its maritime strategy, the Government also opened the way for a relaxation of the trade area in the Norwegian International Ship Register (NIS) for ferries sailing in international waters between Norwegian ports and ports outside the Nordic region, including a subsidy scheme for part of the crews of the ships. However, the ESA has lodged a number of objections to specifically Norwegian limitations in the trade area for the NIS. For this reason, the anticipated relaxation for ferries trading in international waters was postponed. A new regulation amending the trade area for NIS-registered ferries operating in international waters was circulated in a consultative proposal, with responses to be submitted by 3 March 2017. The regulation must first be approved by the ESA, and it is expected that this new regulation, which opens the way for the inclusion of the vessels operating on the Oslo to Kiel service, will be enacted in the first half of 2017.

The proposed new framework conditions are forward-looking and will help to safeguard the international competitiveness of the Group.

Travel and tourism – a growth industry

Travel and tourism is one of the fastest-growing industries in the world. Color Line plays a central role in this regard, both as a carrier and as a tour operator. The company represents an important and environmentally friendly bridge between Europe and Norway, and is an active contributor to the Forum on Travel and Tourism, which is an invaluable source of ideas for the major commercial operators in terms of research and development, market access, technology development and competitive framework conditions.

Norway enjoys nature-given advantages that should enable the nation to take its share of the value creation offered by the industry and there is general agreement that future growth must come through an increase in international traffic to Norway. During 2016, the Government continued its work on a new White Paper on travel and tourism as a basis for a new travel and tourism policy aimed at embracing the opportunities offered by the industry. The White Paper is expected to be published during the course of this coming spring. ■

Directors' Report 2016

Color Group AS

ABOUT THE GROUP

Color Group AS is the parent company of Color Line AS. Color Line AS is Norway's largest – and one of Europe's leading – companies in the field of short-sea shipping, employing some 2 300 man-years in four countries. The company's fleet numbers six vessels operating on four international ferry services between seven ports in Norway, Germany, Denmark and Sweden. The company is now the only shipping company headquartered in Norway operating international freight and passenger traffic to and from Norway using Norwegian-registered ships. Norway is a peninsula in Europe and efficient seaborne transportation is essential to sectors such as Norwegian trade and industry and Norwegian travel and tourism. In recent years, Color Line has strengthened the market position of the company by applying a clear strategy of differentiation, offering high-quality cruises on the service between Oslo and Kiel in Germany and the efficient shipment of freight and passengers on the shorter routes between Kristiansand and Larvik in Norway and Hirtshals in Denmark, and on the Sandefjord–Strømstad service. The ships offer conference facilities, hotel accommodation, restaurants, shops and entertainment. In addition, the company develops travel and adventure tourism packages, as well as freight and forwarding services. Color Line is one step ahead of general developments in European short-sea shipping. Following several years of heavy investments in new ships, infrastructure, booking solutions and innovative environmental technology, Color Line now carries proportionally more freight and more passengers using fewer ships, fewer lines and fewer ports than in the past and is thus well positioned to meet the challenges of the future.

Color Line's tonnage is modern and cost-effective with a high degree of product standardisation. The total number of passenger carried in 2016 was 3 850 947 (2015: 3 860 663). There were more crossings in 2016 than in the preceding year because of lengthy dockings in 2015 to fit exhaust gas treatment systems (scrubbers). The business strategy of the company is to focus on enhanced customer value rather than volume, the achievement of which goal was in part made possible by the investment in modern well-functioning and modern revenue and booking systems.

The volume of freight carried (12m-equivalents) in 2016 totalled 175 680 as compared with 169 335 in 2015. A detailed description of the company's values and exercise of corporate responsibility can be found in the section of the annual report headed «Color Line's corporate responsibility».

THE ANNUAL FINANCIAL STATEMENTS

Accounting policies

Color Group AS is a Norwegian limited company headquartered in Oslo. The consolidated accounts are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and mandatory for the financial year commencing on 1 January 2016 or later, as well as the Norwegian information requirements that follow from the Norwegian Accounting Act as at 31 December 2016. The accounts of the parent company are presented in accordance with the Norwegian Accounting Standard (NAS).

The M/S Color Fantasy in dry dock in Odense for annual maintenance work.

Results reported by the Group and the parent company

Operating revenues totalled NOK 4 896 in 2016, as compared with NOK 4 587 million in 2015. The operating profit before depreciation, amortisation and charter hire in 2016 was NOK 1 149 million, compared with NOK 833 million in 2015. Underlying operations were satisfactory. The operating profit was impacted favourably by increased value per customer and increased production, well-assisted by a lower oil price and the advantageous rate of exchange of the Norwegian krone. In parallel with these factors, the cost base has been reduced compared to previous years. Earnings before interest and taxes in 2016 for the Cruise Division and the Transport Division amounted to NOK 296 million and NOK 320 million, respectively. In total, NOK 616 million, compared with NOK 277 million in 2015. Group net financial expenses in 2016 were -NOK 101 million, as compared with -NOK 145 million in 2015. Net financial items in 2016 included a net figure of approximately NOK 35 million in realised and unrealised values relating to currency loans, fixed-interest-rate contracts, interest-rate derivatives, and currency hedging contracts.

Net financial items also include profits of NOK 30 million from investments in an associate company (an ownership stake of approximately 39 per cent in the limited company ONS Ship Finance AS, which owns the vessels M/S SuperSpeed 1 and M/S SuperSpeed 2) and net realised and unrealised gains on shares of approximately NOK 15 million. The result for the year 2016 after tax is NOK 426 million, as compared with NOK 155 million in 2015. The parent company, Color Group AS, reported royalty revenues of NOK 144 million and earnings before interest and taxes of NOK 134 million.

The parent company recorded a pre-tax result of NOK 455 million, as compared with a figure of NOK 143 million in 2015. The profit after tax in 2016 was NOK 345 million, as compared with NOK 103 million in 2015. The proposal of the Directors is that the profit for the year after the payment of a group contribution of NOK 146 million (after tax) should be transferred to other equity. In connection with its decision concerning the payment of a group contribution, the Directors have concluded that the liquidity and equity of the company viewed in relation to its operations and plans for the future will remain satisfactory after the payment of the contribution. Hedge accounting is used in connection with bunker fuel purchases for the ships. Concluded hedging contracts are reported at fair value on the reporting date and form part of the total comprehensive income for the year that is charged to equity. The market value of concluded hedge business relating to deliveries of bunker fuel in 2017 and 2018 as at 31 December 2016 was NOK 57 million (after tax).

Balance sheet and funding

Color Group AS focuses on securing diversified, long-term and predictable financing.

As at 31 December 2016, the balance sheet total of the Group amounted to NOK 7 478 million. As at the same date, equity capital stood at NOK 2 087 million, compared with NOK 1 637 million in 2015. The equity ratio was approximately 28 per cent. The equity capital of the parent company as at 31 December 2016 was NOK 1 885 million, as compared with NOK 1 823 million in 2015 and makes up approximately 33 per cent of the balance sheet total of the parent company.

Long-term mortgages on ships/terminals/hotel have a repayment profile of 12 to 15 years. Total outstanding mortgage debt/unsecured borrowing on ships/terminals/hotel as at 31 December 2016 is NOK 3 863 million. Bond loan COLG09 (originally for NOK 500 million) was redeemed in August 2016. Net outstanding debt less bank deposits, cash and cash equivalents stood at NOK 3 326 million as at 31 December 2016, compared with NOK 3 913 million at yearend 2015. Bond loans listed on Oslo Stock Exchange mature in the period 2017 to 2020. Color Group issued a new bond loan in June 2016, listed on Oslo Stock Exchange. The bond loan (COLG13) is in the amount of NOK 500 million and matures in December 2020. In connection with the issuing of bond loan COLG13, the company repurchased from existing outstanding (shorter maturity) bond loans a total of NOK 159.5 million from COLG11 (maturity 2017). Total outstanding net bond loans booked as at 31 December 2016 amount to NOK 2 355 million. In addition, the company refinanced its vessel the M/S Color Fantasy (originally 12-year ECA financing from the delivery date in December 2004). The new commercial structure is a multi-currency revolving facility in a total amount of NOK 1200 million, with a first priority mortgage on the ship, and with a covenant structure that corresponds to equivalent loans raised by the company. The term of the facility is five years from December 2016 with a 10-year instalment profile. The first drawing was for approximately NOK 600 million (in EUR). In connection with the delivery of the M/S SuperSpeed 2 high speed ferry in 2008, a 12-year operational leasing agreement (BBCP) was concluded between Oslo Line AS and Color Line Transport AS, with a guarantee furnished by Color Group AS. Moreover, a corresponding agreement was concluded for the M/S SuperSpeed 1 between Kristiansand Line AS and Color Line Transport AS in connection with the transfer of the ship in December 2012. In connection with the investments in environmental technology (scrubber technology) on the M/S SuperSpeed 1 and M/S SuperSpeed 2, an addendum was negotiated to the existing BBCP agreements with the owner companies (under ONS Ship Finance AS), these being Kristiansand Line AS and Oslo Line AS, respectively, whereby these investments have been borne by the respective owner companies. As a consequence of this, minor adjustments were made to the rates in 2016, and, at the same time, both BBCPs have been extended until the end of the year 2025. A seller's credit (NOK 77 million including interest) in connection with the M/S SuperSpeed 1 transaction in 2012 was settled in 2016 (between Kristiansand Line AS and Color Line Transport AS). In its loan agreements, the company has commitments related to liquidity, equity and debt-servicing ratio. All commitments had been fulfilled as at 31 December 2016.

Cash flow

In 2016, the Group's cash flow from operational activities totalled NOK 799 million. For the parent company the figure was -NOK 194 million. Net cash flow from financing activities totalled -NOK 535 million, and NOK 361 million for the parent company. Net cash flow from investment activities amounted to -NOK 112 million. The Group's total liquidity reserve as at 31 December 2016, including granted drawing rights and liquid securities, stood at approximately NOK 1 438 million. Ordinary planned instalments in 2017 on the Group's interest-bearing debt to credit institutions ((extraordinary: bond debt (COLG11: NOK 480.5 million)) amount to approximately NOK 782 million.

Financial risk

The Group is exposed to foreign exchange risk related to fluctuations in the value of the Norwegian krone (NOK) against other currencies, particularly the USD, EUR and DKK. The Group is also exposed to interest rate risk, and fluctuations in the price of bunker fuel products. The Group makes use of financial instruments to curb the risk of fluctuations in cash flow. As at the balance sheet date, approximately 7 per cent of the Group's interest-bearing debt was hedged by means of fixed-interest-rate agreements and approximately 70 per cent of the company's estimated bunker fuel costs for 2017, and approximately 50 per cent for 2018, was hedged by means of derivative contracts for bunker fuel. As at the reporting date, the company had various currency derivative contracts in place, as well as holdings of foreign currencies on deposit, relating to budgeted operations in 2017. The parent company's primary exposure to currency risk and interest rate risk are related to borrowings.

The Group has limited market risk exposure, as its business is directed at a market comprising a large number of customers.

Continued operation as a going concern

On the basis of the above report on the Group's results and financial position, the Directors confirm that the annual financial statements have been prepared on the assumption that operations will continue as a going concern, Moreover, the Directors are of the opinion that the annual financial statements provide a true picture of the assets, liabilities, financial position and profits or losses of the parent company and the Group.

WORKING ENVIRONMENT AND PERSONNEL

During 2016, the Group employed a total of 2 283 man-years. Absence due to illness in the Group in 2016 was approximately 4.0 per cent for shore-based personnel (2.7 per cent in 2015), and approximately 6.1 per cent for seagoing personnel (6.9 per cent in 2015).

The Directors consider the working environment in the Group to be good and will continue to maintain a sharp focus on working conditions and on absence due to illness amongst shore-based and seagoing personnel, reflecting the company's policy and trends in society as a whole.

EQUAL OPPORTUNITIES/DISCRIMINATION

It is Color Line's objective that there should be full equality in the workplace between female and male employees. Moreover, the company makes every effort to satisfy the requirements of the Anti-discrimination and Accessibility Act, both in its treatment of existing employees and in the recruitment of new personnel.

Of the Group's shipboard employees, 773 are women. Of a total of 226 management positions, 44 are held by women. The percentage of women in shipboard management positions is relatively low because technical/maritime jobs have traditionally been dominated by men and the availability of women with the necessary certificates is limited.

Of the Group's 536 man-years employed on shore, 285 are worked by women. There are two women in Color Line's Group management team. Women hold approximately 38 per cent of shore-based management positions.

SAFETY AND EMERGENCY PREPAREDNESS

Operating company Color Line Marine AS (CLM) is responsible for ensuring that maritime operations are conducted in accordance with the applicable legislation and requirements while at the same time safeguarding the safety aspect. As such, CLM also works on preventing situations that might result in injury and harm to life, health and the environment. Reporting on and handling the causes of events is improving all the time, giving the company greater insight into danger elements associated with operations and enabling it to implement preventive measures to avert unwanted events. The fruits of this work are seen in the form of a reduction in the number of serious deviations, one example being that the number of observations in Port State Control inspections is consistently low. Moreover, Color Line receives positive feedback from both internal and external audits of the company, such as audits conducted by classification companies and the maritime authorities.

The ships and the CLM onshore contingency group conduct regular exercises. As in previous years, a number of major exercises were conducted in 2016 together with various authorities and agencies (police, Ministry of Justice and Public Security, emergency services, etc.). In 2016, the company's terminals in Sandefjord and Strømstad and the M/S Bohus took part in "Tyr", the nationwide emergency preparedness exercise, which was a coordination exercise involving several public sector agencies.

The vessels M/S SuperSpeed 1 and MS SuperSpeed 2 also took part in an emergency towing exercise together with the Norwegian Coastal Administration/National Towing Preparedness unit in November 2016.

Color Line Marine AS is the company's maritime operating company (ISM code company). During 2016, the company was represented on national and international research projects and bodies working to promote safety at sea and marine environmental protection measures. The company also works to ensure that requirements and regulations in these areas are as far as possible equal and are practised equally in the areas the company's vessels ply and the markets in which it operates.

In 2016, for the first time since the Schengen Agreement came into force, the company, assisted by its own personnel and hired-in security personnel, conducted identity checks on 100 per cent of all passengers boarding in ports outside Norway. This measure was implemented on the orders of the Norwegian Ministry of Justice to limit unauthorised and unwanted entry into the Kingdom via ferries sailing in international waters. Originally intended as a temporary measure starting in November 2015, the identity checks were subsequently extended for the whole of 2016 and remain in force at the time of writing (March 2017). No critical incidents occurred, but 400 individuals (out of a total of approximately 1.9 million whose identities were checked) were refused access to the ships and, by extension, entry to Norway in 2016, because of ID/visa problems. This work is conducted in collaboration with the Norwegian police.

There were no major accidents in 2016 involving serious injuries or environmental pollution.

The cabins on Color Line Cruises are in a class of their own. Seen here is a 5-star Color Suite onboard the M/S Color Magic.

Training and proactive measures

In 2016, the HR department of the company held an unusually large number of courses for all seafaring personnel relating to safety at sea, in order to comply with the new training requirements that follow from the revised STCW 2010 (Manila) Convention, which entered into force on 1 January 2017.

During 2016, Color Line conducted a process of mapping legislation with which the company is required to comply under national legislation and internal company rules – what is termed corporate compliance. A report has been prepared by this group and will be used in further measures in this area going forward.

In 2016, Color Line also conducted a project aimed at determining whether the Group will be in compliance with the stricter privacy requirements that the authorities are expected to adopt. A number of measures are being put in place in order to ensure compliance and to document that Color Line follows the applicable legislation in this area.

CLIMATE AND THE ENVIRONMENT

Climate gas emissions

The Group reports annual climate gas emissions by the company's fleet of ships in accordance with a UN-recommended reporting standard (the GHG Protocol, developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)). Climate accounts are compiled for Color Line's ships and for the maritime operating company Color Line Marine AS' shore-based activities. The climate gas emissions of the company as a whole derive from office buildings, its fleet of vehicles, travel, but, not surprisingly, most (99 per cent) of the emissions derive from the combustion of fuel by ships' engines in the course of the operations of the fleet. Climate gas emissions in 2015 were down by over three per cent on the year before. At the time of writing (March 2017) the climate gas accounts for 2016 have not been finalised, but are expected to be completed during the course of April 2017.

Shore-based electricity

The shore-based electricity facility for M/S Color Fantasy and M/S Color Magic in Oslo (Hjortnes) has been operating since 2011. As it had in previous years, the plant operated at a high level of efficiency throughout 2016. The shore-based electricity facility for M/S SuperSpeed 1 in Kristiansand, which opened in November 2014, also operated at a high level of efficiency in 2016. An identical system for the M/S SuperSpeed 2 was opened by the Minister for Climate and Environment, Vidar Helgesen, in Larvik in May 2016.

In the autumn of 2016, the company decided that a shore-based electricity supply should also be built for M/S Color Viking in Sandefjord in 2017. As do the Kristiansand and Larvik facilities, this new facility in Sandefjord receives financial support from The Business Sector's NOx Fund in Norway.

The company is very satisfied with the investments in shore-based power and the benefits the facilities offer in terms of lowered emissions and the reduction in the number of hours that the ships' engines operate while the vessels are in port. Additional effects such as noise reductions in the surrounding areas and for engine-room personnel are also welcome.

The use of shore-based electricity substantially reduces emissions by the ships of NOx, SOx, particles and CO_2 while the vessels are at port, making this an important and efficient environmental measure for ports that are located near to population centres, which is largely the case for the ports used by the company's fleet. A precise calculation of the effects of shore-based electricity facilities is being conducted in connection with the climate gas report for 2016, which will be released in April 2017. Plans have been laid to increase the use of shore-based power by Color Line's ships in the future. The installation of a shore-based power supply system in Kiel is planned, as is the use of shore-based power to charge the battery pack on the new vessel due to be delivered in 2019.

Energy efficiency

In accordance with international requirements (a resolution by the International Maritime Organization), a SEEMP (Ship

Energy Efficiency Management Plan) was implemented and performed for all ships with effect from January 2013 onwards. The company increased its energy efficiency during 2016, primarily through the use of shore-based power and the installation of LED lighting in place of older technology. This reduces electricity use and, as a consequence, fuel consumption on board the ships.

Sulphur oxides

The requirements governing emissions of sulphur oxides by ships were made substantially stricter with effect from 1 January 2015 for all the areas of operation of the company. (MARPOL Annex VI: from 1.0 per cent to 0.1 per cent sulphur content in fuel, corresponding to SOx emission level in exhaust gases to air/atmosphere.)

2016 was the first full year of operations under this regime, which effectively reduces the SOx emissions of the ships by almost 90 per cent compared to previous levels (2014). In order to comply with the new requirements, the company uses exhaust gas cleaning systems (ECGs or scrubbers) on the main engines of the M/S SuperSpeed 2, M/S SuperSpeed 1, M/S Color Fantasy and M/S Color Magic.

In 2016, the main engines on the EGCS ships use fuel which the new EGCS systems wash down to a level with a sulphur content of less than 0.1 per cent.

The M/S Bohus and M/S Color Viking use costlier fuel qualities, which satisfy the new requirements post-1 January 2015 («0.1 per cent S in the fuel).

Since this date, the auxiliary engines of all the ships have used fuels with a sulphur content of less than 0.1 per cent, even when the vessels are at sea.

THE BOARD OF DIRECTORS, CORPORATE GOVERNANCE AND SHAREHOLDERS

O.N. Sunde AS indirectly owns 100 per cent of the company's 71,800,000 shares.

O.N. Sunde AS is wholly owned by Director and Group President Olav Nils Sunde and his family.

The company's corporate governance policy is based on the Norwegian Code of Practice for Corporate Governance. Further information on corporate governance can be found in the section headed «Corporate Governance 2016».

OUTLOOK/EVENTS AFTER THE BALANCE SHEET DATE

The transport solutions of the future

Color Line has adopted a clear stance on the issue of environmentally friendly shipping services and has purposefully invested in new ships and innovative environmental technology, such as exhaust gas cleaning systems for the main engines («scrubbers») and shore-based power supply systems.

As part of its fleet-renewal programme, Color Line signed a contract with shipbuilders Ulstein Verft in February for the building of the world's largest plug-in hybrid ship. The vessel uses new technological solutions designed to reduce emissions by charging the onboard batteries via a power cable from a shore-based power facility or using the ship's generators. To this end, a shore-based power facility will be put in place in Sandefjord, and with this all the Norwegian ports used by Color Line ships will be equipped with this form of power supply. The ship will operate entirely on battery power when sailing down the fjord leading into and out of the inner harbour at Sandefjord and will therefore not release emissions of harmful greenhouse gases or nitrogen or sulphur compounds into the air in the vicinity of the town. The newbuilding contract formed part of the tendering competition for the awarding of sailing times from Sandefjord. The delivery date for the new vessel is 31 May 2019, meaning that the ship will be ready for the high season of the Sandefjord to Strømstad service.

The newbuilding will be purchased with the aid of export agency financing over a 12-year period from the delivery date. Color Group AS has received committed guarantees/structure offers from GIEK (the Norwegian Export Credit Guarantee Agency) and DnB Bank for a guaranteed 80 per cent (approximately NOK 1 billion) of the total project. It is planned that the transaction should be financed by Export Credit Norway. The financing will have a covenant structure equivalent to corresponding loans raised by the company.

Color Line collaborates actively with the authorities in the European Union and the countries in which the company operates, with the aim of encouraging the transfer of more freight from road to sea and rail. Color Line invests heavily in both people and technology and today ranks amongst Norway's most important maritime training organisations. The Group's investment over a period of many years in a

The world's first plug-in hybrid is planned to be put into service on the Sandefjord Strømstad service in 2019. The ferry will sail under battery power in the approach to and departure from Sandefjord.

A beautiful sunset seen from the helicopter deck of the M/S Color Magic.

new and efficient fleet, environmental technology and innovative transport solutions mean that the company is well equipped to meet this transition with competitive technologies and business models.

Forward-looking framework conditions

With effect from 1 March 2016 the Norwegian Government implemented a number of important measures aimed at strengthening the Norwegian flag and the competitiveness of Norwegian seafarers. The measures are based on the Government's maritime strategy, which was launched on 29 May 2015 and which in turn is based on the recommendations submitted by the Commission on Trade Areas in the autumn of 2014.

For the Group, the changes will involve a strengthening of the subsidy scheme for crew members working on ships registered in the Norwegian Ordinary Register (NOR) in that the limits governing maximum payments will be removed and the scheme will apply to the entire crew.

The proposed amendments to the Government's maritime strategy, including the enactment in law of net pay, has been implemented in all areas except for passenger ferries registered in the NIS and in traffic in international waters. This process was suspended as a result of the instigation of proceedings against Norway by the EFTA Surveillance Authority in February of 2016 concerning the trade area restrictions applicable to NIS-registered ferries in traffic in international waters. The ESA submits that the restrictions that prevent NIS-registered vessels from transporting passengers on fixed route between Norwegian and foreign ports (cf. Section 4 of the NIS Act) contravene the provisions of the EEA Agreement concerning the free movement of services, and the principle of the free exchange of services in the area of seaborne transportation.

On 18 January 2017, the Ministry of Trade, Industry and Fisheries circulated an adjusted proposal for an amendment to the regulations on the trade area of ships registered in the NIS in passenger traffic in international waters in a consultative process with responses due by 3 March 2017. The proposal is that the refund rate for NIS-registered passenger ships should as a minimum be fixed at the current rate for net pay solutions for NOR-registered ships.

In the consultation letter, the Ministry of Trade, Industry and Fisheries writes that the Ministry «is of the opinion that the proposed arrangement of the trade area restriction will not contravene the regulations governing the single market of the EU/EEA». Approval of the new regulation is expected in 2017, and is expected to imply that Color Line's two ships operating between Oslo and Kiel can be flagged to the NIS with a restricted subsidy arrangement in combination with personnel employed on local conditions.

The new framework conditions are forward-looking and help to safeguard the international competitiveness of Color Line.

Legal actions

In February 2014, Color Line AS and Color Group AS received a writ filed by Nye Kystlink AS with a claim for damages of up to approximately NOK 1 303.8 million. The writ follows up a conciliation complaint filed in December 2012. The grounds for the claim for damages are direct losses and loss of profits and returns relating to Nye Kystlink's alleged legal predecessor's ferry business between the ports of Brevik and Hirtshals and Langesund and Strømstad in the period 2004-2008. Nye Kystlink AS claim that the losses were caused by alleged tortious breaches of competition law by Color Line AS. It is contended that Color Group AS is jointly and severally liable for the claim by virtue of being the parent company of Color Line AS. Color Line AS and Color Group AS reject the claim. In November 2015, Oslo District Court found for Color Line AS and Color Group AS. As in the Bastø Fosen action, the Court held that all aspects of the case are time-barred. In addition, Kystlink was ordered to pay costs. Nye Kystlink AS have appealed the decision rendered by Oslo District Court.

Having assessed the various writs and investigations, the Board has not found it necessary to make any provisions in the accounts for the claims.

Outlook

To achieve a satisfactory result, the Group is dependent on internationally competitive framework conditions. That being said, the Group is expecting to record a profit in 2017 that is comparable to the figures reported in 2016. The Directors are of the opinion that the company is well equipped to meet the challenges that 2017 will bring.

Oslo, 30 March 2017

Morten Garman	Olav Nils Sunde	Alexander Sunde	Bjørn Paulsen
Chairman of the Board	Director/Group President	Director	Director

Security personnel at Kiel preparing to let vehicles board the M/S Color Magic.

Income statement/Comprehensive income statement

Color Group AS

PARENT COMPANY (NAS)		Amounts in NOK '000		GROUP (IFRS)	
2016	2015		Note	2016	2015
144 052	136 288	Sales revenues	3,7	4 895 931	4 586 550
144 052	136 288	Total operating revenues		4 895 931	4 586 550
0	0	Cost of sales		−1 657 284	−1 705 361
−6 037	−5 743	Cost of wages	4,18,19,20	−1 277 775	−1 285 013
−3 640	−4 357	Other operating expenses	7,15	−811 450	−762 935
−9 677	−10 100	Total operating expenses		−3 746 509	−3 753 309
134 375	126 188	Operating profit before depreciation, amortisation, other exceptional items, charter hire and leasing expenses		1 149 422	833 241
−16 592	−22 034	Depreciation, amortisation and write-downs	4,8,9,10	−318 769	−343 074
0	0	Other exceptional items	2	0	−5 254
0	0	Charter and leasing expenses	15	−214 254	−207 560
117 783	104 154	Earnings before interest and taxes (EBIT)		616 399	277 353
571 257	316 234	Financial income	16,17	127 228	131 648
−233 722	−276 856	Financial expense	16,17	−227 988	−277 086
337 535	39 378	Net financial income/costs		−100 760	−145 438
455 317	143 532	Pre-tax income		515 639	131 915
−110 005	−40 630	Tax expense	24	−89 483	22 657
345 312	102 902	Profit/loss for the year		426 156	154 572
		Comprehensive income statement			
		Profit for the year		426 156	154 572
		Other income and expenses			
		Other items that can be reclassified subsequently to profit and loss			
		Currency translation differences		−4 434	3 242
		Net gain/loss bunker fuel hedging		167 010	6 116
		Other items that cannot be reclassified subsequently to profit and loss			
		Estimate variances pensions		7 199	24 691
		Total other income and expenses net after tax		169 775	34 049
		Total comprehensive income for the year		595 931	188 621

Balance sheet/Statement of financial position

Color Group AS

PARENT COMPANY (NAS)		Amounts in NOK '000		GROUP (IFRS)	
2016	2015	ASSETS	Note	2016	2015
		Non-current assets			
		Intangible assets			
0	0	Software and licences	9	441 010	465 840
4 000	20 592	Goodwill and other intangible assets	4,9,10	671 301	671 301
0	11 266	Deferred tax asset	23	0	0
4 000	31 858	Total intangible assets		1 112 311	1 137 141
		Property, plant and equipment			
0	0	Land, buildings and other real estate	4,8,13	482 287	526 140
0	0	Fixtures and equipment	4,8,13	35 655	39 154
0	0	Ships	2, 4,8,13	3 572 355	3 715 658
0	0	Total property, plant and equipment		4 090 297	4 280 952
		Financial fixed assets			
4 014 345	3 514 345	Investments in subsidiaries	5,6	0	0
0	0	Investments in associate	27	411 794	381 681
682 360	1 714 982	Non-current receivables and investments	6,11,17,20	26 542	96 327
4 696 705	5 229 327	Total financial fixed assets		438 336	478 008
4 700 705	5 261 185	Total non-current assets		5 640 944	5 896 101
		Current assets			
0	0	Inventories	12	160 795	163 366
429 169	644 139	Accounts receivable and other receivables	17	1 058 548	1 036 041
80 974	4 436	Other financial assets	17	80 974	4 436
38 915	75 078	Market-traded shares	17	38 915	75 078
450 460	283 721	Bank deposits and cash	17	497 927	346 549
999 518	1 007 374	Total current assets		1 837 159	1 625 470
5 700 223	6 268 559	TOTAL ASSETS		7 478 103	7 521 571

2016	2015	EQUITY AND LIABILITIES	Note	2016	2015
143 600	143 600	Contributed capital:	6,21,22	143 600	143 600
1 478 436	1 478 436	Share capital (71 800 000 shares, nominal value NOK 2.- per share)	22	1 478 436	1 478 436
1 622 036	1 622 036	Share premium		1 622 036	1 622 036
0	0	Total contributed capital	22	68 195	−94 380
263 134	201 403	Other equity	22	396 348	109 722
1 885 170	1 823 439	Total equity		2 086 579	1 637 378
		LIABILITIES			
0	0	Liabilities	20	29 142	38 079
4 211	0	Deferred tax	23	788 057	696 460
4 211	0	Total liabilities		817 199	734 539
		Non-current liabilities			
1 434 039	1 689 121	Debt to credit institutions	13,17	1 206 021	933 376
2 355 076	2 553 898	Bond loans	13,17	1 874 575	2 073 898
6 186	19 537	Other non-current liabilities	6, 17	6 186	19 537
3 795 301	4 262 556	Total non-current liabilities		3 086 782	3 026 811
		Current liabilities			
15 541	35 096	Trade payables and other current liabilities	14,17	705 343	647 375
0	0	Current share of non-current liabilities	13,17	782 200	1 328 000
0	147 468	Other financial liabilities	14, 17	0	147 468
15 541	182 564	Total current liabilities		1 487 543	2 122 843
5 700 223	6 268 559	TOTAL EQUITY AND LIABILITIES		7 478 103	7 521 571

Oslo, 30 March 2017

Morten Garman	Olav Nils Sunde	Alexander Sunde	Bjørn Paulsen
Chairman of the Board	Director/Group President	Director	Director

Cash flow statement

Color Group AS

PARENT COMPANY (NAS)		Amounts in NOK '000		GROUP (IFRS)	
2016	2015	FOR THE PERIOD 1 JANUARY TO 31 DECEMBER	Note	2016	2015
581 815	221 517	Profit before interest and tax		669 836	299 951
−190 377	−204 879	Interest paid		−191 917	−209 453
63 879	126 894	Interest received		37 720	41 417
16 592	22 034	Depreciation, amortisation and write−downs	8,9	318 769	343 074
−76 538	0	Changes in value financial assets		−76 538	−4 436
−13 351	−7 201	Changes in value non−current financial liabilities		−13 351	−7 201
−147 469	−35 193	Changes in value financial liabilities		−147 469	−22 379
0	0	Pension costs in excess of premium paid	20	663	1 600
−31 128	35 945	Unrealised foreign exchange gain/loss, currency loans	16	−31 128	35 945
0	0	Result investment in associate company		−30 113	−22 634
3 188	0	Other changes		225 421	−8 205
−417 440	−144 423	Group contribution recorded as financial income		0	0
		Changes in working capital			
0	0	Changes in inventories		2 571	−25 510
286	−385	Changes in accounts receivable and other receivables		−60 080	77 791
36 163	−38 480	Changes in market−traded shares		36 163	−38 480
−19 555	17 249	Changes in accounts payable and other current liabilities		57 968	−147 766
16 894	−21 616	Change in working capital		36 622	−133 965
−193 935	−6 922	Net cash flow from operations		798 515	313 714
0	0	Payments, purchases of investments, ships	8	−71 319	−212 572
0	0	Payments, purchases of fixtures, equipment	8	−12 736	−5 975
0	0	Payment re. purchase of land, buildings and other real estate	8	−8 220	−4 164
0	0	Proceeds of sale of investments, ships	8	0	91 907
0	0	Proceeds of sale of inventory, equipment	8	156	3 436
0	0	Payments, purchases of other investments	8	−20 027	−19 287
0	0	Net cash flow from investments		−112 146	−146 655
588 342	0	Received on raising new debt to credit institutions		588 342	0
488 922	690 713	Received on raising new bond debt		488 922	690 713
−812 297	−294 468	Payments, repayment of debt to credit institutions		−827 686	−302 699
−690 928	−390 988	Payments, repayment of bond debt		−690 928	−390 988
0	0	Payments, repayments non−current liabilities and other receivables		0	−74 895
747 306	70 082	Received on non−current receivables and other receivables		107 359	0
39 329	−56 578	Paid, received dividend/Group contribution		−201 000	−73 442
360 674	18 761	Net cash flow from financing		−534 991	−151 311
166 739	11 839	Net change in liquid resources		151 378	15 748
283 721	271 882	Closing balance liquid resources 1 Jan.		346 549	330 801
450 460	283 721	Closing balance liquid resources 31 Dec.		497 927	346 549

Statement of changes in equity

Color Group AS
Group IFRS figures

Amounts in NOK '000

	Share capital	Share premium	Translation differences	Hedging reserve	Retained earnings	Total
Equity 1 Jan. 2015	143 600	1 478 436	10 036	−113 774	−15 928	1 502 370
Profit for the year					154 572	154 572
Other income and expenses			3 242	6 116	24 691	34 049
Total income and expenses for the period	0	0	3 242	6 116	179 263	188 621
Group contribution/dividend to owner company					−53 613	−53 613
Equity 31 Dec. 2015	143 600	1 478 436	13 278	−107 658	109 722	1 637 378
Profit for the year					426 156	426 156
Other income and expenses			−4 435	167 010	7 200	169 775
Total income and expenses for the period	0	0	−4 435	167 010	433 356	595 931
Group contribution/dividend to owner company					−146 730	−146 730
Equity 31 Dec. 2016	143 600	1 478 436	8 843	59 352	396 348	2 086 579

The Master of the M/S SuperSpeed 1 has full control of the ship from the bridge.

Notes 2016

Color Group AS

NOTE 1 ACCOUNTING POLICIES

General information

Color Group comprises Color Group AS and its subsidiary companies. Color Group AS is a limited company registered in Norway and headquartered in Oslo. The business of the Group is largely concentrated on two core areas: Cruise and Transport. These business areas are described in Note 3, Segment Information.

FRAMEWORK FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

Group

The consolidated accounts of Color Group AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and mandatory for the financial year commencing on 1 January 2016 or later, as well as the Norwegian information requirements which follow from the Norwegian Accounting Act as at 31 December 2016.

Preparing the accounts in accordance with IFRS necessitates the use of estimates. Moreover, the application of the Group's accounting principles requires management to exercise its judgement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are duly described in the notes. The consolidated accounts have been prepared on the basis of the historical cost principle, with adjustments for financial instruments measured at fair value. The going concern assumption has been applied in the preparation of the consolidated accounts.

The parent company

The financial statements of the parent company, Color Group AS have been set out in accordance with the provisions of the Norwegian Accounting Act of 1998 and generally accepted accounting practice in Norway (Norwegian Accounting Standard, NAS). Unless otherwise stated in the description of policies, it is the Group's accounting policies that are described. Descriptions of accounting policies applicable only to the parent company's accounts rendered in accordance with NAS are specified separately.

Changes in accounting policies and information

All new and amended standards and interpretations of relevance to the Color Group and in force for the accounting period commencing on 1 January 2016 have been applied in the preparation of the annual financial statements.

New standards and interpretations that have not entered into force

The Group has decided against early adoption of any of the standards or interpretations that come into force after the balance sheet date. A description is provided below of the most central regulations adopted by the IASB.

IFRS 15 Revenue from Contracts with Customers

The IASB adopted a new standard on revenue recognition in the spring of 2014, with implementation to take effect from 1 January 2018 onwards. The European Union has endorsed implementation of the standard. The standard establishes a new framework for recognising and measuring revenues based on the fundamental principle that revenue recognition must reflect the transfer of goods and services to the customer. The company has performed an introductory assessment of possible implications. Based on this introductory assessment the company does not foresee significant consequences for the accounting and recognition of revenues.

IFRS 16 Leases

The IASB issued a new standard for leases at the start of 2016, with implementation from 1 January 2019. At the time of writing, the European Union has not adopted implementation of the standard, although it is expected to do so. The general rule in the new standard is that the lessee is required to recognise all leases on the balance sheet. According to IFRS 16, all substantial leases with a duration in excess of one year must be recognised in the balance sheet. The lessee is required to recognise the liability to pay rentals and the associated «right to use the asset» during the term of the lease. According to IFRS 16, for the lessee there will no longer be a distinction between financial and operational leases. The company is conducting an introductory assessment of possible implications, although this work has not as yet been completed. The company has leases that will have to be recognised on the balance sheet in accordance with IFRS 16 as rights to lease and a liability to pay rentals, with the consequence that the total assets and total liabilities of the company will increase.

IFRS 9 Financial instruments

At the start of 2016, the IASB adopted a new standard for financial instruments and the European Union has endorsed implementation of the standard. The standard is mandatory for financial periods beginning on or after 1 January 2018. The company's provisional assessments have not identified areas indicating significant consequences for the financial statements as a consequence of the new standard.

Others

The IASB has also adopted minor changes and clarifications in several other standards. None of these amendments are considered to have effects of significance for the company.

TRANSLATION OF FOREIGN CURRENCY

The accounts of the individual units in the Group are presented in the currency primarily used in the economic area in which the unit operates (functional currency). The Group's presentation currency is NOK and this is also the parent company's presentation and functional currency. Where subsidiary companies use other functional currencies, amounts are translated into NOK. Balance sheet items are translated at the exchange rate applicable at yearend, while income statement items are translated on the basis of average rates of exchange. Translation differences are recognised in the comprehensive income statement and are specified separately under equity.

Transactions and balance sheet items

Monetary items (assets and liabilities) in foreign currencies are translated at the exchange rates on the balance sheet date. Foreign exchange gain and loss in connection with the translation of monetary items in foreign currencies at yearend are recognised in the income statement. Income statement items are translated at the exchange rate applicable at the time of the transaction. Foreign exchange gains and losses arising upon payment of such transactions are recognised in the income statement.

Color Line has developed the culinary offerings on board the ships, with a focus on new, locally-produced and healthy food.

SEGMENT REPORTING

Segment information is presented on business areas. This structure is based on the format used in reporting to Group management.

ALTERNATIVE PERFORMANCE MEASURES

To increase relevance and comparability Color Group uses the following alternative performance measures in addition to those defined in IFRS:

- Adjusted EBITDA
- EBIT
- Net interest-bearing debt
- Liquid assets
- Net cash and liquid assets
- Equity ratio
- Debt-to-equity ratio

The various performance measures are defined as follows:
Adjusted EBITDA is recorded in the Income Statement on the line showing «Operating profit before depreciation, amortisation, other exceptional items, charter hire and leasing expenses». Reconciliation of the performance measure is shown in the Income Statement.
EBIT is shown on the Income Statement in the line item for Earnings before interest and taxes (EBIT). Reconciliation of the performance measure is shown in the Income Statement.
Net interest-bearing debt is defined as total interest-bearing debt to credit institutions and bond loans less cash and liquid assets comprising bank deposits, cash and market-traded shares. The calculation is shown in Note 17
Liquid assets are defined as holdings of cash as well as bank

deposits on the balance sheet date, short-term investments in liquid securities with maturities of less than three months as well as unused drawing rights granted by financial institutions. The calculation is shown in Note 17.

Net cash and liquid assets consist of cash and bank deposits less drawings on bank overdrafts, as well as market-traded shares. The calculation is shown in Note 17.

Equity ratio is defined as the Group's book equity on the balance sheet date divided by the balance sheet total, expressed as a percentage. Equity and the balance sheet total are shown in the Balance Sheet.

Debt-to-equity ratio is calculated as net debt divided by book equity. The calculation is shown in Note 17. The values of debt and liquidity are shown as measures of the financial strength of the Group and all the alternative performance measures are used consistently over time. Any changes in the definitions of the values are also applied to the comparative figures. All the alternative performance measures used by the Group show historical financial values.

PRINCIPLES OF CONSOLIDATION

Subsidiary companies comprise all units where the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the amount of those returns through its power over the investee.

Subsidiaries are consolidated from the time at which control is taken by the Group and are excluded from consolidation when the deciding influence ceases.

The purchase method of accounting is applied in connection with the acquisition of subsidiary companies.

Procurement cost is measured as the fair value of assets used as payment, equity capital instruments issued, liabilities incurred in the transfer of control and direct expenses associated with the acquisition itself. Identifiable purchased assets, debt taken on and contingent liabilities are recorded in the accounts at fair value at the time of acquisition, irrespective of any non-controlling interests. Procurement cost that exceeds the share of the fair value of identifiable net assets of a subsidiary company is recorded in the balance sheet as goodwill. If procurement cost is lower than the fair value of the net assets of a subsidiary company, the difference is recognised in the income statement at the time of acquisition.

Intercompany transactions, balances and unrealised earnings between companies in the Group are eliminated. Unrealised loss is eliminated, but is assessed as an indicator of impairment in relation to the writing-down of the transferred asset.

Accounting principles applied by subsidiary companies are amended whenever necessary in order to conform to the Group's accounting principles.

Associates are entities in which the Group has a significant influence, but not control, over financial and operational decisions, normally as a consequence of holding an ownership stake of between 20 and 50 per cent. The consolidated accounts include the Group's share of the profits or losses of associates recorded using the equity method from the time at which significant influence is achieved and until such time as such influence ceases.

When the Group's share of losses of an associate exceeds the investment, the value reported in the Group's balance sheet is reduced to zero and further losses will not be recognised unless the Group has an obligation to cover such losses.

PRINCIPLES GOVERNING REVENUE RECOGNITION

Income from the sale of goods and services is recognised in the accounts at fair value, net of VAT, discounts and reductions. Income from the sale of goods and services is recognised at the point at which material risks and rights have passed over to the buyer, the Group no longer has ownership of or control over the goods, the income can be measured reliably and it is probable that the financial benefit associated with the sale will accrue to the Group and costs incurred in connection with the sale can be measured reliably.

INCOME IS RECOGNISED AS FOLLOWS:

Sales of services (travel and freight)

Sales of travel are recognised at the start of a voyage, which is when risk is transferred. Sales of freight (cargo income) are recognised when the transport stage commences.

Sales of goods

Sales of goods by the Group are recognised when delivery of the goods takes place, this being the time of transfer of risk. Payment for retail purchases is usually in the form of cash or by credit card. Sales of this nature are taken to income, including credit card fees incurred on the transaction. The fees are recognised as sales costs.

Interest earned

Interest income is recognised using the effective interest method as it is earned.

Income from dividends

Dividends on investments are recognised when the Group has an unconditional right to receive the dividend.

Public subsidies

Public subsidies are recognised when it is reasonably certain that the company will fulfil the conditions attaching to the subsidy, and that the subsidies will in fact be received. Public subsidies that compensate the business for disbursements are taken to income as and when the costs are incurred. Subsidies are deducted from the expense that the subsidy is intended to cover.

FOREIGN EXCHANGE

Foreign exchange contracts in EUR, USD, and DKK are generally linked to the current income and expenses of the Group. Foreign exchange gain/foreign exchange loss on settlement is attributed to the relevant income statement items in the accounts. See Note 7. The value of current contracts is recorded in the accounts as a financial item.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition of a qualifying asset are capitalised as part of the cost of the relevant asset until the non-current asset is ready for its intended use. Borrowing costs of this nature are capitalised as part of the asset's procurement cost when it is probable that they will result in future financial benefits for the Group and the costs can be measured in a reliable manner.

Borrowing costs attributable to the raising of new loans are charged to liabilities in the balance sheet and amortised over the term of the loan.

Other borrowing costs are recognised in the income statement in the period in which they are incurred.

TAXES

Tax costs comprise tax payable and changes in deferred tax. Deferred tax/tax asset is calculated on all differences between the value of assets and liabilities in the accounts and the tax value of such assets and liabilities, with the exception of:

- Temporary differences related to non-tax-deductible goodwill.
- Temporary differences related to investments in subsidiary companies when the Group controls the time at which the temporary differences will be reversed and when this is not expected to occur in the foreseeable future.

Deferred tax assets are recorded in the accounts when it is probable that the company will have sufficient taxable profits in subsequent periods in order to utilize the tax asset. Previously unrecognised deferred tax assets are recognised by the companies insofar as it has become likely that the company can make use of the deferred tax asset. Likewise, the company will reduce deferred tax assets insofar as the company no longer considers it probable that it will be able to utilize the deferred tax assets.

Deferred tax and deferred tax assets are measured on the basis of anticipated future tax rates payable by the Group companies in which temporary differences have arisen.

Deferred tax and deferred tax assets are recognised at nominal value in the balance sheet.

PROPERTY, PLANT AND EQUIPMENT

Assets intended for long-term use or ownership are recorded as operating equipment. Property, plant and equipment mainly comprise ships, port facilities, plots of land, buildings and machines/equipment. Property, plant and equipment are recorded at procurement cost including costs associated with procurement, less deductions for depreciation and write-downs for impairment. Subsequent major expenditures are added to the value of property, plant and equipment in the balance sheet or are entered separately when it is probable that future financial benefits linked to the expense will accrue to the Group and the expense can be measured reliably. Other repair, classification and maintenance costs, including costs for the docking of ships, are recorded in the income statement in the period in which the expense is incurred. Plots of land are not depreciated. Other operating equipment is depreciated in accordance with the straight line method so that the procurement cost of the equipment is depreciated to residual value over the estimated useful life of the asset, which is:

• Ships	20–35 years
• Buildings/port facilities	20–30 years
• Machines and equipment	4–15 years

The useful life of property, plant and equipment and the residual value are re-assessed at every balance sheet date and amended as necessary. In the case of the Group's ships, these are classified into components subject to high wear and tear and components subject to low wear and tear. Components subject to high wear and tear are depreciated without residual value.

Scrap value is estimated every yearend, and any changes in estimates of scrap value are recorded in the accounts as an estimate variance. In the case of replacements, the residual value of the replaced part is estimated. Residual value is expensed at the time of replacement.

Gains and losses on disposals are recognised in the income statement and make up the difference between the sales price and value recorded in the balance sheet.

Construction work in progress is classified as a non-current asset and reported at cost price until production or development is completed. Construction work in progress is not depreciated until the non-current asset is taken into use.

INTANGIBLE ASSETS

Intangible assets procured separately are entered in the balance sheet at fair value at the time of procurement. Intangible assets are amortised in accordance with the straight-line method over the estimated life of the assets. If the lifetime of the asset is not limited and economic life cannot be estimated, the asset is not amortised, but is tested annually for impairment.

Goodwill

The difference between the procurement cost of acquisitions and the fair value of net identifiable assets at the time of acquisition is classified as goodwill. Assets and liabilities acquired in business amalgamations are recognised at fair value in the opening balance sheet of the Group.

Goodwill is recorded in the balance sheet at procurement cost less any accumulated impairment. Goodwill is not amortised, but is tested annually for impairment of value. Impairment testing is conducted by allocating goodwill to the cash-generating units in the Group that are expected to derive benefit from the amalgamation. Value recorded in the balance sheet is compared with the recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is taken to expense and is not reversed in subsequent periods.

Goodwill in the parent company is amortised by the straight-line method over estimated useful life.

Software

Costs associated with maintaining computer software programs are recognised as expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised in the balance sheet as intangible assets when the criteria for doing so are met. Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense cannot be recognised as an asset in the balance sheet in a subsequent period.

Computer software recognised as an asset in the balance sheet is amortised over its estimated useful life. Amortisation commences when the asset is available for use, i.e. when it fulfils the requirements defined by the management.

LEASING, RENTALS OF PLANT AND EQUIPMENT

Leases in which a large part of the risk and earnings associated with ownership continue to reside with the lessor are classified as operational leases. The company's leases are mainly operational leases in which lease payments are an operating expense distributed over the term of the lease.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and groups of non-current assets and liabilities are classified as held for sale if the book value is to be recovered through a sales transaction, rather than continuing use. This condition will be considered to have been fulfilled only if a sale is highly probable and the non-current asset is available for immediate sale in its present form. Management must have committed the company to a sale and the sale must be expected to be implemented within one year from the date of classification.

Non-current assets and groups of non-current assets and liabilities held for sale are valued at the lower of previous carrying amount or fair value less costs to sell. Depreciation of assets classified for sale ceases from the date of classification.

Operations that are to be discontinued are reported separately in the income statement. Figures for the preceding year are restated to permit comparison.

INVENTORIES

Inventories comprise goods for resale, consumables and bunker fuel and are valued at cost or net realisable value less costs of sales, whichever is the lower. The FIFO method is used in determining procurement cost.

CASH AND BANK DEPOSITS

Cash and cash equivalents comprise cash in hand and bank deposits.

EQUITY

Ordinary shares are classified as share capital. Expenses related directly to the issuing of new shares, less tax, are recorded as a reduction of the amount received in equity.

Translation differences occur in connection with currency differences when consolidating foreign enterprises.

PENSION LIABILITY AND PENSION COSTS

The companies in the Group operate different pension schemes. In general, pension schemes are financed by payments of premium to life insurance companies.

The shore-based employees have a defined contribution pension scheme. The cost of this scheme is equal to the premium contributed. The Group has no obligation, legal or otherwise, to pay further contributions in the event that the life insurance company has insufficient funds to pay all personnel the benefits related to earnings in the current or prior periods.

The pension scheme for the seagoing employees is a defined benefit scheme. A defined benefit plan is a pension scheme in which the pension benefit payable to the employee in retirement is defined in advance. The pension payable will normally depend on a number of factors, including age, number of years of service with the company and pay. Pension funds are valued at fair value. Net liability relating to the defined benefit scheme are calculated separately for each scheme by estimating the amount of future benefits earned by the individual employee through work performed in the year under review and in earlier periods. These future benefits are discounted in order to calculate their present day value, and the fair value of the pension funds is deducted in order to ascertain net liabilities. The discount rate applied is the rate of interest on the balance sheet date on high-quality government bonds with approximately the same term to maturity as the Group's liability. The schemes are based on a projected unit credit method. When the benefit payable under a scheme is changed, the share of the increase in the benefit that the employee has earned the right to is recognised in the income statement in accordance with the linear method over the remaining earnings period. Costs are recognised in the income statement immediately if the employee at the time of awarding has already received an unconditional right to an increased benefit.

PROVISIONS

A provision is recognised when the Group has a legal or self-imposed obligation resulting from a past event, it is probable that a financial settlement will take place as a consequence of this obligation and the size of the amount can be measured reliably. When a provision in the accounts is measured by applying the cash flows necessary to settle the obligation, the amount recorded in the balance sheet is the present value of these cash flows. Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either started or been publicised. The provision for restructuring comprises only direct costs resulting from the restructuring, being amounts that are both necessary to the restructuring and not part of the normal operations of the unit.

FREQUENT TRAVELLER POINTS

The provision for accrued frequent traveller points is recognised in the balance sheet at the time the points are earned.

CONTINGENT LIABILITIES AND ASSETS

Information is provided on material contingent liabilities, except in the case of contingent liabilities where the probability that the liability will result in a disbursement is low. A contingent asset will not be recorded in the annual financial statements, but information will be provided if there is some likelihood that a benefit will accrue to the Group.

EVENTS AFTER THE REPORTING PERIOD

New information after the balance sheet date concerning the company's financial position on the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not impact on the company's financial position on the balance sheet date, but will affect the company's financial position in the future, are reported if they are of material importance.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions applicable to the instrument. The Group's financial instruments are classified in the following three categories: fair value through profit or loss, lending and receivables, and financial obligations at amortised cost. Financial instruments that are long term in nature are recorded as financial fixed assets and long-term liabilities.

Financial assets

Financial assets at fair value through profit or loss are first recognised in the balance sheet at fair value on the day on which the contract is concluded and thereafter measured at fair value on each balance sheet date. Any transaction expenses are recognised in the income statement immediately. Trade receivables and other short-term receivables are first recognised at fair value and thereafter at amortised cost corrected for any amounts written down. Current receivables due in less than one year or receivables assessed as insignificant are not normally discounted. Earned services that have not been invoiced are taken to income on the balance sheet date and recorded as receivables.

Shore-based power supplies have brought beneficial side-effects such as reduced noise levels for personnel working in the engine rooms.

Financial liabilities

Financial liabilities at fair value through profit or loss are first recognised in the balance sheet at fair value on the day on which the contract is concluded and thereafter measured at fair value on each balance sheet date. Any transaction expenses are recognised in the income statement immediately.

Interest-bearing loans are first recognised in the balance sheet at fair value less transaction costs. Subsequent recording is at amortised cost, with any difference between cost and redemption amount being recognised over the term as part of effective interest.

Trade payables and other current obligations are measured at fair value when initially recognised in the balance sheet and thereafter at amortised cost. Current liabilities due within one year or liabilities valued as insignificant are not normally discounted. Income paid in advance on the balance sheet date is recorded as a liability.

Bunker fuel hedging

The Group makes use of financial derivatives earmarked as hedging instruments in connection with highly probable cash flows in connection with the procurement of bunker fuel for the ships. This hedging has been documented as being effective, both at the time of conclusion of the agreements and in subsequent measurements, as it counteracts price changes in the cash flows. Hedge accounting is used. Any ineffective portion of a gain or loss will be recognised in the income statement immediately.

Concluded hedging contracts are recorded at fair value on the balance sheet date and changes in fair value are charged to other income and expenses for the period. When the hedging contracts are exercised, all earlier gains and losses are transferred from equity and included in the cost of bunker fuel.

POLICIES APPLICABLE ONLY TO THE PARENT COMPANY

Royalty

Operating revenues in the parent company refer for the most part to royalty income, which is recognised in the income statement when earned.

In connection with the reorganisation of Color Group, the ferry business of Color Group ASA was transferred to Color Line AS with effect from 1998. The rights to use the names and trademarks and the use of pre-developed shipping lines, quay rights etc. were not subject to transfer. Royalty agreements have been concluded between the companies regulating Color Line's use of rights connected with the ferry business and remuneration for such use.

Shares in subsidiary companies

Investments in subsidiary companies are valued using the cost method. Group contributions after tax, paid by the parent company to subsidiary companies are recorded in the accounts as an increase in the investment in the subsidiary company. Dividends and Group contributions received from a subsidiary company are recorded in the income statement as income on the investments in the subsidiary company.

Dividend received and paid out and Group contributions and other contributions are taken to income in the same year as the provision is made by the subsidiary company.

The general rule for valuing and classifying assets and liabilities in the parent company

Assets intended for permanent ownership or use are classified as non-current assets. Other assets are classified as current assets. Receivables for repayment within one year are classified as current assets. Equivalent criteria are applied in the classification of current and non-current liabilities. Non-current assets are valued at procurement cost and written down to fair value when the drop in value is not considered to be of a short-term nature. Non-current assets having a limited economic life are subject to a depreciation plan. Long-term loans are recorded in the balance sheet at the nominal amount received at the time of establishment. Current assets are valued at cost or fair value, whichever is the lower. Shares in a trading portfolio are valued at fair value on the balance sheet date. Changes in value are recognised in the income statement. Current liabilities are recorded in the balance sheet at the nominal amount received at time of the transaction.

Operating expenses

The expenses of the parent company are expensed in the same period as the appurtenant income. Goodwill acquired by the parent company is amortised by the straight-line method over estimated life.

NOTE 2 LARGE INDIVIDUAL TRANSACTIONS AND EXCEPTIONAL ITEMS

Restructuring costs were expensed in the amount of NOK 5 million in 2015. There were no equivalent costs in 2016.

There were no major individual transactions in 2016. Environmental investments in scrubber technology on the ships in 2015 amounted to NOK 191 million. Of this, the investments on leased ships were transferred to owner companies at a fair value of NOK 91.9 million in 2015.

NOTE 3 SEGMENT REPORTING

Purchases and sales of services within the Group are conducted on the arm's length principle. The Group also conducts operations outside Norway. Internal income statements and balance sheets based on geographical division are not compiled.

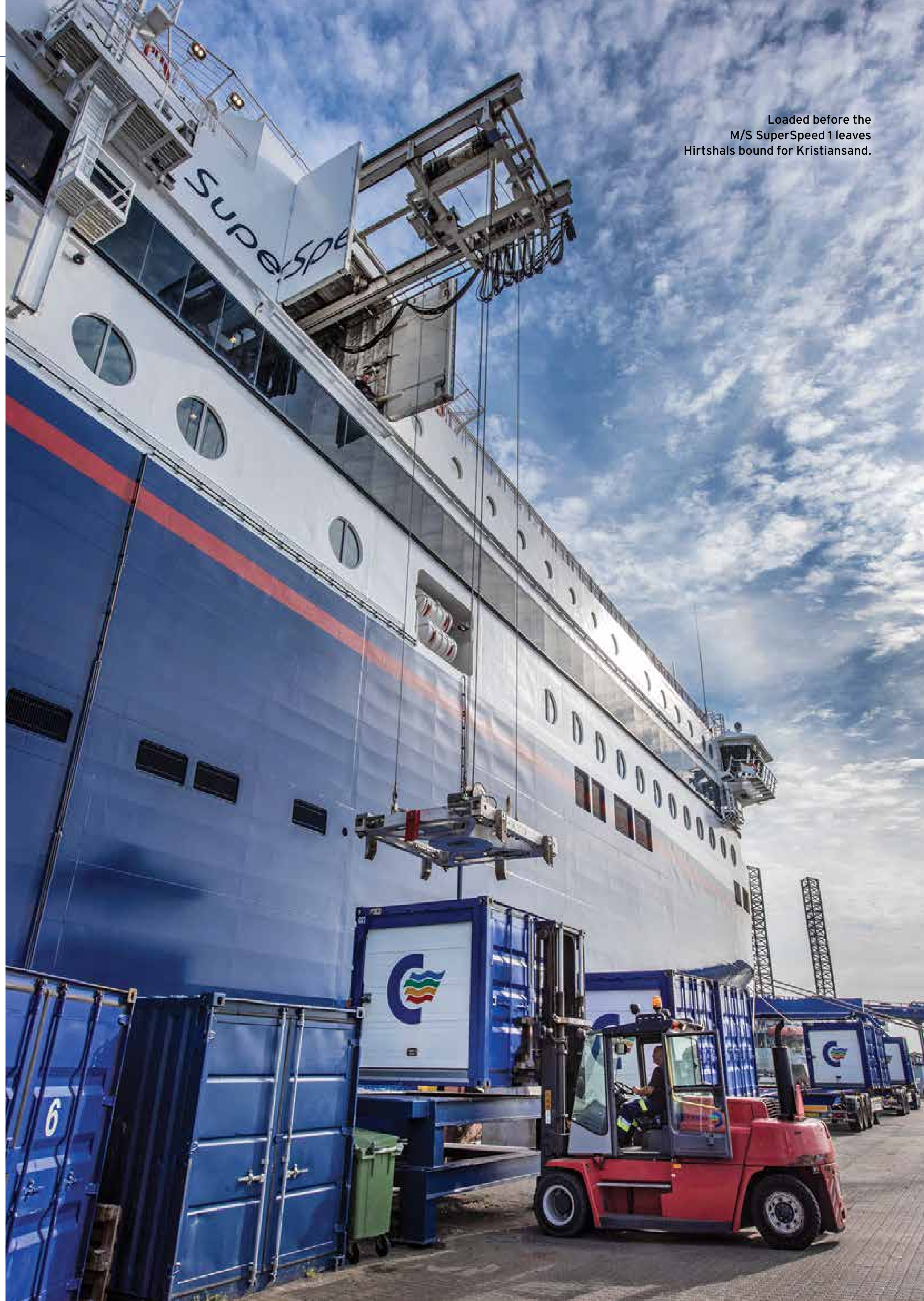
The Group's main business areas

In legal terms, the Cruise area of business is part of Color Line Cruises AS and markets and sells cruises, conference travel and hotel packages for individuals and groups/organisations between Norway and Germany. Freight operations are also conducted. In legal term, the Transport area of business is part of Color Line Transport AS and markets and sells cost-effective transport services between Norway, Sweden and Denmark for individuals, groups and organisations. In addition to the sale of travel and hotel packages, freight business is also conducted.

Key figures from the business divisions

Amounts in NOK '000

	Cruise 2016	Transport 2016	Group 2016	Cruise 2015	Transport 2015	Group 2015
Operating revenues	2 309 058	2 586 873	4 895 931	2 153 663	2 432 888	4 586 550
Operating expenses	−1 765 007	−1 981 502	−3 746 509	−1 743 271	−2 010 038	−3 753 309
Ordinary depreciation and amortisation	−241 386	−77 383	−318 769	−270 530	−72 544	−343 074
Other exceptional items	0	0	0	−2 627	−2 627	−5 254
Charter hire, leasing expenses	−6 213	−208 041	−214 254	−6 430	−201 131	−207 560
Earnings before interest and taxes/segment profit	296 452	319 947	616 399	130 805	146 548	277 353
Net financial expenses			−100 760			−145 438
Pre-tax income			515 639			131 915
Tax expenses			89 483			22 657
Profit for the year			426 156			154 572
Segment assets	3 531 097	1 057 053	4 588 150	4 197 578	1 529 820	5 727 398
Non-allocated assets			2 889 953			1 794 173
Total consolidated assets			7 478 103			7 521 571
Segment liabilities	1 395 579	324 062	1 719 641	2 486 251	841 557	3 327 808
Non-allocated liabilities			3 671 883			2 556 385
Total consolidated liabilities			5 391 524			5 884 193
Investments during the period (gross)	24 842	53 364	78 206	151 698	56 092	207 790
Non-allocated investments			34 096			34 208
Total consolidated investments			112 302			241 998



Loaded before the M/S SuperSpeed 1 leaves Hirtshals bound for Kristiansand.

NOTE 4 ESTIMATION UNCERTAINTY

The estimates that form the basis for items in the income statement and balance sheet have been subject to appraisal. The estimates are based on assumptions obtained from external sources such as the Norwegian Accounting Standards Board and the capital market. Estimates are also based on the company's long term-forecasts submitted in connection with the annual budgeting process, in addition to the past experience of the company. Changes in accounting estimates are entered in the income statement during the period in which the estimates are changed. Fair values may deviate from these estimates. All estimates and assumptions are based on continued operation as a going concern.

Leasing costs

Leasing costs presented on a separate item line in the income statement are evaluated as operational in accordance with the guidelines in IAS 17. The management have evaluated the lease situation in relation to the M/S SuperSpeed 1 and M/S SuperSpeed 2 ferries and in their best estimate have determined that the relevant criteria applicable to operational leases have been fulfilled.

Depreciation of operating equipment

Depreciation of operating equipment is based upon the anticipated life of the asset, as well as the estimated residual value of the ships. The ships represent the highest-value operating equipment. Ships are classified into their component parts and these depreciated at different rates, as the lifetime of the individual components of a ship will vary. Changes in investment decisions, market conditions and technological development may impact on the depreciation period. This appraisal is performed at the end of each year. In the opinion of the management, there are no grounds for changing the depreciation periods.

The amortisation of intangible assets

Intangible assets are amortised over their expected useful life. The booking system and Internet platform recorded in the balance sheet represent the most significant value of the software and licences recorded in the balance sheet. Useful life was assessed as 15 years from the time at which the system was implemented in 2011. Changed market conditions and developments in technology may impact on expected useful life. This appraisal is performed at the end of each year. In the opinion of the management, there are no grounds for changing the expected useful life.

Goodwill and other non-amortisable intangible assets

Goodwill is based on the assumption that discounted future cash flows are sufficient to cover the present day value of goodwill. Uncertainty attaches to these cash flows. A change in assumptions and estimated future cash flows will alter the value of the present-day value of the cash flows. Such changes could necessitate the writing-down of goodwill. The annual cash flows on which the calculation is based are built on the long-term forecasts for the company presented in connection with the annual budgeting process. The interest rate assumptions applied in the calculation are also based on information available in the market. See also Note 9.

Pension liabilities

The calculation of pension liabilities is based on a number of financial assumptions, as will be seen in the note showing the calculation. The calculations have been carried out by an external actuary and are based on actuarial assumptions, which in turn are based on guidelines issued by the Norwegian Accounting Standards Board containing calculation assumptions for defined benefit pension schemes in accordance with IAS 19R. Other assumptions are based in part on market conditions. These assumptions are appraised by management and in their best estimate are considered to be reasonable. Any change in these assumptions will have an effect on future profits/losses. See also Note 20.

Legal action

In February 2014, Color Line AS and Color Group AS received a writ filed by Nye Kystlink AS with a claim for damages of up to approx. NOK 1 303.8 million. The writ followed up a conciliation complaint filed in December 2012. The grounds for the claim for damages are direct losses and loss of profits and returns relating to Nye Kystlink's alleged legal predecessor's ferry business between the ports of Brevik and Hirtshals and Langesund and Strømstad in the period 2004-2008. Nye Kystlink AS claim that the losses were caused by alleged tortious breaches of competition law by Color Line AS. It is contended that Color Group AS is jointly and severally liable for the claim by virtue of being the parent company of Color Line AS. Color Line AS and Color Group AS reject the claim. In November 2015, Oslo District Court found for Color Line AS and Color Group AS. As in the Bastø Fosen action, the Court held that all aspects of the case are time-barred. In addition, Kystlink was ordered to pay costs. Nye Kystlink AS have appealed the decision rendered by Oslo District Court.

Having assessed the various writs and investigations, the Board has not found it necessary to make any provisions in the accounts for the claims.

NOTE 5 SUBSIDIARY COMPANIES

The Group comprises the parent company, Color Group AS, and the following directly and indirectly owned subsidiaries:

Amounts in NOK '000

	Registered office	Profit 2016	Equity	Stake 31.12.16	Book value in balance sheet
Owned by Color Group AS (parent company)					
Color Line AS	Oslo	345 235	3 157 476	100	4 014 245
Color Hotels AS	Oslo	48	1 446	100	100
Total direct ownership					4 014 345
Companies owned indirectly			**Share capital**		
Owned by Color Line AS					
Color Line Cruises AS	Oslo		430 520	100	
Color Line Transport AS	Oslo		64 142	100	
Color Line Crew AS	Oslo		3 033	100	
Color Line Marine AS	Sandefjord		2 250	100	
Color Marine Verksted AS	Sandefjord		100	100	
Bergen Line AS	Oslo		100	100	
Norway Line AS	Oslo		100	100	
Color Scandi Line AS	Oslo		100	100	
Scandi Line AS	Oslo		100	100	
I/S Jahre Line	Oslo				
Owned by Color Line Cruises AS					
Color Line GmbH	Kiel		26 (EUR)	100	
Terminalbygget AS	Oslo		100	100	
Owned by Color Line Transport AS					
Color Hotel Skagen AS	Skagen		15 700 (DKK)	100	
Color Line Danmark AS	Hirtshals		5 000 (DKK)	100	
Hirtshals Skipsproviantering AS	Hirtshals		500 (DKK)	100	
Larvik Line AS	Oslo		30	100	

NOTE 6 RELATED PARTIES

Color Group AS is owned by ONS Invest II, a company owned 100 per cent by Olav Nils Sunde and his family through the limited company O.N. Sunde AS. All the companies in the O.N. Sunde Group and its owners are related parties.

The Directors, Group President and CEOs of the various business areas are also defined as related parties.

Transactions between related parties are recorded in specific accounts in the financial statements.

Related-party transactions with the Group:

Amounts in NOK '000

Profit	Purchases of goods and services 2016	Purchases of goods and services 2015	Leasing cost 2016	Leasing cost 2015	Interest earned 2016	Interest earned 2015
O.N. Sunde AS	0	0	0	0	35 365	34 826
ONS Invest II AS	0	0	0	0	0	0
Companies controlled by O.N. Sunde AS	17 025	16 531	203 152	195 992	1 485	1 057
Other related parties	331	243	0	0	0	0
Total	17 356	16 774	203 152	195 992	36 850	35 883

The company purchases clothing and other goods for resale from Voice Norge AS, Regatta AS and Gresvig Norge AS on market terms. These companies are part of the O.N. Sunde Group. The company purchases services from a law firm in which the Chairman of the Board, Morten Garman, is a co-owner. Services to a value of NOK 0.3 million were purchased in 2016.
M/S SuperSpeed 1 is owned by Kristiansand Line AS and M/S SuperSpeed 2 is owned by Oslo Line AS. Both of these companies are owned by ONS Ship Finance AS and are part of the O.N. Sunde Group. The company charters the ships from Kristiansand Line AS and Oslo Line AS at annual rates based on commercial terms corresponding to the level that could be achieved on an external market.
The external financing of all companies in the Group is mainly arranged by Color Group AS. The company then lends to the other companies in the Group. Interest on intercompany accounts is calculated at a rate equivalent to the rate that Color Group AS pays on external loans.
Remunerations paid to senior executives are detailed in Note 19.

Related-party transactions with the Group:

Amounts in NOK '000

Balance sheet items	Current receivables		Non-current receivables		Liabilities	
	2016	2015	2016	2015	2016	2015
O.N. Sunde AS	807 131	844 704	0	0	0	0
Companies controlled by O.N. Sunde AS	503	6 129	0	69 735	−183	−20 752
Total	807 634	850 833	0	69 735	−183	−20 752

Intercompany accounts between the parent company and companies in the Group:

Amounts in NOK '000

	Non-current receivables		Liabilities	
	2016	2015	2016	2015
Color Hotels AS	0	0	−1 423	−1 423
Color Line AS	637 231	2 236 283	0	0
Color Hotel Skagen AS	19 700	20 712	0	0
Total	656 931	2 256 995	−1 423	−1 423

Receivables from related parties relate largely to loans on which interest is calculated. The O.N. Sunde AS receivable is secured by a charge on shares. Other receivables are not secured. No loans have been granted to any member of the Group management. There are no balances outstanding with any member of the Group management. Outstanding balances between the parent company and companies in the Group relate largely to loan funding granted by the parent to the subsidiary companies. Interest is calculated on this debt. The subsidiary company Color Line AS pays royalties to the parent company. This was recognised as income by the parent company in the amount of NOK 144.1 million (NOK 136.3 million in 2015).
No provision was made for losses on loans to related parties in 2016 or 2015.

NOTE 7 INCOME AND EXPENSES (GROUP)

Total operating income comprises the following items:

Amounts in NOK '000

	2016	2015
Passenger revenues	4 288	3 989
Freight revenues	346	346
Other	262	252
Total	4 896	4 587

Total other operating expense comprises the following items:

Amounts in NOK '000

	2016	2015
Cost of technical operation	233	205
Other operating expenses on board	218	206
Other operating expenses ashore etc.	360	352
Total	811	763

The Group buys and sells foreign currency based on anticipated income and expenses in the respective currencies. The result of this trading is attributed to the relevant income statement items. Unrealised changes in value are presented under financial items.
Some of the bunker fuel consumption of the ships is hedged. The contracts are hedged in the accounts in that unrealised effects are temporarily charged to other income and expenses are charged to the income statement in the same period as the hedged volume is included in cost of sales.
The effect is recorded as a reduction in bunker costs.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT (GROUP)

Amounts in NOK '000

	Ships	Investments in leased ships	Equipment	Land, buildings and other real estate	Construction in progress	Total
Procurement cost						
Procurement cost as at 1 Jan. 2015	5 890 833	99 843	397 938	1 174 482	0	7 563 096
Additions	155 556	57 016	5 975	4 164	0	222 711
Disposals	0	−98 410	−10 044	−3 260	0	−111 714
Translation difference	0	0	3 553	21 087	0	24 640
Procurement cost as at 31 Dec. 2015	6 046 389	58 449	397 422	1 196 473	0	7 698 733
Procurement cost						
Procurement cost as at 1 Jan. 2016	6 046 389	58 449	397 422	1 196 473	0	7 698 733
Additions	33 862	37 457	11 665	8 220	1 071	92 275
Disposals	0	0	−79	−269	0	−348
Translation difference	0	0	−3 245	−18 554	0	−21 789
Procurement cost as at 31 Dec. 2016	6 080 251	95 906	405 763	1 185 880	1 071	7 768 871
Accumulated depreciation and write-downs						
Depreciation and write-downs as at 1 Jan. 2015	2 147 348	12 725	336 348	614 595	0	3 111 016
Year's write-downs	225 311	10 299	19 520	44 769	0	299 899
Disposals	0	−6 503	0	−1 260	0	−7 763
Translation differences	0	0	2 400	12 229	0	14 629
Depreciation and write-downs as at 31 Dec. 2015	2 372 659	16 521	358 268	670 333	0	3 417 781
Accumulated depreciation and write-downs						
Depreciation and write-downs as at 1 Jan. 2016	2 372 659	16 521	358 268	670 333	0	3 417 781
Year's write downs	204 771	9 851	15 363	43 927	0	273 912
Disposals	0	0	−37	−119	0	−156
Translation differences	0	0	−2 415	−10 548	0	−12 963
Depreciation and write-downs as at 31 Dec. 2016	2 577 430	26 372	371 179	703 593	0	3 678 574
Balance sheet values						
At December 2014	3 743 485	87 118	61 590	559 887	0	4 452 080
At December 2015	3 673 730	41 928	39 154	526 140	0	4 280 952
At December 2016	3 502 821	69 534	34 584	482 287	1 071	4 090 297

Depreciation method	Operating equipment is depreciated according to the straight-line method over the useful life of the equipment. Depreciation is adjusted for residual value, if any.			
Depreciation rates	2,85–20 %	10–20 %	10–20 %	5–20 %

Borrowing costs are capitalised with the associated asset and written off over the estimated lifetime of the equipment.
Property on leased land is depreciated over the term of the lease.

NOTE 9 INTANGIBLE ASSETS (GROUP)

Amounts in NOK '000

	Goodwill and other intangible assets	Software and licences	Total
Procurement cost			
Procurement cost as at 1 Jan. 2015	671 301	603 096	1 274 397
Additions	0	29 331	29 331
Disposals	0	0	0
Translation difference	0	0	0
Procurement cost as at 31 Dec. 2015	671 301	632 427	1 303 728
Procurement cost as at 1 Jan. 2016	671 301	632 427	1 303 728
Additions	0	20 027	20 027
Disposals	0	0	0
Translation difference	0	0	0
Procurement cost as at 31 Dec. 2016	671 301	652 454	1 323 755
Accumulated amortisation and write-downs			
Amortisation and write-downs as at 1 Jan. 2015	0	123 412	123 412
Year's amortisation	0	43 175	43 175
Disposals	0	0	0
Translation difference	0	0	0
Amortisation and write-downs as at 31 Dec. 2015	0	166 587	166 587
Amortisation and write-downs as at 1 Jan. 2016	0	166 587	166 587
Year's amortisation	0	44 857	44 857
Disposals	0	0	0
Translation difference	0	0	0
Amortisation and write-downs as at 31 Dec. 2016	0	211 444	211 444
Balance sheet values			
At December 2014	671 301	479 684	1 150 985
At December 2015	671 301	465 840	1 137 141
At December 2016	671 301	441 010	1 112 311

Goodwill

All goodwill is acquired through purchases and has been of strategic importance in retaining and strengthening the market positions of the Group. Goodwill is attributed to the Transport business segment, which encompasses the Sandefjord–Strømstad service, the Larvik–Hirtshals service and the Kristiansand–Hirtshals service.

Goodwill is not amortised. However, goodwill is tested for impairment at least annually, or when there are indications of reductions in value. An assessment was performed as at 31 December 2016.

Testing is based on future cash flows after tax for the next 5 years, with a terminal value thereafter based on a growth rate of 2.0 per cent, which is considered to be reasonable relative to anticipated future growth levels in the travel and tourism industry. Future cash flows are based on the Group's long-term forecast as presented in connection with the annual budgeting process. These are based on a moderate level of growth in sales and contribution margin over the coming years.

The present value of future earnings is based on a discount rate after tax of 5.40 per cent. This discount rate is based on 10-year government bonds and the official market premium. The return on equity is equivalent to the Group's required rate of return. The Group is exposed to changes in the travel and tourism industry, including competition from other operators in the industry. There is nothing to indicate that developments should be anything but stable in the years ahead, although uncertainty attaches to estimates of future earnings.

The testing of the value of goodwill for impairment does not reveal any need to write down goodwill. Sensitivity analyses have been performed in which the discount rate is adjusted by +/–1 per cent, equivalent to a +/–1 per cent adjustment in the growth of the terminal value and adjustment of the estimated cash flows upwards/downwards by 25 per cent. None of these adjustments indicate a need to alter the conclusion.

Software

The software relates to the development of the booking and Internet platform, which was implemented in 2011 and developed further in the following years. The investment is software classified in the accounts as an intangible asset.

The software is essential to the entire Group and is accordingly attributed to the Group as a whole. The cost price of the software is amortised systematically over expected useful life, which has been set at 15 years from the point at which the system was implemented in operations in 2011. Impairment testing is conducted at least annually or when there are indications of reductions in value. An assessment was performed as at 31 December 2016.

Testing is based on future cash flows after tax for the next 5 years, with a terminal value thereafter based on a growth rate of 2.0 per cent, which is considered to be reasonable relative to anticipated future growth levels in the travel and tourism industry. Future cash flows are based on the Group's long-term forecast as presented in connection with the annual budgeting process. These are based on a moderate level of growth in sales and contribution margin over the coming years.

The present value of future earnings is based on a discount rate after tax of 5.40 per cent. This discount rate is based on 10-year government bonds and the official market premium. The return on equity is equivalent to the Group's required rate of return.

The Group is exposed to changes in the travel and tourism industry, including competition from other operators in the industry. There is nothing to indicate that the development of the Group should be anything but a stable continuation of the present situation in the years ahead. Uncertainty attaches to estimates of future earnings.

The testing of the value of goodwill for impairment does not reveal any need to write down the software. Sensitivity analyses have been performed in which the discount rate is adjusted by +/-1 per cent, equivalent to a +/-1 per cent adjustment in the growth of the terminal value and adjustment of the estimated cash flows upwards/downwards by 25 per cent. None of these adjustments indicate a need to alter the conclusion.

Color Line is Norway's second-largest maritime training organisations, with close to 60 apprentices and cadets on deck and in the engine room and just under 40 apprentices in the hotel operation.

NOTE 10 INTANGIBLE ASSETS (PARENT COMPANY)

Goodwill and other intangible assets

Amounts in NOK '000

	2016	2015
Cost price 1 Jan.	444 677	444 677
Additions in the year	0	0
Disposals in the year	0	0
Cost price 31 Dec.	444 677	444 677
Acc. amortisation 1 Jan.	424 085	402 051
Ordinary amortisation in the year	16 592	22 034
Amortisation related to disposals	0	0
Acc. amortisation 31 Dec.	440 677	424 085
Book value 31 Dec.	4 000	20 592
Amortisation rate	5 %	5 %

Goodwill is related to the acquisition of ferry business. Goodwill is amortised over estimated economic life. An amortisation period of 20 years is in line with the conditions that formed the basis for the valuation performed when the business was acquired. The residual value of NOK 4 000 relates to name rights which are not amortised.

NOTE 11 NON-CURRENT RECEIVABLES AND INVESTMENTS (GROUP)

Amounts in NOK '000

	2016	2015
Accounts receivable, Group companies	0	69 735
Ålesund stadion	25 430	25 430
Other receivables	1 112	1 162
Total	26 542	96 327

NOTE 12 INVENTORIES (GROUP)

Inventories comprise the following types of goods:

Amounts in NOK '000

	2016	2015
Inventory held for resale	147 310	153 649
Consumables	2 591	4 242
Bunker fuel	10 894	5 475
Total	160 795	163 366

Writing down of inventories in 2016 is expensed under cost of sales in the amount of NOK 1.0 million (NOK 0.8 million in 2015). The provision for obsolescence on inventories totals NOK 3.8 million (NOK 2.8 million in 2015).

NOTE 13 INTEREST-BEARING LIABILITIES, MORTGAGES AND GUARANTEES

Amounts in NOK '000

	Parent Company		Group	
	2016	2015	2016	2015
Non-current loans				
Mortgages	1 434 039	1 689 121	1 206 021	933 376
Bond loans (listed on Oslo Stock Exchange)	2 355 075	2 553 898	1 874 575	2 073 898
Total interest-bearing non-current liabilities	3 789 114	4 243 019	3 080 596	3 007 274
Current liabilities				
Current portion of mortgage debt	0	0	301 700	848 000
Redemption bond loan	0	0	480 500	480 000
Total interest–bearing current liabilities	0	0	782 200	1 328 000
Total interest–bearing liabilities	3 789 114	4 243 019	3 862 796	4 335 274

In its loan agreements, the Group has loan conditions related to liquidity, equity and debt–servicing degree. All loan conditions were fulfilled as at 31 December 2016. Mortgage loans are secured by means of mortgages on ships and other assets. Mortgages are also granted in leases on terminal areas, and negative pledges are granted on ships. Color Group AS has concluded a framework agreement for a guarantee on the Group's tax withholdings in the amount of NOK 60 million. In addition, the Group has pledged approx. NOK 90 million to travel guarantee funds, in addition to other guaranties for subsidiary companies totalling approx. 52 million.

Amounts in NOK '000

	2016	2015
Book value (Group) of assets pledged as security (ships, buildings, etc.)	4 090 297	4 280 952

Interest rate conditions on all loans and credits are fixed in accordance with NIBOR with the addition of an agreed margin. At yearend 2016, interest rates were on average: Mortgage loans: 1.97 per cent. Bond debt: 6.02 per cent. Color Line Transport AS has concluded operational leasing contracts with Oslo Line AS and Kristiansand Line AS, both of which expire in 2025 and both of which are guaranteed by Color Group AS.

NOTE 14 TRADE PAYABLES AND OTHER CURRENT LIABILITIES (GROUP)

Amounts in NOK '000

Trade payables and other current liabilities	2016	2015
Trade payables	260 658	202 262
Unpaid government charges and special taxes	81 174	75 738
Pre-paid income	174 250	171 442
Accrued interest	10 885	12 273
Accrued wage costs	62 610	66 232
Sundry current liabilities	115 766	119 429
Total	705 343	647 375
Other financial liabilities		
Market value, currency trades	0	0
Bunker fuel hedging	0	147 468
Total	0	147 468
Total trade payables and other current liabilities	705 343	794 843

NOTE 15 LEASES (GROUP)

Amounts in NOK '000

	2016	2015
Charter hire	201 829	194 701
Hire of ICT equipment	10 563	10 974
Other	1 862	1 885
Total charter hire, leasing liabilities	214 254	207 560
Lease of terminals and queuing areas	17 160	18 467
Total lease liabilities	231 414	226 027

The company has concluded a lease for the hire of the M/S SuperSpeed 1 for a period that runs through until the end of 2025. The annual lease amount is NOK 94.5 million. The company has also concluded a lease for the hire of the M/S SuperSpeed 2 for a period that runs through until the end of 2025. The annual lease amount totals NOK 77.4 million plus EUR 3.2 million. The annual lease amount after 2020 will be NOK 96 million.
Other leasing agreements relate largely to ICT equipment and other smaller–scale equipment leased for periods of 3–5 years

Future minimum hire liabilities

Amounts in NOK '000

	Currency	1 year	2-5 years	Over 5 years	Total
Ships	NOK	171 876	706 128	762 000	1 640 004
Ships	EUR	3 216	9 648	0	12 864
ICT equipment	NOK	7 713	10 227	0	17 940
Other	NOK	1 766	817	0	2 583

The Group has current contracts of lease with the local port authorities in the regular ports of call. These contracts comprise leases on land, buildings, spaces and berths for the ships. The provisions of the leases are in part fixed, in part variable, based on the number of calls, passengers and vehicles. The company owns its terminal buildings in Oslo, Larvik, Hirtshals and Strømstad.
Operational framework agreements have been concluded for the lease of IT equipment, vehicles and other equipment.

NOTE 16 NET FINANCIAL EXPENSES

Amounts in NOK '000

	Parent Company		Group	
	2016	2015	2016	2015
Interest expense, bank loans	−49 125	−50 783	−29 510	−45 294
Interest expense, bond loans	−159 950	−156 260	−159 950	−156 260
Other interest expense	−2	−5	−199	−2 861
Total interest expense	−209 077	−207 048	−189 659	−204 415
Loss financial instruments at fair value through profit or loss	0	−8 966	0	−8 966
Unrealised foreign exchange losses	0	−35 945	0	−35 945
Loss on shares	0	−7 405	0	−7 405
Borrowing costs	−24 645	−17 492	−27 404	−20 355
Foreign exchange losses	0	0	−10 925	0
Total financial expenses	−233 722	−276 856	−227 988	−277 086
Interest earned, accounts receivable	83 954	130 982	36 850	38 294
Total interest earned	83 954	130 982	36 850	38 294
Result, investment in associate and subsidiary	417 440	144 423	30 113	22 634
Change in value, financial derivative	13 351	7 202	14 677	34 016
Unrealised foreign exchange gains	31 128	0	31 128	0
Gain on shares	14 829	0	14 460	0
Foreign exchange gains	10 555	33 627	0	36 704
Total financial income	571 257	316 234	127 228	131 648
Total financial items	337 535	39 378	−100 760	−145 438

The Group buys and sells foreign currency based on anticipated income and expense in the respective currencies. The realised effect of this trading is entered under operations together with the relevant income statement items in the accounts while the unrealised effects are presented as a financial item. See Note 7.

NOTE 17 FINANCIAL RISK AND USE OF FINANCIAL INSTRUMENTS

FINANCIAL RISK FACTORS

The main financial risks in the Group concern bunker fuel, foreign currency, interest rates and liquidity risk/refinancing risk. The Group monitors the individual areas on an ongoing basis in order to bring to light any current and future risk. It is the Group's policy to refrain from active speculation in financial risks, and instead to use financial derivatives as a buffer against risks connected with financial exposure in the operation and financing of the Group's business. An overview is regularly updated and prepared of hedging instruments in place. The Board and the company's Audit Committee are furnished with regular overviews of hedging instruments and estimated future risk.

Market risk

The Group's market risk is mainly connected with changes in foreign exchange rates, interest rates and the cost of bunker fuel.

Currency risk

Income in foreign currencies and the cost of goods and services are not neutral in the individual currency. Wherever possible, this risk is reduced. Currency risk arises when there are differences between income received and expenses paid in different currencies, particularly USD, EUR and DKK and in relation to investments/purchase of non-current assets and repayment of loans in foreign currency. The Group has active measures in place to reduce currency risk by using foreign currency netting and multi-currency loans. In a normal situation it is the Group's policy to cover a significant portion of its current currency risk 6 to 12 months ahead by means of forward contracts, options, swaps and structured products. Taking into account concluded currency contracts and foreign currency holdings as at 31 December 2016, the Group is in a more or less currency neutral position with regard to operating revenues and expenses in EUR and DKK. A change in the exchange rate between EUR and NOK of +/− 10 per cent in relation to the Group's currency loans would affect profits (foreign exchange gain/loss) by approx. +/− NOK 70 million before tax. A change in the exchange rate between USD and NOK of +/− 10 per cent would affect profits by approx. +/− NOK 30 million before tax, account being taken excluding currency derivative contracts in place. Profits would also be affected by a change in the value of hedging contracts.

In 2016, currency contracts were realised in EUR, USD and DKK related to current income and costs within the Group. These contracts are largely related to day-to-day operations, and foreign exchange gains/losses on settlement are attributed to the respective items in the income statement. As at yearend, hedging contracts in place cover parts of total exposure for the coming year, and mainly consist of option and forward contracts with delivery in 2017.

Personnel on the quayside at Hirtshals ensuring that the M/S SuperSpeed 2 is moored safely.

Interest rate risk

The Group's primary exposure to interest rate risk is through its loan portfolio. The purpose of managing interest rate risk is that changes in the interest rate level over time can have a negative effect on profits. The Group enters into interest rate swap agreements in order to achieve the desired ratio between fixed and floating rates of interest. At yearend 2016, the company had no swap agreements.

Furthermore, a CIRR fixed-rate agreement was concluded with Finnish Export Credit in connection with the delivery of M/S Color Magic in 2007 in the amount of NOK 1 404 million (adjusted in accordance with contractual instalments) of which 50 per cent is fixed at 4.2 per cent + margin and 50 per cent is swapped to a floating rate of interest, six month NIBOR less 1.315 per cent p.a. for 11 years. Fifty per cent of this was swapped to a new facility of approx. NOK 265 million (amount as at 31 Dec. 2016), at an average rate of interest of 4.26 per cent. Total interest-bearing debt recorded in the balance sheet is NOK 3 863 million. Fixed-interest-rate derivatives have been concluded for a total net amount of NOK 265 million representing approx. 7 per cent of total interest-bearing debt as at 31 Dec. 2016. A change in the interest rate level of +/− 1 per cent would affect profits by approx. +/− NOK 24 million before tax, account being taken of interest rate hedging contracts in place. In addition, profits would be impacted by changes in the value of hedging contracts, and interest earned on cash holdings.

The table below quantifies future interest rate risk, taking into account cash in hand/bank deposits, structure of maturity of mortgages, bond loans and interest rate swaps. The figures are based on liability recorded in the balance sheet as at 31 December 2016.

Interest rate sensitivity, Group

Amounts in NOK '000

	Less than 1 year	1–2 years	3–4 years	5 years and over
Mortgage loans	1 217 679	915 979	295 682	169 682
Unsecured bond loans	1 900 000	1 900 000	1 200 000	0
Total debt to credit institutions	3 117 679	2 815 979	1 495 682	169 682
Cash in hand/bank deposits	497 927	497 927	497 927	497 927
Net interest rate swaps	177 555	89 740	0	0
Net interest–bearing debt after interest rate swaps	2 442 197	2 228 312	997 755	–328 245
Interest rate sensitivity at +/– 1% change	24 422	22 283	9 978	–3 282

Bunker fuel risk

The cost of bunker fuel accounted for some 10.6 per cent of the Group's operating expenses in 2016, and represents an operational risk due to changes in the price of oil. As at 31 December 2016, the Group had bunker hedging contracts in place for approximately 70 per cent of estimated consumption in 2017. The hedging contracts are based on the actual physical product consumed by the ships and reflect an oil price (Brent, per barrel) of approx. USD 30–45. The Group has also hedged the cost of 50 per cent of estimated bunker fuel consumption in 2018, reflecting an oil price of approx. USD 40–55. The bunker hedging contracts in force at yearend had no impact on profits for 2016. The fair value of hedging contracts in force as at 31 December 2016 is NOK 75.2 million. All hedging contracts for bunker fuel expire in 2017 and 2018, and will impact on profits in the coming year. Changes in the market value of the remaining bunker contracts will not impact on profits, but will impact on equity.

With a change in the price of bunker fuel of +/– 10 per cent, the hedging contracts concluded would impact profits by +/– NOK 30 million before tax. The effect on profits associated with hedging contracts is recorded in the accounts in accordance with hedge accounting principles and will amount to a total of -NOK 99 million for 2016. Hedging has not given rise to inefficiencies in 2015 or 2016.

Liquidity risk

Liquidity risk is the risk of the Group being unable to meet its financial obligations as they come due. The Group focuses on maintaining a level of liquidity contingency that, as a minimum, will cover a peak load event. Liquidity contingency is managed at Group level and 12-month budgets are prepared and monitored on a weekly basis. Liquidity available as at 31 December 2016 amounts to NOK 1 438 million (including undrawn credit lines). Surplus liquidity is placed primarily on the short-term money market. Reference is also made to the table under «Measuring the fair value of financial assets and liability» for a maturity analysis showing future instalments and interest on interest-bearing debt.

Liquid assets (available liquidity)

Amounts in NOK '000

	2016	2015
Bank deposits, cash	497 927	346 549
Market-traded shares	38 915	75 078
Unused drawing rights	901 000	550 000
Liquid assets (available liquidity)	1 437 842	971 627

Exposure to credit risk: trade receivables/other current assets

Amounts in NOK '000

	2016	2015
Trade receivables	95 862	91 037
Write-down for anticipated loss	–3 550	–5 209
Net trade receivables	92 312	85 828
Inter-company receivables	807 131	844 704
Sundry current receivables	159 105	105 509
Trade receivables and other accounts receivable	1 058 548	1 036 041
Bunker derivatives	75 211	0
Foreign exchange derivatives	5 763	4 436
Other financial receivables	80 974	4 436

Credit risk

The Group's financial assets consist mainly of receivables from sales, other receivables, liquid resources and financial instruments. These receivables represent the Group's maximum exposure and credit risk related to financial assets.

The figure for trade receivables recorded in the balance sheet is net after provisions for potential losses, based on past experience and an evaluation of the present-day situation. Most of the company's trade receivables fall due for payment within three months. The credit risk related to financial derivatives is regarded as low, as the agreements on these assets have been concluded with highly creditworthy banks, thus reducing the risk that the counterparty will be unable to fulfil its liability.

Shares

Shares recorded in the balance sheet are readily negotiable listed shares. The value of the shares on the balance sheet date is not considered to represent a critical risk.

Capital management

An important objective is to secure financial freedom of action in both the short and the long term and to maintain a good credit rating enabling favourable loan conditions to be achieved that are reasonable in relation to the company's business. The company manages its capital structure, making whatever changes are required on the basis of an ongoing evaluation of the financial conditions under which the business operates.

Debt-to-equity ratio

Amounts in NOK '000

	2016	2015
Interest-bearing debt	3 862 796	4 335 274
Net liquid assets	536 842	421 627
Net interest-bearing debt	3 325 954	3 913 647
Equity	2 086 579	1 637 378
Debt-to-equity ratio	1,59	2,39

Net cash and liquid assets

Amounts in NOK '000

	2016	2015
Bank deposits and cash	497 927	346 549
Drawings on credit lines	0	0
Market-traded shares	38 915	75 078
Net cash and liquid assets	536 842	421 627

Measuring the fair value of financial assets and liability

The fair value of forward contracts is determined by applying the forward exchange rates on the balance sheet date. The fair value of currency swap agreements is calculated by determining the present value of future cash flows. The fair value of interest rate swap contracts is calculated by discounting the cash flows in the contracts by the zero-coupon rates from the yield curve for the relevant currency. The fair values of the aforementioned instruments are calculated by the company's external banks and reviewed by the company. The balance sheet value of cash in hand and credit lines is equal to the fair value. Similarly, the balance sheet value of trade receivables and accounts payable is more or less equal to fair value, since these are concluded on normal terms at short maturity. The bond loans are listed on the stock exchange and are subject to a floating rate of interest that falls due quarterly. The fair value of bond loans is the stock exchange price quoted at yearend. The fair value of non-current bank loans is the company's valuation of any added costs for refinancing at yearend, discounted by 6 per cent p.a. and taking due account of average maturities.

The following table shows the total liquidity flows in the years ahead for coverage of instalments and interest on non–current financing contracts in the form of non–current bank loans and bond loans.

Amounts in NOK '000

	Parent Company		Group	
2016	Mortgages	Bond loans	Mortgages	Bond loans
Less than 1 year	324 173	623 878	331 624	623 878
1–2 years	318 349	114 438	325 682	114 438
2–3 years	631 122	814 438	638 337	814 438
3–4 years	124 727	1 272 276	131 823	1 272 276
5 years and longer	122 363	0	173 024	0
Total	1 520 734	2 825 030	1 600 490	2 825 030

Balance sheet value and fair value of non-current loans held by the Group

Amounts in NOK '000

	Balance sheet value		Fair value*	
	2016	2015	2016	2015
Mortgages	1 206 021	933 376	1 195 795	894 059
Bond loans	1 874 575	2 073 898	1 959 990	2 097 784
Total	3 080 596	3 007 274	3 155 785	2 991 843

* The basis for the fair value of bond loans is the market price quoted at yearend and the fair value of mortgages is the company's valuation of any additional expenses for refinancing at yearend discounted at 6 per cent p.a. and taking due account of average maturities.

Balance sheet value of the Group's interest-bearing debt to credit institutions in various currencies is as follows:

Amounts in NOK '000

	Parent Company		Group	
	2016	2015	2016	2015
NOK	3 200 772	3 656 937	3 200 772	3 660 937
EUR	588 342	586 082	588 342	586 082
DKK	0	0	73 682	88 255
Total	3 789 114	4 243 019	3 862 796	4 335 274

Overview of the Group's financial assets and debt classified by measurement category:

Amounts in NOK '000

	2016	2015
Financial assets		
Loans and receivables		
Bank deposits/cash	497 927	346 549
Trade receivables	92 312	85 828
Sundry current receivables	966 236	950 213
Total loans and receivables	1 556 475	1 382 590
Hedge accounting		
Bunker swaps	75 211	0
Total hedge accounting	75 211	0
Financial assets at fair value through profit or loss		
Market-traded shares	38 915	75 078
Currency derivatives	5 763	4 436
Total financial assets at fair value through profit or loss	44 678	79 514
Financial liabilities		
Financial liabilities at amortised cost:		
Trade debtors and other current debt	705 343	647 375
Bank loans	1 507 721	1 781 376
Bond loans	2 355 075	2 553 898
Total financial liabilities	4 568 139	4 982 649
Financial liabilities at fair value through profit or loss		
Interest rate swaps	0	4 332
CIRR	6 186	15 205
Bunker fuel derivatives	0	147 469
Total financial liabilities at fair value through profit or loss	6 186	167 006

Balance sheet items valued at fair value (Group):

The table below show financial assets and liabilities at fair value by valuation method.
The various levels are defined as follows:

Level 1 values are taken from traded prices in a market with a corresponding level of activity
Level 2 values are taken from elsewhere, but are not part of an active market with associated traded prices
Level 3 values are calculated following a valuation of assets and liabilities that are not based on known market data.

Assets and liabilities measured at fair value at 31 Dec. 2016

Amounts in NOK '000

	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Market-traded shares	38 915	0	0	38 915
Currency swaps	0	5 763	0	5 763
Bunker fuel derivatives	0	75 211	0	75 211
Total	38 915	80 974	0	119 889
Financial liabilities at fair value				
Interest rate swaps	0	6 186	0	6 186
Currency derivatives	0	0	0	0
Bunker fuel derivatives	0	0	0	0
Total	0	6 186	0	6 186

Assets and liabilities measured at fair value as at 31 December 2015

Amounts in NOK '000

	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Market-traded shares	75 078	0	0	75 078
Currency swaps	0	4 436	0	4 436
Bunker fuel derivatives	0	0	0	0
Total	75 078	4 436	0	79 514
Financial liabilities at fair value				
Interest rate swaps	0	4 332	0	4 332
Currency derivatives	0	0	0	0
Bunker fuel derivatives	0	147 468	0	147 468
Total	0	151 800	0	151 800

NOTE 18 COST OF WAGES

Group

Amounts in NOK '000

	2016	2015
Employee benefit expenses		
Wages	892 041	912 834
Employers' tax	171 007	168 128
Pension costs	63 352	70 356
Other benefits	151 375	133 695
Total	1 277 775	1 285 013
Man-years	2 283	2 242

Refunds of income tax, national insurance contributions and Employers' tax for mariners totalled NOK 286 million in 2016 and is reported as a reduction in crew costs (pay). Of this, the Group contributed NOK 9.6 million to Stiftelsen Norsk Maritim Kompetanse (Norwegian Maritime Competence Foundation). The corresponding figures for 2015 were NOK 229 million and NOK 9.2 million.

Parent company

Amounts in NOK '000

	2016	2015
Employee benefit expenses		
Wages	4 305	4 110
Employers' tax	1 237	1 176
Pension costs	402	442
Other benefits	93	15
Total	6 037	5 743
Man-years	2	2

NOTE 19 REMUNERATION PAID TO SENIOR EXECUTIVES

Amounts in NOK '000

	Salary	Bonus	Pension	Other	Total
Olav Nils Sunde, Group President Color Group AS	0	0	0	0	0
Trond Kleivdal, Group President Color Line AS	3 735	1 341	102	348	5 526

Directors' fees

Total Directors' fees*	200	200

*Fee to the Chairman of the Board, Morten Garman. Only external directors receive directors' fees.
Other directors do not receive fees for their work on the Board of Directors.

Auditor's fees - Deloitte

Amounts in NOK

'000 '000	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Statutory auditing services	313	300	1 752	1 593
Other assurance engagements	38	36	132	120
Tax advice	0	0	51	46
Other services	0	86	380	427
Total fee to auditor	351	422	2 315	2 186

The fees are stated exclusive of VAT. No fees have been charged directly to equity in connection with equity capital transactions.

Guidelines for remuneration to senior executives 2016

Remuneration to senior executives in the Group is to be based on the following main principles:

The principle governing basic salary

Persons in executive positions shall receive a competitive basic salary based on the position, responsibilities, competence and performance of the individual executive.

The principle governing variable benefits, incentive schemes etc.

Executives may receive a variable salary. This will serve as an incentive, to stimulate profit orientation. A variable salary is based on the achievement of targets by the Group, division or company in which the executive is employed.

The principle governing non-cash benefits.

Executives may be offered various benefits, such as company car schemes, insurance, pensions and similar. Benefits in kind shall primarily take the form of communications equipment to allow the executive to be available to the company.

Post-termination salary scheme

The Group President of Color Line, Trond Kleivdal will, in the event of termination not covered by the provisions of the Working Environment Act, receive three years' salary, equivalent to approx. NOK 11 million.

Information on the preparation and decision-making process

Salary terms for the Chief Executive Officer are reviewed by the Board on an annual basis. The Board prepares annual guidelines and a statement is submitted to the General Meeting for discussion pursuant to the provisions of Section 5-6 of the Public Limited Companies Act (Norway).

Report concerning the policy for the remuneration of executives followed in 2016

The guidelines governing executive salaries as described above were followed during this past financial year. Remuneration paid to senior executives is charged to the company as an expense and has no other direct consequence for the company's shareholders.

NOTE 20 PENSIONS

Shore-based employees have a defined contribution pension scheme and seagoing personnel have a defined benefit pension scheme.

The defined contribution scheme

Under this scheme the company pays an annual premium to a life insurance company, which manages the contributions on behalf of the employees. The annual premium is charged as an expense. This year's contribution to the defined contribution scheme was expensed in the amount of NOK 18.5 million, while the figure for 2015 was NOK 20.6 million.

The defined benefit pension scheme

As at 31 December the group pension liability for seagoing employees covered 1 246 members. In addition, the Group pays the ship owners' share of the pension insurance for seamen, which in 2016 totalled NOK 27.8 million and in 2015 totalled NOK 26.8 million.

Estimated values are applied in the evaluation of pension funds and liabilities incurred. These estimates are adjusted annually in accordance with a statement of the transfer value of the pension funds and an actuarial calculation of the size of the liability.

Year's pension costs for the defined benefit scheme (yield) for the year are as follows:

Amounts in NOK '000

	2016	2015
Financial assumptions:		
Discount rate	2,60 %	2,70 %
Expected annual wage adjustment	2,50 %	2,50 %
Expected annual adjustment of pensions	0,00 %	0,00 %
Expected annual G-adjustment	2,25 %	2,25 %
Estimated yield	2,60 %	2,70 %
Pension costs for the year are calculated as follows:		
Pension yield for the year	15 003	16 984
Interest expense on pension liabilities	6 896	6 207
Anticipated yield, pension funds	−5 799	−4 597
Administration costs	754	730
Employers' tax	2 376	2 725
Cost of pensions	19 230	22 049

Amounts in NOK '000

	2016	2015
Reconciliation of pension liabilities and pension funds against balance sheet		
Present value of accrued pension liabilities	253 511	245 676
Value of pension funds	−227 970	−212 303
Employers' tax	3 601	4 706
Pension liabilities in balance sheet	29 142	38 079

Amounts in NOK '000

	2016	2015
Net amounts recorded in the balance sheet incl. Employer's tax		
Net pension commitments (funds) at start of period	38 079	70 301
Net pension costs during period	19 230	22 049
Payments to/carried back from premium fund/transfer to deposit fund	−18 567	−20 448
Estimate variance loss (-gain)	−9 600	−33 823
Net pensions commitment (funds) at end of period	29 142	38 079

Percentage breakdown of pension fund assets:	2016	2015
Shares	9,3 %	6,5 %
Alternative investments	0,0 %	4,1 %
Short-term bonds	12,0 %	13,6 %
Money market	21,8 %	25,1 %
Long-term bonds	31,6 %	33,6 %
Loans and receivables	17,0 %	0,0 %
Property	6,8 %	13,6 %
Other	1,5 %	3,5 %

A premium of NOK 16.3 million with the addition of employers' tax was paid in 2016. Next year's premium is expected to total approx. NOK 18.3 million. The scheme is managed by an insurance company and the composition of the funds is based on the statutory management to which this company is subject. In addition, the calculation uses IR 02 for disability and table K2013BE for mortality. A change in the actuarial assumptions of +/−1 per cent would not have a significant effect on the pension liability recorded in the balance sheet.

The parent company, Color Group AS has a defined contribution pension scheme. NOK 0.4 million was paid into this scheme in 2016, as compared with NOK 0.4 million in 2015. The pension schemes fulfil the statutory requirements applicable to service pension schemes.

NOTE 21 SHARE CAPITAL

The share capital comprises 71 800 000 shares of NOK 2.00 each, total NOK 143.6 million. All shares carry equal rights. ONS Invest II AS owns all the shares of Color Group AS. All the shares of ONS Invest II AS are owned indirectly by Director and Group President Olav Nils Sunde and his family.

NOTE 22 EQUITY, PARENT COMPANY

Amounts in NOK '000

	Share capital	Premium fund	Other equity	Total
Equity 1 Jan. 2015	143 600	1 478 436	245 232	1 867 268
Profit for the year	0	0	102 902	102 902
Group contribution received (paid)	0	0	−146 731	−146 731
Equity 31 Dec. 2015	143 600	1 478 436	201 403	1 823 439
Equity 1 Jan. 2016	143 600	1 478 436	201 403	1 823 439
Profit for the year	0	0	345 313	345 313
Group contribution received (paid)	0	0	−283 583	−283 583
Equity 31 Dec. 2016	143 600	1 478 436	263 133	1 885 170

NOTE 23 DEFERRED TAX

Specification of the taxation effect of temporary differences and carry-forward loss.

Group

Amounts in NOK '000

Liability (benefit)	2016	2015
Operating assets	2 623 702	2 631 604
Intangible assets	7 297	5 051
Financial assets	46 069	−185 548
Profit and loss account	247 200	309 000
Current assets	−12 697	−25 387
Liabilities	−6 099	−73 451
Group contribution	378 111	201 000
Carry-forward loss	−10	−86 027
Disallowed interest deduction for carrying forward	0	−2 742
Total	3 283 573	2 773 499
Deferred tax liability as at 31 Dec.	788 057	696 460
Deferred tax liability in balance sheet as at 31 Dec.	788 057	696 460
Tax rate for calculating deferred tax	24 %	25 %
Tax rate for calculating deferred tax for subsidiary in Denmark	22 %	22 %

Liability, deferred tax (tax asset) recorded via other income and expenses are as follows:	2016	2015
Translation differences	2 830	4 426
Fair value reserves in equity related to bunker fuel hedging	18 051	−36 867
Estimate variance pensions	−6 994	−9 520
Total	13 887	−41 961

The table above includes effects both as a consequence changes in temporary differences and the effect of changes in tax rates.

Parent company

Amounts in NOK '000

Liability (benefit)	2016	2015
Operating assets	−2 421	13 566
Profit and loss account	3 608	4 510
Current assets	−6 186	−19 537
Liabilities	22 546	−43 602
Total	17 547	−45 063
Deferred tax liability as at 31 Dec.	4 211	−11 266
Tax rate for calculating deferred tax	24 %	25 %

The Group will record deferred tax assets and liabilities net only where the Group has a legal right to offset and only in the case of deferred tax liabilities and assets within the same tax regime.

NOTE 24 COST OF TAXES

Group

Amounts in NOK '000

Tax cost	2016	2015
Tax costs for the year		
Tax, Group contribution	54 270	19 829
Tax payable	1 311	664
Change in deferred tax	91 598	−32 056
Tax effect of income and costs	−58 070	−11 395
Other changes, directly recorded tax	374	301
Cost of taxes, ordinary profit	89 483	−22 657
Reconciliation from nominal to actual tax rate		
Ordinary profit	515 639	131 915
Estimated income tax at nominal tax rate	128 910	35 617
Tax effect of following items		
Non-deductible expenses	−11 161	−3 897
Translation differences	636	−1 390
Tax effect of change in tax rate on deferred tax from 25% to 24% (from 27% to 25% for 2015)	−28 902	−50 824
Tax effect of adjustment interest limitation	0	−4 073
Corrections, previous years	0	1 911
Cost of taxes, ordinary profit	89 483	−22 657
Effective rate of taxation	17,4 %	−17,2 %

Parent Company

Amounts in NOK '000

Tax cost	2016	2015
Tax costs for the year		
Tax, Group contribution	94 528	54 270
Change in deferred tax	15 477	−13 640
Cost of taxes, ordinary profit	110 005	40 630
Reconciliation from nominal to actual tax rate		
Pre-tax profit	455 317	143 532
Ordinary profit	455 317	143 532
Estimated income tax at nominal tax rate	113 829	38 754
Taxation effect of following items		
Non-deductible items	−3 649	2 026
Tax effect of change in tax rate on deferred tax 25% to 24% (from 27% to 25% for 2015)	−175	901
Corrections, previous years	0	−1 051
Cost of taxes, ordinary profit	110 005	40 630
Effective rate of taxation	24,2 %	28,3 %

The M/S Color Magic passes Dyna Lighthouse in the approach to Oslo.

NOTE 25 BANK

Color Group AS is a group account holder. The Group companies' bank accounts that are included therefore represent an intercompany receivable/payable. All represented companies stand surety for intercompany balances in respect of the legal Group account.

NOTE 26 EARNINGS PER SHARE

Earnings per share is calculated using the profit for the year and the average number of shares outstanding during the year.

Amounts in NOK '000

	2016	2015
Profit for the year after tax	426 156	154 572
Weighted average, number of shares	71 800 000	71 800 000
Earnings per share NOK	5,94	2,15

NOTE 27 INVESTMENT IN ASSOCIATE COMPANY

Color Groups AS' wholly-owned subsidiary, Color Line AS, has the following investments in an associate.

Amounts in NOK '000

Entity	Country	Stake	Balance sheet value 31.12.2015	Share of profit 2016	Amort goodwill	Translation diff. 2016	Divided 2016	Balance sheet value 31.12.2016	Fair value
ONS Ship Finance AS	Norway	38,6 %	381 681	30 113	0	0	0	411 794	411 794

ONS Ship Finance AS is an unlisted company and no quoted prices are available. Fair value is based on a valuation conducted in connection with reorganisations in December 2012 as well share of profits during the ownership period. Color Line AS acquired 38.6% of ONS Ship Finance AS in 2012 for NOK 390 million. ONS Ship Finance AS owns Kristiansand Line AS and Oslo Line AS, owners of M/S SuperSpeed 1 and M/S SuperSpeed 2, respectively.

NOTE 28 EVENTS AFTER THE REPORTING DATE

In February, Color Line signed a contract with shipbuilders Ulstein Verft for the building of the world's largest plug-in hybrid ship. The vessel uses new technological solutions designed to reduce emissions by charging the onboard batteries via a power cable from a shore-based power facility or using the ship's generators. With a shore-based power supply in place in Sandefjord, all the Norwegian ports used by Color Line ships will be equipped with this form of power supply. The ship will operate entirely on battery power when sailing down the fjord leading into and out of the inner harbour at Sandefjord and will therefore not release emissions of harmful greenhouse gases or nitrogen or sulphur compounds into the air in the vicinity of the town.

The newbuilding contract formed part of the tendering competition for the awarding of sailing times from Sandefjord. The delivery date for the new vessel is 31 May 2019, which means that the ship will be ready for the high season of the Sandefjord to Strømstad service.

It is planned that the newbuilding will be purchased with the aid of ECA financing over a 12-year period from the delivery date. Color Group AS has received committed guarantees/structure offers from GIEK (the Norwegian Export Credit Guarantee Agency) and DnB Bank for a guaranteed 80 per cent (approximately NOK 1 billion) of the total project. It is planned that the transaction should be financed by Export Credit Norway. The financing will have a covenant structure equivalent to corresponding loans raised by the company.

The world's largest car-carrying cruise ship, seen in perspective

Corporate Governance

Color Group AS reports its policies and practice with regard to corporate governance in accordance with Section 3-3b third paragraph of the Accounting Act.

Reporting on corporate governance
The company's general principles on corporate governance shall ensure an appropriate distribution of roles between the company's owners, directors and the management of the Group. This distribution of roles shall ensure that goals and strategies are set, that the adopted strategies are implemented in practice and that the profits achieved are measured and followed up. The principles shall also contribute towards ensuring that the business of the company is the subject of satisfactory control procedures. An appropriate distribution of roles and satisfactory control procedures shall contribute to ensuring the highest possible creation of value over time, for the benefit of the owners and other stakeholders.

Equity, equal treatment of shareholders and the powers of the board of directors
Color Group AS has one class of shares and all shares carry equal rights in the company. The articles of association contain no restrictions on voting rights. All transfers of shares are conditional upon the consent of the Board of Directors of the company. The General Meeting has not granted powers giving the Board of Directors the authority to adopt capital changes or to purchase treasury shares.

The composition of the Board of Directors and its independence
Provisions on the composition of the Board of Directors are included in the articles of association of the company, according to which the Board shall comprise between three and eight directors. The Board comprises four directors.

The work of the Board of Directors
The Board has the overall responsibility for managing the company. The Board monitors and ensures that the company's internal control procedures are satisfactory.

The company's Audit Committee is responsible for implementing this and reports to the Board. The areas of focus of the Audit Committee are:
- financial reporting
- internal control procedures
- risk management

The Audit Committee comprises two members elected by and from amongst the ranks of the directors. The members of the Audit Committee are independent of the company's day-to-day management and key business associates.

Risk management and internal control procedures
The Board ensures that the company has satisfactory internal control procedures in place in accordance with the provisions applicable to the business. The Board conducts an annual review of the company's internal control procedures and monitors the main areas of risk on an on-going basis. Together with the management of the company, the Board has focused on developing the internal control procedures applicable to the company's financial reporting, including:
- the control environment
- risk assessment
- control activities
- information and communication
- follow-up

The Board receives periodic reports on the financial performance of the company and a description of developments in and the status of the company's most important individual projects.

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Declaration by the Management

We hereby declare that to the best of our knowledge, the consolidated accounts for 2016 have been prepared in accordance with IFRS, as stipulated by the EU and include the submission of additional information pursuant to the provisions of the Accounting Act (Norway), and that the Annual Financial Statements for the parent company for 2016 have been prepared in accordance with the Accounting Act and generally accepted accounting practice in Norway, and that the information in the accounts provides a true and fair view of the assets and liabilities, financial position and result of operations of the Enterprise and the Group, and that the Annual Financial Statements provide a correct review of developments, result and position of the Enterprise and the Group, together with a description of the main risks and uncertainty factors facing the enterprises.

Oslo, 30 March 2017

Morten Garman	Olav Nils Sunde	Alexander Sunde	Bjørn Paulsen
Chairman of the Board	Director/Group President	Director	Director

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Translation from the original Norwegian version

To the General Meeting of Color Group AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Color Group AS. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the statement of financial position as at 31 December 2016, and the total comprehensive income for the year, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included 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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IT systems and IT-dependent controls related to the accounting of the Group's ticket revenues

Key audit matter	How the matter was addressed in the audit
We refer to notes 1 and 7 of the financial statements for a description of accounting	To address this key audit matter, we performed the following audit procedures:

Registrert i Foretaksregisteret
Medlemmer av Den norske Revisorforening
Organisasjonsnummer: 980 211 282

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IT systems and IT-dependent controls related to the accounting of the Group's ticket revenues (continued).

Key audit matter	How the matter was addressed in the audit
policies and other relevant information related to ticket revenues. The group uses a complex booking system with a high degree of customization for Color Group's business. Proper accounting of ticket revenue in the consolidated financial statements is dependent on the integrity of data and reports produced by the group's IT systems, as well as the effectiveness of IT-dependent controls in the central accounting processes. The design of general and automated IT-dependent controls related to financial reporting of ticket revenues and that these controls operate effectively is material to ensure accurate, complete and reliable financial reporting and is therefore a key audit matter.	• We have assessed and tested the design of the central IT-dependent controls relevant to the accounting of ticket revenues. For a sample of these controls, we tested whether they were operating effectively during the period The control activities we considered and tested were related to program development and change, access controls and embedded application controls, including controls related to interfaces between the various IT applications. We used our own IT specialists when evaluating and testing these controls.

Assessment of the carrying value of goodwill

Key audit matter	How the matter was addressed in the audit

We refer to notes 1, 4 and 9 for a description of accounting policies and other relevant information relating to goodwill.
 	
Per 31.12.2016, the carrying value of goodwill amounted to NOK 671 301 thousands.
 	
The carrying value of goodwill is reviewed at least annually for permanent impairment per cash generating units. Management's annual impairment testing is based on estimation of recoverable amounts for the cash generating units.
 	
Such estimations are based on management's judgments on important assumptions applied, such as future cash flows and appropriate discount rates. Assessment of the carrying value of goodwill is therefore a key audit matter.
	To address this key audit matter, we performed the following audit procedures:
	• We have assessed and challenged management's assumptions, including:
	  • We tested the methodology applied to estimate recoverable values against the requirements of IAS 36, Impairment of assets
	  • We assessed the appropriateness of cash generating unit identification
	  • We assessed management's assumption regarding future activity levels and planned operational measures and whether these are properly reflected in projections of future cash flows
	  • We compared key assumptions relating to the discount rate and growth rate against historical data as well as external data where such data were available
	  • We tested the mathematical accuracy of management's impairment testing
	• We reviewed management's sensitivity analysis related to the testing of impairment of goodwill
	• We used Deloitte valuation specialists in our audit of the carrying value of goodwill.
	• We have considered whether the information in Note 9 to the financial statements comply with the disclosure requirements in IAS 36

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Other information

Management is responsible for the other information. The other information comprises the Annual report, but does not include the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Group 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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 laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (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. We 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.

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- 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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and on statements on Corporate Governance and Corporate Social Responsibility

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 and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption is consistent with the financial statements and complies with the law and regulations.

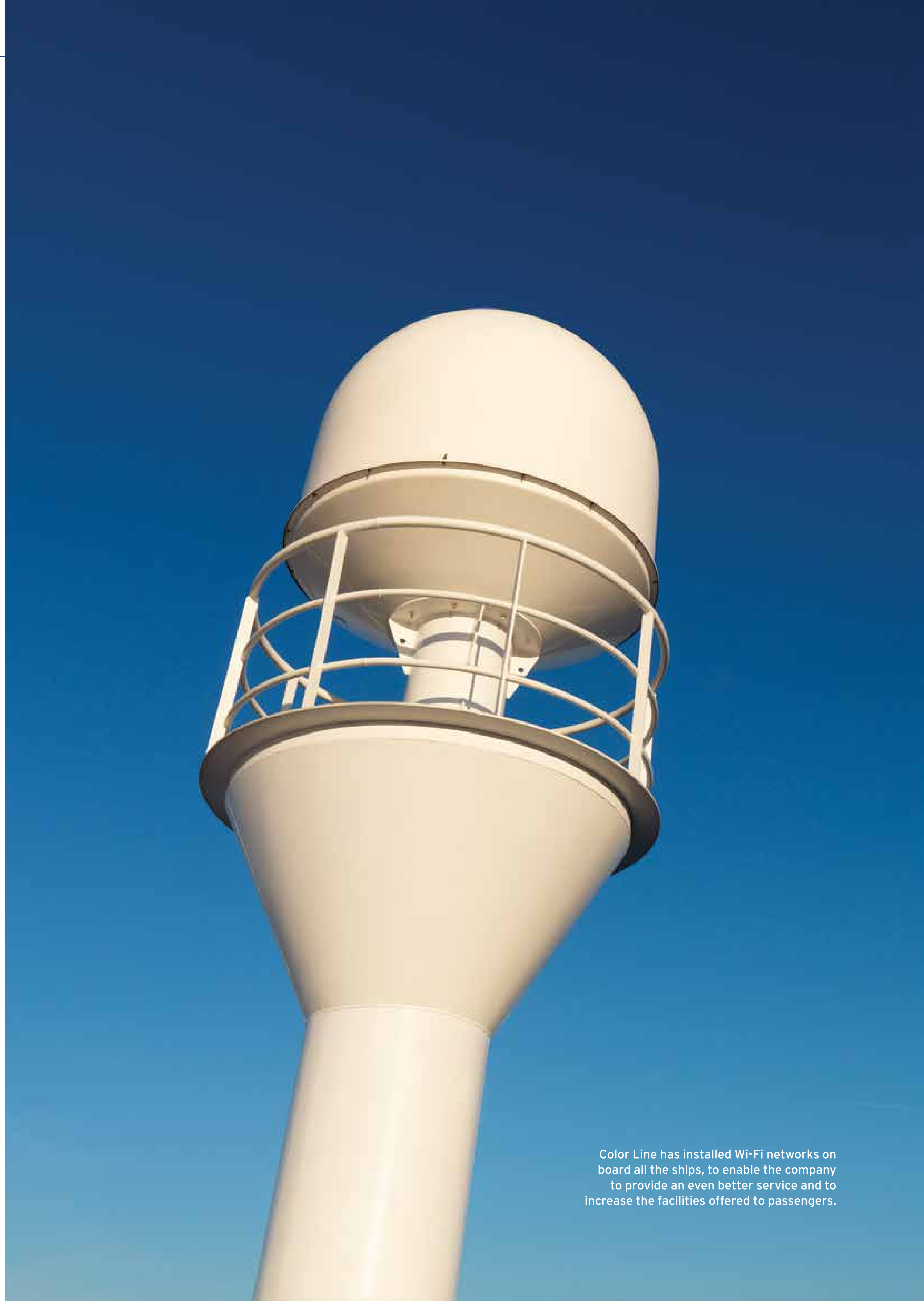
Opinion on Registration and Documentation

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 produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30 March 2017
Deloitte AS

Torgeir Dahle
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only



Color Line has installed Wi-Fi networks on board all the ships, to enable the company to provide an even better service and to increase the facilities offered to passengers.

Color Lines crossings and destinations

KRISTIANSAND-HIRTSHALS
M/S SuperSpeed 1
Year built: 2007,
Aker Yards, Rauma, Finland
Home port: Kristiansand
Tonnage: 36 822 GRT
Length: 211.3 metres
Beam: 26 metres
Draft: 6.5 metres
Class: Det Norske Veritas
Max. capacity: 2 315 persons
Passenger cars: 764
Trailers lane metres: 2 036

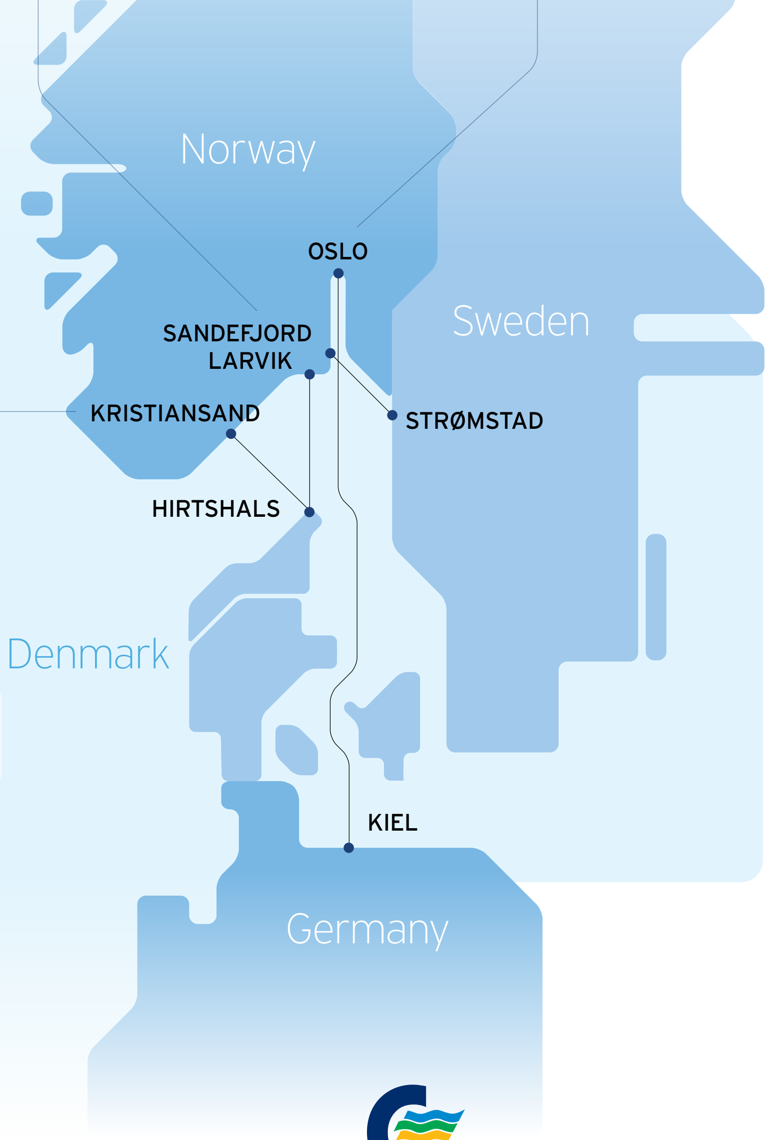
SANDEFJORD-STRØMSTAD
M/S Color Viking
Year built 1985,
Nakskov, Denmark
Home port: Sandefjord
Tonnage: 19 763 GRT
Length: 137 metres
Beam: 24 metres
Draft: 5.64 metres
Class: Det Norske Veritas
Max. capacity: 1 720 persons
Passenger cars: 350
Trailers lane metres: 490

SANDEFJORD-STRØMSTAD
M/S Bohus
Year built 1971,
Aalborg, Denmark
Home port: Sandefjord
Tonnage: 9 149 GRT
Length: 123.4 metres
Beam: 19.2 metres
Draft: 5.4 metres
Class: Det Norske Veritas
Max. capacity: 1 165 persons
Passenger cars: 230
Trailers lane metres: 462

OSLO-KIEL
M/S Color Fantasy
Year built: 2004,
Aker Yards, Turku Finland
Home port: Oslo
Tonnage: 75 027 GRT
Length: 224 metres
Beam: 35 metres
Draft: 6.8 metres
Class: Det Norske Veritas
Max. capacity: 2 700 persons
Passenger cars: 750
Trailers lane metres: 1 270

OSLO-KIEL
M/S Color Magic
Year built: 2007,
Aker Yards, Turku Finland
Home port: Oslo
Tonnage: 75 100 GRT
Length: 224 metres
Beam: 35 metres
Draft: 6.8 metres
Class: Det Norske Veritas
Max. capacity: 2 700 persons
Passenger cars: 550
Trailers lane metres: 1 270

LARVIK-HIRTSHALS
M/S SuperSpeed 2
Year Built: 2008,
Aker Yards, Rauma, Finland
Home port: Kristiansand
Tonnage: 35 500 BRT
Length: 211.3 metres
Beam: 26 metres
Draft: 6.5 metres
Class: Det Norske Veritas
Max. capacity: 1 929 persons
Passenger cars: 764
Trailers: lane metres: 2 036



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CG-CA17-01 Annual Report **Photo:** Arild Danielsen, Jacqueline DuBois, Jon Andersen, Michael Damsgaard, Vibeke Scheel Aubert, Color Line AS **Print:** 07 Media