

ANNUAL REPORT | 2017

Note: This translation of the annual report from Norwegian has been prepared for information purposes only.
The official, audited annual report has been prepared in Norwegian only.



ARENDAALS FOSSEKOMPANI

is an industrial and financial corporation based on local power production. We aim at developing companies with international potential, and we do that by exercising long-term, active and responsible ownership.

The corporation has a decentralized management model where we towards subsidiaries offer core industrial competence and financial strength in the pursuit of strategic development and operational excellence. We believe this creates superior value to our shareholders, employees, customers and society as a whole.

TABLE OF CONTENTS

Arendals Fossekompni ASA, Group	3
Highlights 2017	4
Comments from the CEO	5
Board of Directors Report for 2017	6
Parent Company	
– Power generation and Financial Portfolio	9
EFD Induction	10
Cogen Energia	11
NSSL	12
Powel	13
Scanmatic	14
Tekna	15
Markedskraft	16
Real Estate	17
Statement of income	18
Balance sheet	19
Statement of changes in equity	20
Cash Flow Statement	21
Notes	22
Auditor's Report	55
Declaration by the members of board and CEO	60
Corporate Governance	61
Main Financial Figures	65
General Meeting	66
RISK-Amount	66
Capacity and Performance	67

Notes to the annual and consolidated accounts

1 Reporting by segments	14 Accounts receivable and other receivables
2 Other operating income	15 Cash and cash equivalents
3 Acquisition of subsidiaries	16 Financial risk management / financial instruments
4 Salaries, remunerations and other employee benefit	17 Interest-bearing loans and borrowings
5 Property, plant and equipment	18 Accounts payable and other short-term obligations
6 Intangible assets	19 Operational and financial leases
7 Other operating expenses	20 Events after balance sheet date
8 Financial income and expenses	21 Accounting estimates and assessments
9 Tax	22 Earnings per share in NOK
10 Equity	23 20 largest shareholders
11 Group structures	24 Related parties
12 Other receivables and investments	25 Discontinued operations
13 Inventories	

ARENDAKS FOSSEKOMPANI ASA, GROUP

Arendals Fossekompani ASA is an industrial investment group holding 10 main investments and a portfolio of financial investments. In total, the group employs more than 2,100 employees. The Group operates in several different industries and is represented in 24 countries through its subsidiaries.

Arendals Fossekompani ASA sold all its shares in Glamox AS in December 2017. The Group's revenues from continued operations at the end of 2017 amounted to MNOK 4,427 with an EBITDA result of MNOK 488.

The parent company operates three hydro power stations, manages its subsidiaries through long-term and active ownership, as well as managing its financial investments. The management of AFK holds positions as chairman of the board and/or board members in the subsidiaries in the group.



Of the current subsidiaries, Markedskraft was the first to enter the group back in 1992, as a natural extension of power generation that the company is based on. The next company joined the group in 2004, Scanmatic, of which AFK acquired approximately 60 % of the shares. This acquisition also had direct relevance to the group's power activities due to Scanmatic, among other things, providing hydrological stations for monitoring water inflow and precipitation in the hydropower system. Scanmatic has grown significantly in recent years, including through the establishment of the subsidiary Scanmatic Elektro which provides installation, electrical contracting and construction of technical infrastructure.

Arendals Fossekompani was an early investor through minor shareholdings in several companies, such as Glamox in 1989, WWMC (now NSSL) in 2000 and Norsk Vekst in 1996. At the Glamox Group and Norsk Vekst, AFK also participated in the financing of the companies through convertible bonds. In the years 2000 and 2006, AFK used the conversion of bonds to gain a holding of 49.9 % in Glamox, and close to 40 % in Norsk Vekst. This commenced the industrial expansion of AFK.

After bidding on all shares in the company, Norsk Vekst became a wholly-owned subsidiary of AFK in 2007. Among other things, this led to 49.5 % ownership in Cogen, 46 % ownership in EFD and 41.3 % ownership in Powel. Norsk Vekst merged with AFK in 2008.

Cogen is a company based in Spain that owns and operates combined heat and power plants. Surplus heat from gas-based electricity generation produces heat, steam or cooling for industrial partners. Cogen became an associated company through the purchase of Norsk Vekst in 2007, and the remaining shares were acquired in 2011.

EFD Induction, which is a global company based on transistor technology developed in Norway, became a subsidiary through a merger with Norsk Vekst in 2008. Among other things, the company delivers high-power induction generators used in various industrial applications. It was through this technology that the company positioned itself towards Tekna Plasma Systems in Canada.

Tekna Plasma Systems is a high-tech company that manufactures systems, equipment and material powder based on patented plasma technology. Tekna's headquarters are in Sherbrooke, Canada. EFD Induction acquired 49 % of the shares in Tekna in 2008, with an option to purchase the remaining shares. In 2013, AFK exercised the option and bought out the other owners. During 2014, Tekna became a wholly-owned subsidiary of AFK after the remaining shares were purchased from EFD.

Powel is a company that delivers business-critical software to the energy sector, to the water and sewage industry, and to contractors. Powel became an associated company through the purchase of Norsk Vekst in 2007, and additional purchases of shares triggered a mandatory offer on the remaining shares. As a result, the company became a subsidiary in 2009.

NSSL was one of the earliest investments in AFK. The company supplies equipment and services for satellite-based communication to the public and private sectors. The first shares in the company were acquired in 2000, and additional purchases in 2006 brought AFK up to 50 % ownership. The remaining shares were purchased in 2010 and 20 % were thereafter sold to management, which brought AFK's ownership stake to its current 80 %.

Glamox is a global company in the field of lighting that provides complete solutions for buildings in the public and private maritime sectors. Glamox was an associated company through the conversion of bonds in 2006, and became a subsidiary in 2012. Arendals Fossekompani ASA sold its shares in Glamox AS in December 2017 (the equivalent of 75.16 % of outstanding shares) to funds advised by Triton.

HIGHLIGHTS 2017

The Group obtained a profit after tax on ordinary activities in 2017, but before minority interests, amounting to MNOK 2,500. On 11 December 2017, Arendals Fossekompani ASA sold all its shares in Glamox AS (worth 75.16% of outstanding shares) to funds advised by Triton. The transaction was MNOK 2,762 and allowed the Group to record gains of MNOK 2,192 for the period. Figures for Glamox is withdrawn from Group figures, and shown on separate lines in the Income Statement and Balance Sheet as Discontinued Operations (see Note 25). After this sale, Arendals Fossekompani ASA paid an extraordinary cash dividend in December amounting to NOK 420 per share, a total of MNOK 919.

For continued operations but before minority interest, the ordinary profit after tax was MNOK 99, compared to MNOK 301 in 2016. Profit before tax for continued operations ended at MNOK 186, compared to MNOK 375 in 2016. The reason for the difference in profit before tax compared with the previous year is primarily due to foreign currency exchange differences, as well as distribution of extraordinary dividends from financial holdings in 2016. Operating profit for continued operations was MNOK 265, compared to MNOK 240 in 2016. Including currency exchange differences, changes in the value of financial assets available for sale, minority interests and other recognised income and costs, comprehensive income for continued operations for the year amounted to MNOK 372, compared to MNOK 196 in 2016.

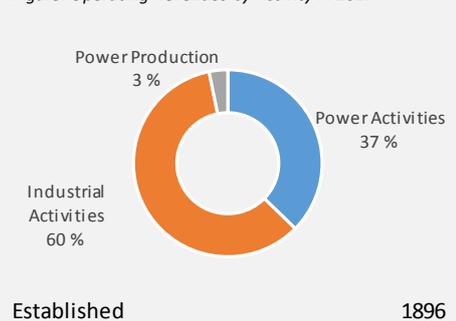
The Group had a positive year with growth in revenues and operating profits for the continued operations. The main contributors to the growth in the period were EFD Induction, Cogen and the parent company's power-generating unit. Arendals Fossekompani bought out minority shareholders in EFD Induction in 2017, thereby increasing its shareholding in the company from 70% to 97%. After the sale of the shares in Glamox AS, the Group's financial capacity was significantly strengthened, becoming virtually debt free at the end of 2017.

The parent company's financial portfolio achieved a return of 14.9% in 2017 and amounted to MNOK 2,301 at the end of the year.

The board of directors at Arendals Fossekompani ASA proposes a distribution of dividends for 2017 in the form of its shareholdings in Kongsberg Gruppen ASA. Arendals Fossekompani ASA owns 9,552,796 shares in Kongsberg Gruppen ASA, the equivalent of 7.96% of the shares in the company. Subject to shareholders' approval, 4.36 shares in Kongsberg Gruppen ASA will be distributed for each share owned in Arendals Fossekompani ASA, rounded down to the nearest whole number of shares. The rounding down to the nearest number of whole shares will be compensated with a cash payment equal to the value of the current fraction.

Financial Facts, MNOK	2017	2016	2015
Continued Operations			
Operating Revenues	4 427	4 014	3 588
EBITDA	488	448	503
EBITDA margin	11 %	11 %	14 %
Net Profit	99	301	271
Operating Cashflow	402	293	428
NIBD	105	1 915	1 816
Equity	4 386	3 181	3 139
Equity Ratio	51 %	41 %	40 %

Figure: Operating Revenues by Activity in 2017



Chairman Øyvind Brøymer

www.arendalsfoss.no

CEO

Jarle Roth

Apart from Tekna, all subsidiaries in AFK are reporting a positive EBITDA result in 2017. Further details for each company can be studied closer at the following pages.



COMMENTS FROM THE CEO

Arendals Fossekompani ASA is an industrial investment group that owns and operates three hydro power stations in the Arendal area, in addition to holding a substantial portfolio of both industrial and financial investments. After the sale of Glamox AS, the Group's continued operations has a turnover of more than MNOK 4,400, with more than 2,100 employees in 24 countries via its subsidiaries.

The Group ended the year with higher revenues and earnings compared to the previous year. The development has been positive in most of the Group's subsidiaries. 2017 was a good year for Arendals Fossekompani. Operating revenues increased by 10% and most of the subsidiaries took part in this growth. EBITDA ended 9% better than 2016 for the Group's continued operations, while operating profit ended 10% better. The financial portfolio achieved a return of 15% in 2017 with the portfolio's carrying value amounting to MNOK 2,301 at the end of the year.

		Operating Revenues	EBITDA	Operating Cashflow
Key Operational Figures	AFK parent	141	71	77
	EFD	1 158	113	62
	Cogen	938	74	56
	NSSL	774	154	123
	Powel	591	49	34
	Scanmatic	574	41	-14
	Tekna	124	-18	-6
	Markedskraft	121	5	66
Key Financial Figures		Dividend Income	Gains on Transactions	Financial Result
	AFK parent	431	2.323	2.624

Figure: Key performance indicators for operations and finance in 2017 in MNOK

Strengthened organisation and network. Our ownership model is decentralised where the board and management of our subsidiaries have great freedom to form the future of their respective companies. Key personnel from AFK management is always represented on the board of the subsidiaries and contributes with knowledge, network and a genuine interest in the companies. Several changes have been made at the management level in AFK in 2017 with 3 new persons being hired at the main office. Capacity, expertise and focus are now better adapted to our portfolio of companies. This is a continuing process and expanding the network is a focus area for us when entering 2018.

Increased financial capacity. New and more flexible credit facilities were established with the Group's main banks in the spring of 2017. In December, the successful sale of Glamox realized significant values. Glamox is an excellent example of how a company with good management can develop positively under stable and long-term ownership. Healthy growth and good operations increases value over time for the society, customers, employees and shareholders.

A good year for the shareholders. AFK shareholders enjoyed solid returns in 2017 through dividends and share price increase. Total return for 2017 was 23%. The ownership structure makes AFK a share with limited liquidity, but interest in the company has increased due to higher visibility and a shareholder-friendly approach. This is positive. We would like to mention that AFK is the second oldest share at the Oslo Stock Exchange. The company was listed in 1913 and only Hydro has been listed longer.

Sharpened strategy going forward. By selling Glamox and offering the AFK shareholders its shares in Kongsberg Gruppen ASA as dividends, we have now a more balanced portfolio. With a stronger organisation and greater financial freedom, the focus will now be to define the right level of ambition for our subsidiaries. Solid operations will always be the foundation of our ownership philosophy, but the bar can be raised somewhat higher when it comes to acquisitions, new projects and strategic cooperation. The future looks bright and we see many opportunities to strengthen our position in selected segments and markets.

We are pleased with our achievements in 2017 and we are looking forward to develop AFK going forward.

Jarle Roth

CEO

BOARD OF DIRECTORS REPORT FOR 2017

Main Developments in 2017

The parent company owns and operates three hydro power stations in the Arendal area, in addition to holding industrial and financial investments. The headquarters are in the Municipality of Froland, while the main offices for the group are in Arendal.

The Arendals Fossekompani ASA Group (continued operations) obtained revenues in 2017 of MNOK 4,427 (4,014). Operating profits were MNOK 265 (MNOK 240). Profit after tax was MNOK 99 (MNOK 301). Ordinary profits including discontinued operations for 2017 reached to MNOK 2,500 (MNOK 476).

At the end of 2017, the Group had an equity of MNOK 4,386 (MNOK 3,181). This constitutes an equity ratio of 51%, an increase from 41% in 2016. The Group complied with loans terms and covenants with a good margin.

For the parent company, operating revenues for 2017 amounted to MNOK 141 (MNOK 113). Operating profit was MNOK 65 (MNOK 38). Profit after tax was MNOK 2,671 (MNOK 328). The improvement in profits is primarily due to gains from the sale of Glamox, of MNOK 2,323.

The parent company's financial investments, which include cash and cash equivalents, listed and unlisted investments amounted to MNOK 4,007 (MNOK 2,113) at year end.

Our Investments

Subsidiaries – 2017 and Prospects

- EFD Induction delivers advanced heating systems based on induction technology for the engineering industry throughout the world. This entity had profits in 2017 of MNOK 1,158, compared to MNOK 1,031 in 2016. Ordinary profit after tax was MNOK 54 (MNOK 26). EFD expects positive developments in turnover and earnings for 2018 compared to 2017.
- Cogen Energia operates its own and third-party combined heat and power plants. The entity had a turnover in 2017 of MNOK 938, compared to MNOK 488 in 2016. Ordinary profit after tax was MNOK 47 (MNOK 0). For 2018, Cogen expects to see growth in the number of customer contracts that will increase turnover, whilst anticipated lower power prices give indications for weaker results than for 2017.
- NSSL is a system integrator and service provider of mobile, satellite-based communications solutions to the public and private sectors. The entity had a turnover in 2017 of MNOK 774, compared to MNOK 902 in 2016. Ordinary profit after tax was MNOK 77 (MNOK 87). NSSL expects increased revenues, but increased costs are expected to provide the same results in 2018 as 2017.
- Powel develops and delivers business critical IT solutions and services. Powel had a turnover in 2017 of MNOK 591, compared to MNOK 560 in 2016. Ordinary profit after tax was MNOK -34 (MNOK 9). Negative results are due to amortisations related to intangible assets for Powel AG in Switzerland. For 2018, Powel expects revenues and earnings (adjusted for amortisation) to improve compared to 2017.
- Scanmatic produces technical infrastructure and instrumentation and control systems. The entity had a turnover in 2017 of MNOK 574, compared to MNOK 659 in 2016. Ordinary profit after tax was MNOK 30 (MNOK 44). For 2018, Scanmatic expects earnings to remain at the same level as 2017, while results are expected to be somewhat better.
- Tekna manufactures systems and equipment for production of spherical micro and nanoparticles of various metals based on the use of plasma generated by electrical induction. The entity had a turnover in 2017 of MNOK 124, compared to MNOK 125 in 2016. Ordinary profit (loss) after tax was MNOK -32 (MNOK -13). This year's negative result is a consequence of the development phase with a high rate of investment. Tekna expects a higher turnover in 2018 and better results compared to 2017.
- Markedskraft offers services in many parts of the value chain, including fundamental market analysis, consulting, risk management, physical handling and financial portfolio management. The entity had a turnover in 2017 of MNOK 121 compared to MNOK 130 in 2016. Ordinary profit after tax was MNOK 3 (MNOK -4). The company carried out some structural changes in December 2017, including the demerger of the business area MKonline to a new company, Wattsight AS.

A Review of the Annual Accounts

In the board's opinion, the annual financial statements are a correct description of the company's and the group's position at the end of the year. There are no significant uncertainties in the annual accounts, and there are no other extraordinary circumstances that have affected the accounts. The board confirms that the going concern assumption is present.

Board of Directors

There have been no changes at the board of directors throughout the year.

Personnel, Gender Equality, Working Environment and the Natural Environment

There were 22 employees at the parent company by the end of the year. Of these, three were women. Employment relationships are characterised by continuity and stability. The company aims to improve the balance between genders. The board of directors currently consists of three women and four men. The working environment in the group is considered good. The parent company has a committee that deals with questions related to environment, health and safety (EHS). The committee has representatives from staff and management. Several minor measures were implemented aimed at safety and environmental improvements.

The sick leave for the parent company was 107 days, which corresponds to 2.12 % of total working hours. Non-work-related long-term sick leave for one employee amounted to 42 days. Without this, absence due to illness was 1.29 %. There were no accidents or personal injuries in 2017 of significance at the parent company. There has not been any material damage worth noting.

Sick leave in the EFD Group was 2.59 % in 2017, compared to 2.73 % in 2016. During 2017, the Group had 2 work-related accidents that resulted in injuries with absence in Norway and Germany. There was a total of 14 days of absence due to injuries. The corresponding figures for 2016 were 5 accidents and 39 days.

Sick leave at Cogen for 2017 amounted to 84 days spread over 5 employees, of which 1 had a long-term illness of 59 days. There were 2 accidents in 2017, but they did not cause sick leave. The corresponding figures for 2016 were 4 accidents and 18 days of sick leave.

The sick leave at NSSL was 404 days in 2017. This amounted to 1.27 % absence due to illness. The corresponding figures for 2016 were 573 days equalling 1.45 %.

Total absence due to illness at Powel amounted to 2.57 % in 2017, compared to 2.1 % in 2016. Long-term sick leave amounted to 1.03 % and short-term absence accounted for 1.54 %.

Sick leave for the Scanmatic Group was 2.65 % in 2017, compared to 2.96 % in 2016.

Sick leave at Tekna was 549 days in 2017. This amounted to 1.62% absence due to illness. The corresponding figures for 2016 were 252 days, which amounted to 1.05 %. Long-term sick leave for 2017 was 44 days, corresponding to 0.13 %.

Sickness absence at Markedskraft was 2.6 % in 2017, compared to 2.6 % in 2016. No injuries were reported in 2017.

The Group's subsidiaries also have environment, health and safety committees and other collaborative entities that comply with national legislations.

The parent company's operations only affect the natural environment negatively to a limited extent, in the form of emissions into water and air. On the other hand, the company works specifically with renewable hydropower, which is environmental friendly.

Operations at the Group's other entities involve little risk of pollution into the natural environment. To the extent that such a risk exists, measures are implemented in line with national laws and policies to prevent any negative environmental impact.

Efforts to Promote and Improve Anti-Discrimination Work According to the Anti-Discrimination and Accessibility Act

The Group is committed to promoting equality in all areas and works to prevent discrimination on the grounds of race, ethnic origin, religion or disabilities.

Research & Development

There was significant R&D activity at EFD, Powel and Tekna.

In 2017, development costs at EFD amounted to MNOK 31.9 (MNOK 25.7) for in-house projects to develop new converters and induction plants.

For Tekna, R&D costs amounted to MNOK 16.3 (MNOK 9.3) in 2017.

Powel capitalized MNOK 38.9 (MNOK 38.6) in 2017 to develop new software products. The company also recorded development costs of MNOK 67.7 (MNOK 72.9) in 2017.

Markedskraft capitalized MNOK 3.4 (MNOK 3.0) in 2017. The company recorded development costs of MNOK 4.6 (MNOK 5.1) in 2017.

Ethics and Corporate Social Responsibility

Arendals Fossekompani has prepared a separate report for this, in accordance with the Norwegian Accounting Act (Section 3.3 regarding corporate social responsibility (CSR). The report is available on the company's website.

Our Report on Corporate Social Responsibility explains work and policies throughout the group in the areas of human rights, labour rights and social conditions, the environment and combating corruption. The report includes statements from each sub-group.

Arendals Fossekompani sets high ethical standards, and communications with the public should be open, clear and honest. The company has a responsibility to ensure a safe and good workplace in the local communities where we are present. AFK seeks to create value for society, customers, employees and owners. For many years, the parent company has based its activities on the exploitation of local natural resources, and therefore wants to contribute to value creation and social development in the Arendal region. The same applies to our subsidiaries in their local communities. The company supports the Arendalsuka, TEDx, Arendal Jazz and Blues Festival Canal Street, in addition to various initiatives for children and young people within sports and culture.

IFRS

Arendals Fossekompani has prepared financial statements for the parent company and the group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Shareholders

This year, a total of 22,847 (62,937) shares worth 1.0% of all outstanding shares were sold. The company owned itself 50,852 shares, equalling 2.3% of all outstanding shares, as of 31.12.17.

The board of directors will propose that the general assembly renew the board's authorisation to purchase own shares, within a comprehensive framework of 10 % and at a price interval from NOK 100 to NOK 5,000.

The share price started the year at NOK 2,964, compared to NOK 3,130 at the end of the year. The increase in value for 2017, including dividends of NOK 515 per share, amounted to 23% (42%).

Financial position

The parent company's and group's financial position is good. The board assumes that there is a good basis for growth in the parent company's and group's assets.

Risks and Uncertainties

The Group is exposed to foreign exchange risk, credit risk, market risk and liquidity risk from operations and the use of financial instruments. These conditions are described in detail in Note 16 in the annual accounts.

Allocation of Profits

Accounting profits at Arendals Fossekompani ASA amounted to NOK 2,671,470,419. The board of directors proposes that profits be allocated in the following way:

Dividends paid at 4.36 shares in KOG per share in AFK (9,552,105 x 151.20) *	NOK	1,444,278,276
Cash from dividend transaction:	*	NOK 104,479
From other funds (1,444,382,755 – 278,283,114)	*	NOK -1,166,099,641
To other equity	NOK	2,393,187,305
Total allocated	NOK	2,671,470,419

Lines marked with * will be amended to the price of KOG shares at the Annual General Assembly Meeting on 26 April.

Froland, 21 March 2018

Øyvinn A. Brøymer
Chairman

Morten Bergesen
Deputy Chairman

Didrik Vignæs

Arild Nysæther

Marianne Lie

Heidi Marie Petersen

Marianne Sigurdson Lyngvi

Jarle Roth
CEO

PARENT COMPANY – POWER GENERATION AND FINANCIAL PORTFOLIO

The parent company operates the power stations in the Arendal area and manages the industrial and financial holdings of the group. Operations are streamlined and developed within the framework of social responsibility and the company's profitability requirements. The management of AFK is based on active ownership in subsidiaries, managing financial investments and managing real estate investments.

The parent company had a turnover of MNOK 141 in 2017, compared to MNOK 113 in 2016. EBITDA for the parent company was MNOK 71 (MNOK 45). Ordinary profit after tax was MNOK 2,671 (MNOK 328). The change in profit before tax from the previous year is mainly due to gains from the sale of the shares in Glamox AS. The transaction allowed the parent company to record a gain of MNOK 2,323 (see Note 25).

Dividends from subsidiaries and associated companies contributed with MNOK 372, compared to MNOK 149 in 2016. The company received MNOK 59 (MNOK 118) in dividends from financial investments. The parent company recorded losses on loans in foreign currencies of MNOK 64 in 2017. All revenues associated with the financial portfolio were recognised as financial income.

Power Generation

Gross power generation for 2017 was 515 GWh (486 GWh). Total net revenue from the sale of power amounted to MNOK 137 (MNOK 109), of which the sale of spot power was MNOK 132 (MNOK 104). Average electricity prices in the spot market (ref. Arendal) ended at 28.8 øre/kWh (23.3) for 2017, while the company achieved an average price of 26.9 øre/kWh (22.9) in this market.

Normal maintenance work was done on the power plants. Costs for maintenance work was MNOK 5.7 compared to MNOK 6.9 in 2016. Plant operations continued without any significant accidents or injuries. There were two major flooding events along the Arendalsvassdrag water course in the autumn of 2017, without the facilities or operations being significantly affected.

Kilandsfoss AS, of which AFK and the municipalities of Åmli and Froland each own 1/3, received a concession in March 2013 to build the Kilandsfoss power plant, located midway between Bøylefoss and Flatenfoss with a planned performance of 6.8 MW. Further permission was given for the acquisition of water rights, as well as necessary permits to expropriate land, and other rights. The assessment to update older plants continues before any final decision will be made to start construction work.

The Bøylefoss power plant has 8 turbines of varying age and size. The company is considering a partial renewal of the plants in the course of a few years and has initiated the assessment of technical and economic conditions related to this.

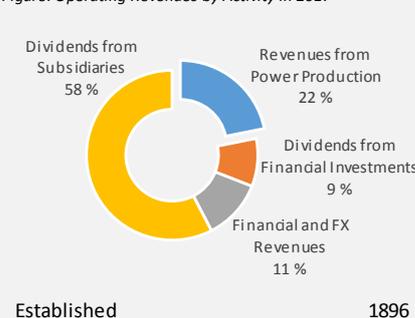
Financial Portfolio

The company's investment portfolio, excluding subsidiaries and associated companies, had a return on investment in 2017 of MNOK 343, compared to MNOK 100 in 2016. This represents a return of 14.9 % (4.8 %) for 2017. For comparison, development in the Oslo Stock Exchange benchmark index was 19.1% (12.3 %) in 2017. The portfolio's rate of return is defined in this context as the sum of dividends received and the portfolio's change in value, adjusted for transactions undertaken in the period.

No transactions of importance were carried out in 2017. As of 31.12.17 the parent company had MNOK 1,966 in unrealised profits in the portfolio of securities, compared to MNOK 1,676 the previous year. The company's shareholding in Kongsberg Gruppen at the end of the year was MNOK 1,444 of the portfolio's total value of MNOK 2,301.

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	141	113	107
EBITDA	71	45	51
EBITDA margin	50 %	40 %	48 %
Net Profit ex. Glamox sale gains	348	328	192
Net Profit	2 671	328	192
Operating Cashflow	77	21	61
NIBD	-129	1 662	1 602
Equity	4 198	2 363	2 307
Equity Ratio	67 %	51 %	50 %

Figure: Operating Revenues by Activity in 2017



Chairman Øyvind Brøymer

www.arendalsfoss.no

CEO

Jarle Roth

Prospects for 2018

To comply with legal safety requirements, investments in existing dams must be carried out in the coming years. The administration will continue to focus on further development of the Group's subsidiaries and on managing the financial investments. Based on current reservoir levels in the Arendalsvassdrag water course, the company expects power generation for 2018 to be similar to that in a normal year, i.e. approximately 500 GWh.

EFD Induction



EFD delivers advanced heating systems based on induction technology for the engineering industry throughout the world. Group activities are concentrated in three activity areas: Induction Heating Machines (IHM), Induction Power Systems (IPS) and Spares and Service (SAS). The main customers are within the automotive, pipe production, electronics industry, cable industry and mechanical industry. The group has production units in Norway, Germany, France, Romania, India, China and the USA. The company also has sales offices in several countries.

2017

In 2017, EFD achieved revenue growth of 11% and a net profit after tax that doubled compared to the previous year. Growth has been greater than underlying growth in the market and developments have been positive in most of the activity areas and across regions. Restructuring continues as ongoing improvement, and in 2017 was approximately MNOK 4 recognized as restructuring costs.

Order intake for 2017 was significantly stronger than in 2016. Fluctuations occur in each fiscal quarter, which will impact turnover and earnings of coming quarters. Seen over a somewhat longer time horizon, these fluctuations will even out and it is natural to measure trends over periods of 6-12 months.

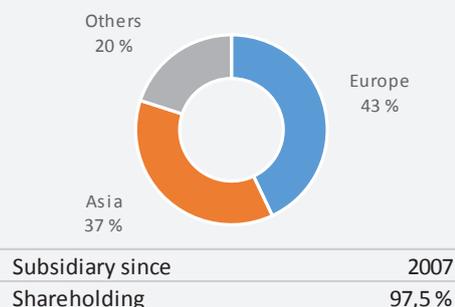
All development costs in the company are recognised as expenses. In 2017, this was approximately MNOK 32 and represented an increase of 21% from 2016. In addition to ongoing investments in product development capacity and projects, investments were made in production facilities in India. This plant has been in full production since the summer of 2017 and provides increased capacity in an important market.

The company finances its activities through loans in multiple currencies and seeks to limit foreign exchange risk by hedging customer orders and expected orders.

EFD had a turnover of MNOK 1,158 in 2017, compared to MNOK 1,031 in 2016. In 2017 ordinary profit after tax was MNOK 54 (MNOK 26).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	1 158	1 031	1 071
EBITDA	113	76	96
EBITDA margin	10 %	7 %	9 %
Net Profit	54	26	40
Operating Cashflow	62	60	96
NIBD	81	76	69
Equity	398	371	367
Equity Ratio	43 %	44 %	41 %

Figure: Operating Revenues by Geography in 2017



Chairman Jarle Roth

www.efd-induction.com

CEO

Bjørn Eldar Petersen

Prospects for 2018

EFD expects a positive development in turnover and earnings for 2018 compared to 2017.



COGEN ENERGIA



Cogen operates its own and third-party combined heat and power plants in Spain. Surplus heat from gas-based electricity generation produces heat, steam or cooling for industrial partners. The electricity produced is sold at the physical electricity market. Public support is given as bonuses per produced MWh. The headquarters are in Madrid.

2017

Spain experienced high power prices in 2017, especially at the beginning and at end of the year. This was due to low rainfall for hydropower generation and high temperatures causing high air-conditioning use throughout the summer. As a result, Cogen received higher revenues. Production of electric power is subsidised by the government, in the form of a bonus per produced MWh. Due to low power prices and low income from power generation in the earlier years, the bonus was adjusted upwards for the three-year period starting in 2017. This also contributed to higher revenues in 2017.

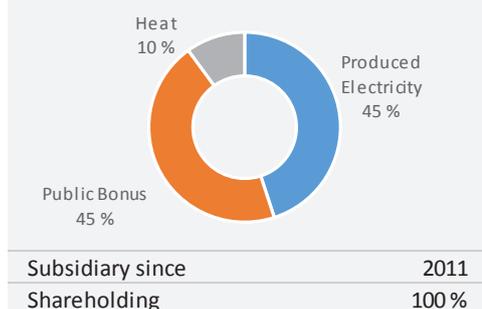
The company acquired several new customer contracts in 2017, as well as extending old contracts with several of the largest customers. These are contracts for third-party operation of combined heat and power plants with associated steam delivery.

The plants had normal operations throughout the year. Mechanical problems on a couple of the plants were solved by leasing back-up turbines, so the number of operating hours was not significantly affected.

Cogen had a turnover of MNOK 938 in 2017, compared to MNOK 488 in 2016. In 2017, the ordinary profit after tax was MNOK 47 (MNOK 0).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	938	488	463
EBITDA	74	22	37
EBITDA margin	8 %	5 %	8 %
Net Profit	47	-	25
Operating Cashflow	56	7	26
NIBD	115	171	190
Equity	133	76	29
Equity Ratio	23 %	19 %	7 %

Figure: Operating Revenues by Source in 2017



Subsidiary since	2011
Shareholding	100 %

Chairman Morten Bergesen

www.cogen-energia.com

CEO

Antonio Quilez

Prospects for 2018

In 2018, Cogen expects to see growth in the number of customer contracts, which will increase turnover, whilst anticipated lower power prices give indications of a weaker results than in 2017.



NSSL is an independent provider of satellite communications and IT support that delivers high-quality voice and data services to customers everywhere in the world, regardless of location and terrain. The group's activities are divided into three main areas: Airtime, Hardware and Service. The main customers are found within the maritime segment, military and government sector, large international corporations and the oil & gas industry. The headquarters are located outside of London.

2017

NSSL's revenues, measured in NOK, were lower in 2017 compared to the previous year. The company's turnover is mainly in USD, so a stronger dollar leads to higher margins. NSSL provides services to public clients, media and non-profit organisations, and turnover is affected by major events in the world in areas without regular telecommunication access. This type of traffic was somewhat reduced in 2017. The company has funded technology development from day-to-day operations, which for 2017 has resulted in a negative impact on the operating profit.

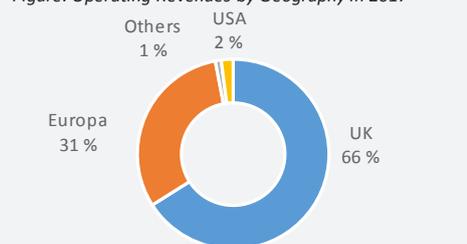
NSSL launched a new Fusion IP product in Q3 that combines satellite and mobile networks for leisure boats and fishing vessels.

The company purchased Satlink Technology in November, with headquarters in Oslo. The company offers a full range of VSAT modems and satellite hub products. The Satlink team has a solid platform within research and development and will become a key part of NSSL's development of next-generation products and services.

NSSL had a turnover of MNOK 774 in 2017, compared to MNOK 902 in 2016. Ordinary profit after tax was MNOK 77 (MNOK 87).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	774	902	889
EBITDA	154	174	151
EBITDA margin	20 %	19 %	17 %
Net Profit	77	87	79
Operating Cashflow	123	134	178
NIBD	-91	-65	-56
Equity	298	254	288
Equity Ratio	55 %	50 %	46 %

Figure: Operating Revenues by Geography in 2017

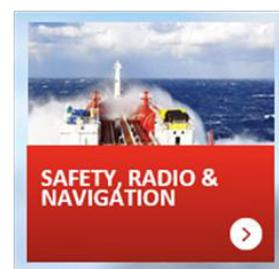


Subsidiary since	2010
Shareholding	80,0 %

Chairman	Arild Nysæther	www.nsslglobal.co.uk	CEO	Sally-Ann Ray
----------	----------------	----------------------	-----	---------------

Prospects for 2018

NSSL expects increased revenues in 2018, however, increased costs is expected to provide results in 2018 at the same level as of 2017.



Powel develops and delivers business-critical IT solutions and services to the energy sector in the Nordic region and Europe, to municipalities in Norway, as well as the contractor sector in Norway and Sweden. The company has headquarters in Trondheim, offices in several other cities in Norway and subsidiaries in Sweden, Denmark, Switzerland, Poland and Turkey.

2017

Powel's revenues in 2017 ended with a 5.5% growth compared to the preceding year. The company achieved growth in turnover both in Norway and internationally. Due to amortisations of intangible assets in Powel AG, based on negative developments in the company's market segments, the year ended with an operating loss and loss on ordinary activities after tax.

Within Asset Performance, good sales were achieved on existing solutions in 2017. Powel launched a new platform during the year for cloud services; powel.net.

Powel's commercial activities within hydro and municipal engineering developed positively in 2017. Overall, Powel achieved a growth of 20%, and more than 250 new contracts for the purchase or lease of software was signed. The trend towards customers wanting to lease new cloud-based solutions continued in 2017. Growth is primarily based on increased deliveries to established customers.

Digitisation of the building and construction industry is picking up speed, and Powel Construction is well positioned in this market with its existing product portfolio. Powel Construction has maintained a good profit margin and growth in 2017. Builders and contractors continue to be important customer segments.

Within the Smart Energy segment, focusing on power generators, the domestic market in the Nordic countries based on low power prices has attracted less investment in recent years. Higher power prices and increased price volatility will presumably raise interest in Powel's new solutions. Outside the Nordic countries, customers have had a different focus. The company is strengthening its market position, however it takes time to build a portfolio. The market perspectives are promising and Powel is well positioned to become a leading supplier in Europe. The market has been more demanding for Powel AG, which has its own solutions for contract logistics. Amortization of intangible assets in Powel AG in Switzerland amounted to MNOK 31.8. Overall, the Nordic entity is delivering satisfactory results, whilst the European entity is characterised by large investments.

Powel's turnover in 2017 was MNOK 591, compared to MNOK 560 in 2016. Ordinary profit after tax was MNOK -34 (MNOK 9).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	591	560	512
EBITDA	49	61	98
EBITDA margin	8 %	11 %	19 %
Net Profit	-34	9	36
Operating Cashflow	34	49	35
NIBD	97	73	68
Equity	153	194	188
Equity Ratio	24 %	40 %	40 %

Figure: Operating Revenues by Activity in 2017	
Business Development	27 %
Smart Energy	22 %
Water & Communities	15 %
Asset Performance	36 %
Subsidiary since	2009
Shareholding	96,0 %

Chairman	Jarle Roth	www.powel.no	CEO	Bård Benum
----------	------------	--------------	-----	------------

Prospects for 2018

Powel expects revenues and profits (adjusted for amortisations) to be somewhat better for 2018 compared to 2017. The managing director resigned in November 2017 after 11 years in the company, and the recruitment process for a replacement is ongoing.



Scanmatic delivers technical infrastructure and instrumentation and control systems for industrial and professional customers within Defence, Transportation, Renewable energy and Offshore. Scanmatic Elektro AS is 51% owned by Scanmatic AS and is an electrical contractor mostly working in the field of roads and tunnel lighting.

2017

After 45 years at Kilsund, Scanmatic moved to new premises in May of 2017, at Krøgenes, Arendal. All activities of the company have been developing satisfactorily throughout 2017. Scanmatic Elektro AS, which accounted for the largest growth in revenue and earnings in 2016, saw a reduction in both revenue and profit in 2017. The decline in turnover was expected and is primarily due to reduced activity by subcontractors and more projects being handled in-house. The decline in profits is due to challenges in the implementation of two major projects. Main projects delivered in 2017 was Tromsøysund, the Tåsen tunnel and the second part of the E6 highway project in Nordland. All Scanmatic Elektro's projects includes significant technology deliverables from Scanmatic. In June 2017, Scanmatic Elektro acquired Optonet, a company delivering installations within wireless communication infrastructure. Based on Optonet's expertise and capacity, Scanmatic Elektro has established a separate business unit which will provide installation services for telecom operators and other communication providers.

For the parent company, the year was characterised by major and challenging projects in all four market sectors. The company has delivered several innovative instrumentation systems for monitoring the anchoring of offshore structures, including a large real-time system for the FPSO Appomattox in the Gulf of Mexico. In collaboration with IRTech, Scanmatic has in 2017 delivered induction-based monitoring systems to three new steel plants in China. These projects are based on generator technology from EFD Induction.

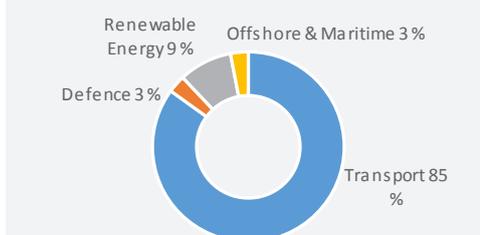
Scanmatic Instrument Technology AS in Ås, established in January 2016 after the acquisition of ITAS, also delivered improved revenues and profits in 2017. The company's primary focus is advanced instrumentation solutions for research and scientific applications, as well as within aquaculture.

The focus of Scanmatic Environmental Technology AB was in 2017 deliverables of monitoring stations for meteorology and hydrology for the Swedish Meteorological and Hydrologic Institute (SMHI). The agreement includes the replacement of all SMHI's hydrological and meteorological monitoring stations in the course of a five-year period and will be an important reference, also outside of Sweden.

Scanmatic had a turnover of MNOK 574 in 2017, compared to MNOK 659 in 2016. In 2017, the ordinary profit after tax was MNOK 30 (MNOK 44). The decline in revenue and profit was due to a weaker year for Scanmatic Elektro. The parent company and the two smaller subsidiaries have increased revenues and profits compared to the previous year.

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	574	659	319
EBITDA	41	61	38
EBITDA margin	7 %	9 %	12 %
Net Profit	30	44	27
Operating Cashflow	-14	13	39
NIBD	-19	-60	-63
Equity	102	93	61
Equity Ratio	38 %	40 %	41 %

Figure: Operating Revenues by Activity in 2017



Subsidiary since	2004
Shareholding	67,8 %

Chairman Jarle Roth

www.scanmatic.no

CEO

Kim Steinsland

Prospects for 2018

Scanmatic expects revenues in 2018 to remain at the same level as 2017, however, the results are expected to improve.



Tekna manufactures systems and equipment for production of spherical micro and nanoparticles of various metals based on the use of plasma generated by electrical induction. Tekna also has a subsidiary that uses such systems to produce various metal powders including those used in additive manufacturing (3D printing) for parts to the aerospace and medical industry. The headquarters are in Canada, with subsidiaries in France, China and South Korea.

2017

The company's turnover is on par with the previous year. Negative financial results are primarily due to high activity in R&D, sales and marketing for products to be launched in 2018. The results are also negatively impacted by depreciations of inventories due to obsolescence.

The machine production unit delivers systems to industrial customers as well as machines for R&D in research facilities and universities.

Within the AM industry, Tekna sees increased demand for aluminium powder. To meet this demand, Tekna has decided to launch industrial scale production of aluminium powder from Q1 2018.

Within the electronics segment, the demand for high quality powders is increasing. Tekna is currently scaling its production capacity to cater for this demand. A subsidiary of Tekna was established in South Korea in 2017, increasing the presence in the region and preparing for expected future demands.

Tekna had a turnover of MNOK 124 in 2017, compared to MNOK 125 in 2016. Asia is the largest market, but the company also has significant operations in Europe and North America. Ordinary profit (loss) after tax was MNOK -32 (MNOK -13).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	124	125	86
EBITDA	-18	7	-1
EBITDA margin	-15 %	6 %	-1 %
Net Profit	-32	-13	-7
Operating Cashflow	-6	11	-28
NIBD	126	76	66
Equity	20	54	67
Equity Ratio	10 %	30 %	39 %

Figure: Operating Revenues by Geography in 2017	
Americas	33 %
Asia	39 %
Europe	28 %
Subsidiary since	2013
Shareholding	100 %

Chairman	Morten Henriksen	www.tekna.com	CEO	Luc Dionne
----------	------------------	---------------	-----	------------

Prospects for 2018

Tekna expects increased turnover and improved profits in 2018 compared to 2017.



Markedskraft offers services within several parts of the value chain, including fundamental market analysis, consulting, risk management, physical handling and financial portfolio management. In addition, Markedskraft offers investors capital portfolio management based on trading in electricity derivatives.

2017

The company's turnover in 2017 decreased as expected due to the divestment of its German entity. However, the company improved its results compared to the previous year.

Markedskraft's activities are subject to concession from the Financial Supervisory Authority of Norway. The introduction of MiFID II ensures a more functional and transparent financial market. But, it also requires the "Analysis" part of the company to comply with unnecessarily complicated regulations. Consequently, Markedskraft decided towards the end of 2017 to demerge its analysis business unit into a new company, Wattsight AS. Starting in 2018, Markedskraft AS and Wattsight AS will report as separate companies.

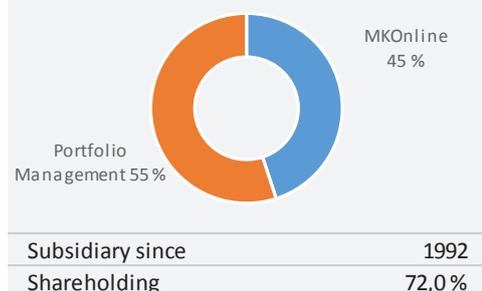
Markedskraft AS, which includes what has previously been referred to as portfolio management, is now a more focused entity delivering services to the Nordic electricity market. Markedskraft manages wholesale volumes within the production and consumption of power which makes the company one of the largest Nordic operators. In general, we see a strengthening of the company's activities in Sweden and Finland, and somewhat decreasing activity levels in Denmark and Norway.

The company's analysis entity, Wattsight AS, continues its solid growth and the company is performing well in new markets. Wattsight is at the forefront within fundamental data and market analysis of the European electrical power market. The entity had around 350 customers in 30 European countries at the end of the year, in addition to important reference customers in the US market.

Markedskraft had a turnover of MNOK 121 in 2017, compared to MNOK 130 in 2016. Ordinary profit after tax was MNOK 3 (MNOK -4).

Financial Facts, MNOK	2017	2016	2015
Operating Revenues	121	130	131
EBITDA	5	2	38
EBITDA margin	4 %	2 %	29 %
Net Profit	3	-4	22
Operating Cashflow	66	-14	20
NIBD	-134	-49	-67
Equity	72	74	80
Equity Ratio	27 %	37 %	39 %

Figure: Operating Revenues by Activity in 2017



Chairman Morten Henriksen

www.markedskraft.com

CEO

Espen Zachariassen

Prospects for 2018

The company will operate as two companies in 2018, Markedskraft AS and Wattsight AS. Efforts continue in 2018 to develop both entities in light of the major changes occurring in the energy markets. Both entities anticipate improved revenues and profits in 2018 compared to 2017.



REAL ESTATE

Arendal Industrier

Arendal Industrier has been a fully-owned subsidiary of AFK since January 2016. The company's activities in 2017 have been sub-lease of buildings and managing the Vindholmen area properties. This area was made available through a long term lease agreement with AFK. The company has been working through the year to change zoning plans for the wharf from purely commercial to combined residential and commercial. Proposals for the area zoning plan and detailed zoning plan for the first construction phases were discussed at a public hearing in November. The final zoning plan for the area was approved by the Arendal City Council in February 2018.

Arendal Lufthavn Gullknapp (Airport)

Arendal Lufthavn Gullknapp owns an airport with major commercial plots nearby, with a total of approximately 2,000,000 decares. The Civil Aviation Authority granted the airport a license in November to offer civil/general aviation for aircraft up to 9 passengers. Arendal Airport Gullknapp is in the Municipality of Froland in Aust-Agder. The location has favourable geographic conditions, especially for flights landing and departing.

OSM Aviation is planning to start a pilot flight academy at Gullknapp in the summer of 2018. The goal is a gradual rise to approximately 100 students.

A larger part of the plot was rezoned in August from aviation purposes to general industry. The municipalities of Froland and Arendal are working to zone the route for a new road to the Gullknapp area.

Scanmatic Eiendom

Scanmatic Eiendom owns the property at Steinodden in Kilsund in Arendal, where Scanmatic AS ran its business until May. Scanmatic moved to new premises in May, at Bedriftsveien 17 in Arendal. The plan for property at Steinodden is to rezone it for residential purposes. AFK has an ownership of 72.3 %.

Bedriftsveien 17

AFK acquired all the shares in Bedriftsveien 17 AS in January of 2016. Renovation and rebuilding to create workshops and offices was completed in May of 2017. The premises are leased to Scanmatic AS on a long-term agreement.



Statement of income

(NOK thousand)

Continued operations

Operating revenues and operating costs

Sales revenues	1,2	4 383 105	3 948 700	136 818	108 750
Other operating income	1,2	43 768	65 780	3 853	3 970

Total operating income **4 426 873** **4 014 480** **140 672** **112 719**

Cost of goods		2 116 459	1 901 516	2 777	5 108
Personnel costs	4	1 302 936	1 196 963	37 704	33 411
Other operating expenses	7,19	519 847	467 516	28 709	29 462

Total operating costs **3 939 242** **3 565 995** **69 190** **67 981**

EBITDA **487 630** **448 485** **71 481** **44 739**

Depreciation of operating assets 5 109 001 105 344 6 429 6 629

Amortisation of intangible assets 6 77 039 99 983 245 245

Depreciation of fixed assets 5,6 36 569 2 773

Operating result **265 022** **240 385** **64 807** **37 865**

Financial items

Income from investments in subsidiaries and associated companies 8,11 371 879 148 724

Other financial income 8,25 158 488 243 990 2 454 918 232 577

Intercompany interest income 8 5 408 3 499

Other finance costs 8 230 846 104 099 208 302 83 537

Net financial items **8** **-72 358** **139 891** **2 623 903** **301 264**

Share of profit from associated companies 11 -6 329 -5 065

Ordinary result before taxes **186 335** **375 211** **2 688 710** **339 129**

Tax on ordinary result 9 87 812 74 395 17 240 11 591

Net result **98 522** **300 816** **2 671 470** **327 538**

Discontinued operations

Profit/loss from discontinued operations 25 2 400 984 174 833

Profit/loss for the year **2 499 507** **475 649** **2 671 470** **327 538**

Attributable to

Non-controlling interests 84 859 91 533

Equity holders of the parent 2 414 647 384 116 2 671 470 327 538

Total **2 499 507** **475 649** **2 671 470** **327 538**

Basic and diluted earnings per share (NOK) **22** **1103** **175**

Basic and dilut.earnings per share from continued operations (NOK) **22** **6** **95**

Statement of comprehensive income

Other incomes and costs

Translation adjustments foreign currency -10 603 -107 206

Changes in hedging activities -5 385 23 649 27

Value changes in assets available-for-sale 16 285 090 -17 003 285 090 -17 003

Change in financial assets available-for-sale transferred to profit/loss 8,16 4 825 4 825

Taxes on other revenues and costs that may be reclassified in subsequent periods 9 1 243 -6 174 -7

Comprehensive income that may be reclassified in subsequent periods **275 171** **-106 734** **289 915** **-16 983**

Actuarial gains and losses -2 620 2 455 -2 870 1 716

Tax on actuarial gains and losses 9 573 -609 660 -412

Comprehensive income that may not be reclassified in subsequent periods **-2 048** **1 845** **-2 210** **1 304**

Other income and expenses from discontinued operations **1 925** **-14 789**

Total other income and expenses for the period **275 048** **-119 677** **287 705** **-15 679**

Profit/loss for the year 2 499 507 475 649 2 671 470 327 538

Total comprehensive income for the period **2 774 555** **355 972** **2 959 175** **311 859**

Comprehensive income attributable to:

Non-controlling interests 92 298 75 947

Equity holders of the parent 2 682 257 280 025 2 959 175 311 859

Total **2 774 555** **355 972** **2 959 175** **311 859**

Balance sheet

(NOK thousand)

	Note	Consolidated accounts		Parent company	
		2017	2016	2017	2016
<i>Assets</i>					
Property, plant and equipment	5	1 033 713	993 500	164 261	165 366
Intangible fixed assets	6	799 327	810 651	5 916	6 161
Investments in subsidiaries	3,5,11			1 524 634	1 797 017
Investments in associated companies	11	20 440	4 007	22 762	4 000
Loan to companies in the group				240 132	214 475
Other long-term receivables/investments	12	182 625	160 511	119 374	113 076
Pension funds	4	26 338	17 627	5 999	7 177
Deferred tax asset	9	197 205	195 043	133 128	128 043
Total fixed assets		2 259 648	2 181 339	2 216 206	2 435 315
Inventories	13	290 481	277 757		
Accounts receivables	13,14	1 525 300	1 056 073	11 094	7 195
Loan to companies in the group				34 001	40 719
Cash and cash equivalents	15	2 162 354	455 730	1 705 751	62 067
Financial assets available-for-sale	16	2 301 025	2 030 674	2 301 025	2 030 674
Financial assets held for trading	16		20 038		20 038
Discontinued operations	25		1 752 004		
Total current assets		6 279 160	5 592 275	4 051 871	2 160 694
Total assets		8 538 808	7 773 615	6 268 077	4 596 008
<i>Equity and liabilities</i>					
Share capital (2 239 810 shares at NOK 100,-)	10	223 981	223 981	223 981	223 981
Other paid-in capital		1 117	92	1 117	92
Other funds		1 907 930	1 708 605	1 895 225	1 603 917
Other equity		2 087 458	752 239	2 077 450	535 408
Total equity attributable to equity holders of parent		4 220 486	2 684 917	4 197 773	2 363 398
Non-controlling interests	11	165 387	495 706		
Total equity		4 385 873	3 180 624	4 197 773	2 363 398
<i>Liabilities</i>					
Bond loans	17	298 935	298 435	298 935	298 435
Interest and currency swaps related to bond loans	16,17	96 466	72 092	96 466	72 092
Interest-bearing loans and borrowings	17	1 727 865	1 448 954	1 535 290	1 280 791
Employee obligations	4	46 124	40 475	13 883	12 720
Provisions		25 879	2 073		
Deferred tax liabilities	9	89 411	102 498		
Total long-term liabilities		2 284 680	1 964 527	1 944 574	1 664 039
Bond loans	17		399 680		399 680
Current interest bearing liabilities	17	87 976	59 488		
Interest and currency swaps related to bond loans	16,17		85 842		85 842
Bank overdraft facility	17	152 376	164 071		
Accounts payable and other payment obligations	18	685 200	690 023	49 598	15 042
Taxes payable	9	106 381	58 735	29 841	18 677
Other short-term liabilities	18	836 321	383 013	29 270	23 430
Payables to companies in the group				17 022	25 901
Liabilities from discontinued operations	25		787 612		
Total current liabilities		1 868 255	2 628 464	125 730	568 572
Total equity and liabilities		8 538 808	7 773 615	6 268 077	4 596 008

Froland, 21 March 2018

Øyvinn A. Brøymer
Chairman

Morten Bergesen
Deputy Chairman

Didrik Vignæs

Arild Nysæther

Marianne Lie

Heidi Marie Petersen

Marianne Sigurdson Lyngvi

Jarle Roth
CEO

Statement of changes in equity

(NOK thousand)

	Share capital	Other paid-in equity	Translation adjustments	Hedging reserve	Fair value reserve	Treasury shares	Total other funds	Other equity	Total majority shares	Non-controlling interests	Total equity
Consolidated accounts											
2016											
Equity as of 1 January	223 981	92	200 115	-44 783	1 693 150	-28 802	1 819 680	622 772	2 666 525	472 632	3 139 158
Comprehensive income for the period			-66 744	32 666	-17 003		-51 081	331 106	280 025	75 947	355 972
Purchase/sale of treasury shares						-43 429	-43 429		-43 429		-43 429
Capital changes from subsidiaries			-16 565				-16 565	10 387	-6 179	-1 186	-7 364
Dividend paid								-212 025	-212 025	-51 688	-263 713
Equity as of 31 December	223 981	92	116 806	-12 117	1 676 147	-72 231	1 708 605	752 239	2 684 917	495 706	3 180 624
2017											
Equity as of 1 January	223 981	92	116 806	-12 117	1 676 147	-72 231	1 708 605	752 239	2 684 917	495 706	3 180 624
Comprehensive income for the period			-44 175	-7 162	289 915		238 577	2 443 679	2 682 257	92 298	2 774 555
Purchase/sale of treasury shares		1 025				1 393	1 393		2 418		2 418
Capital changes from subsidiaries			-58				-58	121 521	121 462	-101 336	20 127
Effect on sale of GlamoX			-59 102	18 515			-40 587	-102 763	-143 350	-199 805	-343 155
Dividend paid								-1 127 218	-1 127 218	-121 477	-1 248 695
Equity as of 31 December	223 981	1 117	13 471	-765	1 966 062	-70 838	1 907 930	2 087 458	4 220 486	1 65 387	4 385 873
Parent company											
2016											
Equity as of 1 January	223 981	92		-20	1 693 150	-28 802	1 664 328	418 592	2 306 992		2 306 992
Comprehensive income for the period				20	-17 003		-16 983	328 842	311 859		311 859
Purchase/sale of treasury shares						-43 429	-43 429		-43 429		-43 429
Paid dividend								-212 025	-212 025		-212 025
Equity as of 31 December	223 981	92	0	0	1 676 147	-72 230	1 603 917	535 408	2 363 398		2 363 398
2017											
Equity as of 1 January	223 981	92			1 676 147	-72 230	1 603 917	535 408	2 363 398		2 363 398
Comprehensive income for the period					289 915		289 915	2 669 260	2 959 175		2 959 175
Purchase/sale of treasury shares		1 025				1 393	1 393		2 418		2 418
Dividends to shareholders								-1 127 218	-1 127 218		-1 127 218
Equity as of 31 December	223 981	1 117	0	0	1 966 062	-70 837	1 895 225	2 077 450	4 197 773		4 197 773
Translation adjustments											
Currency translation adjustments comprise all currency translation variances arising from translation of financial items denominated in another functional currency.											
Hedging reserve											
Hedging reserves comprise the effective portion of the cumulative net changes in fair value of cash flow hedging.											
Fair value reserves											
Fair value reserves comprise the cumulative net changes in fair value on investments that are available-for-sale, until the investment is derecognised.											
Treasury shares											
Treasury shares comprise the acquisition cost for the company's shares that are owned by the Group. As of 31 December 2017 the group owned 50 852 (2016: 51 852) of the company's shares.											

Cash Flow Statement

(NOK thousand)

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Cash flow from operating activities				
Profit from ordinary operations before tax	98 522	300 816	2 671 470	327 538
<i>Adjusted for</i>				
Depreciation and impairment expenses	113 732	106 891	6 429	6 629
Amortisation of intangible fixed assets	108 876	101 208	245	245
Financial investments	72 358	-139 891	-2 623 903	-301 264
Share of profit/loss from associated companies	6 329	5 065		
Gain on sale of equipment	-233	-6 992	-4	
Tax expense	87 812	74 395	17 240	11 591
Total	487 397	441 493	71 477	44 739
Change in inventories	414	-47 010		
Change in short-term receivables	-221 214	-64 476	-17 986	-253
Change in short-term payables	252 072	32 305	40 152	2 798
Change in other accruals and employee obligations	-24 983	6 771	2 205	-3 275
Total	493 685	369 084	95 848	44 009
Taxes paid	-91 679	-76 485	-18 677	-22 822
Net cash flow from operating activities	A 402 006	292 599	77 172	21 187
Cash flow from investment activities				
Interest received etc.	26 196	72 238	13 118	68 578
Dividends received	434 182	216 605	431 037	266 346
Addition of cash related to merger				379
Proceeds from disposal of equipment	11 472	6 327	2 580	375
Proceeds from sale of assets available-for-sale	28 805	30 300	28 805	30 300
Proceeds from other investments	18 302	1 576	361	1 566
Proceeds from disposal of shares in associated companies		1 281		1 281
Proceeds from disposal of shares in subsidiaries	2 741 267	972	2 740 278	972
Purchase of shares in subsidiaries (reduced by cash balance)		-58 251	-144 417	-55 337
Investment in associated companies and other long-term investments	-20 016		-17 766	
Purchase of property, plant and equipment and intangible assets	-205 344	-247 017	-7 908	-3 566
Purchase of non-controlling interests	-124 711	-10 903		-22 939
Investments in other shares/interests	-11 667	-1 461		
Net cash flow from investment activities	B 2 898 485	11 667	3 046 087	287 955
Cash flow from financing activities				
Proceeds from capital contribution from non-controlling interests	294	369		
Long-term debt	79 446	71 914		6 107
Repayment of long-term debt	-200 471	-39 652	-144 682	
Change in long-term intercompany balances			-34 522	-6 464
Changes in short-term intercompany balances			19 570	-4 170
Interest paid etc.	-234 676	-81 764	-195 141	-66 475
Bank overdraft	-14 452	9 300		
Dividends paid	-1 245 997	-167 739	-1 127 218	-212 025
Purchase/sale of treasury shares	2 418	-43 429	2 418	-43 429
Net cash flow from financing activities	C -1 613 438	-349 982	-1 479 575	-326 456
Net change in cash and cash equivalents	A+B+C 1 687 054	-45 716	1 643 684	-17 314
Cash and cash equivalents as at 1.1.	455 730	522 758	62 067	79 381
Currency translation adjustments on cash and cash equivalents	19 570	-42 795		
Cash and cash equivalents as at 31.12.	2 162 354	455 730	1 705 751	62 067

Notes to the annual and consolidated financial statements for 2017

Accounting policies

Information about the company

Arendals Fossekompani ASA is domiciled in Norway, and with headquarters in Bøylefoss, in the Municipality of Froland. The consolidated financial statements for financial year 2017 include the company and its subsidiaries (as a whole, referred to as "the Group"). Information about the companies included in the scope of consolidation is disclosed in Note 11, together with information about Group investments in associates.

Basis of preparation

The annual and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and associated interpretations, as well as Norwegian disclosure requirements pursuant to the Norwegian Accounting Act applicable as of 31 December 2017.

The annual and consolidated financial statements were approved by the board of directors and the CEO on 21 March 2018.

The annual and consolidated financial statements will be submitted for adoption at the Annual General Meeting scheduled for 26 April 2018. The board is authorised to amend the annual and consolidated financial statements until final adoption.

The financial statements are presented in Norwegian kroner (NOK), which is the functional currency of the parent company. All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand NOK units unless otherwise stated.

The financial statements have been prepared using the historical cost principle, with the exception of the following assets, which are presented at fair value: Financial derivatives, financial instruments held for trading and financial instruments classified as available for sale.

The Group recognises changes in equity arising from transactions with owners in the statement of changes in equity. Other changes in equity are presented in the statement of comprehensive income (total return).

Preparation of financial statements in accordance with IFRS requires the use of assessments, estimates and assumptions that influence which accounting policies shall be applied, and also influence recognised amounts for assets and liabilities, revenues and costs. Actual amounts can deviate from estimated amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which they arise if they only apply to that period. If the changes also apply to subsequent periods, the effect is allocated over the current and subsequent periods.

Areas with significant estimation uncertainties, and where assumptions and assessments made have significantly influenced the application of the accounting policies, are disclosed in Note 21.

Accounting policies

The accounting policies applied in the preparation of the annual and consolidated financial statements are described below. The policies are applied consistently for all periods. In case that subsidiaries have used other principles to prepare their single-entity annual financial statements, adjustments have been made so the consolidated financial statements are prepared according to common policies.

Changes in accounting policies for 2017

The Group has not implemented any significant new standards or amendments to standards with effect from 1 January 2017.

Principles of consolidation

Business combinations

The acquisition method of accounting is used to account for the acquisition of shares that lead to control over another company. The Group's consideration is allocated to identifiable assets and liabilities. These are recognised in the consolidated financial statements at fair value at the date when control is obtained. Goodwill is calculated when the consideration exceeds identifiable assets and liabilities:

- The consideration transferred; plus
- Any non-controlling interest in the acquired entity; plus any gradual acquisition, the fair value of existing shareholdings in the acquired entity; less
- Net value (normally fair value) of identifiable net assets included in the transaction

If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. If the business combination is achieved in stages, the investment changes classification from associated company to subsidiary, the upward adjustment of the existing shareholding at fair value is recognised as a gain in the income statement. A buyout of non-controlling interests is considered a transaction with owners and does not require a calculation of goodwill. Non-controlling interests for such transactions are adjusted based on a proportionate share of the subsidiary's equity.

Subsidiaries

Subsidiaries are all entities over which the Group has control. Control exists when the investor is exposed or has rights to variable returns from its investment in the company and when it has the ability to influence the return through its power over the company. To determine the level of control, the potential voting rights that can be exercised or converted must be considered. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Associated companies

Associated companies are entities where the company and/or the Group has significant influence, but

not control over financial and operational management. Significant influence is assumed to exist when the Group has between 20 per cent to 50 per cent of the voting rights in a company. The consolidated financial statements include the Group's share of the profits/losses from associated companies are accounted for using the equity method, from the date significant influence was achieved until it ceases.

Elimination of intercompany transactions

Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Accounting in the individual companies financial statements

Investments in subsidiaries and associates are recognised at historical cost less any impairment losses in the parent company's financial statements. When an investment is reclassified from available for sale to subsidiary or associated company, the investment's carrying amount at the time control or significant influence is obtained is used as recognised cost.

Discontinued operations

Discontinued operations Group activities that comprise a separate segment or a separate geographic area and which are sold or held for sale, or a subsidiary acquired solely for resale. An activity is classified as a discontinued operation when it is sold or when the criteria for classification as held for sale are satisfied. When an activity is classified as discontinued operation, the comparative figures for the previous period are adjusted correspondingly.

Foreign currency translation

Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency of each individual Group company using the exchange rates at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated to NOK using the exchange rate at the balance sheet date. Differences that arise from the currency translation are recognised in the income statement.

Financial statements of foreign operations

Assets and liabilities in foreign currencies are translated to NOK using the exchange rate at the balance sheet date. Revenues and expenses for foreign operations are translated to NOK at the approximate rates of exchange at the transaction date.

Translation differences are recognised as other comprehensive income and presented as a translation difference in equity. For subsidiaries which are not wholly-owned, a proportional share of the translation difference is allocated to the non-controlling interests. On divestment of foreign operations, an accumulated share of the translation differences is recognised in the income statement as part of the profit calculation.

Net investments in foreign operations

Translation differences arising from the translation of net investments in foreign operations are specified as translation differences in equity, and recognised in the income statement at the time of the divestment.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments consist of investments in debt and equity instruments, trade and other receivables, cash and loans, trade payables and other debts.

Trade and other receivables that fall due in less than three months are not discounted.

Non-derivative financial instruments are measured on initial recognition at fair value plus any directly attributable transaction costs. After initial recognition, the instruments are measured as described below.

Interest-bearing loans are valued at fair value less transaction costs on initial recognition in the balance sheet. Instruments are subsequently measured at amortised cost, with any differences between cost and redemption value recognised over the term of the loan as part of the effective interest rate.

Financial assets are derecognised when the contractual rights to the cash flows from an asset expire, or when the Group has transferred the contractual rights in a transaction where the risk and return of ownership of the financial asset have substantively been transferred.

Available-for-sale financial assets

In accordance with the Group's investment strategy, investments in equity instruments are mainly classified as available-for-sale financial assets. After initial recognition, these instruments are measured at fair value. Changes in fair value are recognised as other comprehensive income. When an investment is realised and derecognised, the accumulated unrealised change in value is transferred from other comprehensive income to profit/loss. The accounting treatment of potential impairment losses is discussed below under "Impairment".

Financial assets classified as held for trading / designated at fair value through profit or loss

A financial instrument is classified at fair value through profit or loss if it is designated as such on initial recognition, or held for trading. The instrument is measured at fair value and the changes in values are recognised in the income statement.

Misc.

Other non-derivative financial instruments are measured at amortised cost less any impairment losses.

Financial derivatives

The Group uses financial derivatives to limit exposure to interest risk, currency risks and price risk that arise from operational and financial activities. According to the Group's financial guidelines, the parent company has also purchased energy-related derivatives for trading purposes. Derivatives that do not qualify for hedge accounting are recognised as instruments held for trading.

Financial derivatives are initially recognised at cost. For subsequent periods, the derivatives are assessed at fair value. Changes in the fair value of derivatives owned for trading purposes are recognised in the income statement immediately. When the derivatives qualify for hedge accounting, the recognition of value changes will depend on what is being hedged (see below).

Hedging activities**Cash flow hedge**

When a financial derivative is designated as a hedging instrument on variability in cash flows for a recorded asset or liability, or for a highly probable forecast transaction, the effective portion of a change in value is recognised as the financial derivative in other comprehensive income. A hedging instrument is de-recognised when it no longer satisfies hedge accounting criteria, is reclassified as a fair-value hedge, sold, terminated or matures. The accumulated change in value recognised in other comprehensive income remains in place until the forecast transaction occurs. If the hedging object is a financial asset, the amount is recognised in other comprehensive income and transferred to profit/loss in the same period as the hedging object affected the profit/loss. Associated accumulated gains or losses on cash flow hedges of future electricity prices are transferred from other comprehensive income to the income statement in the same period or periods that the relevant derivatives are delivered/exercised. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses are immediately recognised in the income statement.

Fair value hedging

When a financial derivative is designated as a hedging instrument on variability in the value of a recognised asset, binding agreement or liability, the profit or loss on the financial derivative is recognised in the income statement in the period in which it arose. Similarly, changes in the fair value of the hedging object is recognised in the income statement in the same period.

Hedging of foreign exchange rate risk related to net investments in foreign entities

When hedging foreign exchange rate risk related to a net investment in a foreign subsidiary, hedging instruments in the form of currency derivatives or currency loans can be used. When a financial instrument is designated as a hedging instrument in such a relationship, exchange rate fluctuations on the hedging instruments are recognised in other comprehensive income.

Equity**Ordinary shares**

Ordinary shares are classified as equity. Costs associated with the issuance of shares are recognised as a reduction in net equity (share premium) after tax, if applicable.

Purchase and sale of treasury shares

On the repurchase of treasury shares, the purchase amount including directly attributable costs are recognised as a change in equity. Purchased shares are classified as treasury shares and reduce total equity. When treasury shares are sold, the received amount is recorded as an increase in equity, and the subsequent gain on the transaction is recognised in retained earnings.

Dividends

Provision is made for the amount of any dividend declared, for the applicable reporting period.

Property, plant and equipment**Own assets**

Property, plant and equipment is recognised in the balance sheet at cost less accumulated depreciation (see below) and any impairment losses. The cost for capital equipment produced by the company includes material costs, direct costs of labour and a reasonable share of indirect production costs.

Operating assets with different useful economic lives are recognised as separate components of property, plant and equipment.

Borrowing costs that are directly attributable to the acquisition of an asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. These borrowing costs are capitalised as part of the asset's cost when it is probable that they will lead to future benefits for the Group, and the costs can be measured in a reliable manner. Other borrowing costs are recognised in the income statement in the period in which they occur.

Post-acquisition costs

The company and the Group include expenses of replacing parts of operating assets in the cost of property, plant and equipment when such expenses are expected to generate future economic benefits and the expenses for the replaced parts can be reliably measured. All other costs are recognised in the income statement in the period in which they occur.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful lifetime for each item of property, plant and equipment, and charged to the income statement. Land is not depreciated. Estimated economic lifetimes are as follows:

- Watercourse regulations 40–50 years
- Power generation
 - Buildings 50 years
 - Dams, water channels and hatches 25–40 years
 - Machine equipment 40 years
 - Thermal power plant (Spain) 25 years
 - Grid assets 25–35 years
- Industrial activities
 - Buildings 20–25 years
 - Machinery and equipment 7–15 years
- Operational moveable property, vehicles, equipment etc. 3–12 years

Residual value is assessed annually unless it is immaterial.

Leased assets

The company and the Group have individual lease agreements on terms that mostly transfer the economic rights and liabilities to the Group. These are classified as finance leases and are recognised according to accounting policies as for similar assets.

Intangible assets

Goodwill

Goodwill represents the amount that arises on the acquisition of subsidiaries and investments in associates. For acquisitions after 1 January 2010, goodwill is calculated as described above. For acquisitions between 1 January 2003 and 31 December 2009, goodwill represents the difference between the cost on acquisition and the fair value of the net identified assets acquired. For acquisitions prior to this, goodwill is based on the estimated cost that corresponds to the amount that was recognised under previous Norwegian accounting principles.

Goodwill is recognised in the balance sheet at cost, less any accumulated impairment losses. Goodwill is allocated to the cash-flow-generating units and is not amortised, but it is tested each year for impairment. For associates, the balance sheet value of goodwill is included in the investment's book value in the consolidated financial statements.

Other intangible assets

Other intangible assets that are acquired are recognised in the balance sheet at cost, less accumulated amortisation (see below) and less any impairment losses.

Research and development expenditures which are directly attributable to development and testing of the Group's products, and which are identifiable and unique, and which is controlled by the Group, is recognised in the balance sheet as an intangible asset when all of the following criteria are satisfied:

- It is technically feasible to complete the product so that it will be available for use
- Management intends to complete, use and sell the product
- It is an ability to use and sell the product
- It can be proven that the product will generate probable economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available
- The expenditure attributable to the product during its development can be reliably measured

Costs recognised in the balance sheet include material costs, direct costs of labour and directly attributable overheads that are included to make the product available for use.

Other development costs that do not satisfy these criteria are recognised as an expense as incurred. Development costs that are expensed cannot subsequently be recognised in the balance sheet.

Subsequent costs

Future costs concerning intangible assets recognised in the balance sheet are only capitalised if they increase future economic benefits related to this asset. All other costs are expensed in the period in which they occur.

Amortisation

Amortisation is calculated and recognised in income using the straight-line-method over the estimated useful economic life of the intangible assets, unless

the lifetime is indefinite. Goodwill is annually tested for impairment, at balance sheet date. Capitalised costs associated with the granting of concessions are amortised over the period until the next concession application. The amortisation period is 50 years. Excess values associated with customer relations, customer contracts, brands and own software development and other development costs are amortised over a period of 7–10 years.

CO2 quotas

The subgroup Cogen has emissions trading rights for its operations at the thermal power plant in Spain. International financial reporting standards (IFRS) have not set any rules for how this should be reported. Consequently, the company is using the "net liability approach" method while awaiting further developments. Under this method, a liability is not recognised until actual emissions exceed the emissions covered by the rights the company owns. Actual emissions are compared with existing emission rights each year.

Inventories

Inventories are recognised at the lower of cost and net sales value. Net sales value is the estimated sales price in ordinary operations, less the estimated costs for completion and sales costs.

Cost is based on the first-in first-out principle and includes costs incurred upon procurement of goods and the costs of bringing them to their present condition and location. For finished goods and work in progress, cost is calculated as a share of the indirect costs based on normal utilisation of capacity.

Construction contracts

The booked value of construction contracts consists of earned, non-invoiced income under the percentage-of-completion method, less received advance payments. The amount is recognised in the balance sheet under trade and other receivables. See also the section below on operating income and Note 13.

Determining fair value

The accounting policies and notes require fair value to be determined for both financial and non-financial assets and liabilities. Fair value is defined as the value the individual asset or liability can be sold for, in an orderly transaction, between market participants at the measurement date under current market conditions.

Various methods and techniques are used to calculate fair value depending on the type of asset or liability and to what extent they are traded in active markets.

Financial instruments are classified in their entirety at one of three valuation levels based on the lowest level of the valuation information which has an impact on the valuation of the instruments. Please refer to the disclosures on the different valuation levels in Note 16.

Based on the above principles, the following methods are normally used to determine fair value:

Property, plant and equipment

In connection with acquisitions and business combinations, property, plant and equipment is recognised at fair value. The market value is determined based on valuations or observable market prices on similar assets.

Trade and other receivables

The fair value of trade and other receivables is calculated as the present value of future cash flows discounted at the market interest rate at the balance sheet date.

Intangible assets

The fair value of intangible assets is based on discounted forecast cash flows from the use and any subsequent sale of the assets.

Investments in shares, bonds and fund shares

The fair value of listed financial instruments, classified as held-for-trading or available-for-sale, are equivalent to the quoted buying price at the balance sheet date. For non-listed instruments, fair value is based on the known market prices close to the balance sheet date or valuations made by investment firms applying generally applied valuation methods.

Non-derivative financial liabilities

Fair value of financial liabilities for disclosure purposes is calculated as the present value of future cash flows discounted at the market interest rate at the balance sheet date.

Derivatives

The fair value of swap agreements is the estimated amount that the company and/or the Group will receive or be required to pay to settle the agreement at the balance sheet date, taking into account current interest rates and the counterparty's creditworthiness. The fair value of energy-related derivatives (futures, forwards and options) is the market price at the balance sheet date. The fair value of forward exchange contracts is the market price at the balance sheet date.

Impairment

The carrying amount of the company's and Group's assets is, with the exception of inventories and deferred tax assets, reviewed each balance sheet date to assess whether there are indications of impairment. If any such indication exists, the asset's recoverable amount will be estimated.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit (valuation unit) exceeds the recoverable amount. Impairment losses are recognised in the income statement.

Impairments for cash-flow generating entities are allocated by reducing the carrying amount of any goodwill in cash-generating units first. Subsequently, the remaining impairments on the other assets in the unit are allocated pro-rata based on the carrying amounts.

When a decline in the fair value of a financial asset available for sale has been recognised in other comprehensive income, and there is objective evidence that the asset has been subject to impairment (the impairment is considered permanent or significant), the cumulative loss that had been recognised in other comprehensive income is recognised in the income statement even though the financial asset has not been realised. The cumulative loss that is recognised in the income statement constitutes the difference between the cost on acquisition and the current fair value, less any impairment loss on the financial asset previously recognised in the income statement.

Calculation of recoverable amounts

The recoverable amount of assets is the highest of the net selling price and value in use. The value in use is

calculated by discounting the forecast future cash flows to their present value using a discount rate before tax that reflects current market pricing of the time value of money and the risks specific to the asset. For assets that do not essentially generate independent cash flows, the recoverable amount is determined for the valuation entity to which the asset belongs.

Reversal of impairment

Impairment losses for equity instruments that are classified as available-for-sale are not reversed through the income statement.

Impairments of goodwill are not reversed.

For other assets, impairment losses are reversed if there is a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits**Defined contribution pension plans**

Obligations to provide contributions to defined contribution pension plan are recognised as costs in the income statement in the period in which they occur.

Defined benefit pension plans

The net liability related to defined benefit pension plans is calculated separately for each plan by estimating the size of the future benefits that the employees have earned through their work efforts in the current and prior periods. These future benefits are discounted to present value, and the fair value of the pension assets is subtracted to establish the net obligation. The discount rate corresponds to the market interest rate for high-quality corporate bonds (OMF interest rate) with approximately the same term as the Group's obligations. The calculations are performed by a qualified actuary and based on the straight-line earnings model.

When the benefits in a pension plan improve, the share of the increase in benefits that the employee has earned the right to are recognised as a cost in the income statement on a straight-line basis over the average period until the employees have earned an unconditional right to the increased benefits. The cost is recognised immediately in the income statement if the employees have already acquired an unconditional right to increased benefits at the time of allotment.

Actuarial gains and losses on the calculation of the company's obligation for a pension plan are recognised as other comprehensive income when they occur. Pension costs / earnings, as well as gains and losses on curtailments / termination are recognised in the income statement.

The net interest on the calculation of pension obligations is reported as financial items in the income statement.

When the calculations result in an asset for the company, recognition of this asset is limited to the net amount of the total of unrealised actuarial losses and the cost of previous periods' pension earnings, and

the present value of future refunds from the scheme or reductions in payments to the scheme.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that this will result in an outflow of resources to settle the obligation, and the obligation can be reliably estimated.

Provisions for restructuring are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either begun or has been announced to those affected.

Operating income

Goods sold and services rendered

Income from the energy sales and other goods are recognised in the income statement when the risks and rewards of ownership have substantively passed to the purchaser. Operating revenues from services rendered are recognised based on work performed. Operating income is not recognised if there is significant uncertainty when overdue receivables will actually be paid, if it is probable that the goods will be returned or in those cases where the Group has the right to manage the delivered goods.

Revenues from construction contracts are recognised in accordance with progress, but only if the project's forecast income and costs can be reliably estimated. Significant projects that do not involve material production and have a delivery time of more than three months are recognised according to the percentage-of-completion method if a significant degree of completion is proven at the balance sheet date. Depending on the type of project, the degree of completion is calculated as costs incurred in relation to total estimated costs, as direct time used as a percentage of total anticipated time required or by an assessment of technical completion. When the project's earnings cannot be reliably estimated, only income corresponding to accrued project costs are recognised as income. Any estimated losses on projects are recognised in the period the loss is identified.

Financial income

Financial income consists of realised gains on debt and equity instruments available for sale, dividends received, share of results from investments in limited partnerships, interest income, agio gains and positive changes in the value of financial instruments held for trading and derivatives that are recognised in income. Interest income is recognised in the income statement based on the effective interest rate method as it is earned.

Dividend income is recognised as income on the date the right to receive payment is established.

Government grants

Government grants that compensate for incurred expenses are recognised as a cost reduction in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants related to the acquisition of operating assets are recognised as reduction of cost and amortised by reducing amortisation over the operating asset's useful economic life.

Costs

Lease payments for operating leases

Lease payments for operating leases are recognised in the income statement on a linear basis over the lease term.

Any lease incentives received are recognised as an integral part of total lease costs.

Financial expenses

Financial expenses consist of interest expenses on loans, currency translation losses, negative changes in the value of derivatives and financial instruments held-for-trading and derivatives that are recognised in income, and other realised impairment losses for debt and equity instruments.

Taxes

Income tax on the profit for the period consists of current and deferred tax. Income tax is recognised in the income statement with the exception of tax on items that are recognised directly in equity or in other comprehensive income. The tax effect of the latter items is recognised directly in equity or in other comprehensive income.

Current tax is the forecast tax payable on the year's taxable income at current tax rates at the balance sheet date, and any adjustments of tax payable for previous years less tax paid in advance.

Deferred tax liabilities are calculated based on the balance sheet oriented liability method taking into account temporary differences between the carrying amount of assets and liabilities for financial reporting and tax values. The following temporary differences are not taken into account: goodwill not deductible for income tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries that are not expected to reverse in the foreseeable future. The provision for deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, measured at the tax rates in force at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that the asset can be utilised against future taxable results. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax asset will be realised.

Tax assets that can only be utilised via group contributions from the parent company are not recognised until the contribution has actually been paid and is recognised in the individual companies.

Cash and cash equivalents

Cash means cash in hand and in the bank. Cash equivalents are short-term liquid investments that can be converted to cash within three months to a known amount and which have an insignificant degree of risk. Cash and cash equivalents in the cash flow statement do not include unused overdrafts.

Determination and presentation of operating segments

Financial information for the operating segments is determined and presented based on the information provided to the company's board of directors, which is the Group's ultimate decision-maker.

Accounting standards and interpretations issued but not adopted

The company has not early-adopted any IFRS standards or IFRIC that have been issued but are not mandatory as of 31 December, 2017. Based on the assessments made so far, it is assumed that the following standards and IFRICs will have an effect on future financial reporting:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces the previous applicable standard on leases, IAS 17. The new standard changes the accounting treatment of leases that are recognised as operating leases under the current standard. It requires that all leases, regardless of their type and with few exceptions, must be recognised in the lessee's balance sheet as an asset with a corresponding liability. The standard is effective from 1 January 2019. The Group will assess the effect of IFRS 16 in 2018. The effect could be material and will depend on the number and size of leases that are now recognised as operating leases. (Please refer to Note 19)

IFRS 9 Financial Instruments

The standard addresses the classification, measurement and recognition of financial assets and liabilities as well as hedge accounting. The standard enters into effect in financial year 2018 and replaces IAS 39 in the above areas.

The Group has carried out an analysis of the effects of the new standard and has concluded that it will not have a material effect on its financial instruments. It is not necessary to prepare comparative figures or adjust the opening balance sheet on implementation of IFRS 9.

IFRS 9 requires financial assets to be classified into three categories: fair value through profit or loss, amortised cost and fair value through other comprehensive income. The classification will depend on the business model applied to manage the financial instruments that are used, as well as the characteristics of the cash flows of each individual instrument.

Shareholdings that were previously classified as "available-for-sale" were measured at fair value through comprehensive income in accordance with IAS 39. Under IFRS 9, there is the possibility to select whether changes in fair value are recognised in the income statement or in other comprehensive income. The Group will continue to measure these assets at fair value, and recognise any changes in value of existing shares in other comprehensive income. For future investments, this will be considered on a share-by-share basis.

IFRS 9 simplifies the requirements for hedge accounting in that hedge effectiveness is more closely linked to management's risk management and provides greater room for assessment. Hedging documentation is still required, but the requirements for testing of hedging have been simplified. The new standard allows more opportunities to apply hedge accounting. The Group makes, however, no ** in that respect as a result of implementing IFRS 9.

For assessing losses on receivables, the implementation of IFRS 9 will involve a change from an incurred loss model to an expected loss model. Losses on receivables will be recognised at an earlier date, in accordance with IFRS 9. The impact is however considered not material for the Group.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The new standard requires that a customer contract is divided into individual performance obligations. A performance obligation may be a product or a service. Income is recognised when a customer obtains control of a product or service, and thus has the ability to determine the use of and receive the benefits from the product or service. The standard enters into effect in financial year 2018.

The Group is working to assess the effects of IFRS 15 and has initiated a review of revenue flows and contract structures in the individual subgroups.

Large parts of the Group's revenue flows relate to the sale of goods and ongoing service deliveries, where revenue recognition is only to a small extent affected by the new standard. Some subgroups have revenue flows where revenue is recognised on an ongoing settlement basis. Others have transaction models where multiple deliveries are included in the same contract. For these revenue flows the new standard could lead to changes in revenue recognition. When the current revenue flows are relatively small in relation to the Group's total sales, and when revenue is already largely recognised based on splitting contracts based on their delivery, it is our preliminary assessment that the standard will not have a material impact on Arendals Fossekompagni ASA's consolidated financial statements

Note 1 Reporting by segments and geographical markets

(NOK thousand)

Segment information is presented for the company's and the Group's continued operating segments. The division into operations segments shows the largest subgroups as separate segments. This is based on the Group's management and internal reporting structure. Transfer pricing between segments is based on arm's length distance. Segment results, assets and liabilities include items that are directly related to the segments as well as items that are allocated based on a reasonable distribution formula. The Property segment consists of the following companies: Scanmatic Eiendom, Arendal Lufthavn Gullknapp, Songe Træsliperi, Arendal Industrier, Norsk Vekst and Bedriftsveien 17.

* Depreciations and write-downs for the Investment segment relate to depreciations and write-downs on goodwill arising from the acquisition of subsidiaries.

** Net financial items in the Investment segment for the Group, including share of profits from associated companies

Consolidated accounts	Energy sales		Investment *		EFD		NSSL		Powel	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating Income	139 213	112 359	1 459	361	1 157 728	1 030 660	774 055	902 318	591 198	560 284
Operating costs	49 731	56 653	19 460	11 328	1 045 175	954 640	620 296	728 720	541 947	499 284
Depreciations and write-downs	6 674	6 874	15 506	36 801	24 169	23 520	51 697	58 565	79 392	46 572
Operating result	82 808	48 832	-31 804	-47 768	88 384	52 500	102 062	115 033	-30 141	14 428
Net financial items **			-73 782	150 889	-6 769	-5 376	-359	-524	444	-3 588
Tax expense	43 059	24 313	-32 224	-25 577	27 840	21 512	24 243	27 537	4 127	1 342
Profit/loss for the year	39 749	24 519	-73 362	128 698	53 776	25 612	77 460	86 971	-33 824	9 498
Segment assets	294 670	310 528	4 591 935	2 661 832	921 220	849 170	543 405	512 680	648 242	482 227
Segment liabilities	63 150	46 439	1 756 341	1 960 475	523 405	478 488	245 633	258 839	495 594	288 658
Net interest-bearing liabilities			-128 638	1 687 546	81 047	76 379	-91 645	-61 459	96 834	72 889

Consolidated accounts - continued

	Cogen		Scanmatic		Marketskraft		Tekna	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating Income	937 534	487 606	573 775	658 991	121 261	129 899	124 047	124 593
Operating costs	863 259	465 614	532 424	598 221	116 034	127 447	142 187	117 872
Depreciations and write-downs	19 492	14 606	2 931	2 222	4 656	9 261	8 952	7 376
Operating result	54 784	7 386	38 421	58 548	571	-6 809	-27 092	-655
Net financial items	5 547	-4 575	-122	-540	3 053	1 692	-5 419	-2 192
Tax expense	13 034	2 331	8 075	14 267	764	-1 537	-72	10 092
Profit/loss for the year	47 296	480	30 224	43 741	2 860	-3 581	-32 439	-12 939
Segment assets	584 454	404 609	270 863	235 253	268 955	202 318	202 898	179 675
Segment liabilities	451 803	328 198	168 496	141 822	196 708	128 524	182 877	125 371
Net interest-bearing liabilities	115 341	169 937	-18 731	-61 249	-134 379	-75 346	126 111	75 802

Consolidated accounts - continued

	Property		Total	
	2017	2016	2017	2016
Operating Income	6 604	7 409	4 426 873	4 014 480
Operating costs	10 434	6 216	3 939 242	3 565 995
Depreciations and write-downs	9 140	2 302	222 608	208 100
Operating result	-12 970	-1 109	265 022	240 385
Net financial items	-1 281	-960	-78 687	134 826
Tax expense	-1 034	113	87 812	74 395
Profit/loss for the year	-13 217	-2 182	98 522	300 816
Segment assets	212 167	183 319	8 538 808	6 021 611
Segment liabilities	68 928	48 566	4 152 935	3 805 379
Net interest-bearing liabilities	58 859	30 399	104 798	1 914 897

Geographical area

	Norway		Europe		Asia		North America etc.m.		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues	1 224 791	1 225 150	2 426 948	2 141 372	489 267	425 958	285 867	222 000	4 426 873	4 014 480
Segment assets	6 169 115	4 235 918	1 610 526	1 091 243	384 114	343 351	367 618	351 099	8 531 373	6 021 611

Parent company

	Energy sales		Investment		Total	
	2017	2016	2017	2016	2017	2016
Operating Revenues	139 213	112 359	1 459	361	140 672	112 719
Operating costs	49 731	56 653	19 460	11 328	69 190	67 981
Depreciations and write-downs	6 674	6 874			6 674	6 874
Operating result	82 808	48 832	-18 001	-10 967	64 807	37 865
Net financial items			2 623 903	301 264	2 623 903	301 264
Tax expense	43 059	24 313	-25 819	-12 722	17 240	11 591
Profit/loss for the year	39 749	24 519	2 631 721	303 019	2 671 470	327 538
Segment assets	294 670	310 528	5 973 407	4 285 480	6 268 077	4 596 008
Segment liabilities	63 150	46 439	2 007 154	2 186 171	2 070 304	2 232 610
Net interest-bearing liabilities			-128 638	1 916 839	-128 638	1 916 839

Note 2 Other operating income / Sales revenues*Other operating revenues*

Lease/rental income
Other operating income
Total other operating income

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Lease/rental income	1 822	6 446	502	579
Other operating income	41 946	59 334	3 351	3 390
Total other operating income	43 768	65 780	3 853	3 970

Sales revenues

Sales revenues are specified for the parent company and subsidiaries in Note 1 Reporting by segments and geographical markets.

The board's annual report describes the type of business and income for each entity.

Note 3**Acquisition of subsidiaries in 2016****Acquisition of Bedriftsveien 17 AS**

The agreement to acquire 100% of the shares in Bedriftsveien 17 AS was signed on 28 January 2016. In accordance with the rules in IFRS 3, Bedriftsveien 17 AS was consolidated with effect from 01.01.2016.

Agreed cash purchase price was TNOK 12 837. The company leases buildings to Scanmatic AS.

Loss after tax in 2016 was TNOK 242.

Effect on assets and liabilities as of acquisition date:

	Book value before the acquisition (NOK 1 000)	Fair value adjustments (NOK 1 000)	Recognized amount as of acquisition date (NOK 1 000)
Property, plant and equipment	4 145		4 145
Plot rights		13 114	13 114
Accounts receivable and other receivables	232		232
Cash and cash equivalents	12		12
Deferred tax	-31	-3 278	-3 309
Interest-bearing loans and borrowings	-1 297		-1 297
Accounts payable and other payment obligations	-39		-39
Tax payable	-21		-21
Net identifiable assets and liabilities	3 001	9 836	12 837

There were no significant acquisitions in 2017.



Note 4 Salaries, remunerations and other employee benefits

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Salaries/wages	1 024 661	928 826	29 218	24 657
Social security	138 125	118 723	3 923	4 231
Pension costs	55 146	55 223	1 636	2 527
Other benefits	85 005	94 191	2 927	1 996
Total employee cost	1 302 936	1 196 963	37 704	33 411
Average number of employees	2 178	2 040	21	19

	Salary	Bonus for 2016 paid in 2017	Benefits in kind	Combined remunerations	Pension cost	Number of board meetings (i)
Director's fee						
Jarle Roth, CEO	3 280	446	240	3 966	97	
Lars Peder Fensli, CFO	2 040	94	18	2 152	99	
Morten Henriksen, TD	2 192	255	21	2 468	98	
Torkil Mogstad, group managing director	1 629	179	18	1 826	98	
Members of the Board of Directors and Committees						
Øyvin A. Brøymer, chairman	348			348		12
Morten Bergesen, deputy chairman	319			319		12
Didrik Vignsnaes, member	212			212		12
Arild Nysæther, member	313			313		12
Marianne Lie, member	262			262		12
Heidi Marie Petersen, member	212			212		11
Marianne Sigurdson Lyngvi, member	212			212		11
Total remunerations	11 019	974	297	12 290	392	

(I) There were 12 board meetings conducted in 2017.

In addition, the amount of TNOK 286 was paid in pensions to former board members. Current board members have no pension rights.

Executive employees are part of a collective pension scheme for employees in the parent company and subsidiaries, refer note on pensions.

With effect no later than 31.12.2015, all the companies in the Group discontinued their defined benefit plans for all employees

except for employees above 60 years of age who are members of AFK's own pension fund. These will remain in the defined benefit plan until retirement.

The defined benefit plan provides a full pension after 30 years contribution time, which combined with the individual's payments from the national insurance scheme amounts to 66% of his or her final salary at the time of retirement. At the parent company, there was a supplemental pension plan until the end of 2015 for employees with a pension base above 12G (G = base amount, Norwegian tax basis). Fully contributed, benefits were at the same level as for employees with pension base below 12G, at 66%. This plan was also discontinued and replaced by a corresponding cash compensation for everyone below 60 years of age. Bonuses, options and other benefits are not included in the pension base. Members of executive management at the Group did not receive remunerations or other financial benefits from companies within the Group other than those listed above. No additional remuneration was paid for any services beyond those normally assumed as a member of executive management.

Heidi Marie Petersen received NOK 151 750 as a board member of Glamox.

Arild Nysæther received NOK 239 368 (GBP 22 500) as chairman of the board of NSSL.

Morten Bergesen received NOK 139 906 (Euro 15 000) as chairman of the board of Cogen Energia España.

Marianne Sigurdson Lyngvi received NOK 15 000 for her position as board member of Arendal Industrier.

We refer to Note 24 regarding loans and provisions of security for members of executive management, board members and others working at selected company positions.

Note 4, contd.**Agreed conditions for group CEO:**

For the group CEO, the following compensations are agreed upon at the termination of employment:

Salary paid during period of notice (6 months) with the addition of a salary for the subsequent 12 months.

In connection with commencement of the position, the CEO had the right to purchase 3,000 shares in the company at a 15% discount with a commitment period of 3 years.

Pension obligations / costs

The Group's Norwegian companies are obligated to maintain an occupational pension scheme pursuant to the Mandatory Occupational Pension Scheme. The pension scheme satisfies statutory requirements. The pension scheme includes a retirement pension, disability pension and survivor pension. With effect no later than 31.12.2015, all the companies in the Group discontinued their defined benefit plan.

One exception from this is employees +60 years of age who are members of AFK's pension fund. These will remain in the defined benefit plan until retirement.

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
<i>Pension obligations</i>				
Present value of contingent liabilities	34 226	34 109	12 168	11 148
Present value of secured liabilities	71 250	65 930	48 442	44 795
Fair value of pension reserves	-97 588	-83 557	-54 441	-51 972
Recognised employer's contributions	1 716	1 572	1 716	1 572
Present value of net obligations	9 604	18 054	7 884	5 544
Of which are presented as pension funds	26 338	17 627	5 999	7 177
Other pension obligations	10 182	4 795		
Gross pension obligations	46 124	40 475	13 883	12 720
<i>Changes in pension obligation:</i>				
Net secured defined-benefit obligations as of 1 January	-17 627	-14 204	-7 177	-7 383
Liabilities on contingent schemes, as of 1 January	36 289	36 275	12 720	17 917
Deposits received	-11 487	-4 466	-119	-1 207
Disbursed from scheme	-3 431	-5 864	-678	-3 152
Actuarial (gains) losses from other comprehensive income	2 620	-2 455	2 870	-1 716
Effect of changes in pension plan		4 633		
Exchange rate fluctuations for pension obligations	1 272	-1 143		
Cost of defined-benefit schemes	1 968	5 276	267	1 085
Net obligations for defined benefit schemes as of 31.12	9 604	18 054	7 884	5 544
<i>Costs recognised in income statement</i>				
Costs for this period's pension earnings	1 553	2 839	100	377
Interest on obligations	2 387	4 344	1 416	1 541
Expected return on pension funds	-2 297	-2 613	-1 323	-1 394
Recognised employer's contributions	297	395	74	243
Recognised actuarial gains/losses	28	-6		
Effect of termination of defined-benefit pension scheme		317		317
Costs of defined benefit schemes	1 968	5 276	267	1 085
Costs of deposit-based schemes	53 270	50 094	1 461	1 589
Net interest on pension obligations transferred to financials	-92	-147	-92	-147
Transfer effect upon termination of separate line in income statement				
Total pension costs	55 146	55 223	1 636	2 527
Actual return on pension funds	6 343	4 170	4 301	2 858

Assumptions for defined-benefit pension plan

Significant actuarial assumptions on balance sheet date (presented as weighted averages):

Table K2013BE is used to calculate life expectancy.

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Discounted interest rate as of 31.12	2,40%	2,60%	2,40%	2,60%
Expected return on pension funds as of 31.12	2,40%	2,60%	2,40%	2,60%
Regulation of salaries	2,50%	2,50%	2,50%	2,50%
Regulation of base amount (G-regulation)	2,25%	2,25%	2,25%	2,25%
Regulation of pension	0,50%	0,00%	0,50%	0,00%

Investment profile for pension funds in the Group

	Shares	Short-term bonds	Money market	Long-term bonds	Other
31.12.2016	33%	64%	3%	0%	0%
31.12.2017	35%	62%	3%	0%	0%

Development of the Group's defined benefit obligation / (asset)

	2017	2016	2015	2014	2013
Present value of the secured defined benefit obligations	71 250	77 068	76 946	443 328	362 910
Fair value of pension funds	97 588	93 325	98 460	333 129	305 117
Deficit (surplus) in the plan	-26 338	-16 257	-21 514	110 199	57 793



Note 5 – Property, plant and equipment

Group	Under construction	Water power plants	CHP plants *	Other property **	Machines inventory	Total
2016						
<i>Cost price</i>						
Balance as of 1 January	121 193	314 489	630 093	675 064	1 306 614	3 047 453
Discontinued operations				-314 722	-554 271	-868 993
Additions	68 350		23 810	14 714	72 384	179 258
Transferred from Under Construction	-20 597			20 597		
Acquired via business combinations and acquisitions				20 848		20 848
Disposals			-20 155	-397	-13 824	-34 376
Changes in foreign exchange rates	-557		-36 365	-13 346	-64 830	-115 098
Balance as of 31 December	168 389	314 489	597 382	402 758	746 073	2 229 091
<i>Accumulated depreciations and write-downs</i>						
Balance as of 1 January		161 137	472 726	241 857	909 666	1 785 386
Discontinued operations				-138 833	-427 798	-566 631
Acquired via business combinations and acquisitions				3 589		3 589
Ordinary depreciations for the year		6 010	8 553	9 315	81 465	105 344
Impairment					1 548	1 548
Disposals			-19 649		-8 404	-28 054
Translation adjustment			-26 760	-4 374	-34 457	-65 591
Balance as of 31 December		167 147	434 870	111 554	522 020	1 235 591
Book value as of 1 January	121 193	153 352	157 367	433 207	396 948	1 262 067
Book value as of 31 December	168 389	147 342	162 512	291 204	224 053	993 500
2017						
<i>Cost price</i>						
Balance as of 1 January	168 389	314 489	597 382	402 758	746 073	2 229 091
Additions	55 223	2 291	932	14 710	77 382	150 538
Transferred from Under Construction	-215 063	12 242		202 022	799	
Disposals		-22 529	-243	-15 553	-29 345	-67 671
Translation adjustment	3 142		50 977	-7 740	27 260	73 638
Balance as of 31 December	11 691	306 493	649 048	596 197	822 168	2 385 597
<i>Accumulated depreciations and write-downs</i>						
Balance as of 1 January		167 147	434 870	111 554	522 020	1 235 591
Ordinary depreciations for the year		5 750	13 871	12 576	76 803	109 001
Impairment ***				4 731		4 731
Disposals		-19 945	-316	-6 250	-26 359	-52 870
Translation adjustment			37 903	1 778	15 751	55 431
Balance as of 31 December		152 952	486 329	124 389	588 214	1 351 884
Book value as of 1 January	168 389	147 342	162 512	291 204	224 053	993 500
Book value as of 31 December	11 691	153 541	162 718	471 808	233 954	1 033 713

* CHP plants combine district heating with gas power plants at Cogen.

** Other Property includes a financial lease agreement with a carrying amount of TNOK 16 531.

Refer to Note 19 for further details.

*** Booked impairment for 2017 is the book value on properties at Vindholmen that will be torn down prior to construction in the area.

Provisions of security

As of 31 December 2017 equipment in subsidiaries with a book value of TNOK 198 724 (2016: TNOK 204 669) are mortgaged for bank loans (see Note 17).

Note 5 – Property, plant and equipment, contd.

Parent company

2016

Cost price

	Under construction	Water power plants	Other property	Machines inventory	Total
Balance as of 1 January	6 762	314 489	8 440	6 812	336 502
Additions	2 376		140	1 050	3 566
Disposals				-638	-638
Balance as of 31 December	9 137	314 489	8 580	7 224	339 430

Accumulated depreciations and write-downs

Balance as of 1 January		161 137	2 245	4 405	167 787
Ordinary depreciations for the year		6 010	131	487	6 629
Disposals				-351	-351
Balance as of 31 December		167 147	2 376	4 541	174 064
Book value as of 1 January	6 762	153 352	6 194	2 407	168 715
Book value as of 31 December	9 137	147 342	6 204	2 683	165 366

2017

Cost price

	Under construction	Water power plants	Other property	Machines inventory	Total
Balance as of 1 January	9 137	314 489	8 580	7 224	339 430
Additions	4 142	2 291		1 475	7 908
Transferred from Under Construction	-12 242	12 242			
Disposals		-22 529		-949	-23 478
Balance as of 31 December	1 037	306 493	8 580	7 750	323 860

Accumulated depreciations and write-downs

Balance as of 1 January		167 147	2 376	4 541	174 064
Ordinary depreciations for the year		5 750	131	548	6 429
Disposals		-19 945		-949	-20 895
Balance as of 31 December		152 952	2 507	4 139	159 599
Book value as of 1 January	9 137	147 342	6 204	2 683	165 366
Book value as of 31 December	1 037	153 541	6 072	3 610	164 261



Note 6 – Intangible assets

Group 2016

Cost price

	Intang. assets	Goodwill	Concessions	Total
Balance as of 1 January	1 227 522	852 878	12 250	2 092 650
Discontinued operations	-363 823	-227 526		-591 350
Additions	56 541	11 219		67 760
Disposals	-1 635			-1 635
Translation adjustment	-24 456	-61 314		-85 770
Balance as of 31 December	894 148	575 257	12 250	1 481 655
<i>Accumulated depreciations and write-downs</i>				
Balance as of 1 January	709 441	145 004	5 844	860 290
Discontinued operations	-208 736	-63 451		-272 187
Ordinary depreciations for the year	99 738		245	99 983
Impairment	1 225			1 225
Disposals	-848			-848
Translation adjustment	-10 289	-7 170		-17 459
Balance as of 31 December	590 532	74 383	6 089	671 004
Book value as of 1 January	518 080	707 874	6 406	1 232 360
Book value as of 31 December	303 616	500 873	6 161	810 651

2017

Cost price

	Intang. assets	Goodwill	Concessions	Total
Balance as of 1 January	894 148	575 257	12 250	1 481 655
Purchases	49 783	5 023		54 806
Acquired via business combinations and acquisitions		4 583		4 583
Disposals	-46 372	-20 388		-66 760
Translation adjustment	22 944	32 281		55 225
Balance as of 31 December	920 503	596 755	12 250	1 529 509
<i>Accumulated depreciations and write-downs</i>				
Balance as of 1 January	590 532	74 383	6 089	671 004
Ordinary depreciations for the year	76 794		245	77 039
Impairment	26 372	5 466		31 838
Disposals	-44 283	-20 388		-64 671
Translation adjustment	7 649	7 324		14 973
Balance as of 31 December	657 063	66 785	6 334	730 182
Book value as of 1 January	303 616	500 873	6 161	810 651
Book value as of 31 December	263 441	529 970	5 916	799 327

Parent company 2016

Cost price

	Intang. assets	Goodwill	Concessions	Total
Balance as of 1 January	471		12 250	12 721
Balance as of 31 December	471		12 250	12 721
<i>Accumulated depreciations and write-downs</i>				
Balance as of 1 January	471		5 844	6 315
Ordinary depreciations for the year			245	245
Balance as of 31 December	471		6 089	6 560
Book value as of 1 January			6 406	6 406
Book value as of 31 December			6 161	6 161

2017

Cost price

	Intang. assets	Goodwill	Concessions	Total
Balance as of 1 January	471		12 250	12 721
Balance as of 31 December	471		12 250	12 721
<i>Accumulated depreciations and write-downs</i>				
Balance as of 1 January	471		6 089	6 560
Ordinary depreciations for the year			245	245
Balance as of 31 December	471		6 334	6 805
Book value as of 1 January			6 161	6 161
Book value as of 31 December			5 916	5 916

Breakdown of intangible assets by company

	Intang. assets	Goodwill	Concessions	Total
<i>Intangible assets distributed per company</i>				
Arendals Fossekompagni			5 916	5 916
Markedskraft	8 624	5 764		14 388
EFD	1 505	115 355		116 860
Powel	97 301	136 535		233 836
NSSL Global	33 732	261 691		295 424
Arendal Lufthavn Gullknapp (Airport)	11 369			11 369
Cogen	13 037	6 041		19 079
Tekna	96 265			96 265
Scanmatic	1 607	4 583		6 191
Total intangible assets	263 441	529 970	5 916	799 327

Intangible assets are capitalised development costs and licenses for software and goodwill relating to customer relationships, customer contracts, patents and trademarks. At Cogen, intangible assets consists of listed co2 quotas.

Concession rights in the parent company are depreciated over the concession period (50 years). Other intangible assets are depreciated over periods from 4 to 10 years.

Goodwill is tested annually for impairment, (see the accounting principles and Note 21). When testing for impairment, each segment / sub-group is considered a cash-generating unit. The recoverable amount for goodwill is estimated on the basis of value-in-use. Estimated value-in-use is based on discounted future cash flows. This way, goodwill is evaluated according to requirements and return and risk.

Value in use for 2017 is calculated in the same way as for 2016, based on budgets for 2018 and long-term budgets from the Strategy Plans for the period up to 2022. Beyond this, a standard growth rate of 2% is used until 2026 and a terminal value based on the same growth rate. Risk-free rate of interest for the calculation is 2.7%

A risk premium of 7% for a company with a risk as the stock market index is applied. Specific assumptions for each calculation are commented on below.

EFD

WACC is set at 9.2%. When calculating required rate of return, one must consider the Group's revenues in EUR and USD, and that activities are cyclical.

Powel

WACC is set at 10.0%.

NSSL Global

WACC is set at 9.2%.

When calculating required rate of return, one must consider the Group's earnings in GBP and USD.

Cogen Energia España

WACC is set at 10.3%.

Tekna Holdings Canada

WACC is set at 13.3%.

Powel's subsidiary in Switzerland has been struggling to achieve profitability since its acquisition in 2014.

Impairment on related intangible assets is MNOK 31,8.

For other cash-generating units at the AFK Group, the tests show significant goodwill. Reasonable changes in the assumptions will not result in additional depreciations.

Research and Development costs

In 2017, R&D costs amounted to TNOK 49 891 capitalised (2016 = TNOK 41 914). Other R&D costs for the Group are charged as an expense as they occur; for 2017 TNOK 122 502 and for 2016 TNOK 113 043.

CO2 discharge permits

Cogen had no free CO2 quotas in 2017. Actual emissions in 2017 were 213 000 tons. Quotas were purchased for emission of 162 000 tons as of 31.12.2016, and the remaining were purchased in 2018.

Booked accruals for the purchase of CO2 quotas are MEUR 0.5.

Note 7 – Other operating expenses

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
<i>Other operating expenses</i>				
Maintenance of property, plant and equipment	31 610	29 113	5 759	6 885
Remunerations	43 233	48 135	3 429	2 219
Rent and related costs	123 877	77 268	1 655	1 118
Sales and advertising	33 428	28 202	572	543
Operation/maintenance of IT systems	45 797	44 412	2 014	1 592
Losses on receivables	3 325	-1 305		
Insurance premiums	25 227	23 833	1 770	1 245
Property value taxstion	11 198	14 310	5 619	8 028
Travel expenses	97 660	87 139	995	858
Concession fees	3 249	2 876	2 582	2 570
Other operating expenses	101 241	113 533	4 316	4 404
Total other operating expenses	519 847	467 516	28 709	29 462

Auditor's fee

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Statutory audit	6 831	6 657	463	628
Other certification services	346	608	16	15
Tax advice	917	775	130	77
Other services related to auditing	2 236	2 115	1 314	674
Total	10 330	10 155	1 923	1 395

Note 8 – Financial income and expenses

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
<i>Financial income</i>				
Income from investments in subsidiaries and associated companies			371 879	148 724
Interest income	16 150	8 435	2 028	5 626
Intercompany interest income			5 408	3 499
Dividend income	59 158	117 622	59 158	117 622
Realised gain on securities	4 419	3 763	4 419	3 763
Gains on sale of Glamox (see Note 25)			2 323 477	
Realised exchange gain	72 832	99 816	64 796	96 742
Other financial income	5 928	14 354	1 040	8 824
Financial income	158 488	243 990	2 832 205	384 800
<i>Financial expenses</i>				
Interest expense	78 904	75 507	64 824	63 322
Realised exchange rate losses	137 130	6 699	126 531	
Depreciations on curent investments available-for-sale	10 200		10 200	
Impairment on investments in subsidiaries and associated companies	4 000	1 975	4 000	6 119
Net interest expense on pension obligations	92	147	92	147
Other financial costs	519	19 771	2 654	13 948
Financial expenses	230 846	104 099	208 302	83 537
Net financial income and expenses	-72 358	139 891	2 623 903	301 264

Note 9 – Tax*Ordinary income tax in Norway:*

- Tax rate for ordinary income tax: Tax rate was 24% in 2017 and has been changed to 23% in 2018.

Tax rate for calculation of deferred tax asset/deferred income tax as of 31/12 2017 is 23 %.

Special taxation rules in Norway for companies that generate electricity:

- Natural resource tax, is charged at 1.3 øre per kWh on the basis of the individual power station's average generation the past 7 years. The estimated natural resource tax can be deducted from income tax.

For years where there is no calculated tax, the natural resource tax shall still be accrued. This amount is recorded as a receivable and offset against the total current tax on ordinary income for later years.

The natural resource tax accrues to the municipalities and counties of the area the power concession is related to.

- Resource rent tax is determined for each individual power station and is payable to the state.

The tax base for the resource rent tax is the gross resource rent income less operating expenses and

taxfree allowance. The tax on resource income is based on market prices, thus it differs from the company's reported earnings.

The tax rate for resource rent was 34.3% in 2017 and changes to 35.7% in 2018.

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
<i>Costs on current tax payable</i>				
Natural resources tax payable	6 656	6 553	6 656	6 553
Income payable less tax on natural resources rent	72 674	51 194	-6 656	-6 553
Under/over accrual of taxes payable	95	699		403
Resource rent tax payable	23 185	12 123	23 185	12 123
Total current tax	102 610	70 569	23 185	12 527
<i>Deferred tax</i>				
Effect of changes in temporary differences	-18 237	-1 145	-10 467	-4 149
Effect of change in tax rate	3 357	5 841	4 440	4 084
Effect of change in temporary differences on resource rent tax	1 273	283	1 273	283
Effect of changes in resource rent tax rate	-1 190	-1 154	-1 190	-1 154
Total deferred tax expense	-14 798	3 826	-5 945	-936
Total tax according to income statement	87 812	74 395	17 240	11 591
<i>Analysis of effective tax rate</i>				
Profit/loss before tax	186 326	375 204	2 688 708	339 129
Tax based on current ordinary tax rate	44 718	93 801	645 290	84 782
This year's tax on resource rent	23 267	11 252	23 267	11 252
Permanent differences	10 299	9 183	6 563	4 751
Effect of non-taxable income	-20 713	-34 264	-662 259	-67 918
Effect of tax loss carried forward	25 399	20 123		
Effects due to difference in tax rates foreign entities	656	-6 371		
Effect of changed tax rates	3 475	5 848	4 440	4 084
Effect of business combinations		-26 575		-25 447
Under/over accrual of tax payable	710	1 397	-61	86
Total tax expense	87 812	74 395	17 240	11 591
Current ordinary tax rate in Norway	24,0 %	25,0 %	24,0 %	25,0 %
Effective tax rate	47,1 %	19,8 %	0,6 %	3,4 %
<i>Tax recognised as Other revenues and expense</i>				
Cash flow hedges	-1 239	6 174		7
Regarding actuarial gains and losses	-573	609	-660	412
Total tax recognised as Other revenues and expense	-1 812	6 783	-660	419

Tax payable

Tax payable of NOK 106 267 thousand (2016: NOK 58 735 thousand) for the Group and NOK 29 270 thousand (2016: NOK 18 677 thousand) for the parent company consists of unassessed tax payable for the current period.

Note 9 – Tax, contd.

Income tax assets/liabilities

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Group						
Property, plant and equipment	29 372	28 243	-48 474	-29 359	-19 102	-1 115
Goodwill, intangible assets	638		-37 701	-66 981	-37 064	-66 981
Long-term receivables and liabilities in foreign currencies			-469	-464	-469	-464
Construction contracts	474		-15 106	-16 795	-14 632	-16 795
Inventories	4 548	4 665	-1 236	-1 188	3 312	3 477
Outstanding receivables	537	601		-121	537	480
Leasing – lease agreements	2 860	3 221			2 860	3 221
Profit and losses account	402		-29	-112	373	-112
Provisions	10 644	8 508	-331	-3 249	10 313	5 259
Other items	572		-647	-989	-75	-989
Financial instruments	23 509	38 127			23 509	38 127
Employee obligations	7 283	7 779	-1 290	-1 162	5 993	6 617
Tax loss carried forward	225 930	185 259			225 930	185 259
- Tax loss not carried forward	-124 047	-93 876			-124 047	-93 876
= Tax loss carried forward	101 883	91 383			101 883	91 383
Total deferred income tax	182 721	182 526	-105 282	-120 419	77 439	62 108
Property, plant and equipment, resource rent carried forward	30 355	30 437			30 355	30 437
Resource rent tax	30 355	30 437			30 355	30 437
Deferred income tax assets/liabilities	213 076	212 964	-105 282	-120 419	107 794	92 545
Netting of assets and liabilities	-15 871	-17 921	15 871	17 921		
Net deferred income tax assets/liabilities	197 205	195 043	-89 411	-102 498	107 794	92 545

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Parent company						
Property, plant and equipment	19 546	21 650			19 546	21 650
Profit and losses account	215			-71	215	-71
Financial instruments	22 187	38 111			22 187	38 111
Employee obligations	1 813	1 330			1 813	1 330
Tax loss carried forward	59 012	36 586			59 012	36 586
Total deferred ordinary income tax	102 773	97 677		-71	102 773	97 606
Property, plant and equipment, resource rent carried forward	30 355	30 437			30 355	30 437
Resource rent tax	30 355	30 437			30 355	30 437
Deferred income tax assets/liabilities	133 128	128 115		-71	133 128	128 043
Netting of assets and liabilities		-71		71		
Net deferred income tax assets/liabilities	133 128	128 043			133 128	128 043

Note 9 – Change in deferred tax during the year

Group	2016					2017								
	Balance as of 0101	Booked in profit and loss	From Other revenues and costs	Effect of change on tax loss carried forward	Mergers, demergers and acquisitions	Translation adjustments	Balance as of 3112	Balance as of 0101	Booked in profit and loss	From Other revenues and costs	Effect of change on tax loss carried forward	Mergers, demergers and acquisitions	Translation adjustments	Balance as of 3112
Ordinary income tax														
Property, plant and equipment	-20 809	4 518			-5 070	-313	-21 674	-21 674	2 961			1 368	-1 758	-19 102
Goodwill, intangible assets	-65 204	16 180				2 608	-46 416	-46 416	10 222			356	-1 227	-37 064
Long-term liabilities and liabilities in foreign currencies	-409	-79				24	-464	-464	31				-37	-469
Construction contracts	-5 049	-11 850				103	-16 795	-16 795	2 394				-230	-14 632
Inventories	3 881	-193				-211	3 477	3 477	-423				257	3 312
Outstanding receivables		-413			11	-31	483	483	133			-112	34	537
Leasing and lease agreements	3 594	-178				-195	3 221	3 221	-595				235	2 860
Profit and losses account	-97	32			-47	-112	466	466			20			373
Provisions	11 239	-5 482				-498	5 259	5 259	4 382				672	10 313
Other items	-3 295	2 362				-56	-989	-989	963				-48	-75
Financial instruments	56 726	-12 461	-6 174			35	38 127	38 127	-15 924	1 239			67	23 509
Employee obligations	8 017	-402	-609			-389	6 617	6 617	-1 627	573			430	5 993
Tax loss carried forward	93 302	3 269		-5 219	1 643	-1 621	91 373	91 373	11 896		-1 675	-2 900	3 188	101 883
Total ordinary income tax	82 813	-4 697	-6 783	-5 219	-3 463	-542	62 108	62 108	14 879	1 812	-1 675	-1 268	1 583	77 439
Resource rent tax														
Property, plant and equipment	29 566	871					30 437	30 437	-82					30 355
Resource rent tax	29 566	871					30 437	30 437	-82					30 355
Total changes in deferred tax	112 379	-3 826	-6 783	-5 219	-3 463	-542	92 545	92 545	14 797	1 812	-1 675	-1 268	1 583	107 794
Parent company														
Ordinary income tax														
Property, plant and equipment	23 384	-1 734					21 650	21 650	-2 104					19 546
Profit and losses account	-93	22					-71	-71	287					215
Financial instruments	49 911	-11 794	-7				38 111	38 111	-15 924					22 187
Employee obligations	2 633	-891	-412				1 330	1 330	-177	660				1 813
Tax loss carried forward	25 048	14 462	0	-4 052	1 128		36 586	36 586	23 945		-1 520			59 012
Total ordinary income tax	100 883	65	-419	-4 052	1 128		97 606	97 606	6 027	660	-1 520			102 773
Resource rent tax														
Property, plant and equipment	29 566	871					30 437	30 437	-82					30 355
Resource rent tax carried forward														
Resource rent tax	29 566	871					30 437	30 437	-82					30 355
Total changes to deferred tax	130 450	936	-419	-4 052	1 128		128 043	128 043	5 945	660	-1 520			133 128

Note 10

Equity

	Share capital	
	Ordinary shares	
	2017	2016
Issued as of 31 December – fully paid	2 239 810	2 239 810
	2 239 810	2 239 810

As of 31 December 2017 the share capital consists of 2239810 ordinary shares (2016: 2239810). The shares have a face value of NOK 100,- (2016: 100)

Owners of shares are entitled to dividends, which in each case will be decided by the annual general meeting, and they are entitled to one vote per share at the company's general meeting.

No shareholder may in person or by proxy vote for more than a quarter of the total

number of shares. Shares that are transferred to a new owner do not provide voting rights before at least three weeks have passed since the acquisition was reported to the company.

Rights to company's shares owned by the Group (see Note 22) are suspended until the shares are taken over by others.

Dividends

An extraordinary dividend of NOK 420 per share was adopted by an extraordinary general meeting and paid in December 2017.

The board of directors proposed an ordinary dividend after the balance sheet date. The proposal was that the company's shares in the Kongsberg Group be paid as a dividend for 2017. Book value of the shares as of 31.12.2017 was NOK 1 444 383 thousand.

The proposed dividend is not included in the accounts and therefore has no tax implications.

Own share are not entitled to dividends.

	Ordinary dividend		Extraordinary dividend
	Proposed for 2017, paid in 2018	Adopted in 2016, paid in 2017	Distributed in December 2017
	1 444 383	207 856	919 362
Total:	1 444 383	207 856	919 362

Dividends in kind, 4.36 shares in KOG per share in AFK (Value as of 31/12-17)

Ordinary cash dividends in 2016: NOK 95.00 per share

Extraordinary dividends were paid in December 2017, NOK 420 per share

Note 11

Group structures

Subsidiaries	Registered	Non-controlling interests' share of					
		Ownership share in %		group equity by subgroup		Book value in the parent company	
		2017	2016	2017	2016	2017	2016
Markedskraft AS *	Arendal	72,0 %	71,7 %	15414	20 900	20790	39 793
Wattsight AS *	Arendal	72,0 %	0,0 %	4834	-	19190	-
Scanmatic AS	Arendal	67,7 %	67,0 %	54491	51 635	5716	4 493
Scanmatic Eiendom AS	Arendal	73,1 %	72,3 %	1026	1 030	7141	7 042
Songe Træsliperi AS	Risør	50,8 %	50,8 %	0	27	0	100
EFD AS	Skien	97,5 %	70,1 %	10	110 789	412	288 981
Powel AS	Trondheim	96,1 %	96,0 %	6 872	8 309	306 758	306 758
Glamox AS	Oslo	0,0 %	75,2 %	-	239 654	-	416 801
Arendal Lufthavn Gullknapp AS	Froland	89,9 %	88,6 %	13 564	13 957	135 073	115 367
Arendal Industrier AS	Arendal	100,0 %	100,0 %	-	-	58 250	58 250
Bedriftsveien 17 AS	Arendal	100,0 %	100,0 %	-	-	12 837	12 837
Norsk Vekst AS	Arendal	100,0 %	100,0 %	-	-	113	113
NSSL Global Ltd	England	80,0 %	80,0 %	59 554	50 151	273 298	273 298
Cogen Energia España S.L.	Spain	100,0 %	100,0 %	-307	(746)	90 699	90 699
Tekna Holdings Canada Inc.	Canada	100,0 %	100,0 %	-	-	182 487	182 487
Total				165 387	495 706	1 524 633	1 797 017

Dividends and group contributions from subsidiaries are recognised in the parent company, amounting to NOK 371 879 thousand in 2017 and NOK 148 724 thousand in 2016

* Wattsight AS spun off from Markedskraft AS at the end of December 2017.

			2017	2016
Subsidiaries in Markedskraft AS				
Subsidiary in Wattsight AS				
MK Online GmbH	Berlin	Germany	100,0 %	100,0 %
Subsidiaries in EFD Induction Group AS				
EFD Induction As	Skien		100,0 %	100,0 %
EFD Induction GmbH	Freiburg	Germany	100,0 %	100,0 %
EFD France Holding Eurl	Grenoble	France	100,0 %	100,0 %
EFD Induction Ltd.	Wolverhampton	England	100,0 %	100,0 %
EFD Induction Inc.	Detroit	United States	100,0 %	100,0 %
EFD Induction ab	Västerås	Sweden	100,0 %	100,0 %
EFD Induction s.r.l	Milan	Italy	100,0 %	100,0 %
EFD Induction Ltd.	Bangalore	India	100,0 %	100,0 %
EFD Induction (Shanghai) Co., Ltd.	Shanghai	China	100,0 %	100,0 %
EFD Induction Ges.m.b.H	Vienna	Austria	100,0 %	100,0 %
EFD Induction s.l	Bilbao	Spain	100,0 %	100,0 %
Inductro SRL	Buckuresti	Romania	100,0 %	100,0 %
EFD Induction SP. Z o.o	Gliwice	Poland	100,0 %	100,0 %
EFD Induction Co., Ltd	Bangkok	Thailand	100,0 %	100,0 %
EFD Induction S.A	Grenoble	France	100,0 %	100,0 %
EFD Induction Marcoussis S.A	Paris	France	100,0 %	100,0 %
EFD Induction K.K.	Yokohama	Japan	100,0 %	100,0 %
EFD Inducaao Brazil Ltd	Sao Paolo	Brazil	100,0 %	100,0 %
EFD Induction Oil & Gas Service	Pinang	Malaysia	100,0 %	100,0 %
EFD Induction S de R.L	Queretaro	Mexico	100,0 %	
Subsidiaries in Powel ASA				
Powel Energy Management AB	Jönköping	Sweden	100,0 %	100,0 %
Powel Danmark A/S	Odense	Denmark	100,0 %	100,0 %
Cascade AS	Tønsberg			100,0 %
Powel AB	Jönköping	Sweden	100,0 %	100,0 %
Powel AG	Basel	Switzerland	100,0 %	100,0 %
Powel Enerji Cözümleri Ltd	Istanbul	Turkey	100,0 %	100,0 %
Powel Sp. Z.o.o.	Gdansk	Poland	100,0 %	100,0 %
Metertech AS	Trondheim		51,0 %	51,0 %
Powel Construction AS	Trondheim		100,0 %	100,0 %
Powel Metering AS	Trondheim		100,0 %	100,0 %
Powel GmbH	Dusseldorf	Germany	100,0 %	
Powel Analytics AS	Trondheim		100,0 %	
Subsidiaries in NSSL Global Ltd.				
NSSL Global LLC	California	United States	100,0 %	100,0 %
Aero-Satcom Ltd.	London	England	50,0 %	50,0 %
Marine Electronic Solutions Ltd.	London	England	51,0 %	51,0 %
NSSLGlobal Technologies AS	Oslo		100,0 %	100,0 %
NSSL Global PTE Ltd	Singapore	Singapore	100,0 %	100,0 %
NSSLGlobal Continental Europe APS	Brøndby	Denmark	100,0 %	100,0 %
NSSLGlobal APS	Brøndby	Denmark	100,0 %	100,0 %
NSSLGlobal Polska SP. Z.o.o.	Warsawa	Poland	100,0 %	100,0 %
NSSLGlobal GmbH	Barbüttel	Germany	100,0 %	100,0 %
NSSLGlobal Distribution GmbH	Barbüttel	Germany	100,0 %	100,0 %
ESS Hanika GmbH	Barbüttel	Germany	100,0 %	100,0 %
NSSL Global PTY Ltd	Singapore	Singapore	100,0 %	
Subsidiaries in Scanmatic AS				
Scanmatic Elektro AS	Arendal		51,0 %	51,0 %
Scanmatic Enviromental Technology AB	Åkersberga	Sweden	100,0 %	100,0 %
Scanmatic Instrument Technology AS	Ås		100,0 %	100,0 %
Subsidiary owner at Scanmatic Elektro AS				
Optonet AS	Søgne		100,0 %	
Subsidiaries in Cogen Energia España S.L.				
Tortosa Energia SA	Tortosa	Spain	94,0 %	94,0 %
Cogen Eresma SL	Segovia	Spain	89,9 %	89,9 %
Cogen Gestion Intergral S.L.	Madrid	Spain	100,0 %	100,0 %
Energy by Cogen S.L.U.	Madrid	Spain	100,0 %	100,0 %
Agroenergética de Pinzón S.L.	Seville	Spain		78,7 %
Create Energy UK Ltd.	Cornwall	England	100,0 %	100,0 %
Ecoenergia Sistemas Alternativos S.L.	Navarra	Spain	75,0 %	75,0 %
Subsidiaries in Tekna Holdings Canada Inc.				
Tekna Plasma Systems Inc.	Sherbrooke	Canada	100,0 %	100,0 %
Tekna Advanced Materials Inc.	Sherbrooke	Canada	100,0 %	100,0 %
Tekna Plasma Europe S.A.S.	Macon	France	100,0 %	100,0 %
Tekna Plasma Systems(Suzhou)Co Ltd.	Suzhou	China	100,0 %	100,0 %
Tekna Plasma India Private Ltd.	Chennai	India	100,0 %	100,0 %

Note 11, contd.

Investments in associated companies

Entity	Industry	Owner-/voting share	Book value as of 1/1	Purchase of shares	Disposal of shares	* Reclassification of shares	Other incomes and costs	Results, share	Impairment	Book value for Group on 31/12	Acquisition cost on 31/12
NorSun	Manufacturing solar cells	21,3 %		17 762		5 000		-2 322		20 440	22 762
Flumill AS		45,3 %	4 007					-674	-3 333		
Total investments in associated companies			4 007	17 762		5 000		-2 996	-3 333	20 440	22 763

Summarised financial information on individual companies, based on 100% base

Entity	Revenue	Profit/loss for the year	Other incomes and costs	Fixed assets	Current assets	Long-term liabilities	Short-term liabilities	Equity
NorSun	130 624	-10 907		244 263	191 205	117 282	158 376	159 810
Flumill AS	195	-1 487		54 445	142	900	2 702	50 985
Total	130 819	-12 394		298 708	191 347	118 182	161 078	210 795

The information is taken from the preliminary financial statements and therefore does not display the final amounts for the companies.

The CFO of Arendals Fossekompani is a board member of NorSun.

The TD of Arendals Fossekompani is a board member of Flumill.

Due to an emission in October 2017, NorSun was reclassified from Available-for-sale to Investments in associated companies (see Note 16).

Note 12 – Other receivables and investments

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
<i>Long-Term receivables/investments</i>				
Loans to employees	2 599	2 169	1 214	587
Deposits, private pension plan	12 000	12 000	12 000	12 000
Natural resource tax receivable	67 099	59 963	67 099	59 963
Other long-term receivables	57 729	60 529	23 350	24 815
Other investments	43 198	25 849	15 711	15 711
Total long-term receivables/investments	182 625	160 511	119 374	113 076

Provision of security for loans to employees

All loans to employees have interest rates based on a rate that does not trigger a tax advantage.

The loans will be repaid in instalments over 5 years (vehicles) or 20 years (housing).

Loans exceeding NOK 200 000 are secured with mortgages.

Note 13 – Inventories

	Consolidated accounts	
	2017	2016
<i>Inventories</i>		
Raw materials	108 595	103 800
Work in progress	66 858	47 402
Spare parts	24 939	24 220
Finished Goods	90 089	102 335
Total inventories (net after provisions for obsolescence)	290 481	277 757
Provisions for obsolescence	17 178	43 454

Construction contracts

The subsidiaries EFD, Powel, Tekna and Scanmatic use the continuing contract method for construction contracts.

By the end of the year, these subsidiaries had the following earned receivables, associated costs and profits:

	Consolidated accounts	
	2017	2016
Revenue on ongoing projects	331 704	249 005
- Project related costs	-188 244	-158 317
Recorded revenue	143 460	90 689
Accrued receivables consist of:		
Accrued income	280 508	251 024
- Invoiced portion	-357 736	-163 131
Advances from customers / Accrued receivables	-77 229	87 893

(See Note 18 / Note 14)

There are no detained payments from customers.

Note 14 – Accounts receivable and other receivables

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Accounts receivables	1 141 498	745 939	6 835	4 875
Other receivables and prepayments (accrued receivables are included)	383 802	310 134	4 259	2 320
Total	1 525 300	1 056 073	11 094	7 195

Note 15 – Cash and cash equivalents

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Bank deposits	2 162 328	455 692	1 705 751	62 067
Cash and cash equivalents	26	38		
Total	2 162 354	455 730	1 705 751	62 067

Note 16 – Financial risk management / financial instruments**Overview of the company's and Group's financial instruments**

Fair values and corresponding values booked in the balance sheet:

	Consolidated accounts				Parent company			
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
	2017	2017	2016	2016	2017	2017	2016	2016
Accounts receivable and other receivables, such as derivatives *	1 525 300	1 525 300	1 056 073	1 056 073	11 094	11 094	7 195	7 195
Cash and cash equivalents*	2 162 354	2 153 989	455 730	455 730	1 705 751	1 705 751	62 067	62 067
Financial assets available-for-sale	2 301 025	2 301 025	2 030 674	2 030 674	2 301 025	2 301 025	2 030 674	2 030 674
Financial assets held for trading			20 038	20 038			20 038	20 038
Other receivables and investments*	182 625	182 625	160 511	160 511	119 374	119 374	113 076	113 076
Loan to companies in the group*					274 133	274 133	255 194	255 194
Derivates, interest and currency swaps related to bond loans	-96 466	-96 466	-157 934	-157 934	-96 466	-96 466	-157 934	-157 934
Interest-bearing loans and borrowings*	-1 968 217	-1 959 853	-1 594 284	-1 594 284	-1 535 290	-1 535 290	-1 280 791	-1 280 791
Bond loans	-298 935	-330 855	-698 115	-752 100	-298 935	-330 855	-698 115	-752 100
Accounts payable and other payment obligations*	-685 200	-685 200	-690 023	-690 023	-49 598	-49 598	-15 042	-15 042
Other short-term liabilities*	-836 321	-836 321	-383 013	-383 013	-29 270	-29 270	-23 430	-23 430
Liabilities to companies in the group*					-17 022	-17 022	-25 901	-25 901
	2 286 165	2 254 244	199 657	145 672	2 384 796	2 352 876	287 031	233 046
Unrecognised gains / losses:		-31 921		-53 985		-31 920		-53 985

* For these items, the original book values are considered to be a reasonable approximation of fair value.

For the rest, refer to the note on accounting principles regarding how fair value for different instruments is calculated.

Fair value hierarchy

The Group uses the following hierarchy for valuation and presentation of financial instruments:

The different levels have been defined as follows:

Level 1: Fair value is measured using quoted prices from active markets for identical financial instruments. No adjustment is made according to these prices.

Level 2: Fair value is measured using other observable input than that used in Level 1, either directly (prices) or indirectly (derived from prices).

Level 3: Fair value is measured using inputs that are not based on observable market data (non-observable input).

	Level 1	Level 2	Level 3	Total
- Financial assets available-for-sale	1 444 383	856 642	-	2 301 025
- Financial assets at fair value through profit or loss	-	-	-	-
- Financial assets held for trading	-	-	-	-
- Bond loans	-	-330 855	-	-330 855
	1 444 383	525 787	-	1 970 170
Other derivative financial assets	-	-	-	-
Interest and currency swaps related to bond loans	-	-96 466	-	-96 466
Other derivative financial liabilities	-	-	-	-
	1 444 383	429 321	-	1 873 704

Note 16 – Financial risk management / financial instruments, contd.

The parent company's financial assets are as follows: (NOK thousand)

Shares available-for-sale owned by parent company

	Number of shares		Owner share, in %		Cost price adjusted for impairment				Fair value	
	2017	2016	2017	2016	2017	%	2016	%	2017	2016
Listed shares										
Subsea 7		69 225	0,0	0,0			4 368	1,2	0	7 601
Kongsberg Gruppen	9 552 796	9 552 796	8,0	8,0	278 283	83,0	278 283	78,5	1 444 383	1 196 488
<i>Total listed shares</i>					278 283		282 651		1 444 383	1 204 089
Unlisted shares										
Silver Pensjonsforsikring (pension insurance)	784 947	784 947	3,4	3,4	196	0,1	196	0,1	0	196
Eiendomsspar	390 432	390 432	1,0	1,0	2 490	0,7	2 490	0,7	137 822	148 364
Victoria Eiendom	870 959	870 959	6,1	6,1	23 621	7,0	23 621	6,7	470 318	483 382
Oslo Børs VPS Holding	1 996 000	1 996 000	4,6	4,6	30 569	9,1	30 569	8,6	248 502	179 640
NorSun *		1 500 322 070		14,3			15 000	4,2		15 003
<i>Total unlisted shares</i>					56 876		71 876		856 642	826 586
Total shares available-for-sale owned by parent company and Group					335 159	100,0	354 527	100,0	2 301 025	2 030 674

* Norsun has become an affiliated company during the course of 2017 – see note 11.

Financial assets – owned by parent company – held for trading at fair value through profit or loss

Bonds

Sparebanken Vest 12/perp

Total

Cost price		Fair value	
2017	2016	2017	2016
-	20 900	-	20 038
-	20 900	-	20 038

Sensitivity analysis shows that a 10% change in fair values as of 31.12.2017, would have resulted in a change in equity of TNOK 230.102 and a change in profit from continued operations of TNOK 0. (2016 TNOK 205 071 and TNOK 2 038).

No other company in the Group has significant investments in financial assets held for trading or financial assets available-for-sale.

Financial risk management

The company and the Group are exposed to credit risk, liquidity risk due to investments in financial instruments and market risk. The board has overall responsibility for establishment and monitoring of group guidelines for risk management. Principles, procedures and systems for risk management on the most important areas are reviewed and assessed regularly. Industrial investments consist of a limited number of larger investments. The reason for this investment strategy is a belief that long-term and active involvement maximise return. Other investments are in liquid assets that are unrelated to the Group. When investing in bonds, certain requirements related to liquidity of the assets and solidity of the issuer have to be met.

- Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its obligations. Credit risk occurs normally when credit is provided to customers or related to investments in securities.

Credit risk relating to investments is considered limited in that we mainly invest in liquid securities with good credit rating. A specification of investments is provided above.

The Group has established procedures to ensure only customers without a negative payment history are provided credit and that credit limits are not violated.

Note 16 – Financial risk management / financial instruments, contd.

Maximum exposure to credit risk related to receivables as of balance sheet date:

	Consolidated accounts		Parent company	
	2 017	2016	2 017	2016
Total receivables according to balance sheet	1 311 743	827 990	19 702	13 196
Over due	105 587	97 514	233	
Booked loss provision	6 684	5 836		

Booked losses on receivables in 2017 for the parent company amounted to NOK 0 and for the Group (continued operations) net expensed NOK 8 449 thousand. For 2016, the booked loss amounted of NOK 0 for the company, and NOK 2 065 thousand for the Group (continued operations).

- Liquidity risk

Liquidity risk is the risk that the group will not be able to fulfill its financial obligations as they fall due. Liquidity management shall ensure that available liquidity is sufficient to fulfill obligations when they fall due, without causing unacceptable losses for the company or the Group.

Cash flow from the company and the Group's ordinary operations, combined with significant investments in liquid securities, as well as the unutilised credits, means that liquidity risk is considered low.

The subgroup EFD has established an international group cash pool, which includes the subsidiaries in Europe and America. This contributes to increased flexibility and efficiency in liquidity management.

The company and the Group's liabilities were as follows:

(In the contractual cash flows, interest as of balance sheet date are included)

Group	Amount recognised in balance sheet	Contr. cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
2017							
Interest-bearing loans and borrowings	2 114 776	2 247 959	68 836	70 850	147 514	1 900 428	60 331
Bank overdraft	152 376	152 376	152 376				
Accounts payable and other obligations	685 200	685 200	685 200				
Other short-term obligations	836 321	828 111	739 650	88 466			
Derivatives, see Note 17	96 466	96 466				96 466	
Total	3 885 140	4 010 113	1 646 063	159 311	147 514	1 996 894	60 331
2016							
Interest-bearing loans and borrowings	2 206 558	2 320 418	28 945	467 979	175 670	1 611 544	36 281
Bank overdraft	164 071	164 071	164 071				
Accounts payable and other obligations	690 023	690 023	690 023				
Other short-term obligations	383 013	383 013	294 152	88 862			
Derivatives, see Note 17	157 934	157 934		85 842		72 092	
Total	3 601 598	3 715 458	1 177 189	556 840	175 670	1 683 636	36 281

Parent company	Amount recognised in balance sheet	Contr. cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
2017							
Interest-bearing loans and borrowings	1 834 225	1 941 112	21 377	21 377	42 755	1 855 602	
Accounts payable and other obligations	49 598	49 598	49 598				
Other short-term obligations	29 270	29 270	29 270				
Derivatives, see Note 17	96 466					96 466	
Total	2 009 558	2 019 980	100 245	21 377	42 755	1 952 068	
2016							
Interest-bearing loans and borrowings	1 978 906	2 084 603	16 650	416 330	66 601	1 585 021	
Accounts payable and other obligations	15 042	15 042	15 042				
Other short-term obligations	23 430	23 430	23 430				
Derivatives, see Note 17	157 934	157 934		85 842		72 092	
Total	2 175 313	2 281 009	55 123	502 172	66 601	1 657 113	

- Market Risk

Market risk is the risk that changes in the market price such as exchange rates, interest rates and stock prices will affect net income or value of financial instruments.

Currency Risk

The company and the group are exposed to currency risk on purchases, sales and loans in other currencies than the companies' functional currency. It is primarily EUR, GBP and USD which the Group is exposed to. The currency exposure is primarily related to entities in the Group's foreign subsidiaries and the company's and the Group's liabilities in foreign currency. The subgroup EFD uses derivative financial instruments to limit the currency risk on sales and accounts receivables. The parent company and EFD also uses currency loans and currency-swaps to limit currency risk related to changes in values in subsidiaries. The most significant currency exposure in the parent company and the Group's Norwegian subsidiaries is in EUR.

Exposure as of 31.12. as follows: (KEUR)

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Bank deposits	19 431	7 814	1 404	1 404
Accounts receivables	10 440	3 234	569	569
Accounts payable	-3 963	-2 396	0	0
Interest-bearing debts	-262 487	-114 909	-102 644	-102 644
Balance sheet exposure	-236 579	-106 257	-100 671	-100 671

Sensitivity analysis indicate that a 5% strengthening of NOK against EUR would increase the profit before tax for 2017 by the NOK equivalent of EUR 11,8 million and for 2016 by the NOK equivalent of EUR 5,3 million. Other subsidiaries have only limited exposure to currency risk. The parent company has loans in EUR as spot revenue from its energy sales is in EUR.

As at 31 December 2017 the parent company has debenture loans totalling GBP 27 000 thousand (GBP 27 000 as at 31 December 2016).

Hedging:

EFD is hedging orders in foreign currencies at contract date. Currency hedging is often carried out for budgeted cash flows in foreign currency. EFD reports both cash flow hedging and fair value hedging as hedging. Remaining companies do not use hedge accounting as defined according to IFRS.

By the end of the year, EFD had the following currency contracts, specified by hedge category:

Amounts in NOK thousand	Contract	Unrealised
	value	gain/loss
Hedging of future cash flows	331 362	(5 747)
Hedging of fair values	152 712	(2 745)
Balance sheet exposure	484 074	(8 492)

Unrealised gains/losses related to hedging of future cash flows are recognised in Other income and costs.

The unrealised loss shown in the table is the value before tax deduction.

Net unrealised losses/gains are recognised as Other short-term liabilities/assets.

Interest risk

The most significant part of the company's and Group's interest-bearing financial assets and liabilities have floating interest rates.

The parent company acquired a bond loan in 2011 of TNOK 300 000 at an interest rate of 5.95%. An interest swap was entered at the same time on the loan amount with a fixed interest rate in EUR of 4.84%. The loan and the interest swap both have a 10-year maturity that falls due in July 2021.

The parent company acquired a new bond loan in 2012 of TNOK 400 000 at an interest rate of 5.17% with a corresponding swap agreement at a fixed interest rate in EUR on 3.33%. The loan and the interest swap fell due and were redeemed in July 2017.

An overview of interest-bearing assets is shown above, in this note, and as a debt in Note 17. An interest rate change of 1% would have influenced equity, and the results for financial items during the year, net with approximately MNOK 3.4. The amount is stated before tax.

Price risk on sales of power

The major share of the company's and Group's power trading takes place in the spot market, which involves exposure to risk associated with price fluctuations. In the last two years, no power derivatives were used as hedging instruments to limit this risk.

Market risk, securities

The company and the Group are exposed to price risks on investments in equity instruments, classified as held-for-trading or available-for-sale. All decisions about significant purchases and sales are made by the board of directors. The investment strategy has as its main objective to maximise the return on investments through continuing dividends and increasing value of the portfolio.

An overview of the company's financial assets held-for-trading and financial assets available-for-sale are shown above in this note.

Note 17

Interest-bearing loans and borrowings

This note provides information about contractual terms for the Group's interest-bearing loans and borrowings. See Note 16 for more information about the Group's interest rate risk and foreign currency risk.

Bond loans:	2017	2016
5.95% on loans in 2011-2021	300 000	300 000
- capitalised loan costs	1 065	1 565
= Booked value	<u>298 935</u>	<u>298 435</u>
Fair value (see Note 16)	<u>330 855</u>	<u>343 500</u>

An interest rate and currency-swap are entered regarding this loan, where the loan of NOK 300 000 thousand with a fixed rate of 5.95% was converted to Euro 38 511 thousand and a fixed Euro interest of 4.84%. The value of this agreement as of 31.12.2017 was NOK 96 466 thousand.

5.17% on loans in 2012-2017	400 000
- capitalised loan costs	320
= Booked value	<u>399 680</u>
Fair value	<u>408 600</u>

The loan and associated interest rate and currency-swap fell due and were redeemed in July 2017.

Debenture loan:		2017	2016
Parent company			
GBP LIBOR + fixed margin	Floating interest rate on 30.03.15 - 30.06.20	77 637	74 291
USD LIBOR + fixed margin	Floating interest rate on 30.03.15 - 31.03.19		146 540
NIBOR + fixed margin	Floating interest rate on 30.03.15 - 31.03.19		110 985
NIBOR + fixed margin	Floating rate 01.07.15 - 30.06.20	200 000	200 000
NIBOR + fixed margin	Floating rate 03.07.16 - 30.06.20	440 000	438 583
GBP LIBOR + fixed margin	Floating rate 03.07.16 - 30.06.20	221 820	212 260
EUR LIBOR + fixed margin	Floating rate 03.07.16 - 30.06.20	106 275	98 132
Euribor + fixed margin	Floating rate 04.07.17 - 30.06.20	492 015	
Capitalised loan costs		(2 457)	
Total debenture loan, parent company		<u>1 535 290</u>	<u>1 280 791</u>
Subsidiaries			
EFD	Floating interest rate (Euro)	118 875	125 730
Cogen	Floating interest rate (Euro)	62 786	54 391
Tekna	Floating rate (CAD)	38 858	14 274
Tekna	Interest-free (CAD)	6 237	6 937
Bedriftsveien 17	Floating rate (NOK)	30 300	
Arendal Industrier	Floating rate (NOK)	23 494	26 318
Total debenture loans, subsidiaries		<u>280 551</u>	<u>227 651</u>
Total Group		<u>1 815 841</u>	<u>1 508 442</u>

	Group		Parent company	
	2017	2016	2017	2016
<i>Loans secured by mortgage:</i>				
Long-term loans	204 480	175 350		
Bank overdraft	144 012	164 071		
Total loans	<u>348 492</u>	<u>339 421</u>		
<i>Loans are secured by pledges in:</i>				
Other real property	190 305	105 362		
Operational moveable property	8 419	7 183		
Inventories	44 162	71 565		
Accounts receivables	499 518	241 952		
Total sureties	<u>742 403</u>	<u>426 061</u>		

Sureties on acquired debenture loans and bond loans at an equivalent value of MNOK 1834 in the parent company are stated in the form of negative mortgage declarations. Accounts receivable in two of the subsidiaries are pledged as a surety on issued bank guarantees and for the bank overdraft facility.

Covenants: the Group should have a net asset value of at least 40%, amounting to at least MNOK 1500. For Markedskraft equity exclusive of immaterial assets will be a minimum of 45 million and a minimum of 25 %. For EFD, equity shall be min. = 30% and NIBD divided into EBITDA < 3. For Scanmatic, equity should be a minimum of 25% and a minimum of MNOK 16.

For Powel, equity shall be at least 100 million and at least 25% as well as a requirement for invoicing in periods of bank overdrafts.

All companies, with the exception of Powel, complied with their covenant requirements as of 31/12-2017.

Powel's equity ratio tipped below 25 % by the end of the year, but this was cleared with the company's bank connections and brought to order in 2018.

Note 18 – Accounts payable and other short-term obligations

	Consolidated accounts		Parent company	
	2017	2016	2017	2016
Accounts payable	683 945	526 037	35 790	3 042
Other current liabilities (advances from customers are included)	829 078	539 723	43 078	35 431
Derivatives at fair value	8 497	7 276	0	0
Total	1 521 521	1 073 036	78 868	38 472

Note 19 – Operational and financial leases*Operational leases (nominal amount)*

	Consolidated accounts	
	2017	2016
Less than one year	46 571	40 482
Between one and five years	107 808	72 404
Over five years	10 873	18 140
Total liabilities on lease agreements	165 252	131 025

The Group leases several offices and facilities through operational leases.

The leases normally run for a period of 10 years with the option of renewing the contract upon expiry.

The lease fee increased annually at a percentage based on the consumer price index. None of the rental agreements meet conditions for conditional leasing.

In 2017, a cost of MNOK 46.6 was recognised in the income statement for operational leases from continued operations. (2016: mNOK 40,5)

Financial leases

One of the subsidiaries in the group has a lease agreement with an option to purchase the property in 2027. The property is pledged as a surety on related financial lease obligations and has a carrying value of 16 531. The lease was renewed in 2015.

Future minimum lease amounts

	Consolidated accounts	
	2017	2016
Less than one year	1 387	1 390
Between one and five years	5 560	5 561
Over five years	7 479	8 868
Total	14 426	15 819
<i>Present value of future minimum lease amounts</i>	12 438	13 420
Of which:		
- short-term debt	1 387	1 390
- long-term debt	11 051	12 030

Note 20 – Events after balance sheet date

There have not been any events after balance sheet date that significantly affect the financial statements.

Note 21 – Accounting estimates and assessments*Key accounting estimates*

Key accounting estimates are estimates that are important for the presentation of the company's and group's financial position and results and that require subjective assessment.

Arendals Fossekompagni assesses such estimates on an ongoing basis from historical results and experience, consulting with experts, trends, forecasts and other methods considered reasonable in each individual case.

Impairment

Goodwill and other intangible assets with an indefinite useful lifetime are tested for impairment annually. Correspondingly, the company's investments in subsidiaries and associated companies are tested for impairment. The assessment is based on an analysis of the companies' financial positions and forecasts / future prospects. The recoverable amount is measured against the carrying values, which constitutes the expected sales price or present value of future cash flows from the investment. Other assets, including fixed assets and financial instruments available-for-sale are tested for impairment when there are indications that impairment may have occurred.

Depreciations

Depreciation on intangible assets and property, plant and equipment is based on management's assessment of the economic lifetime.

The assessments may change as a result of technological development or other conditions. The changes will affect future depreciation.

Pension assumptions

To calculate accrued pension obligations, the group assumes a return on

pension funds, future percentage of salary adjustments and adjustments to pensions.

These assumptions may prove to be wrong in the future, which will result in modifying the obligations and other future costs than those that can be estimated on the basis of historically reported figures.

Inventories

Inventories consists of raw materials, spare parts and work in progress for use in Group's production activities. The products are under continuous technological development. Parts that are being phased out of production of new products are used as spare parts for their remaining economic life for the products they are included in. The assessment of obsolescence is influenced by uncertainty with regard to the technological pace of change as well as the need for spare parts. Inventories are assessed at least once a year based on these criteria.

Construction contracts

The Group uses a continuous settlement method to recognise income from construction contract in the accounting period. The method for determining degree of completion is project progress. The Group only recognises income from projects as income if they meet the established criteria for contract value, progress and production time. The greatest uncertainty is related to estimating the project's completion. Further details are given in Note 13.

Recognised deferred tax assets

The company and the Group recognised significant amounts as deferred tax assets." The most important part of the asset is attributable to temporary differences between tax and accounting values on assets related to electricity generation and tax loss carried forward. Based on realistic expectations of good future revenue opportunities in energy generation, the company / Group will be able to utilise these differences when calculating future payable taxes.

Should the expectations prove to be wrong, this will have an effect on future tax expenses.

Fair value of unlisted financial investments

The fair value of such instruments is based on the well-known market prices close to the balance sheet day, or valuations based on common valuation methods. Values based on such information and methods are considered best estimates. Errors in estimates may affect future changes in equity and profit/loss results.

Note 22 – Earnings per share in NOK

Basic earnings per share/diluted

Basic earnings per share for 2016 are based on the profit attributable to shareholders in the parent company and the weighted average number of outstanding ordinary shares throughout 2017 at 2 188 458 (2016: 2 198 278) calculated as follows:

Results attributable to ordinary shares

Profit/loss for the year

- Non-controlling interests share

Profit/loss for the year attributable to equity holders of the parent

	2017	2016
Profit/loss for the year	2 499 507	475 649
- Non-controlling interests share	-84 859	-91 533
Profit/loss for the year attributable to equity holders of the parent	2 414 648	384 116

Results from activities held-for-sale

Profit/loss for the year for continued operations is attributable to equity holders of the parent

Results from activities held-for-sale	-2 400 984	-174 833
Profit/loss for the year for continued operations is attributable to equity holders of the parent	13 664	209 283

Weighted average number of ordinary shares

Issued ordinary shares as of 1 January

Effect of treasury shares

Number of outstanding shares as of 31/12

	2017	2016
Issued ordinary shares as of 1 January	2 239 810	2 239 810
Effect of treasury shares	-50 852	-51 852
Number of outstanding shares as of 31/12	2 188 958	2 187 958
Weighted average number of ordinary shares for the year	2 188 458	2 198 278
Basic earnings per share/ diluted earnings per share (NOK)	1 103,36	174,73
Basic earnings per share/ diluted earnings per share for continued operations (NOK)	6,24	95,20

Note 23**20 largest shareholders**

	Number of shares	Ownership
Ulfoss Invest AS	588 395	26,3 %
Havfonn AS	582 716	26,0 %
Must Invest AS	564 249	25,2 %
Arendals Fossekompni ASA	50 852	2,3 %
Intertrade Shipping AS	30 126	1,3 %
Svanhild og Arne Musts fond	27 289	1,2 %
Fondsfinans Pensjonskasse	20 463	0,9 %
Fabulous AS	18 245	0,8 %
Per-Dietrich Johansen	15 015	0,7 %
Cat Invest AS	14 874	0,7 %
Ropern AS	13 515	0,6 %
Böhler Invest AS	11 400	0,5 %
Sverre Valvik AS	11 281	0,5 %
Erik Böhler	11 204	0,5 %
Fondsfinans Utdannelsesfond	9 509	0,4 %
Annabel Altenborg Must	9 467	0,4 %
Ove Oland	8 420	0,4 %
Fr Falck Frås AS	7 373	0,3 %
Erik Christian Must	7 200	0,3 %
Trine Must	7 200	0,3 %
	2 008 793	89,7 %

In reference to § 7-26 of the Norwegian Accounting Act, the following can be stated if the shares owned by each member of the board of directors and the CEO as shares owned by spouses, minor children, or by the company in which the person concerned has a controlling influence, are included.

Board of directors	Personal	Related	Total
Øyvinn A. Brøymer		30 126	30 126
Morten Bergesen		582 716	582 716
Didrik Vignæs		720	720
Marianne Lie		120	120
Heidi Marie Petersen		1 000	1 000
Arild Nysæther		0	0
Marianne S. Lyngvi	66	0	66
	66	614 682	614 748
Managing director			
Jarle Roth*		1 000	1 000

* See note 4 concerning rights to purchase shares.

Note 24**Related parties**

The company's/Group's related parties comprise subsidiaries, associated companies and members of the board of directors and senior management.

Transactions with key management personnel

Members of the board and management at the company and their immediate relatives control 27.5 % of the vote -eligible shares in the company.

Loans to senior employees (see Note 4) amounted to NOK 2703.647 (2016: NOK 1.631918) as of 31 December.

These loans are included in "Other investments". Interest will be charged on loans to management at a rate that does not trigger taxable benefits.

In addition to the normal salary, management receives other benefits in the form of defined benefit or defined contribution pension plans. (Also see Note 4).

Transactions with other related parties

Transactions between Group companies and other related parties are based on the principles of market value and arm's length. Arendals Fossekompni has purchased services in 2017 regarding market management for NOK 480 thousand from Markedskraft (NOK 476 thousand in 2016).

Arendals Fossekompni had gains on a currency loan to Markedskraft in 2017 amounting to NOK 1 386 thousand (a loss of NOK 2 059 thousand in 2016).

NSSL Global Ltd has purchased services from Whitehill Design Ltd. for a total of GBP 1.1 thousand in 2016 (GBP 12.8 thousand in 2016).

This company is controlled by the spouse of the managing director at NSSL Global Ltd.

The landlord of the premises for EFD Inducion in Germany was a shareholder in the company up to May 2017.

Rental amounted to Euro 576 thousand in 2017.

Note 25 – Discontinued operations

Arendals Fossekompani entered, on 29 September 2017, into an agreement to sell its ownership interest in Glamox of 75.16%. The figures from the company are therefore presented on separate lines in the income statement, as Profit/loss from discontinued operations, and in the balance sheet as Discontinued operations.

Restatement of comparative balance sheet figures provide, in the Group's opinion, more appropriate information for users of the financial statements. For the original figures for 2016, we refer you to the annual report for 2016.

The agreed price for the shares was NOK 2 791 809 thousand. The sale resulted in a gain for the parent company of NOK 2 323 477 thousand and in the Group of NOK 2 191 816 thousand. AFK also received an extraordinary dividend from Glamox in August, of NOK 210 452 thousand.

Below are the key figures from Glamox from the income statement and balance sheet for 2017 and 2016.

Profit/loss	2017	2016
Operating revenues	2 436 271	2 508 602
Operating expenses	2 078 205	2 196 297
Depreciation of fixed assets	42 515	42 099
Amortisation of intangible assets	33 714	34 743
Operating profit/loss	281 837	235 462
Profit/loss for financial items	-7 622	-12 003
Tax expense	-65 047	-48 626
Gain on sale of Glamox	2 191 816	
Profit/loss from discontinued operations	2 400 984	174 833
Basic earnings per share (NOK)	1 097	80
Balance		
Fixed assets		375 410
Current assets		1 077 627
Total assets		1 453 037
Goodwill and fair value regarding Glamox in the Group		298 967
Total assets available-for-sale		1 752 004
Long-term liabilities		342 421
Short-term liabilities		445 191
Total liabilities available-for-sale		787 612
Cash flow from operations available-for-sale	2017	2016
Net cash flows from operating activities	171 115	320 854
Net cash flows from investing activities	-164 937	-104 767
Net cash flows from financing activities	-386 252	-99 295
Net cash flows for the year	-380 074	116 792



KPMG AS
Strømsbuveien 61
4836 Arendal

Telephone +47 04063
Fax +47 37 00 52 25
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Arendals Fossekompagni ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arendals Fossekompagni ASA. The financial statements comprise:

- The financial statements of Company and Group, which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and cash flow statement 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 Company and Group financial statements give a true and fair view of the financial position of Arendals Fossekompagni ASA as at 31 December 2017, and of the Company and Group's financial performance and 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, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group 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.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslo	Elverum	Mo i Rana	Stord
Alta	Finnsnes	Molde	Siraune
Arendal	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bodø	Knarvik	Sandnessjøen	Tynset
Drammen	Kristiansand	Stavanger	Ålesund



Value of intangible assets

The Group has intangible assets with a book value of MNOK 799 - including goodwill amounting to MNOK 530, ref accounting principles and note 6 to the financial statements. Intangible assets originate both from business combinations and capitalization of own development cost in the different business segments. The different business segments are described in note 1 segment reporting.

<i>Description of matter</i>	<i>Our audit approach</i>
<p>The Group's operations are sensitive to changes in currency exchange rates, changes in market prices for raw materials and changes in market prices for sold products. Changes in these factors may influence important assumptions used in estimates of future cash flows that may indicate impairment of goodwill and other intangible assets.</p> <p>A major part of book values of intangible assets in the group is goodwill or other intangible assets from previous business combinations.</p> <p>97 MNOK of total book value of intangible assets relate to on-going or finished development projects in the segment Powel.</p> <p>Group management, in cooperation with management in subsidiaries, perform annual impairment tests for goodwill. The tests are performed at segment level, which is the level of cash generating units chosen by management for monitoring goodwill.</p> <p>The management also performs continuous evaluations of whether indications of impairment exists for other intangible assets.</p> <p>For on-going development projects, annual testing for impairment is performed by calculating recoverable amount pr. project.</p>	<p>Our audit approach included i.a. the following:</p> <ul style="list-style-type: none"> • We have reviewed management's documented evaluation of indications of impairment of intangible assets. • In cooperation with auditors in the different subsidiaries and sub groups, we have reviewed the evaluations performed by local management related to impairment indications. • We have evaluated management's model for calculation of recoverable amount and the process for determining forecasts and assumptions used in the different segments with goodwill or on-going development projects. • We have evaluated whether the group's identification and classification of cash generating units is in accordance with requirements in accounting regulations. • We have compared future cash flows to budgets and long-term plans prepared by segment management. • We have compared management's previous forecasts to actual cash flows and used this as basis for our evaluation of estimated future cash flows. • We have performed mathematical re-calculations of the models applied. • We have evaluated the assumptions and methodology for determining discount rates and growth rates used in the calculation of future cash flows and compared assumptions used to external information.



Sale of the segment Glamox

Please refer to the section regarding discontinued operations in the accounting principles and to note 25 for more detailed description of the transaction and the accounting treatment.

<i>Description of matter</i>	<i>Our audit approach</i>
<p>In 2017, Arendals Fossekompni ASA sold the segment Glamox. The segment consisted of a separate sub group with Glamox AS as parent company.</p> <p>The sale was carried out as a sale of shares in subsidiary with cash settlement and resulted in gains of MNOK 2 323 in the parent company and MNOK 2 192 in the group.</p> <p>Comparable figures and note information have been amended in order to present the segment as a discontinued operation in accordance with IFRS 5.</p> <p>At the time of sale, Glamox was the largest segment in the Arendals Fossekompni Group. Consequently, the accounting treatment and note information related to the sale has been a key audit matter in the 2017 audit.</p>	<p>Our audit approach included i.a. the following:</p> <ul style="list-style-type: none"> • We have read the sections of the sale and purchase agreement related to the completion of the transaction including rights and responsibilities for the seller and, based on this, evaluated managements determination of transaction date. • We have read the sections of the sale and purchase agreement related to sales price and compared them to the calculations prepared by management. We have also checked that the agreed cash settlement has been paid into the company's bank account. • We have performed mathematical re-calculations of gains for parent company and group. • We have reviewed and evaluated the accounting treatment of transaction cost. • We have checked the amended comparable figures and the presentation of discontinued operations in the financial statements. • We have compared the note information to the sale and purchase agreement and considered whether the note information is appropriate.

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 in accordance with law and regulations, including fair presentation of the financial statements 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 and using 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, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. 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.
- 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 or the Group'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 and the Group'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 and the Group 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 the Board of Directors 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 the Board of Directors 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 the Board of Directors, 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

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 in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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.

Arendal, 23 March 2018
KPMG AS

Nils Eivind Holst
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Declaration by the members of board and CEO

The board and CEO have reviewed and approved the Annual Report and Annual Accounts for Arendals Fossekompagni ASA – which includes the Group and the parent company – for calendar year 2017 and as of 31. 12.2017 (Annual Report for 2017).

The company accounts and consolidated accounts were prepared and submitted in accordance with IFRS standards adopted by the European Union, along with appurtenant interpretations, and in compliance with further disclosure requirements pursuant to the Norwegian Accounting Act that shall apply as of 31.12.2017. The Annual Report for the Group and parent company was submitted in accordance with the provisions of the Accounting Act and Norwegian Accounting Standard 16 as of 31.12.2017.

To the best of our knowledge:

- the Annual Accounts for 2017 for the Group and parent company were prepared in accordance with current accounting standards,
- and the information presented in the accounts provides a true and fair picture of Group and parent company assets, liabilities, financial position and profits/losses as of 31. 12.2017.
- the Annual Report for the Group and parent company provides a true and fair picture of the
 - development, results and financial position of the Group and parent company.
 - key risk and uncertainty factors at the Group and company are stated above.

Froland, 21 March 2018

Øyvind A. Brøymer
Chairman

Morten Bergesen
Deputy Chairman

Didrik Vignæs

Arild Nysæther

Marianne Lie

Heidi Marie Petersen

Marianne Sigurdson Lyngvi

Jarle Roth
CEO

Corporate Governance at Arendals Fossekompani

Adopted by the board of directors on 17 August 2006 (revised on 21 March 2018)

ARENDAKS FOSSEKOMPANI is an industrial investment company which, on the basis of local electricity production, develops companies with international potential. We engage in active, long-term and responsible ownership, and combine industrial competence with financial strength. The Group operates a decentralised management model in the pursuit of strategic development and operational improvement. This model allows us to create value for our shareholders, employees, customers and society as a whole. Good corporate governance will ensure we achieve this goal.

ARENDAKS FOSSEKOMPANI is listed at the Oslo Stock Exchange, and is therefore subject to Norwegian securities trading legislation and the stock exchange's own regulations .

Corporate Guidelines

The following guidelines form the basis for corporate governance at ARENDALS FOSSEKOMPANI:

- ARENDALS FOSSEKOMPANI shall communicate honestly and openly with the public about our activities and any conditions related to corporate governance.
- The board of directors at ARENDALS FOSSEKOMPANI shall be independent of Group management.
- Emphasis shall be placed on avoiding conflicts of interest between shareholders, board members and executive management.
- The tasks and functions of the board and executive management at ARENDALS FOSSEKOMPANI shall be distinct and clearly defined.
- All shareholders shall be treated equally.

Norwegian Code of Practice

Key guidelines from the Norwegian Code of Practice for Corporate Governance: The following describes ARENDALS FOSSEKOMPANI's compliance with, and permitted deviations from, the Code of Practice. A complete overview of the Code of Practice and official remarks by the Oslo Stock Exchange are available online: <http://www.nues.no>

1. Implementation and reporting on corporate governance

The Group has prepared a separate corporate governance policy, and the board has decided to implement the *Norwegian Code of Practice for Corporate Governance*.

The board has prepared a document entitled Core Values and Ethical Guidelines, which covers, among other things, legal competence, corruption and discrimination, and regulates our employees' securities trading activities.

2. Business

The object of Arendals Fossekompani ASA is, through in-house production, participation in new infrastructure, purchase or leasing, to make use of or sell electricity, as well as to participate, directly or indirectly, in other industrial activities or business enterprises, including investing in real estate.

These objectives are expressly stated in Section 1 of the company's Articles of Association. Please contact the company if you would like to receive a copy of the Articles of Association.

Arendals Fossekompani has significant financial capacity. Our investment portfolio will, at all times, consist partly of long-term and active ownership commitments, partly of liquidity management operations. Liquidity will be managed mainly via listed shares and bonds. The bulk of our share portfolio will consist of a limited number of major investments. Our investment strategy is based on our belief that active, long-term and responsible ownership provides the best yield for the risk involved.

3. Equity and dividends

Equity

The book value of the Group's equity as of 31.12.17 was MNOK 4,386, which amounted to 51,4% of total assets. Real equity is significantly higher, and the company rests on a solid financial foundation. The board is constantly assessing the company's need for financial strength in light of its objectives, strategies and risk profile.

Dividend policy

It is AFK's policy to pay a dividend that reflects the company's long-term strategy, financial position and investment capacity. The annual dividend shall over time, ensure that shareholders receive a competitive return on their investment.

Since 1 July 2013, the general meeting has been entitled to authorise the board to allocate an annual dividend based on the approved year-end financial statements. Grounds should be given for any such proposal.

Capital increase

No authorisation to undertake a share issue has been granted to the board. The most recent capital increase occurred in 2012, when the share capital was raised by NOK 201,582,900 to NOK 223,981,000 through a transfer from other funds.

Purchase of own shares

The general meeting can authorise the board to purchase up to 10% of the company's own shares. At the annual general meeting on 16 May 2017, the board was authorised to purchase treasury shares up to a maximum of 8.6%. The terms of the authorisation permit the board to acquire treasury shares only between a minimum price of NOK 100 and a maximum price of NOK 5,000 per share.

As of 31.12.2017, the Group owns a total of 50,852 shares, or 2.3% of all the shares in its own company. These shares are freely negotiable. This authorisation is valid until the 2018 annual general meeting.

4. Equal treatment of shareholders and transactions with close associates

Share classes

The group shares consist exclusively of A-shares. According to Section 11 of the company's Articles of Association, no shareholder may personally or by proxy vote for more than one quarter of the total number of shares. Shares transferred to new owners do not confer voting rights until the transfer has been approved by the board. All shares have equal rights.

Transactions in own shares

The board may exercise its authority to acquire treasury shares as long as the shares are acquired at the market price. Correspondingly, the divestment of acquired shares will also be undertaken at market price.

Transactions with close associates

On 18.05.17, the company sold 1,000 of its own shares to the CEO, Jarle Roth, via his wholly-owned company Incak AS. Except for this, the board is of the opinion that no transactions have occurred between the company and shareholders, board members, executive management or related parties in 2017 that could be described as *not immaterial transactions*. Please see Note 24 in the Annual Report for further details.

Guidelines for board members and executive management

If a board member or a member of executive management has a material direct or indirect interest in an agreement with the company, that person must disclose the fact before the matter is put to the board, and he or she may not participate in discussions or votes on that matter.

5. Freely negotiable shares

Pursuant to the Norwegian Industrial Licensing Act, a shareholder who acquires more than 20% of the total number of shares in a company must apply for a licence to do so. The law requires the board's approval for such acquisitions. Several additional provisions in the Industrial Licensing Act could cause the acquisition of company shares to affect both the company itself and the other shareholders. The company has therefore found it necessary to reserve the right to refuse approval of share acquisitions of this kind. According to Section 7 of the Articles of Association, any acquisition by means of transfer is conditional on the board's consent. Consent may be refused only on reasonable grounds.

6. General meeting

Notification

The annual general meeting is conducted as early in the year as is practically possible after the close of the previous financial year has ended, usually in April or May.

An invitation to attend and appurtenant case documents will be available on the company's website at least 21 days prior to the general meeting. A written invitation to attend, without case documents, will be sent to all shareholders with a known address. The board will provide shareholders with all the information necessary to help them take a position on all agenda items, along with proposals relating to the election of board members. The Articles of Association permit notice of participation to be given up to two days prior to the date of the general meeting.

The company's financial calendar will be made available online.

Participation

The shareholders can give notice of their participation either in writing or via the internet. The board will schedule the meeting so that as many as possible of the shareholders are able to participate. Shareholders who cannot attend in person are encouraged to appoint a proxy. Representatives of the board of directors shall attend the general meeting, along with the auditor. The chief executive officer (CEO) and the chief financial officer (CFO) shall participate on behalf of executive management.

Agenda and execution

The board of directors will set the agenda according to the list in Section 10 of the Articles of Association. According to Section 10, the participants of the general meeting appoint a chairperson to lead the meeting.

7. Nominations committee

The company has a nomination committee consisting of three members.

Candidates for election to the board of directors are announced in conjunction with the invitation to attend the general meeting. Nominations for other candidates can be submitted before and during the general meeting itself.

8. Board of directors – composition and independence

The board consists of seven members, and currently comprises the following: Morten Bergesen, Øyvinn A. Brøymer (Chair), Marianne Lie, Marianne Sigurdson Lyngvi, Arild Nysæther, Heidi Marie Petersen and Didrik Vignæs, all shareholder-elected members. Note 4 of the Annual Report contains information about board meeting attendance. Information about the competence and independence of board members is stated in subsequent paragraphs.

Election of board members

The general meeting elects seven representatives to the board. Ahead of the election, the names of candidates may be submitted to the nominations committee by an individual shareholder or by several shareholders jointly. Nominations submitted in time will be included in the invitation to attend the general meeting sent to all shareholders, as well as being posted on the company's website. Board members are elected by simple majority. Members are elected for two years at a time, with the possibility of re-election. About half of all board members are elected each year.

Board of directors – composition and competence

It is considered important that the board as a whole has experience of board proceedings and the company's core activities. According to the company's Articles of Association, the board shall comprise five to seven members. The board currently consists of seven members. The CEO is not a member of the board.

The board is elected for two years at a time and selects its own chair. Øyvinn A. Brøymer has been elected to chair the board.

Changes to the board in 2017

At the annual general meeting held in May 2017, Morten Bergesen, Øyvinn Brøymer, Arild Nysæther

and Heidi Petersen were re-elected as board members. There were no changes to the composition of the board in 2017.

Board independence

All shareholder-elected board members are considered autonomous and independent of Group management. The same applies to material business connections. At the close of the year, Morten Bergesen, Erik Must (board member Arild Nysæther is the managing director of Must Invest AS) and Kjell Chr Ulrichsen (Didrik Vignæs is the managing director of Vicama AS, which is the largest shareholder in Ulefoss Invest AS) each owned – directly, indirectly or via related parties – approximately 26% of the company's shares.

The board works actively to ensure that no conflict of interest exists between shareholders, the board, executive management and the company's other stakeholders.

Shares owned by board members

In addition to the shares held by the representatives of the three principal shareholders mentioned above, board members had, either personally or through wholly-owned companies, the following shareholdings as of 31.12.17: Øyvind A. Brøymer (30,126 shares) Heidi M. Petersen (1,000) shares, Marianne Lie (120 shares) and Marianne Sigurdson Lyngvi (66 shares).

Deviations from the Code: The board chooses its own chair, according to Section 4 of the Articles of Association.

9. The work of the board of directors

The board's tasks

The board shall determine the Group's strategy, carry out necessary control functions and ensure that the Group is satisfactorily managed and organised. The board shall set the company's financial objectives and approve its plans and budgets.

Rules of Procedure for the board

The Rules of Procedure for the board of directors encompass the following: The role of the board and its tasks, the tasks of the CEO and his or her obligations towards the board, formal procedures for the handling of matters brought before the board, notice of board meetings and matters required to be considered by the board, etc., The Rules also stipulate when the board is in quorum, how minutes shall be kept, how legal disqualification is determined and how the duty of confidentiality shall apply. The board may deviate from the Rules of Procedure in certain situations.

Providing instructions for executive management

A clear distinction has been made between the tasks and work of the board and that of executive management. The board's chair is responsible for ensuring that the board's proceedings and work are conducted in an effective and correct manner. The CEO is responsible for managing company operations. The CEO's tasks are clearly stated in the instructions drawn up for that position.

Notice of board meeting and meeting procedures

The board has an annual plan containing a set of predetermined topics for consideration at board meetings.

The board normally meets 6–8 times a year. Additional meetings will be held when necessary. The

board held 12 board meetings in 2017, and one board of directors' seminar.

All board members receive information about the company's operational and financial performance on a regular basis and in good time before the scheduled meetings. Board members also receive monthly operational reports. The company's business plans, strategies and risks are reviewed and evaluated regularly by the board.

The final agenda for the board meeting is determined by the chair in consultation with the CEO. The CEO attends board meetings together with the board members. Others are invited to attend when this is deemed necessary.

Duty of confidentiality – communication between the board and shareholders

In principle, the minutes of board meetings and the board's discussions are confidential, unless the board decides otherwise or there is no apparent reason to maintain confidentiality or secrecy.

Legal competence

The board complies with the rules for legal competence and disqualification pursuant to Section 6–27 of the Norwegian Public Limited Liability Companies Act and the board's own Rules of Procedure. There were no issues in 2017 for which a board member was disqualified from discussing or voting for reasons of legal competence. Please refer to Item 4 above, *Guidelines for board members and executive management*.

Use of committees

The Group has established an audit committee consisting of members of the board and representatives of executive management. The board has also established a remunerations committee comprising members of the board.

Self-assessment

The board carries out an assessment of its activities once a year. This assessment will take as its starting point the company's business activities, the nature of the board's work and interactions. The board also evaluates its performance in relation to corporate governance

10. Risk management and internal control

The Group has no separate internal auditing department. Financial audits are carried out on a task-sharing basis, and in compliance with our guidelines and approval routines. The board carries out an annual review of the company's most important risk areas and internal controls, and it receives a report from the auditor addressing such matters. The board evaluates the company's core values and guidelines for ethics and social responsibility every year, and verifies the extent of compliance with these guidelines.

Group and company financial reporting process

The board receives monthly financial reports, with accompanying comments on the financial performance of the Group, company and all subsidiaries. Extensive reports are prepared every fiscal quarter, with comments about the financial status of all levels in the Group.

The finance department analyses the company's income and balance statements in connection with each monthly report. A detailed reconciliation of balance sheet and income items is prepared each quarter,

based on a predetermined plan. The value of material and risk-exposed balance sheet items is assessed. Major and extraordinary transactions are reviewed. All control procedures are documented. The most significant subsidiaries (see Note 1 – Segment Reporting) have similar routines for financial reporting to the Group.

Infor-PM is used for consolidation. This is a web-based database supplied by Infor. Our subsidiaries report all figures to this database online. The finance departments at our subsidiaries are responsible for the quality of the data reported each month and quarter. In connection with the preparation of the year-end financial statements, the quality of the reported data is checked by the companies' auditors. Our subsidiary, EFD, also uses Infor-PM for consolidation. The other subsidiaries use spreadsheets for consolidation.

The audit committee (see above) carries out and documents a detailed review of the quarterly and annual reports prior to their consideration by the board. The minutes of audit committee meetings are available to the board.

11. Remuneration to the board of directors

The annual general meeting determines the remuneration payable to board members. The 2017 annual general meeting resolved that, with effect from May 2017, the board's chair shall receive a fee of NOK 350,000, while NOK 218,000 shall be paid to the other board members. Arild Nysæther received GBP 22,500 as chair of the board of NSSL, and Morten Bergesen received EUR 15,000 as chair of the board of Cogen Energia España.

Remunerations paid to board members are not linked to financial performance or option schemes, etc. None of the board's shareholder-elected members work for the company in other capacities.

12. Remunerations to executive management

The executive management salary declaration (Ledlønnsærklæringen) is a separate case document, which is put to the annual general meeting.

Guidelines

The CEO's employment terms and conditions are determined by the board of directors. Each year, the board makes a thorough assessment of the salary and other remunerations paid to the CEO. The board may also award an annual, performance-related bonus to the CEO.

The board's evaluation is based on market surveys for similar positions. The terms and conditions for other executive management positions and employees at the parent company are set by the CEO, who then informs the board's chair. Terms and conditions for the senior executives of subsidiaries are set by the boards of the respective companies.

The board takes the position that the company must remain competitive with regard to the remuneration paid to members of executive management. These guidelines are laid before the annual general meeting, as a matter of information.

Profit-based remunerations

Executive management at the parent company benefit from normal performance-related bonus schemes.

Our subsidiaries offer employees contractual, profit-based remunerations to varying degrees.

Terms and conditions

Terms and conditions are described in Note 4 of the Annual Report.

13. Information and communication

Annual Accounts and Annual Report – periodic reporting

The Group normally publishes its preliminary year-end financial statements in February. The complete year-end financial statements, along with the Annual Report, are published on the company's website in March/April. Otherwise, accounting figures are reported on a quarterly basis. The company's financial calendar is published on the company's websites.

Other market information

The Group considers it important to inform owners and investors about its development and its financial status. Emphasis is placed on providing the financial market with the same information at the same time. In conversations with shareholders and analysts, care is taken to avoid giving more information to some than to others.

14. Take-overs

Based on our current shareholder structure, the conditions described for take-overs do not apply to the company.

15. Auditor

Auditor's formal relationship to the board

The auditor is at the disposal of the board of directors and shall attend board meetings if needed. The auditor shall participate in audit committee meetings and attend any meetings that deal specifically with the year-end financial statements. The auditor will at that time inform the board about any issues or concerns he or she might have, including any possible disagreements between the auditor and executive management.

The board holds annual meetings with the auditor to review reports submitted by the latter concerning the company's accounting principles, risk areas and internal control routines.

Auditor's formal relationship to executive management

The board has drawn up guidelines for Group's business relations with the auditor.

The fees paid to the auditor for statutory auditing and consulting services are presented separately in the year-end financial statements.

The Group has been using KPMG for a number of years. In addition to an ordinary audit, KPMG has also provided consulting services within areas such as accounting, taxation and reporting to the Norwegian Water Resources and Energy Directorate (NVE). The board regularly assesses whether the auditor's control function is being carried out satisfactorily.

In 2017, management put the Group's auditing services out to tender. As a result, the board is recommending that the annual general meeting to be held in April 2018 elects PWC as the new auditing firm.

MAIN FINANCIAL FIGURES**Group**

(NOK thousand)	2017	2016	2015	2014	2013
Operating revenues	4 426 873	4 014 480	3 587 251	2 828 569	2 602 614
Operating costs	4 161 851	3 774 095	3 263 956	2 692 367	4 464 399
Operating profit/loss	265 022	240 385	323 295	136 202	-1 861 785
Financial results	-72 358	139 891	52 503	-18 617	-9 349
Share of profit/loss from associated company	-6 329	-5 065	-768	-39 860	-3 953
Pre-tax profit/loss	186 335	375 211	375 030	77 725	-1 875 087
Taxes	-87 812	-74 395	-82 997	-25 036	-42 614
Minority share of results	-84 859	-91 714	-97 307	-57 054	-32 608
Profit/Loss from continued operations	98 523	300 816	292 033	52 689	-1 917 701
Resultat fra avviklet virksomhet	2 400 984	174 833	199 332	172 219	129 546
Profit/loss for the year	2 499 507	475 649	491 365	224 908	-1 788 155
Total profit/loss	2 774 555	355 972	672 797	215 474	212 280

KEY FIGURES**Group**

			2017	2016	2015	2014	2013
Return on equity	1)	%	2,6	15,1	17,5	8,2	2,7
Total profit	2)	%	3,1	8,5	9,6	5,7	2,9
Gross operating margin	3)	%	8,4	11,6	14,2	12,0	8,2
Net operating margin	4)	%	6,0	7,3	9,8	7,2	2,9
Gross profit margin	5)	%	4,2	9,2	10,6	6,2	2,7
Equity ratio	6)	%	51,4	40,9	40,0	36,1	43,0
Degree of liquidity 1	7)		3,4	2,2	1,9	2,0	3,2
Earnings per share	8)	kr	1 103,44	174,73	176,54	73,34	21,13
Dividends per share		kr	659,00	515,00	96,00	93,00	310,00

Definitions:

- 1) Return on Equity=
Results minus tax costs divided by average equity.
- 2) Total profit
Profit + interest costs divided by average total assets.
- 3) Gross operating margin=
Operating profit + ordinary depreciations in percent of net operating revenues.
- 4) Net operating margin=
Operating profit in percent of net operating revenues.
- 5) Gross profit margin=
Profit divided by net operating revenues.
- 6) Equity Ratio=
Equity divided by total assets.
- 7) Degree of liquidity 1=
Current assets divided by current liabilities
- 8) Earnings per share (EPS)=
Profit after tax divided by average number of outstanding shares, fully diluted.

GENERAL MEETING

will be held on Thursday 26 April 2018 at 17:00
at **Hotel Bristol, at Kristian IV gate 7 Oslo.**

Shareholders who wish to participate at the general meeting or who are represented by proxy, must report this in writing to the company two days before the annual general meeting. Cf. Section 9 of the articles of association.

DIVIDENDS FOR 2017

Dividends for 2017 will, with reservation to decisions by the general meetings approval, shall be paid in the form of shares in Kongsberg Gruppen to shareholders as of 26 April 4.36 shares in Kongsberg Gruppen will be paid for each AFK share. The shares are quoted ex-dividend as of 27 April 2018.

The expected distribution of dividends will be 9 May. We ask that you notify us of any changes to address, to: DnB NOR Bank ASA, Verdipapirservice, Stranden 21, 0021 OSLO

RISK-AMOUNT

Option initial value as of 1.1.1992:	kr 274,76
Risk-amount as of 1.1.1993:	kr 0,00
Risk-amount as of 1.1.1994:	kr -1,53
Risk-amount as of 1.1.1995:	kr 5,23
Risk-amount as of 1.1.1996:	kr 17,66
Risk-amount as of 1.1.1997:	kr 11,37
Risk-amount as of 1.1.1998:	kr 57,99
Risk-amount as of 1.1.1999:	kr 13,78
Risk-amount as of 1.1.2000:	kr 20,05
Risk-amount as of 1.1.2001:	kr 16,25
Risk-amount as of 1.1.2002:	kr 10,13
Risk-amount as of 1.1.2003:	kr -4,52
Risk-amount as of 1.1.2004:	kr -22,29
Risk-amount as of 1.1.2005:	kr -26,39
Risk-amount as of 1.1.2006:	kr -37,37

CAPACITY AND PERFORMANCE

The table below indicates reservoir capacity in the Arendalsvassdraget water course as of 1 January 2017 and the power stations output in MW.

(1 MW is equivalent to 1,000 kilowatts)

Reservoirs	Mill.m3
Urvann	32
Borsæ	85
Skrevann	20
Vråvann	21
Nisser	223
Napevann	217
Lyttingsvann	6
Rolleivstad/Husstøylvann	7
Kjørull	7
Øysæ	64
Torsdalsmagasinet (reservoir)	106
Votna	32
Gausvatn	31
Fyresvatn	218
Nesvann	257
Nelaug	25
Total	1 351

Arendals Fossekompani ASA owns a share of regulating rights related to reservoirs.

Power plants	MW
Flatenfoss II	5
Flatenfoss III	7
Bøylefoss	65
Total	77

Average annual production for the last 10 years has been 500 GWh

Power terminology:

V, kV

Electrical voltage is measured in volts

A, kA

Current is measured in amperes

W, kW, MW

Output is measured in watts

kWh, MWh, GWh, TWh

Energy is measured in kilowatt-hours

k = kg

M = Mega (million)

1 MWh = 1000 kWh

G = Giga (billion)

1 GWh = 1000 MWh

T = Tera (a thousand billion)

1 TWh = 1000 GWh

BERETNING OM SELSKAPETS DRIFT I 1917

Kraftanlæggets drift har med en enkelt undtagelse foregået helt normalt i året. Undtagelsen gjælder en periode fra 1ste mars til 24de april, i hvilken der indtraadte vandmangel forårsaket av den ekceptionelt strenge kulde, der begyndte omkring 1ste januar og varte til 23de mars. Belastningen paa vore kraftkonsumenter maatte derfor i perioden 1ste mars til 24de april reduceres med gennemsnitlig ca. 28 %.

Totalt er i 1917 fra	167 mill. K.W.timer
Boilefos kraftanlæg avgit	43 » —
og fra Rygene kraftanlæg over vore ledninger	210 mill. K.W.timer
Tilsammen	<u>210 mill. K.W.timer</u>

Som meddelt i forrige årsberetning blev Aktieselskabet Barbu, hvori vort selskap har aktiemajoriteten, solgt til Arendals kommune. Aktieselskabet Barbu, der endnu ikke er helt avviklet, har foreløbig utbetalt kr. 135,00 pr. aktie, der er avskrevet paa aktiekonto. Av vore faste eiendomme er i året solgt ca. 90 maal til A/S Arendal Smelteverk, og det herfor indkomne beløp avskrevet paa eiendomskonto.

Tilsynsraadets forslag til fordeling av overskuddet for 1917, tiltraadt av generalforsamlingen den 2/4 1918:

Reservefondet	Kr. 50 000.00
Utbytte 6 %	» 216 000.00
Fornyelsesfond	» 27 000.00
Avskrivning paa aktiers konto	» 50 000.00
— » — inventarie-konto	» 5 406.43
Overføring i ny regning	» 31 087.83
	<u>Kr. 379 494.26</u>



**ARENDAALS
FOSSEKOMPANI**

Arendals Fossekompani ASA

Bøylefoss | 4820 Froland | Telefon: 37 23 44 00

E-post: firmapost@arendalsfoss.no | www.arendalsfoss.no

Foretaksregisteret: NO 910 261 525 MVA