Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2018 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	988 306 428
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	KLAVENESS SHIP HOLDING AS
Forretningsadresse:	Drammensveien 260
	0283 OSLO

Regnskapsår

Årsregnskapets periode:	01.01.2018 - 31.12.2018

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	IFRS
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Ingri Langemyhr
Dato for fastsettelse av årsregnskapet:	26.03.2019

Grunnlag for avgivelse

År 2018: Årsregnskapet er elektronisk innlevert

År 2017: Tall er hentet fra elektronisk innlevert årsregnskap fra 2018

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 20.08.2020

Resultatregnskap

Beløp i: USD	Note	2018	2017
RESULTATREGNSKAP			
Kostnader			
Management fee	13	292 000	278 000
Other administrative services	2	142 000	48 000
Sum kostnader		**434 000**	**326 000**
Driftsresultat		**-434 000**	**-326 000**
Finansinntekter og finanskostnader			
Finance income	3	68 422 000	7 494 000
Sum finansinntekter		**68 422 000**	**7 494 000**
Finance costs	3	34 003 000	10 994 000
Sum finanskostnader		**34 003 000**	**10 994 000**
Netto finans		**34 419 000**	**-3 500 000**
Ordinært resultat før skattekostnad		**33 985 000**	**-3 826 000**
Income tax expenses	4	3 181 000	3 952 000
Ordinært resultat etter skattekostnad		**30 804 000**	**-7 778 000**
Årsresultat		**30 804 000**	**-7 778 000**
Minoritetsinteresser		0	0
Årsresultat etter minoritetsinteresser		**30 804 000**	**-7 778 000**
Andre resultatkomponenter for IFRS-foretak		0	0
Sum resultatkomponenter for IFRS-foretak		0	0
Totalresultat		**30 804 000**	**-7 778 000**

Balanse

Beløp i: USD	Note	2018	2017
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Deferred tax asset	4	0	3 182 000
Sum immaterielle eiendeler			**3 182 000**
Finansielle anleggsmidler			
Investments in subsidiaries	5	202 081 000	197 006 000
Loan to related parties	6	95 496 000	90 867 000
Sum finansielle anleggsmidler		**297 577 000**	**287 873 000**
Sum anleggsmidler		**297 577 000**	**291 055 000**
Omløpsmidler			
Varer			
Fordringer			
Recievables form related parties	6	499 000	369 000
Other short-term receivables		5 000	6 000
Sum fordringer		**504 000**	**375 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	7	582 000	608 000
Sum bankinnskudd, kontanter og lignende		**582 000**	**608 000**
Sum omløpsmidler		**1 086 000**	**983 000**
SUM EIENDELER		**298 663 000**	**292 038 000**
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	8	1 817 000	1 817 000
Overkurs		7 068 000	7 068 000

Balanse

Beløp i: USD	Note	2018	2017
Annen innskutt egenkapital		346 177 000	346 177 000
Sum innskutt egenkapital		**355 062 000**	**355 062 000**
Opptjent egenkapital			
Retained eranings		-107 343 000	-127 965 000
Sum opptjent egenkapital		**-107 343 000**	**-127 965 000**
Sum egenkapital		**247 719 000**	**227 097 000**
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Bond loans	18	34 217 000	35 974 000
	Group		
Financial liabilities	9	16 477 000	14 895 000
Sum annen langsiktig gjeld		**50 694 000**	**50 869 000**
Sum langsiktig gjeld		**50 694 000**	**50 869 000**
Kortsiktig gjeld			
Loan from related parties	6		13 788 000
Current debt to related parties	6		29 000
Tax payable	4		
Other current liabilities		250 000	255 000
Sum kortsiktig gjeld		**250 000**	**14 072 000**
Sum gjeld		**50 944 000**	**64 941 000**
SUM EGENKAPITAL OG GJELD		**298 663 000**	**292 038 000**

Konsernets resultatregnskap

Beløp i: USD	Note	2018	2017
RESULTATREGNSKAP			
Inntekter			
Freight revenue		84 284 000	
Charter hire revenue		46 568 000	69 127 000
Voyage expenses	5	-45 431 000	
Sum inntekter	3,4	**85 421 000**	**69 127 000**
Kostnader			
Operating expenses, vessels	3, 5	39 308 000	39 289 000
Group administrative services	5	5 396 000	2 778 000
Tonnage tax	8	180 000	177 000
Other operating and administrative expenses	6	452 000	228 000
Ordinary depreciation	9	21 655 000	21 881 000
Impairment loss (-) / reversal	9	-5 000 000	
Sum kostnader		**61 991 000**	**64 353 000**
Driftsresultat		**23 430 000**	**4 774 000**
Finansinntekter og finanskostnader			
Finance income	7	2 857 000	4 308 000
Sum finansinntekter		**2 857 000**	**4 308 000**
Finance cost	7	11 570 000	12 618 000
Sum finanskostnader		**11 570 000**	**12 618 000**
Netto finans		**-8 713 000**	**-8 310 000**
Ordinært resultat før skattekostnad		**14 717 000**	**-3 536 000**
Income tax expenses	8	3 180 000	4 393 000
Ordinært resultat etter skattekostnad		**11 537 000**	**-7 929 000**
Profit/l(loss) after tax from dicontinued operations			-120 000
Årsresultat		**11 537 000**	**-8 049 000**
Minoritetsinteresser		0	0
Årsresultat etter minoritetsinteresser		**11 537 000**	**-8 049 000**

Konsernets resultatregnskap

Beløp i: USD	Note	2018	2017
Net movement fair value on interest rate swaps	13	357 000	0
Net movement fair value FX hedge	13	-35 000	0
Net movement fair value bunker hedge	13	-918 000	0
Net movement fair value FFA hedge	13	970 000	0
Reclassification to profit and loss		0	0
income tax effect		0	0
Sum resultatkomponenter for IFRS-foretak		374 000	0
Totalresultat		**11 911 000**	**-8 049 000**
Overføringer og disponeringer			
Profit/loss for the year		11 537 000	-8 049 000
OCI		374 000	0
Sum overføringer og disponeringer		**11 911 000**	**-8 049 000**

Konsernets balanse

Beløp i: USD	Note	2018	2017
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	8		3 182 000
Sum immaterielle eiendeler		**0**	**3 182 000**
Varige driftsmidler			
Vessels	9	281 533 000	290 874 000
Newbuilding contracts	10	59 877 000	37 751 000
Sum varige driftsmidler		**341 410 000**	**328 625 000**
Finansielle anleggsmidler			
Financial assets	13	1 860 000	957 000
Sum finansielle anleggsmidler		**1 860 000**	**957 000**
Sum anleggsmidler		**343 270 000**	**332 764 000**
Omløpsmidler			
Varer			
Financial assats	13	464 000	
Inventories	14	7 038 000	1 215 000
Sum varer		**7 502 000**	**1 215 000**
Fordringer			
Accounts receivable		7 303 000	186 000
Receivables from related parties	11	603 000	7 559 000
Prepaid expenses		2 139 000	1 356 000
Other short-term receivables	11	2 986 000	2 990 000
Sum fordringer		**13 031 000**	**12 091 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	12	94 060 000	55 648 000
Sum bankinnskudd, kontanter og lignende		**94 060 000**	**55 648 000**
Sum omløpsmidler		**114 593 000**	**68 954 000**

Konsernets balanse

Beløp i: USD	Note	2018	2017
SUM EIENDELER		**457 863 000**	**401 718 000**
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	21	1 817 000	1 817 000
Overkurs		6 939 000	6 939 000
Annen innskutt egenkapital		-87 000	35 000
Sum innskutt egenkapital		**8 669 000**	**8 791 000**
Opptjent egenkapital			
Retained earnings		190 365 000	182 282 000
Sum opptjent egenkapital		**190 365 000**	**182 282 000**
Minoritetsinteresser		67 539 000	22 086 000
Sum egenkapital		**266 573 000**	**213 159 000**
Gjeld			
Langsiktig gjeld			
Annen langsiktig gjeld			
Mortgage debt	17	113 258 000	109 105 000
Bond loans	18	34 217 000	35 973 000
Financial liabilities	13	17 845 000	16 404 000
Deferred tax	8		59 000
Sum annen langsiktig gjeld		**165 320 000**	**161 541 000**
Sum langsiktig gjeld		**165 320 000**	**161 541 000**
Kortsiktig gjeld			
Short term debt	17	12 200 000	20 548 000
Other interest bearing liabilities	17	2 172 000	
Accounts payable		4 032 000	864 000
Current debt to related parties		322 000	894 000
Tax payable	8		6 000
Tonnage tax payable	8	191 000	177 000

Konsernets balanse

Beløp i: USD	Note	2018	2017
Other current liabilities	20	7 053 000	4 529 000
Sum kortsiktig gjeld		**25 970 000**	**27 018 000**
Sum gjeld		**191 290 000**	**188 559 000**
SUM EGENKAPITAL OG GJELD		**457 863 000**	**401 718 000**

Skattedirektoratet

28 JAN. 2010

Saksbehandler	Deres dato	Vår dato
Torstein Kinden Helleland	20.04.2009	25.01.2010
Telefon	Deres referanse	Vår referanse
22078139	Baard Haugen	2009/275763

KLAVENESS CORPORATE SERVICES AS
Postboks 182 Skøyen
0212 OSLO

Søknad om tillatelse til å utarbeide årsregnskap og årsberetning på engelsk språk for Torvald Klaveness-gruppen

Det vises til Deres brev av 20. april 2009 og 12. november 2009 samt telefonsamtale i sakens anledning. De søker på vegne av Torvald Klaveness-gruppen om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk.

Torvald Klaveness-gruppen omfatter følgende selskaper;

Rederiaksjeselskapet Torvald Klaveness	**org. nr. 932 578 247**
Klaveness Corporate Services AS	**org. nr.963 109 466**
Klaveness Finans AS	**org. nr. 993 345 911**
Klaveness Maritime Logistics AS	**org. nr. 985 303 665**
AS Klaveness Chartering	**org. nr. 913 419 472**
Klaveness Cement Logistics AS	**org. nr. 988 306 428**
T Klaveness Shipping AS	**org. nr. 963 109 288**
Klaveness Ship Investments AS	**org. nr. 988 247 081**
Klaveness Invest AS	**org. nr. 988 913 685**
Bulkhandling Cabu AS	**org. nr. 984 094 280**
Bulkhandling Beltunloader AS	**org. nr. 984 094 191**
Bulkhandling Handymax AS	**org. nr. 984 094 256**
Baumarine AS	**org. nr. 979 964 684**
Bulkhandling Handysize AS	**org. nr. 984 094 221**
KCL Shipholding AS	**org. nr. 986 500 472**

Torvald Klaveness-gruppen er en norskeiet selskapsgruppe som er engasjert hovedsakelig i shipping samt i fast eiendom og finansielle investeringer. Gruppens hovedkontor er i Oslo. I tillegg har gruppen operative kontorer i Singapore, Beijing og Manila. Det er opplyst at bakgrunnen for søknaden er at gruppen ønsker å avlegge årsoppgjør på engelsk fordi dette vil bidra til en administrativ forenkling. Gruppen bruker i dag engelsk som arbeidsspråk. All regnskapsdokumentasjon, arbeidsutkast til styreberetning, regnskap og noter m.v. utarbeides på engelsk. Regnskapslovens hovedregel som tilsier at årsoppgjøret må avlegges med norsk tekst, medfører en omfattende oversettelse av alle styreberetninger og regnskaper med noter som en del av arbeidet med årsoppgjøret. Dette er et merarbeid som ikke er verdiskapende eller nødvendiggjøres av reelle hensyn og som vi ønsker å unngå.

Eierne av gruppen er fire holdingselskaper som igjen eies av brødrene Tom Erik og Trond Harald Klaveness samt deres barn. Begge hovedeiere er aktivt involvert i driften av gruppen som henholdsvis

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Org. nr: 974761076

Sentralbord
800 80 000
Telefaks
22 17 08 60

styreleder og administrerende direktør. Det er ingen eksterne eierinteresser ut over disse familiene. Gruppens finanskreditorer er i hovedsak norske finansinstitusjoner. Dette er imidlertid banker som er svært aktive i internasjonal shipping- og næringsfinansiering og som ikke har noe problem med å forholde seg til engelsk som arbeidsspråk. Gruppens leverandører og øvrige kreditorer vil også normalt være selskap som leverer varer og tjenester til rederisektoren, en sektor som av sterk internasjonal karakter. Det må legges til grunn at disse ikke vil ha noe problem med å forholde seg til engelsk som arbeidsspråk. Flertallet av gruppens landbaserte ansatte er av norsk nasjonalitet og har Oslo som arbeidssted. Utekontorene har primært ikke-norske ansatte og vi har også et innslag av ikke-norske ansatte ved kontoret i Oslo. Blant annet av denne grunn har gruppen for et par år tilbake besluttet å benytte engelsk som arbeidsspråk. I dag er det trykte årsoppgjøret som sendes eksterne forretningsforbindelser, deles ut blant ansatte m.v., kun på engelsk.

Etter regnskapsloven § 3-4 tredje ledd *skal "årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:
"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet. Offentlige myndigheter må også anses som en sentral regnskapsbruker, idet ulike myndigheter, som lignings- og tilsynsmyndigheter, benytter regnskapene som sentrale verktøy i sin kontrollvirksomhet.

Det er etter Skattedirektoratets vurdering derfor avgjørende at spørsmål om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, ikke på vesentlige områder fraviker fra hensynet til brukere av regnskapsinformasjon. Søkeren må som et utgangspunkt for vurderingen ha en særlig interesse for kun å utarbeide årsregnskap og/eller årsberetning på et annet språk enn norsk.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. Det framgår av søknaden at alle aksjonærene ønsker at årsregnskapet utarbeides på engelsk språk. Gruppen opererer inne en sektor med sterk internasjonal karakter og arbeidsspråket er engelsk. Dette er imidlertid banker som er svært aktive i internasjonal shipping- og næringsfinansiering og som ikke har noe problem med å forholde seg til engelsk som arbeidsspråk. Gruppens leverandører og øvrige kreditorer vil også normalt være selskap som leverer varer og tjenester til rederisektoren, en sektor som av sterk internasjonal karakter.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering de overnevnte selskapene i Torvald Klaveness-gruppen dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen er gitt under den forutsetning at de ovennevnte opplysninger som vedtaket baserer seg på ikke endres vesentlig.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen

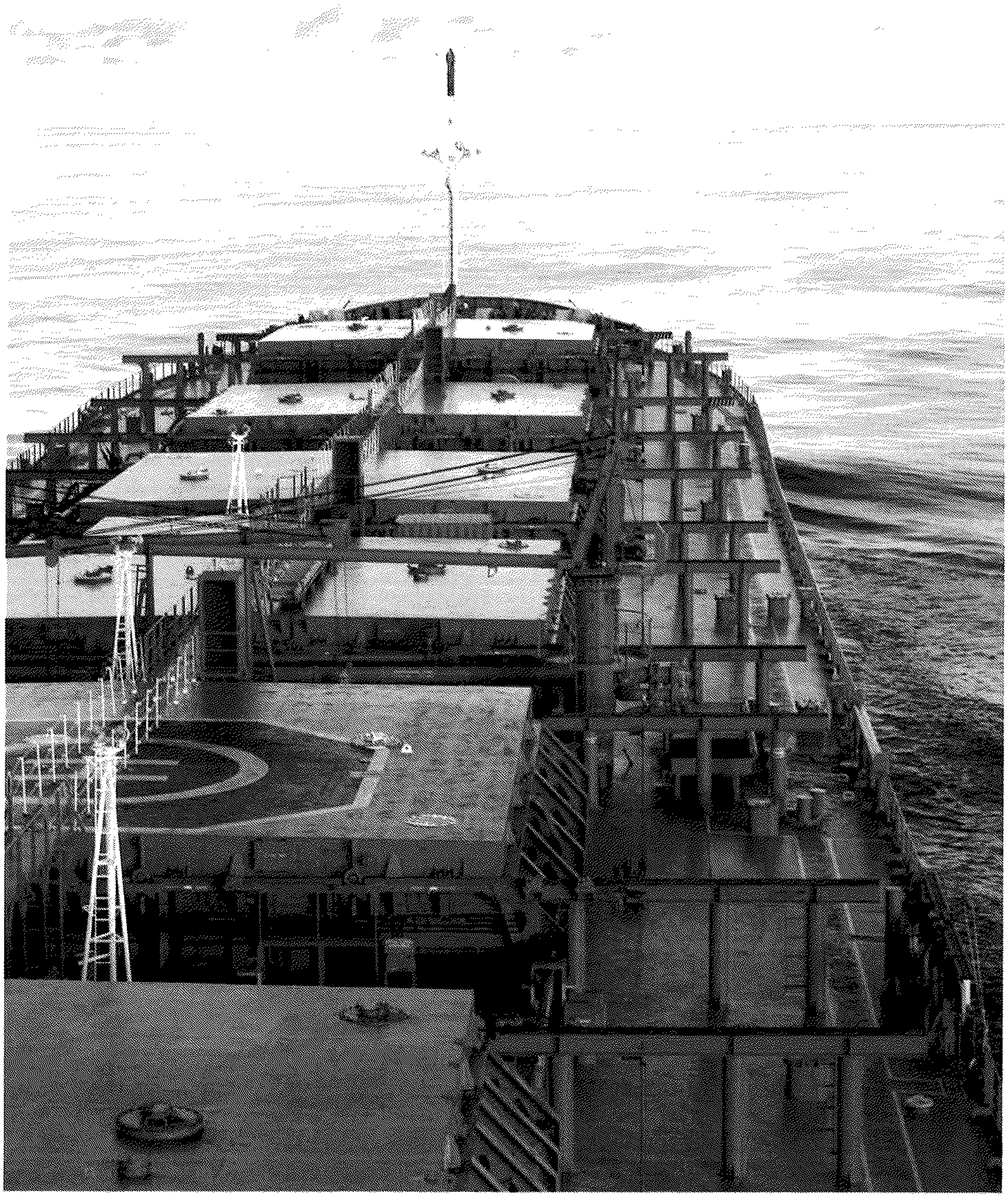
Jan Hoelstad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland

Torvald Klaveness

KLAVENESS SHIP HOLDING AS

Consolidated Financial Statement 2018



KLAVENESS SHIP HOLDING AS CONSOLIDATED

Board of Directors' report 2018

Klaveness Ship Holding AS ("KSH"/the Company) was established 31 May 2005 and is fully owned by Rederiaksjeselskapet Torvald Klaveness. Klaveness Ship Holding AS is located in Oslo, Norway, and is the holding company of the shipowning activities in Rederiaksjeselskapet Torvald Klaveness. The consolidated financial statement of the Company as at year end 31 December 2018 comprises the Company and its subsidiaries.

2018 HIGHLIGHTS

Health, safety and environment are priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2018.

2018 has been an eventful year with focus on consolidating the combination carrier activities under one holding company, Klaveness Combination Carriers AS, and further develop the activities through raising external capital, registering the shares on N-OTC and growing the newbuilding program by three vessels.

The combination carriers continued to deliver positive results in 2018. Earnings for the nine vessels on water, the CABU (caustic-bulk) combination carriers, strengthened in 2018, mainly due to somewhat improved dry bulk markets, a more optimal trading pattern, a higher number of caustic soda cargoes under the contracts of affreightment in the Pacific trade-lanes compared to 2017 and higher bunker fuel prices. Higher bunker prices are increasing combination carrier earnings because they are more efficient than standard vessels. Earnings in 2018 were negatively impacted by a historically weak product tanker market in the summer and autumn of 2018 before strengthening towards the end of the year. The construction of the CLEANBU (clean petroleum products-bulk) combination carriers are progressing well, more or less in line with schedule, and the first vessel was delivered 10 January 2019.

Both the dry bulk market and the container market continued to improve in 2018, however, sentiment in both markets turned negative towards the end of the year. Average container vessel earnings improved in 2018 and the vessels still achieved rates above the general market due to the vessels' fuel efficiency.

The Group achieved an EBITDA of USD 40.1 million from continuing operations in 2018 (2017: USD 26.7 million) and a profit before tax (EBT) of USD 14.7 million (2017: loss of USD 3.5 million). Cash flow from operations for 2018 was USD 36.4 million (2017: USD 26.1 million). The balance sheet remains solid with a book equity including non-controlling interest of USD 266.6 million at year-end corresponding to an equity ratio of 58 per cent. High solidity and good liquidity was maintained in 2018.

The newbuilding program now consists of six combination carriers with expected delivery in 2019 and 2020. The fleet at year end 2018 consists of 8 container feeder vessels and 9 combination carriers on the water in addition to the newbuildings.

NET RESULT AND FINANCIAL POSITION CONSOLIDATED ACCOUNTS

For the full year 2018 total net revenues from operations of vessels was USD 85.4 million (2017: USD 69.1 million) and total operating costs amounted to USD 45.3 million (2017: USD 42.5 million). EBITDA was USD 40.1 million for 2018, up from an EBITDA of USD 26.7 million for 2017 due to stronger markets and more optimal trading pattern.

Profit before tax was USD 14.7 million in 2018 (2017: negative USD 3.5 million). Net result from financial items was negative by USD 8.7 million in 2018, somewhat higher than negative USD 8.3 million in 2017.

Net profit after tax ended at USD 11.5 million for 2018. For 2017 the loss was negative USD 8.0 million. USD 2.6 million of the result (2017: negative USD 0.3 million) is attributable to non-controlling interests.

Total assets increased by USD 56.1 million in 2018 from USD 401.7 million at year end 2017 to USD 457.9 million. Main impacts come from capital increase from non-controlling interests.

At year-end 2018, the consolidated equity including minority interests was USD 266.6 million (2017: USD 213.2 million), corresponding to a book equity ratio of 58 per cent (2018: 53 per cent). Book equity excluding minority interests was USD 199.0 million. Cash and bank deposits were USD 94.1 million.

During 2018, the Group had a positive cash flow from operating activities of USD 36.4 million (2017: USD 26.1 million). Net cash flow from investments amounts to negative USD 27.3 million (2017: negative USD 43.6 million), mainly consisting of payments for vessels under construction and dry docking costs. The cash flow from financing activities was positive USD 27.3 million (2017: negative USD 29.6 million) and are mainly cash from capital increase of USD 53.4 million, net outflows of USD 14.2 million from refinancing of debt and ordinary installments on mortgage debt in addition to paid group contribution of USD 10.2 million.

Total equity increased by USD 53.4 million in 2018 due to total comprehensive income of USD 11.9 million, payments to non-controlling interests of USD 0.5 million, group contribution of in total USD 10.2 million and capital increase in non-controlling interests of USD 53.4 million.

The accounts are reported under the assumption of a going concern and the Board considers the financial position of Klaveness Ship Holding including subsidiaries at year-end to be solid. There have been no major transactions or events subsequent to the closing date that would have a negative impact on the evaluation of the financial position of Klaveness Ship Holding AS.

NET RESULT AND FINANCIAL POSITION STATUTORY ACCOUNTS

Operating result of the standalone financial statements of the parent company Klaveness Ship Holding AS consists of administrative expenses of USD 0.4 million (USD 0.3 million). The financial result in 2018 consists mainly of income from investment in subsidiaries of USD 31.2 million, interest income of USD 6.7 million (USD 4.2 million) and interest expenses on bond loan of USD 3.7 million (USD 3.9 million) and negative effects of USD 1.6 million related to unrealized results of financial instruments (2017: positive USD 3.1 million). The net result from financial items was in total positive by USD 34.4 million in 2018 (negative USD 3.5 million).

Net result for the year is USD 30.8 million (2017: negative USD 7.8 million), including tax expense of USD 3.2 million mainly due to impairment of deferred tax asset. Klaveness Ship Holding AS statutory balance sheet has increased by USD 6.6 million from 2017 to 2018, mainly due to positive results for 2018 partly offset by repayment of debt netted against group contribution.

Net operating cash flow from the parent company was positive USD 0.8 million in 2018 (2017: USD 2.8 million). Net cash flow from investing activities was USD 10.3 million in 2018 (2017: 0), due to group contribution. Net cash flow from financing activities amounted to negative USD 11.2 million (2017: negative USD 34.7 million) and consists of repayment of loan to related parties, group contribution and interest paid.

THE MARKETS

Earnings for the combination carriers are driven by the dry bulk, tanker and fuel markets. The main competition for the vessels comes from standard MR-and LR-tankers and panamax/kamsarmax dry bulk vessels. Hence earnings from the combination carriers are impacted by the market development in these dry bulk and product tanker segments. Due to the vessels' efficient combination trading pattern with minimal ballast, earnings from the combination carriers are also positively impacted by increased fuel costs. These three markets, the product tanker market, the dry bulk market and the bunkers market, have moved in different directions in 2018.

Following price increases in 2017, oil prices had a volatile year in 2018. However, the average Ice Brent Crude price of 70 USD/barrel for 2018 was up 28 per cent compared to the 2017 average. Bunker fuel prices largely followed crude oil prices, and bunkers with delivery in Singapore averaged the year at 433 USD/mt, up from 328 USD/mt the previous year.

Dry bulk freight rates continued to improve in 2018. According to the Baltic exchange Panamax spot freight rates averaged 11,635 USD/day in 2018, an increase of 1,804 USD/day compared to the average spot rates for 2017. Global dry bulk demand improved through the year on the back of solid growth in global industrial production. Clarksons estimates that total dry bulk ton mile growth was 2.7 per cent in 2018, down from 5.0 per cent in 2017. The total dry bulk fleet grew with 2.8 per cent in 2018, mirroring the growth of 2017 as lower deliveries were offset by lower scrapping. Hence, demand growth was largely in line with the fleet growth in 2018.

According to official Chinese trade data, Chinese seaborne iron ore imports posted zero growth in the first eleven months of the year. Klaveness Research's analyses indicates that the global seaborne coal trade maintained the strong growth of more than 6 per cent from 2017. China, India and emerging Asian economies were the main contributors. The global grain trade posted another record year, but growth slowed to 2 per cent as Chinese tariffs on US soybean export led to negative growth rates in fourth quarter.

The product tanker market has in general been relatively flat over 2017 and 2018, with a negative sentiment and periods of historic low spot markets. One-year time charter rates averaged around 13,000 USD/day for the MR and LR1 vessels in 2018, while average rate for the LR2 vessels was around 15,000 USD/day both in 2017 and 2018.

The market for transportation of dirty oil products saw a significant push during the autumn of 2018. Clean LR2 vessels started trading in the dirty market, creating a cascading effect pushing up rates in the product tanker markets.

For the combination carriers' trading regions, clean petroleum product volumes have been quite stable over the last years.

Rates in the containership sector continued to strengthen through the first half of 2018. During the third quarter, the sentiment turned distinctly negative due to slower growth rates in Asia and Europe and increasing trade tensions. As a result, charter rates fell back to the same level seen at the start of the year. At year-end 2018, the short period rate for a standard 2,500 TEU containership was about 9,250 USD/day. Total container trade grew about 4 per cent through 2018, down from about 5 per cent in 2017. In comparison, the containership fleet capacity grew by about 5 per cent, driven largely by continued deliveries of very large box ships. Per cent of total fleet being idle came down below 1 per cent in the second quarter before it rose back to about 2.5 per cent in December.

The second-hand containership market was active in the spring, with less transactions after the summer. The newbuilding market however, looks to have regained momentum partly due to liner companies continuing to order large tonnage and in addition tonnage providers positioning ahead of the introduction of the IMO 2020 sulphur cap regulations. In total, the container order book is stable at about 12 per cent of the existing fleet.

BUSINESS SEGMENTS

By the end of 2018 the fleet consisted of nine combination carriers and eight container vessels. In addition, the Group has six combination carriers under construction.

Combination carriers

All combination carrier activities were in 2018 consolidated under one holding company, Klaveness Combination Carriers AS (KCC). The existing investors in the single purpose ship owning companies (SPCs) swapped their shares in the SPCs with shares in KCC. In addition, KCC purchased the combination carrier chartering company, KCC

Chartering AS, from Rederiaksjeselskapet Torvald Klaveness. The consolidation of ownership and activities under KCC's umbrella was followed by two equity raises of in total USD 57 million and a registration of the shares on N-OTC on October 15. The number of investors increased from three to around 75, laying a strong basis for further development of KCC. As a result of the stronger equity position, additional three options for three combination carrier newbuilds were declared. The KCC fleet will hence consist of 15 vessels at the end of 2020.

By year-end 2018, the fleet consisted of nine CABU vessels on water and six CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China. The first CLEANBU vessel was delivered 10 January 2019 and the second and third vessels are estimated to be delivered in April 2019. The last three vessels will be delivered in 2020. The Group holds in addition eight individual options for additional CLEANBU vessels at the same yard, with delivery in 2021-2022.

The CABU vessels are combination carriers transporting mainly caustic soda solution and all types of dry cargo, mainly in the Far East, the Middle East, Australia, Brazil and North America. The CLEANBU vessels can in addition transport clean petroleum products, giving them a wider range of trading possibilities.

The CABU vessels were largely employed in combination trades with shipments of caustic soda for customers in the Australian and Brazilian alumina industry and dry bulk return shipments with alumina, bauxite, salt, iron ore and coal. While caustic soda shipments were mainly based on contracts of affreightment, dry cargoes were partly spot and partly contract shipments. Total caustic soda shipments accounted in 2018 for approximately 46 per cent of the available vessel days, while dry bulk cargoes, which are mainly north-bound from Australia to the Far East or Middle East and from Brazil to the US Gulf accounted for approximately 54 per cent of the available vessel days in 2018. Operations were satisfactory in 2018 with average unscheduled off-hire limited to 1.8 days per vessel in average for the total fleet. The vessel MV Banasol was dry-docked during 2018.

The Group has during 2018 succeeded in expanding its contract portfolio for shipment of both caustic soda and dry bulk commodities. Four contracts of affreightment for shipment of caustic soda were entered into or renewed in 2018, including a 3-5 years extension of the contract with South32, one of the main caustic soda contracts. Commercial discussions are ongoing with key charterers in targeted clean petroleum product trades for employment of the CLEANBUs.

Container
Through 2018, Klaveness owned and operated a fleet of eight geared container vessels in the feeder segment (1,700 TEU - 3,100 TEU). All vessels were employed on short term time charter contracts to liner companies through the year. The six modern "Eco-Flex" vessels of 2,536 TEU continued to obtain fuel efficiency premiums. The average charter rates rose by 20 per cent during 2018. The company had 46 vessel days without employment, mainly related to one gap between employments on one vessel. Operating expenses were stable compared to 2017 and first docking of the three vessels built in 2013 were finalized according to expectations.

RISK AND RISK MANAGEMENT

The Group's business is exposed to risks in many areas. Risk management are performed by the management and through services rendered from the affiliated companies, Klaveness AS and Klaveness Ship Management AS. Risk assessment, monitoring and implementation of mitigating actions are a part of daily activities and on a quarterly basis the Board will be presented with a risk assessment report. It is important for the Board of Directors that the right risk reward assessment is made and that internal control routines are good.

Market risk
Market risks in the shipping markets relate primarily to changes in freight rates, fuel prices, vessel values and counterparty credit risk. These risks are monitored and managed according to procedures and mandates decided by the Board and to ensure a high probability that capital and liquidity are sufficient to cover losses. Fuel price risk is partly hedged through bunker adjustment factor clauses (BAFs) and fuel derivative and dry bulk market exposure is partly hedged through freight forward agreements (FFA).

Commercial risk
The Group is exposed to commercial risks, particularly on customer acceptance of its fleet of combination carriers. KCC makes extensive efforts to secure vetting acceptance of existing vessels and works closely with

customers to document that new vessel concepts meet all their requirements. There is risk associated with increased competition and dependence on a limited number of key customers, which is mitigated through strong operational performance and continuous development of rendered services.

Financial risks
A large part of the Group's costs and income are USD denominated, hence the currency exposure is limited. Interest rate exposure is hedged through swaps and open exposure is limited.

There were no major unforeseen events of a financial nature during 2018. The liquidity risk of the Group is considered acceptable. Equity financing is in place for all newbuilds on order and bank financing has been secured for the three newbuilds with delivery in 2019. In March 2019, bank financing for two of the three vessels with delivery in 2020 was signed and discussions regarding bank financing of the last newbuild is ongoing. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the Group's commitments.

Operational risks
Operational risks are managed through quality assurance, control processes and training of seafarers and hired-in land-based employees. All employees in the affiliated companies attend in-house training to ensure compliance with applicable legislation and Klaveness Code of Conduct. The organisation is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

The vessels sail in waters exposed to piracy. All vessels sailing through exposed areas take precautionary steps to mitigate the threat of such attacks.

At the end of 2018, the Group had six newbuilds on order. Dedicated on-site personnel supervise the building processes. There is performance risk associated with the newbuilds. Tier one Chinese banks provide refund guarantees and the yard itself is considered to be financially strong.

Environmental risks
Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject the Group to liability without regard to whether the Group was negligent or at fault. Additionally, the Group cannot predict the cost of compliance with any new environmental protection and other laws and regulations that may become effective in the future. Quality is reflected in the approach to all aspects of business activities including vessel owning, management and operations. The policy is to conduct operations with the utmost regard for the safety of employees, the public and the environment, in accordance with sound business practice and in compliance with environmental regulations. From January 1, 2020, the International Maritime Organization (IMO) has decided that the maximum allowed sulphur content will be 0.5%, compared to heavy fuel oil used today, with an average sulphur content of 2.45% (and max 3.5%). The new IMO regulations will cause the majority of the world cargo fleet to switch out of high sulphur fuel oil (HFO) and into middle distillate gasoil (MDO), creating an expected large spread between HFO and MDO. For the combination carriers, higher bunker prices lead to higher earnings as the value of operational efficiency increases.

Regulatory risks
Changes in the political, legislative, fiscal and/or regulatory framework governing the activities of the Group could have material impact on the business. To limit this exposure, procedures have been implemented to comply with all applicable environmental regulations and sanctions legislation, and all counterparties go through a due diligence check.

THE PARENT COMPANY

The result for the parent company was a profit after tax of USD 30.8 million. The profit is proposed transferred to other equity.

There are no employees in the Group, hence no actions were planned or implemented to promote equality or prevent discrimination. The board consists of two men and one woman.

The consolidated and parent accounts are prepared under the assumption of going concern. Nothing has occurred after the balance date, which may significantly influence the result or the balance sheet. The Board of Directors finds that the accounts represent a true and fair view of the company's equity and debt, financial position and result.

The Board of Directors in Klaveness Ship Holding AS

~~Oslo, 31 December 2018~~
Oslo, 26 March 2019

Lasse Kristoffersen Chairman of the Board	Bent Martini Board Member
Liv Hege Dyrnes Board Member	Morten Skedsmo Managing Director

Klaveness Ship Holding AS

Consolidated Income Statement

		Year ended 31 December	
USD '000	Note	2018	2017
Continuing operations			
Freight revenue		84 284	-
Charter hire revenue		46 568	69 127
Total operating revenue	Note 3, 4	**130 852**	**69 127**
Voyage expenses	Note 5	(45 431)	-
Net revenues from operations of vessels		**85 421**	**69 127**
Operating expenses, vessels	Note 3, 5	(39 308)	(39 289)
Group administrative services	Note 5	(5 396)	(2 778)
Tonnage tax	Note 8	(180)	(177)
Other operating and administrative expenses	Note 6	(452)	(228)
EBITDA		**40 085**	**26 655**
Ordinary depreciation	Note 9	(21 655)	(21 881)
Impairment loss (-) / reversal	Note 9	5 000	-
EBIT		**23 430**	**4 774**
Finance income	Note 7	2 857	4 308
Finance costs	Note 7	(11 570)	(12 618)
Profit before tax from continuing operations		**14 718**	**(3 535)**
Income tax expenses	Note 8	(3 181)	(4 393)
Profit after tax from continuing operations		**11 537**	**(7 928)**
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations		-	(120)
Profit for the year		**11 537**	**(8 049)**
Attributable to:			
Equity holders of the parent company		8 916	(7 704)
Non-controlling interests		2 621	(344)
Total		**11 537**	**(8 049)**

Klaveness Ship Holding AS

Consolidated Statement of Other Comprehensive Income

USD '000	Note	2018	2017
Net profit/ (loss)		**11 537**	**(8 049)**
Other comprehensive income to be reclassified to profit or loss			
Net movement fair value on interest rate swaps	Note 13	357	-
Net movement fair value FX hedge	Note 13	(35)	-
Net movement fair value bunker hedge	Note 13	(918)	-
Net movement fair value FFA hedge	Note 13	970	-
Reclassification to profit and loss		-	-
Income tax effect		-	-
Net other comprehensive income to be reclassified to profit or loss		**374**	-
Other comprehensive income not to be reclassified to profit or loss		-	-
Net other comprehensive income not to be reclassified to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		**374**	-
Total comprehensive income/(loss) for the period, net of tax		**11 911**	**(8 049)**

Attributable to:		
Equity holders of the parent company	8 794	(7 704)
Non-controlling interests	3 118	(344)
Total	**11 911**	**(8 049)**

Klaveness Ship Holding AS

Consolidated Statement of Financial Position

		As at 31 December	
USD '000	Note	2018	2017
ASSETS			
Non-current assets			
Deferred tax asset	Note 8	-	3 182
Vessels	Note 9	281 533	290 874
Newbuilding contracts	Note 10	59 877	37 751
Financial assets	Note 13	1 860	957
Total non-current assets		**343 270**	**332 764**
Current assets			
Financial assets	Note 13	464	-
Inventories	Note 14	7 038	1 215
Accounts receivable		7 303	186
Receivables from related parties	Note 11	603	7 559
Prepaid expenses		2 139	1 356
Other short-term receivables	Note 11	2 986	2 990
Cash and cash equivalents	Note 12	94 060	55 648
Total current assets		**114 593**	**68 954**
TOTAL ASSETS		**457 863**	**401 718**

Klaveness Ship Holding AS

Consolidated Statement of Financial Position

USD '000	Note	As at 31 December 2018	2017
EQUITY AND LIABILITIES			
Equity			
Share capital	Note 21	1 817	1 817
Share premium		6 939	6 939
Other reserves		(87)	35
Retained earnings		190 365	182 282
Equity attributable to equity holders of the parent		**199 034**	**191 073**
Non-controlling interests		67 539	22 086
Total equity		**266 573**	**213 159**
Non-current liabilities			
Mortgage debt	Note 17	113 258	109 105
Bond loans	Note 18	34 217	35 973
Financial liabilities	Note 13	17 845	16 404
Deferred tax	Note 8	-	59
Total non-current liabilities		**165 320**	**161 541**
Current liabilities			
Short-term debt	Note 17	12 200	20 549
Other interest bearing liabilities	Note 17	2 172	-
Accounts payable		4 032	864
Current debt to related parties		322	894
Tax payable	Note 8	-	6
Tonnage tax payable	Note 8	191	177
Other current liabilities	Note 20	7 054	4 529
Total current liabilities		**25 971**	**27 018**
TOTAL EQUITY AND LIABILITIES		**457 863**	**401 718**

Oslo, 31 December 2018
Oslo, 26 March 2019

Lasse Kristoffersen
Chairman of the Board

Bent Martini
Board member

Liv Hege Dyrnes
Board member

Morten Skedsmo
Managing Director

Klaveness Ship Holding AS

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent							
	Share capital	Share premium	Other paid in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January 2017	**1 817**	**6 939**	**-**	**35**	**193 864**	**202 653**	**17 344**	**219 998**
Profit (loss) for the year					(7 704)	(7 704)	(344)	(8 049)
Other comprehensive income for the year				-		-		-
Total comprehensive income for the year				**-**	**(7 704)**	**(7 704)**	**(344)**	**(8 049)**
Payments to non-controlling interests						-	(1 414)	(1 414)
Group contribution					(3 878)	(3 878)	-	(3 878)
Capital contributions from non-controlling interests						-	6 500	6 500
Equity at 31 December 2017	**1 817**	**6 939**	**-**	**35**	**182 282**	**191 073**	**22 086**	**213 159**
Profit (loss) for the year					8 916	8 916	2 621	11 537
Other comprehensive income for the year				(122)		(122)	497	374
Total comprehensive income for the year				**(122)**	**8 916**	**8 794**	**3 118**	**11 911**
Dividends to non-controlling interests						-	(495)	(495)
Group contribution					(10 185)	(10 185)	-	(10 185)
Acquisition of non-controlling interest (April 25, 2018)					(260)	(260)	(363)	(623)
Capital increase (April 30, 2018)						-	12 000	12 000
Reallocation from non-controlling interests					3 001	3 001	(3 001)	-
Capital increase (October 10, 2018)						-	41 387	41 387
Transaction costs					(581)	(581)	-	(581)
Reallocation from non-controlling interests					8 046	8 046	(8 046)	-
Impact of majority participation in increase					(854)	(854)	854	
Equity at 31 December 2018	**1 817**	**6 939**	**-**	**(87)**	**190 365**	**199 034**	**67 539**	**266 574**

On April 25, 2018 KCC Shipowning AS (KCCS) bought 50 shares in Cabu V Investment Inc from Babar Shipping I and II AS, resulting in 100 % ownership. On April 30, 2018 KCCS bought the shares in Baffin Shipping AS, Ballard Shipping AS, Cabu VI Investment Inc, Banasol Inc and Banastar Inc from an affiliated company of Hundred Roses Company (HRC) and EGD Shipholding AS (EGD), resulting in 100 % ownership in said companies. The shares were settled by a promissory note (debt to the external partners). The promissory note was used as an injection of capital from HRC and EGD in Klaveness Combination Carriers, in addition to cash injection of USD 12.0 million.

In October 2018 a private placement of common shares of USD 45 million (less transaction costs of USD 0.6 million) was completed in the subsidiary Klaveness Combination Carriers AS which was registered on N-OTC. The parent company Klaveness Ship Holding AS subscribed shares of in total USD 3.6 million. Equity of USD 41.4 million was injected from non-controlling interests.

Hedging reserve

The reserve contains total net changes in the fair value of financial instruments recognized to fair value with changes through OCI.

Klaveness Ship Holding AS

Consolidated Statement of Cash Flows

USD '000	Note	2018	2017
Profit before tax from continuing operations		14 718	(3 535)
Profit before tax from discontinuing operations		-	(120)
Tonnage tax expensed		180	186
Net gain/loss fixed assets		-	68
Revenue hold back agreement, non cash effect		(675)	-
Ordinary depreciation	Note 9	21 655	21 881
Impairment loss/ reversal	Note 9	(5 000)	-
Amortization of upfront fees bank loans		529	571
Financial derivatives unrealised loss/gain		445	(3 718)
Gain/loss on foreign exchange		(1 811)	1 649
Interest income		(1 017)	(591)
Interest expenses		9 703	9 420
Taxes paid for the period		(183)	(139)
Change in receivables		(1 136)	548
Change in current liabilities		(1 091)	(1 360)
Change in other working capital		(980)	653
Interest received		1 017	591
A: Net cash flow from operating activities		**36 353**	**26 102**
Acquisition of tangible assets	Note 9	(6 037)	(3 371)
Installments and cost on newbuilding contracts	Note 10	(22 126)	(40 188)
Acquisition of subsidiaries, net of cash		863	-
B: Net cash flow from investing activities		**(27 301)**	**(43 558)**
Proceeds from mortgage debt		15 000	36 890
Transaction costs on issuance of loans		-	(372)
Repayment of mortgage debt		(19 528)	(36 783)
Repayment of bond loan		-	(21 099)
Interest paid		(9 703)	(9 420)
Capital increase April 30, 2018		12 000	-
Cash proceeds from issuing of shares non-controlling interests		41 386	6 500
Transaction costs on capital increase		(581)	-
Acquisition of non-controlling interests		(622)	-
Group contribution/dividend		(10 185)	(3 878)
Dividends to non-controlling interests		(495)	(1 414)
C: Net cash flow from financing activities		**27 272**	**(29 576)**
Net change in liquidity in the period (A + B + C)		36 325	(47 032)
Net foreign exchange difference		(84)	(301)
		36 241	**(47 333)**
Cash and cash equivalents at beginning of period		55 648	102 981
Cash and cash equivalents at end of period	Note 12	91 888	55 648
Net change in cash and cash equivalents in the period		**36 241**	**(47 333)**

* Cash and cash equivalents as per 31 December 2018 includes drawn amount on overdraft facility of USD 2.2 million. Undrawn amount on the overdraft facility is USD 5.8 million.

NOTE 1 ACCOUNTING POLICIES | CONSOLIDATED KLAVENESS SHIP HOLDING AS

CORPORATE INFORMATION

Klaveness Ship Holding AS ("parent company"/KSH) is a private limited company domiciled and incorporated in Norway. The parent company has headquarter and is registered in Drammensveien 260, 0283 Oslo. The parent company's consolidated accounts for the fiscal year 2017 include the parent company and its subsidiaries (referred to collectively as the Group) and associated companies.

The ultimate parent of the company is Rederiaksjeselskapet Torvald Klaveness. The consolidated financial statements for the ultimate parent is available at www.klaveness.com.

The consolidated financial statements for Klaveness Ship Holding AS for the fiscal year 2018 are approved in the board meeting on 26 March 2019.

The Group activities are described in note 3.

BASIS OF PREPARATION

The consolidated financial statements of the Group and the financial statements for the parent company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

The consolidated financial statements are based on historical cost, except for derivative financial instruments which are measured at fair value.

FOREIGN CURRENCY TRANSACTIONS

The presentation currency for the Group is US Dollar (USD). The Group companies, including the parent company, have USD as their functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the functional currency rate prevailing at the balance sheet date. Exchange differences arising from translations into functional currency are recorded in the income statement.

Non-monetary assets and liabilities measured at historical cost in foreign currency are translated into the functional currency using the historical exchange rate. Non-monetary assets and liabilities recognized at fair value are translated using the exchange rate on the date of the determination of the fair value.

Income and expenses in NOK are converted at the rate of exchange on the transaction date. The average exchange rate was USD/NOK 8.1347 in 2018 (2017: 8.2734). At year-end 2018 an exchange rate of USD/NOK 8.6911 (2017: 8.2411) was used for the valuation of balance sheet items.

CONSOLIDATION POLICIES

Subsidiaries

The Group's consolidated financial statements comprise Klaveness Ship Holding AS (KSH) and companies in which KSH has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50 % of the shares in the company or through agreements are capable of exercising control over the company. Non-controlling interests are included in the Group's equity.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and consolidation is continued until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting principles for similar transactions and events under otherwise similar circumstances.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Gains or losses on disposals of shares in subsidiaries to non-controlling interests are also recorded in equity.

If the Group loses control of a subsidiary during the reporting period, the assets and liabilities of the former subsidiary is derecognized from the consolidated accounts and recognized as an investment at fair value in accordance with relevant IFRSs. The carrying amounts of any non-controlling interests are also derecognized. Gains or losses associated with the loss of control is recognized in profit and loss.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparing financial statements in conformity with IFRS requires the management to make judgments, use of estimates and assumptions which affect the application of the accounting policies and the reported amounts of assets and liabilities, revenues and expenses.

The estimates are based on the actual underlying business, its present and forecast profitability over time, and expectations about external factors such as freight rates, interest rates, foreign exchange rates, oil prices and more which are outside the Group's and parent company's control. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. Changes in accounting estimates are recognized in the period the changes occur. When changes to estimates also affect future periods the effect is distributed between the current and future periods.

Significant estimates and assumptions

Management has made estimates and assumptions which have significant effect on the amounts recognized in the financial statements. In general, accounting estimates are considered significant if:

- the estimates require assumptions about matters that are highly uncertain at the time the estimates are made
- different estimates could have been used
- changes in the estimates have a material impact on Klaveness Ship Holding's financial position

Carrying amount of vessels, depreciation and impairment

In addition to the purchase price, the carrying amount of vessels is based on management's assumptions of useful life. Useful life may change due to change in technological developments, competition, environmental and legal requirements, freight rates and steel prices.

When value in use calculations are performed, management estimates the expected future cash flows from the assets or cash-generating unit (defined in the section of "judgments") and determine a suitable discount rate in order to calculate the present value of those cash flows. This will be based on management's evaluations, including estimating future performance, revenue generating capacity, and assumptions of future market conditions and appropriate discount rates. Changes in circumstances and

NOTE 1 ACCOUNTING POLICIES | CONSOLIDATED KLAVENESS SHIP HOLDING AS

management's evaluation and assumptions may give rise to impairment losses. While management believes that the estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the evaluations.

On a quarterly basis, management assesses indicators of impairment for non-financial assets and whether the assumptions in the value in use calculations are reasonable. Recoverable amount is set as the highest of fair value less cost to sell and value in use. Average broker values are used to estimate fair value less cost to sell. If carrying value exceeds the estimated recoverable amount, impairment is recognized. Impairments are reversed in a later period if recoverable amount exceeds carrying amount.

The recognition of deferred tax assets

Deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The assessment also includes possible group contribution from related companies within the ultimate group; Rederiaksjeselskapet Torvald Klaveness. If the Group has loss carried forward in any subsidiaries, these deferred tax assets are recognized only if there are convincing evidence that adequate taxable profit will be available in the future against which losses can be utilized. See note 6 for further information.

Judgments

In the process of applying Klaveness Ship Holding's accounting policies, management has made the following judgments which have significant effect on the amounts recognized in the financial statements.

Impairment

The Group operates combination carrier vessels that can switch between dry and wet cargo. The CABUs have the same characteristics in respect of what cargo to transport, number of cargo holds and size of the vessel. All the CLEANBUs are identical vessels with same characteristics. CLEANBU vessels have higher capacity than the CABUs, and can in addition transport other types of wet commodities. All the CABU vessels are interchangeable, same for all the CLEANBU vessels. Investment, continuance and disposal decisions are made by class of vessels. The CABU and CLEANBU vessels are operated by KCC Chartering. Contracts (CoA's) are not negotiated based on a specific vessel. It is the sum of vessel capacity at any time that determines the optimization of voyages. A portion of the voyages are also executed in the spot market, and the charterers are dependent on operating the vessels as a portfolio according to free capacity and available cargos. The Group has defined the fleet of CABU and the fleet of CLEANBU, each as one cash generating units ("CGU"), due to the Group's operational strategy to manage each fleet as a portfolio and thereby optimizing the portfolio's cash flow and the earnings of the entire Group.

For container vessels the Group has defined that each vessel is a separate CGU as the cash flows from these vessels can be separated on an individual level.

Consolidation of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS

Prior to 30 April 2018, the Group held 50 % ownership of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS. The entities owned one vessel each; MV Banasol, MV Banastar, MV Baffin and MV Ballard respectively. Management has assessed the investments against control criterias in IFRS 10 whether the Group has rights to direct the relevant activities. The management is of the opinion that power is embedded in one or more contractual arrangements for the main activities; chartering activity and ship-owning activity. The assessment shows that all elements of control are present. The Group is considered to control the entities Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS which have been consolidated as

NOTE 1 ACCOUNTING POLICIES | CONSOLIDATED KLAVENESS SHIP HOLDING AS

subsidiaries into the Group's financial statements.

Acquisition of shares in KCC Chartering
KCC acquired shares in KCC Chartering in March 2018. The transaction is considered to qualify as a business combination, as KCC Chartering in contrast to KCC (see above) has activity and is deemed to be a "business". For business combinations, including common control transactions, the Group apply the acquisition method in IFRS 3 with consolidation from time of acquisition. In the acquisition evaluation no material differences between fair and carrying values were identified, and the allocated value is therefore equal to book value (see note 2).

SEGMENT REPORTING

The operating segments are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group executive management who makes the strategic decisions.

The operating segment are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker, who is responsible for allocating resources, making strategic decisions and assessing performance. The chief operating decision-maker has been identified as the board of the company. The CABU and the CLEANBU vessels are considered to be vessels with similar characteristics and will be operated to optimize the fleet as a whole. The first CLEANBU vessel will generate revenue and costs when taken into operation from date of delivery in January 2019. The assessment of segment reporting will be reviewed on a continuous basis. As the financial statement is consistent with the internal financial reporting for the combination carriers segment and thus is equal to the Income Statement, Statement of Financial Position and Cash flow statement, no further disaggregation is provided.

The internal financial reports are structured into three reporting segments with similar characteristics i) Combination Carriers ii) Container vessels iii) Other/administration.

The Group does not consider the domicile of its customers as a relevant decision making guideline and hence does not consider it meaningful to allocate vessels and related income to specific geographical locations.

REVENUE RECOGNITION

The Group is in the business of transporting cargo by sea.

Contracts of affreightments
The combination carriers are employed on both long and short term contracts of affreightments (COAs) as well as in the spot market. The Company's intention is to own tonnage which will be operated mainly under COAs in the wet product market and on a higher degree of spot in the dry bulk market, in order to give the COA customers a high degree of flexibility. In addition, the mix of COAs and spot creates a high degree of flexibility in optimizing the trading of the fleet. The COA contracts have duration between 1-3 years. Revenue from the Group's COA commitments are classified as freight revenue in the income statement.

Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has concluded that the performance obligation under a voyage charter is satisfied over time, and begins from the point at which cargo is loaded until the point at which a cargo is discharged at the destination port. While this represents a change in the period over which revenue is recognized, the total voyage result recognized over all periods would not change (discharge-to-discharge prior to adoption of IFRS 15). The

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change in revenue recognition due to IFRS 15 resulted in USD 0.4 million less in revenue recognized as per 31 December 2018 compared to what would have been recognized for the period if the previous recognition principle had been applied. As the Group did not have any freight revenue in 2017, and the recognition of charter revenue has not changed as a result of IFRS 15, there was no implementation effect of IFRS 15 recorded against equity.

Other revenue from services, such as demurrage, is recognized when earned and is included in freight revenue.

Time-charter agreements
The time charter revenue is generated from either variable time charter or fixed time charter contracts. Revenue from time charters are accounted for as operating leases under IAS 17 and is classified as charter hire revenue in the income statement. The Group's time charter contracts have a duration of 1-12 months. All of the Group's eight container vessels are chartered out on time charter agreements.

Prior to acquisition of KCC Chartering AS (KCCC) (March 2018), revenue was distributed to the Group as charter hire from KCCC (classified as charter hire revenue) recognized in accordance with revenue recognition in KCC Chartering which is based on discharge-to-discharge basis (percentage of completion method). Charter revenue from KCCC has been recognized over time based on obtained charter day rate. Subsequent to the acquisition of KCCC, charter hire revenue has been eliminated in the consolidated financial statements of the Group, and from this date, the Group's revenue is reported on a gross basis and is split in gross revenue and voyage expenses.

Performance obligations

IFRS 15 also requires the Group for each contract with a customer, to identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent that the contract covers more than one performance obligation, determine whether revenue should be recognised over time or at a point in time and recognise revenue when or as performance obligations are recognised. The Groups' voyage charters and TC contracts qualify for recognition over time. The nature of the Group's revenues from TC contracts with its customers is categorised in two groups, the leasing element of the vessel and the service element related to the leased vessel.

Expenses between discharge and load are deferred and amortized over the voyage to the extent it qualifies as cost to fulfil under IFRS 15.

OPERATING EXPENSES

Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lubricant oils and management fees. When vessels are on hire, the majority of vessel operating expenses are reimbursed from the charterer. When the vessel is off hire, vessel operating expenses are mainly for owners account.

INCOME TAX

All the companies within the Group, with the exception of Klaveness Ship Holding AS (parent company), Klaveness Cement Logistics AB (KCL AB) and Klaveness Bulk AS (KBA), are organized in compliance with the Norwegian tonnage tax regime ("NTT"). KSH and KCL AB are subject to ordinary taxation. Company tax in Norway is 23 % (22 % from 2018). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction. Some companies in the Group are subject to taxation in Norway based on controlled foreign company (CFC) rules where tax is charged at the investor level. All of these companies are subject to the Norwegian tonnage tax regime and owned by a company subject for tonnage tax regime.

The NTT entails no tax on operating profits or tax on dividends from companies within the

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scheme. Net financials, allowed for some special regulations, are taxed on an ongoing basis, currently at a rate of 23 %. A tonnage fee is charged per vessel depending on the size of the vessel owned or leased by companies taxed under the NTT. This tonnage tax is classified as an operating cost.

Tax expenses in the profit and loss account comprise both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated at 22 % (23 %) on the basis of temporary differences between tax and accounting values of assets and liabilities that exist at the balance sheet date. Deferred taxes are recognized using the liability method in accordance with IAS 12. Deferred tax is only calculated for assets and liabilities for which future realization will lead to tax payable.

Deferred tax liabilities/deferred tax assets within the same tax system that can be offset are recorded on a net basis. Income tax relating to items recognized directly in equity is included directly in equity and not in the statement of income.

VESSELS, NEWBUILDINGS AND DOCKING

Non-current assets such as vessels, the cost of dry-docking and newbuildings are carried at cost less accumulated depreciation and impairment charges. Cost is defined as directly attributable cost plus borrowing cost during the construction period.

Depreciation of vessels

Depreciation is calculated on a straight-line basis over the estimated useful life of a vessel taking its residual value into consideration. Useful life is estimated to be 20-25 years for the Group's fleet. Certain capitalized elements like costs related to periodic maintenance/dry-docking have shorter estimated useful lives and are depreciated until the next planned dry-docking, typically over a three to five years period. When newbuildings are delivered a portion of the cost is classified as dry docking.

Costs of day-to-day servicing, maintenance and repairs are expensed.

The useful life and residual values are reviewed at each balance sheet date.

Newbuildings

Vessels under construction are classified as non-current assets and recognized at the cost incurred in relation to the non-current asset when paid. Newbuildings are not depreciated until delivery. Borrowing costs directly attributable to the construction of vessels are added to the cost of the vessels, until such time as the vessels are ready for their intended use.

Impairment of vessels and newbuildings

On a quarterly basis the balances are assessed whether there is an indication that vessels and newbuilding contracts may be impaired. If the recoverable amount is lower than the book value, an impairment charge is recorded. Impairment losses are recognized in the profit and loss statement. An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. For further information regarding impairment considerations, refer to critical accounting estimates and judgments.

LEASING

The Group differentiates between financial leasing and operational leasing based on an evaluation of the lease contract at the time of inception. A lease contract is classified as a financial lease when the terms of the lease transfer substantially all risk and rewards of ownership to the lessee. All other leases are classified as operational leases. When a lease contract is classified as a financial lease where the Group is the lessee, the rights and obligations relating to the leasing contracts are recognized in the balance sheet as assets and liabilities. The interest element in the

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lease payment is included in the interest costs and the capital amount of the lease payment is recorded as repayment of debt. The lease liability is the remaining part of net present value of future payments. For operational leases, the rental amount is recorded as an ordinary operating cost.

The Group has leasing agreements as lessor related to the container vessels which all are classified as operational leases. Lease payments received are recognized in profit or loss on a straight-line basis over the term of the lease, typically 3-12 months.

FAIR VALUE MEASUREMENT

Derivatives are measured at fair value. The fair value of financial instruments traded in active markets is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. The fair value of financial instruments not traded in active markets is determined using appropriate evaluation techniques.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets and liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

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Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and loan to related parties.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated

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upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 15.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, fuel contracts and interest rate swaps to hedge its foreign currency risks, interest rate risks and to reduce exposure to volatile and potentially rising fuel costs. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

As per 31 December 2018 all the Group hedges are classified as cash flow hedges.

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At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit and loss.

Amounts recognized as other comprehensive income are transferred to profit and loss when the hedged transaction affects profit and loss, such as when the hedged financial income or expense is recognized or when a forecast transaction occurs.

Derivative financial instruments that are designated as, and are effective hedging instruments are separated into a current and non-current portion consistent with the classification of the underlying item.

INVENTORIES

Inventories consist mainly of lubricant oil and are recognized at cost in accordance with the first in – first out method (FIFO). Inventories are valued at the lower of cost and net realizable value. Impairment losses are recognized if the net realizable value is lower than the cost price.

CASH AND CASH EQUIVALENTS

Cash includes cash in hand, bank deposits and other highly liquid investments with original maturities of three months or less.

EQUITY

Transaction costs related to an equity transaction are recognized directly in equity, net of tax.

DIVIDENDS

Dividend payments are recognized as a liability in the Group's financial statements from the date when the dividend is approved by the general meeting.

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PROVISIONS

A provision is recognized when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions usually relate to legal claims.

Provisions for loss-making contracts are recognized when the Group's estimated revenues from a contract are lower than unavoidable costs which were incurred to meet the obligations pursuant to the contract (ref description of onerous contracts in section "Significant estimates and assumptions").

RELATED PARTIES

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. Related parties transactions are recorded to estimated fair value. Transactions with related parties are disclosed in note 21.

EVENTS AFTER BALANCE SHEET DATE

New information on the Group's financial position at the balance sheet date is taken into account in the annual financial statements. Subsequent events that do not affect the Group's position at the balance sheet date, but which will affect the Group's position in the future, are disclosed if significant.

CLASSIFICATION OF ITEMS IN THE BALANCE SHEET

Current assets and short-term liabilities include items due less than one year from the balance sheet date, as well as items due more than one year from the balance sheet date, that are related to the operating cycle.

Liabilities with maturity less than one year from the balance sheet date are classified as current. All other debt is classified as long-term debt. The first year's repayment of long-term debt is classified as current.

CASH FLOW STATEMENTS

The cash flow statements are based on the indirect method.

STANDARDS, AMENDMENTS AND INTERPRETATIONS

The financial statements have been prepared based on standards, amendments and interpretations effective for 2018.

IFRS 15 Revenue from Contracts with Customers
The adoption of IFRS 15 has resulted in a change of method in recognizing revenue from voyage charters, whereby the method of determining the proportional performance has changed from discharge-to-discharge to load-to-discharge. As KCC Chartering AS was acquired as a subsidiary at end March 2018 the Group's results are not affected by first time adoption of the new standard (see further information above included in section for revenue recognition). IFRS 15 was implemented using the modified retrospective approach but due to reasons above did not have any impact on equity as per 1 January 2018.

The change in revenue recognition further resulted in USD 0.4 million less in revenue recognized end December 2018 compared to what would have been recognized for the period if the previous recognition principle had been applied. The Group has concluded that the performance obligation under a voyage charter is satisfied over time, and begins from the point at which cargo is loaded until the point at which a cargo is discharged at the destination port. While this represents a change in the period over which revenue is

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recognised, the total voyage result recognised over all periods would not change.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments became effective on 1 January 2018. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and addresses accounting for accounts receivable and losses. The accounting treatment on existing hedges will not have a material impact to the Group. The accounting documentation of hedges will be impacted and the group has updated the documentation accordingly.

Other changes to IFRS applicable from 1 January 2018 did not have an impact on the Group.

IASB has issued the following standards/amendments to the following standards that are not yet effective which may have an impact on these financial statements:

- IFRS 16 Leases (effective date 1 January 2019)

IFRS 16 does not change substantially how a lessor accounts for lease. The main difference mainly relates to the accounts of the lessee. Given today's business, the new standard is not expected to have a material impact on the Group as the Group has used the practical expedient not to include lease agreements less than 12 months in the balance sheet. The Group does not have any lease agreements of more than 12 months today and therefore concludes that implementation will not have any material effect.

The Group has not early adopted the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant to the Group's annual accounting periods beginning on 1 January 2019 or later periods.

Other changes in IFRS mandatory from 1 January 2019 are not expected to have a material impact on the Group.

Note 2 - Business combinations

Acquisition of KCC Chartering AS

KCC Chartering AS (KCCC) was purchased from Rederiaksjeselskapet Torvald Klaveness by Klaveness Combination Carriers AS (subsidiary of KSH) on March 23, 2018. The purchase price was USD 30 543. KCCC is a chartering company with the cabu vessels owned by the Group as the only employed vessels, and the primary reason for the acquisition is to consolidate all combination carrier activities in Klaveness Combination Carriers AS. Total result in KCCC is distributed to the vessel owners as hire (presented as charter hire revenue in Income Statement), and the Company's balance sheet mainly consist of working capital. The acquisition has been accounted for using the acquisition method. In the acquisition evaluation, there was not identified any material difference between fair value and book value, and thus allocated value is equal to book value. Refer table below.

The consolidated financial statements of Klaveness Ship Holding AS include the results of KCC Chartering AS from March 23, 2018. This represent a material change in the freight revenues, voyage expenses, inventories, trade receivables and trade payables, although with limited impact on net result. From the date of the acquisition, KCCC has contributed USD 87.8 million of revenue and USD 46.7 million in voyage expenses. The net profit from KCCC as per December 31, 2018 is zero. If the acquisition had taken place at the beginning of the period, contribution from KCCC would be USD 114.4 million in revenue, USD 60.1 million in voyage expenses and net result zero.

(USD'000)	Fair value recognised on acquisition
Assets	
Cash	893
Trade receivables and other receivables	5 526
Inventories	5 627
Deferred tax assets	16
Total assets	**12 062**
Liabilities	
Trade payables	12 030
Total liabilities	**12 030**
Total identifiable net assets at fair value	**31**
Net cash acquired with the subsidiary	893
Cash paid	(31)
Net cash flow on acquisition	**862**

Note 3 - Segment reporting

The operating segments are reported in a manner consistent with the internal financial reporting provided to the executive management (chief operating decision-maker).

The financial reporting is divided into the following operating segments:
- Combination Carriers
- Container vessels
- Other/administration

All segments have worldwide activities. The Group does not consider the domicile of its customers as a relevant decision making guideline and hence does not consider it meaningful to allocate vessels and related income to specific geographical locations.

Combination Carriers are spesialized vessels. The CABU and the CLEANBU vessels are considered to be vessels with similar characteristics and will be operated to optimize the fleet as a whole. Based on the nature of the vessels, processes and type of customers it has been concluded that the combination carriers represent one segment. The first CLEANBU vessel was delivered in January 2019.

The Container vessels are standard vessels which are operated on short term time-charter (TC) agreements.The Group owns eight container vessels (1,700-3,100 TEU).

The remaining of the Group's activities are shown in the "other/administration" column. The Group's administration costs and other shared costs have been allocated to segments. Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

Information regarding the Group's reportable segments is presented below. Interest income and interest expense have not been allocated to segments, as the financing is managed on a Group basis.

Income statement by segments 1 January- 31 December 2018

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Freight revenue	84 284	-	-	84 284
Charter hire revenue	17 540	29 028	-	46 568
Total revenue, vessels	**101 824**	**29 028**	**-**	**130 852**
Voyage expenses	(45 431)	-	-	(45 431)
Net revenues from operations of vessels	**56 393**	**29 028**	**-**	**85 421**
Operating expenses, vessels	(21 599)	(16 330)	(1 379)	(39 308)
Group administrative services	(3 618)	(2 925)	1 147	(5 396)
Ordinary depreciation	(16 840)	(4 815)	-	(21 655)
Reversel impairment	-	5 000	-	5 000
Tonnage tax	(119)	(61)	-	(180)
Other operating and adm expenses	(300)	(7)	(145)	(452)
Total operating expenses	**(42 476)**	**(19 138)**	**(377)**	**(61 991)**
Operating profit/EBIT	**13 917**	**9 890**	**(377)**	**23 430**

Note 3 - Segment reporting (cont.)

Statement of Financial Position by segments at 31 December 2018

(USD '000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
ASSETS				
Vessels	167 037	114 495	-	281 533
Newbuilding contracts	59 877	-	-	59 877
Financial assets	1 860	-		1 860
Other non-current assets		-		-
Total non-current assets	228 776	114 495	-	343 270
Cash	88 263	4 818	980	94 060
Current assets	16 811	3 722	-	20 533
Total current assets	105 074	8 540	980	114 593
TOTAL ASSETS	**333 850**	**123 034**	**980**	**457 863**
EQUITY AND LIABILITIES				
Total equity	178 086	103 170	(14 684)	266 573
Interest bearing debt	95 746	17 512	-	113 258
Bond loans	34 217	-	-	34 217
Financial liabilities	1 368	-	16 477	17 845
Total non-current liabilities	131 331	17 512	16 477	165 320
Short-term interest bearing debt	14 372	-		14 372
Other current liabilities	9 205	2 352	43	11 600
Total current liabilities	23 577	2 352	43	25 971
TOTAL EQUITY AND LIABILITIES	**333 850**	**123 034**	**980**	**457 863**
Capital expenditure Vessels	(2 817)	(3 220)	-	(6 037)
Capital expenditure newbuildings	(22 126)	-	-	(22 126)
Cash from operation	27 920	6 485	(377)	34 028

Cash from operation is reported excluding capital expenditures on newbuildings and acquisition of second hand vessels, as this is considered not part of normal operation, and including minority interests.

Income statement by segments 1 January- 31 December 2017

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	46 235	22 880	13	69 127
Total operating revenue	**46 235**	**22 880**	**13**	**69 127**
Operating expenses, vessels	(21 199)	(18 077)	(13)	(39 289)
Ordinary depreciation	(16 867)	(5 014)	-	(21 881)
Tonnage tax	(104)	(73)	-	(177)
Other operating and adm expenses	(1 334)	(1 327)	(347)	(3 007)
Total operating expenses	**(39 504)**	**(24 491)**	**(360)**	**(64 354)**
Operating profit/EBIT	**6 731**	**(1 611)**	**(347)**	**4 774**

Statement of Financial Position by segments at 31 December 2017

(USD '000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
ASSETS				
Vessels	179 785	111 089	-	290 874
Newbuilding contracts	37 751	-	-	37 751
Financial assets	912	44	-	957
Other non-current assets	-	-	3 182	3 182
Total non-current assets	218 449	111 133	3 182	332 764
Cash	50 977	3 085	1 587	55 648
Current assets	10 122	3 179	5	13 306
Total current assets	61 099	6 264	1 592	68 954
TOTAL ASSETS	**279 547**	**117 396**	**4 774**	**401 718**
EQUITY AND LIABILITIES				
Total equity	158 938	100 642	(46 422)	213 159
Interest bearing debt	94 765	14 340	-	109 105
Bond loans	-	-	35 973	35 973
Financial liabilities	1 509	-	14 895	16 404
Deferred tax	59			59
Total non-current liabilities	96 333	14 340	50 868	161 541
Short-term interest bearing debt	20 549	-	-	20 549
Other current liabilities	3 728	2 415	328	6 471
Total current liabilities	24 277	2 415	328	27 019
TOTAL EQUITY AND LIABILITIES	**279 547**	**117 396**	**4 774**	**401 718**
Capital expenditure Vessels	(3 371)	-	-	(3 371)
Capital expenditure newbuildings	(40 188)	-	-	(40 188)
Cash from operation	20 228	3 402	(347)	23 283

Cash from operation is reported excluding capital expenditures on newbuildings and acquisition of second hand vessels, as this is considered not part of normal operation, and including minority interests

Note 4 - Revenue from contracts with customers

Disaggregated revenue information
The Group has income from COA contracts (1-3 years), spot voyages and TC trips. Set out below is the disaggregation of the Group's revenue from contracts with customers:

Revenue types (USD'000)	Classification	2018	2017
Revenue from COA contracts	Freight revenue	73 048	-
Revenue from spot voyages	Freight revenue	11 237	-
Revenue from TC contracts (Klaveness Container)	Charter hire revenue	33 315	22 894
Revenue from TC contracts (KCC Chartering)	Charter hire revenue	13 253	46 233
Total revenue, vessels		**130 852**	**69 127**

The Group had three customers in 2018 that represented more than ten percent of operating revenue in the Group (USD 17.7 million, USD 10.7 million, USD 10.0 million respectively).

Contract balances

USD'000	2018	2017
Trade receivables from charterers	7 218	185
Contract assets	1 962	162
Contract liabilities	3 891	27

Contract balances relates mainly to the chartering company KCC Chartering AS which was included in the Group as from end March 2018 (note 2). Contract assets is accrued income related to ongoing voyages (revenue recognised from load-to-discharge). Contract liabilities is prepaid revenue from customers.

Performance obligations

IFRS 15 also requires the Group for each contract with a customer, to identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent that the contract covers more than one performance obligation, determine whether revenue should be recognised over time or at a point in time and recognise revenue when or as performance obligations are recognised. The Groups' voyage charters and TC contracts qualify for recognition over time. The nature of the Group's revenues from TC contracts with its customers is categorised in two groups, the leasing element of the vessel and the service element related to the leased vessel.

For dry bulk cargo lifted, payment is generally due within 10 days after the cargo is loaded, while payment for wet cargo is due immediately upon discharge.

Note 5 - Voyage expenses and operating expenses

USD '000	2018	2017
Freight expenses	13 390	-
T/C-hire	1 537	-
Voyage expenses	31 721	-
Fuel hedge settlement	(1 408)	-
Various expenses	192	-
Total voyage costs, vessels	**45 431**	**-**

Voyage costs occur from end March 2018 which is the date the Group acquired 100 % of the shares in KCC Chartering AS.

USD '000	2018	2017
Technical expenses	13 452	12 810
Crew costs	17 569	17 009
Insurance	2 796	2 963
Crewing agency fee to Klaveness Ship Management AS	1 336	1 190
Ship management fee to Klaveness Ship Management AS	3 474	3 247
IT fee to Klaveness Ship Managment AS	148	152
Commission fee	728	775
Other operating expenses	(195)	1 143
Total operating expenses	**39 308**	**39 289**

Costs related to technical management, maintenance and crewing services are recognised as operating expenses. Technical expenses are costs related to spare parts, consumables, cargo handling, power supply, navigation and communication. Crew costs include sea personnel expenses such as wages, social costs, travel expenses and training.

USD '000	2018	2017
Commercial management fee to Klaveness AS	2 006	2 304
Accounting fee and other administrative fees to Klaveness AS	3 088	474
Project management fee to Klaveness AS	107	-
Travel expenses reinvoiced from Klaveness AS	195	-
Group administrative services	**5 396**	**2 778**

Note 6 - Other operating and administrative expenses

The Group has no employees and has thus no wage expenses or pension liabilities. Services including management, technical, commercial and crewing are acquired from other companies within Rederiaksjeselskapet Torvald Klaveness (RASTK), see note 23. The managing director and members of the Board of Directors are employees of other companies within RASTK. No special remuneration has been paid to the various members of the Board of Directors, as such positions of office are a part of their regular employment.

Remuneration to the auditor

USD'000	2018	2017
Statutory audit	102	109
Other assurance services	153	25
Total remuneration to the auditor	**255**	**134**

Auditor's fees are stated excluding VAT.

Note 7 - Finance income and finance costs

USD'000	2018	2017
Other interest income	1 046	591
Fair value changes interest rate swaps (note 13)	-	3 718
Gain / (loss) on foreign exchange	1 811	-
Total finance income	**2 857**	**4 308**

USD'000	2018	2017
Interest paid to related parties	-	-
Interest expenses mortgage debt	6 545	6 110
Interest expenses bond loan	3 722	3 882
Fair value changes interest rate swaps (note 13)	445	-
Other financial expenses	857	977
Gain / (loss) on foreign exchange	-	1 649
Total finance costs	**11 570**	**12 618**

Interest expenses of USD 0.9 million is capitalized as borrowing costs on newbuildings in 2018 (2017: USD 1.3 million). Refer to note 17 and note 18 for further disclosures of the Group's debt.

Note 8 - Taxes

Tonnage tax
Companies subject to tonnage tax regimes are exempt from ordinary tax on their shipping income. All the Norwegian shipowning companies within the Group are subject to tonnage taxation. The subsidiary Klaveness Bulk AS exited tonnage taxation in 2016 after the sale of its qualifying asset. The companies within the tonnage tax system pay a tonnage fee based on the size of the vessels. The fee is recognized as an operating expense. Financial income is taxed according to the Norwegian tonnage tax regime, however only a portion of the interest cost and net currency expenses are deductible.

Ordinary taxation
The ordinary rate of corporation tax in Norway is 23 % for 2018 (2017 24 %). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction (Klaveness Cement Logistics AB subject to tax rate of 22 % in Sweden). Tax expenses outside Norway are not material.

Some companies in the Group are subject to taxation in Norway based on controlled foreign company (CFC) rules where tax is charged at the investor level. All of these companies are subject to the Norwegian tonnage tax

USD '000 Income taxes for the year	2018	2017
Income taxes payable	0	6
Change in deferred tax	1 789	(328)
Write-down of deferred tax	1 392	4 715
Tax adjustments previous years	-	-
Total tax expense / income (-) reported in the income statement	**3 181**	**4 393**
Tax on net (gain)/loss on revaluation of cash flow hedges	-	1 320
Deferred tax charged to OCI	**-**	**1 320**

USD '000		2018		2017
Tax payable	Income	Tax effect	Income	Tax effect
Profit / loss (-) before taxes, incl OCI	14 718	3 385	(3 656)	(877)
Income from shipping activity, tonnage tax system	(25 147)	(5 784)	(4 654)	(1 117)
Change in temporary differences	6 217	1 430	2 251	540
Permanent differences	2 353	541	4 029	967
Change in tax losses carried forward	(8 866)	(2 039)	5 630	1 351
Exchange rate differences	10 725	2 467	(3 576)	(858)
Tax payable in the balance sheet	**0**	**0**	**24,51**	**6**
Effective tax rate		0 %		0 %
Tonnage tax (included in operating profit)		123		177
Total tax payable in the balance sheet		**123**		**183**

USD '000	Temporary	2018	Temporary	2017
Temporary differences - ordinary taxation	difference	Tax effect	difference	Tax effect
Unrealised gain/loss CCIRS				
Temporary differences	(9 713)	(2 137)	(15 930)	(3 664)
Tax losses carried forward	(17 592)	(3 870)	(26 458)	(6 085)
Deferred tax asset not recognised in the balance sheet	27 304	6 007	28 552	6 567
Net temporary differences - deferred tax liability/asset (-) *	**(0)**	**(0)**	**(13 836)**	**(3 181)**
Deferred tax liability/(asset)	**-**	**-**	**258**	**59**

* Deffered tax asset is recognised to the ectent that temporary differences are expected to be reversed in the foreseeable future. The company has chosen not to record the deffered tax assets of USD 6.0 million (2017: 6.6 million)

Note 9 - Vessels

2018

Vessels	Combination carriers	Container	Total vessels*
Cost price 1.1	323 185	254 319	577 504
Additions (mainly upgrading and docking of vessels)	1 574	3 220	4 794
Adjustment acquisition value newbuildings delivered	2 518	-	2 518
Costprice 31.12	**327 277**	**257 539**	**584 817**
Acc. Depreciation 1.1	143 400	31 543	174 943
Depreciation for the year	16 840	4 814	21 655
Reclass/disposal	-	-	-
Acc. depreciation losses 31.12	**160 240**	**36 357**	**196 597**
Acc. impairment losses 1.1	-	111 688	111 688
Reversal of impairment	-	(5 000)	(5 000)
Disposal	-	-	-
Acc. impairment losses 31.12	**-**	**106 688**	**106 688**
Carrying amounts 31.12.2018	**167 037**	**114 495**	**281 533**
No. of vessels	9	8	
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

*) carrying value of vessels includes dry-docking

2017

Vessels	Combination carriers	Container	Total vessels*
Cost price 1.1	288 498	254 319	542 817
Delivery of newbuildings	34 431	-	34 431
Additions (mainly upgrading and docking of vessels)	3 371	-	3 371
Disposals	(3 114)	-	(3 114)
Costprice 31.12	**323 185**	**254 319**	**577 504**
Acc. Depreciation 1.1	129 647	26 529	156 176
Depreciation for the year	16 868	5 014	21 881
Reclass/disposal	(3 114)	-	(3 114)
Acc. depreciation losses 31.12	**143 400**	**31 543**	**174 943**
Acc. impairment losses 1.1	-	111 688	111 688
Impairment for the year	-	-	-
Acc. impairment losses 31.12	**-**	**111 688**	**111 688**
Carrying amounts 31.12.2017	**179 785**	**111 089**	**290 874**
No. of vessels	9	8	
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

*) carrying value of vessels includes dry-docking

Note 9 - Vessels (cont.)

Pledged vessels
All owned vessels are pledged to secure the various loan facilities (refer to note 17 for further information).

Hold back agreement
When MV Ballard was delivered (May 2017), an amount of USD 4.0 million was witheld from the delivery installment. The yard was obligated to complete pending items related to the sister vessels MV Ballard, MV Balboa and MV Baffin due to vibration issues. All three new CABU vessels have finished the upgrades. In April 2018, a settlement agreement with the yard was reached. All costs related to the upgrade were covered by the hold back agreement. Total settled amount with the yard amounts to USD 3.4 million, of which USD 0.9 million was capitalised as vessels in 2017 and remaining USD 2.5 million was capitalised as vessel in 2018. Lost earnings and bunker consumption during offhire was compensated as part of the settlement agreement. An amount of USD 1.4 million in total was recognised as revenue included in total revenue vessels; USD 0.6 million in 2017 and USD 0.7 million in 2018.

Impairment assessment
Container vessels
The analysts are mostly positive for the market outlook in the container market. However, uncertainties in the global economy and upcoming regulations for the industry (IMO 2020) creates mixed expectations around future freight rates.

The Group performed an impairment test to see if prior years impairment losses can be reversed. Recoverable amount was based on the highest of estimated value in use and fair value less cost of sale. Fair value less cost of sale was based on average broker values. Broker values have recovered since year end 2017, and long-term TC freight rates from brokers used as input to the cash flow projections have increased from last year's predictions. Consequently, the impairment test shows a headroom from value in use to the carrying amount. Calculated value in use is above book value and/or within range of max and min broker value for all eight vessels.

The Group made no impairments or reversals for the six 2,500 TEU vessels as the spread between book values and minimum brokers' values is acceptable. Prior years' impairment for Baro and Barry have been reversed to reflect the minimum brokers' value, due to a high spread between book value and minimum brokers' value. The reversal of impairment was USD 2.15 million for Baro and USD 2.85 million for Barry, a total of USD 5.0 million as per 31 December 2018.

Combination carriers
As per December 31, 2018, no impairment indicators are identified as the development in the underlying markets have strengthened. Further, the private placement of common shares in Klaveness Combination Carriers AS (subsidiary) described in changes in equity at subscription price above book value of equity supports the evaluation of no impairment indicators.

The below summarizes the total impairment cost/reversal:

Impairment loss (-)/ reversal	**2018**	**2017**
Impairment of vessels	5 000	-
Total impairment loss (-) / reversal	**5 000**	**-**

Note 10 - Newbuildings

The Group has six combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2019 and 2020. The contracts include options for further vessels. The first vessel, MV Baru, was delivered 10 January 2019.

The Group has secured financing for the first three newbuildings. The owner, KCC Shipowning AS, is the borrower and the expected drawdown is USD 31 million per newbuilding. The loans mature in December 2023. A loan agreement for financing of two of the three CLEANBU vessels with delivery in 2020 was signed in March 2019.

The following tables present the Group's investment in newbuildings as at 31 December 2018 and at 31 December 2017, respectively:

(USD '000)	2018	2017
Cost 1.1	37 751	31 995
Borrowing cost	867	1 254
Yard installments paid	19 151	37 281
Other capitalized cost	2 108	1 653
Delivery of newbuilings	-	(34 431)
Net carrying amount 31.12	**59 877**	**37 751**

Capital commitments
The yard installment commitments related to the six newbuildings are set out below.

Remaining installments at 31 December 2018 (USD '000)	2019	2020	Total
Combination carriers	120 240	102 300	222 540
Total commitments newbuildings	**120 240**	**102 300**	**222 540**

Note 11 - Receivables

USD'000 Receivables from related parties	2018	2017
Klaveness Ship Management AS	9	98
KCC Chartering AS	-	7 461
Klaveness AS	100	-
AS Klaveness Chartering	494	-
Receivables from related parties	**603**	**7 559**

USD'000 Other short-term receivables	2018	2017
Accrued income	1 962	162
Accrued interest income	16	-
Claims	595	-
Other short-term receivables	412	2 828
Other short-term receivables	**2 986**	**2 990**

Accounts receivable comprise all items that fall due for payment within one year after the balance sheet date. For dry bulk cargo lifted, payment is generally due within 10 days after the cargo is loaded, while payment for wet cargo is due immediately upon discharge. Trade receivables are non-interest bearing. Trade receivables and other current assets relates mainly to the chartering company KCC Chartering AS which was included in the Group as from end March 2018.

Claims consisting of insurance claims for incidents and is expected to be settled within next year.

Note 12 - Cash and cash equivalents

The Group has bank deposits in the following currencies:

USD'000	2018	2017
Bank deposits, NOK	1 327	855
Bank deposits, USD	92 303	54 365
Bank deposits, SEK (restricted)	80	87
Cash	350	340
Total cash and cash equivalents	**94 060**	**55 648**

The equivalent of USD 0.08 million is restricted per year end (2017: USD 0.1 million).

Note 13 - Financial assets and liabilities

To reduce currency and interest rate risk, the Group has entered into interest rate swap (IRS) and cross currency interest rate swap (CCIRS) agreements.

The Group holds IRSs that qualify for hedge accounting which reduce interest risk for loans financing the vessels. These instruments have combined notional value of USD 28.5 million and duration until 2022. Interest rate swaps qualifying for hedge accounting are recognised at fair value with changes through other comprehensive income.

The Group has also entered into bunker fuel swaps and forward freight agreements (FFA) that qualify for hedge accounting. The Group use bunker fuel swaps to hedge a portion of its floating bunkers cost to a fixed cost for bunkers to reduce the Group's exposure to changes in bunkers prices. Similarly, the Group can use FFAs to fix freight rates in a future period to reduce its exposure to the dry bulk freight market (via open capacity and index linked COA commitments). As of 31 December 2018 the Group has entered into a currency hedge hedging a minor share of AUD denominated port costs.

The cross currency interest rate swap (CCIRS) agreements reduce currency and interest rate risk for the bond loan, however the instruments do not qualify for hedge acounting. The CCIRSs are recognised at fair value with changes through profit and loss. Book value of these are negative by USD 16.5 million as of 31 December 2018 (2017: negative USD 14.9 million).

Non-current financial assets at 31 December

	2018	2017
Financial instruments at fair value through OCI		
Interest rate swaps	322	131
Forward freight agreements	970	-
Financial instruments at fair value through P&L		
Interest rate swaps	1 032	825
Financial assets	**2 324**	**957**

Non-current financial liabilities at 31 December

	2018	2017
Financial instruments at fair value through OCI		
Interest rate swaps	-	167
FX hedge (AUD/USD)	38	-
Fuel hedge	918	-
Financial instruments at fair value through P&L		
Cross currency interest rate swap	16 477	14 895
Interest rate swaps	412	1 342
Financial liabilities	**17 845**	**16 404**

Note 14 - Inventories

USD'000	2018	2017
Bunkers	5 820	-
Luboil	1 218	1 215
Inventories	**7 038**	**1 215**

Inventories relates to bunkers and luboil on board vessels. Bunkers relates to the chartering company KCC Chartering AS which was included in the Group from 23 March 2018.

Note 15 - Financial Risk Management

Capital management
The Group intends to maintain an efficient capital structure, provide financial ability to execute on the strategy and ensure the Group has sufficient liquidity to meet liabilities and commitments as they fall due. Targets have been defined for equity ratio and minimum liquidity. The equity ratio as of 31 December 2018 was 59 % (2017: 53 %) and cash was USD 94.1 million. The Group's covenants are described in note 17.

The capital structure and dividend payments are considered in view of debt service ability, capital commitments and expectations of future cash flows. Available cash, loan covenants and the balance sheet composition is monitored to make sure that the company has the necessary financial strength to continue as a going concern.

The Group aims to spend free cash flows as follows:
- Repayment of net interest-bearing debt
- Distribution to the Group's shareholders by means of dividends.
- Investments in developing new and existing business.

The main priority of maintaining a strong financial position is to secure the ongoing business activity of the Group, the ability to do new business and to ensure access to funding at favourable terms. The Group's capital structure consists of mortgage debt (note 17), bond loan listed at Nordic ABM (note 18) interest bearing debt to related parties (note 23), cash and cash equivalents and equity attributable to the shareholders.

Financial risk
The Group is exposed to operational risk, market risk including but not limited to freight rates and vessel values, currency (FX) and interest rate (IR) risks, credit/counterparty risk and liquidity risk. The Group's executive management oversees the management of these risks, and is supported by a risk management department and a treasury department that provide risk advisory and maintain an appropriate financial risk governance framework for the Group. The risk department provides assurance to the executive management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Operational risk
Operational risks are mainly related to the operation of vessels. The Group's vessels are on technical management to Klaveness Ship Management AS (affiliated company) which ensures compliance with IMO, flag and port state regulations. Quality and safety audits are performed regularly and the crew and officers onboard are trained to ensure that regulatory requirements are met.

Operational risk is managed through quality assurance procedures and systematic training of seafarers and land based employees. All vessels sailing through piracy exposed areas take necessary steps to mitigate the threat of such attacks. Operational risk is also covered by insurance where relevant to cover loss of assets, revenues and contract commitments. The vessels are insured for loss of hire, protection and indemnity (P&I) and complete loss (Hull and Machinery). The latter is aligned with vessel values and loan agreements. The financial impact of a total loss of a vessel will not be material for the Group.

Market risk
Ownership of vessels involves risks related to vessel values, future vessel employment, freight rates and costs. Over time, vessel values may fluctuate, which may result in an impairment of the book value of the Group's vessels. These risks are to some extent managed through contracts of affreightment covering a large part of the Group's fleet capacity for the nearby year and covering part of the exposure for the next 1-2 years.

A significant expense for transport at sea is bunkers. The price of fuel is unpredictable and fluctuates based on events outside the Group's control, including geopolitical developments, supply and demand for oil and gas, actions of OPEC and other energy producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. To reduce the risk of fluctuations in bunker fuel prices, the Group may decide to hedge the bunker price exposure by the use of bunker fuel swaps or options to hedge the inherent fuel oil exposure in its freight contracts or include bunker adjustment factors (BAF) in the contracts.

Year to date, the following bunkers quantities have been hedged (approx 10 % of estimated yearly bunkers

	2019	
Fuel type	Quantity	Average price
SPO380 FOSS	5 250	366
RDM35FOSS	5 340	369
LS MGO	1 450	691
Total	**12 040**	

Note 15 - Financial Risk Management (cont.)

Foreign currency risk and interest rate risk
The Group's revenue and costs are denominated primarily in US Dollar (USD) which is the functional currency of all significant entities in the Group. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. The Group has hedged a portion of port costs in AUD.

The Group has long term interest bearing debt that is exposed to floating interest rate. Long term mortgage debt bear interest at LIBOR plus an applicable margin. In order to hedge the risk, the company has entered into interest rate swaps. At 31 December 2018, 26 % of the floating interest loans are hedged. Included swaps booked as speculative instruments the ratio is 89 %. The Group evaluates on an ongoing basis the need to adjust interest rate exposure.

The table below shows estimated changes in profit before tax for the Group from changes in interest rates in 2018 and 2017, with all other variables held constant. The changes are estimated based on given capital structure as of year-end.

USD '000	Change in interest rate	2018	2017
USD LIBOR	+1,00%	202	599
	+ 0,5%	101	299
	- 0,50%	(101)	(299)
	- 1,00%	(202)	(599)

Counterparty/credit risk
The performance of the Group depends on its counterparties' ability to perform their obligations under agreed contracts, a continued client need for the services performed by the combination carriers and KCC's ability to renew contracts with these clients. Default by a counterparty of its obligations under, mainly cargo customers (CoA's), may have material adverse consequences on the contract portfolio earnings. The counterparty's financial strength will thus be very important. The Group recognizes claims to the extent the Group has legal right to insurance coverage. As such, default by an insurance institution may have material financial consequences.

The Group has six newbuildings on order. Risk of delays and failure of the yard to deliver exists. Tier one Chinese banks have provided refund guarantees. Further, the Group is exposed to credit risk through its deposits. Deposits are currently made with investment grade financial institutions with A rating or higher from public rating agency.

Total unrisked credit risk at year-end 2018 amounts USD 101.3 million (book value of receivables and bank deposits).

Liquidity risk
Liquidity risk is the risk that the Group may not be able to fulfill its liabilities when they fall due.
The Group has capital commitments relating to borrowings and newbuildings. Liquidity risk is managed by the Group's treasury department. The Group keeps its liquidity reserves mainly in cash and bank deposits. The liquidity risk is considered to be limited as the deposits, committed bank debt and estimated cash flow are considered sufficient for all needs in the forseeable future. The Group's bank financing and bonds are subject to financial and non-financial covenant clauses.The table below illustrates the timing and magnitude of the Group's financial liabilities.

Maturity profile of financial liabilities at 31 December 2018

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Interest bearing debt and bond loan includes interest payments.

Maturity profile financial liabilities at 31 Dec 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)	20 395	57 606	100 781	-	178 781
Bond loan (incl interests)	2 346	37 786	-	-	40 133
Other interest bearing liabilities	2 172	-	-	-	2 172
Accounts payable	4 032	-	-	-	4 032
Current debt to related parties	322	-	-	-	322
	29 267	**95 392**	**100 781**	**-**	**225 440**

Maturity profile financial liabilities at 31 Dec 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)*	26 150	29 008	95 984	-	151 142
Bond loan (incl interests)	2 278	4 508	37 530	-	44 316
Accounts payable	864	-	-	-	864
Current debt to related parties	894	-	-	-	894
	30 186	**33 516**	**133 513**	**-**	**197 216**

* The Banasol and Banastar facility (USD 11.0 million) fall due in 2018.

Commitments newbuildings

The yard commitments related to newbuildings are set out below. Six combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China are scheduled for delivery in 2019 and 2020.

Remaining installments at 31 December 2018	2019	2020	Total
Combination carriers	120 240	102 300	222 540
Total commitments newbuildings	**120 240**	**102 300**	**222 540**

Note 16 - Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial assets included in the financial statements.

	Carrying amount		Fair value	
USD'000	2018	2017	2018	2017
Loans and receivables at amortised cost				
Accounts receivable	7 303	186	7 303	186
Receivables from related parties	603	7 559	603	7 559
Total loans and receivables	**7 906**	**7 745**	**7 906**	**7 745**
Cash and cash equivalents*	**94 060**	**55 648**	**94 060**	**55 648**
Total	**101 966**	**63 393**	**101 966**	**63 393**
Total current	101 966	63 393	101 966	63 393
Total non-current	-	-	-	-

* including restricted cash (note 12)

	Carrying amount		Fair value	
USD'000	2018	2017	2018	2017
Financial liabilities at fair value through OCI				
Derivates in effective cash flow hedges	-	167	-	167
FX hedge (AUD/USD)	38	-	38	-
Fuel hedge	918	-	918	-
Financial liabilities at fair value through P&L				
Other derivatives	16 889	16 237	16 889	16 237
Total financial liabilities at fair value	**17 845**	**16 404**	**17 845**	**16 404**
Other financial liabilities at amortised cost				
Accounts payable	4 032	864	4 032	864
Other financial liabilities	322	894	322	894
Interest bearing debt	125 458	129 653	125 458	130 892
Bond loan	34 217	35 973	36 156	38 132
Liabilities directly associated with assets held for sale	-	-	-	-
Total financial liabilities at amortised cost	**164 029**	**167 384**	**165 967**	**170 781**
Total	**181 874**	**183 788**	**183 812**	**187 185**
Total current	16 554	22 306	16 554	22 306
Total non-current	165 320	161 482	167 258	164 879

Note 16 - Fair value measurement (cont.)

The fair value of the financial assets and liabilities is recognised as the value at which they could be exchanged in a transaction between willing parties other than in a forced or liquidation transactions. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
- Cash and restricted cash, trade receivables, trade payables and other current liabilities are recognized at their carrying amounts largely due to the short term maturities of these instruments.
- Fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Since the bond are listed on Nordic ABM (KSH03 PRO), fair value of the bond is disclosed based on traded information. Fair value of KSH03 is based on latest transaction.
- Fair value of derivatives are based on mark to market reports recieved from banks.

Fair value hierarchy
The Group uses financial hierarchy under IFRS 13 for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the Group's assets and liabilities at 31 December 2018:

31.12.2018

Assets	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		1 032		**1 032**
Financial assets at fair value through OCI				
Interest rate swaps		322		**322**
Forward freight agreements		970		**970**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Cross currency interest rate swap		16 477		**16 477**
Interest rate swaps		412		**412**
Financial liabilities at fair value through OCI				
FX hedge (AUD/USD)		38		**38**
Fuel hedge		918		**918**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bond	36 156			**36 156**
Mortgage debt			125 458	**125 458**
Other interest bearing liabilities			2 172	**2 172**

31.12.2017

Assets	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate swaps		825		**825**
Financial assets at fair value through OCI				
Interest rate swaps		131		**131**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Interest rate swaps		16 237		**16 237**
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bond	38 132			**38 132**
Mortgage debt			130 892	**130 892**
Derivatives used for hedging				
Derivates in effective cash flow hedges		167		**167**

The fair value of financial instruments traded in an active market is based on quoted market prices at the balance sheet date and are included in level 1.

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

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. During the reporting periods, there were no transfers between any of the levels. Refer to Note 17 for the disclosures of non-current and current portion of the liabilities measured at fair value.

Note 17 - Interest bearing debt and financial instruments

The below tables present the Group's financing arrangements as per 31 December 2018. All debt except bond loans (NOK) are denominated in USD (ref note 18). As a consequence of transferring the vessels from single purpose entities to KCC Shipowning AS (between subsidiaries in the Group) the existing bank facilities have been merged into two facilities with KCCS as borrower. The loan amount for the CABUs remain the same, hence no cash movements followed the restructuring of the loans.

The USD 100 million secured term loan facility with Nordea/Danske Bank includes the vessels MV Balboa, MV Baffin, MV Ballard, MV Barcarena, MV Bangor, MV Bantry and MV Bakkedal. The loan will be repaid in quarterly instalments and a balloon repayment on the maturity date in 2022.

The USD 105 million secured term loan facility with DNB/SEB has refinanced loans for the vessels MV Banasol and MV Banastar and the three newbuildings; MV Baru (delivered January 2019), MV Barracuda (expected delivery in April 2019) and MV Barramundi (expected delivery in April 2019). For the newbuildings bank financing represents close to 65% of contract price. The loan will be repaid in quarterly instalments and a balloon repayment on the maturity date for outstanding debt on the newbuilding tranches in 2023.

The container vessels are financed by a revolving credit facility (RCF) secured by all eight vessels and a maximum limit of USD 70,8 million per year-end 2018.

Mortgage debt	Description		Maturity	Carrying amount
Balboa/Barcarena*	Nordea/Danske Bank	LIBOR + 2.0 %	March 2022	26 944
Nordea/Danske Facility	Term loan facility, USD 100 mill	LIBOR + 2.3 %	March 2022	69 419
DNB/SEB Facility	Term loan facility, USD 105 mill	LIBOR + 2.3 %	December 2023	12 000
Container RCF	DNB/Danske Bank USD 90 mill		February 2021	18 000
Capitalized transaction costs				(905)
Mortgage debt 31 December 2018				**125 458**

*Loan for MV Balboa and MV Barcarena was repaid in end January 2019 at the same time as proceeds from new loan facility was drawn.

(USD '000) Mortgage debt	Fair value 31 Dec 2018	Book value 31 Dec 2018	Book value 31 Dec 2017
Mortgage debt	114 163	114 163	110 343
Capitalized loan fees	-	(905)	(1 238)
Total mortgage debt, non-current	**114 163**	**113 258**	**109 105**
Mortgage debt, current	12 200	12 200	20 549
Total mortgage debt	**126 363**	**125 458**	**129 654**

Fair value is estimated to carrying amount less financing costs as the difference between market margin and carrying margin is considered to be immaterial. Fair value is not based on observable market data (fair value hierarchy level 3).
At 31 December 2018 the Group has USD 93 million in undrawn bank financing (as part of the USD 105 million DNB/SEB facility) committed to three newbuildings available on delivery of the vessels. An and USD 56.4 million in undrawn capacity on the revolving credit facility for the container vessels.

(USD '000) Other interest bearing liabilities	Fair value 31 Dec 2018	Book value 31 Dec 2018	Book value 31 Dec 2017
Overdraft facility	2 172	2 172	-
Other interest bearing liabilities	**2 172**	**2 172**	**-**

The Group has entered into a overdraft facility pledged with receivables and bunkers inventory.

Covenants

As per year end 2018, the Group is in compliance with all financial covenants. Financial covenants on KCC Shipowning Group level relates to minimum equity (USD 110 million) and equity ratio (30%), minimum cash (the higher of USD 10 million and 5 % of net interest-bearing debt) and net debt to operating profit (max 5x in 2018, no covenant in 2019, max 7x in 2020 and max 5x from 2021). The credit facility for the container vessels also contains financial covenants related to equity and cash based on the consolidated accounts of Klaveness Ship Holding AS (KSH). In addition, all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan.

Securities

As a security for the mortgage debt, the company has included a first priority security in all vessels and earnings accounts, and assignment of the earnings and insurances of the vessels in favour of the debtors.

Book value of collateral and mortgaged assets (USD '000)	2018	2017
Vessels	281 533	290 874
Bunkers	7 038	-
Accounts receivables	7 303	-
Total book value of collateral and mortgaged assets	**295 873**	**290 874**

Note 17 - Financial assets and financial liabilities continued

Reconciliation of movements of liabilities and equity to cash flow arising from financing activities

	Liabilities			*Equity*			*Total*
USD '000	Interest payable	Interest-bearing short-term debt	Interest-bearing long-term debt	Share capital/ premium/ reserve	Other equity	Non-controlling interests	Total
Balance at 1 January 2018	**-**	**20 549**	**145 078**	**8 791**	**182 281**	**22 086**	**378 785**
Repayment of mortgage debt			(19 528)				(19 528)
Proceeds from mortgage debt		2 172	15 000				17 172
Interest paid	(9 703)						(9 703)
Capital increase (Apr) (net of transaction costs)						12 000	12 000
Capital increase (Oct) (net of transaction costs)						41 387	41 387
Group contribution					(10 185)		(10 185)
Dividends to non-controlling interests						(495)	(495)
Acquisition of non-controlling interests					(259)	(363)	(622)
Total changes from financing cash flow	**(9 703)**	**2 172**	**(4 528)**	**-**	**(10 444)**	**52 529**	**30 027**
Liability-related							
Expensed capitalised borrowing costs			331				331
Agio on bond loan			(1 756)				- 1 756
Non-cash movement		(8 349)	8 349	(122)			- 122
Total liability-related changes		**(8 349)**	**6 925**	**(122)**	**-**	**-**	**- 1 546**
Total equity-related other changes					**18 528**	**(7 076)**	**11 452**
Balance at 31 December 2018		**14 372**	**147 475**	**8 669**	**190 365**	**67 539**	**418 717**

	Liabilities			*Equity*			*Total*
USD '000	Interest payable	Interest-bearing short-term debt	Interest-bearing long-term debt	Share capital/ premium/ reserve	Other equity	Non-controlling interests	Total
Balance at 1 January 2017	**-**	**19 818**	**80 574**	**8 791**	**164 172**	**14 330**	**287 685**
Repayment of mortgage debt			(21 783)				(21 783)
Proceeds from mortgage debt			36 890				36 890
Interest paid	(9 420)						(9 420)
Group contribution					(21 818)		(21 818)
Dividends to non-controlling interests						(1 346)	(1 346)
Capital contributions						6 500	6 500
Total changes from financing cash flow	**(9 420)**	**-**	**15 107**	**-**	**(21 818)**	**5 154**	**(10 977)**
Liability-related							
Expensed capitalised borrowing costs			(185)				- 185
Non-cash movement		731	(731)				-
Total liability-related changes		**731**	**(916)**				**- 185**
Total equity-related other changes					**39 927**	**2 602**	**42 529**
Balance at 31 December 2017	**-**	**20 549**	**145 078**	**8 791**	**182 281**	**22 086**	**378 785**

Note 18 - Bond loans

Klaveness Ship Holding AS (the Issuer) issued a senior unsecured bond of NOK 300 million in December 2016, with maturity in May 2021 (KSH03). The bond loan has a borrowing limit of NOK 500 million, hence subsequent issues may take place over the tenor of the bond. Tap issues are conditional on the market price and on investor appetite on the date of the tap issue.

The bond loan (KSH03) is listed on Nordic ABM and has a bullet structure with no repayment until maturity in 2021. The bond loan is subject to an interest rate of 3M NIBOR plus a margin of 5.25 %.

Covenants are described in note 17.

	Face value	Year of	Carrying amount (USD'000)	
Bond loan	NOK'000	maturity	2018	2017
KSH03				
Original loan amount	300 000	27.05.2021	35 273	35 273
Exchange rate adjustment			(755)	1 130
Capitalized expenses			(301)	(430)
Bond loan	**300 000**		**34 217**	**35 973**

Note 19 - Commitments and guarantees

Capital commitments
The Group has capital commitments relating to borrowings and newbuildings. For information of maturity profile for mortgage debt and bond loan, see note 15. Commitments related to newbuildings are presented in note 10. Available facilities is presented in note 17.

Guarantees
Below is a list of guarantees given at 31 December 2018

Guarantee to	Description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for RCF in Klaveness Container AS, related to the eight container vessels.	Drawn amount USD 18 million, max limit 105 million incl interest, expenses and exposures under derivatives
Jiangsu New Yangzi Shipbuilding Co. Ltd	Klaveness Combination Carriers AS guarantees on behalf of KCC Shipowning AS (part of the KCC Group) to the yard for the 3rd and 4th installments for the shipbuilding contracts YZJ 2015-1226, YZJ2015-1227 and YZJ 2015-1228.	USD 9.3 million per newbuilding + 5 % interest p.a.
BHP Billiton Marketing AG	AS Klaveness Chartering (affiliated company, not part of the KSH Group of companies) guarantees on behalf of KCC Chartering AS for COA commitments in the period 2010-2013 for transportation of caustic soda solution from ports in the far/middle east to ports in western Australia.	COA period is over, however claim can be placed until 6 years after last cargo.

Note 20 - Other liabilities

Other current liabilities	2018	2017
Accrued expenses	1 980	2 104
Crew accrued wages	978	1 076
Accrued interest	966	964
Other short term liabilities	3 128	385
Total other current liabilities	**7 054**	**4 529**

Note 21 - Share capital, shareholders, dividends and reserves

	Shares	Notional	Share capital (NOK)
31.12.2018	1 000	12 000	NOK 12 million

All shares are issued and fully paid.
All shares are owned by Rederiaksjeselskapet Torvald Klaveness.

A group contribution of USD 10.2 million was paid to Klaveness Finans AS in 2018.

Note 22 - List of subsidiaries

Klaveness Ship Holding AS comprises several subsidiaries. Presented below is a list of all subsidiaries. Unless otherwise stated, the companies are located in Oslo, Norway.

Company name	Ownership interest per 31 Dec 2018	Ownership interest per 31 Dec 2017
Klaveness Combination Carrier AS [1]	63 %	-
Klaveness Container AS	94,7 %	82,7 %
Klaveness Cement Logistics AB (Sweden)	63 %	100 %
KCC Shipowning AS (formely T. Klaveness Shipping AS)	63 %	100 %
KCC KBA AS (formerly Klaveness Bulk AS)	63 %	100 %
KCC Chartering AS (formerly Cabu Chartering AS)	63 %	0 %
Banasol Inc (Liberia)[2, 4]	63 %	50 %
Cabu Bangor Inc. (Liberia)[4]	63 %	100 %
Banastar Inc. (Liberia)[2, 4]	63 %	50 %
Cabu V Investment Inc. (Liberia)[2, 4]	63 %	95 %
Cabu VI Investment Inc. (Liberia)[2, 4]	63 %	81 %
Baffin Shipping AS[2, 3]	-	50 %
Ballard Shipping AS[2, 3]	-	50 %

1) KCC was founded in March 2018. Group is presented as if KCC Shipowning AS and KCC KBA AS had been owned from the beginning of the year, and in the comparable period for 2017 (Note 1, basis of preparation).

2) In end April 2018 KCC Shipowning AS bought shares in Banasol Inc, Banastar Inc, Cabu V Investment Inc, Cabu VI Investment Inc, Baffin Shipping AS and Ballard Shipping AS from minority interests resulting in 100 % ownership in all subsidiaries. Further the minority shareholders contributed in the capital increase in Klaveness Combination Carriers. The transactions are further described in the statement of changes in equity.

3) Baffin Shipping AS and Ballard Shipping AS were merged into KCC Shipowning in November and December 2018 with no effect on Group level (both 100 % owned at time of merger).

4) In November and December, all the vessels previously owned by the single purpose entities were sold to KCC Shipowning AS. The reorganisation has no effect on Group level.

Note 23 - Transactions with related parties

The ultimate owner of the Group is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS.

The Group has undertaken several agreements and transactions with related parties in the RASTK Group. The level of fees are based on market terms and are in accordance with the arm's length principle. The group has no employees.

Klaveness AS delivers services to the Group performed by corporate functions like management, legal, accounting & controlling, risk management and commercial management.

Klaveness Ship Management AS delivers ship management services for all of the vessels in the Group. Ship Management fees cover services like technical management, crewing management, IT and energy management. For the newbuildings in the Group, Klaveness AS performs supervision and project management services.

USD'000 Supplier	Type of agreement	2018	2017
Klaveness AS (affiliated company)	Business administration fee	(3 088)	(474)
Klaveness AS (affiliated company)	Commercial management fee	(2 006)	(2 304)
Klaveness Ship Management AS (affiliated company)	IT fee	(148)	(152)
Klaveness Ship Management AS (affiliated company)	Ship Mangement fee	(3 474)	(3 247)
Klaveness Ship Management AS (affiliated company)	Crewing agency fee	(1 336)	(1 190)
Klaveness AS (affiliated company)	Supervision/project management	(2 400)	(2 213)

Note 24 - Contingent liabilities

Regular claims are made against the Group as a result of its ordinary operations. Provisions are made in the financial statements whenever the probable outcome of these disputes are expected to be in disfavour of the Group. No new provisions are recognised in 2018.

Note 25 - Events after the balance sheet date

The first CLEANBU vessel, MV Baru, was delivered from Jiangsu New Yangzi Shipbuilding at 10 January 2019.

Shares in Banasol Inc, Banastar Inc, Cabu Bangor Inc, Cabu V Investment Inc, Cabu VI Investment Inc was sold from KCC Shipowning AS to Klaveness AS (affiliated company) in January 2019. As part of making KCC Shipowning the owner of all combination carrier vessels in the Group (note 22), there was no activity in the single purpose companies as per sales date. All material assets and liabilites were sold or distributed as dividends/contribution in kind to KCCS in 2018, and share capital was reduced to USD 1 000 in all companies.

As a consequence of the consolidation of the combination carrier activities, and as a part of the preparation for a potential listing of KCC in Oslo, the NOK 300 million unsecured bond (KSH03 PRO) changed debitor from Klaveness Ship Holding AS (major shareholder of KCC, note 18) to Klaveness Combination Carrier AS in end January 2019. The bond loan will replace the existing internal loan given by Klaveness Ship Holding AS to Klaveness Combination Carriers AS.

Useful life for the combination carrier vessels is reassessed on a yearly basis. One of the main caustic soda COA's was renewed in late 2018 for 3-5 years. Maximum vessel age has been increased from 20 to 25 years in this contract. Other COA customers have as well accepted (some formally and other unformally) age up to 25 years. Useful life is increased from 20 to 25 years as from 01.01.2019. The updated estimate is also supported by the vessels current condition and industry practice for tank and bulk carriers. Due to a decline in steel prices for demolition, the Group has adjusted the estimate for residual value down from 380 usd/mt to 325 usd/mt. The net effect of these changes in assumptions will decrease yearly depreciation for the CABU vessels of approx USD 6.4 million in 2019 compared to 2018.

A loan agreement for financing of the two of the three CLEANBU vessels with delivery in 2020 was signed in March 2019.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2018.

Klaveness Ship Holding AS

Income Statement

USD '000	Note	2018	2017
		Year ended 31 December	
Total operating revenue			
Management fee	Note 13	(292)	(278)
Other administrative services	Note 2	(142)	(48)
Total operating expenses		**(434)**	**(326)**
Operating profit		**(434)**	**(326)**
Finance income	Note 3	68 422	7 494
Finance costs	Note 3	(34 003)	(10 994)
Profit/ (loss) before tax		**33 985**	**(3 826)**
Income tax expenses	Note 4	(3 181)	(3 953)
Profit/ (loss) after tax		**30 804**	**(7 778)**

Klaveness Ship Holding AS

Statement of Other Comprehensive Income

USD '000	Note	2018	2017
Profit of the year		**30 804**	**(7 778)**
Net other comprehensive income to be reclassified to profit or loss		-	-
Net other comprehensive income not to be reclassified to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		**-**	**-**
Total comprehensive income/(loss) for the period, net of tax		**30 804**	**(7 778)**

Klaveness Ship Holding AS

Statement of Financial Position

USD '000	Note	As at 31 December 2018	2017
ASSETS			
Non current assets			
Deferred tax asset	Note 4	-	3 182
Investments in subsidiaries	Note 5	202 081	197 006
Loan to related parties	Note 6	95 496	90 867
Total non current assets		**297 577**	**291 055**
Current assets			
Receivables from related parties	Note 6	499	369
Other short-term receivables		5	6
Cash and cash equivalents	Note 7	583	607
Total current assets		**1 087**	**982**
TOTAL ASSETS		**298 663**	**292 038**

Klaveness Ship Holding AS

Statement of Financial Position

		As at 31 December	
USD '000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Share capital	Note 8	1 817	1 817
Share premium		7 068	7 068
Other reserves		346 177	346 177
Retained earnings		(107 342)	(127 965)
Total equity		**247 719**	**227 097**
Non-current liabilities			
Bond loans	Note 18 Group	34 217	35 973
Financial liabilities	Note 9	16 477	14 895
Total non-current liabilities		**50 694**	**50 869**
Current liabilities			
Loan from related parties	Note 6	-	13 788
Current debt to related parties	Note 6	-	29
Tax payable	Note 4	-	-
Other current liabilities		251	256
Total current liabilities		**251**	**14 073**
TOTAL EQUITY AND LIABILITIES		**298 663**	**292 038**

Oslo, 31 December 2018
Oslo, 26 March 2019

Lasse Kristoffersen
Chairman of the Board

Bent Martini
Board member

Liv Hege Dyrnes
Board member

Morten Skedsmo
Managing Director

Klaveness Ship Holding AS

Statement of Changes in Equity

USD'000	Share capital	Share premium	Other paid in capital	Hedging reserves	Other reserves	Retained earnings	Total equity
Equity at 1 January 2017	1 817	7 068	-	-	346 177	(116 233)	**238 829**
Profit (loss) for the year						(7 778)	(7 778)
Other comprehensive income for the year				-			-
Total comprehensive income for the year				**-**		**(7 778)**	**(7 778)**
Group contribution						(3 954)	**(3 954)**
Equity at 31 December 2017	**1 817**	**7 068**	**-**	**-**	**346 177**	**(127 965)**	**227 097**
Profit (loss) for the year						30 804	30 804
Other comprehensive income for the year						-	-
Total comprehensive income for the year						**30 804**	**30 804**
Group contribution						(10 181)	**(10 181)**
Equity at 31 December 2018	**1 817**	**7 068**	**-**	**-**	**346 177**	**(107 342)**	**247 719**

Klaveness Ship Holding AS

Statement of Cash Flows

USD '000	Note	2018	2017
Profit before tax		33 985	(3 826)
Amortization of upfront fees and bank loans		129	129
Gain/loss on foreign exchange		(1 854)	1 613
Unrealised result financial instruments		1 581	(3 143)
Interest income	Note 3	(6 733)	(4 219)
Interest expenses	Note 3	3 773	4 575
Impairment shares in subsidiaries	Note 5	28 500	4 645
Dividends from subsidiaries		(59 712)	-
Tax paid for the period		-	-
Change in receivables		(128)	(188)
Change in current liabilities		(34)	(1 021)
Change in other working capital		(305)	(12)
Interest received	Note 3	1 615	4 219
A: Net cash flow from operating activities		**817**	**2 772**
Group contribution/dividends from shares in subsidiaries		13 957	
Capital increase in subsidiaries		(3 613)	-
B: Net cash flow from investment activities		**10 344**	**-**
Repayment of bond loan	Note 15 Group	-	(21 283)
Interest paid	Note 3	-	(4 575)
Loan to related parties		(1 003)	(4 887)
Payments of group contribution/dividends		(10 181)	(3 954)
C: Net cash flow from financing activities		**(11 185)**	**(34 699)**
Net change in liquidity in the period (A + B + C)		(24)	(31 928)
Net foreign exchange difference		-	104
Net change in liquidity in the period		**(24)**	**(31 823)**
Cash and cash equivalents at beginning of period		607	32 430
Cash and cash equivalents at close of period	Note 7	583	607
Net change in cash and cash equivalents in the period		**(24)**	**(31 823)**

NOTE 1 ACCOUNTING POLICIES | KLAVENESS SHIP HOLDING AS - PARENT COMPANY

BASIS OF PREPARATION

The financial statements of Klaveness Ship Holding AS (referred to as the Company/the parent company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Accounting principles for the consolidated statement of Klaveness Ship Holding AS also apply to the parent company – see accounting policies presented as part of the consolidated Group accounts.

The main activity of the company is to be a holding company of shipowning subsidiaries.

DIVIDEND INCOME/GROUP CONTRIBUTION

Dividend income is recognized when the right to receive payment is established, which is when the dividend is approved by the general meeting of the subsidiary.

DIVIDEND DISTRIBUTION/GROUP CONTRIBUTION

Dividend distribution to the company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders.

SHARES IN SUBSIDIARIES

Shares in subsidiaries in the parent accounts are recorded at acquired cost. These investments are reviewed for impairment when there are indicators that carrying amount may not be recoverable.

CONTRIBUTION IN KIND

When shares are transferred as contribution in kind the capital increase is measured at fair value. Fair value is estimated based on the fair value of underlying assets and liabilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Shares in subsidiaries and intercompany receivables are subject to impairment testing at the end of each reporting period. Valuation is subject to assessment of the recoverability in the underlying investment or receivable. Management's assessment can affect the level of impairment loss, or reversal of such, that is recognized in profit or loss.

Note 2 - Operating expenses

The Company has no employees and has thus no wage expenses or pension liabilities. Management services are acquired from other companies within the Group of Rederiaksjeselskapet Torvald Klaveness (RASTK), see note 13. The managing director and members of the Board of Directors are employees of other companies within RASTK. The cost of management is included in the management fee. No special remuneration has been paid to the members of the Board of Directors, because such positions are part of their regular employment.

USD '000	2018	2017
Statutory audit	16	23
Other assurance services from auditor	67	18
Total audit fee	**82**	**41**

Auditor's fees are stated excluding VAT.

Note 3 - Finance income and finance costs

USD'000	2018	2017
Interest received from related parties	6 710	4 199
Other interest income	23	20
Guarantee fee from related parties	123	132
Income from investments in subsidiaries (note 5)	59 712	-
Unrealised results financial instruments	-	3 143
Gain on foreign exchange	1 854	-
Total finance income	**68 422**	**7 494**

USD'000	2018	2017
Interest paid to related parties	179	822
Interest expenses bond loan	3 722	3 882
Impairment shares in subsidiaries (note 5)	28 500	4 645
Unrealised results financial instruments	1 581	-
Loss on foreign exchange	-	1 613
Other financial expenses	20	31
Total finance costs	**34 003**	**10 994**

Refer to note 5 for further information related to Income from investments in subsidiaries and impairment shares in subsidiaries.

Refer to note 18 in the Group accounts for further disclosures of the company's bond debt.

Note 4 - Taxes

Income tax for the year	2018	2017
Income taxes payable	-	-
Change in deferred tax	(3 018)	(3 953)
Adjustment correction of last year's tax expense**	(164)	-
Total tax expense/(income) reported in the income statement	**(3 181)**	**(3 953)**
Net (gain)/loss on revaluation of cash flow hedges	-	-
Deferred tax charged to OCI	**-**	**-**

Calculation of tax payable	2018	2017
Profit/ (loss) before tax, incl OCI	33 985	(3 826)
Permanent differences	(22 117)	(2 086)
Change in temporary differences	(6 512)	1 204
Change in tax losses carried forward	(5 352)	2 656
Currency effects	(5)	2 052
Tax basis before group contribution	-	-
Income taxes payable	-	-

Reconciliation of actual tax expense against expected tax cost in accordance with the ordinary Norwegian income tax rate of 23 % (24 %)	2018	2017
Profit /(loss) before tax, incl OCI	33 985	(3 826)
Estimated tax at 23 % (24 %) statutory rate	(7 817)	(918)
23 % (24 %) tax on permanent differences	5 087	(501)
Tax effect, change in temporary differences	(1 498)	-
Exchange rate differences	1 185	1 143
Change in tax rate from 23 % to 22 % deferred tax	(137)	312
Impairment of deferred tax asset	-	(3 989)
Correction group contribution previous year	-	-
Income tax expenses	**(3 181)**	**(3 953)**
***Profit and loss effect**	**(3 181)**	**(3 953)**
***OCI effect**	**-**	**-**
Effective tax rate	-9 %	103 %

Temporary differences - ordinary taxation	Temporary difference	2018 Tax effect	Temporary difference	2017 Tax effect
Gains and losses account	(171)	(38)	(226)	(52)
Currency gain/loss not realised	6 466	1 423	-	-
Unrealised gain/loss interest rate swaps	287	63	296	68
Unrealised gain/loss CCIRS	(16 477)	(3 625)	(14 895)	(3 426)
Loss carried forward	(3 821)	(841)	(16 357)	(3 762)
Deferred tax asset not recognised in balance sheet	13 716	3 018	17 345	3 989
Deferred tax liability/ asset (-) recognised in balance sheet*	**0**	**0**	**(13 836)**	**(3 182)**

Note 5 - Investments in subsidiaries

	Business office, country	Voting share/ ownership	Book value 31.12.2018	Book value 31.12.2017
Klaveness Combination Carriers AS	Oslo, Norway	100 %	162 327	-
Klaveness Container AS	Oslo, Norway	94,7 %	39 409	9 414
KCC Shipowning AS*	Oslo, Norway	100 %	-	186 751
Klaveness Cement Logistics AB	Stockholm, Sweden	100 %	345	345
KCC KBA AS	Oslo, Norway	100 %	-	496
Investments in subsidiaries			**202 081**	**197 006**

Klaveness Combination Carriers AS ("KCC") was established March 23, 2018 as a 100 % subsidiary of Klaveness Ship Holding AS. The establishment was carried out by contribution in kind of the shares in KCC Shipowning AS ("KCCS", formerly T Klaveness Shipping AS) and KCC KBA AS (formerly Klaveness Bulk AS). The shares were valued at continuity as the transaction is considered a group reorganisation and not a business combination. Subsequently a dividend of USD 36.0 million were distributed as return of capital. In October 2018 book value of shares in KCC increased by USD 3.6 million due to capital increase.

Investments in subsidiaries are recorded at cost. Impairments are recognized if the fair value of equity is lower than book value of the shares. In connection with the above mentioned dividend of USD 36.0 million an impairment test were perfomed and imapirment charges of USD 28.5 million has been recognised for 2018.

Change in book value for the investment in shares in Klaveness Container AS of USD 30.0 million is due to capital increase by conversion of debt in December 2018 (registered in company register 10 January 2019).

Note 6 - Intragroup balances

At the end of the year, the Company had the following intragroup balances with related parties:

USD'000	Relationship	2018	2017
Klaveness Container AS	Subsidiary	59 496	90 867
Klaveness Combination Carriers AS		36 000	-
Loan to related parties		**95 496**	**90 867**

Loan to Klaveness Container AS has a maximum limit of USD 59.5 million and falls due in November 2020. Interests are calculated based on 3M LIBOR + margin and are to be paid at maturity. USD 30.0 million of the loan amount was converted to equity in Klaveness Container in December 2018 (note 5).

Loan to Klaveness Combination Carrier AS has a tenor of three years, and the interest rate is 6.98 %.

USD'000	Relationship	2018	2017
Klaveness Combination Carriers AS	Subsidiary	293	
Klaveness Container AS	Subsidiary	206	369
Receivables from related parties		**499**	**369**

USD'000	Relationship	2018	2017
KCC Shipowning AS	Subsidiary	-	29
Klaveness AS	Affiliated company	-	-
Current debt to related parties		**-**	**29**

USD'000	Relationship	2018	2017
KCC Shipowning AS	Subsidiary	-	13 784
KCC KBA AS	Subsidiary	-	4
Loan from related parties		**-**	**13 788**

Note 7 - Cash and cash equivalents

The company has bank deposits in the following currencies:

USD'000	2018	2017
Bank deposits, NOK	507	603
Bank deposits, USD	76	4
Total cash and cash equivalents	**583**	**607**

The company has no restricted bank deposits.

Note 8 - Share capital, shareholders, dividends and reserves

	Shares	Notional	Share capital (NOK)
31.12.2018	1 000	12 000	NOK 12 million

All shares are issued and fully paid.

All shares are owned by Rederiaksjeselskapet Torvald Klaveness.

No dividend has been paid or proposed for 2018. Group contribution of USD 10.2 million was paid to Klaveness Finans AS in 2018.

Note 9 Financial liabilities

To reduce currency and interest rate risk related to the bond loan, the company has entered into a cross currency interest rate swap (CCIRS) agreement.

The CCIRS agreement reduce currency and interest rate risk for the bond loan, however the instruments do not qualify for hedge accounting. The CCIRS is recognised at fair value with changes through profit and loss. Book value of these are negative by USD 16.5 million as of 31 December 2018 (2017: negative USD 14.9 million).

Financial liabilities at 31 December	2018	2017
Financial instruments at fair value through P&L		
Cross currency interest rate swap	16 477	14 895
Financial liabilities	**16 477**	**14 895**

Note 10 - Financial risk management

Capital management
Capital management of the Company is overseen on Group level, see note 12 in the consolidated accounts of Klaveness Ship Holding AS. The Company is in compliance with all covenants as of 31 December 2018 - see note 14 in the consolidated accounts of Klaveness Ship Holding AS.

Operational risk
The company's activity is to be a holding company of subsidiaries and its main risk is related to the financial situation of the subsidiary companies. If the subsidiary experiences losses over time, the investment may be impaired. Impairment evaluations are carried out at each closing date. As the ultimate holding company of all shipowning companies, the company is also subject to development costs related to research and development within the Torvald Klaveness Group.

Foreign currency risk and interest rate risk
As of 31 December 2018, fair value of cross currency interest rate swap (CCIRS) is negative by USD 16.5 million (2017: negative by USD 14.9 million) (note 9). The company no longer has any cross currency interest rate swap agreements that qualify for hedge acccounting.

The Company's functional currency is US Dollar (USD). The company has some costs incurred in other currencies (mainly NOK). No direct currency hedge has been made towards the small portion of costs incurred in foreign currencies. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited.

The table below shows estimated changes in profit before tax for the company from reasonable possible changes in interest rates in 2018 and 2017, with all other variables held constant. The changes are estimated based on given capital structure as of year end.

USD '000	Change in interest rate - unsecured bond loan	2018	2017
NIBOR	+1,0%	-	-
	+0,5%	-	-
	- 0,5%	-	-
	- 1,0%	-	-

USD '000	Change in interest rate - loan to related parties	2018	2017
LIBOR	+1,00%	-	138
	+0,5%	-	69
	- 0,5%	-	(69)
	- 1,00%	-	(138)

Counterparty/credit risk
Counterparty risk is related to intercompany balances and risk related to guarantees provided to banks on behalf of loan facilities in subsidiaries (Klaveness Container AS, see note 12). There is a risk that subsidiaries do not generate cash flow to be able to meet financial obligations when they fall due. Loan facilities in which guarantee has been provided fall due in 2021. Liquidity buffers in the benefactors are expected to be sufficiently large to cater for such events.

The company is exposed to credit risk through its deposits. Deposits are currently made with financial institutions that have A/AA rating.

Liquidity risk
Liquidity risk is the risk that the company may not be able to meet its obligations when they fall due. Liquidity risk is managed by the Group's treasury department. The Group keeps its liquidity reserves mainly in cash and bank deposits. The liquidity risk is considered to be limited as the deposits are considered sufficient for all needs in the forseeable future. The Company's bond loans are subject to financial and non-financial covenant clauses given on Group level (Consolidated Klaveness Ship Holding AS, see Group note 14 regarding information about covenants). The bond loan (KSH03) fall due in 2021. Due to the financial situation , debt maturity profile and liquidity reserve in the Group at year-end, liquidity risk is considered to be low. The Group as such furthermore benefits from being well diversified on funding sources.
Maturity profile presented below includes interest payments.

Maturity profile to financial liabilities at 31 Dec 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bond loan	2 346	37 786		-	**40 133**
Other current liabilities	251	-	-	-	**251**
	2 597	**37 786**	**-**	**-**	**40 384**

Maturity profile to financial liabilities at 31 Dec 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bond loan	3 555	6 150	37 529	-	**47 235**
Loan to related parties	13 788	-	-	-	**13 788**
Other current liabilities	285	-	-	-	**285**
	17 628	**6 150**	**37 529**	**-**	**61 307**

Note 11 - Fair value measurement

Fair value measurement
Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments included in the financial statements.

	Carrying amount		Fair value	
	2018	2017	2018	2017
Loans and receivables at amortised cost				
Loan to related parties	-	90 867	-	90 867
Receivables from related parties	499	369	499	369
Other short-term receivables	5	6	5	6
Total loans and receivables	**503**	**91 243**	**503**	**91 243**
Cash and cash equivalents	**583**	**607**	**583**	**607**
Total assets	**1 087**	**91 850**	**1 087**	**91 850**
Total current	1 087	91 850	1 087	91 850
Total non-current	-	-	-	-

	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial liabilities at fair value				
Derivatives	16 477	14 895	16 477	14 895
Total financial liabilities at fair value	**16 477**	**14 895**	**16 477**	**14 895**
Other financial liabilities at amortised cost				
Current debt to related parties	-	13 817	-	13 817
Non-current debt related parties	-	-	-	-
Bond loan	34 217	35 973	36 156	38 132
Other current liabilities	251	256	251	256
Total other financial liabilities at amortised cost	**34 468**	**50 046**	**36 406**	**52 205**
Total liabilities	**50 945**	**64 941**	**52 883**	**67 100**
Total current	251	14 073	251	14 073
Total non-current	50 694	50 869	52 633	53 028

The fair value of the financial assets and liabilities is recognised as the value at which they could be exchanged in a transaction between willing parties other than in a forced or liquidation transaction. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:
- Cash and restricted cash, trade receivables, trade payables and other current liabilities are deemed to have equal fair value and book value due to the short term maturities of these instruments.
- Since the bonds are listed on Nordic ABM (ticker KSH03 PRO), fair value of the bonds is disclosed based on traded information. Fair value of KSH03 is based on latest transaction; the call price November 20th 2018.
- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Valuation is performed by the banks, and assessed by the company.
- Fair value of loans to/from related parties is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair value of current borrowings equals their carrying amount as the impact of discounting and differences in margin is not significant.

Note 11 - Fair value measurement (cont.)

Fair value hierarchy
The company uses hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the company's assets and liabilities at 31 December. The company had no assets measured at fair value at year end.

31.12.2018

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bond	36 156			**36 156**
Derivatives		16 477		**16 477**

31.12.2017

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value, but for which fair value is disclosed				
Bond	38 132			**38 132**
Derivatives		14 895		**14 895**

The fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date and are included in level 1.

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

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Note 12 - Commitments and guarantees

Capital commitments

The company has capital commitments related to borrowings. For information of maturity profile for bond loans, see note 10.

Guarantees

Below is a list of guarantees provided by the company at 31 December 2018.

Guarantee to	Description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for RCF in Klaveness Container AS, related to the eight container vessels.	Drawn amount USD 15 million, max limit 105 million incl interest, expenses and exposures under derivatives

Note 13 - Transactions with related parties

The ultimate owner of Klaveness Ship Holding AS is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS.

The company has undertaken several agreements and transactions with related parties in the RASTK Group. The level of fees are based on market terms and are in accordance with the arm's length principle. Loan to related parties - see note 6.

Klaveness AS (affiliated company) delivers administrative and business management services (G&A) to the company such as management, accounting, legal, IT services, rent and office services.

Supplier	Type of agreement	2018	2017
Klaveness AS	Business administration fee	292	278

Note 14 - Events after the balance sheet date

As a consequence of the consolidation of the combination carrier activities, and as a part of the preparation for a potential listing of KCC in Oslo, the NOK 300 million unsecured bond (KSH03 PRO) changed debitor from Klaveness Ship Holding AS to Klaveness Combination Carrier AS in end January 2019. The bond loan will replace current loan to the shareholder of USD 36 million (Group note 17).

There are no events after the balance sheet date that have material effect on the financial statement as of 31 December 2018.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Klaveness Ship Holding AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klaveness Ship Holding AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company and the Group comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statements of 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 consolidated financial statements present fairly, in all material respects the financial position of the Company and the Group as at 31 December 2018 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 and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of 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

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going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to 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, 26 March 2019

ERNST & YOUNG AS

Asbjørn Rødal
State Authorised Public Accountant (Norway)

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Statsautoriserte revisorer
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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Klaveness Ship Holding AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klaveness Ship Holding AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company and the Group comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statements of 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 consolidated financial statements present fairly, in all material respects the financial position of the Company and the Group as at 31 December 2018 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 and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of 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.

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.

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Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to 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, 26 March 2019

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Asbjørn Rødal
State Authorised Public Accountant (Norway)