



BELSHIPS

ANNUAL REPORT 2017

We are excited about our journey over the coming years

DEAR READER

I am proud to present the annual report for Belships ASA, and to introduce you to a company with a long history, extensive experience, strong expertise and a promising future.

From its origin in 1918 and focus on specialized heavy lift ships, the company made a valuable contribution for the Allied forces during World War II and during the Korean War. Later on, the company also entered both the tanker- and the energy sector.

Today, Belships ASA has developed into a pure dry bulk tonnage provider with full concentration on one non-specialized asset type. The company has been stock listed on the Oslo Stock Exchange since 1937.

Our subsidiary, Belships Management (Singapore) Pte Ltd, has made its mark on one of the world's most challenging industries for close to 35 years – an industry where clients manage valuable assets and demand the highest level of expertise and ability from their partners. We focus without compromise on strict risk management to minimize the hazards to both people and the environment and we appreciate the demands and challenges made by our esteemed clients.

Belships ASA outlined in 2013 a bold newbuilding program for eco-design Ultramax bulk carriers to be constructed by Imabari Shipbuilding Group in Japan. This strategic move has transformed the business area into a state-of-the-art dry bulk tonnage provider with high focus on quality, fuel efficiency and emission control. The Company took delivery of one 61,000 dwt Ultramax in September 2015 (Belforest), a sister ship in March 2016 (Belisland) and one 63,000 dwt Ultramax in January 2018 (Belnippon). Both Belforest and Belnippon are on charter to Cargill, whereas Belisland is on charter to Canpotex. Another 63,000 dwt Ultramax will be delivered from Imabari Shipbuilding within first half 2020.

Our corporate strategy is to provide our reputable clients a reliable transportation solution based on long-term charters and partnership. We will have focus on growth in fleet size and diversification of our customer base through a careful selection of counterparts.

Belships ASA will celebrate 100 years in 2018!

We are excited about our journey over the coming years.



Bernt Ulrich Müller
Chief Executive Officer
Belships ASA

KEY FINANCIAL FIGURES

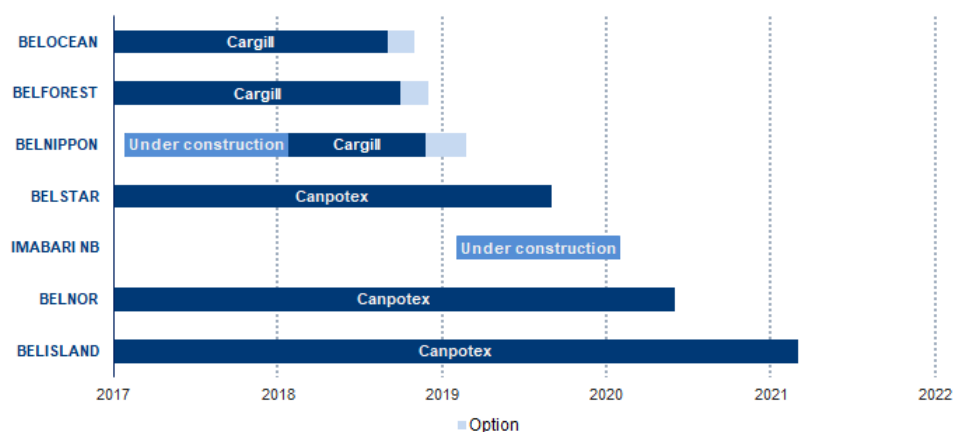
USD 1 000		2017	2016
Operating income		27 309	25 415
EBITDA		13 270	11 280
Operating result (EBIT)		11 614	-8 907
Net result for the year		6 364	-14 593
Total assets		102 129	105 612
Equity		26 382	20 144
Equity per share	NOK	4.62	3.71
Interest coverage ratio		2.45	-1.84
Current ratio	%	84.56	97.16
Equity ratio	%	25.83	19.07
Earnings per share	US cent	13.60	-31.18
Proposed dividend per share	NOK	0.10	0.00

FLEET LIST

SHIP	OWNERSHIP	BUILT YEAR	DWT	EMPLOYMENT	T/C-RATE (NET USD/DAY)
Supramax					
M/S Belstar	100 %	2009	58 018	T/C to 08/19	16 000
M/S Belnor	100 %	2010	58 018	T/C to 05/20	16 000
M/S Belocean	100 %	2011	58 018	T/C to 08/18	9 770
Ultramax					
M/S Belforest	BBC to 2027 +3 yrs	2015	61 320	T/C to 09/18	9 986
M/S Belisland	BBC to 2031 +5 yrs	2016	61 252	T/C to 03/21	17 300
M/S Belnippon *	TC to 2026 +3 yrs	2018	63 602	T/C to 12/18	11 070
Imabari newbuilding	TC to 2028 +2 yrs	2020	63 000		

*) Delivered 24th January 2018

CHARTER COVERAGE



DIRECTORS' REPORT 2017

THE DRY BULK MARKET

Following the turnaround in the early part of 2016, the market continued to strengthen throughout 2017. The key drivers behind the increasing freight rates were higher Chinese imports of iron ore, coal, grain products and bauxite. Chinese imports rose by 6% in ton-mile terms in 2017. It was a further decline in domestic Chinese iron ore production, and a continued substitution to imported high-grade iron ore from Australia and Brazil. Chinese imports of coal increased further in 2017, despite the environmental concern from Chinese authorities.

Turning to the supply-side, the dry bulk fleet expanded by 2.1% in 2017, down from 2.6% growth in 2016. However, scrapping activity fell sharply compared to 2016 on the back of rising freight rates.

The Baltic Exchange Capesize Index ended the fourth quarter at USD 19 341 per day, whereas the Panamax-index ended at USD 11 183 per day. The Supramax-index ended the fourth quarter at USD 10 478 per day. As per today, the Cape index stands at USD 8 825 per day, Panamax-index at USD 12 902 per day and Supramax-index at USD 12 567 per day.

The Baltic Exchange S&P Assessment values today a 5 year old Supramax at USD 17.8 million, which is up from USD 14.4 million one year ago.

OPERATIONS

M/S Belstar, M/S Belnor and M/S Belisland continued in 2017 on their long-term charter parties to Canpotex Shipping Services Ltd., Canada. Canpotex is one of the world's largest exporters of potash, a fertilizer product imported in large volumes by countries such as China, India and Brazil. The net time charter rate is USD 16 000 per day for Belstar/Belnor and USD 17 300 per day for Belisland. M/S Beloceano and M/S Belforest are both chartered to Cargill until September-October 2018 at around USD 10 000 per day net. M/S Belnippon, the long term 63 000 dwt t/c-in ship, was delivered from Imabari Shipbuilding on 24 January 2018 and has been chartered out to Cargill for 10-13 months at USD 11 500 per day.

The company's tonnage is modern, and all ships operated satisfactorily without significant off-hire. The operating expenses continued at a competitive level.

Belships will take delivery of a 63 000 dwt Ultramax bulk carrier from Imabari within first half 2020 for long-term charter including purchase option.

The subsidiary Belships Management (Singapore) Pte. Ltd. made a contribution of USD 1.2 million in net result from technical management services. The company expanded its customer base, and currently provides technical management for 12 ships, including Belships' own ships, and provides crewing for 24 ships.

RESULTS

The Group had an operating income of USD 27 309 000 in 2017 (USD 25 415 000), giving an EBITDA of USD 13 270 000 (USD 11 280 000) and a consolidated operating result of USD 11 614 000 (USD -8 907 000). Result before tax was USD 6 658 000 (USD -14 419 000), while net result for the Group was USD 6 364 000 (USD -14 593 000). The negative result in 2016 is explained by impairment of the fleet of USD 13.8 million. Net impairment reversal in 2017 amounted to USD 2.5 million.

The parent company's net result for the year was NOK 44 010 000 (NOK -143 824 000).

The Board proposes the result for the year allocated as follows:

AMOUNTS IN NOK

PROVISION FOR DIVIDEND	4 735 000
TRANSFER FROM OTHER RETAINED EARNINGS	39 275 000
TOTAL ALLOCATIONS	44 010 000

GOING CONCERN

The annual accounts are presented on a going concern basis in accordance with § 3 – 3 of the Norwegian Accounting Act.

Belships has three long-term T/C agreements with Canpotex and two short term T/C agreements with Cargill covering most of 2018. Current activity will generate sufficient liquidity to cover current debt and operating expenses throughout 2018. Based on this, the Board considers that the conditions for a going concern are in place.

In the opinion of the Board, the consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The information in the accounts gives a true and accurate representation of the company's and the Group's assets, liabilities, financial position and results as a whole. The annual accounts give a fair view of the development, profit and overall financial position of Belships ASA and the Group, and describe the most significant risks and uncertainties facing the Group and the parent company.

SAFETY AND THE ENVIRONMENT

Belships aims to minimize environmental impact from its activity, and strives to improve safety. Measures are taken to prevent the business polluting the environment. Belships works consciously to improve standards, on board and ashore. Pollution from ships is governed by a number of national and international environmental standards and certifications. Belships meets official requirements in terms of safety and the environment.

The newbuildings from Imabari Shipbuilding have low emissions of pollutants and are all installed with ballast water treatment systems.

ORGANISATION

Belships has its headquarter in Oslo, from where most of its commercial and financial business including insurance is handled. Technical management is handled from Singapore. There has been no change within the senior management in 2017. Management activities in Singapore were stable over the year. The Group employed 52 office staff at the end of 2017. Ships under management had 205 crewmembers onboard.

The sick leave was less than 2% in 2017. The Group was not subject to any serious accidents in 2017.

Belships aims to treat women and men equally. No discrimination on the grounds of gender is tolerated. Of the Group's office staff, 27 are women. The working environment at the various companies within the Group is considered to be satisfactory.

FINANCIAL AND OTHER MATTERS

The Group's solvency and financial position is satisfactory. By end of 2017 the book equity of the Belships share was NOK 4.57 (NOK 3.71), while the book equity ratio was 25.8 % (19.1%). Added value related to the long-term charter for M/S Belisland is not included in the balance sheet.

Consolidated liquidity was USD 5.5 million as at 31 December 2017, against USD 7.9 million at the beginning of the year. Total mortgage debt had a balance of USD 28.3 million at year-end and was reduced by USD 8.0 million during 2017. Down payment of lease commitments in 2017 amounted to USD 1.8 million.

The waiver from the ship mortgage lender was terminated in 4th quarter and the on-demand guarantee from the main shareholder was returned. Main terms in the loan agreement are as follows: Minimum cash USD 3 million, annual instalment USD 5 million, minimum value 120% in 2018 and 125% in 2019 and payment of dividend is limited to 50% of net result.

The Group has conducted impairment tests in line with IAS 36, valuing the ships based on observable market values of equivalent ships today, and including the discounted added value of the charter parties entered into. Based on these internal valuations an impairment reversal was recorded in 2017.

Belships aims to provide its shareholders with a competitive dividend yield, and the board propose a dividend payment of NOK 0.10 per share.

At the end of 2017 Belships held 548 000 treasury shares in total at an average cost of NOK 9.91 per share. In August 2017, the employees were granted options to purchase 200 000 shares at a strike price of NOK 5.12. These options can be exercised from the annual general meeting 2018 until the annual general meeting in 2019.

The Belships' share value has increased by 21% in the course of 2017. By comparison, the OSEBX increased by 19%. A total of 17 535 000 shares were traded in 241 of 253 trading days. In 2016 a total of 5 501 000 shares were traded in 183 of the 253 trading days.

The Group is exposed to market risks due to changes in FX rates, interest rates, freight rates and oil prices.

The Group's income and costs are mainly in USD. Belships' foreign exchange exposure is linked to administrative costs in Norway and in Singapore. Compared to the Group's cash flows, however, this exposure is limited. Hedging of the Group's interest exposure on bank loan is considered on an ongoing basis. The hedging level of interest rate exposure is currently around 78% (leases excluded). Fluctuating bunker prices will not affect the Group as the ships are fixed on long-term time charters where the charterers cover the fuel cost.

Belships aims to minimize counterpart risk by entering into long term time charter contracts with reputable charterers.

The Group's limited tax cost is expected to continue. Three ships are owned by a Singaporean subsidiary within the local tonnage tax regime.

The Group's Norwegian entities have considerable tax loss carried forward.

CORPORATE GOVERNANCE

Belships' corporate governance is based on the company's goals and strategy. The Company has since 1937 been listed on the Oslo Stock Exchange, and is subject to the Norwegian Accounting Act, the Securities Trading Act and the Public Limited Company Act. With exception of establishing election committee, Belships follows the Norwegian code of good corporate governance of 30 October 2014. Please see the separate [statement of corporate governance](#) that appears as a section of the annual report in its own right.

CORPORATE SOCIAL RESPONSIBILITY

Belships is a shipping company with global reach and close to a hundred years history. The Board is well aware of the direct and indirect impact Belships' activities have on the outside world as well as the company's shareholders. Belships is determined to create long-term shareholder values and at the same time act as a responsible participant in the society.

The most important issues for our business and our shareholders in respect of Corporate Social Responsibility (CSR) are considered to be:

- Environment
- Human and labour rights
- Anti-corruption

It is our policy to follow the standards, laws and regulations set by the national and international maritime regulatory authorities, but also the moral and ethical behavior as set by our culture. Belships reports on safety and environment in the annual report.

Belships does not tolerate any corrupt practices with our suppliers, customers or government entities affecting our business. Belships do pay attention to the working conditions and safety within our own operations. Please see the separate [statement of corporate social responsibility](#) that appears as a section of the annual report in its own right.

OUTLOOK

As expected, the market dropped ahead of the Chinese New Year celebration in February. However, last few weeks the spot rates have strengthened and the period activity has picked up. One year t/c-rates for Ultramax is now around USD 12 500-13 000 per day.

Ordering activity has picked up considerably, but new orders now will be for delivery in 2020 or later. The 2020 sulphur cap regulations will probably trigger an increased scrapping and slower sailing speeds to mitigate higher cost for low-sulphur bunkers. Net supply the next three years is expected to increase by 1.7% on average, whereas the demand is expected to increase by 3% in ton-mile terms.

Belships' ships are chartered out on fixed rates to reputable counterparts, representing a future nominal gross hire of USD 52 million. Focus remains to continue developing Belships as an owner and operator of modern bulk carriers to reputable counterparts, building a portfolio of quality ships and robust charter parties that will generate distributable cash flows.

OSLO, 21 MARCH 2018

BELSHIPS ASA



Sverre J. Tidemand
Chairman of the Board



Christian Rytter
Board member



Kjersti Ringdal
Board member



Sissel Grefsrud
Board member



Carl Erik Steen
Board member



Bernt Ulrich Müller
Chief Executive Officer

The annual report provides a true and fair overview

DIRECTORS' RESPONSIBILITY STATEMENT

The Board and Chief Executive Officer have today considered and approved the annual report and financial statements for the Belships group and its parent company Belships ASA for 2017.

The Board has based this declaration on reports and statements from the Group's chairman and Chief Executive Officer, on the results of the Group's activities and on other information that is essential to assess the Group's position, provided to the Board of the parent company under obligation by the Group's administration and subsidiaries.

To the best of our knowledge:

- the 2017 financial statements for the Group and parent company have been prepared in accordance with all applicable accounting standards
- the information provided in the financial statements gives a true and fair representation of the Group and parent company's assets, liabilities, profit and overall financial position as of 31 December 2017
- the annual report provides a true and fair overview of:
 - the development, profit and financial position of the Group and parent company
 - the most significant risks and uncertainties facing the Group and the parent company

OSLO, 21 MARCH 2018
BELSHIPS ASA



Sverre J. Tidemand
Chairman of the Board



Christian Rytter
Board member



Kjersti Ringdal
Board member



Sissel Grefsrud
Board member



Carl Erik Steen
Board member



Bernt Ulrich Müller
Chief Executive Officer

Consolidated statement of comprehensive income

1 JANUARY – 31 DECEMBER / USD 1 000	NOTE	2017	2016
Operating income			
Freight income		22 646	21 338
Other operating income		4 663	4 077
Total operating income	4	27 309	25 415
Operating expenses			
Ship operating expenses	8	-8 175	-8 197
Operating expenses ship management	8	-3 371	-3 405
Payroll expenses	9	-1 678	-1 659
Other general administrative expenses	6	-815	-874
Total operating expenses		-14 039	-14 135
Operating result (EBITDA)		13 270	11 280
Depreciations on ships and other fixed assets	7	-4 597	-4 901
Reversal/Impairment of ships	7	2 544	-13 823
Loss on sale of ship/effect on onerous contracts	7	397	-1 463
Operating result (EBIT)		11 614	-8 907
Financial income and expenses			
Interest income		26	13
Interest expenses	13	-4 735	-4 833
Currency exchange gain/(loss)		114	69
Other financial items	8	-361	-761
Net financial items		-4 956	-5 512
Net result before tax		6 658	-14 419
Tax	12	-294	-174
Net result for the year		6 364	-14 593
Hereof non-controlling interests		60	53
Hereof majority interests		6 304	-14 646
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain/(loss) on defined benefit plan		-6	-39
Total comprehensive income		6 358	-14 632
Hereof non-controlling interests		60	53
Hereof majority interests		6 298	-14 685
Earnings per share (US cent)	11	13.60	-31.18
Diluted earnings per share (US cent)	11	13.48	-31.18

Consolidated statement of financial position

PER 31 DECEMBER / USD 1 000	NOTE	2017	2016
NON CURRENT ASSETS			
Tangible assets			
Ships	7	91 242	93 009
Prepaid timecharter hire		405	1500
Other fixed assets	7	1 832	1 683
Total tangible assets		93 479	96 192
Financial assets			
Financial investments		126	108
Other long-term receivables	13	122	183
Total financial assets		248	292
Total non current assets		93 727	96 483
CURRENT ASSETS			
Trade debtors	13	323	91
Prepaid timecharter hire		1 095	0
Other receivables	13	1 525	1 120
Cash and cash equivalents (restricted)	15	229	3 203
Cash and cash equivalents	15	5 230	4 715
Total current assets		8 402	9 129
TOTAL ASSETS		102 129	105 612
EQUITY			
Paid-in capital		43 620	43 620
Retained earnings		-17 590	-23 887
Non-controlling interests		352	411
Total equity	20	26 382	20 144
LIABILITIES			
Provision for liabilities			
Pension obligations	17	530	648
Other non current liabilities			
Mortgage debt	13	22 999	30 883
Obligation under finance leases	13	40 816	42 811
Financial instruments	22	8	323
Other non current liabilities		1 458	1 407
Total other non current liabilities		65 281	75 424
Current liabilities			
Current portion of mortgage debt/lease liability	13	6 940	6 778
Tax payable	12	256	131
Public taxes and duties payable		155	284
Trade creditors		573	256
Other short-term liabilities	13	2 011	1 948
Total current liabilities		9 936	9 396
Total liabilities		75 747	85 468
TOTAL EQUITY AND LIABILITIES		102 129	105 612



Sverre J. Tidemand
Chairman of the Board



Christian Rytter
Board member



Kjersti Ringdal
Board member



Sissel Grefsrud
Board member



Carl Erik Steen
Board member



Bernt Ulrich Müller
Chief Executive Officer

Consolidated statement of cash flows

1 JANUARY – 31 DECEMBER/USD 1 000	NOTE	2017	2016
CASH FLOW FROM OPERATIONS			
Net result before tax		6 658	-14 419
Adjustments to reconcile result before tax to net cash flows:			
Loss on sale of ship/effect on onerous contracts	7	-397	1 463
Depreciations on ships and other fixed assets	7	4 597	4 901
Reversal/Impairment of ships	7	-2 544	13 823
Share-based compensation expense	16	0	31
Difference between pension expenses and paid pension premium	17	-171	-210
Net finance costs		4 956	5 512
Working capital adjustments:			
Change in trade debtors and trade creditors		85	-212
Change in other short-term items		-345	-241
Interest received		26	13
Interest paid		-4 735	-4 833
Income tax paid		-138	-118
Net cash flow from operating activities		7 993	5 710
CASH FLOW FROM INVESTING ACTIVITIES			
Payment on newbuilding	7	0	-20 531
Sale of ship (net sales amount)	7	0	23 637
Payment of other investments		-271	-1 923
Net cash flow from investing activities		-271	1 183
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of current debt	13	-9 835	-6 491
Paid costs related to financing		-369	-484
Net cash flow from financing activities		-10 204	-6 975
Net change in cash and cash equivalents during the period		-2 482	-82
Cash and cash equivalents at 1 January		7 918	7 993
Change currency NOK deposits		23	7
Cash and cash equivalents at 31 December *		5 459	7 918

*) Includes certain restricted cash. See [note 15](#).

Consolidated statement of changes in equity

USD 1000	Note	Majority interests					Non-controlling interest	Total equity
		Paid-in						
		Share capital	Treasury shares	Share premium reserves	Other equity	Other equity		
As at 31 December 2017								
Equity as at 1 January 2017		14 272	-166	13 751	15 763	-23 888	412	20 144
Net result for the year		0	0	0	0	6 304	60	6 364
Other comprehensive income	17	0	0	0	0	-6	0	-6
Total comprehensive income		0	0	0	0	6 298	60	6 358
Share-based payment expense	16	0	0	0	0	0	0	0
Non-controll. interests transact.		0	0	0	0	0	-120	-120
Equity as at 31 December 2017		14 272	-166	13 751	15 763	-17 590	352	26 382
As at 31 December 2016								
Equity as at 1 January 2016		14 272	-166	13 751	15 732	-9 203	445	34 831
Net result for the year		0	0	0	0	-14 646	53	-14 593
Other comprehensive income		0	0	0	0	-39	0	-39
Total comprehensive income		0	0	0	0	-14 685	53	-14 632
Share-based payments expense		0	0	0	31	0	0	31
Non-controll. interests transact.		0	0	0	0	0	-86	-86
Equity as at 31 December 2016		14 272	-166	13 751	15 763	-23 888	412	20 144

Notes to the consolidated accounts

NOTE 1 GENERAL INFORMATION

Belships is an owner and operator of dry bulk ships, presently operating a fleet of 6 ships (5 in 2017). The company is also providing ship management services.

Belships ASA is a public limited liability company incorporated and domiciled in Norway and listed on Oslo Stock Exchange. The head office is located in Lilleakerveien 4 in Oslo, Norway.

Copies of the consolidated financial statements may be downloaded from www.belships.com, or by inquiry to the company's head office.

The consolidated financial statements have been approved by the Board on 21 March 2018.

Belships has obtained approval from Oslo Stock Exchange and Norwegian tax authorities to publish its financial statements only in English.

All amounts in the notes are in USD 1 000 unless otherwise stated.

Notes to the consolidated accounts

NOTE 2 SUMMARY OF THE MOST IMPORTANT ACCOUNTING PRINCIPLES USED

A) BASIS OF PREPARATION

The consolidated financial statements of Belships ASA (the "Parent Company"), and all its subsidiaries (the "Group"), have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Group accounts have been prepared on a historical cost basis, except for derivatives and shares held for trading, which are measured at fair value.

The Group accounts are presented with uniform accounting principles for identical transactions and events under otherwise identical conditions.

The annual accounts are presented on a going concern basis in accordance with § 3 – 3 of the Norwegian Accounting Act. Belships has three long-term time-charter agreements with Canpotex, which are favourable in the current market. The cash flow is positive in all entities. Based on this, the Board considers that the conditions for a going concern are in place.

B) CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of Belships ASA and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Unrealised gains from transactions with affiliated companies are eliminated with the Group's share of the company/enterprise. Unrealised losses are likewise eliminated, but only to the degree that there is no indication of loss of value on the asset being sold internally.

C) CURRENCY TRANSACTIONS

Functional currency and reporting currency

Accounting transactions undertaken by respective Group companies use the currency ordinarily used by the financial environment in which they operate (functional currency). The Group accounts are presented in USD.

The accounts for the units in the Group which have a functional currency different from the Group's reporting currency, convert their accounts into the reporting currency according to the following guidelines:

- Assets and debts are converted according to conversion rates on the balance sheet date
- Income and costs are converted according to monthly average conversion rates

Transactions in foreign currency

Transactions in foreign currency are converted to the functional currency at the rate at time of the transaction. Monetary items in foreign currency are converted into functional currency using the rate at the balance sheet date. Non-monetary items which are measured at historical cost expressed in foreign currency, are converted into functional currency using the currency rate at the time of the transaction.

Non-monetary items, which are measured at fair value expressed in foreign currency, are converted at the currency rate on the date of measurement. Currency rate changes are recognised continuously against profit and loss during the accounting period. Currency rates at year end was USD 8.2050 (2016: USD 8.6200) and SGD 6.1410 (2016: SGD 5.9645).

D) ACCOUNTS RECEIVABLE

Trade receivables are recognised at face value less any impairment. Provision for impairment is made when there is objective evidence of impairment that affects the estimated future cash-flow.

E) TANGIBLE FIXED ASSETS

Tangible fixed assets are measured at acquisition cost, net of accumulated depreciation and impairments losses. When assets are sold or divested, the carrying amount is deducted and any gains or losses are recognised in the profit and loss account. Acquisition cost for tangible fixed assets is the purchase price, including taxes and charges and expenses directly related to preparing the asset for use. Expenses incurred after the asset has been put to use, are recognised in the profit and loss account, whereas other expenses which are expected to create future financial gains are capitalised. An estimated docking element is recognised as a separate component of the ship for depreciation purposes on the first occasion a ship is booked in the accounts. The amount corresponds to the estimated docking costs for the period. The docking component is depreciated on a straight-line basis the over the period to the next planned drydocking. Residual value has been taken into account, and this is estimated based on steel value of the ship at the balance sheet date less estimated cost to demolish the ship. Book value is compared to market value and value in use to assess the need for any further impairment compared to the ordinary depreciation plan. The depreciation period and method are assessed annually and are based on the management's estimates of the ships' future useful life. The same applies to residual value.

In accordance with IFRS, the ships have been separated into components for depreciation purposes. The ships are depreciated as one unit, as the value of any part of the ship with a useful lifetime other than 25 years is considered to be insignificant.

Newbuilding contracts

Newbuilding contracts are recognised as a fixed asset based on instalments paid to the yard. Building supervision costs and project costs related to the newbuilding contracts are capitalised.

See section P) regarding treatment of borrowing costs.

F) LEASING

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. Leases are classified as financial leases if the terms of the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating lease.

Assets financed under financial leases are capitalized at inception of the lease at the fair value of the leased vessel or, if lower, at the present value of the minimum lease payments. The corresponding lease obligation is recognized as a liability in the balance sheet. Lease payments are split between interest cost and reduction of the lease liability. Interest cost is recognized in the income statement.

Financial leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. For operating leases, the payments (time charter hire or bareboat hire) are recognized as an expense on a straight line basis over the term for the lease.

G) FINANCIAL INSTRUMENTS

Financial instruments under the scope of IAS 39 are classified in the following categories:

- financial assets at market value through profit or loss (held for trading purposes)
- available for sale
- loans and receivables
- held to maturity investments
- other obligations

Financial assets with fixed or determinable cash flow which are not listed in an active market are classified as loans and receivables. Investments held to maturity, loans and receivables and other liabilities are measured at amortised cost.

H) PROVISIONS

A provision is recognised when the company has a liability (legal or constructive) as a result of a previous event and where it is probable (more probable than not) that there will be a financial settlement as a result of this liability and that the size of the sum can be reliably determined. If the effect is material, the provision is estimated by discounting the expected future cash flow with a discount rate before tax which reflects the market's evaluation of the time value of money and, if relevant, risks specifically connected to the liability.

A provision is recognised for any unavoidable net loss arising from the contract, the unavoidable cost under a contract reflect the least net cost of exiting from the contract, i.e. the lower of the cost of fulfilling the contract; and any compensation of penalties arising from failure to fulfill the contract.

I) EQUITY

(i) Debt and equity

Financial instruments are classified as debt or equity according to the underlying substance of the contractual agreement. Interest, dividend, gains and losses related to a financial instrument classified as debt, is presented as income or expense.

(ii) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the reporting period are fulfilled with treasury shares.

(iii) Costs related to equity transactions

Transaction costs directly related to equity transactions are charged directly against the equity after tax deductions.

J) REVENUE RECOGNITION

Revenue is recognised when it is likely that the economic benefits which will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenues from time charter accounted for as operational leases are recognized on a straight line basis over the rental periods of such charters, as service is performed.

K) EMPLOYEE BENEFITS

Defined contribution pension scheme

All employees are member of the company's defined contribution scheme. The premium is charged as incurred by operations. Social security tax expense is recognized based on the pension plan payments.

Defined benefit pension scheme

Actuarial gains and losses arising from changes in actuarial assumptions are recognised as other comprehensive income in the period in which they arise. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The company has unfunded pension liabilities. These relate to early retirement and pension to persons, that have not been included in the service pension scheme. Pension obligations are estimated by an independent actuary.

L) INVESTMENT IN ASSOCIATES

An associate is an entity over which the Group has significant influence, but not control, and which is not a subsidiary. Significant influence is defined as the right to participate in the financial and operating policy decisions of the investee, but is not control over

those policies.

Interests in associates are accounted for using the equity method. Under this method, the investment is carried in the Consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any provisions for impairment. The Consolidated Income Statement reflects the Group's share of net income of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share in the Consolidated Statement of Comprehensive Income.

M) CONTINGENT ASSETS AND OBLIGATIONS

Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities in which the possibility of loss is considered remote.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a significant benefit will be added to the Group.

N) TAXES ON INCOME

Tax expenses consist of tax payable and changes in deferred tax. Deferred tax/tax assets are calculated on all differences between accounting values and tax values of assets and liabilities, with the exception of temporary differences related to investments in subsidiaries, affiliated companies or jointly controlled enterprises when the Group controls when the temporary differences will be reversed, and that is not expected to occur in the foreseeable future.

Deferred tax assets are recognised when it is likely that the company will have sufficient profit for tax purposes in subsequent periods that will enable the company to utilise the tax asset. Similarly, the company will reduce the deferred tax asset to the extent the company no longer regards it as being likely that it can utilize the deferred tax asset.

Deferred tax liabilities and deferred tax assets are measured on the basis of prevailing tax rates for the companies in the Group where temporary differences have occurred, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities and deferred tax assets are entered at nominal value calculated with the tax rate in the actual tax regime and are classified as long-term liability or intangible fixed asset in the balance sheet. Tax payable and deferred tax are entered directly against equity to the extent the tax items relate to equity transactions.

In addition to companies subject to ordinary taxation in Norway, Singapore and China, the Group consists of one company within the shipping taxation scheme in Singapore. The deferred tax positions associated with the different tax regimes cannot be offset. A corresponding situation also applies to tax positions between jointly controlled operations and the rest of the Group. These cannot be offset.

O) IMPAIRMENT OF ASSETS

At the end of each quarter, every ship is assessed for impairment indicators. The same applies when events or changes occur that may entail that the asset's carrying amount may not be recovered. In assessing the need for impairments, assets are grouped at the lowest level at which there is identifiable and predominantly independent cash inflows, which means per ship. Impairment is calculated as the difference between the asset's carrying amount and the value considered as recoverable. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use to the Group. Value in use is calculated by discounting anticipated future cash flows from the asset. When it is assumed that the asset's value is lower than its carrying amount, an impairment loss is recognised.

Impairment loss recognised in earlier periods is reversed only in case of changes to the estimates used to determine the recoverable amount. However, the reversal amount may only be so high that book value after reversal at most corresponds to the value at which the asset would have been registered if it had not been impaired earlier. Such reversals are recorded in the profit and loss.

Financial assets classified as being available for sale are written down when there are objective indications that the asset has declined in value. An accumulated loss (the difference between acquisition cost and current market value, with deduction of impairments previously included in the result and any amortisation amounts) is included in the profit and loss account. If the market value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can objectively be linked to an event that took place after the impairment was included in the profit and loss, the impairment loss will be reversed over the profit and loss account.

Impairment loss for an investment in an equity instrument classified as held for sale, will not be reversed over the income statement.

P) BORROWING COSTS

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Q) EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date regarding the company's financial position as of the balance sheet date is taken into consideration in the annual accounts. Events after the balance sheet date that do not affect the company's financial position as of the balance sheet date, but which will have an impact on the company's financial position in the future are disclosed if significant.

R) SHARE-BASED PAYMENTS

Employees and management in Belships ASA received options to purchase company shares. Market value of the awarded options is measured at time of the award and charged to expense over the vesting period as a payroll cost with corresponding increase in other paid-in equity. The market value of the options granted is estimated using the Black and Scholes option pricing model.

S) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, bank deposits and other short-term and in particular liquid investments to be redeemed within 3 months. Cash and cash equivalents are recognised at nominal values in the balance sheet.

T) RESTRICTED DEPOSITS

Restricted cash include all deposits in separate accounts, which will be used to cover accrued taxes withheld for employees and deposits provided as security for certain guarantees.

U) REPORTING BY SEGMENTS

Operating segments are components of a business that are evaluated regularly by the chief operating decision maker for the purpose of assessing performance and allocating resources. The Groups chief operating decision maker is the CEO. The operating segments consist in dry cargo and technical operations, which is how the information is presented to the Management and the Board. Transactions between the business units are based on market conditions. Segment turnover, segment costs and segment results include transactions between segments.

V) RELATED PARTY TRANSACTIONS

Transactions with related parties are carried out at market terms. See [note 10](#) for further information.

W) CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method. Liquid assets include cash, bank deposits (restricted and unrestricted) and other short-term investments which can be converted to cash within 3 months. For restricted deposits, see [note 15](#).

X) CLASSIFICATION BALANCE SHEET

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is considered current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period

or

- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is considered current when it is:

- expected to be settled in normal operating cycle
- held primarily for the purpose of trading
- due to be settled within twelve months after the reporting period

or

- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Y) CHANGES IN ACCOUNTING POLICES

Amendments to IAS 7 Statement of Cash Flows

Disclosure Initiative The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information in [note 13](#).

Except for the above change, the same accounting policies and methods of computation are followed in this financial statement as compared with the annual financial statement for 2016.

Standards issued but not yet effective are as follows:

IFRS 9 Financial Instruments

The standard (as revised in 2014) will supersede IAS 39 upon its effective date for annual periods beginning on or after 1 January 2018. The number of categories of financial assets have been reduced to financial assets measured at amortized cost and financial assets measured at fair value. However, the standard introduces a "fair value through other comprehensive income" measurement category for certain simple debt instruments. IFRS 9 also presents a new impairment model which is based on expected credit losses, rather than on incurred credit losses. Implementation of the new standard is not expected to have any significant impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, effective from 1 January 2018, covers the recognition of revenue in the financial statements and related disclosure. IFRS 15 will replace IAS 18 Revenue. The main part of the group's revenue is freight income on ships. All ships are chartered out on time charter. The group has assessed that IFRS 15 will not have impact on revenue recognition, however additional break downs of revenue will be provided in note disclosure.

IFRS 16 Leases

IFRS 16, effective from 1 January 2019, covers the recognition of leases and related disclosure in the financial statement, and will replace IAS 17 Leases. The group is in the early phase of evaluating the impact of IFRS 16. The currently material lease contracts are related to ships and properties. Currently the company has 2 ships on financial lease in, and 1 ship on operational lease in. At this stage, the group does not intend to adopt the standard before its effective date.

Notes to the consolidated accounts

NOTE 3 USE OF ESTIMATES AND JUDGEMENT IN PREPARATION OF THE ANNUAL ACCOUNTS

Preparing the annual accounts in accordance with IFRS as adopted by EU requires the management to use estimates and assumptions affecting the amounts reported in the accounts with notes. The management assumptions and valuations are based on past experience and on miscellaneous other factors assumed to be reasonable and appropriate. This applies in particular to impairment assessment of ships and lease classification assessment. Future events can entail a change in these estimates. Estimates and the underlying assumptions are evaluated on an ongoing basis.

Changes in accounting estimates are entered in the period when the changes occur. If the changes also apply to future periods, the effect is distributed over the current and future periods and appears in the current note.

SHIPS - IMPAIRMENT ASSESSMENT

The Group assess, at each reporting date, whether there are any indications that the ships may be impaired, or if previous recorded impairment charges should be reversed. Each ship is defined as a separate cash generating unit. The recoverable amount is based on the average of two independent broker estimates (charterfree), in addition to the net present value of the estimated fair value of the belonging charters for ships under contract with Canpotex.

In 2017, the market conditions for bulk ships have improved with increasing freight rates and underlying ships values. When the freight rates increase, the net present value of ships on long favorable charters decreases. The key assumptions used for impairment testing of the ships are described in [note 7](#).

The impairment calculation demands some degree of estimation. Management makes estimates and judgement of the estimated fair value of the belonging charters and the discount rate. For the broker valuations, management compares the value with comparable external non-distressed transactions of bulk ships, adjusted for size, yard and construction year.

Further, management also assess external available sources for the expected development in the world wide fleet, parity between newbuilding prices versus second-hand transactions and assumptions regarding future freight rates and implied capital cost to assess if the broker valuations used as basis are reliable. The dry bulk sector has several sources for second-hand prices and assumptions regarding future market development (rates and estimated fleet growth). Changes to these estimates could have significant impact on impairment/reversal of impairments.

Remaining useful life is estimated on the date of the presentation of accounts. The useful life of the assets and the method of depreciation are evaluated yearly. See [note 7](#) for additional details.

OPERATING VERSUS FINANCIAL LEASE AGREEMENTS

Based on the content of a leasing agreement, the Company determines whether the agreement is considered as an operating or a financial lease agreement. In this determination, assumptions are made and if the same assumptions were judged differently, it could have an effect on the income statement and the statement of financial position. One of the most significant judgements is the forecasted future market value of the leased ship at the dates when the purchase option is expected to be declared.

Based on an assessment of the terms of the lease contracts, including the levels of purchase options, the Management assessed in 2015 and 2016 that the leaseback is a financial lease for both M/S Belforest and M/S Belisland.

Leased ships are at the inception of the lease measured at the lower of the fair value and the present value of minimum lease payments and expected timing of declaration of the purchase option. For the purpose of calculating the net present value, the interest rate implicit in the lease or the Company's current incremental borrowing rate is used as a discount factor.

Notes to the consolidated accounts

NOTE 4 SEGMENT INFORMATION

The Belships Group is divided into the operating segments dry bulk and technical management and segment reporting is in accordance with the reporting to the Chief Operating Decision Maker (CEO).

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. The Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis but are allocated to applicable operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The dry bulk segment consists of ships chartered to Canpotex Shipping Services Ltd and Cargill International, and revenues from those charterers are representing 64% and 18% of total turnover respectively. The Group had no other single customers in any segment neither in 2017 nor 2016 where revenue accounted for more than 10% of the total turnover.

The operating segments have worldwide activities. The shipping market in general offers a global service covering major global trade routes. There are no particular focus on geographic region as all of the group's ships are on time charter out, and the charterers decide the trade routes on individual basis, accordingly no geographical segments are presented. Due to this, financial position is not allocated to geographical segments.

1 JANUARY – 31 DECEMBER 2017	DRY CARGO	TECHNICAL MANAGEMENT	ADMINI- STRATION	GROUP TRANSACTIONS	TOTAL
Freight revenue	22 190	0	0	456	22 646
Management fees – external	0	4 374	289	0	4 663
Management fees – internal	0	712	458	-1 170	0
Operating income	22 190	5 086	747	-714	27 309
Operating expenses	-8 887	-3 371	0	712	-11 546
General administrative exps.	-45	0	-2 450	2	-2 493
Operating expenses	-8 932	-3 371	-2 450	714	-14 039
Operating result (EBITDA)	13 258	1 715	-1 703	0	13 270
Effect on onerous contracts	397	0	0	0	397
Depreciations on fixed assets	-4 451	-59	-87	0	-4 597
Reversal of impairment of ships	2 544	0	0	0	2 544
Operating result	11 748	1 656	-1 790	0	11 614
Financial income	0	15	11	0	26
Financial expenses	-4 844	-138	0	0	-4 982
Result before tax	6 904	1 533	-1 779	0	6 658
Tax	0	-294	0	0	-294
Net result	6 904	1 239	-1 779	0	6 364
Hereof non-controlling interests	0	60	0	0	60
Hereof majority interests	6 904	1 179	-1 779	0	6 304
Assets	94 207	4 588	3 334	0	102 129
Liabilities	70 667	3 571	1 509	0	75 747
Cash flow from operating activities	8 264	1 592	-1 863	0	7 993
Cash flow from investing activities	-140	0	-131	0	-271
Cash flow from financing activities	-10 204	0	0	0	-10 204

1 JANUARY – 31 DECEMBER 2016	DRY CARGO	TECHNICAL MANAGEMENT	ADMINI- STRATION	GROUP TRANSACTIONS	TOTAL
Freight revenue	20 903	0	0	435	21 338
Management fees – external	0	3 798	279	0	4 077
Management fees – internal	0	699	437	-1 136	0
Operating income	20 903	4 497	716	-701	25 415
Operating expenses	-8 896	-3 405	0	699	-11 602
General administrative exps.	-47	0	-2 488	2	-2 533
Operating expenses	-8 943	-3 405	-2 488	701	-14 135
Operating result (EBITDA)	11 960	1 092	-1 772	0	11 280
Loss sale ship/effect onerous contr.	-1 463	0	0	0	-1 463
Depreciations on fixed assets	-4 779	-53	-69	0	-4 901
Impairment of ships	-13 823	0	0	0	-13 823
Operating result	-8 105	1 039	-1 841	0	-8 907
Financial income	0	5	8	0	13
Financial expenses	-5 019	-68	-438	0	-5 525
Result before tax	-13 124	976	-2 271	0	-14 419
Tax	0	-174	0	0	-174
Net result	-13 124	802	-2 271	0	-14 593
Hereof non-controlling interests	0	53	0	0	53
Hereof majority interests	-13 124	749	-2 271	0	-14 646
Assets	99 749	3 866	1 998	0	105 612
Liabilities	82 317	1 880	1 270	0	85 467
Cash flow from operating activities	6 942	979	-2 211	0	5 710
Cash flow from investing activities	1 366	0	-183	0	1 183
Cash flow from financing activities	-6 975	0	0	0	-6 975

Notes to the consolidated accounts

NOTE 5 LEASE AGREEMENTS

LEASE OBLIGATIONS

Belships ASA entered on 25 September 2015 into a sale and lease back agreement for M/S Belforest. The bareboat charter period is 12 years with purchase options from year 3 onwards.

M/S Belisland was delivered 15 March 2016 and leased on bareboat charter for a period of 15 years with purchase options from year 5 onwards.

Both leases are considered as financial leases.

In January 2018 the newbuilding M/S Belnippon was delivered and entered the 8-years time charter agreement to Belships. Belships has purchase options from year 4 onwards.

In June 2017 Belships signed an agreement to charter in an Ultramax bulk carrier of 63 000 dwt to be delivered from Imabari Shipbuilding first half 2020. The charter period will be for minimum 8 years plus two yearly options, with purchase option from end of fourth year.

Payment if options on financial leased ships is exercised

If the Company has an option to purchase a ship at a price, which at the inception of the lease is expected to be significant lower than the fair value at the date the option becomes exercisable, the lease payments comprise the payment required to exercise the option. Hence, the lease liabilities recorded in the balance sheet consist of one part which is deemed hire payments and one part which is the payment required if the option to purchase the ship should be exercised. The table below provides an overview of the split between hire payments and payments required if the option is exercised.

NET PRESENT VALUE OF LEASE LIABILITY	< 1 YR	1-5 YR	> 5 YR	TOTAL
Maturity of financial lease liability	2 594	15 754	7 653	26 001
Whereof payments of purchase option	0	0	16 850	16 850
Hire obligation under financial lease	2 594	15 754	24 503	42 851

CONTRACTED TIME CHARTER REVENUE

M/S Belstar, M/S Belnor and M/S Belisland are fixed on long-time charters to Canpotex Shipping Services Ltd from time of delivery from yard in 2009, 2010 and 2016 respectively, at a net rate of USD 16 000 per day for Belstar and Belnor and USD 17 300 for Belisland. The charter agreements expire in 2019, 2020 and 2021, respectively. There is no option to extend the charter period.

M/S Belforest and M/S Beloceen have been on time charter to Cargill in 2017 at net average rates of USD 7 375 per day for Belforest and USD 7 006 per day for Beloceen.

M/S Belnippon was at time of delivery in January 2018 fixed on time charter to Cargill for 10-13 months at USD 11 500 per day.

FIXED INCOME AND COMMITMENTS AS AT 31 DECEMBER 2017	< 1 YR	1-5 YR	> 5 YR	TOTAL
Contracted timecharter revenue	26 431	25 371	0	51 802
Commitments related to long-term leased ships	9 746	50 563	78 313	138 621

FIXED INCOME AND COMMITMENTS AS AT 31 DECEMBER 2016	< 1 YR	1-5 YR	> 5 YR	TOTAL
Contracted timecharter revenue	19 446	43 316	0	62 762
Commitments related to long-term leased ships	4 909	19 650	37 210	100 486

Lease obligations are nominal amounts.

Notes to the consolidated accounts

NOTE 6 OTHER GENERAL ADMINISTRATIVE EXPENSES

OTHER GENERAL ADMINISTRATIVE EXPENSES	2017	2016
Office expenses	200	204
Furniture, office supplies	80	66
Travelling, entertainment costs	43	117
Other services	266	217
Other general administrative expenses	227	271
Total administrative expenses Norwegian companies	815	874

Notes to the consolidated accounts

NOTE 7 SHIPS AND OTHER FIXED ASSETS

	2017				2016				
	Ships				Ships				
	Ships excl. dry dock	Capital. costs dry dock	Total fixed assets	Other fixed assets	New- buildings	Ships excl. dry dock	Capital. costs dry dock	Total fixed assets	Other fixed assets
Cost per 1 January	168 230	4 849	173 079	4 963	8 475	145 490	3 709	149 199	4 920
Additions	0	140	140	235	20 531	22 740	1 140	23 880	183
Disposals	0	0	0	-1 179	-29 006	0	0	0	-140
Cost per 31 Desember	168 230	4 989	173 219	4 019	0	168 230	4 849	173 079	4 963
Depreciations per 1 Jan.	77 905	2 165	80 070	3 565	4 250	60 381	1 088	61 469	3 565
Depreciation for the year	3 365	1 086	4 451	146	0	3 701	1 077	4 778	123
Impairment/reversal(-)	-2 544	0	-2 544	0	0	13 823	0	13 823	0
Disposals	0	0	0	-1 109	-4 250	0	0	0	-131
Deprec. as at 31 Dec.	78 726	3 251	81 977	2 602	0	77 905	2 165	80 070	3 556
Book value per 31 Dec.	89 504	1 738	91 242	1 417	0	90 325	2 684	93 009	1 407
Other fixed assets	0	0	0	415	0	0	0	0	276
Book value at 31 Dec.	89 504	1 738	91 242	1 832	0	90 325	2 684	93 009	1 683

SPEIFICATION OF THE GROUP'S SHIPS

SHIP	BUILT YEAR	OWNERSHIP	COST PRICE	ORDINARY DEPRECIATIONS	ACCUMULATED IMPAIRMENTS	CAPITALISED DRYDOCK EXPS.	BOOK VALUE
M/S Belstar	2009	100 %	40 542	-10 512	-15 554	208	14 684
M/S Belnor	2010	100 %	39 891	-9 705	-13 268	65	16 983
M/S Beloceen	2011	100 %	38 317	-7 309	-18 036	393	13 365
M/S Belforest	2015	BBC	26 734	-1 602	-1 372	495	24 255
M/S Belisland	2016	BBC	22 740	-1 363	0	578	21 955
Total fleet			168 224	-30 491	-48 230	1 739	91 242

OWNED SHIPS (SUPRAMAXES)

M/S Belstar, M/S Belnor and M/S Beloceen were delivered from Yangzhou Dayang yard in China in 2009, 2010 and 2011. Belstar and Belnor are employed on 10-year time charters to Canpotex Shipping Services Ltd from time of delivery, at a net rate of USD 16 000 per day. Canpotex is one of the world's largest exporters of potash, a fertilizer product imported in large volumes by countries such as China, India and Brazil.

M/S Beloceen has from 2016 been fixed on time charter to Cargill International S.A of Switzerland. Net average rate in 2017 was USD 7 006 per day.

Reference is made to [note 13](#) regarding financing of the ships.

CHARTERED SHIPS (ULTRAMAXES)

M/S Belforest and M/S Belisland was delivered from Imabari Shipbuilding in Japan in 2015 and 2016. The ships are leased on bareboat for a period of 12 years with purchase options from year 3 onwards for Belforest and a period of 15 years with purchase options from year 5 onwards for Belisland. Both leases are considered as financial leases. Belforest was from time of delivery fixed on time charter to Cargill. Average rate in 2017 were USD 7 375 per day. Belisland was from delivery chartered on long-time charter contract to Canpotex Shipping Services to 2021 at a net rate of USD 17 300 per day.

All the ships have operated satisfactorily over the year. The counterparty risk with the charterers is considered to be low.

IMPAIRMENT TESTS/CALCULATION OF RECOVERABLE AMOUNT

During 2017 the dry bulk market has improved (charter rates/ship values) and it is expected that the positive market momentum will continue. The Group has over the last years recorded significant impairment on its ships. As described in [note 3](#), with improved

market conditions the net present value of ships on long-term timecharter to Canpotex decreases, while the net present value of ships on short to medium timecharter to Cargill increases, due to this the company has tested the recoverable amount on its vessels in accordance with IAS 36.

On the ships M/S Belocan and M/S Belforest the impairment test resulted in a reversal of USD 7.5 million, which is a part of prior year's impairment charges. The reversal is based on improvements in rates in 2017 and market expectations for future market rates based on broker valuations. The ships M/S Belstar and M/S Belnor were impaired with USD 5.0 million, due to shorter remaining period on long-term timecharters. No impairment indicators exists on Belisland, the ship has not been impaired historically. The recoverable amount on the ships are shown in the table below, while the method and estimates applied in the impairment test is described in [note 3](#).

For calculations of the net present value of the estimated fair value of the remaining 2-4 years timecharter, the Group has calculated the variance between the contractual rate and the current observable market rate for similar ships and a weighted average cost of capital ratio (WACC) of 8%. In the calculation of the required rate of return, the risk-free interest rate was set at LIBOR at 1.75%, and the margin was fixed at 4.25%, which is approximately equal to margin on external loan and implicit interest on the lease agreement. The equity risk premium was set at 6%, which is the estimated additional return required by investors in order to invest in a market portfolio above a risk-free interest rate.

The table below shows sensitivity in the impairment tests of the ships.

SENSITIVITY ANALYSIS	BELSTAR	BELNOR	BELOCEAN	BELFOREST	BELISLAND	TOTAL
Change in market value of the ships (incl. c/p agreements) when:						
WACC increase with 1%	-27	-50	0	0	0	-77
WACC decrease with 1%	27	52	0	0	0	79
Market rate increase 5% and ship values increase 2.5%	-13	-197	334	606	0	730
Market rate decrease 5% and ship values decrease 2.5%	-2	172	-334	-606	0	-770

If the general charter rate increase more than expected in the company's impairment model, this will have a negative impact on the net present value on ships currently trading on long favorable charters, but partly offset by an increase in underlying broker values on the Company's ships. For ships without a long favorable charter, an increase in market value will have positive effect. If the general charter rate decrease more than expected, this will have a negative impact and additional impairment based on underlying broker valuations.

CALCULATION OF DEPRECIATIONS

Depreciation is calculated on a straight line basis over the estimated useful life of the ships taking its residual value into consideration. The useful life, which is also considered as the economic life of the ships, has been estimated to 25 years. Residual value is estimated based on steel prices of the ships less cost to demolish and is reassessed every year-end. Dry docking expenses are depreciated until next planned dry docking, typically 30-60 months.

Other assets have a useful life of 3-5 years, except for the office premises in Singapore in which the useful life is estimated at 57 years.

Reference is made to [note 5](#) regarding contracted time charter incomes for the ships.

Notes to the consolidated accounts

NOTE 8 SPECIFICATIONS OPERATING EXPENSES AND OTHER FINANCIAL ITEMS

	2017	2016
Ship operating expenses		
Crew expenses	4 743	4 568
Maintenance and spare parts	1 986	1 968
Insurance	775	872
Other ship operating expenses	671	789
Total ship operating expenses	8 175	8 197
Operating expenses ship management		
Administration costs	2 182	2 302
General & selling expenses	552	612
Fixed costs	636	492
Total operating expenses ship management	3 371	3 405
Other financial items		
Net unrealised loss/(gain) on interest swaps	-315	-278
Borrowing costs	476	740
Other financial items	200	299
Total other financial items	361	761

Notes to the consolidated accounts

NOTE 9 SALARIES, NUMBER OF EMPLOYEES

	2017	2016
Salaries	1 254	1 204
Social security tax	228	217
Pension expenses	141	140
Other allowances	55	98
Total payroll expenses Norwegian companies	1 678	1 659

Average number of office staff in 2017 was 52 (2016: 63) of which 8 in the Norwegian companies.

Loans to employees are specified in [note 13](#). Loans to members of the management amounted to 51 (64) at year end.

REMUNERATION	CHIEF EXECUTIVE OFFICER	FINANCIAL DIRECTOR	COMMERCIAL DIRECTOR
2017			
Salaries	401	185	213
Pension expenses (defined contribution)	20	20	20
Other remuneration	50	37	41
2016			
Salaries	367	175	206
Pension expenses (defined contribution)	19	19	19
Other remuneration	49	21	23

Remuneration in accordance with the Accounting Act § 7-31b is presented in [note 10](#) in the parent company accounts. Other remuneration includes telephone, insurance agreements etc.

BONUS

No bonus scheme was adopted for 2017. Nor for 2016.

SHARE OPTIONS

The Chief Executive Officer has a separate option scheme. For details see [note 16](#).

For share options to the employees, see [note 16](#). The Board members have not been awarded share options.

ALLOWANCE TO THE BOARD

The Board has received 81 in remuneration in 2017, divided into 20 to the Chairman and 15 to each of the other members. Additional, 3 of the board members represent an audit committee and have received 11 in additional remuneration in 2017, divided into 5 to the Chairman and 3 to each of the other members. The remunerations are paid in NOK and was increased with 3.5% from 2016.

THE GROUP'S FEES TO THE AUDITOR (EXCLUDING VAT)	2017	2016
Remuneration for audit services	80	58
Other assurance services	12	22
Assistance related to tax	25	9
Other audit related assistance	0	10
Total	117	99

Notes to the consolidated accounts

NOTE 10 RELATED PARTIES

The subsidiary Belships Management AS provides accounting services to Sonata AS, which is owned by the chairman and his family. Fees amounted to 130 (126) in 2017.

Sonata AS issued in 2016 an on-demand guarantee amounting to USD 5 million to the ship mortgage lender. The guarantee carried a commission of 5% which amounted to 238 (252) in 2017. The waiver from the lender was terminated in December 2017 and the on-demand guarantee from Sonata was returned.

All fees are in line with prevailing market rates.

No loans were issued or security provided with respect to the company's shareholders or associated parties. Certain members of the management have loans from the company. These amounted to 51 (64) as at 31 December 2017.

Notes to the consolidated accounts

NOTE 11 EARNINGS PER SHARE

Basic earnings per share is the ratio between net result of the year attributable to ordinary equity holders (i.e. net profit with dividend deducted) and the issued average number of shares outstanding during the period.

When calculating diluted earnings per share, net result attributable to ordinary equity holders and the number of issued average outstanding shares are adjusted for share options. In "the denominator" all share options (see [note 16](#)) which are "in-the-money" and exercisable are taken into consideration. In the calculations, share options are considered as having been converted at the time they were awarded.

The diluted earnings per share is equal to the basic earnings per share, as the Group's result before tax are negative.

AVERAGE NUMBER OF SHARES (EXCLUDING TREASURY SHARES)	2017	2016
Average number of issued shares	46 804 000	46 804 000
Average number of options outstanding	400 000	400 000
Diluted average issued number of shares	47 204 000	47 204 000
EARNINGS PER SHARE		
Net result for the year	6 364	-14 593
Earnings per share (US cent)	13.60	-31.18
Diluted earnings per share (US cent)	13.48	-31.18

Notes to the consolidated accounts

NOTE 12 TAXES

	2017	2016
Income tax expense	294	174

In accordance with IAS 12 for treatment of taxes, tax reducing temporary differences and tax increasing temporary differences that are reversed, or can be reversed in the same period and jurisdiction are assessed and the amount recorded net.

RECONCILIATION OF THE YEAR'S INCOME TAX EXPENSE	2017	2016
Result for the year before tax	6 658	-14 419
Statutory tax rate (Norway)	24 %	25 %
Estimated tax expense at statutory rate	1 598	-3 605
Non tax deductible expenses	-86	107
Change in temporary differences	1 832	313
Non taxed shipping income in Singapore	-228	1 969
Difference between Norwegian and Singapore regional national tax	-74	-70
Tax effect of deferred tax asset not recorded in the balance sheet including exchange rate effect	-2 748	1 460
Total income tax expense/(income)	294	174

TAX LOSS CARRIED FORWARD

The Group had a tax loss carried forward of USD 68.3 million as at 31 December 2017 (2016: USD 58.5 million) in Norway. No deferred tax benefits are recognised in the balance sheet. The Group's revenue is generated mainly by companies in Singapore that are either within the national tonnage tax regime or are subject to regular national taxation. Dividends from these companies are nontaxable to the recipients. Taxable income subject to ordinary Norwegian taxation does not indicate any reporting of deferred tax benefits.

Future tax payable in the Group is expected to be low, due to AIS registration in Singapore and tax losses in Norway.

DEFERRED TAX PER 31 DECEMBER	2017	2016
Temporary differences		
Deferred sales gain/(loss)	-696	-829
Accruals	9 690	2 116
Pensions	-529	-648
Total temporary differences	8 464	639
Tax loss carried forward	-68 257	-58 469
Net temporary differences	-59 793	-57 830
Nominal tax rate on deferred tax	23 %	24 %
Deferred tax assets	-13 752	-13 879
Deferred tax assets recognised in the Balance sheet	0	0
Deferred tax assets not recognised in the Balance sheet	-13 752	-13 879

Calculation of deferred taxes is based on temporary differences between statutory books and tax values which exist at the end of the year.

Notes to the consolidated accounts

NOTE 13 RECEIVABLES AND LIABILITIES

RECEIVABLES DUE LATER THAN 12 MONTHS	2017	2016
Loans to employees 1)	116	178
Other long-term receivables	5	5
Total long-term receivables	122	183

1) The average interest rate used for loans to employees was 2.25% (2.28%) in 2017. The repayment period is five years.

MORTGAGE DEBT

In 2014 Belships entered into a long-term financing agreement for M/S Belstar, M/S Belnor and M/S Belocan. The loan facility is secured for a period of 6 years. Main terms in the loan agreement are as follows: Minimum cash USD 3 million, annual instalment USD 5 million, minimum value 120% in 2018 and 125% in 2019 and payment of dividend is limited to 50% of net result. In order to avoid breach of loan covenants, Belships received a revised waiver from ship mortgage lender in November 2016. The waiver agreement included an on-demand guarantee from main shareholder of USD 5 million. The waiver was terminated in December 2017 and the on-demand guarantee from the main shareholder was returned. All the covenants were fulfilled as at 31 December 2017. The market value of the ships were 133% of the outstanding loan balance at year end.

BAREBOAT COMMITMENT

Belships ASA entered on 25 September 2015 into a sale and lease back agreement for M/S Belforest. The bareboat period is 12 years with purchase options from year 3 onwards.

M/S Belisland was delivered 15 March 2016 and leased for a period of 15 years with purchase options from year 5 onwards. Both leases are considered as financial leases.

REPAYMENT SCHEDULE	2018	2019	2020	2021	SUBSEQ	TOTAL
Mortgage debt	5 000	5 000	18 250	0	0	28 250
Obligation under finance leases	1 994	2 163	2 350	2 536	33 768	42 811
Capitalized financing costs	-123	-123	-26	-7	-27	-305
Total	6 871	7 040	20 574	2 529	33 740	70 755

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2016	Cash flows	Non-cash changes			2017
			Deprec. financing costs	Foreign exchange movem.	Fair value changes	
Non-current mortgage debt	32 290	-8 000	116	49		24 455
Current part of financing	6 778	162				6 940
Lease liabilities	42 811	-1 997	7	-3		40 818
Interest swap agreements	323	0			-315	8
Total liabilities from financing activities	82 202	-9 835	123	46	-315	72 221

INTEREST SWAP AGREEMENTS

Belships has an interest swap agreement with a fixed interest rate at 2.2%. The agreement covers USD 5 million and ends in August 2018. Another interest swap agreement started in September 2015 at a rate of 1.9% and with a duration of 5 years covering USD 17 million, reducing by USD 2 million per year.

Hedging the Group's interest exposure is considered on an ongoing basis. Hedge accounting is not used.

CURRENT RECEIVABLES AND SHORT-TERM LIABILITIES

Current receivables consist mainly of accrued revenues, and receivables related to operation of the ships. Other short term liabilities mainly include short term liability related to the ordinary operation of the ships. All current receivables and liabilities are due within 12 months.

Notes to the consolidated accounts

NOTE 14 INVESTMENTS AND GROUP COMPANIES

THE FOLLOWING COMPANIES ARE INCLUDED IN THE CONSOLIDATED ACCOUNTS:

	OWNERSHIP/ VOTING PERCENTAGE	BUSINESS LOCATION	MAIN ACTIVITY
Belships Management AS	100 %	Oslo	Management
Belships Management (Singapore) Pte Ltd	100 %	Singapore	Technical management
Belships Supramax Singapore Pte Ltd	100 %	Singapore	Shipping
Belships Chartering AS	100 %	Oslo	Shipping

Belships Management (Singapore) Pte Ltd

Belships (Tianjin) Ship Management & Consultancy Co Ltd	75 %	China	Crewing
Belships (Shanghai) Shipmanagement Co Ltd	60 %	China	Crewing

INVESTMENT IN ASSOCIATED COMPANIES

	BUSINESS LOCATION	OWNERSHIP/ VOTING PERCENTAGE
Belships (Myanmar) Shipmanagement Limited	Myanmar	40 %
Belchem Philippine Incorporation	Philippine	24 %
CST Belchem Singapore Pte Ltd	Singapore	20 %

Notes to the consolidated accounts

NOTE 15 BANK DEPOSITS

The Group's bank balance amounted to 5 459 (7 918) at year end. Restricted cash amounted to 229 (3 203), of which 142 (125) to swap clearing account and 87 (77) to withholding tax employees.

Notes to the consolidated accounts

NOTE 16 OPTIONS TO EMPLOYEES

The Group operates two equity-settled share-based payment schemes, one includes all the employees in the parent company and the other one relates to CEO.

At the Annual general meeting (AGM) in 2016, the Board was authorised to issue up to 200 000 share options to employees. The option price is 105% of closing share price on the day of the AGM. The authorization is valid for two years. In accordance with this authorisation, options to buy 200 000 shares at NOK 3.11 was awarded in August 2016. No options have been exercised.

At the AGM in 2017, the Board was authorised to issue up to 200 000 share options to employees. The option price is 105% of closing share price on the day of the AGM. The authorization is valid for two years. In accordance with this authorisation, options to buy 200 000 shares at NOK 5.12 was awarded in August 2017. No options have been exercised.

The above mentioned option programs require a service period of 12 months before they can be exercised. The option can be exercised after one year from the date of the AGM which approved the option program and runs unto the date of the next AGM. The option programs include all employees in the parent company. The employees must be employed in the company at the time when the options can be exercised in order to have a right to exercise them.

The options awarded in 2015 were in April 2017 canceled with an agreement between the company and the employees that the company paid out the difference between exercise and market price. The payment amounted to 32. In March 2018 options awarded in 2016 were canceled and the difference between exercise and market price were paid to the employees. This payment amounted to 59.

SUMMARY OF OUTSTANDING OPTIONS	2017	2016
Outstanding 1 January	400 000	400 000
Awarded	200 000	200 000
Exercised	0	0
Not exercised	-200 000	-200 000
Outstanding 31 December	400 000	400 000

Market value of options estimated using the Black and Scholes options pricing model. For the options awarded in 2016 and 2017 the market value per share was NOK 0.60 and NOK 1.97 respectively. The market value of outstanding share options are calculated at time of award and charged against profit and loss over the period until they can be exercised. In 2017 the calculated costs amounted to 7 and 25 for the 2016- and 2017-options respectively.

The following forms the basis for the calculation:

Share price at the time the option was awarded: The share price is set as equal to the stock exchange share price when the option was awarded.

Exercise price per option: The exercise price was 105 % of the stock exchange market price when the option was awarded.

Volatility: Historic volatility set as indication of future volatility. Expected volatility equals a historic volatility of 77.0%.

Duration of options: It is assumed that all employees will exercise their options when the service period has been completed. The term of the options is estimated at two years.

Dividend: Estimated dividend per share is NOK 0 per year.

Risk free interest rate: Interest rate used as a basis for calculating options is equal to the interest rate on government bonds over the duration of the options, i.e. 0.59% for 2017.

Decrease in the number of employees: Expected reduction is 0.

SHARE OPTION PLAN CHIEF EXECUTIVE OFFICER

In addition to the above share option plan the CEO has a separate share option plan with the following conditions:

The right to subscribe for up to 2 million shares in Belships ASA at a subscription price of NOK 5.00, of which:

- 500 000 shares may be subscribed for if the company's market value exceeds NOK 300 million (Sub-option A).
- The remaining 1.5 million shares may be subscribed for if the company's market value exceeds NOK 750 million (Sub-option B). Sub-option B is for 2 million shares if Sub-option A is not exercised within the time allowed for Sub-option A.

The market value is the product of the volume-weighted closing price of the company's shares on the Oslo stock exchange in a 15-day period and the number of outstanding shares less treasury shares and/or shares Belships issues after the option agreement date. Sub-option A expires 30 June 2018, while sub-option B expires 30 June 2020.

Notes to the consolidated accounts

NOTE 17 PENSIONS

DEFINED CONTRIBUTION SCHEME

All the employees are member of the company's defined contribution scheme, which is in line with the occupational pension scheme for employees in Norway in accordance with the Act on Mandatory occupational pensions. Annual payable cost is reflected in the income statements and the company does not have any future liabilities related to this scheme. Total costs related to these schemes amounted to 123 (121) in 2017. Pension costs in Singapore is reclassified as operating expenses ship management and amounted to 181 (210) in 2017.

DEFINED BENEFIT SCHEME

In addition to defined contribution scheme, the company has unfunded pension liabilities which are covered through the daily operations. These relate to early retirement and pension to persons, that have not been included in the defined contribution scheme. There are 7 retired persons included in this scheme.

Pension commitments are calculated by an independent actuary. The basis for the calculation is shown below. The mortality table (K2013) for Norway is used in the calculations.

Social security costs are recorded based on net pension obligation in the balance sheet included estimate discrepancy.

ASSUMPTIONS	2017	2016
Discount rate	2.40 %	2.60 %
Future wage adjustment	2.50 %	2.50 %
Pension adjustment/G-adjustment	2.50 %	2.50 %
Return on pension plan assets	2.40 %	2.60 %

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

1 January	648	796
Interest cost	15	19
Benefits paid	-171	-229
Actuarial (gains)/losses on obligation	6	39
Currency exchange gain/(loss)	33	23
31 December	530	648

PENSION EXPENSES IN CONSOLIDATED ACCOUNTS	2017	2016
Pension expenses defined benefit scheme	15	19
Pension expenses defined contribution scheme	123	121
Net pension expenses in consolidated accounts	139	140

Notes to the consolidated accounts

NOTE 18 SUBSEQUENT EVENTS

M/S Belnippon was delivered from Imabari Shipbuilding in January 2018 and has been fixed on time charter to Cargill for 10-13 months at USD 11 500 per day.

No other material events have taken place after 31 December 2017.

Notes to the consolidated accounts

NOTE 19 ENVIRONMENTAL ISSUES

The company has not been charged any penalties due to breach of environmental rules and regulations, and is not committed to implement any specific actions in that respect. For further information see the [Directors' report](#).

Notes to the consolidated accounts

NOTE 20 EQUITY

SHARE CAPITAL

Belships ASA's 47 352 000 shares, each with a face value of NOK 2.00, was as of 31 December 2017 distributed among 594 shareholders (2016: 481). Each share has one vote.

TREASURY SHARES

The company holds 548 000 treasury shares in total with an average cost price of NOK 9.91 as of 31 December 2017. Belships ASA has lent 50 000 of the treasury shares to ABG Sundal Collier Norge ASA (ASC) in connection with ASC' role as liquidity provider for the company's shares on Oslo Stock Exchange.

AUTHORISATION TO ISSUE NEW SHARES

At the Annual general meeting in 2017 the Board received authorisation to issue up to 4.0 million new shares. The authorisation has not been used and is valid to the next ordinary Annual general meeting.

DIVIDEND

The Board of Directors of Belships ASA will at the Annual general meeting on 24 April 2018 propose a dividend of NOK 0.10 per share for 2017 (2016: 0).

THE 20 LARGEST SHAREHOLDERS IN BELSHIPS ASA AT 31 DECEMBER 2017		NUMBER OF SHARES	PERCENTAGE
1	Sonata AS	31 747 492	67.05 %
2	Tidships AS	5 080 432	10.73 %
3	Eitzen Rederi AS	806 134	1.70 %
4	Belships ASA	498 000	1.05 %
5	Carlings AS	400 000	0.84 %
6	Chrem Capital AS	320 000	0.68 %
7	Tidinvest II AS	315 414	0.67 %
8	Jenssen & Co A/S	302 816	0.64 %
9	Toru Nagatsuka	270 000	0.57 %
10	Carl Erik Steen	269 154	0.57 %
11	Jovoko AS	250 000	0.53 %
12	Danske Bank A/S	245 339	0.52 %
13	Liv Seland	240 000	0.51 %
14	JSL AS	231 191	0.49 %
15	ASL Holding AS	225 000	0.48 %
16	Arne Risøy	217 902	0.46 %
17	AR Vekst AS	203 995	0.43 %
18	Bernhard Kielland	200 000	0.42 %
19	HKD Holding AS	198 117	0.42 %
20	Jomaho AS	160 000	0.34 %
Total 20 largest shareholders		42 180 986	89.08 %
Other shareholders		5 171 014	10.92 %
Total number of shares		47 352 000	100.00 %

NUMBER OF SHARES OWNED BY BOARD MEMBERS IN BELSHIPS ASA	OWNED SHARES	OUTSTANDING OPTIONS
Sverre J. Tidemand 1)	31 747 492	0
Christian Rytter 2)	320 000	0
Carl Erik Steen	269 154	0
Other members	0	0

1) Includes shares held by Sonata AS, a company in which Sverre J. Tidemand controls the only share with voting rights.

2) Shares held by 100% owned Chrem Capital AS.

NUMBER OF SHARES OWNED BY THE MANAGEMENT IN BELSHIPS ASA	OWNED SHARES	OUTSTANDING OPTIONS
Ulrich Müller, Chief Executive Officer *	0	60 000
Stein H. Runsbech, Commercial Director	30 000	33 000
Osvald Fossholm, Financial Director	0	33 000

*) See [note 16](#) for more information about separate share option plan.

For changes in equity, see [separate statement](#).

Notes to the consolidated accounts

NOTE 21 CONTINGENCIES

The Board is not aware of any material disputes the company may be involved in at 31 December 2017.

Notes to the consolidated accounts

NOTE 22 FINANCIAL MARKET RISK

Financial market risk is considered to be the risk of changes in foreign exchange rates and interest rates that may affect the value of the Group's assets, obligations and future cash flows.

Belships has a continuing focus on its risk exposure. Derivatives may be used to reduce financial market risk, but are only used to hedge specific exposures. When use of derivatives are considered appropriate, only well-known conventional derivative instruments are considered, i.e. OTC agreements such as swaps, options and forward rate agreements. Derivative transactions are only made with renowned financial institutions. Credit risk relating to these derivatives is therefore limited.

Belships is only using derivatives to reduce or limit risk related to fluctuations in interest and foreign exchange rates. Financial derivatives are not used to obtain financial revenues through fluctuating interest rates, nor are financial derivatives used when there is no underlying exposure.

See [note 8](#) for the specification of other financial items.

INTEREST RATE RISK

The long-term interest rate is still at a low level. Belships strategy is to manage interest risk. Hedging the Group's interest exposure is considered on an ongoing basis. Entering into interest rate hedging agreements are based on developments in the interest rate market and internal analysis.

In August 2011 Belships entered into an interest rate swap agreement with 2 years forward start at 2.2%. At year end 2017 the agreement covered USD 5 million and it ends in August 2018. The market value of the agreement amounted to -20 at year end (2016: -123). Another interest swap agreement with forward start was entered into in June 2015 at a rate of 1.9% and with a duration of 5 years covering USD 20 million, reducing by USD 2 million per year. Market value of this agreement amounted to 12 (-200) at year end. The hedging level of interest rate exposure is currently around 78% (leases excluded). The market value of the agreements are recorded as long-term liability.

The Group entered in 2015 and 2016 into two financial lease agreements, which also limit the interest rate exposure as the interest rate is fixed throughout the period.

The company does not use hedge accounting.

The table below shows the sensitivity related to changes in interest rate levels. The calculation includes total interest-bearing debt.

SENSITIVITY TO CHANGES IN INTEREST RATE LEVELS	2017	2016
Change in the interest rate level in basis points	-100/+100	-100/+100
Effect on result before tax	338/-338	388/-388

AVERAGE EFFECTIVE INTEREST RATE ON DEBT (%)

Mortgage debt	4.25	3.72
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CAPITAL STRUCTURE AND EQUITY CAPITAL

The primary objective of the Group's capital management is to achieve best possible credit rating, and to maximize the shareholders values. The company's goal is to maintain an equity capital ratio of at least 35%. Added value related to the long-term charter party for M/S Belisland is not included in the balance sheet. In addition an improved market is expected to increase the equity capital ratio up to 35%. The equity ratio is calculated by dividing the book equity to total assets as shown below:

	2017	2016
Total equity as at 31 December	26 382	20 144
Total assets	102 129	105 612
Equity ratio as at 31 December	26 %	19 %

Net debt is defined as interest-bearing debt (short and long-term) and accounts payable less cash. Equity comprises paid-in equity and retained earnings.

	2017	2016
Interest-bearing debt	70 755	80 472
Trade creditors	573	256
Cash reserves	-5 459	-7 918
Net debt	65 869	72 810
Equity	26 382	20 144
Total equity and net debt	92 251	92 954
Net debt ratio	71 %	78 %

LIQUIDITY RISK

All ships are secured on charter contract's which will generate sufficient cash flow to cover operational expenses and planned instalments. The ship management business also provide positive cash flow from operations. Further, the debt ratio was reduced in 2017 due to better earning, and with total current assets covering 85 % of total short term liabilities at 31 December 2017. After amendment in December 2017, the terms in the loan agreements also provides the Group with some financial flexibility. Based on this, the Group's solvency and financial position is considered to be satisfactory, and the board has further proposed a dividend on NOK 4.7 million (USD 0.6 million).

CREDIT RISK

There will always be a credit risk related to the Group's business. Belships monitors this risk and the strategy is to carefully select counterparts. Historical losses have been small. The Group's ships are employed on long-term charter to Canpotex Shipping Services Ltd and to Cargill, which is considered to be solid and reputable counterparts.

There is no class of financial assets that is past due and/or impaired except for trade receivables. All accounts receivable in the balance sheet are due within 30 days from the balance sheet date.

CURRENCY RISK

The functional currency of all the consolidated companies is USD since the major part of revenues and costs are in USD. Belships currency exposure is related to administrative expenses in Norway, Singapore and China. This exposure is considered to be limited. Except for USD the Group had a cash balance of NOK 8.2 million, SGD 0.9 million and CNY 0.8 million at end of 2017. Belships has no currency hedge agreements as at 31 December 2017.

FAIR VALUE MEASUREMENTS

The valuation has the following classification of levels for measuring fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Valuation based on other observable factors, either directly (prices) or indirectly (derived from prices) than quoted prices included within level 1 of the asset or obligation.

Level 3: Valuation based on factors not taken from observable markets (not observable assumptions).

There was no change in levels in 2017. Interest swap agreements are valued in accordance with the principles described as level 2. Fair value is defined as present value of future cash flows. For the above derivatives, fair value is confirmed by the financial institution, which is counterpart. The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts. The long-term liabilities have floating interest rate with a fixed margin. The margin is considered not to have significantly changed since drawing date, thus carrying amount is considered a reasonable estimate of fair value.

SUMMARY OF FINANCIAL ASSETS AND OBLIGATIONS *	LOANS AND RECEIVABLES		CHANGE IN FAIR VALUE THROUGH PROFIT AND LOSS		AVAILABLE FOR SALE		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial assets								
Investments					126	108	126	108
Other long-term receivables	122	183					122	183
Trade debtors	323	91					323	91
Other receivables	1 525	1 120					1 525	1 120
Bank deposits	5 459	7 918					5 459	7 918
Financial obligations								
Mortgage debt	-28 250	-36 250					-28 250	-36 250
B/B commitment	-42 811	-44 647					-42 811	-44 647
Financial instruments			-8	-323			-8	-323
Trade creditors	-573	-256					-573	-256
Other short-term liabilities	-2 166	-2 231					-2 166	-2 231
Total	-66 371	-74 071	-8	-323	126	108	-66 253	-74 286

*) The figures express both book value and fair value as these are identical.

ASSETS AND OBLIGATIONS MEASURED AT FAIR VALUE	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial investments					126	108	126	108
Interest agreements			-8	-323			-8	-323
Total			-8	-323	126	108	118	-215
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST						2017	2016	
Mortgage debt						-28 250	-36 250	
B/B commitment						-42 811	-44 647	
Total						-71 061	-80 897	

The fair value of credit facilities and obligations under financial leases is estimated by discounting future cash flows using rates currently available for debt on similar items. The obligations under financial leases as of 31 December 2017 reflects best timing estimate of declaring purchase options. Further, the lease agreements are newly entered into, and there has not been any significant changes in the credit risk of the Group. Fair value of the obligations under financial leases are therefore not considered to be materially different from book value as of the reporting date. Based on the discussions Belships have had with its lender over the last year related to amendment of the loan agreement, the Group has not made observations indicating that there has been any significant difference between the fair value and carrying amount except for un-amortised loan transaction costs.

Belships ASA income statements

1 JANUARY – 31 DECEMBER/ NOK 1 000	NOTE	2017	2016
Operating income			
Freight income	2	89 907	73 550
Other operating income	10	4 976	4 773
Total operating income		94 883	78 323
Operating expenses			
T/C hire	2	-48 757	-42 529
Ship operating expenses	9	-26 496	-24 257
Payroll expenses	10	-13 880	-13 933
Other general administrative expenses	11	-6 224	-6 793
Depreciation on ships and other fixed assets	2	-15 774	-14 065
Reversal/Impairment of fixed assets	2	33 013	-34 717
Total operating expenses		-78 118	-136 295
Operating result before sale of ship a.o.		16 765	-57 971
Loss on sale of ship/effect on onerous contracts	2	21 058	-31 108
Operating result		37 824	-89 079
Financial income and expenses			
Share dividend	8	8 725	3 113
Interest income		88	71
Interest expenses	12	-26 573	-26 758
Interest expense on loan to subsidiary	4	-128	-131
Write-down on shares in subsidiary	8	0	-34 382
Other financial items	9	5 282	3 646
Currency exchange gain/-loss	9	18 792	-303
Net financial items		6 186	-54 744
Net result before tax		44 010	-143 824
Income tax expense	16	0	0
Net result for the year		44 010	-143 824
Appropriations of net result:			
Dividend		-4 735	0
Transfer from/(to) other retained earnings		-39 275	143 824
Total		-44 010	143 824

Belships ASA balance sheets

AS AT 31 DECEMBER/ NOK 1 000	NOTE	2017	2016
NON CURRENT ASSETS			
Tangible assets			
Ships	2	386 529	368 567
Prepaid time charter hire	2	3 323	12 930
Other fixed assets	2	6 172	5 745
Total tangible assets		396 024	387 242
Financial assets			
Shares in subsidiaries	8	207 136	207 136
Other shares		141	141
Other long-term receivables	12	952	1 581
Total financial assets		208 229	208 858
Total non current assets		604 252	596 100
CURRENT ASSETS			
Prepaid time charter hire		9 029	0
Other receivables		9 845	4 702
Cash and cash equivalents	5	13 714	4 962
Total current assets		32 589	9 664
Total assets		636 841	605 764
EQUITY			
Paid-in capital			
Share capital		94 704	94 704
Treasury shares		-1 096	-1 096
Share premium reserve		93 333	93 333
Other paid-in capital		106 729	106 727
Total paid-in capital		293 670	293 668
Retained earnings			
Other equity		-73 155	-117 116
Total equity	6	220 514	176 552
LIABILITIES			
Non current liabilities			
Bareboat commitment	12	334 908	369 032
Provision for losses on contracts	2	0	17 612
Pension obligations	7	4 340	5 583
Financial instruments	14	0	1 480
Intercompany balances	4	5 927	5 848
Total non current liabilities		345 175	399 556
Current liabilities			
Bareboat commitment, current portion	12	15 918	15 326
Public taxes and duties payable		1 276	2 447
Trade creditors		531	281
Intercompany balances	4	47 192	4 546
Other current liabilities		6 236	7 056
Total current liabilities		71 153	29 657
Total liabilities		416 327	429 213
Total equity and liabilities		636 841	605 764



Sverre J. Tidemand
Chairman of the Board



Christian Rytter
Board member



Kjersti Ringdal
Board member



Sissel Grefsrud
Board member



Carl Erik Steen
Board member



Bernt Ulrich Müller
Chief Executive Officer

Belships ASA cash flow statements

1 JANUARY – 31 DECEMBER/ NOK 1 000	NOTE	2017	2016
CASH GENERATED FROM OPERATIONS			
Net result before tax		44 010	-143 824
Adjustments to reconcile result before tax to net cash flows:			
Depreciation on ships and other fixed assets	2	15 774	14 065
Reversal/Impairment of ships	2	-33 013	34 717
Gain/loss from sale of fixed assets/effect on onerous contracts	2	-21 058	31 108
Share-based payment transaction expense	3	2	263
Difference between pension expenses and paid pension premium	7	-1 291	-1 761
Net financial items		-6 186	54 744
Working capital adjustments:			
Change in trade debtors and trade creditors		250	-507
Change in intercompany balances		42 725	-1 495
Change in other short-term items		-2 730	2 656
Interest received		88	71
Interest paid		-26 701	-26 889
Net other financial items		3 778	3 852
Net cash flow from operations		15 647	-33 000
CASH FLOW FROM INVESTING ACTIVITIES			
Investment newbuildings		0	-174 043
Investments in tangible assets	2	-1 571	-1 426
Sale proceeds from tangible asset disposals	2	425	202 204
Dividends/Group contribution received	8	8 725	3 113
Change in other investments		585	-12 747
Net cash flow from investing activities		8 164	17 101
CASH FLOW FROM FINANCING ACTIVITIES			
Instalments b/b commitments		-15 060	-15 061
Net cash flow from financing activities		-15 060	-15 061
Net change in cash and cash equivalents		8 752	-30 960
Cash and cash equivalents at 1 January		4 962	35 922
Cash and cash equivalents at 31 December	5	13 714	4 962
Restricted bank deposits	5	1 877	1 749

Notes to the Belships ASA accounts

NOTE 1 ACCOUNTING POLICIES

Belships is owner and operator of dry bulk ships on long-term charter to reputable customers. Belships ASA is registered in Norway and listed on the Oslo Stock Exchange. The head office is located in Lilleakerveien 4 in Oslo, Norway.

The financial statements have been approved by the Board on 21 March 2018.

The accounts are prepared in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP). The accounts form part of the consolidated accounts of Belships ASA. The consolidated financial statements have been prepared in accordance with IFRS as adopted by EU.

All amounts in the notes are in NOK 1 000 unless otherwise stated.

Belships has obtained approval from Oslo Stock Exchange and Norwegian tax authorities to only publish its financial statements in English.

A) CLASSIFICATION OF BALANCE SHEET ITEMS

Assets intended for long-term ownership or use are classified as fixed assets. Other assets inclusive accounts receivable within 12 months are classified as current assets. Liabilities due within 12 months, are classified as short-term liabilities. Current assets are reported at the lower of cost and net realisable value, while current liabilities are carried at the nominal value at drawdown date.

B) TAXES ON INCOME

Tax expenses consist of tax payable and changes in deferred tax. Deferred tax/tax assets are calculated on all differences between accounting values and tax values of assets and liabilities.

Deferred tax assets are included in the balance sheets when it is likely that the company will have sufficient profit for tax purposes in subsequent periods that will enable the company to utilise the tax asset. The company records previously unrecorded deferred tax assets to the extent it has become likely that the company can utilise the deferred tax asset. Similarly, the company will reduce the deferred tax asset to the extent the company no longer regards it as being likely that it can utilize the deferred tax asset.

Deferred tax and deferred tax asset are measured on the basis of expected future tax rates for the companies in the group where temporary differences have occurred.

Deferred tax and deferred tax assets are entered at nominal value and are classified as financial fixed assets (long-term liability) on the balance sheet.

Tax payable and deferred tax are booked directly against equity to the extent the tax items relate to equity transactions.

C) TANGIBLE FIXED ASSETS

Tangible fixed assets are measured at acquisition cost, net of accumulated depreciation and impairments losses. When assets are sold or divested, the carrying amount is deducted and any gains or losses are recognised in the income statement. Acquisition cost for tangible fixed assets is the purchase price, including taxes and charges and expenses directly related to preparing the asset for use. Expenses incurred after the asset has been put to use, are recognised in the income statement, whereas other expenses which are expected to create future financial gains are capitalised.

An estimated docking element is recognised as a separate component of the ship for depreciation purposes on the first occasion a ship is booked in the accounts. The amount corresponds to the estimated docking costs for the period. The docking component is depreciated on a straight-line basis the over the period to the next planned drydocking.

Residual value has been taken into account, and this is estimated based on steel value of the ship at the balance sheet date less estimated cost to demolish the ship.

Book value is compared to market value and value in use to assess the need for any further impairment compared to the ordinary depreciation plan. The depreciation period and method are assessed annually and are based on the management's estimates of the ships' future useful life. The same applies to residual value.

The ships are depreciated as one unit, as the value of any part of the ship with a useful lifetime other than 25 years is considered to be insignificant.

Newbuilding contracts

Newbuilding contracts are recognised as a fixed asset based on instalments paid to the yard. Building supervision costs and project costs related to the newbuilding contracts are capitalised.

D) IMPAIRMENT OF ASSETS

At the end of each quarter, every ship is assessed for impairment indicators. The same applies when events or changes occur that may entail that the asset's carrying amount may not be recovered. In assessing the need for impairments, assets are grouped at the lowest level at which there is identifiable and predominantly independent cash inflows, which means per ship. Impairment is calculated as the difference between the asset's carrying amount and the value considered as recoverable. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use to the Company. Value in use is calculated by discounting anticipated future cash flows from the asset. When it is assumed that the asset's value is lower than its carrying amount, an impairment loss is recognised.

Impairment loss recognised in earlier periods is reversed only in case of changes to the estimates used to determine the recoverable amount. However, the reversal amount may only be so high that book value after reversal at most corresponds to the value at which the asset would have been registered if it had not been impaired earlier. Such reversals are recorded in the income statement. Financial assets classified as being available for sale are written down when there are objective indications that the asset has declined in value. An accumulated loss (the difference between acquisition cost and current market value, with deduction of impairments previously included in the result and any amortisation amounts) is included in the income statement. If the market value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can objectively be linked to an event that took place after the impairment was included in the income statement, the impairment loss will be reversed over the income statement. Impairment loss for an investment in an equity instrument classified as held for sale, will not be reversed over the income statement.

E) LEASING

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. Leases are classified as financial leases if the terms of the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating lease. Assets financed under financial leases are capitalized at inception of the lease at the fair value of the leased vessel or, if lower, at the present value of the minimum lease payments. The corresponding lease obligation is recognized as a liability in the balance sheet. Lease payments are split between interest cost and reduction of the lease liability. Interest cost is recognized in the income statement. Financial leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. For operating leases, the payments (time charter hire or bareboat hire) are recognized as an expense on a straight line basis over the term for the lease.

F) INVESTMENTS IN OTHER COMPANIES

Investments in subsidiaries and jointly controlled companies are accounted for in the parent company using the cost method.

G) ACCOUNTS RECEIVABLE

Accounts receivable are booked at nominal amount less expected loss.

H) CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method. Liquid assets includes cash, bank deposits (restricted and unrestricted) and other short-term investments, which can be converted to cash within 3 months. For restricted deposits, see [note 5](#).

I) EQUITY

(i) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the reporting period are fulfilled with treasury shares.

(ii) Costs related to equity transactions

Transaction costs directly related to equity transactions are charged directly against the equity after tax deductions.

J) EMPLOYEE BENEFITS

Defined contribution pension scheme

All employees are member of the company's defined contribution scheme. The premium is charged as incurred by operations. Social security tax expense is recognized based on the pension plan payments.

Defined benefit pension scheme

The company has unfunded pension liabilities. These relate to early retirement and pension to persons, that have not been included in the service pension scheme. Pension obligations are estimated by an independent actuary.

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

K) PROVISIONS

A provision is recorded when the company has a liability (legal or constructive) as a result of a previous event, where it is likely (more likely than not) that there will be a financial settlement as a result of this liability and that the size of the sum can be reliably determined. If the effect is considerable, the provision is calculated by discounting the expected future cash flow with a discount rate before tax, which reflects the market's evaluation of the time value of money and, if relevant, risks specifically connected to the liability.

Provisions for loss-creating contracts are included when the group's expected income from a contract is lower than the inevitable costs which were incurred in discharging the obligations of the contract.

L) REVENUE RECOGNITION

Gains will be taken to income when it is likely that transactions will generate future financial gains which will be attributable to the company and the sum can be reliably estimated. Interest rate income is taken to income based on effective interest method according to when it is earned.

Dividend received from subsidiaries is accounted for in the same year as dividend has been accrued for in the subsidiary. If such dividend exceeds the prorata share of retained earnings after the acquisition of the shares, such excess portion represents repayment of capital and reduces the acquisition cost accordingly.

M) TRANSACTIONS IN FOREIGN CURRENCY

Transactions in foreign currency are converted at the rate at the time of the transaction. Monetary items in foreign currency are converted into Norwegian kroner using the rate on the balance sheet date. Non-monetary items which are measured at historical rates expressed in foreign currencies, are converted into Norwegian kroner using the currency rate at the time of the transaction. Non-monetary items which are measured at market value expressed in foreign currency are converted at the currency rate on the balance sheet date. Currency rate changes are charged against income during the accounting period.

N) CONTINGENT GAINS AND LOSSES

Provisions are made for contingent losses deemed probable and quantifiable. Contingent gains are not recognised.

O) RELATED PARTY TRANSACTIONS

Transactions with related parties are carried out at market terms. See [note 15](#) for further information.

P) EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date regarding the company's financial position as of the balance sheet date is taken into consideration in the annual accounts. Events after the balance sheet date that do not affect the company's financial position as of the balance sheet date, but which will have an impact on the company's financial position in the future are revealed if significant.

Q) USE OF ESTIMATES IN PREPARATION OF THE ANNUAL ACCOUNTS

The management has used estimates and assumptions that have affected assets, debt, income, costs and information on potential liabilities. This applies particularly to pension liabilities and share-based remuneration. Future events can entail a change in these estimates. Estimates and the underlying assumptions are evaluated on an ongoing basis. Changes in accounting estimates are entered in the period when the changes occur. If the changes also apply to future periods, the effect is distributed over the current and future periods.

R) EARNINGS PER SHARE

Earnings per share are calculated by dividing the net result by a weighted, average number of shares in the reporting period. Diluted earnings per share are calculated on the basis the dilution effect of issued options and convertible loans, if any.

S) SHARE-BASED REMUNERATION

The employees in Belships ASA have received options to purchase shares in the company. The market value of the awarded options is measured at the time of the award and charged to expense over the vesting period as a wage cost with corresponding increase in other paid-in equity. The market value of the options granted is estimated using the Black and Scholes option pricing model.

T) FINANCIAL INSTRUMENTS

Financial instruments are valued at lowest of cost and estimated fair value.

Notes to the Belships ASA accounts

NOTE 2 FIXED ASSETS

2017

	Ships			Other fixed assets		
	Ships excl. dry docking costs	Capitalised dry dock.costs	Total ships	Depreciable assets	Non depreciable assets	Total other fixed assets
Cost price						
As at 1 January	422 122	15 358	437 480	17 084	4 113	21 197
Additions	0	0	0	1 571	0	1 571
Disposals	0	0	0	-7 066	0	-7 066
As at 31 December	422 122	15 358	437 480	11 589	4 113	15 702
Depreciations						
As at 1 January	65 840	3 073	68 913	14 952	500	15 452
Depreciation for the year	11 917	3 135	15 051	723	0	723
Reversal impairment	-33 013	0	-33 013	0	0	0
Disposals	0	0	0	-6 644	0	-6 644
As at 31 December	44 744	6 208	50 951	9 030	500	9 530
Book value at 31 December	377 378	9 150	386 529	2 558	3 613	6 171

2016

	Newbuilding	Ships			Other fixed assets		
		Ship excl. dry docking costs	Capitalised dry dock.costs	Total ships	Depreciable assets	Non depreciable assets	Total other fixed assets
Cost price							
As at 1 January	55 521	228 067	7 678	235 745	16 867	4 113	20 980
Additions	174 043	194 055	7 680	201 735	1 426	0	1 426
Disposals	-229 564	0	0	0	-1 209	0	-1 209
As at 31 December	0	422 122	15 358	437 480	17 084	4 113	21 197
Depreciations							
As at 1 January	18 303	20 325	384	20 709	15 151	500	15 651
Depreciation for the year	0	10 798	2 689	13 487	579	0	579
Impairment	0	34 717	0	34 717	0	0	0
Disposals	-18 303	0	0	0	-778	0	-778
As at 31 December	0	65 840	3 073	68 913	14 952	500	15 452
Book value at 31 December	0	356 282	12 285	368 567	2 132	3 613	5 745

M/S BELISLAND

M/S Belisland, a 61 000 dwt Ultramax bulk carrier was delivered on 15 March 2016 and is leased on bareboat charter for a period of 15 years with purchase options from year 5 onwards. The lease transaction is considered as a financial lease. The ship is chartered to Canpotex for 5 years at a net rate of USD 17 300 per day.

M/S BELFOREST

M/S Belforest, a 61 000 dwt Ultramax bulk carrier was delivered on 25 September 2015 and is leased on bareboat charter for a period of 12 years with purchase options from year 3 onwards. The transaction is considered as a financial lease. The ship is chartered to Cargill unto September 2018 with charterers option of further 2 months, at charter rate of around USD 10 000 per day. A provision

of loss of NOK 0.7 million was entered in 2016 regarding the previous timecharter period with Cargill. The provision was reversed in 2017.

Reversal of previous impairments for M/S Belforest amounted to NOK 33 million in 2017. See [note 7](#) in the consolidated accounts regarding impairment.

M/S BELOCEAN

M/S Belocean is owned by Belships Supramax Singapore (BSS) and is on time charter to Belships ASA at USD 16 000 per day. The ship is employed in the market on time charter to Cargill at USD 9 770 per day.

In 2016 a provision of NOK 21.3 million was recorded as estimated net loss on the timecharter agreements for M/S Belocean and M/S Belisland. Due to improved market, this provision was reversed in 2017.

PREPAYMENT OF TIMECHARTER HIRE

Prepayment of timecharter hire amounting to USD 1.5 million is related to the newbuilding delivered in January 2018.

OTHER FIXED ASSETS

Depreciable assets include vehicles, office furniture and office equipment. Depreciation period is 3-5 years. Non-depreciable assets include apartment and art, which is being tested for impairment annually.

Notes to the Belships ASA accounts

NOTE 3 OPTIONS TO EMPLOYEES

At the Annual general meeting (AGM) in 2016, the Board was authorised to issue up to 200 000 share options to employees. The option price is 105% of closing share price on the day of the AGM. The authorization is valid for two years. In accordance with this authorisation, options to buy 200 000 shares at NOK 3.11 was awarded in August 2016. No options have been exercised.

At the AGM in 2017, the Board was authorised to issue up to 200 000 share options to employees. The option price is 105% of closing share price on the day of the AGM. The authorization is valid for two years. In accordance with this authorisation, options to buy 200 000 shares at NOK 5.12 was awarded in August 2017. No options have been exercised.

Both option programs require a service period of 12 months before they can be exercised. The option can be exercised after one year from the date of the AGM which approved the option program and runs unto the date of the next AGM. The option programs include all employees in the parent company. The employees must be employed in the company at the time when the options can be exercised in order to have a right to exercise them.

The options awarded in 2015 were in April 2017 canceled with an agreement between the company and the employees that the company paid out the difference between exercise and market price. The payment amounted to 32. In March 2018 options awarded in 2016 were canceled and the difference between exercise and market price were paid to the employees. This payment amounted to 454.

SUMMARY OF OUTSTANDING OPTIONS	2017	2016
Outstanding 1 January	400 000	400 000
Awarded	200 000	200 000
Exercised	0	0
Not exercised	-200 000	-200 000
Outstanding 31 December	400 000	400 000

Market value of options estimated using the Black and Scholes options pricing model. For the options awarded in 2016 and 2017 the market value per share was NOK 0.60 and NOK 1.97 respectively. The market value of outstanding share options are calculated at time of award and charged against profit and loss over the period until they can be exercised. In 2017 the calculated costs amounted to 56 and 208 for the 2016- and 2017-options respectively.

The following forms the basis for the calculation:

Share price at the time the option was awarded: The share price is set as equal to the stock exchange share price when the option was awarded.

Exercise price per option: The exercise price was 105 % of the stock exchange market price when the option was awarded.

Volatility: Historic volatility set as indication of future volatility. Expected volatility equals a historic volatility of 77.0%.

Duration of options: It is assumed that all employees will exercise their options when the service period has been completed. The term of the options is estimated at two years.

Dividend: Estimated dividend per share is NOK 0 per year.

Risk free interest rate: Interest rate used as a basis for calculating options is equal to the interest rate on government bonds over the duration of the options, i.e. 0.59% for 2017.

Decrease in the number of employees: Expected reduction is 0.

SHARE OPTION PLAN CHIEF EXECUTIVE OFFICER

In addition to the above share option plan the CEO has a separate share option plan with the following conditions:

The right to subscribe for up to 2 million shares in Belships ASA at a subscription price of NOK 5.00, of which:

- 500 000 shares may be subscribed for if the company's market value exceeds NOK 300 million (Sub-option A).
- The remaining 1.5 million shares may be subscribed for if the company's market value exceeds NOK 750 million (Sub-option B). Sub-option B is for 2 million shares if Sub-option A is not exercised within the time allowed for Sub-option A.

The market value is the product of the volume-weighted closing price of the company's shares on the Oslo stock exchange in a 15-day period and the number of outstanding shares less treasury shares and/or shares Belships issues after the option agreement date. Sub-option A expires 30 June 2018, while sub-option B expires 30 June 2020.

Notes to the Belships ASA accounts

NOTE 4 INTERCOMPANY BALANCES

No interest is calculated on short-term intercompany balances, as these items are only considered as ordinary operating balances.

Interest at market terms is calculated on long-term intercompany balances, and the balance fall due when the cash position allows it. Interest cost of 128 (2016: 131) are paid to a subsidiary due to long-term intercompany balance of 5 927 (5 848) at year end.

Notes to the Belships ASA accounts

NOTE 5 BANK DEPOSITS

Total bank deposit amounted to 13 714 (4 962) at year-end. Restricted funds for withholding tax for employees amounted to 712 (668) and other restricted deposits amounted to 1 166 (1 081) as at 31 December 2017.

Notes to the Belships ASA accounts

NOTE 6 EQUITY

	NOTE	PAID-IN				RETAINED	TOTAL
		SHARE CAPITAL	TREASURYSHARES	SHARE PREMIUM RESERVES	OTHER EQUITY	OTHER EQUITY	
Equity per 31 December 2016		94 704	-1 096	93 333	106 726	-117 116	176 551
Actuarial gains/(losses) obligation	2	0	0	0	0	-48	-48
Share-based payments	3	0	0	0	2	0	2
Dividend		0	0	0	0	4 735	4 735
Result for the year		0	0	0	0	39 275	39 275
Equity per 31 December 2017		94 704	-1 096	93 333	106 728	-73 154	220 515

SHARE CAPITAL

Belships ASA's 47 352 000 shares, each with a face value of NOK 2.00, was as of 31 December 2017 distributed among 594 shareholders (2016: 481). Each share has one vote.

TREASURY SHARES

The company holds 548 000 treasury shares in total with an average cost price of NOK 9.91 as of 31 December 2017. Belships ASA has provided 50 000 treasury shares to ABG Sundal Collier Norge ASA (ABGSC) as a facility for ABGSC' role as liquidity provider for the company's shares on Oslo Stock Exchange.

AUTHORISATION TO ISSUE NEW SHARES

At the Annual general meeting in 2017 the Board received authorisation to issue up to 4 million new shares. The authorisation has not been used and is valid to the next ordinary Annual general meeting.

DIVIDEND

The Board of Directors of Belships ASA will at the annual general meeting on 24 April 2018 propose a dividend of NOK 0.10 per share (2017: 0).

THE 20 LARGEST SHAREHOLDERS IN BELSHIPS ASA AT 31 DECEMBER 2017

		NUMBER OF SHARES	PERCENTAGE
1	Sonata AS	31 747 492	67.05 %
2	Tidships AS	5 080 432	10.73 %
3	Eitzen Rederi AS	806 134	1.70 %
4	Belships ASA	498 000	1.05 %
5	Carlings AS	400 000	0.84 %
6	Chrem Capital AS	320 000	0.68 %
7	Tidinvest II AS	315 414	0.67 %
8	Jenssen & Co A/S	302 816	0.64 %
9	Toru Nagatsuka	270 000	0.57 %
10	Carl Erik Steen	269 154	0.57 %
11	Jovoko AS	250 000	0.53 %
12	Danske Bank A/S	245 339	0.52 %
13	Liv Sjøland	240 000	0.51 %
14	JSL AS	231 191	0.49 %
15	ASL Holding AS	225 000	0.48 %
16	Arne Risøy	217 902	0.46 %
17	AR Vekst AS	203 995	0.43 %
18	Bernhard Kielland	200 000	0.42 %
19	HKD Holding AS	198 117	0.42 %
20	Jomaho AS	160 000	0.34 %
Total 20 largest shareholders		42 180 986	89.08 %
Other shareholders		5 171 014	10.92 %
Total number of shares		47 352 000	100.00 %

NUMBER OF SHARES OWNED BY BOARD MEMBERS IN BELSHIPS ASA

	OWNED SHARES	OUTSTANDING OPTIONS
Sverre J. Tidemand 1	31 747 492	0
Christian Rytter 2	320 000	0
Carl Erik Steen	269 154	0
Other members	0	0

1) Includes shares held by Sonata AS, a company in which Sverre J. Tidemand controls the only share with voting rights.

2) Shares held by 100% owned Chrem Capital AS.

NUMBER OF SHARES OWNED BY THE MANAGEMENT IN BELSHIPS ASA

	OWNED SHARES	OUTSTANDING OPTIONS
Ulrich Müller, Chief Executive Officer *	0	60 000
Stein H. Runsbech, Commercial Director	30 000	33 000
Osvald Fossholm, Financial Director	0	33 000

*) See [note 3](#) for more information about separate share option plan.

Notes to the Belships ASA accounts

NOTE 7 PENSIONS

DEFINED CONTRIBUTION SCHEME

All the employees are member of the company's defined contribution scheme, which is in line with the occupational pension scheme for employees in Norway in accordance with the Act on Mandatory occupational pensions. Annual payable cost is reflected in the income statements and the company does not have any future liabilities related to this scheme. Total costs related to this scheme amounted to 1 041 in 2017 (2016: 1 011).

DEFINED BENEFIT SCHEME

In addition to defined contribution scheme, the company has unfunded pension liabilities which are covered through the daily operations. These relate to early retirement and pension to persons, that have not been included in the defined contribution scheme. There are 7 retired persons included in this scheme. Pension commitments are calculated by an independent actuary. The basis for the calculation is shown below. The mortality table (K2013) for Norway is used in the calculations.

Social security costs are recorded based on net pension obligation in the balance sheet included estimate discrepancy.

	2017	2016
Assumptions		
Discount rate	2.40 %	2.60 %
Future wage adjustment	2.50 %	2.50 %
Pension adjustment/G-adjustment	2.50 %	2.50 %
Return on pension plan assets	2.40 %	2.60 %
Composition of the net pension obligations per 31 December		
Net pension obligations as at 1 January	5 583	7 008
Interest on accrued pension obligations	127	163
Employer benefits paid	-1 418	-1 925
Actuarial (gains)/losses on obligation	48	337
Net pension obligations as at 31 December	4 340	5 583
NET PENSION EXPENSES	2017	2016
Pension expenses defined benefit scheme	127	163
Pension expenses defined contribution scheme	1 041	1 011
Total pension expenses	1 168	1 174

Notes to the Belships ASA accounts

NOTE 8 SHARES

	BUSINESS OFFICE	TIME OF PURCHASE	COST PRICE	OWNER-SHIP/ SHIP/ VOTING SHARE	COMPANY'S SHARE CAPITAL	NUMBER OF SHARES OWNED	PAR VALUE	BOOK- VALUE
Shares in subsidiaries								
Belships Management AS	Oslo	09.12.85	7 493	100 %	100	2	TNOK 50	657
Belships Management (Singapore) Pte Ltd 1)	Singapore	31.12.83	12 075	100 %	TSGD 60	60 000	SGD 1	12 076
Belships Supramax Singapore Pte Ltd	Singapore	18.06.09	253 782	100 %	MSGD 58.5	58.5 mill.	SGD 1	189 000
Belships Chartering AS	Oslo	27.01.93	221 181	100 %	5 403	2 700	TNOK 2	5 403
Total								207 136

1) The company has provided dividend of 7 225 (3 113) in 2017.

Notes to the Belships ASA accounts

NOTE 9 SPECIFICATIONS

SHIP OPERATING EXPENSES	2017	2016
Crew expenses	15 906	14 725
Maintenance and spare parts	4 536	3 977
Insurance	2 435	2 307
Management fee	1 985	2 039
Other ship operating expenses	1 634	1 209
Total ship operating expenses	26 496	24 257
OTHER FINANCIAL ITEMS	2017	2016
Net guarantee commissions 1)	-5 083	-7 388
Financing costs	-1 586	3 270
Other financial items	1 387	473
Net other financial items	-5 282	-3 646

1) The company is acting as a guarantor for the mortgage debt in the subsidiary Belships Supramax Singapore. A guarantee fee equal to 3% of loan balance amounting to 7 061 (9 491) has being charged in 2017.

Sonata AS issued in December 2015 an on-demand guarantee amounting to USD 5 million to the lender of the Group's mortgage debt. The guarantee carried a commission of 5% which amounted to 1 978 (2 103) in 2017. The guarantee was returned in December 2017.

CURRENCY GAIN/(LOSS) IN INCOME STATEMENT	2017	2016
Realised currency exchange gain	-32 496	-37 184
Unrealised currency exchange gain	-6 917	-1 890
Realised currency exchange loss	16 221	35 868
Unrealised currency exchange loss	4 400	3 508
Total	-18 792	303

Notes to the Belships ASA accounts

NOTE 10 SALARIES, NUMBER OF EMPLOYEES

SALARY EXPENSES	2017	2016
Salaries	10 372	10 113
Social security tax	1 888	1 826
Pension expenses	1 168	1 174
Other allowances	451	819
Total	13 880	13 933

The parent company received a management fee from the subsidiary Belships Management AS amounting to 4 976 in 2017 (2016: 4 773).

The average number of employees in 2017 was 8 (2016: 8).

REMUNERATION TO THE MANAGEMENT	CHIEF EXECUTIVE OFFICER	FINANCIAL DIRECTOR	COMMERCIAL DIRECTOR
Salary	3 318	1 527	1 765
Share-based payment transaction expense	118	65	65
Pension expenses (defined contribution)	166	166	166
Other allowances	299	239	270
Total	3 901	1 997	2 266

Other allowances include telephone, insurance agreements etc. There exist no severance pay agreement.

SHARE OPTIONS

For information about share options, see [note 3](#). The CEO has a separate option scheme that was approved in an extraordinary general meeting in June 2016. See [note 3](#) for details.

BOARD REMUNERATION

Board members are not awarded share options. The Board has received 666 in remuneration in 2017 (2016: 643), divided into 166 to the Chairman and 125 to each of the other members. Additional, 3 of the board members represent an audit committee and have received 93 in additional remuneration in 2017 (2016: 90), divided into 35 to the Chairman and 29 to each of the other members.

GUIDELINES FOR THE REMUNERATION OF THE EXECUTIVE MANAGEMENT OF BELSHIPS ASA

In conformity with the provisions of section 6-16a of the Norwegian Public Limited Liability Companies Act, the Board has prepared the following statement on the company's guidelines for the remuneration of the executive management:

- Belships will have a competitive bonus scheme to ensure that the company will have the necessary capacity and competence.
- Belships will seek to have fixed salaries at market terms. There will also be a variable part (bonuses and share options), which will be evaluated annually.

FEES TO THE AUDITOR (EXCLUDING VAT)	2017	2016
Remuneration for audit services	265	220
Other assurance services	93	38
Assistance related to tax matters	67	41
Other audit related assistance	0	0
Total	425	299

LOANS TO EMPLOYEES

Loans to employees amounted to 952 (1 536) as at 31 December 2017. Of this, 419 (550) to the management. See [note 12](#) for further details regarding the loans.

Notes to the Belships ASA accounts

NOTE 11 OTHER GENERAL ADMINISTRATIVE EXPENSES

	2017	2016
Office expenses	1 650	1 712
Other services	1 689	1 692
Data, office equipment a.o.	662	552
Communication, advertising	451	301
Travel expenses	358	954
Other general administrative expenses	1 414	1 582
Total	6 224	6 793

Notes to the Belships ASA accounts

NOTE 12 RECEIVABLES AND LIABILITIES

BAREBOAT CHARTER COMMITMENTS

Belships ASA entered in 2015 into a lease agreement for M/S Belforest. The bareboat period is 12 years with purchase options from year 3 onwards.

In 2016 Belships entered into a bareboat lease agreement for M/S Belisland. The ship is leased for a period of 15 years with purchase options from year 5 onwards.

Both leases are considered as financial leases.

TIME CHARTER COMMITMENTS

In January 2018 the newbuilding M/S Belnippon was delivered and entered the 8-years time charter agreement to Belships. Belships has purchase options from year 4 onwards.

In June 2017 Belships signed an agreement to charter in an Ultramax bulk carrier of 63 000 dwt to be delivered from Imabari Shipbuilding first half 2020. The charter period will be for minimum 8 years plus two yearly options, with purchase option from end of fourth year.

See [note 13](#) in the consolidated accounts for payment schedule.

INTEREST SWAP AGREEMENT

In 2015 Belships entered into an interest swap agreement at a rate of 1.9% and with a duration of 5 years covering USD 20 million, reducing by USD 2 million per year.

LOANS TO EMPLOYEES

Loans to employees amounted to 952 (1 536) as at 31 December 2017. The average interest rate used for the loans was 2.20% (2.28%) in 2017. The repayment period is five years.

All short-term receivables and liabilities are due within 12 months.

Notes to the Belships ASA accounts

NOTE 13 SUBSEQUENT EVENTS

M/S Belnippon was delivered from Imabari Shipbuilding in January 2018 and has been fixed on time charter to Cargill for 10-13 months at USD 11 500/day.

No further material events have taken place after 31 December 2017.

Notes to the Belships ASA accounts

NOTE 14 FINANCIAL MARKET RISK

CURRENCY RISK

The functional currency of the company is USD and the presentation currency is NOK. Balance sheet items in USD have been converted to NOK at currency rate 8.2050 (8.6200), which was Norges Bank's exchange rate at 31 December 2017. Income and expenses related to the ships occurs in USD. The company makes ongoing currency exchanges to cover the administrative expenses in NOK. At year end the deposit of NOK amounted to 8.2 million (NOK 2.9 million).

No hedging agreement towards NOK are concluded.

The company does not use hedge accounting.

INTEREST SWAP AGREEMENT

An interest swap agreement was entered into in 2015 at a rate of 1.9% and with a duration of 5 years covering USD 20 million, reducing by USD 2 million per year. Market value of this agreement amounted to 100 (-1 480) at year end. The amount is not recorded in the books.

CREDIT RISK

There will always exist a credit risk related to the company's business. Belships monitors this risk and the strategy is to carefully select counterparts. Historical losses have been limited.

Notes to the Belships ASA accounts

NOTE 15 RELATED PARTIES

The company performs management services for a subsidiary and receives a fee for this. The fee amounted to 4 976 (4 773) in 2017.

The company receives a commission for acting as guarantor for mortgage debt in the subsidiary Belships Supramax Singapore Pte Ltd. The fee amounted to 7 061 (9 491) in 2017. See [note 9](#) for further details.

All intercompany transactions have been conducted to market terms.

Sonata AS, the main shareholder in Belships ASA, issued in December 2015 an on-demand guarantee amounting to USD 5 million to the lender of the Group's mortgage debt. The guarantee carried a commission of 5% which amounted to 1 978 (2 103) in 2017. The guarantee was returned in December 2017. Except for this, it has not been issued loans or provided security to or from shareholders or related parties.

Members of the management have loans from the company. These amounts to 419 (550) per 31 December 2017.

Notes to the Belships ASA accounts

NOTE 16 TAX

TAX RESULT FOR THE YEAR FOR BELSHIPS ASA	2017	2016
Result for the year before tax	44 010	-143 824
Change in temporary differences	-92 828	52 772
Permanent differences / other	-8 403	-2 852
Tax basis for the year	-57 222	-93 904
Taxes payable (24%)	0	0
Total income tax expense	0	0

In accordance with NGAAP, tax reducing temporary differences and tax increasing temporary differences that are reversed, or can be reversed in the same period are assessed and the amount recorded net.

RECONCILIATION OF TAX EXPENSE	2017	2016
Result for the year before tax	44 010	-143 824
Statutory tax rate	24 %	25 %
Estimated tax expense at statutory rate	10 562	-35 956
Permanent differences / other	-2 017	-713
Expected tax expense	8 546	-36 669
Change in deferred tax assets	-8 546	36 669
Actual tax expense	0	0
Effective tax percentage	0 %	0 %

DEFERRED TAX PER 31 DECEMBER	2017	2016
Deferred sale fixed asset gain/(loss)	-5 714	-7 142
Provision for loss on contracts	0	-22 015
Pension obligations	-4 340	-5 583
Interest swap	0	-1 481
Temporary differences fixed assets	86 878	20 218
Impairment loss on shares in subsidiaries abroad	-64 782	-64 782
Tax loss carried forward	-456 177	-398 955
Net temporary differences	-444 133	-479 740
Statutory tax rate	23 %	24 %
Deferred tax assets	-102 151	-115 138
Deferred tax assets in Balance sheets	0	0
Deferred tax assets not in Balance sheets	-102 151	-115 138

Calculation of deferred taxes is based on temporary differences between statutory books and tax values which exist at the end of the year. Deferred tax assets are not recorded in the balance sheet, as future utilization of tax losses cannot be reasonably assured.

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Belships ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Belships ASA comprising the financial statements of the parent company and the Group.

The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2017, statements of comprehensive income, cash flows and changes in equity 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 financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation assessment of ships

Based on current market conditions as of year-end 2017, management updated their valuation model for each of their ships and calculated the recoverable amounts, which in the group financial statements resulted in an impairment charge for USD 5.0 million and reversal of previously recorded impairment of USD 7.5 million. In the parent company financial statements a reversal of NOK 33.0 million in previous recorded impairment charge was recognized.

When estimating recoverable amount for each ship, management's valuation model takes into consideration the average of two independent broker valuations (charter free) and the net present value of the estimated fair value of the related time-charter agreements for the ships, which has a remaining contract period of 2-4 years. Considering the extent of estimates and assumptions applied in the valuation assessment of ships, and management's involvement and judgment in establishing them, we determined valuation assessment of ships to be a key audit matter.

Our audit procedures included, among others, an evaluation of the valuation model prepared by management, including a comparison of the average independent broker valuation to external observable transactions of similar ships, market data and external analysis of long-term expectations in the dry bulk market sector. Furthermore, we compared the risk premium used in the weighted average cost of capital with external data and considered management's adjustments for company specific factors, and further evaluated the level of consistency applied in the valuation methodology from previous years. We also tested the mathematical accuracy of the valuation model and performed sensitivity analysis of the most critical assumptions.

Refer to note 3 in the consolidated financial statements regarding estimation uncertainties and note 7 in the consolidated financial statements and note 2 in the parent company financial statements regarding ships, applied valuation model and sensitivity to key assumptions.

Other information

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

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

Responsibilities of management for the financial statements

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

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

Independent auditor's report - Belships ASA

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility

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

Opinion on registration and documentation

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

Oslo, 22 March 2018

ERNST & YOUNG AS



Jon-Michael Grefsrød

State Authorised Public Accountant (Norway)

Belships' values and ethical guidelines are intended to safeguard good corporate ethics

CORPORATE GOVERNANCE

Good corporate governance is a prerequisite for cooperation based on trust between the company's owners, its Board and management, with a view to achieving the objective of long-term growth.

All relevant parties must be confident that the company is soundly operated and that the corporate governance is well defined, fit for purpose and carried out with integrity and independence.

Belships competitiveness hinges on stakeholders and prospective customers trust in the company's integrity and ethical behavior. Board members, management and employees will therefore always strive to uphold and develop trust in the company. Belships' values and ethical guidelines are intended to safeguard good corporate ethics.

Operations

The company's business is operation, purchase and sale of ships as well as participation in companies with similar objectives. The company is listed on the Oslo Stock Exchange and is for the time being engaged in dry bulk and technical management of ships.

Share capital and dividends

Belships aims to maximize the value for the company's share through an efficient and profitable management of the company's resources. A competitive return is to be obtained through growth in the value of the company's shares and the payment of competitive dividends. When increasing share capital through the issue of new shares for cash payment, the company's shareholders have normally a pre-emptive right of subscription.

The Board will propose private placements or the issue of shares as consideration in connection with investments only when this will safeguard the long-term interests of existing shareholders.

Until the coming General Meeting (GM), the Board is entitled to acquire on behalf of the company 200 000 own shares and to issue 4 700 000 new shares under conditions determined by the GM.

Equal rights for shareholders and transactions with related parties

The company has only one class of shares and the company's articles of association contain no limitations on voting rights. All shares carry equal rights and can be transferred freely.

In situations where the Board proposes that existing shareholders should waive their right to subscribe for shares, this will only be done where justified in light of the company's and the shareholders' interests. The justification shall be published in connection with the announcement of the increase in capital.

Belships provides limited management services to the company's principal shareholder. These services are provided at market terms. Any material transactions with closely related parties follow from sections 3-8 and 3-9 of the Norwegian Limited Liability Companies Act, and the agreements are adopted by the GM on the basis of a report submitted to the GM beforehand. The option programs are adopted by special authorization from the GM.

General Meeting

The GM is the company's supreme authority. The GM elects the Board and the auditor. Pursuant to the Limited Liability Companies Act, notice of GM must be sent to the shareholders no later than 21 days before the GM is to be held. The GM must be held by 30 June. Shareholders are registered in the Shareholders' Register with address. All shareholders are entitled to attend the GM and must give notice of attendance two days before the meeting is held. The Board, the company's management and the auditor attend GMs.

Election committee and audit committee

Considering the scope of the company's operations, the Board considers it reasonable and appropriate that the company should only have one board committee: the audit committee. The committee is made up of Christian Rytter (Chairman), Kjersti Ringdal and Sissel Grefsrud.

Members of the Board represent, directly and indirectly, more than 50% of the shareholdings in Belships ASA. For this reason, no election committee has been established. The Board fulfills this role itself, and the work to review candidates for the Board is handled by ad hoc committees of the Board and chaired by the Chairman.

Board – composition and independence

The Board shall consist of 3-7 members. The Board elects its chairman. Members may be re-elected every two years. Board appointments are communicated through the notice of GM and the members are elected by majority vote.

The Board is made up of directors with broad experience and knowledge of the sector. Four directors are independent of day-to-day management, the majority shareholder and major business connections. Three directors own shares in the company.

The duties of the Board, risk management and internal control

The Board supervise the work of the administration. This means that the Board must review and approve strategies and follow up the implementation of the resolutions adopted.

Strategic decisions or decisions of material importance must be approved by the Board. The Board also appoints the Chief Executive Officer and determines his/her remuneration and the general framework for the Group's wage level.

The Board has prepared rules of procedure for the Chief Executive Officer, which specify his responsibilities and the decisions that have to be approved by the Board. The Board's duties comprise the review and supervision of the Group's internal control procedures and risk management. The same applies to ensuring that the company's integrity is safeguarded.

Focus is on ensuring that the Board functions as a team of independent members. The Board has also prepared rules of procedure for the Board's audit committee, which is to support the Board in performing its duties relating to reporting, audit, internal control and overall risk management.

The Board has an overall responsibility for safety, security and the environment. Our subsidiary in Singapore, which is responsible for the technical operation of Belships own and other ships, concentrates in particular on these matters.

The Board meets at least six times a year and receives a monthly report on the company's operations. In addition, the Board is consulted on or informed about matters of special importance.

Remuneration of directors

Remuneration of directors is approved by the company's GM. The remuneration is granted at the end of the year of service. Directors have no options to buy shares in the company, nor do they receive compensation other than the Board fees. The company endeavors to grant directors a remuneration based on market terms.

Remuneration to officers

The Board prepares guidelines for the remuneration of officers, pursuant to the law, which are submitted to the GM. Remuneration to the Chief Executive Officer is approved by the Board on the Chairman's recommendations.

The company has a share option scheme that applies to all employees in Norway. In addition The Chief Executive Officer has an option to purchase shares. Details concerning the remuneration of the company's officers are provided in a separate note to the accounts.

Information and communication

The company keeps Oslo Stock Exchange, the stock market and shareholders fully updated through interim reports, annual reports and press releases on important events. The company also has a website, which is regularly updated. Belships regards timely and accurate information as essential for obtaining a price for the share that will reflect the company's underlying value and prospects.

Company takeover

The Board has not prepared any principles for how to act in the event of a take-over bid. If such a bid should be made, the Board considers it important that shareholders are treated equally and that the company's operations are not unnecessarily disturbed. The Board's actions will take this into account in such a situation.

Auditor

The company's auditor attends at least one Board meeting a year, normally in connection with the presentation of the annual accounts. In its meeting with the auditor, the Board focuses in particular on procedures relating to the company's internal control as well as current accounting issues.

The Board and the auditor meet at least once a year without the Chief Executive Officer or other executives being present. The auditor also attends the company's GM and has access to the company's minutes of board and GMs. The Board reviews the auditor's engagement on an annual basis.

The company's auditor is Ernst & Young. Besides ordinary audits, Belships receives assistance from Ernst & Young in connection with accounting and tax issues within the field in which the auditor can assist under the rules of independence. The auditing and counseling fees appear from the notes to the accounts.

The company's management meets the auditor regularly to discuss current tax and accounting issues.

The Board makes a running assessment of whether the audit is performed in a satisfactory manner.

Strong commitment to customers and quality creates value

CORPORATE SOCIAL RESPONSIBILITY

Belships main contribution to society is to grow a long-term, sustainable value-creating business for our stakeholders. Our aim is to ensure that our business practices as well as investments are sustainable, and contribute to long-term economic, environmental and social development.

Belships has a clearly defined vision and mission statement and a set of core values, which we believe will ensure that the Company grows a value-creating and sustainable business.

Vision

Strong commitment to customers and quality creates value.

Mission

We are an ambitious global organization with focus on:

- Safety & environment
- Customers
- Quality
- People

Core values

- Respect
- Commitment
- Sincerety & Honesty

Our core values are reflected in everything we do. They are an integrated part of how we conduct our business.

Belships has identified the Company's material sustainability issues and their potential impact on our business. With reference to the Norwegian Accounting Act section 3-3c, the following chapters present how Belships integrates the most material sustainability issues into its business strategies and processes.

1. Environment

International shipping contributes significantly to global emissions of greenhouse gases (GHG) through consumption of bunkers. Although international shipping is a significant contributor to global emissions, it produces substantially less emissions per unit distance when carrying a shipment than other methods of transportation.

Belships recognizes its environmental responsibility and strive to comply with and maintain high standards in order to reduce the environmental impact from its operations. The Company is focusing on reducing bunkers consumption, which is the main source of the shipping sector's emissions of CO₂, NO_x and SO_x.

Belships ambition is to optimize bunker consumption and the company conducts improvement projects and testing aimed at reducing its environmental impact, including hull cleaning and propeller polishing in addition to testing of fuel additives for improved combustion, both aimed at reducing fuel consumption and air pollution.

Belships are further certified with Environmental Management Systems Certificate ISO 14001 as well as ISO 9001:2000. The certificates are issued by the classification society and establish environmental standards and implementation routines. Continuous efforts are made in order to reduce the general waste produced by the ships and to dispose of waste onshore in a controlled manner at approved port waste reception facilities. The fleet complies with the IMO recommendations on waste management.

Pollution by invasive species carried with ballast water has become an important issue. M/S Belforest and M/S Belisland have ballast water treatment systems in place. Belships is actively preparing for the expected implementation of regulations on ballast water treatment entering into force. In fact, some of our third party managed ships have already started to use ballast water treatment system.

Belships is closely monitoring the development of all environmental regulation. The Company will continue to comply with all legislation and follow best practices to minimize the Company's impact on the environment.

2. Human and Labour rights

It is Belships policy to integrate attention to human and labor rights into its existing business processes. In practice, a large part of the human and labor rights agenda is covered by the Company's health and safety efforts. The health and safety of our employees is a key priority for Belships. As an international and multi-local industrial employer, the Company respects international and local legislation, including the provision of the International Labor Organization's Maritime Labor Convention of 2006 (the "MLC"). The MLC is widely known as the "seafarers' bill of rights", and sets out seafarers' right to decent working conditions, including

elements such as minimum age of seafarers, payment of wages, hours of work or rest, onboard medical care, paid annual leave and freedom of association.

Belships values its employees as a key resource. The Company will continue to focus on attracting and keeping the best qualified and motivated employees. As a global organization, Belships has a diversified working environment in which employment, promotions, responsibility and job enrichment are based on qualifications and abilities and not on gender, age, race and political or religious views. The Company does not tolerate discrimination in any form.

Belships aims to continuously provide and enhance healthy, high-quality working conditions, both onshore and onboard vessels. Crewing and technical management are handled by Belships' subsidiaries in Singapore and China. These companies also have external customers and offer ship management-services to ship owners worldwide. A dedicated and well-trained ship- and onshore team is monitoring the health, safety, environment and quality performance.

Belships' goal is to run the operations of the Company with zero fatal accidents. This goal was achieved in 2017.

Attracting and retaining qualified seafarers remains an area of strategic importance for Belships. The objective is to strengthen Belships' brand and image. To ensure a continued recruitment of dedicated and qualified officers, Belships is engaged in training of seafarers and education of cadets and has 140 cadet positions onboard the Company's vessels. The Company will further develop the crewing strategy and the implementation of crew welfare initiatives in order to meet the Company's ambition of maintaining the officers' retention rate at a high level and maintaining a challenging and motivating work place, thus creating top performing vessels.

Belships faces same challenges as other shipping companies when it comes to piracy. Piracy is still a challenge for the shipping industry and cannot be solved by the Company or the shipping industry alone. It must be dealt with by the international community and relevant authorities of UN working together. To create a secure environment in which our crew feels safe, the company has adopted a best management-practice consistent with the industry standards and under suggestion by Intertanko and Oil Companies International Marine Forum to deter piracy. All of our ships are registered with the EU Naval Force (Maritime security centre) which co-ordinates ship's transit schedules with the appropriate naval ships in the Gulf of Aden and Somali basin. Depending on the present conditions and individual risk factors for the particular ship, preventive measures are evaluated for each transit in accordance with Belships' piracy policy. There were no incidents of attempted hijackings of ships in the Belships-fleet in 2017.

3. Anti-corruption

Belships has defined a set of core values being reflected in everything the Company does, and are an integrated part of how the Company does its business.

Belships believes that corruption prevents well-functioning business processes and curbs economic development. Corruption or corrupt behavior is not accepted by the Company. Belships focuses on transparency in its business practices, supports free enterprise and competes in a fair and ethical manner.

Appendix

Definition of Non-IFRS financial measures

BACKGROUND ON USING NON-IFRS FINANCIAL KEY FIGURES

Belships consolidated financial information is prepared in accordance with the International Financial Reporting Standards as adopted by the EU ("IFRS"). In addition, it is Managements's intention to provide additional performance measures when this is deemed relevant for understanding of the financial performance.

In the context of its standard and mandatory reporting, Belships ASA employs Alternative Performance Measures (APMs), which are not defined within the IFRS framework and which are published as non-IFRS financial key figures.

On the one hand, Belships ASA uses these non-IFRS financial key figures as major performance indicators for internal group controlling as well as for variable management compensation. On the other hand, these financial figures aim at increasing comparability with other companies and it is Managements experience that these measures are frequently used by equity investors, analysts and other stakeholders.

Non-IFRS financial key figures serve as additional information as presented in the consolidated financial statement in accordance with IFRS financial figures.

Definition of non-IFRS financial key figures applied:

CURRENT RATIO

is defined as total current assets, divided by total current liabilities

EBITDA

is defined as operating result adjusted for depreciation and amortization, other gains/(losses), interest income, interest expenses and other financial items

EBIT

is defined as result before tax adjusted for interest income, interest expenses and other financial items

EQUITY RATIO

is equal to shareholders' equity including non-controlling interest, divided by total assets

INTEREST COVERAGE RATIO

is equal to earnings before interest and taxes (EBIT), divided by interest expenses