KLAVENESS
ANNUAL REPORT 2017

Key figures

EQUITY RATIO

46%

CASH AND CASH EQUIVALENTS

107

USD MILLIONS

VESSELS UNDER MANAGEMENT

148

Profit and loss	2017	2016	2015
Gross operating revenues [1]	327	262	389
EBITDA [1]	28	44	52
Profit/(loss) after tax (excl. minority interests)	(6)	(50)	(22)
Profit/(loss) after tax (incl. minority interests)	(6)	(58)	(21)
Balance sheet			
Total assets	561	556	723
Total equity (excl. minority interests)	238	244	294
Total equity (incl. minority interests)	260	261	313
Interest-bearing debt	178	197	310
Cash and cash equivalents	107	151	125
Cash flow from investing activities			
Investments in vessels and newbuilding contracts	43	87	32
Equity ratios			
Equity ratios (excl. minority interests)	42 %	44 %	41 %
Equity ratios (incl. minority interests)	46 %	47 %	43 %
Employees			
Number of employees onshore [2]	157	166	163
Vessels [3]			
Pool vessels	35	49	53
Klaveness Chartering - chartered vessels	96	74	64
Combination carriers	9	8	6
Selfunloader vessels	-	-	5
Container vessels	8	8	8
Vessels under constructions	3	4	7

1 Income/loss from physical and financial freight
2 Number of employees at year end for Oslo, Singapore, Shanghai, Manila and Rio
3 Per year-end. Vessels hired in on spot voyages are not included

LETTER FROM THE CEO

THE FUTURE IS NOW

[redacted]

I begin this letter with a sense of pride of all that we have achieved in 2017, despite the challenging markets we have faced. We believe we are a leading shipping company with a proven ability to challenge the status quo, and think differently. Even more so, when times are tough. I am happy to share that 2017 was another milestone year, as we established a new company and business area, Klaveness Digital. Klaveness Digital is responsible for developing smart digital solutions that will not only benefit Klaveness, but I hope our entire industry. Strengthening our portfolio of services to include digital services that address present and future challenges I believe will empower us to continue to play a central role in improving the nature of shipping in the years to come.

The environment in which we operate is becoming increasingly complex. We are facing a world that is perhaps more unpredictable than ever before, particularly in terms of politics. In contrast, we see both economic growth and optimism across the globe. We see growth in industrial production, and as a consequence that both the dry bulk and container markets have strengthened throughout the year. I am optimistic that this development will continue in 2018.

In an industry where environmental requirements are becoming increasingly important, I am glad to see that more and more industry players understand what it requires from us to reach the goals set out in the Paris agreement. I am hopeful that this will lay the foundation for an ambitious agreement when the International Maritime Organization meets in April 2018. Such an agreement should set out a goal of reducing CO2 emissions by at least 50 per cent towards 2050-2060. Considering that the world fleet is expected to double in that same period, this essentially requires us to reduce CO2 emissions per vessel by 75 per cent. In view of this, it is encouraging to see that our Combination carriers are ready for this future today. All in all, our combination carrier fleet consists of nine vessels, and the next generation is already under construction.

The dry bulk chartering and trading activities control some 130 vessels and have targeted five specific geographic areas throughout the year. By employing more data driven decisions in their activities the results achieved have been satisfactory. We see that the margins are decreasing in this business, and I believe this is an indication of much needed change in the business models of tramp shipping. Experience and relations must be accompanied by analytics and data to support continued growth and sustainable returns. We are committed to make this transition and continue to serve our customers with high value services.

Our continuous development is a function of our continuous investments, in our customers, our people, our technology and our products. With change comes opportunities and I look forward to seeing where 2018 will take us.

Lasse Kristoffersen, CEO

Strengthening our portfolio of services to include digital services that address present and future challenges I believe will empower us to continue to play a central role in improving the nature of shipping in the years to come.

Board of directors' report 2017

1 Highlights

Safety is priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2017.

Both the dry bulk market and the container market strengthened during 2017 while the tanker market continued to be weak, resulting in improved results for the container segment and the dry bulk segment compared to 2016. The combination carriers continue to deliver satisfactory results, although impacted by a weak tanker market.

Klaveness achieved an EBITDA of USD 27.8 million in 2017 (USD 44.2 million). The company on a consolidated basis made a loss before tax (EBT) of USD 2.1 million (loss of USD 58.2 million). While profit from sale of vessels and impairments impacted the 2016 result, there were no large one-offs impacting the 2017 result. Cash flow from operating activities was USD 16.7 million (negative USD 4.4 million). The balance sheet remains solid with a book equity including minority interest of USD 260.2 million at year-end corresponding to an equity ratio of 46 per cent. High solidity and good liquidity was maintained in 2017.

Klaveness took delivery of one combination carrier in 2017, whereof EGD Shipholding AS owns 50 per cent. The newbuilding program now consists of three combination carriers. The total number of vessels under management was 148 by the end of 2017, whereof 17 vessels were partly or wholly owned.

Earnings for the combination carriers weakened in 2017, mainly due to a weaker tanker market and lower transported caustic volumes. Results were nevertheless satisfactory. Container vessel earnings improved during 2017. The number of idle days for the Klaveness container vessels dropped significantly compared to 2016 and the vessels still achieved rates above the general market due to the vessels' fuel efficiency. The dry bulk chartering and trading activity continued to target five geographic areas and employ data driven decisions, leading to a satisfactory result.

Due to a strong cash position Klaveness repaid debt in late 2016 and in the beginning of 2017, thereby taking down interest costs in 2017. Mark-to-market development in financial instruments impacted the financial result positively.

Klaveness' vision is to improve the nature of shipping and the strategy focuses on three core areas; establish a global combination carrier service, build the leading digital operator, and provide useful and intuitive digital services. As a result, Klaveness in 2017 has continued to focus on improving and developing existing and new combination carrier concepts, continued to invest in digital initiatives and establishing a more data driven approach to trading and chartering activities.

2 Health, safety and environment

Klaveness experienced no major, four medium and 26 minor injuries in 2017. Injuries that require repatriation of crew members such as fractured arms or broken ribs are classified as medium injuries. All reported incidents and near-accidents are used for learning and to improve routines and procedures on board as well as onshore. In August, the 1st Assistant Engineer on MV Baro had to be medically evacuated due to a suspected stroke, he passed away on a hospital in South Korea five days later.

In 2017, there were 20 vetting inspections of the combination carriers. All vessels passed. The fleet under technical management by Klaveness Ship Management AS has undergone 43 Port State Controls in 2017, with no detentions. The average number of Port State Control deficiencies per inspection in 2017 was 1.05, down from 1.65 in 2016.

Piracy activity in the Indian Ocean increased during the second quarter of 2017, with vessels being hijacked for the first time since 2012. However, there were no hijackings in the last three quarters of 2017 in this area. There is still piracy activity in the Red Sea, Bab-El-Mandeb Strait and in Gulf of Aden, while activity in the Sulu Sea has decreased in 2017. The areas are monitored and vessels are taking precautionary measures when entering these areas.

There are still some cases of theft and robberies of vessels in the Malacca/Singapore Strait, and Klaveness managed vessels are advised to be vigilant in these areas.

To comply to the latest Tier III NOx reduction requirements, Klaveness decided as one of the first ship owners, to install a SCR (Selective Catalytic Reduction) plant on the three newbuildings with delivery in 2018 and 2019. This will enable global trade of the vessels and reduce the NOx emissions with more than 75 per cent compared to the existing Tier II requirements. Due to high utilization and limited ballasting, the combination carriers have about 40% lower CO2 emission per ton lifted than standard vessels.

With its continuous and long term focus on energy efficient transport solutions, Klaveness is well positioned for the global sulphur cap regulation implemented by IMO that take effect in 2020.

3 The markets

IMF forecasts global GDP growth to be 3.9 per cent for 2018, compared to an estimate of 3.7 per cent in 2017. According to the IMF the cyclical upswing continued in 2017 with the broadest synchronized global upswing since 2010. Economies accounting for three quarters of world GDP experienced a pickup in year-on-year growth. GDP grew by an estimated 2.3 per cent in the US, 2.4 per cent in the Euro area and 1.8 per cent in Japan. The GDP growth in China is estimated to fall from 6.8 per cent in 2017 to 6.6 per cent in 2018. IMF estimates that world trade grew by 4.7 per cent in 2017, compared to 2.5 per cent the year before.

Following strong price increases in 2016 oil prices tumbled during the first half of 2017. After Ice Brent Crude oil bottomed out at 45 USD/barrel in mid-June 2017, the oil price rallied ending at just below 67 USD/barrel at year-end, a 17 per cent price increase compared to the 2016 closing price. Bunker fuel prices largely followed crude oil prices, and bunkers with delivery in Singapore ended the year at 332 USD/mt, up from 160 USD/mt in the previous year.

Dry bulk freight rates continued to improve through 2017 after bottoming out in first quarter of 2016. According to the Baltic exchange Capesize freight rates averaged 15,291 USD/day during 2017 (+7,920 USD/day year-on-year) while Panamax and Supramax freight rates averaged 9,831 USD/day (+4,213 USD/day) and 9,185 USD/day (+3,172 USD/day) respectively. According to Clarksons second-hand vessel values increased 34 per cent year on year, while the newbuilding prices had a more modest recovery of 8 per cent.

Global dry bulk demand improved through the year on the back of accelerating growth in global industrial production. The accelerating industrial production was a broad-based phenomenon with all the large economic zones in expansion mode. According to Worldsteel the year-on-year growth in steel production exceeded 5 per cent for both China and the rest of the world. Chinese steel production grew on the back of an improving real estate market and infrastructure investments. According to official Chinese trade data, Chinese iron ore imports matched the 5 per cent growth in steel production and reached 1.075 billion tons. Klaveness Research's analyses indicate that the growth in global seaborne coal trade increased from 1.8 per cent in 2016 to more than 6 per cent in the first 10 months of 2017. Chinese coal imports went up close to 15 per cent in the first 11 months of 2017 as the growth in thermal generation exceeded the growth in coal production. Indian coal imports switched from negative year-on-year growth in the first half of 2017 to positive in the second half of the year. The turnaround was driven by higher thermal generation as the economy recovered from the negative short term effects of a demonetization campaign and tax reform implemented in the second half of 2016. Coal imports also grew at a rapid pace in emerging Asian economies and as new thermal coal plants came on stream. The global grain trade posted another record year and the minor bulk trade grew on the back of the global recovery in industrial production. Clarksons estimates that total dry bulk ton mile growth was 5 per cent in 2017.

Total dry bulk fleet growth increased from 2.2 per cent in 2016 to 2.9 per cent in 2017 as scrapping and slippage decreased due to increasing earnings. Nevertheless, the year-on-year fleet growth remained considerably below the average growth between 2005 and 2015 of 9 per cent per annum. Hence, demand growth surpassed supply growth for the second year in a row which led to higher fleet utilization and thus higher earnings.

The containership sector saw more positive market conditions in 2017, with charter rates recording further gains towards year end. At the end 2017, the short period rate for a standard 2,500 TEU containership stood at $8,750/day, up 60 per cent compared to the end-2016 level. Growth in container trade is expected to exceed 5 per cent in the full year 2017, the fastest pace of growth in three years. Meanwhile the containership fleet capacity grew by about 4 per cent, driven largely by continued deliveries of very large boxships. With improved demand, the fleet of idle container vessels came down from 7 per cent a year ago to only 2 per cent at year end 2017. The second-hand containership market was very active in 2017, with increasing prices in most sectors and a record 375 vessels sold, equivalent to 5 per cent of the total fleet. German owners continue to dominate the selling side, with Norwegian, Chinese and Greek investors most active on the buying side.

The CABU vessels are exposed to the clean product tanker market as the main competition on caustic soda COAs and spot cargoes come from standard MR-tankers. In addition, one of the main caustic soda COAs is index linked. The product tanker market was overall weaker in 2017 compared to 2016, especially for the larger product tankers as an effect of the increase in supply of the LR2 fleet. During 2017, the LR2 segment saw a capacity increase by 10 per cent, while the MR and LR1 fleets grew at only half that pace. The result was a gradually decreasing market during 2016, and a relatively flat and weak product tanker market through 2017. Average one year TC rates for these three segments was around 13,000 USD/d for 2017.

4 Financial results

4.1 Results

Gross revenues from operation of vessels ended at USD 326.6 million (USD 261.7 million). The revenues were impacted by improved dry bulk and container markets, but also affected by a weaker tanker market and lower transported caustic volumes. Other revenues were USD 11.7 million (USD 35.5 million).

The company had an EBITDA of USD 27.8 million (USD 44.2 million) and a loss before tax (EBT) of USD 2.1 million (negative USD 58.2 million). The result was affected by positive mark-to-market and disago of in total USD 3.1 million. The net result from financial items was in total negative by USD 7.5 million (negative USD 21.3 million).

At year-end 2017, the consolidated equity including minority interests was USD 260.2 million (USD 261.2 million), corresponding to a book equity ratio of 46 per cent (47 per cent). Book equity excluding minority interests was USD 238.0 million (USD 243.8 million). Interest-bearing debt came down from USD 196.9 million at year-end 2016 to USD 178.3 million at year-end 2017 mainly due to repayment of bond debt in January 2017. Cash and bank deposits were USD 106.8 million at year-end 2017 and in addition Klaveness had available revolving credit facility capacity of USD 62.9 million.

During 2017, Klaveness had a positive cash flow from operating activities of USD 16.7 million (negative USD 4.4 million). The net cash flow from investing activities was negative by USD 44.2 million (positive USD 123.8 million), mainly consisting of USD 42.9 million in payments for vessels under construction and docking. The cash flow from financing activities was negative by USD 16.2 million (negative USD 93.9 million) whereof the main items were repayment of bond debt by USD 21.1 million and, capital injections from minority interest of USD 6.5 million and dividend payments to minority interests of USD 1.4 million.

4.2 Financing and going concern

Klaveness had one loan falling due in 2017. This one ship loan facility was refinanced with the existing bank. In addition, some short-term overdraft facilities were refinanced. Vessel debt of in total USD 11 million falls due in 2018 and will likely be extended with the existing bank. A greater part of the short-term overdraft facilities have in first quarter of 2018 been extended for another year.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of Torvald Klaveness at year-end 2017 to be solid and the liquidity to be good. Bank financing is secured for all vessels, including the three new buildings. Klaveness' current cash flow, existing and committed debt and liquidity position is considered sufficient to cover all approved investments.

There have been no major transactions or events following the closing date that would have a negative impact on the evaluation of the financial position of Torvald Klaveness.

4.3 Risk and risk management

The company's business is exposed to risks in many areas. The Board pays high attention to risk analyses and mitigating actions.

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. The mandates for the chartering and trading activity are regularly tested against extreme scenarios for market development to ensure a high probability that capital and liquidity are sufficient to cover losses.

Torvald Klaveness hedges most of its fuel price risk. To reduce currency and interest rate risk, the company has sold currency forward with maturity in 2018 and 2019. Interest rate exposure is reduced with swaps and open exposure is considered to be low.

Klaveness is exposed to commercial risks, particularly on customer acceptance of the combination carriers. Klaveness has made 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.

Operational risks in the shipping and trading activities are managed through quality assurance, control processes and training of seafarers and land based employees. All employees attend in-house training to ensure companywide compliance with applicable legislation and Klaveness Code of Conduct. Quarterly risk reviews ensure that risks are identified, analysed and managed, and that risk-mitigating actions are executed. The organisation is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

Changes in the political, legislative, fiscal and/or regulatory framework governing the activities of the company could have material impact on the business. To limit this exposure, Klaveness has implemented procedures to comply with all applicable environmental regulations and sanctions legislation, and performs due diligence checks of counterparties.

Vessels operated by Klaveness Ship Management AS 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 2017, the company had three new buildings on order. Klaveness has dedicated on-site personnel who supervise the building processes. There is performance risk associated with the new buildings. A tier one Chinese bank provides refund guarantees and the yard itself is considered to be financially strong.

There were no major unforeseen events of a financial nature during 2017. The liquidity risk of the company is considered to be acceptable. Financing is in place for all newbuildings. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the company's commitments.

5 Business areas

5.1 Combination carriers

The CABU vessels are combination carriers transporting both dry cargo and caustic soda in the Far East, the Middle East, Australia, Brazil and North America. At year-end 2017, the CABU pool consisted of nine CABU vessels after taking delivery of the third and last CABU newbuilding from Zhejiang OuHua Shipbuilding Co. Ltd. in May 2017.

External investors hold 50 per cent share of ownership in four vessels, 19 per cent in one vessel, and further 5 per cent in another vessel.

The pool result weakened in 2017 compared to the last years mainly because of a continued fall in the tanker market and lower transported caustic volumes under the main COAs to Australia. A strengthening of the dry bulk market had a positive effect on the pool results in 2017. Furthermore, higher bunker prices had a similar effect as received ballast bonus payments increased. The vessels were largely employed on long and medium term contracts of affreightment for transportation of caustic soda with customers in the Australian and Brazilian alumina industry. Total caustic soda shipments accounted in 2017 for about 47 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 about 53 per cent of the available vessel days in 2017. The vessels MV Bakkedal and MV Bangor were dry-docked during 2017.

Klaveness also has three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018 and early 2019.

The CABU pool has during 2017 succeeded to continue 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 2017.

5.2 Dry bulk

Torvald Klaveness is an operator in the dry bulk market through AS Klaveness Chartering and pool manager through Baumarine AS and Bulkhandling Handymax AS. The portfolio of AS Klaveness Chartering consists of cargo contracts of affreightment, time chartered period vessels, and freight and fuel derivative contracts.

The first substantial market improvement came in April but vanished quickly and only from September did markets experience a solid recovery. Klaveness managed through a long market position to utilise the strong April market and turned the position in time for the subsequence market drop. Later in the year, weather delays and related extended port stays impacted the results negatively. However, the long position was maintained in the fourth quarter, in a period with increasing dry bulk rates.

Klaveness operates two tonnage spot pools in the dry bulk market. "Baumarine" for panamax, kamsarmax and post-panamax vessels and "Bulkhandling" for handy-, supra- and ultramax vessels. The number of vessels in the pools came down from 49 vessels at year-end 2016 to 37 at the end of 2017. One reason being that with the improved market levels owners saw the possibility to charter their vessels out on period at acceptable levels.

5.3 Drybulk Investments

After the sale of MV Bavang in 2016, this portfolio consists of two TC-in vessels running until February 2020. During 2017, these were managed outside the Dry Bulk portfolio. Both vessels were employed in the Klaveness pools in 2017. The chartered in rates were above spot rates, however, due to improved dry bulk markets the realized losses on the contracts were below the provision made in the 2015 accounts.

5.4 Container

During 2017, 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. With improved market conditions, the average charter rates rose by more than 30 per cent during 2017 and the amount of days without employment came down from 244 in 2016 to 30 in 2017, with no idle days after first quarter. The operating expenses were reduced by 5 per cent, while at the same time maintaining operational quality which continued to meet agreed KPIs.

5.5 Digital

At year-end 2017, the digital product portfolio comprised of two cloud-based software solutions, "CARGO" and "PERFORM" and a data platform capable of storing and processing large amounts of data. The activity was spun out as a separate company, Klaveness Digital AS, with subsidiaries.

In the first half of 2017, Klaveness Digital released the first official version of the logistics platform CARGO, enabling users to track their cargoes in one place. The release attracted several new pilot customers, and at year-end 2017 the total cargo volume registered on the platform exceeded 20 million tonnes.

The PERFORM application has been developed to cater for the needs of ship operators, and was first launched in the second half of 2017. After a test period, the operators in Klaveness use the solution as their primary tool for performance monitoring. In addition, external users are testing the solution, with more than 200 vessels actively being tracked in the solution today. In total 813 vessels have at least one voyage of analysed data in the solution.

6 Organisation

Klaveness had a total of 157 employees located in Oslo, Singapore, Shanghai, Manila and Rio de Janeiro at year-end 2017. All employees were employed in regional Klaveness offices. In Oslo 30 per cent were female, while at the offices in Asia 53 per cent were female. In 2017, one of five managers in Klaveness were female. Absence due to sick leave was satisfactory, averaging 1.99 per cent in 2017. Working conditions for employees are considered to be good.

650 seafarers are employed through manning offices in The Philippines, Romania and South Africa. The retention rate for 2017 was stable at 97 per cent, indicating that Torvald Klaveness can attract and retain qualified seafarers. Torvald Klaveness endeavours to offer all employees, regardless of gender, religion, beliefs or nationality, equal and attractive career opportunities.

The Board of Directors expresses its appreciation of the work done by all the employees during 2017.

7 Outlook

Global economic activity is expected to continue to pick up in 2018. Some of the downside risks being a correction in financial markets, geo-political tensions and protectionism in some countries.

With an expected reduced pace in the delivery of new dry bulk vessels in 2018, the net fleet growth should be low. Combined with quite a positive outlook for industrial production there is potential for increased fleet utilization, and thus higher vessel earnings in 2018. However, there is always a risk of unforeseen political/geopolitical changes which can have a negative effect on demand.

The outlook for the container shipping market has turned from subdued to cautiously optimistic. The strong demand growth from 2017 is expected to be replicated in 2018. However, orders for vessels above 8,000 TEU are picking up, which in turn might impact earnings negatively also for the smaller vessels. Overcapacity in the feeder segment is low and there is potential for close to full employment during the year, indicating further improvements in charter rates and values of such types of tonnage.

8 The parent company

The result for the parent company, Rederiaksjeselskapet Torvald Klaveness, was a profit after tax of USD 13.8 million for 2017 (USD 3.6 million in 2016). The proposed transfer of the profit for the parent company is shown below:

Transfer to other equity USD 13.8 million

Trond Harald Klaveness
Chairman

Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Christian Andersen
Board member

Lasse Kristoffersen
Chief Executive Officer

Oslo, March 21, 2018
The Board of Directors of
Rederiaksjeselskapet Torvald Klaveness

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	NOTE	2017	2016
Gross revenues from operation of vessels	7	326 560	261 685
Voyage related expenses and distribution of pool result	9	(248 549)	(190 032)
Net revenue from operation of vessels		**78 011**	**71 653**
Net income/(loss) from physical and financial freight agreements	6	10 869	2 834
Gain sale of vessels/newbuildings	8	-	31 644
Other operating revenue		792	999
Total operating revenues		**89 672**	**107 130**
Operation of vessels	9	(34 545)	(33 733)
Salaries and social expenses	10, 35	(18 816)	(21 523)
Other operating and administrative expenses	11	(8 532)	(7 616)
Loss on sale of asset	14	-	(99)
Operating expenses		**(61 893)**	**(62 971)**
Operating profit/(loss) before depreciation and impairment		**27 779**	**44 158**
Ordinary depreciation fixed assets	14	(22 359)	(21 204)
Impairment/reversal of impairment fixed assets	14, 15	-	(59 813)
Depreciation and impairment of fixed assets		**(22 359)**	**(81 017)**
Operating profit/(loss)		**5 420**	**(36 859)**
Income/(loss) from associated companies	16	12	(2)
Net interest income/(expenses)	12	(9 466)	(16 672)
Other financial income/(loss)	13	3 975	(4 432)
Net currency gain/(loss)		(2 013)	(206)
Financial income and expenses		**(7 492)**	**(21 313)**
Profit/(loss) before taxes		**(2 072)**	**(58 172)**
Taxes	34	(4 068)	(124)
Profit/(loss) for the year		**(6 140)**	**(58 296)**
Attributable to:			
Majority interest		(5 775)	(49 510)
Minority interest		(365)	(8 786)
Profit/(loss) for the year		**(6 140)**	**(58 296)**

Consolidated balance sheet

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	NOTE	2017	2016
ASSETS			
Fixed assets			
Deferred tax asset	34	11 278	15 040
Total intangible fixed assets		**11 278**	**15 040**
Vessels	14	290 516	274 954
Newbuilding contracts	15	37 652	31 995
Other assets	14	2 908	2 076
Total tangible fixed assets		**331 076**	**309 025**
Investments in associated companies	16	60	38
Pension funds	35	152	189
Other long-term receivables		139	152
Total financial fixed assets		**351**	**380**
Total fixed assets		**342 705**	**324 444**
Current assets			
Bunkers on board vessels	17	38 584	28 357
Accounts receivable	18	29 677	20 827
Prepaid expenses	19	15 232	12 262
Other short-term receivables	20	27 629	19 878
Bonds and bond funds	21	182	-
Cash and bank deposits	22	106 793	150 501
Total current assets		**218 097**	**231 825**
Total assets		**560 802**	**556 269**

Consolidated balance sheet

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	NOTE	2017	2016
EQUITY AND LIABILITIES			
Equity			
Share capital (100 shares of NOK 509 982)		8 154	8 154
Other paid-in equity		49 052	49 052
Total paid-in capital		**57 206**	**57 206**
Other equity		180 762	186 588
Total retained earnings		180 762	186 588
Total equity before minority interests	5	**237 968**	**243 794**
Minority interests		22 217	17 407
Total equity including minority interests	5	**260 185**	**261 201**
Long-term liabilities			
Deferred tax	34	59	-
Pension liabilities	35	572	499
Total provisions		**631**	**499**
Mortgage debt	23	109 105	109 758
Long-term bond loan	24	35 973	34 141
Other long-term interest-bearing liabilities	25	9 971	9 152
Total long-term interest-bearing liabilities		**155 049**	**153 051**
Total long-term liabilities		**155 680**	**153 551**
Current liabilities			
Accounts payable	26	19 596	12 443
Accrued expenses	27	27 538	18 359
Taxes payable	34	395	207
Short-term interest-bearing debt	28	23 204	43 830
Derivatives	21	16 237	21 120
Other short-term liabilities	29	57 967	45 556
Total current liabilities		**144 938**	**141 516**
Total liabilities		**300 617**	**295 067**
Total equity and liabilities		**560 802**	**556 269**

Oslo, March 21, 2018

The Board of Directors of Rederiaksjeselskapet Torvald Klaveness

Trond Harald Klaveness
Chairman

Christian Andersen
Board member

Jan Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

Consolidated cash flow statement

AS OF 31 DECEMBER (USD '000)	2017	2016
Cash flow from operating activities		
Net profit / loss (-) before tax	(2 072)	(58 172)
Taxes paid	(347)	(1 799)
Depreciation, impairment and reversal of impairment	22 359	81 017
Loss / gain (-) on sale of discontinued operations	-	(31 472)
Loss / gain (-) from realisation of vessels and other fixed assets	525	(80)
Loss / gain (-) from associated companies	(12)	2
Unrealized loss / gain (-) on financial instruments	(3 020)	1 173
Amortization of upfront fees bank and bond loans	571	1 421
Refinancing cost	-	1 618
Reversal provisions	-	(1 302)
Other non-cash items	(148)	(497)
Decrease / increase (-) in prepayment to clearing of derivatives	7 374	9 521
Decrease / increase (-) in current assets	(33 160)	9 386
Increase / decrease (-) in current liabilities	24 728	(15 113)
Payments to pension plan	(90)	(61)
Net cash flow from operating activities (1)	**16 709**	**(4 356)**
Cash flow from investing activities		
Investments in vessels and newbuilding contracts	(40 188)	(84 433)
Docking and other investments vessels	(2 685)	(2 642)
Payment received from disposal vessels	-	211 021
Sale/Demerger of subsidiaries (settlement of demerger provision)	(1 310)	-
Decrease / increase (-) in other long-term receivables	13	(114)
Net cash flow from investing activities (2)	**(44 171)**	**123 832**
Cash flow from financing activities		
Increase in mortgage debt	36 890	96 563
Repayment of mortgage debt	(36 783)	(169 735)
Proceeds from bond loan	-	35 273
Repayment of long-term bond loan	(21 099)	(48 299)
Terminated financial instruments	-	(12 708)
Transaction costs on issuance of loans	(409)	(1 542)
Capital injection from minority interest	6 500	11 455
Dividend to minority interests	(1 346)	(4 886)
Net cash flow from financing activities (3)	**(16 247)**	**(93 880)**
Net increase / decrease (-) in cash (1+2+3)	(43 708)	25 595
Cash and cash equivalents at January 1	150 501	124 906
Cash and cash equivalents at December 31	106 793	150 501
Net increase / decrease (-) in cash	**(43 708)**	**25 595**
Specification of cash and cash equivalents:		
Cash and bank deposits	106 793	150 501
Cash and cash equivalents at December 31	**106 793**	**150 501**

Notes

01 Accounting principles

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP). The most significant accounting principles are described below.

Basis of consolidation

The consolidated financial statements include the parent company Rederiaksjeselskapet Torvald Klaveness, and all its subsidiaries. Subsidiaries are all entities in which a parent company directly or indirectly has a controlling interest. Controlling interest is normally gained when such company owns, directly or indirectly, more than 50 per cent of the shares in the company and/or is capable of exercising actual control over the company. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests equal the share of profit/loss and net assets in the subsidiaries held by owners external to the Group. Minority interests are presented in the income statement and in equity in the consolidated balance sheet, separately from the parent shareholders' equity.

The financial statements of all subsidiaries are prepared for the same reporting period as the parent company. Where accounting principles of subsidiaries are different from the principles of the Group, figures are restated in order to be in line with Group accounting principles. All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transferred assets are impaired.

Discontinued operation

The Group's selfunloader vessels were sold in November 2015 and delivered to their new owners in January 2016. Discontinued operations are presented as part of the total operating activities for the whole year 2016. The total results from discontinued operations are presented in note 33.

Business combinations and goodwill

Acquisition of subsidiaries is accounted for using the purchase method. Under the purchase method of accounting the cost of the business combination is allocated to the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the net of identifiable assets acquired and liabilities assumed. Goodwill arising from the acquisition of subsidiaries is classified as an intangible asset. Goodwill arising from the acquisition of an interest in an associated company is included under the investment in associated companies. For valuation, refer to the principle concerning the valuation of intangible assets.

For business combinations that occur in stages by successive share purchases, the fair value of the acquired entity's assets and liabilities, including goodwill, are measured on the date that control is obtained. If the value of previously held shares has increased at the control date, the increase constitutes an added value or goodwill that is booked directly in equity. If the value of previously held shares has decreased, this is accounted for as impairment. Only goodwill for the majority is recognised in the financial statements.

Classification of assets and liabilities

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. Assets intended for permanent ownership or use and receivables with maturities exceeding one year from the balance sheet date are presented as fixed assets. 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 liabilities in the balance sheet.

Valuation of tangible assets and liabilities

Non-financial fixed assets are stated at historical cost, less subsequent depreciation and impairment.

Tangible assets with a limited useful life are depreciated according to a depreciation schedule based on best estimates of expected useful life and taking into account each asset's wear, tear and age. The useful life of a vessel is normally set to 20 or 25 years. Tangible assets are impaired when the carrying value of the asset exceeds the recoverable amount, and it is expected that the decline in value is not temporary. The recoverable amount is defined as the higher of net sales value and value in use. The value in use is determined by reference to the discounted future net cash flows expected to be generated by the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels at which there are separately identifiable cash flows. Each vessel/ newbuilding contract is considered as one identifiable cash flow, except from the cabu vessels, where the whole fleet is considered one cash generating unit.

Newbuilding contracts (vessels under construction) are capitalized in line with the payments to the yard. In addition to contractual payments, inspection costs, interest expenses and other expenses during the construction period are capitalized. To the extent vessels under construction are financed through equity until delivery, interest on such funding is neither computed nor capitalised.

Current assets are valued at the lower of cost and net realisable value. Accounts receivable are related to operations and consist of trade receivables, other short-term receivables and prepayments. For valuation of receivables, see section “Receivables”.

Loans are recognised at cost (the fair value of the consideration received) net of transaction costs associated with borrowing.

Accounts payable are liabilities related to operations (trade creditors, unpaid public taxes and charges, vacation pay etc.) and other short-term payables. All these items represent interest free liabilities.

In accordance with the Norwegian Accounting Act, some items are valued according to special valuation rules. A more detailed presentation of these is provided under each principle below.

Valuation of intangible assets and liabilities

Intangible assets with a limited useful life are depreciated according to a depreciation schedule which has been determined based on best estimates of expected useful life. Intangible assets are written down to the recoverable amount if it is expected that the decline in value is not temporary. The recoverable amount is defined as the higher of net sales value and value in use. The value in use is determined by reference to the discounted future net cash flows expected to be generated by the asset given that the asset is to be held by current owner under current conditions.

Estimates and assumptions

Preparation of financial statements according to generally accepted accounting principles requires management to use estimates and assumptions that affect the profit and loss account and the valuation of assets and liabilities, and requires disclosure of information about liabilities that, as of the balance sheet date, are not yet certain. Actual figures will generally differ from such estimates. Conditional losses which are likely to occur and which are quantifiable are expensed on a current basis. The Group uses estimates and assumptions in connection with the calculation of pension liabilities, the determination of accruals for contract losses and for losses on receivables, the calculation of risks related to contract fulfillment and the determination of fair market value for the purpose of assessing added values as well as impairment of assets.

Revenue recognition

The Group generates most of its revenues from shipping activities.

Gross revenues from operation of vessels comprise both gross voyage revenues from the pools operated by the Group, income from vessels owned by the Group and earnings from vessels on time charter-in contracts. Vessels owned by the Group are either operated under time charter contracts or performing contracts of affreightment. The time charter contracts are both with third parties and with pools.

Income from vessels

The Group recognises voyage revenues and expenses on a pro rata basis over the estimated length of each voyage, discharge-to-discharge. At the time of discharge, management normally knows the next load port and expected discharge port, so that the discharge-to-discharge calculation of voyage revenues and expenses can be estimated with a reasonable degree of accuracy. For vessels without contracts in place at discharge, no revenue is recognised until a new contract is entered into. Voyage related expenses incurred for vessels in idle time are expensed. Revenues from time charters and bareboat charters accounted for as operating leases are recognised over the time when the services are performed. Demurrage and dispatch are taken into account if it is probable that a claim will occur.

Pool income

The pools in the Group generate their results by operating pool vessels in the market, as well as by conducting market operations. Market operations comprise contracts of affreightment, time charters, and forward freight agreements. Forward freight agreements are used to hedge a portion of the spot days in the pools, refer to the principle concerning hedging below.

For vessels operating in chartering pools, revenues and voyage expenses are pooled and allocated to each pool participant on a time charter equivalent basis in accordance with an agreed-upon formula, such that the net result of the pools, less service revenues, is zero. Total revenues, expenses, assets and liabilities of the pools operated by the Group are included line by line in the consolidated financial statement.

Other income

Gains and losses arising from sales of tangible assets are presented as part of the operating profit or loss.

Other income is recognised when it is earned (the earned income principle).

Financial investments

Subsidiaries as defined above are consolidated in the Group accounts on a 100 per cent basis. Joint ventures are companies whose activities represent an integrated part of the Group’s core activities, and for which the activities are regulated by contractual agreements between two or more participants that have joint control of the activities, and in which the Group’s ownership share is between 20 per cent and 50 per cent. These investments are accounted for in the Group accounts according to the proportionate consolidation method. Associated companies are defined as entities in which the Group has significant influence, but that are not subsidiaries or joint ventures. Significant influence usually means a shareholding or ownership interest of at least 20 per cent of the voting rights in the entity. Investments in associated companies are recognised in the Group accounts according to the equity method. Other long-term investments are stated according to the cost method. Short term investments are valued at the lower of cost or fair market value.

In the parent company accounts, all long-term investments are stated according to the cost method, while short-term investments are valued at the lower of cost or fair market value.

Investments in financial current assets

Financial current assets, listed shares and bonds included in a trading portfolio and traded on a regular basis, are recorded at market value. Short-term liquid investments defined as cash equivalents are financial instruments that can be converted at any time into a known amount of cash and have a maximum maturity of three months.

Periodic maintenance

The cost of periodic maintenance and docking of vessels is capitalised and depreciated over the period until the next docking, normally 30 months. Correspondingly, a part of the cost price of vessels acquired is separated for depreciation purposes and capitalised as docking. Expenses for current maintenance are charged to operating profit or loss whenever such maintenance takes place. Depreciations of docking are included in ordinary depreciations; and docking is classified along with the relevant vessel in the balance sheet.

Leasing agreements

Leasing agreements are classified as operating leases or financial leases according to the terms of the agreement.

A leasing agreement is classified as an operating lease when the lessor has most of the economic benefits and risks associated with the underlying asset. Operating leases are expensed on a straight-line basis over the leasing period.

Leasing agreements are classified as financial leases when the main share of the economic benefits and risks associated with the underlying asset is with the lessee. The Group does not have any financial leasing agreements.

Derivatives

The Group uses a set of financial instruments (such as forward freight agreements, fuel swaps, foreign currency contracts and interest rate derivatives contracts) either to manage financial risks (hedging or non-hedging) or within given mandates to maximise profit (non-hedging). The purpose of the derivatives determines which accounting principle is applied.

Hedging

A hedging instrument is an instrument whose fair value or cash flows are expected to offset changes in the fair value or cash flows of an underlying object (asset/liability). Cash flow hedges are recorded in the profit and loss account in the same period as the cash flow from the associated asset or physical contract. Fair value hedges are reflected in the book value of the underlying asset, and gains or losses in the fair value of the hedging instrument are recognised immediately in the profit and loss account.

Non-hedging

Foreign currency contracts not considered as hedging are measured at fair market value. All other derivatives entered into for non-hedging purposes are recorded at the lower of historical cost or fair market value.

Physical and financial freight contracts

Physical and financial freight contracts entered into for the purpose of achieving gains through short-term fluctuations in market rates are managed and valued as a single portfolio. The portfolio is valued at the lower of acquisition cost and fair market value. Both physical and financial freight contracts are valued against the forward curves as of 31 December. The fair market value of these contracts also includes estimated future losses due to counterparty risk. Loss provisions are made to the extent that the fair market value of the portfolio is negative. Any positive value exceeding acquisition cost is not recognised. Fuel swaps in the trading portfolio are recognised separately at fair value.

Income tax
(for companies within the Norwegian tonnage tax system)

Operating profits related to shipping activities accepted within the Norwegian tonnage tax system are subject to tax exemption.

Income tax is paid on net financial income. In addition the Group pays tonnage tax based on net tonnage of vessels. This tax is classified as a vessel operating expense in the profit and loss account.

Income tax
(for companies under ordinary taxation rules)

Tax expenses in the profit and loss account comprise the sum of tax payable for the year and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are calculated at 23 per cent on the basis of existing temporary differences between accounting profit and taxable profit together with tax deductible deficits at year-end. Temporary differences, both positive and negative, are balanced out within the same period. Deferred tax assets are recognised in the balance sheet only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

Foreign currency

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

Transactions in currencies other than the functional currency are translated into functional currency using the exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are translated into functional currency using the exchange rate in effect on 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 recognised at fair value are translated using the exchange rate on the date of the determination of the fair value.

Where the functional currency of consolidated entities differs from the functional currency of the Group, income statements are translated into USD using the average exchange rate for the year. Exchange differences arising on the translation are recognised directly in equity. On disposal of foreign operations, the accumulated exchange gain/loss recognised in equity relating to that particular foreign operation is recognised in the income statement.

Income and expenses in NOK are converted at the rate of exchange on the transaction date. The average exchange rate was 8.2734 in 2017 (2016: 8.4044). At year-end 2017, an exchange rate of 8.2411 (2016: 8.6456) was used for the valuation of balance sheet items.

Receivables

Short-term trade receivables are recorded at their nominal value less provisions for bad/doubtful debt, as an approximation of their fair value. The Group regularly reviews its accounts receivable, estimates the amount of unrecoverable receivables each period and establishes an allowance for unrecoverable amounts. The amount of the allowance is based on the age of unpaid amounts, information about the current financial strength of customers, and other relevant information.

Provisions for losses on receivables more than 90 days past due are recorded at 50 percent of their nominal value. The 50 percent rate has been arrived at based on experience. Further, provisions are recorded for major unpaid receivables (defined as receivables in excess of USD 100,000) based on individual assessments.

Bunker inventories
Inventories, which consist primarily of bunker fuel and lubrication oil, are stated at cost. Cost is determined on a first-in, first-out (FIFO) basis. Bunkers is recognised in the balance sheet when the Group has legal ownership of the stock. On short term time charter contracts, ownership remains with the vessel owner when vessels are hired in. Instead of transferring ownership of the bunkers, the vessels are to be returned to the owner at the end of the contract period with the same amount of bunkers onboard.

For time charter-in vessels that are hired out on time charter-out contracts, bunkers onboard the vessel at the time of hiring out is recognised as bunkers (if legal ownership is established), although some of this may have been consumed at the balance sheet date. Torvald Klaveness has legal ownership of the bunkers onboard vessels in the pools.

Bunkers are considered to be materials used for execution of voyages. These are not written down below cost if the voyage result where the bunkers are consumed is positive. However, when a decline in the price of bunker stock indicates that the voyage result turns negative, the bunker stock is written down to net realizable value.

Related parties
Transactions with related parties are conducted at arm's length on market terms. Related parties are defined to include the Group's top management, the Board of directors and stockholders of Rederiaksjeselskapet Torvald Klaveness, as well as the ultimate owners of the Group and any other companies that the ultimate owners control.

Provisions for contingent liabilities
A contingent liability is recognised once the Group has a legal or actual financial liability that is likely to be paid at a future date and the amount of the liability can be reliably estimated. Restructuring costs are recognised once the decision to implement such measures has been made and announced. The amount of the provision is the estimated expense of the restructuring. Estimated expense is valued at discounted expected future cash flows. Expected future cash flows are discounted by a pre-tax risk-free interest rate, with the addition of a risk premium to reflect any uncertainty associated with the allocation.

Pensions
All current employees in the Group have a defined contribution plan. In addition, two persons hold a defined benefit plan. In 2017, all but one retired or disabled persons which was included in the old defined benefit plan have received paid-up policies. All the pension plans in the Group are in compliance with local laws and regulations.

A defined contribution plan is one under which the Group pays fixed contributions to a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pay contributions to publicly or privately administered pension insurance plans on an obligatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as a payroll expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is one which is not a defined contribution plan. This type of plan typically defines an amount of pension benefit an employee will receive on retirement, normally dependent on one or more factors such as age, years of service and pay.

The asset recognised in the balance sheet in respect of the defined benefit plan is the surplus in one of the plans which will be realized when the plan is fully terminated. The liability recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates proposed by "Norsk Regnskapsstiftelse" (NRS). The pension obligation is calculated annually by independent actuaries using a straight-line earnings method.

Individual agreements between the Group and the employee, resulting in an early retirement scheme, is treated in the financial statements as a contribution based pension scheme in which the total premium payments for the period up to the age of 67 are recognized as a pensions cost at the time of signing the contract.

Currency gain/loss related to net pension assets is presented as part of the pension costs.

Cash flow statement
The cash flow statement is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

Events after the balance sheet date
The values of assets and liabilities that are recorded in the balance sheet may be based on assumptions and uncertainties. Events that occur after the balance sheet date and that result in new information that leads to a reassessment of an item of asset or liability, are accounted for accordingly. Examples of such events after the close of the balance sheet date are legal decisions, payments and settlements received from customers, final determination of bonuses and other performance-dependent remuneration.

02 Subsidiaries, joint ventures and associated companies

Torvald Klaveness comprises several subsidiaries, joint ventures and associated companies.

Subsidiaries are all entities in which a parent company directly or indirectly has a controlling interest. Subsidiaries are fully consolidated from the date of acquisition. Where accounting principles of subsidiaries are different from the principles of the Group, figures are restated in order to be in line with Group accounting principles.

The Group has a 50 % share in Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS. The subsidiaries are considered as a controlling interest in which Rederiaksjeselskapet Torvald Klaveness (the Group) indirectly through its agreements are capable of exercising control over the companies.

Joint ventures are companies whose activities represent an integrated part of the Group's core activities, and for which the activities are regulated by contractual agreements between two or more participants that have joint control of the activities, and in which the Group's ownership share is between 20 % and 50 %. Joint ventures are recognised according to the proportionate consolidation method.

Associated companies are entities in which Torvald Klaveness has significant influence, but that are not subsidiaries or joint ventures. Significant influence usually means a shareholding or ownership interest of at least 20 % of the voting rights in the entity. Investments in associated companies are recognised according to the equity method.

Unless otherwise stated, the companies are located in Oslo, Norway.

COMPANY NAME	OWNERSHIP INTEREST PER 31 DEC, 2017	OWNERSHIP INTEREST PER 31 DEC, 2016
Klaveness Asia Pte Ltd. (Singapore)	100 %	100 %
Antarctica Shipping Pte Ltd. (Singapore)	100 %	100 %
Baumarine AS	100 %	100 %
Bulkhandling Handymax AS	100 %	100 %
T Klaveness Shipping AS	100 %	100 %
Banasol, Inc. (Monrovia, Liberia)	50 %	50 %
Cabu Bangor, Inc. (Monrovia, Liberia)	100 %	100 %
Banastar, Inc. (Monrovia, Liberia)	50 %	50 %
Cabu V Investment Inc. (Monrovia, Liberia)	95 %	95 %
Cabu VI Investment Inc. (Monrovia, Liberia)	81 %	81 %
Baffin Shipping AS	50 %	50 %
Ballard Shipping AS	50 %	50 %
Klaveness Ship Holding AS	100 %	100 %
Klaveness Cement Logistics AB (Stockholm, Sweden)	100 %	100 %
AS Klaveness Chartering	100 %	100 %
Klaveness Shipping (Shanghai) Co. Ltd. (Shanghai)	100 %	100 %
Klaveness Shore Services Inc. (Manila, Philippines)	100 %	100 %
Cabu Chartering AS	100 %	100 %
Klaveness Ship Management AS	100 %	100 %
Bulktransfer, Inc. (Monrovia, Liberia)	100 %	100 %
Guinomar (Conakry, Guinea)	50 %	50 %
Klaveness Finans AS	100 %	100 %
Klaveness AS	100 %	100 %
Klaveness Bulk AS	100 %	100 %
Klaveness Container AS	82.7 %	82.7 %
Klaveness Brasil Representacao de Servicos Maritimos LTDA (Rio de Janeiro, Brazil)	100 %	100 %
Joint ventures:		
Barklav (Hong Kong) Ltd.	50 %	50 %
Associated companies:		
Klaveness Maritime Agency Inc.	24.96 %	24.96 %

03 Major and subsequent events

2018: Subsequent events

There are no subsequent events that are material to the the consolidated financial statement of the Group.

2017: Major events

Newbuildings

The third combination carrier, MV Ballard, was delivered in May 2017 from Zhejiang Ouhua Shipbuilding in China.

Financing

In connection with the new bond issue in 2016, the Group repaid the existing bond issue KSH01 of NOK 184 million in January 2017 (note 24).

USD 15.0 million of the revolving credit facility for the container vessels was repaid in February 2017. After the repayment the drawn amount is USD 15.0 million and unutilised capacity is USD 63.0 million.

The loan facility for MV Bantry was refinanced in March 2017 (note 23).

2016: Major events

Newbuildings

The Group took delivery of two cabu newbuildings from Zeijiang OuHua Shipbuilding Co. Ltd. during the last four months of 2016. The third and last cabu vessel is expected to be delivered in the second quarter of 2017. EGD Shipholding AS joined as 50 per cent partner in two of the in total three combination carriers.

Sale of MV Bavang

The kamsarmax vessel MV Bavang was delivered in February 2016 and sold with delivery to new owners in December 2016. A loss of USD 0.1 million was recognized in 2016. Debt related to financing of Bavang (USD 12.4 million) was repaid in December 2016.

Financing

In December 2016, Klaveness Ship Holding AS (the Issuer) issued a new senior unsecured bond of NOK 300 million with maturity in May 2021 (KSH03). In connection with the new bond issue, the Group repaid the existing bond issues KSH02 and KSH01 in December 2016 and January 2017 respectively. Hence, total bond debt was reduced by NOK 290 million, final maturity was extended and financial covenants aligned with covenants in relevant bank facilities.

Loan facilities secured by the Group’s eight container vessels with maturity in 2018 and 2019 were refinanced in December 2016. The new facility is a revolving credit facility secured by all eight vessels and a maximum limit of USD 84.9 million.

A bank loan to part finance the three newbuildings with delivery in 2018/2019 was entered into in July 2016.

Impairments

The container market weakened further in 2016 resulting in an impairment of USD 58.5 million in total for the eight container vessels in 2016.

04 Operational and financial risks

Torvald Klaveness operates globally and in a capital intensive industry subject to strong business cycles and volatility in underlying markets. The Group is exposed to both operational and financial risks.

Operational risks

Operational risks are mainly related to the operation of vessels under the management of Klaveness Ship Management AS, to the execution of cargo contracts and time charter contracts in AS Klaveness Chartering, and to the management of spot pools. Vessel management is governed by quality procedures that reflect the requirements of IMO, flag states and port states. Quality and safety audits are performed at regular intervals and significant effort is put into the training of seafarers to comply with standards. Operational risk is managed through insurance procedures and systematic training of seafarers and land based employees to cover risks such as piracy, health and safety, environmental risks, off hire and accidents. All vessels sailing through piracy exposed areas take necessary steps to mitigate the threat of such attacks. The vessels are insured for loss of hire, protection and indemnity (P&I), and complete loss (hull and machinery).

The chartering and trading and pool management activity is governed by well-defined and board approved mandates, management procedures and reporting requirements.

Financial risks

Financial risks may be divided into market-, counterparty-, interest rate-, currency-and liquidity risks.

Market risk

Shipping market risks are generated by several activities in Torvald Klaveness. Ownership of vessels involves risks related to vessel values, future vessel employment, freight rates and costs. These risks are partly managed through time charter contracts for the container segment and contracts of affreightment (COA) and forward freight agreements (FFAs) for the combination carrier segment. The total contract portfolio covers a large part of the vessel capacity for nearby 12 months for the aforementioned business areas. The trading of physical and financial freight contracts, which includes COAs, TCs and FFAs, conducted by AS Klaveness Chartering, involves risks related to movements in the overall market price levels, as well as to the correlation between sub-markets; in particular the spread between the Atlantic and Pacific basins. These risks are monitored on a daily basis, and managed according to scenario based mandates and kept within market- and liquidity risk limits defined by the board.

Market risk also includes reduced ability to transact cost efficiently in the markets Torvald Klaveness operates in due to illiquidity. For the container segment, this creates the risk of idle days, and for the other segments potentially reduces the ability to adjust any open market exposure within short time frames at reasonable market levels.

Credit and counterparty risk

Counterparty risk is generated by service deliveries to customers and by transacting in freight and charter agreements, as well as by investments in vessels employed on time charter contracts to other ship owners. All counterparties are credit rated and corresponding exposure limits are defined and monitored per counterparty. Provisions against expected future losses are made. Full provisions are made against counterparties that default on their payment obligations. A provision for losses on other outstanding amounts is made based on age and individual evaluations of each item. FFAs and bunker oil hedges are entered into with clearing providers and investment grade OTC counterparts, with some minor exceptions.

Further, Torvald Klaveness is exposed to credit risk through its deposits. Deposits are made with financial institutions/banks that have a public A rating or higher.

At the end of 2017, the Group had two newbuildings expected to be delivered in second half of 2018 and one newbuidling to be delivered in 2019. There is yard delivery risk for the vessels, which is reduced with refund guarantees from tier one Chinese banks. In addition, after delivery of the vessels, there is performance risk on the yard in the guarantee period.

Foreign exchange risk

Torvald Klaveness' functional currency is USD. Some of the cash, bank deposits, bond debt and debt to related parties are denominated in NOK. Currency risk and interest rate risk exposure related to the bond issued in NOK is reduced by two cross currency interest rate swaps (note 21). Torvald Klaveness' income is mainly in USD, while some costs also are in NOK, EUR, CNY, AUD and some other currencies. At year-end 2017, the Group had a currency forward portfolio of NOK 167 million and AUD 1.8 million. The currency forward contracts were entered into based on board mandates. NOK 128 million and AUD 1.8 million of the contracts mature in 2018 and the remaining NOK 39 million mature in 2019. The transactions had a positive result of USD 0.5 million in 2017, including change in MtM. Both open positions related to NOK costs, balance sheet positions in NOK and the currency futures are exposed to USD/NOK movements.

The financial assets and liabilities have the following currency distribution:

Financial liquid assets nominated in USD	USD	96 mill.
Financial liquid assets nominated in other currencies	USD	10 mill.
Interest-bearing debt in USD	USD	130 mill.
Interest-bearing debt in other currencies	USD	10 mill.
Bond loan (denominated in NOK)	USD	36 mill.

Interest rate risk

Interest risk is related to interest-bearing investments and borrowings. Torvald Klaveness to some extent manages these positions on a net basis and positions have been taken in Klaveness Container AS, T Klaveness Shipping AS and Klaveness Ship Holding AS to reduce the exposure. At year-end 2017, approximately 77 % of the floating interest bearing debt was fixed through interest rate swap agreements. The total mark-to-market value of interest rate swaps was per December 31, 2017 negative by USD 16.2 million, including interest rate cross currency swaps for bond loans (all relating to non-hedging swaps and hence fully recognized in the balance sheet). The effect on profit in 2017 is positive of USD 3.9 million, reflecting a positive development in the mark-to-market value.

Cash liquidity risk

Liquidity risk is impacted by current cash balance, market and credit risk. Torvald Klaveness keeps its liquidity reserves mainly in bank deposits, as time deposit and from time to time in money market funds with high liquidity. The time horizon of these deposits depends on the underlying forecasted need for liquidity in the Group. The liquidity risk is considered to be limited, as the portfolio is well diversified and in liquid assets such as on accounts and time deposits. Deposits are executed with banks with public rating of A or higher.

Torvald Klaveness has a diversified external funding base consisting of strong Nordic shipping banks and bond financing. Bank loans have been secured for all newbuildings on order. Mortgage debt related to the Banasol and Banastar facility falls due in April 2018 and is expected to be rolled forward with current lender. No other debt falls due in 2018. The Group's liquidity reserves are considered to be adequate for all needs in the foreseeable future.

05 Equity

(USD '000)	SHARE CAPITAL	OTHER PAID-IN CAPITAL	OTHER EQUITY	TOTAL EQUITY EXCLUDING MINORITY	MINORITY INTERESTS	TOTAL EQUITY INCLUDING MINORITY
Equity 1 January 2016	8 154	49 052	236 309	293 515	19 624	313 139
Profit for the year			(49 510)	(49 510)	(8 786)	(58 296)
Dividends to minority interest				-	(4 886)	(4 886)
Capital contributions from minority interests				-	11 455	11 455
Adjustment investment in joint ventures			(211)	(211)	-	(211)
Equity 31 December 2016	8 154	49 052	186 588	243 794	17 407	261 201
Profit for the year			(5 775)	(5 775)	(365)	(6 140)
Dividends to minority interest				-	(1 346)	(1 346)
Capital contributions from minority interests				-	6 500	6 500
Other changes			(52)	(52)	21	(31)
Equity 31 December 2017	8 154	49 052	180 760	237 966	22 217	260 185

SHAREHOLDERS	OWNERSHIP	SHARES
THK Holding AS	30,0 %	3 000
THK Partner AS	25,6 %	2 560
MMK Holding AS	22,0 %	2 200
JWI Holding AS	22,0 %	2 200
B7 Invest AS	0,4 %	40
TOTAL	**100 %**	**10 000**

06 Physical and financial freight agreements

The Group via its subsidiary AS Klaveness Chartering takes positions through physical and financial freight contracts including time charter agreements, forward freight agreements, contracts of affreightment and options. The positions in physical and financial freight agreements are managed as one portfolio, with the exception of two longer-term TC-in contracts for MVs Xenia and Oslo Venture, which is considered a strategic dry bulk exposure. The portfolio is managed within a given trading mandate regulating market and liquidity risks with maximum exposure limits. Limits and exposures are supervised on a daily basis. The derivative portfolio mainly consists of cleared forward freight agreements, some over-the-counter agreements with investment grade institutions and negligible positions with non-investment grade counterparts. All physical and financial contract counterparties are rated in-house and given a designated credit exposure limit.

AS Klaveness Chartering's portfolio of physical and financial freight agreements falls due in the period 2018-2022. The expected credit loss corresponding to these contracts was USD 2.3 million at year-end 2017 (USD 4.3 million at year-end 2016). The net portfolio value adjusted for statistically estimated losses is positive, therefore no accounting provisions have been made.

The mark-to market value of the portfolio from year-end 2017 and forward had, assuming no credit risk, a total positive value of USD 10.0 million (2016: USD 13.9million). This is based on a valuation of each separate contract's cash flow relative to the forward market in the relevant contract periods, which is aggregated and discounted using the USD swap interest curve. Forward market prices per 31 December 2017 were used in this valuation. The net mark-to-market value of the trading portfolio, after deducting the statistically estimated counterparty losses, was thus positive by USD 7.7 million (2016: USD 9.6 million).

(USD '000)	2017	2016
Result from physical and financial freight agreements	10 869	2 834
Net result from physical and financial freight agreements	**10 869**	**2 834**

The physical contracts include time charter-in contracts, which effectively are operational vessel leases. However, the income on these non-balance sheet assets are not treated separately from other portfolio income. These contracts, together with other physical and financial contracts are managed as one portfolio and hence accounted for as such. The Group has 13 ship-years of time charter-in contracts with maturity below 1 year, and 4 ship-years of time charter-in contracts with maturity between 1 and 3.5 years. The average daily lease rate is USD 10 200, in addition we have 3 ship years with index based lease rate.

07 Revenue from vessels

Torvald Klaveness operates in an international market where the various geographical areas are connected. The fleet has the flexibility to operate in all markets and are employed in a comprehensive pattern inside and between the regions in order to optimise income. Consequently, Torvald Klaveness' operating shipping activities are not attributed to specific geographical markets.

GROSS REVENUE FROM VESSELS ('000)	2017	2016
Pools:		
Panamax	129 120	89 820
Handymax	74 242	63 836
Total	**203 362**	**153 656**
Own vessels:		
Combination carriers	100 291	85 906
Selfunloaders	-	1 069
Bulk vessels	13	1 924
Container vessels	22 894	19 129
Total	**123 198**	**108 029**
Total gross revenue from vessels:	**326 560**	**261 685**

Combination carriers are operated in a pool fully owned by Torvald Klaveness. Revenues are presented as gross revenue from the pool. Revenues from selfunloaders and container vessels are presented as net revenue.

08 Gain sale of vessels/newbuilding

USD ('000)	2017	2016
Gain sale of vessels	-	31 472
Gain sale of newbuilding contracts	-	171
Gain sale of vessels/newbuildings	**-**	**31 644**

Gain sale of vessels of USD 31.5 million in 2016 relates to sale of five selfunloader vessels (note 33).

09 Voyage related expenses and operation of vessels

(USD '000)	2017	2016
Pools:		
Panamax	(123 567)	(84 762)
Handymax	(70 941)	(59 981)
Total expenses pools	**(194 508)**	**(144 743)**
Own vessels:		
Combination carriers	(72 485)	(57 768)
Selfunloaders	-	(229)
Container vessels	(15 965)	(16 806)
Bulk vessels	(137)	(1 623)
Total expenses own vessels	**(88 586)**	**(76 425)**
Total voyage related expenses and operation of vessels	**(283 094)**	**(221 169)**
Voyage related expenses (including distribution of pool result)	(248 549)	(190 032)
Operation of vessels	(34 545)	(33 733)
Total voyage related expenses and operation of vessels	**(283 094)**	**(223 765)**

All operating expenses of pool vessels are voyage related. Expenses include distribution of net result to the pool participants, but exclude pool management fee paid within Torvald Klaveness.

Combination carriers are operated in a pool fully owned by Torvald Klaveness. Expenses include voyage related expenses and non-voyage related vessel operating expenses.

Selfunloader vessels were operated by an external pool. All voyage related expenses are carried by the pool, and expenses mainly consist of non-voyage related vessel operating expenses. Voyages carried out outside the pool may generate voyage related expenses.

Container vessels are employed on time charter contracts, where the charterer carries all voyage related expenses.

10 Salaries, social expenses and remuneration

(USD '000)	2017	2016
Wages	(14 596)	(15 966)
Restructuring charge	-	(881)
Benefits and insurance	(1 149)	(1 229)
Employer's social security contributions	(1 337)	(1 376)
Net pension cost	(1 024)	(1 012)
Welfare expenses	(710)	(1 058)
Total salaries and social expenses	**(18 816)**	**(21 523)**
Average number of man-years (on-shore Oslo)	72	77
Average number of man-years (on-shore abroad)	84	74

Crew for the Torvald Klaveness fleet is hired through manning offices in Manila, Constanta and Cape Town. The Group has on hire an average of 700-800 seafarers (variations through the year). Salaries to crew on the vessels are presented as part of operation of vessels and voyage related expenses.

(USD '000)	2017	2016
Remuneration to the Board of Directors	(255)	(227)
Remuneration to the Chief Executive Officer [1)]	(485)	(470)

1) incl. salaries and pension cost

In 2017, Trond Harald Klaveness received a compensation of USD 75 thousand for his work as senior advisor, in addition to the remuneration of USD 89 thousand for carrying the position as Chairman of the Board. The employment of the Chairman of the Board has no time limit.

The CEO has through his private company, B7 Invest AS aquired 10 shares (0.1 %) in Rederiaksjeselskapet Torvald Klaveness in 2016. The price of the shares was based on fair value, and 85 % of the amount was given as a seller's credit, with interest rate based on market terms .

There are no post-employment benefit agreements.

11 Other operating and administrative expenses

(USD '000)	2017	2016
Administrative expenses [3]	(6 037)	(6 114)
Outsourcing, consultancy and legal fees	(1 054)	(1 184)
Audit fee [1]	(291)	(324)
Other services from auditor [1]	(133)	(106)
Other operating expenses	(1 017)	(887)
Provisions/reversals of provisions [2]	-	1 000
Total other operating expenses	**(8 532)**	**(7 616)**

[1] Excluding VAT

[2] Reversal of provision of USD 1.0 million in 2016 relates to reversal of one provision due to reduction of counter claim guarantee (USD 0.5 million) and removal of one provision as no action has been taken from counterpart since 2010.

[3] Includes project costs of USD 1.1 million related to the digital projects that have been recognised through income statement in 2017 (2016: USD 1.5 million).

12 Interest income and expenses

(USD '000)	2017	2016
Interest income	933	772
Mortgage interest expenses [1]	(9 828)	(16 023)
Other interest income/(expenses)	(571)	(1 421)
Net interest income/(expenses)	**(9 466)**	**(16 672)**

[1] Including effect of interest rate hedging

13 Other financial income and loss

(USD '000)	2017	2016
Realised gain / (loss) financial instruments	191	(1 255)
Unrealised gain / (loss) financial instruments	4 932	(1 152)
Other financial income	-	5
Other financial expenses	(1 148)	(2 030)
Net other financial income/(loss)	**3 975**	**(4 432)**

14 Tangible fixed assets

2017 (USD '000)	COMBINATION CARRIERS	CONTAINER VESSELS	OTHER ASSETS	TOTAL FIXED ASSETS
Cost 1 January 2017 - vessels/other assets	274 531	270 699	20 484	565 714
Cost 1 January 2017 - docking	13 800	7 996	-	21 796
Delivery of newbuildings	34 431	-	-	34 431
Additions	3 012	31	1 310	4 354
Disposals	(3 114)	-	(4 181)	(7 295)
Cost 31 December 2017 - vessels/other assets	308 963	270 699	21 794	601 455
Cost 31 December 2017 - docking	13 698	8 027	-	21 725
Accumulated depreciation 31 December 2017	(143 233)	(40 806)	(14 090)	(198 129)
Accumulated impairment 31 December 2017	-	(126 830)	(616)	(127 446)
Net book value 31 Dec 2017 - vessels/other assets	173 325	110 023	2 908	286 256
Net book value 31 December 2017 - docking	**6 102**	**1 066**	**-**	**7 168**
Net book value 31 December 2017 - total	**179 427**	**111 089**	**2 908**	**293 424**
Depreciation for the year, 2017 - vessels/other assets	(13 973)	(3 889)	(478)	(18 341)
Depreciation for the year, 2017 - docking	(2 894)	(1 124)	-	(4 018)
Total depreciation 2017	**(16 867)**	**(5 014)**	**(478)**	**(22 359)**
Impairment for the year, 2017	-	-	-	-
Number of vessels by the end of 2017	9	8	-	17
Average useful life	20	25	-	23
Average remaining useful life	10	19	-	15

2016 (USD '000)	KAMSARMAX	SELF-UNLOADERS[1]	COMBINATION CARRIERS	CONTAINER VESSELS	OTHER ASSETS	TOTAL FIXED ASSETS
Cost 1 January 2016 - vessels/other assets	-	223 426	196 733	270 699	20 296	711 154
Cost 1 January 2016 - docking	-	9 205	13 353	7 996	-	30 554
Delivery of newbuildings	20 147	-	77 798	-	-	97 945
Book value vessels sold	(18 600)	(158 504)	-	-	-	(177 104)
Additions	-	-	2 611	31	356	2 998
Disposals	-	(74 128)	(2 164)	-	(168)	(76 460)
Cost 31 December 2016 - vessels/other assets	-	-	274 531	270 699	20 484	565 714
Cost 31 December 2016 - docking	-	-	13 800	8 027	-	21 827
Accumulated depreciation 31 December 2016	(394)	-	(129 480)	(35 793)	(17 792)	(183 460)
Accumulated impairment 31 December 2016	(1 151)	-	-	(126 830)	(616)	(128 597)
Net book value 31 Dec 2016 - vessels/other assets	-	-	153 252	113 912	2 076	269 240
Net book value 31 December 2016 - docking	**-**	**-**	**5 599**	**2 190**	**-**	**7 789**
Net book value 31 December 2016 - total	**-**	**-**	**158 852**	**116 102**	**2 076**	**277 030**
Depreciation for the year, 2016 - vessels/other assets	(311)	-	(10 233)	(5 867)	(665)	(17 077)
Depreciation for the year, 2016 - docking	(83)	-	(2 579)	(1 464)	-	(4 126)
Total depreciation 2016	**(394)**	**-**	**(12 812)**	**(7 331)**	**(665)**	**(21 204)**
Impairment for the year, 2016	**(1 151)**	**-**	**-**	**(58 458)**	**(205)**	**(59 813)**
Number of vessels by the end of 2016	-	-	8	8	-	16
Average useful life	-	-	20	25	-	23
Average remaining useful life	-	-	10	20	-	14

1) Assets held for sale. The sale was finalised and ownership transferred to the new owners in January 2016 (note 33).

Torvald Klaveness' insurance arrangements are organised through external insurance companies. The financial impact of a total loss of a vessel will not be material to Torvald Klaveness.

Depreciation of vessels is recorded on a straight-line basis over the estimated economic lifetime of each individual asset. The depreciation period for vessels is normally 20-25 years.

Pledged vessels

All owned vessels are pledged to secure the various loan facilities (refer to note 23 for further information).

Additions

The third combination carrier, MV Ballard, was delivered in May 2017 from Zhejiang Ouhua Shipbuilding in China. In connection with delivery, the Group withheld USD 4 million from the delivery installment for MV Ballard (not included in vessel value), whereof USD 0.8 million has been paid during the second half of 2017. The yard is obliged to complete pending items related to MV Ballard and the two sister vessels MV Balboa and MV Baffin. The withheld amount falls due for payment to the yard (partly or wholly) when the pending items for each vessel have been completed. If the pending items are not completed, the Group will retain the remaining withheld amount. The pending items are not critical for the daily operations of the vessels.

Disposals

No disposals of vessels in 2017.

Impairment assessment

The Group has performed an impairment test where the value in use is calculated using estimated cash flows.

The estimated cash flows are based on management's best estimate and reflect the Group's expectations of the market in the different segments. The net present value of future cash flows is based on a pre-tax weighted average cost of capital (WACC) of 8.5 % in 2017 (2016: 8.5 %). Cash flows are estimated over the remaining life of the vessel, with an estimated residual value at the end of the economic life. From 2021 and onwards, the cash flows are based on a zero-growth scenario, however an escalating factor of an in average 1.0 % inflation rate has been included for all operating expenses for all years until scrapping.

The Group has performed an impairment test where the value in use is calculated using estimated cash flows. The container market has strengtened during 2017, hence no impairment need has been identified for the container vessels at year end, however no basis for any reversal of prior years impairment. For the combination carrier vessels calculated value in use still shows a headroom compared to book value of the fleet (one cash generating unit). No impairment need identifed for the combination carriers.

The below summarizes the total impairment cost/reversal:

Impairment loss (-) / reversal (USD '000)	2017	2016
Impairment (-)/reversal of impairment of vessels	-	(59 609)
Impairment other assets	-	(205)
Total impairment loss (-) / reversal	**-**	**(59 813)**

15 Newbuilding contracts

The Group took delivery of the third and last combination carrier newbuilding from Zeijaing Ouhua Shipbuilding Co. Ltd in China May 10, 2017.

The Group also has three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018 and early 2019. The contract includes options for further vessels.

2017 (USD '000)	COMBINATION CARRIERS	TOTAL
Cost 1.1	31 996	31 996
Borrowing cost	1 254	1 254
Yard installments paid	37 281	37 281
Other capitalized cost	1 553	1 553
Delivery of newbuildings	(34 431)	(34 431)
Net carrying amount at 31 December	**37 652**	**37 652**

2016 (USD '000)	KAMSARMAX	COMBINATION CARRIERS	TOTAL
Cost 1.1	558	45 329	45 886
Borrowing cost	171	1 245	1 416
Yard installments paid	19 079	59 266	78 345
Other capitalized cost	339	4 333	4 672
Delivery of newbuildings	(28 141)	(78 177)	(106 318)
Impairment reclassed to vessels	7 994	-	7 994
Net carrying amount at 31 December	**-**	**31 996**	**31 995**

16 Associated companies and joint ventures

(USD '000)	ACQUISITION	OWNERSHIP (DIRECT + INDIRECT)	ACQUISITION COST	SHARE OF RESULT 2017	BOOK VALUE PER 31 DEC 2017	SHARE OF RESULT 2016	BOOK VALUE 31 DEC 2016
Klaveness Maritime Agency Inc.	2011	24,96 %	25	12	60	(2)	38
Total associated companies			**25**	**12**	**60**	**(2)**	**38**

Associated companies

Investments in associated companies are recognised according to the equity method. Acquisition cost refers to the cost of the investment adjusted for accumulated payments to/from the company. Book value equals the Group's share of book equity in the company.

Klaveness Maritime Agency Inc. is located in the Philippines.

Joint ventures

Joint ventures are accounted for according to the proportional consolidation method. Torvald Klaveness includes the joint venture Barklav (Hong Kong) Limited which is owned 50 %. The joint venture was acquired in the year 2000 and is located in China. In 2017, Torvald Klaveness' share of net profit from Barklav was USD 248 thousand and the share of equity USD 330 thousand.

17 Bunkers on board vessels

(USD '000)	2017	2016
Bunkers	37 365	27 137
Luboil	1 219	1 220
Bunkers on board vessels	**38 584**	**28 357**

18 Accounts receivable

(USD '000)	2017	2016
Accounts receivable from charterers	35 557	25 418
Accounts receivable from owners	4 374	5 692
Other accounts receivable	243	315
Provision for unsettled income	(615)	(799)
Provision loss on accounts receivable[1]	(9 881)	(9 799)
Accounts receivable	**29 677**	**20 827**

1) Includes a provision of USD 8.7 million on one receivable regarding a counterparty which has been under administration since its default in 2009.

19 Prepaid expenses

(USD ´000)	2017	2016
Prepaid mark-to-market margin	-	3 362
Prepaid time charter hire	12 798	6 088
Other prepaid expenses	2 434	2 812
Prepaid expenses	**15 232**	**12 262**

Prepaid amount to cover the variation margin for FFAs and fuel swaps has decreased during 2017 due to changes in market assumptions and portfolio value at year end.

20 Other short-term receivables

(USD ´000)	2017	2016
Accrued voyage income	17 332	13 058
Accrued interest income	-	39
Claims (insurance and other)	-	1 890
Spare parts vessels	-	22
Other short-term receivables	10 297	4 869
Other short-term receivables	**27 629**	**19 878**

Claims consisting of insurance claims for incidents and yard claims related to the newbuildings delivered in 2013 and 2014 were settled during 2017.

21 Financial instruments

(USD ´000)	2017 COST	2017 MARKET VALUE	2016 COST	2016 MARKET VALUE
Cross currency interest rate swap agreements	-	(14 895)	-	(18 039)
Interest swap agreements	-	(1 342)	-	(1 987)
Foreign currency contracts	-	-	-	(330)
Fuel swaps	-	-	-	(763)
Total derivatives (non-hedging)	**-**	**(16 237)**	**-**	**(21 120)**

Financial instruments for non-hedging purposes

After refinancing of bond loans in 2016 , the Group terminated one of its cross-currency interest rate swaps (CCIRS). The remaining two CCIRS's do no longer qualify for hedge accounting. At year end 2017 the CCIRS's are recognised at the lower of historical cost or fair market value. The total mark-to-market value at December 31, 2017 was negative USD 14.9 million.

As per December 31, 2017 the group has six interest swap agreements and one interest cap for non-hedging purposes (2016: seven interest swap agreements and one interest rate cap). Interest swaps are valued at the lower of historical cost or fair market value. The total mark-to-market value of these interest swaps per 31 December 2017 was negative by USD 1.3 million (2016: negative by USD 2.0 million). Fuel swaps are accounted for as separate financial derivatives and are valued at fair market value. Changes in market value of financial instruments has been recognised as financial income (note 13).

Foreign currency contracts entered into for non-hedging purposes are measured at fair market value. Realised and unrealised gain/(loss) on foreign currency contracts are recognised as financial income (note 13).

22 Cash and bank deposits

(USD '000)	2017	2016
Bank deposits in USD	96 166	116 007
Bank deposits in NOK	7 831	31 828
Bank deposits in other currencies	1 263	1 168
Withholding tax accounts, restricted	646	625
Other restricted accounts	521	516
Cash	366	357
Total cash and bank deposits	**106 793**	**150 501**
Hereof cash and bank deposits related to subsidiaries with ownership interest less than 90 %	16 165	12 259

The Group has USD 101 million available for drawing on a revolving credit and overdraft facilities per year-end 2017.

23 Mortgage debt

(USD '000)	2017	2016
Mortgages, USD denominated	130 892	130 785
Capitalized loan fees	(1 238)	(1 208)
First year installments	(20 549)	(19 818)
Total long-term mortgage debt	**109 105**	**109 759**
Hereof mortgage debt related to subsidiaries with ownership interest 90 % or more	42 482	39 170
Repayment schedule:		
Falling due within one year	20 549	19 818
Falling due between one and three years	19 097	23 678
Falling due after three years	91 245	87 288
Total mortgage debt	**130 892**	**130 785**
Book value of vessels with mortgage debt	**290 516**	**274 954**

Mortgage debt is related to vessel investments and are denominated in USD. The interest rate on the mortgage debt is linked to 3M LIBOR plus a margin. The margins are subject to market terms and at year end the margins were in the range 2.00 per cent to 3.10 per cent.

Interest rate derivative agreements have been entered into to reduce risk related to potential interest rate increases. Refer to note 4 on operational and financial risks, note 30 on hedging for details about interest rate risk reduction, and note 21 for details on financial instruments for non-hedging purposes.

Mortgage debt related to the Bantry facility was refinanced in March 2017. The new loan facility has a tenor of five years and is guaranteed by T Klaveness Shipping AS.

Loan facilities related to financing of Banasol and Banastar fall due in April 2018, hence the facilities are classified as current debt as per 31 December 2017. The Group is considering to refinance the loans.

The Group has secured financing for the three newbuildings with expected delivery in 2018/2019. The owner of the vessels, T. Klaveness Shipping AS, is the borrower and the USD 93 million post delivery term loan has a tenor of five years from drawdown.

Covenants

The credit facilities impose restrictions which may limit or prohibit the ability for some of the entities in the Group to incur additional indebtness, sell shares in subsidiaries, commit to new capital expenditure, pay dividends, engage in mergers and de-mergers or purchase and sell vessels without the consent of the lenders (non-financial covenants). The lenders may accelerate the maturity of the indebtness under financing agreements and foreclose upon the collateral securing the indebtness upon the occurence of certain events of defaults.

The credit facilities also contain financial covenants related to equity, cash and debt service ability. In addition all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan. Certain cross-default exists. The Group is in compliance with all covenants at December 31, 2017.

24 Long-term bond loan

In December 2016, Klaveness Ship Holding AS (the Issuer) issued a new senior unsecured bond of NOK 300 million 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.

In connection with the new bond issue, the Group repaid the existing bond issues KSH02 and KSH01 in December 2016 and January 2017 respectively. Hence, total bond debt was reduced by NOK 290 million, final maturity was extended and financial covenants aligned with covenants in relevant bank facilities.

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 per cent. The Group is in compliance with all covenants per December 31, 2017.

BOND LOAN (USD '000)	FACE VALUE NOK'000	DATE OF MATURITY	2017	2016
KSH03				
Original loan amount	300 000	May 27, 2021	35 273	35 273
Exchange rate adjustment			1 130	(573)
Capitalized expenses			(430)	(559)
Total KSH03	**300 000**		**35 973**	**34 141**
KSH01				
Original loan amount	300 000	May 8, 2018	52 250	52 250
Buy back	(100 000)		(17 417)	(17 417)
Buy back (Dec 2016)	(16 000)		(1 875)	(1 875)
Exchange rate adjustment			(11 859)	(11 676)
Repayment /Jan 2017)	(184 000)		(21 099)	-
Total KSH01	**-**		**-**	**21 282**
KSH02				
Original loan amount, fixed	300 000	March 20, 2020	50 500	50 500
Original loan amount, unfixed	100 000	March 20, 2020	16 828	16 828
Buy back	(10 000)		(1 355)	(1 355)
Exchange rate adjustment			(20 263)	(20 263)
Repayment (Dec 2016)	(390 000)		(45 710)	(45 710)
Total KSH02	**-**		**-**	**-**
Bond loan as of 31 December	**300 000**		**35 973**	**55 423**

25 Other long-term interest-bearing liabilities

(USD '000)	2017	2016
Long-term debt to related parties (note 32)	9 937	9 116
Other long-term interest-bearing liabilities	33	37
Total other interest-bearing long-term liabilities	**9 971**	**9 152**

26 Accounts payable

(USD '000)	2017	2016
Accounts payable to charterers	1 742	1 866
Accounts payable to owners	3 280	1 166
Accounts payable to brokers	1 292	1 320
Accounts payable to bunkers suppliers	10 166	5 303
Other accounts payable	3 115	2 789
Accounts payable	**19 596**	**12 443**

27 Accrued expenses

(USD '000)	2017	2016
Accrued interest expenses	992	1 012
Accrued voyage expenses	26 545	17 347
Accrued expenses	**27 537**	**18 359**

28 Short-term interest-bearing debt

(USD '000)	2017	2016
First year installments of long-term debt (note 23)	20 549	19 818
Short-term bond loan (note 24)	-	21 282
Short-term debt related parties	2 656	2 730
Total short-term interest-bearing debt	**23 204**	**43 830**

First-year installments of long-term debt has been reclassified to short-term debt. Refer to note 23 for details on the loans.

Short-term debt to related parties consists of debt to persons affiliated with the shareholders of Rederiaksjeselskapet Torvald Klaveness. The debt is interest-bearing. The interest rate is NIBOR plus a market based margin. Refer to note 32 for information regarding related parties.

29 Other short-term liabilities

(USD '000)	2017	2016
Received mark-to-market margin on cleared FFAs	4 013	-
Unearned income	16 292	9 454
Public duties payable	-	552
Payables related to wages and crewing	1 585	1 499
Provisions for losses [1]	7 200	10 321
Pool-hire payable	6 639	1 701
Other short-term liabilities	22 238	22 031
Other short-term liabilities	**57 967**	**45 556**

[1] Includes a provision for future losses of USD 3.8 million for two longer TC-in contracts. Per January 1, 2018 the long TC-in contracts are transferred to the AS Klaveness Chartering's portfolio of physical and financial freight agreements and is governed by the defined mandate of the portfolio. As a result, a reversal of the provision is recognised January 1, 2018.

30 Hedging

Torvald Klaveness uses financial instruments to hedge against certain financial risks. In 2017, future freight agreements have been used to hedge against market fluctuations; fuel swaps have been used to hedge against fluctuations in the bunkers market; interest rate swaps have been used to hedge against interest rate fluctuations; and foreign exchange currency contracts have been used to hedge against currency rate fluctuations.

The group has three interest rate swaps which qualify for hedge accounting as per yer end 2017. Fair value of interest rate swaps which qualify for hedge accounting is USD 36 k (liability) as of year end 2017 (2016: USD 35k/liability).

Cash flow hedges are recorded in the profit and loss account in the same period as the cash flow from the associated asset or physical contract. Fair value hedges are reflected in the book value of the underlying asset, and gains or losses in the fair value of the value hedging instrument are recognised immediately in the profit and loss account.

Forward freight agreements and fuel swaps are generally entered into on a year-to-year basis.

(USD '000)			2017		2016	
HEDGING OBJECT	HEDGING INSTRUMENT	HEDGE INCLUDED IN P&L LINE	P&L EFFECT	MARKET VALUE	P&L EFFECT	MARKET VALUE
Cash flow hedges:						
Pool income	Forward freight agreements	Gross revenues from operation of vessels	(1 571)	3	140	1 162
Interest mortgage loans	Interest rate swaps	Interest income/expenses	74	(36)	65	(35)
Bunkers cost	Fuel swaps	Operation of vessels and voyage related expenses	588	770	44	642
Crew costs	Foreign exchange currency contracts	Crewing related expenses	(18)	-	35	(18)
Salaries in NOK	Foreign exchange currency contracts	Salary related expenses	(22)	48	(22)	(22)
Total hedging			(948)	785	262	1 730

31 Guarantee liabilities and collateral

All guarantees and collateral described below are provided by subsidiaries of Rederiaksjeselskapet Torvald Klaveness.

IN FAVOUR OF EXTERNAL PARTIES:

GUARANTEE TO	GUARANTEE DESCRIPTION	AMOUNT
SEB/DNB/Danske Bank	Bank guarantee 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
Danske Bank	Bank guarantee for loan facility related to the vessel MV Bantry	USD 11.4 million + interests
Danske Bank/Nordea	Senior Secured Term loan Facility Agreement related to MV Baffin and MV Ballard.	Max USD 34 mill. 50% of outstanding amount at any time + interest, expenses and exposure under derivatives
Gard P& I Bermuda	Guarantee for non P&I liabilities guaranteed for by Gard P&I Bermuda on behalf of Antarctica Shipping Pte Ltd	Limited to USD 2.5 million
YZJ Yard	Three guarantees for third and fourth installments for shipbuilding contracts YZJ2015-1222, YZJ2015-1223 and YZJ2015-1224.	USD 29 million + interest

IN FAVOUR OF RELATED PARTIES:

GUARANTEE TO	AMOUNT
Brigantina AS	NOK 22 million
THK Holding AS	NOK 17 million
THK Partner AS	NOK 20 million
MMK Holding AS	NOK 15 million
JWI Holding AS	NOK 15 million

Rederiaksjeselskapet Torvald Klaveness has issued guarantees as collateral for loans from related companies to the subsidiary Klaveness Finans AS. The guarantees are issued in order to comply with The Limited Liability Companies Act.

32 Related parties

For some transactions Torvald Klaveness is counterpart to persons and companies affiliated with the shareholders of the parent company, Rederiaksjeselskapet Torvald Klaveness. Services delivered by Torvald Klaveness to these persons and companies include accounting and administration of investments. In addition some affiliated companies and persons have extended loans to companies within Torvald Klaveness.

The level of fees and interests in this respect are based on market terms and are in accordance with the arm's length principle.

LONG-TERM LIABILITIES

(USD '000)		2017		2016	
COMPANY	INTEREST RATE	INTEREST	LIABILITIES	INTEREST	LIABILITIES
Brigantina AS	NIBOR 6m + margin	111	2 859	107	2 616
THK Holding AS	NIBOR 6m + margin	84	2 111	80	1 943
THK Partner AS	NIBOR 6m + margin	74	1 851	69	1 693
MMK Holding AS	NIBOR 6m + margin	62	1 564	59	1 431
JWI Holding AS	NIBOR 6m + margin	62	1 552	59	1 431
Total		394	9 937	374	9 115

THK Holding AS, THK Partner AS, MMK Holding AS and JWI Holding AS together own 99,9% of Rederiaksjeselskapet Torvald Klaveness. Trond Harald Klaveness is majority stock holder of both Brigantina AS, THK Holding AS and THK Partner AS.

SHORT-TERM LIABILITIES

(USD '000)		2017		2016	
COMPANY	INTEREST RATE	INTEREST	LIABILITIES	INTEREST	LIABILITIES
Trond Harald Klaveness	"Skjermingsrenten"	11	2 117	16	2 218
Morten Mathias Klaveness	"Skjermingsrenten"	1	219	6	208
Jan Wilhelm Klaveness	"Skjermingsrenten"	2	320	8	303
Total		14	2 656	30	2 730

33 Discontinued operations

(USD '000)	2017	2016
Operating revenue	-	1 060
Gain sale of vessels	-	31 472
Operating expenses	-	(267)
Ordinary depreciation	-	-
Tonnage tax	-	-
Other operating and administrative expenses	-	(234)
Profit/(loss) for the year	**-**	**32 031**

The five selfunloader vessels were sold in November 2015 and delivered to their new owners in January 2016. A gain of USD 31.5 million was recognised in 2016.

Results, assets and liabilities for the selfunloader vessels are presented along with the other business of the Group in 2016.

34 Taxes

(USD '000) INCOME TAXES IN THE INCOME STATEMENT CONSIST OF:	2017	2016
Income taxes payable	(218)	(68)
Change in deferred tax asset	(3 822)	32
Tax adjustments previous years/other corrections	(28)	(88)
Total tax (expense) / income	**(4 067)**	**(124)**

(USD '000) TEMPORARY DIFFERENCES - ORDINARY TAXATION:	2017		2016	
	POSITION	TAX EFFECT	POSITION	TAX EFFECT
Temporary differences on fixed assets	3 818	878	2 680	643
Temporary differences on current assets	17 637	4 057	23 133	5 552
Tax losses carried forward	86 922	19 992	75 313	18 075
Net temporary differences	**108 378**	**24 927**	**101 126**	**24 270**
Deferred tax asset (-) not recognised in balance sheet		**(13 709)**		**(9 230)**
Deferred tax asset in balance sheet 23 % (24% in 2016)		**11 278**		**15 040**
Deferred tax liability in the balance sheet 23 % (24 % in 2016)		**(59)**		**-**

Deferred tax asset is recognised to the extent that temporary differences are expected to be reversed in the foreseeable future. Tax assets from companies under the tonnage tax regime are not recognised in the balance sheet, as these cannot be utilised through group contributions, and future utilisation has not been justified. The holding company (Rederiaksjeselskapet Torvald Klaveness) is subject to the interest limitation rules. The deferred tax asset related to limited interest carried forward has not been recognised in the balance sheet, as future utilisation is improbable. The deferred tax asset has been further impaired by USD 4.5 million in 2017, based on an evaluation of the probability of future use of the tax position at group level.

(USD '000) TAX PAYABLE:	2017		2016	
	INCOME	TAX EFFECT	INCOME	TAX EFFECT
Profit / (loss) before taxes	(2 080)	(499)	(58 172)	(14 543)
Permanent differences	(5 147)	(1 235)	41 099	10 275
Change in temporary differences	(4 358)	(1 046)	(12 883)	(3 221)
Change in tax losses carried forward	11 609	2 786	29 956	7 489
Taxable income / tax payable		**6**		**-**
Tax payable - foreign subsidiaries		212		68
Tonnage tax (included in operation profit)		177		139
Total tax payable in the balance sheet		**395**		**207**

35 Pension cost, pension plan assets and pension liabilities

All employees in Torvald Klaveness have a defined contribution plan. This plan currently consists of annual savings of 5% of salary between 0 and 12G plus 15% of salary between 7.1G and 12G. 1G is currently defined to NOK 93.634. The annual pension that is actually payable depends on the size of the contributions, the number of contributions paid and the return during the savings and pension-payment period. The employee may start taking his/her pension from the age of 62, given that it is paid for a minimum of 10 years and at least until the age of 77. The responsibility for managing the individual pension account, within the insurance company's prevailing selection of funds, lies with the employee. As of December 31, 2017 the defined pension plan included 74 (84) employees. All payments to the defined contribution plan is expensed when paid-in.

In addition to the defined contribution plan, the Group also has three defined benefit plans. One of these plans include all the retired people and the people receiving disability pension at the time when Torvald Klaveness changed its pension plan for all employees in 2014. All retired people and 100% disabled persons, excluding one person, received a paid-up policy in 2016. As of December 31, 2017 the defined contribution plan included 1 (1) disabled person. The two other defined benefit plans relates to two employees having an extra plan in addition to the defined contribution plan.

ASSUMPTIONS ON WHICH PENSION CALCULATIONS ARE BASED	2017	2016
Discount rate	2,4 %	2,6 %
Annual salary adjustment	2,5 %	2,5 %
Adjustment of pension plan base amount "G"	2,3 %	2,3 %
Pension adjustment	0,0 %	0,0 %
Expected annual return on the pension plan assets	4,0 %	3,6 %

Demographic assumptions commonly used by the insurance industry have been applied.

(USD '000) PENSION COSTS	2017 SECURED	2017 UNSECURED	2017 TOTAL	2016 SECURED	2016 UNSECURED	2016 TOTAL
Interest expense on pension liabilities	(6)	(12)	(18)	(328)	(10)	(339)
Return on pension plan assets	8	-	8	426	-	426
Net return on pension plan assets	2	(12)	(10)	98	(10)	88
Present value of the year's pension benefits	-	(15)	(15)	-	(14)	(14)
Issued paid-up policy's	-	-	-	(182)	-	(182)
Amortized change in estimates and plans	51	(17)	33	145	(12)	133
Social security tax on pension	(9)	(4)	(13)	(2)	(3)	(5)
Currency gain / (loss)	-	-	-	-	-	-
Pension costs (-) / income	**44**	**(48)**	**(4)**	**59**	**(39)**	**20**

(USD '000) PENSION PLAN ASSETS / PENSION LIABILITIES (-)	2017 SECURED	2017 UNSECURED	2017 TOTAL	2016 SECURED	2016 UNSECURED	2016 TOTAL
Pension plan assets (at market value)	166	-	166	305	-	305
Estimated pension liabilities	(14)	(501)	(515)	(116)	(438)	(553)
Non-amortized change in estimates and plans	-	-	-	-	-	-
Social security tax on pension	-	(71)	(71)	-	(62)	(62)
Total pension plan assets / pension liabilities (-)	**152**	**(572)**	**(420)**	**189**	**(499)**	**(310)**

The estimated pension liabilities is exclusive of one unsecured contract. This contract is giving a person the option to leave the Company at the age of 64 and the permission for the Group "to give him a leave" at the age of 62. The estimated liability given that the person retires at the age of 62 was USD 0.2 milllion as per December 31, 2017. However, the probability that this contract ever will be executed is considered low, as the actual person is currently at the age of 45.

Income statement - parent company

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	NOTE	2017	2016
Operating expenses	2	(3 045)	(3 278)
Operating profit/(loss)		**(3 045)**	**(3 278)**
Financial income and expenses			
Income from subsidiaries	4	17 807	9 677
Impairment subsidiaries / reversal	4	-	(687)
Net interest income/(expenses), Group companies		**(1 211)**	**(1 320)**
Net other financial income/(expenses)		54	61
Net currency gain/(loss)		162	548
Net financial income/(expenses)		**16 812**	**8 279**
Profit/(loss) before taxes		**13 768**	**5 002**
Taxes	10	-	(1 369)
Profit/(loss) for the year		**13 768**	**3 632**

Balance sheet - parent company

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	NOTE	2017	2016
ASSETS			
Financial fixed assets			
Investments in subsidiaries	4	68 987	66 802
Total fixed assets		**68 987**	**66 802**
Current assets			
Receivables, Group companies	5	17 860	6 702
Other accounts receivables		3	3
Bank deposits	6	51	65
Total current assets		**17 914**	**6 770**
TOTAL ASSETS		86 900	73 572
EQUITY AND LIABILITIES			
Equity			
Paid-in-capital			
Share capital (100 shares of NOK 509 982)		8 153	8 153
Other paid in equity		10 855	10 855
Retained earnings			
Other equity		36 457	22 689
Total equity	7	**55 465**	**41 697**
LIABILITIES			
Long-term liabilities			
Loan, Group companies	8	28 588	28 829
Total long-term liabilities		**28 588**	**28 829**
Current liabilities			
Short-term liabilities, Group/related companies	9	2 800	3 015
Debt to related parties		34	-
Other stort-term liabilities		13	31
Total current liabilities		**2 847**	**3 046**
Total liabilities		**31 435**	**31 875**
TOTAL EQUITY AND LIABILITIES		86 900	73 572

Rederiaksjeselskapet Torvald Klaveness
March 21, 2018

Trond Harald Klaveness
Chairman

Christian Andersen
Board member

Jan Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

Cash flow statement - parent company

FOR THE YEAR ENDED 31 DECEMBER (USD '000)	2017	2016
Profit/(loss) before taxes	13 768	5 002
Income from subsidiaries	(17 807)	(9 677)
Change in current assets	(52)	75
Change in current liabilities	(199)	(1 610)
Effect from change in exchange rate	(162)	(548)
Net cash from operating activities (1)	**(4 453)**	**(6 758)**
Change in investment in subsidiaries	(2 185)	2 687
Net cash from investing activities (2)	(2 185)	2 687
Increase in long term liabilities to Group companies	6 625	5 078
Decrease in long term liabilities to Group companies	**(6 865)**	**(17 532)**
Received Dividend	-	**5 000**
Received Group contribution	6 865	10 580
Net cash from financing activities (3)	**6 625**	**3 125**
Net increase/decrease (-) in cash (1+2+3)	**(14)**	**(946)**
Cash at January 1	65	1 011
Cash at December 31	51	65
Net increase/decrease (-) in cash	**(14)**	**(946)**

Notes

01 Accounting principles

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles.

Investments in subsidiaries

Investments in subsidiaries are stated according to the historical cost method. If there is a decrease in value that is not temporary, the shares are written down. Previously recognised impairments are reversed if the reason for the impairments no longer exists.

For other accounting principles refer to group accounting principles.

02 Operating expenses

(USD '000)	2017	2016
Remuneration to the Board of Directors	(255)	(259)
Audit fee	(48)	(60)
Other expenses	(2 742)	(2 958)
Total operating expenses	(3 045)	(3 278)

There are no employees in Rederiaksjeselskapet Torvald Klaveness. The Chief Executive Officer (Mr. Lasse Kristoffersen) was per December 31, 2017 employed in Klaveness AS. Remuneration costs are specified in the group notes.

Rederiaksjeselskapet Torvald Klaveness is charged with owners costs from Klaveness AS. This includes both services provided by Klaveness AS on behalf of Rederiaksjeselskapet Torvald Klaveness as well as allocation of costs generated on behalf of the owners. The cost allocation also includes remuneration of key management.

03 Remuneration

(USD '000) REMUNERATION TO THE AUDITOR:	2017	2016
Auditing ex. VAT, statutory	(48)	(60)
Tax and other services ex. VAT	(4)	(4)
Total remuneration to the auditor	**(52)**	**(65)**

04 Investments in subsidiaries

(USD '000) SUBSIDIARIES (ACQUISITION YEAR)	SHARE CAPITAL	GROUP CONTR. & DIVIDENDS IN 2017	BV CHANGES IN 2017	BOOK VALUE 2017	BOOK VALUE 2016
AS Klaveness Chartering, Oslo (1967)	NOK 507			23 734	23 734
Klaveness Ship Holding AS (2005)	NOK 12 000			15 935	15 935
Klaveness Finans AS, Oslo (2008)	NOK 383	17 807		15 299	15 299
Bulkhandling Handymax AS, Oslo (2005)	NOK 100			15	15
Baumarine AS, Oslo (2005)	NOK 100			15	15
Klaveness AS, Oslo (2011)	NOK 100		(4 386)	5 397	9 783
Cabu Chartering AS (2002)	NOK 940			20	20
Klaveness Digital AS (2017)	NOK 100		6 571	6 571	-
Klaveness Asia Pte. Ltd., Singapore (2006)	USD 7 000			2 000	2 000
Total investments in subsidiaries		**17 807**	**2 185**	**68 987**	**66 802**

05 Receivables, Group companies

(USD '000)	2017	2016
Klaveness Finans AS	53	-
Klaveness Finans AS - Group contribution	17 807	6 702
Total receivables, Group companies	**17 860**	**6 702**

06 Bank deposits

(USD '000)	2017	2016
Bank deposits	51	65
Total bank deposits	**51**	**65**

07 Equity

2016	SHARE CAPITAL	OTHER PAID-IN CAPITAL	OTHER EQUITY	TOTAL EQUITY
Equity at 1 January 2016	8 153	10 855	19 057	38 065
Profit/(loss) for the year			3 632	3 632
Equity at 31 December 2016	**8 153**	**10 855**	**22 689**	**41 697**

2017	SHARE CAPITAL	OTHER PAID-IN CAPITAL	OTHER EQUITY	TOTAL EQUITY
Equity at 1 January 2017	8 153	10 855	22 689	41 697
Profit/(loss) for the year			13 768	13 768
Equity at 31 December 2017	**8 153**	**10 855**	**36 457**	**55 465**

For information regarding ownership, refer to Group notes.

08 Loan, Group companies

(USD '000)	2017	2016
Loan from Klaveness Finans AS	28 588	28 829
Total receivables, group companies	**28 588**	**28 829**

Terms for repayment have not been negotiated.

09 Short-term liabilities, Group/related companies

(USD '000)	2017	2016
Klaveness AS	2 800	3 015
Total short-term liabilities, Group/related companies	**2 800**	**3 015**

10 Taxes

(USD '000) INCOME TAXES CONSIST OF:	2017	2016
Change in deferred tax / deferred tax asset	-	1 369
Total tax expense / (income)	**-**	**1 369**

TAXABLE INCOME	2017	2016
Profit/(loss) before tax	13 768	5 002
Permanent differences	(17 062)	(8 146)
Group contribution with tax effect	-	818
Limitation of interest rate deduction	1 185	1 231
Tax loss carried forward / (Use of tax loss carried forward)	2 110	1 096
Taxable income	**-**	**-**

RECONCILIATION OF THE EFFECTIVE TAX RATE	2017	2016
Profit/(loss) before tax	13 768	5 002
Expected income tax (25 %)	3 304	1 250
Tax effect of Group contribution from subsidiary included as income	(4 274)	-
Tax effect of dividend from subsidiary included as income	-	(1 169)
Tax effect of tax free dividend	-	(1 250)
Tax effect change in tax rate	-	266
Tax effect of Group contribution from subsidiary included as income	-	(1 097)
Exchange rate differences	179	383
Tax effect of limitation of interest rate deduction	284	308
Write down of deferred tax	506	2 679
Total tax expenses / (income)	**-**	**1 369**

10 Continued

DEFERRED TAX / DEFERRED TAX ASSET	2017	2016
Tax loss carried forward (tax effect)	6 776	6 379
Limitation of interest rate deduction	1 089	812
Deferred tax asset not recognised in balance sheet	(7 865)	(7 191)
Net recognised deferred tax / (deferred tax asset)	-	-
Change deferred tax / deferred tax asset	-	1 369

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Rederiaksjeselskapet Torvald Klaveness

Report on the audit of the financial statements

Opinion

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

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company 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 Chief Executive Officer are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors’ report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors’ report concerning the financial statements 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, 21 March 2018
ERNST & YOUNG AS

Asbjørn Rødal (sign.)
State Authorised Public Accountant (Norway)

Torvald
Klaveness