Torvald Klaveness

Annual Report
2018

Key figures

Equity ratio	Cash and cash equivalents	Vessels under management
54%	124	113

USD million	2018	2017	2016
Profit and loss			
Gross operating revenues [1]	317	327	262
EBITDA	37	28	44
Profit/(loss) after tax (excl. minority interests)	4	(6)	(50)
Profit/(loss) after tax (incl. minority interests)	6	(6)	(58)
Balance sheet			
Total assets	590	561	556
Total equity (incl. minority interests)	318	260	261
Total equity (excl. minority interests)	250	238	244
Interest-bearing debt	171	178	197
Cash and cash equivalents	124	107	151
Cash flow from investing activities			
Investments in vessels and newbuilding contracts	29	43	87
Equity ratios			
Equity ratios (excl. minority interests)	42 %	42 %	44 %
Equity ratios (incl. minority interests)	54 %	46 %	47 %
Employees			
Number of employees onshore [2]	168	157	166
Vessels [3]			
Pool vessels	29	35	49
Klaveness Chartering - chartered vessels	67	96	74
Combination carriers	9	9	8
Container vessels	8	8	8
Vessels under construction	6	3	4

1) *Income/loss from physical and financial freight*

2) *Number of employees at year end for Oslo, Singapore, Dubai, Shanghai and Manila*

3) *Per year-end. Vessels hired in on spot voyages are not included*

Positioned for growth

In Klaveness, one of our values is Commitment. By this we mean that we see through cycles and seek lasting solutions. Despite challenging markets and an unpredictable political climate, we continued to build our business in 2018 and are well positioned for future growth.

Like many others, we find ourselves in a time of transition, moving from traditional ways of working to experimenting with digital and automated work processes, new business models and new ways to use data and analytics to make better decisions. The main priorities in 2018 were a continued expansion of our combination carrier fleet, the expansion and growth of our digital business and not least constantly improving our operations. All whilst maintaining our position as one of the world's leading dry bulk operators and a leading provider of container feeder vessels to the liner companies.

A key milestone in 2018 was the establishment of Klaveness Combination Carriers AS (KCC). Klaveness has been the leading owner and operator of combination carriers for decades and through the establishment and capitalization of KCC we today have a platform for further growth and development. Our fleet represents the most energy and climate effective deep-sea transportation system there is. Our vessels not only give lower emissions, but also reduce freight costs for our customers and ensure our shareholders solid returns. With the new generation of vessels, CLEANBU, about to be delivered we can now serve also the Clean Petroleum Products industry in addition to the Alumina industry we successfully have served with our CABUs since 2001.

Digital technology enables us to solve problems and provide solutions we were not able to deliver five or ten years ago. This creates large opportunities for new customer solutions and business models and challenges the way we run our operations and take our decisions.

Klaveness Digital was established a few year ago with the ambition to bring shipping and logistics into a digital future. Today, they deliver industry leading cloud-based services to optimize shipments and inventory in real time (CargoValue), monitor, value and benchmark vessel performance (Perform) and enable data storage, processing and analysis in a secure way (KPlatform). In 2018 the first paying customers were secured and the number of customers piloting the solutions are growing every week. So is the organization and we are ready to shape the digital future of shipping and logistics.

To improve our own operations and decision making, we had two main initiatives in 2018. Future Ops is a project where we utilize new technology to increase the efficiency and quality of our ship management operation. Analytics Academy is a program for all employees with the aim to lift the competence level of the individual on how they can use data and analytics to make better decisions. This has been well received in our organization and I am proud that more than 90% of our employees completed and passed the foundation training in 2018. Both of these initiatives will continue in 2019 with increased strength and dedication.

Lasse Kristoffersen, CEO

Our Dry bulk operator business is still one of the leading in the industry. However, we are experiencing increasing competition resulting in reduced margins. As a result we need to constantly improve the efficiency of our processes and decision making and become even more explicit on how we price and take risk.

The foundation for all shipping companies is a safe, reliable and predictable operation. We are very pleased to report that we experienced no serious incidents or accidents in 2018 and we met all our KPIs in Klaveness Ship Management. With this as a basis, we look forward to new endeavors in 2019.

Board of Directors' report 2018

HIGHLIGHTS

Safety is priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2018.

Klaveness' vision is to improve the nature of shipping and the strategy focuses on three core areas; establish a global combination carrier service expanding the activities to additional geographical areas and industries, build the leading digital operator, and provide useful and intuitive digital services. 2018 has been an eventful year with focus on consolidating the combination carrier activities under one holding company, Klaveness Combination Carriers AS, and further develop the activities through raising external capital, registering the shares on N-OTC and growing the newbuilding program by three vessels. In addition, Klaveness has continued to invest in digital initiatives and has for the trading and chartering activities focused on assessing the core drivers of the activities and establishing a framework to better capture the value of the business model.

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

Both the dry bulk market and the container market continued to improve in 2018, however, sentiment in both markets turned negative towards the end of the year. Average container vessel earnings improved in 2018 and the vessels still achieved rates above the general market due to the vessels' fuel efficiency. Results for Dry bulk were positively impacted by active long and short positions along with market development. However, weather delays and related extended port stays impacted the results negatively. The total number of vessels under management was 113 by the end of 2018, whereof 17 vessels are controlled by the Group.

HEALTH, SAFETY AND ENVIRONMENT

The fleet experienced no major, four medium and 47 minor injuries in 2018. Injuries that require repatriation of crew members such as e.g. 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 2018, there were 20 vetting inspections of the CABU combination carriers and all vessels passed. Average number of observations per inspection for the Ship Inspection Report Programme (SIRE) vettings in 2018 was 3.16, down from an average of 3.6 in 2017. The fleet under technical management by Klaveness Ship Management AS went through 42 Port State Controls in 2018, with no detentions. 23 of these inspections were completed without any deficiencies and the average number of deficiencies per inspection for 2018 was 1.19, slightly up compared to 2017 (1.05) and well below 2016 (1.65).

There was less Piracy activity in the Indian Ocean in 2018 compared to 2017 and no vessels were hijacked in this area during 2018. There is still a risk of incidents off the coast of Yemen in the Red Sea, while the activity in the Sulu Sea has decreased also in 2018. The areas are monitored, and vessels are updated and requested to take precautionary measures when entering these areas. There are still some cases of theft and robberies of vessels in the Malacca/Singapore Strait, and the vessels are advised to be vigilant in these areas.

The operation of vessels has an impact on the environment. The Group is taking technical and operational precautions to protect the environment as embodied in the ISM code and MARPOL convention. Furthermore, an effective dry-wet combination trading pattern for the combination carriers with limited number of ballast days is substantially reducing the environmental footprint of these vessels compared to standard dry bulk and tanker vessels and the vessels are well positioned for the global sulphur cap regulation implemented by IMO that take effect in 2020. All newbuilds will comply with the Tier III NOx reduction requirements through installation of SCR (Selective Catalytic Reduction) plants. This will reduce the NOx emissions with more than 75 per cent compared to the Tier II requirements.

The combination carrier company, Klaveness Combination Carriers AS, has in 2018 revised its environmental policy and all aspects of its environmental footprint have been identified and assessed, with mitigating initiatives to be implemented in 2019. The main categories for focus are related to emissions to air and discharges to sea. In addition, initiatives related to transport of invasive species as well as noise and dust will be implemented.

BUSINESS AREAS

COMBINATION CARRIERS

All combination carrier activities were in 2018 consolidated under one holding company, Klaveness Combination Carriers AS (KCC). The existing investors in the single purpose ship owning companies (SPCs) swapped their shares in the SPCs with shares in KCC. In addition, KCC purchased the combination carrier chartering company, KCC Chartering AS, from Rederiaksjeselskapet Torvald Klaveness. The consolidation of ownership and activities under KCC's umbrella was followed by two equity raises of in total USD 57 million and a registration of the shares on N-OTC on October 15. The number of investors increased from three to around 75, laying a strong basis for further development of KCC. As a result of the stronger equity position, additional three options for three combination carrier newbuilds were declared. The KCC fleet will hence consist of 15 vessels at the end of 2020.

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

CLEANBU vessels at the same yard, with delivery in 2021-2022.

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

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

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

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.

Results for Dry bulk were positively impacted by active long and short positions along with market development. However, weather delays and related extended port stays impacted the results negatively.

The overall strategy for Klaveness Dry Bulk is to become the Leading Digital Operator and Trader. Going forward the Dry bulk organisation will focus on: i) Empowering customers through digital solutions, ii) Taking better decisions through data and analytics, iii) Efficiency and scalability through Standardization, Digitization, Automation, and Robotization, iv) Delivering consistent base margins on physical business and v) Delivering consistent position margins through utilizing market intelligence on future market developments.

CONTAINER

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

DIGITAL

The Klaveness Digital portfolio consisted per year-end 2018 of two software products and a big data platform for storing and processing of commercial and operational shipping and logistics data.

During 2018, Klaveness Digital released several new features in the logistics platform "CargoValue" and a dedicated mobile application allowing industrial receivers and shippers to more efficiently collaborate, plan and manage their shipping schedule and inventory. CargoValue was in 2018 mainly used by companies within the Aluminium, Steel and Energy industries, and will going forward target companies within several other industries as well, and one of the main objectives for 2019 is to increase the number of customers from pilot to paying customers. Some of the users have successfully replaced their entire relevant existing work processes with CargoValue and the number of commercial pilots has increased substantially during the year. To support customer growth and increased demand for the CargoValue solution, Klaveness Digital has established a dedicated business development and customer success team.

The "Perform" application has been in use as the primary tool for performance monitoring for commercial operations in Klaveness during 2018, and several new external pilot customers have been added.

In August 2018, Klaveness Digital and Maersk Tankers entered a commercial partnership to drive the development of intelligent digital solutions for the shipping industry, enabling both companies to store and manage large volumes of commercial and operational data. The ambition of the partnership is to bring digital solutions to the market faster and at a lower cost to both parties.

ORGANISATION

Klaveness had a total of 164 employees located in Oslo, Singapore, Shanghai and Manila at year-end 2018. All employees were employed in regional Klaveness offices. In Oslo close to 26 per cent were female, while at the offices in Asia approximately 55 per cent were female. In 2018, one of six managers in Klaveness were female. Absence due to sick leave was satisfactory, averaging 1.38 per cent in 2018. Working conditions for employees are considered to be good.

681 seafarers are employed through manning offices in The Philippines, Romania and South Africa. The retention rate for 2018 was stable at 98 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 2018.

FINANCIAL RESULTS

FINANCIAL RESULTS

Gross revenues from operation of vessels ended at USD 317.5 million (2017: USD 326.6 million), while net revenue from operation of vessels ended at USD 89.7 million (2017: USD 78.0 million). Net revenues were positively impacted by improved dry bulk and container markets and a higher number of caustic soda days and optimal trading pattern for the combination carriers, but were negatively impacted by a weaker tanker market.

EBITDA ended at USD 36.7 million (2017: USD 27.8 million) and the

Group had a Profit/(loss) before tax (EBT) of USD 10.1 million (2017: negative USD 2.1 million). Operating expenses increased by USD 2.0 million compared to 2017, while Ordinary depreciation was stable at USD 22.4 million. The result was affected by impairment reversal of USD 5.0 million related to the container activity and a net currency gain of USD 0.5 million (2017: negative USD 2.0 million). The net result from financial items was in total negative by USD 9.2 million (2017: negative USD 7.5 million).

FINANCIAL POSITION

At year-end 2018, consolidated equity including minority interests was USD 317.7 million (2017: USD 260.2 million), corresponding to a book equity ratio of 54 per cent (2017: 46 per cent). Book equity excluding minority interests was USD 250.3 million (2017: USD 238.0 million). The main changes in equity was the result for the year and capital contributions from minority interests. Interest-bearing debt came down from USD 178.3 million at year-end 2017 to USD 171.4 million at year-end 2018, mainly due to repayment of mortgage debt during 2018. Cash and bank deposits were USD 123.8 million at year-end 2018 and in addition Klaveness had available revolving credit and overdraft facilities of USD 79.4 million.

CASH FLOW

During 2018, Klaveness had a cash flow from operating activities of USD 0.8 million (2017: USD 16.7 million). This is significantly lower than the operating profit before depreciation and impairment (EBITDA) mainly due to increased prepayments to clearing house related to fuels swaps (USD 12.1 million), reduction in accrued voyage related expenses (USD 10.9 million) and reversal of provisions with no cash effect (USD 6.8 million).

The net cash flow from investing activities was negative by USD 30.3 million (2017: negative USD 44.2 million), mainly consisting of USD 28.6 million in payments for vessels under construction and scheduled docking of vessels.

The cash flow from financing activities was positive by USD 46.5 million (2017: negative USD 16.2 million) whereof the main items were capital injections from minority interest of USD 53.3 million and net negative change in mortgage debt of USD 4.8 million.

FINANCING AND GOING CONCERN

Klaveness had two loans falling due in 2018 of in total USD 9 million. The two facilities were refinanced with the existing bank in parallel with merging the existing seven combination carrier bank facilities into two larger facilities. In addition, several 364-days overdraft facilities were refinanced. Bank financing has been secured for the five first CLEANBU newbuilds with delivery in 2019 (3) and 2020 (2). The loan agreement for the two vessels with delivery in 2020 was signed in March 2019. Discussions with respect to financing of one remaining CLEANBU newbuild with delivery in October 2020 are ongoing. No debt facilities fall due in 2019, except for the 364-days overdraft facilities which are extended once a year.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of Torvald Klaveness at year-end 2018 to be solid and the liquidity to be good. Klaveness' current cash flow, existing and committed debt and liquidity position are 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.

THE MARKETS

IMF forecasts the global GDP to grow by 3.5 per cent for 2019, which is down from the 3.7 per cent growth estimated for 2018. In 2018 the global growth momentum cooled after a few years of accelerating growth. The only major economic region that showed year-on-year increases in GDP growth rates was the US, as its GDP growth was estimated at 3.0 per cent, up from the 2.2 per cent posted in 2017.

One reason for lower growth in 2018 is the uncertain political landscape in which the US-Sino trade war, Brexit and Eurozone unrest have caught the headlines and global equities tumbled, with the S&P500 falling close to 10 per cent in fourth quarter 2018.

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

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

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

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

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

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

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

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

RISK AND RISK MANAGEMENT

Klaveness' business is exposed to risks in many areas. Risk assessment, monitoring and implementation of mitigating actions are part of a daily activities and the Board of Directors is presented with a risk assessment report on a quarterly basis. It is important for the Board of Directors that the right risk/reward assessment is made, that internal control routines are good, and the Board of Directors pays high attention to risk analyses and mitigating actions.

MARKET RISK

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

COMMERCIAL RISK

The Group is exposed to commercial risks, particularly on customer acceptance of its fleet of combination carriers. Klaveness makes extensive efforts to secure vetting acceptance of existing vessels and works closely with customers to document that new vessel concepts meet all customer requirements. There are risks associated with increased competition and dependence on a limited number of key customers, and these risks are mitigated through strong operational performance and continuous development of rendered services.

FINANCIAL RISKS

Klaveness has administrative costs in NOK, part of the crew costs in EUR and port costs in several other currencies, while mainly all income is USD-denominated. In order to reduce currency and interest rate risk, Klaveness has sold currency forward with maturity in 2019 and 2020. Interest rate exposure is hedged through derivatives and open exposure is limited.

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

OPERATIONAL RISKS

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 compliance with applicable legislation and the Klaveness Code of Conduct. The organisation is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

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

Klaveness Digital manages data for multiple customers through the CargoValue application and the K-Platform. The operational risks associated with cyber security is managed and documented in the Klaveness Digital Security & Risk Governance program, together with a Disaster Recovery Plan and Cyber Incident Response Plan. Contractual frameworks such as Data Processing Agreements, Terms and Conditions and Service Level Agreements are also in place for all customers of CargoValue and K-Platform.

Klaveness Digital is focused on defining new and refining existing controls. The Klaveness Digital solutions are protected by one of the world's most advanced security infrastructures, powered by the Microsoft Azure Platform. The security framework and cyber security policies are based on the CIS and NIST frameworks and Klaveness Digital's practices are aligned with the best practice guidelines documented by OWASP.

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

ENVIRONMENTAL RISKS

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject the Group to liability without regard to whether the Group was negligent or at fault. Additionally, the Group cannot predict the cost of compliance with any new environmental protection and other laws and regulations that may become effective in the future. Quality is reflected in the approach to all aspects of business activities including vessel owning, management and operations. The policy is to conduct operations with the utmost regard for the safety of employees, the public and the environment, in accordance with sound business practice and in compliance with environmental regulations.

From January 1, 2020, the International Maritime Organization (IMO) has decided that the maximum allowed sulphur content in bunker fuel will be 0.5%, compared to heavy fuel oil used today, with an average sulphur content of 2.45% (and max 3.5%). The new IMO regulations will cause the majority of the world merchant fleet to switch out of high sulphur fuel oil (HSFO) and into middle distillate gasoil (MDO) or very low sulphur fuel oil (VLSFO), creating an expected larger price spread between HFO and MDO/VLSFO. For the combination carriers, higher bunker prices lead to higher earnings as the value of operational efficiency increases.

REGULATORY RISKS

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

OUTLOOK

Global economic activity is expected to stay solid in 2019 despite a slowing growth momentum. Particular downside risks revolve around the political landscape, which increasingly is characterized by high levels of protectionism and uncertainty. In the midst of this uncertainty, the final outcome of the US-Sino trade war will be a deciding factor for 2019.

Klaveness Research's view on the dry bulk market for 2019 is fairly balanced with slowing growth on both sides of the supply/demand equation. Klaveness Research expects an effective fleet growth of less than 2 per cent in 2019, down from 2.6 per cent in 2018 as off-hire related to scrubber installations will decrease nominal fleet growth. However, the demand growth is also expected to be lower in 2019, mainly due to a moderation in global industrial production growth and as the growth in seaborne coal volumes is expected to moderate as China restricts import quotas.

The supply-demand balance in the container market indicates a slight overall improvement in fleet utilization, with fleet growth in 2019 expected to be 3-4 per cent and analysts predicting demand to increase 4-5 per cent over the year. The container market has a seasonal low point in the first quarter and the effects of trade tensions, Brexit and struggling European economies are adding further pressure in the short term. The IMO 2020 rules are on the other hand expected to be a positive factor both in 2019 and 2020, due to increased scrapping, slow-steaming and vessels out for scrubber installations.

As for the container market, the outlook for the product tanker market is cautiously optimistic. The product tanker fleet capacity is expected to increase by 2.6 per cent in 2019 while analysts estimate demand growth to be approximately 3 per cent. Increased refinery capacity going on stream and IMO 2020 impact on clean product trades being two of the upside factors. The CLEANBU concept is new and before the vessels start trading in the targeted clean petroleum products (CPP)-dry bulk combination trades, the vessels will be phased-in in other tanker trades. This will impact earnings negatively during first half of 2019. However, approximately 70 per cent of the targeted caustic soda contract volumes for 2019 was concluded by year-end 2018 and approximately 30 per cent of the dry bulk capacity of the CABU and CLEANBU fleet in 2019 is booked on fixed and floating rate contracts of affreightment, securing the combination trading pattern and limiting downside risk in earnings for the CABU fleet.

THE PARENT COMPANY

The result for the parent company, Rederiaksjeselskapet Torvald Klaveness, was a profit after tax of USD 6.6 million for 2018 (2017: USD 13.8 million). The proposed transfer of the profit for the parent company is shown below:

Transfer to other equity	USD 6.0 million
Dividend	USD 0.6 million

Oslo, 20 March, 2019

Trond Harald Klaveness
Chairperson of the Board

Jan Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Christian Andersen
Board member

Lasse Kristoffersen
Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December (USD '000)	Notes	2018	2017
Gross revenues from operation of vessels	8	317 486	326 560
Voyage related expenses and distribution of pool result	9	(227 784)	(248 549)
Net revenue from operation of vessels		89 702	78 011
Net income/(loss) from physical and financial freight agreements	6	10 182	10 869
Other operating revenue		726	792
Total operating revenues		**100 610**	**89 672**
Operation of vessels	9	(30 691)	(34 545)
Salaries and social expenses	7, 10	(22 122)	(18 816)
Other operating and administrative expenses	11	(11 098)	(8 532)
Operating expenses		**(63 911)**	**(61 893)**
Operating profit/(loss) before depreciation and impairment		**36 699**	**27 779**
Ordinary depreciation fixed assets	14	(22 367)	(22 359)
Impairment/reversal of impairment fixed assets	14	5 000	-
Depreciation and impairment of fixed assets		**(17 367)**	**(22 359)**
Operating profit/(loss)		**19 332**	**5 420**
Income/(loss) from associated companies	16	327	12
Net interest income/(expenses)	12	(8 935)	(9 466)
Other financial income/(loss)	13	(1 090)	3 975
Net currency gain/(loss)		488	(2 013)
Financial income and expenses		**(9 209)**	**(7 492)**
Profit/(loss) before taxes		**10 123**	**(2 072)**
Taxes	33	(4 119)	(4 068)
Profit/(loss) for the year		**6 004**	**(6 140)**
Attributable to:			
Majority interest		3 502	(5 775)
Minority interest		2 502	(365)
Profit/(loss) for the year		**6 004**	**(6 140)**

CONSOLIDATED BALANCE SHEET

As at 31 December (USD '000)	Notes	2018	2017
ASSETS			
Fixed assets			
Deferred tax asset	33	7 100	11 278
Total intangible fixed assets		**7 100**	**11 278**
Vessels	14	281 149	290 516
Newbuilding contracts	15	59 731	37 652
Other assets	14	3 800	2 908
Total tangible fixed assets		**344 679**	**331 076**
Investments in associated companies	16	54	60
Pension funds	7	-	152
Other long-term receivables		217	139
Total financial fixed assets		**271**	**351**
Total fixed assets		**352 051**	**342 705**
Current assets			
Bunkers on board vessels	17	34 006	38 584
Accounts receivable	18	33 843	29 677
Prepaid expenses	19	20 567	15 232
Other short-term receivables	20	26 226	27 629
Bonds and bond funds	21	-	182
Cash and bank deposits	22	123 800	106 793
Total current assets		**238 443**	**218 097**
Total assets		**590 494**	**560 802**

CONSOLIDATED BALANCE SHEET

As at 31 December (USD '000)	Notes	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES			
Equity			
Share capital (10 000 shares of NOK 5 099,82)		8 154	8 154
Other paid-in equity		49 052	49 052
Total paid-in capital		**57 206**	**57 206**
Other equity		193 097	180 762
Total equity before minority interests	5	250 303	237 968
Minority interests		67 373	22 217
Total equity including minority interests	5	317 676	260 185
Long-term liabilities			
Deferred tax	33	-	59
Pension liabilities	7	599	572
Total provisions		**599**	**631**
Mortgage debt	23	113 258	109 105
Long-term bond loan	24	34 217	35 973
Other long-term interest-bearing liabilities	25	9 745	9 971
Total long-term interest-bearing liabilities		**157 220**	**155 049**
Total long-term liabilities		**157 819**	**155 680**
Current liabilities			
Accounts payable	26	21 853	19 596
Accrued expenses	27	16 656	27 538
Taxes payable	33	590	395
Provision dividends	5	600	-
Short-term interest-bearing debt	28	14 225	23 204
Derivatives	21	16 927	16 237
Other short-term liabilities	29	44 146	57 967
Total current liabilities		**114 997**	**144 938**
Total liabilities		**272 817**	**300 617**
Total equity and liabilities		**590 494**	**560 802**

Oslo, 20 March, 2019

Trond Harald Klaveness
Chairman

Christian Andersen
Board member

Jan Tellef Thorleifsson
Board member

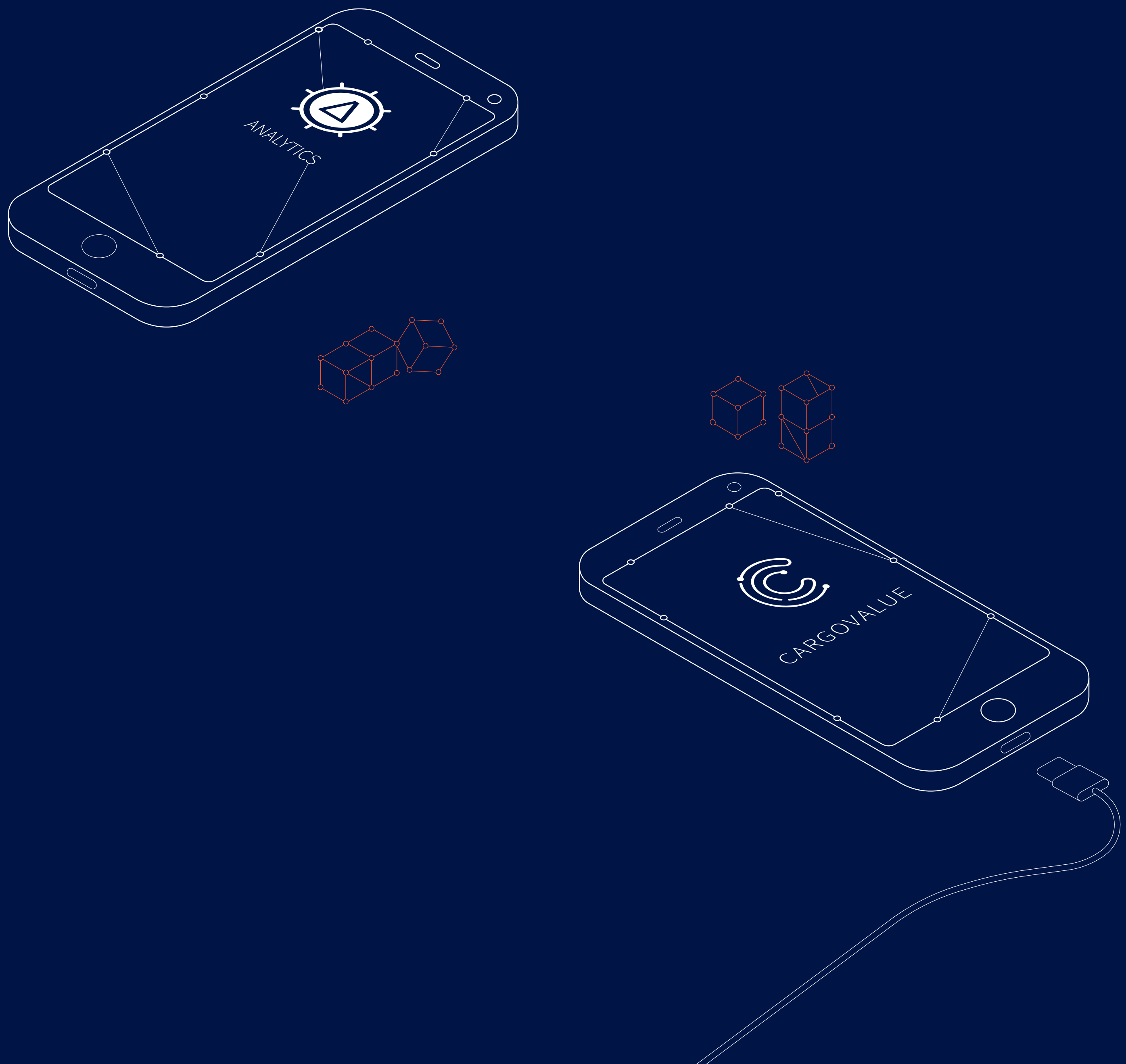
Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December (USD '000)	2018	2017
Cash flow from operating activities		
Net profit / loss (-) before tax	10 123	(2 072)
Taxes paid	(212)	(347)
Depreciation, impairment and reversal of impairment	17 367	22 359
Loss / gain (-) from realisation of vessels and other fixed assets	-	525
Loss / gain (-) from associated companies	(327)	(12)
Unrealized loss / gain (-) on financial instruments	1 876	(3 020)
Unrealized loss / gain (-) on bond loan	(1 885)	-
Amortization of upfront fees bank and bond loans	529	571
Other non-cash items	(303)	-
Decrease / increase(+) provision for loss	(6 817)	(148)
Decrease / increase (-) in prepayment to clearing of derivatives	(11 124)	7 374
Decrease / increase (-) in current assets	4 073	(33 160)
Increase / decrease (-) in current liabilities	(12 729)	24 728
Change in pension liabilities	179	(90)
Net cash flow from operating activities (1)	**750**	**16 709**
Cash flow from investing activities		
Investments in vessels and newbuilding contracts	(22 079)	(40 188)
Docking and other investments in vessels	(6 471)	(2 685)
Investments in other assets	(1 653)	(1 310)
Decrease / increase (-) in other long-term receivables	(78)	13
Net cash flow from investing activities (2)	**(30 281)**	**(44 171)**
Cash flow from financing activities		
Increase in mortgage debt	15 000	36 890
Repayment of mortgage debt	(19 755)	(36 783)
Repayment of bond loan	-	(21 099)
Premium payment financial instruments	(340)	-
Transaction costs on issuance of loans	-	(409)
Transaction costs capital injections	(581)	-
Capital injection from minority interest	53 334	6 500
Purchase of minority shares	(623)	-
Dividend to minority interests	(495)	(1 346)
Net cash flow from financing activities (3)	**46 540**	**(16 247)**
Net increase / decrease (-) in cash (1+2+3)	**17 008**	
Cash and cash equivalents at January 1	106 793	150 501
Cash and cash equivalents at December 31	123 800	106 793
Net increase / decrease (-) in cash	**17 008**	**(43 708)**
Specification of cash and cash equivalents:		
Cash and bank deposits	123 800	106 793
Cash and cash equivalents at December 31	**123 800**	**106 793**

Notes



ANALYTICS
CARGOVALUE

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.

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 recognized 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 22 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 8.1351 in 2018 (2017: 8.2734). At year-end 2018, an exchange rate of 8.6911 (2017: 8.2411) 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 2018, 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.

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.

Subsidiaries:

Company name	Ownership interest per 31 Dec, 2018	Ownership interest per 31 Dec, 2017
Klaveness Asia Pte Ltd. (Singapore)	100 %	100 %
Antarctica Shipping Pte Ltd. (Singapore)	100 %	100 %
Baumarine AS	100 %	100 %
Bulkhandling Handymax AS	100 %	100 %
Klaveness Ship Holding AS	100 %	100 %
Klaveness Cement Logistics AB (Sverige)	100 %	100 %
Klaveness Container AS [5)]	94,7 %	83 %
Klaveness Combination Carrier AS [6)]	63,3 %	-
KCC KBA AS [2)]	63,3 %	100 %
KCC Chartering AS [2)]	63,3 %	100 %
KCC Shipowning AS [2,7)]	63,3 %	100 %
Cargo Intelligence AS [1)]	91,5 %	-
Banasol, Inc. (Monrovia, Liberia) [3, 4)]	100 %	50 %
Cabu Bangor, Inc. (Monrovia, Liberia) [4)]	100 %	100 %
Banastar, Inc. (Monrovia, Liberia) [3, 4)]	100 %	50 %
Cabu V Investment Inc. (Monrovia, Liberia) [3, 4)]	100 %	95 %
Cabu VI Investment Inc. (Monrovia, Liberia) [3, 4)]	100 %	81 %
AS Klaveness Chartering	100 %	100 %
Klaveness Shipping (Shanghai) Co. Ltd. (Shanghai)	100 %	100 %
Klaveness Shore Services Inc. (Manila, Philippines)	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 Digital AS [1)]	91,5 %	100 %
Klaveness AS	100 %	100 %
Klaveness Brasil Representacao de Servicos Maritimos LTDA (Rio de Janeiro, Brazil)	100 %	100 %

Joint Ventures:

Company name	Ownership interest per 31 Dec, 2018	Ownership interest per 31 Dec, 2017
Barklav (Hong Kong) Ltd.A74:I75	50 %	50 %

Associated companies:

Company name	Ownership interest per 31 Dec, 2018	Ownership interest per 31 Dec, 2017
Klaveness Maritime Agency Inc.	24,96 %	24,96 %

1) *Klaveness Digital and Cargo Intelligence AS was demerged from Klaveness AS December 2017. During 2018 8,5 % of the shares have been distributed to employees;*

2) *Changed name and ownership during 2018;*

3) *In end April 2018 KCC Shipowning AS bought shares in Banasol Inc, Banastar Inc, Cabu V Investment Inc, Cabu VI Investment Inc, Baffin Shipping AS and Ballard Shipping AS from minority interests resulting in 100 % ownership in all subsidiaries;*

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

5) *Increased ownership in 2018;*

6) *Klaveness Combination Carriers AS (KCC) was established March 23, 2018 as a 100 % owned subsidiary of Klaveness Ship Holding AS (KSH). A capital increase in April 2018 decreased the ownership in KCC from 100% to 77,3 % and a private equity placement conducted in October 2018 decreased the ownership further down from 77,3 % to 63,3%. The company was listed on the NOTC-list 15. October with ticker code KCC.*

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

03 Major and subsequent events

2019: SUBSEQUENT EVENTS

NEWBUILDINGS

During January 2019, MV Baru the first of the newbuilding Cleanbu vessels were delivered from yard Jiangsu New Yangzi Shipbuilding.

FINANCING

During January 2019 the listed Bond loan KSH03 with maturity date of 27.05.2021 and a face value of NOK 300.0 million (USD 35.3 million carrying amount) were transferred from Klaveness Shipholding AS to Klaveness Combination Carriers AS. The loan agreement for the two vessel with expected delivery in 2020 was signed in March 2019.

VESSELS

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

2018: MAJOR EVENTS

NEWBUILDINGS

No newbuilding delivery in 2018.

IMPAIRMENT REVERSAL

The container market improved during 2018 resulting in an impairment reversal of USD 5.0 million.

PROVISION REVERSAL

During 2018 USD 2.5 million in provisions for losses related to the container business and USD 3.8 million related to the Dry bulk business have been reversed.

CAPITAL INCREASE

Klaveness Combination Carriers AS (KCC) was established March 23, 2018 as a 100 % owned subsidiary of Klaveness Ship Holding AS (KSH). A capital increase in April 2018 decreased the ownership in KCC from 100% to 77,3 % and a private equity placement conducted in October 2018 decreased the ownership further down from 77,3 % to 63,3%. The company was listed on the NOTC-list 15. October with ticker code KCC. Please see seperate group foinancial statements available on www.combinationcarriers.com.

FINANCING

The bank loans for the two vessels Banasol and Banastar were refinanced in 2018. The seven existing bank facilities financing the combination carriers were merged into two larger facilities with the exiting bankgroup.

2017: MAJOR EVENTS

NEWBUILDINGS

The third CABU 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).

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 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 insurances, procedures and systematic training of seafarers and land based employees to manage 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. 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, vessel employment, freight rates and costs. These risks are 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 contract portfolio covers a large part of the vessel capacity for nearby 12 months for the 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 and market movements between sub-markets, e.g. geographical areas.. These risks are monitored continuously and managed according to scenario-based mandates and kept within market- and liquidity risk limits decided 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.

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

At the end of 2018, the Group had one newbuidling to be delivered in January 2019 and two newbuildings expected to be delivered in second half of 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, PHP and SGD. At year-end 2018, the Group had a currency forward portfolio of NOK 188 million and AUD 1.2 million. The currency forward contracts were entered into based on board mandates. NOK 123 million and AUD 1.2 million of the contracts mature in 2019 and the remaining NOK 50 million mature in 2020. The transactions had a negative result of USD 1.2 million in 2018, 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 million
Financial liquid assets nominated in other currencies:	USD 10 million
Interest-bearing debt in USD:	USD 130 million
Interest-bearing debt in other currencies:	USD 10 million
Bond loan (denominated in NOK):	USD 36 million

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, KCC Shipowning AS and Klaveness Ship Holding AS to reduce the exposure. At year-end 2018, 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, 2018 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 2018 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 shipping banks and bond financing. Bank loans have been secured for the three newbuildings on order with delivery in 2019 and bank financing for the two newbuildings with delivery in 2020 is signed.

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 2017	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
Adjustment investment in joint ventures			(52)	(52)	21	(31)
Equity 31 December 2017	**8 154**	**49 052**	**180 760**	**237 966**	**22 217**	**260 185**
Profit for the year			3 502	3 502	2 502	6 004
Proposed dividend			(600)	(600)	-	(600)
Dividends to minority interest				-	(495)	(495)
Share purchase from minority interes			623	623	(623)	
Capital contributions from minority interests					52 753	52 753
Reallocation from minority interests			8 981	8 981	(8 981)	-
Other changes			(169)	(169)		(169)
Equity 31 December 2018	**8 154**	**49 052**	**193 097**	**250 303**	**67 373**	**317 676**

Shareholders		
THK Holding AS	30,0 %	3 000
THK Partner AS	25,3 %	2 530
MMK Holding AS	22,0 %	2 200
JWI Holding AS	22,0 %	2 200
B7 Invest AS	0,7 %	70
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. 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 2019-2022. The expected credit loss corresponding to these contracts was USD 0.5 million at year-end 2018 (2017: USD 2.3 million). The net portfolio value adjusted for statistically estimated losses is negative with USD 0.5 million and a provisions have been made per year end 2018.

The mark-to market value of the portfolio from year-end 2018 and forward had, assuming no credit risk, a total value of USD 0.0 million (2017: USD 10.0 million). 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 2018 were used in this valuation. The net mark-to-market value of the trading portfolio, after deducting the statistically estimated counterparty losses, was thus negative by USD 0.5 million (2017: USD 7.7 million).

USD '000 Result from physical and financial freight agreements	2018	2017
Result from physical and financial freight agreements	10 182	10 869
Net result from physical and financial freight agreements	**10 182**	**10 869**

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 Company has 16 ship-years of time charter-in contracts with maturity below 1 year, and 12 ship-years of time charter-in contracts with maturity between 1 and 3.5 years. The average daily lease rate was USD 12 412. In addition we have 1.5 ship years with index based lease rate.

07 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 96 883. 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, 2018 the defined pension plan included 83 (74) employees. All payments to the defined contribution plan is expensed when paid-in.

In addition to the defined contribution plan, the Group also has two defined benefit plans. These two plans relates to two employees having an extra plan in addition to the defined contribution plan.

Assumptions on which pension calculations are based	2018	2017
Discount rate	2.6 %	2.4 %
Annual salary adjustment	2.8 %	2.5 %
Adjustment of pension plan base amount "G"	2.5 %	2.3 %
Pension adjustment	0.0 %	0.0 %
Expected annual return on the pension plan assets	4.3 %	4.0 %

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

USD' 000 Pension Costs	2018 Secured	2018 Unsecured	2018 Total	2017 Secured	2017 Unsecured	2017 Total
Interest expense on pension liabilities	-	(12)	(12)	(6)	(12)	(18)
Return on pension plan assets	-	-	-	8	-	8
Net return on pension plan assets	-	(12)	(12)	2	(12)	(10)
Present value of the year's pension benefits	-	(16)	(16)	-	(15)	(15)
Amortized change in estimates and plans	-	(29)	(29)	51	(17)	33
Social security tax on pension	-	(4)	(4)	(9)	(4)	(13)
Pension costs (-) / income	**-**	**(61)**	**(61)**	**44**	**(48)**	**(4)**

USD' 000 Pension Costs	2018 Secured	2018 Unsecured	2018 Total	2017 Secured	2017 Unsecured	2017 Total
Pension plan assets (at market value)		-	-	166	-	166
Estimated pension liabilities		(525)	(525)	(14)	(501)	(515)
Social security tax on pension		(74)	(74)	-	(71)	(71)
Total pension plan assets / pension liabilities (-)		**(599)**	**(599)**	**152**	**(572)**	**(420)**

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, 2018. However, the probability that this contract ever will be executed is considered low, as the actual person is currently at the age of 46.

08 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)	2018	2017
Pools:		
Panamax	109 784	129 120
Handymax	63 573	74 242
Total	**173 357**	**203 362**
Own vessels:		
Combination carriers	115 146	100 291
Bulk vessels	-	13
Container vessels	28 983	22 894
Total	**144 129**	**123 198**
Total gross revenue from vessels:	**317 486**	**326 560**

09 Voyage related expenses and operation of vessels

USD'000	2018	2017
Pools:		
Panamax	(104 064)	(123 567)
Handymax	(63 573)	(70 941)
Total expenses pools	**(167 637)**	**(194 508)**
Own vessels:		
Combination carriers	(76 568)	(72 485)
Container vessels	(14 267)	(15 965)
Bulk vessels	(4)	(137)
Total expenses own vessels	**(90 838)**	**(88 586)**
Total voyage related expenses and operation of vessels	**(258 475)**	**(283 094)**
Voyage related expenses (including distribution of pool result)	(227 784)	(248 549)
Operation of vessels	(30 691)	(34 545)
Total voyage related expenses and operation of vessels	**(258 475)**	**(283 094)**

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 to another Torvald Klaveness company.

Combination carriers are operated in a chartering company fully owned by Torvald Klaveness. Expenses include voyage related expenses and non-voyage related vessel operating 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 Salaries and social expenses	2018	2017
Wages	(17 560)	(14 596)
Benefits and insurance	(1 163)	(1 149)
Employer's social security contributions	(1 534)	(1 337)
Net pension cost	(1 045)	(1 024)
Welfare expenses	(821)	(710)
Total salaries and social expenses	**(22 122)**	**(18 816)**
Average number of man-years (on-shore Oslo)	76	72
Average number of man-years (on-shore abroad)	92	84

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.

Remuneration to management	2018	2017
Remuneration to the Board of Directors	(268)	(255)
Remuneration to the Chief Executive Officer [1)]	(540)	(485)

1) *incl. salaries and pension cost*

In 2018, Trond Harald Klaveness received a compensation of USD 76 thousand for his work as senior advisor, in addition to the remuneration of USD 86 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 60 shares (0.6 %) in Rederiaksjeselskapet Torvald Klaveness in 2018. 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. The CEO owns 0.7% of the shares in Rederiaksjeselskapet Torvald Klaveness after the aquisition. There are no post-employment benefit agreements.

During 2018 170 shares in subsidiary Klaveness Digital AS have been distributed to seven employees.

11 Other operating and administrative expenses

(USD '000)	2018	2017
Administrative expenses	(8 396)	(6 037)
Outsourcing, consultancy and legal fees	(1 609)	(1 054)
Audit fee [1)]	(248)	(291)
Other services from auditor [1)]	(271)	(133)
Other operating expenses	(574)	(1 017)
Total other operating expenses	**(11 098)**	**(8 532)**

1) *Excluding VAT*

12 Interest income and expenses

(USD '000)	2018	2017
Interest income	1 764	933
Mortgage interest expenses [1)]	(10 171)	(9 828)
Other interest income/(expenses)	(529)	(571)
Net interest income/(expenses)	**(8 935)**	**(9 466)**

1) *Including effect of interest rate hedging*

13 Other financial income and loss

(USD '000)	2018	2017
Realised gain / (loss) financial instruments	216	191
Unrealised gain / (loss) financial instruments	(1 876)	4 932
Other financial expenses	570	(1 148)
Net other financial income/(loss)	**(1 090)**	**3 975**

14 Tangible fixed assets

USD'000 Salaries and social expenses	Combi Carriers	Container Vessels	Other assets	Total fixed assets
Cost 1 January 2018 - vessels/other assets	308 963	270 699	21 794	601 455
Cost 1 January 2018 - docking	13 698	8 027	-	21 725
Delivery of newbuildings/adjustment of aquisition value	2 515	-	-	2 515
Additions	1 574	3 057	1 653	6 284
Disposals	-	-	(4 035)	(4 035)
Cost 31 December 2018 - vessels/other assets	311 478	270 699	19 412	601 589
Cost 31 December 2018 - docking	15 272	11 084	-	26 356
Accumulated depreciation 31 December 2018	(159 825)	(45 820)	(14 851)	(220 496)
Accumulated impairment 31 December 2018	-	(121 830)	(761)	(122 591)
Net book value 31 December 2018 - vessels/other assets	159 352	111 134	3 800	274 286
Net book value 31 December 2018 - docking	8 377	2 285	-	10 663
Net book value 31 December 2018 - total	**167 729**	**113 419**	**3 800**	**284 948**
Depreciation for the year, 2018 - vessels/other assets	(13 973)	(3 889)	(761)	(18 623)
Depreciation for the year, 2018 - docking	(2 619)	(1 124)	-	(3 743)
Total depreciation 2018	**(16 592)**	**(5 014)**	**(761)**	**(22 367)**
Impairment/impairment reversal for the year, 2018	-	**5 000**	-	**5 000**
Number of vessels by the end of 2018	9	8	-	17
Average useful life	20	25	-	23
Average remaining useful life	9	18	-	13

USD'000 Salaries and social expenses	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
Adjustment of capitalised cost	-	-	-	-
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 December 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

14 Tangible fixed assets

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

Hold back agreement - When MV Ballard was delivered (May 2017), an amount of USD 4.0 million was witheld from the delivery installment. The yard was obligated to complete pending items related to the sister vessels MV Ballard, MV Balboa and MV Baffin due to vibration issues. All three new CABU vessels have finished the upgrades. In April 2018, a settlement agreement with the yard was reached. All costs related to the upgrade were covered by the hold back agreement. Total settled amount with the yard amounts to USD 3.4 million, of which USD 0.9 million was capitalised as vessels in 2017 and remaining USD 2.5 million was capitalised as vessel in 2018. Lost earnings and bunker consumption during offhire was compensated as part of the settlement agreement. An amount of USD 1.4 million in total was recognised as revenue included in total revenue vessels; USD 0.6 million in 2017 and USD 0.8 million in 2018.

Docking - During 2018 four vessels have been in scope for docking
Combination carriers: Banasol
Container vessel: Balao, Ballenita and Balsa.

DISPOSALS

No disposals of vessels in 2018.

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 2018 (2017: 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 2022 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 2018, hence an impairment reversal of USD 5.0 million in total has been identified for two container vessels at year end. For the combination carrier vessels no impairment testing triggering event identifed.

The below summarizes the total impairment cost/reversal:

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

15 Newbuilding contracts

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

The Group also has six CLEANBU combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2019 and 2020. The contract includes options for further vessels.

Impairment loss (-)/ reversal 2018	Combination Carriers	Total
Cost 1.1	37 652	37 652
Borrowing cost	867	867
Yard installments paid	19 151	19 151
Other capitalized cost	2 061	2 061
Net carrying amount at 31 December	**59 731**	**59 731**

Impairment loss (-)/ reversal 2017	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**

16 Associated companies and join ventures

Associated companies (USD '000) Company	Acquisition	Ownership (direct + indirect)	Acquisition cost	Share of result 2018	Book value per 31 Dec 2018	Share of result 2017	Book value per 31 Dec 2017
Klaveness Maritime Agency Inc.	2011	24,96 %	25	25	54	12	60
Total associated companies			**25**	**25**	**54**	**12**	**60**

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 2018, Torvald Klaveness' share of loss from Barklav was USD 0.1 million and the share of equity is USD 0.4 million.

17 Bunkers on board vessels

(USD '000)	2018	2017
Bunkers	32 788	37 365
Luboil	1 218	1 219
Bunkers on board vessels	**34 006**	**38 584**

18 Accounts receivable

(USD '000)	2018	2017
Accounts receivable from charterers	39 857	35 557
Accounts receivable from owners	4 596	4 374
Other accounts receivable	418	243
Provision for unsettled income	(1 734)	(615)
Provision loss on accounts receivable [1)]	(9 294)	(9 881)
Accounts receivable	**33 843**	**29 677**

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)	2018	2017
Prepaid mark-to-market margin	7 594	-
Prepaid time charter hire	10 567	12 798
Other prepaid expenses	2 406	2 434
Prepaid expenses	**20 567**	**15 232**

Prepaid amount to cover the variation margin for FFAs and fuel swaps has increased during 2018 due to changes in market assumptions and portfolio value at year end.

20 Other short-term receivables

(USD '000)	2018	2017
Accrued voyage income	17 103	17 332
Accrued interest income	16	-
Claims (insurance and other)	647	-
Other short-term receivables	8 460	10 297
Other short-term receivables	**26 226**	**27 629**

21 Financial instruments

USD'000	2018 Cost	2018 Market Value	2017 Cost	2017 Market Value
Cross currency interest rate swap agreements	-	(16 477)	-	(14 895)
Interest swap agreements	-	(567)	-	(1 342)
Total derivatives (non-hedging)	**-**	**(17 044)**	**-**	**(16 237)**

FINANCIAL INSTRUMENTS FOR NON-HEDGING PURPOSES

As per December 31, 2018 the group has ten interest swap agreements and two interest cap for non-hedging purposes (2017: six 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 2018 was negative by USD 0.6 million (2017: negative by USD 1.3 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)	2018	2017
Bank deposits in USD	115 193	96 166
Bank deposits in NOK	5 268	7 831
Bank deposits in other currencies	1 767	1 263
Withholding tax accounts, restricted	670	646
Other restricted accounts	531	521
Cash	371	366
Total cash and bank deposits	**123 800**	**106 793**
Hereof cash and bank deposits related to subsidiaries with ownership interest less than 90 %	88 263	16 165

The Group has USD 79.4 million available for drawing on a revolving credit and overdraft facilities per year-end 2018.

23 Mortgage debt

(USD '000)	2018	2017
Mortgages, USD denominated	126 363	130 892
Capitalized loan fees	(905)	(1 238)
First year installments and loans falling due within one year	(12 200)	(20 549)
Total long-term mortgage debt	**113 258**	**109 105**
Hereof mortgage debt related to subsidiaries with ownership interest 90 % or less	107 846	42 482
Repayment schedule:		
Falling due within one year	12 200	20 549
Falling due between one and three years	27 446	19 097
Falling due after three years	73 612	91 245
Total mortgage debt	**113 258**	**130 892**
Book value of vessels with mortgage debt	**281 149**	**290 516**

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 to 2.75 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.

The group has secured financing for five newbuilding vessels. One already delivered in January 2019, two with expected delivery in 2019 and two with expected delivery in 2020. The owner of the vessels KCC Shipowning 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 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, 2018, with one exception. Baumarine AS has a requirement from the lender to have at least 18 vessels in its fleet. In December 2018, the number of vessels fell to 17. DNB subsequently waived the covenant until Baumarine AS' overdraft facility matures in April 2019. Overdraft on the facility is presented as current liabilities.

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.

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 related to bond loan per December 31, 2018.

Bond loan	Face value NOK'000	Date of maturity	Carrying amount 2018	(USD'000) 2017
KSH03				
Original loan amount	300 000	May 27, 2021	35 273	35 273
Exchange rate adjustment			(755)	1 130
Capitalized expenses			(301)	(430)
Total KSH03	**300 000**		**34 217**	**35 973**
Bond loan as of 31 December	**300 000**		**34 217**	**35 973**

25 Other long-term interest-bearing liabilities

(USD '000)	2018	2017
Long-term debt to related parties (note 32)	9 717	9 937
Other long-term interest-bearing liabilities	28	33
Total other interest-bearing long-term liabilities	**9 745**	**9 971**

26 Accounts payable

(USD '000)	2018	2017
Accounts payable to charterers	2 439	1 742
Accounts payable to owners	1 426	3 280
Accounts payable to brokers	2 862	1 292
Accounts payable to bunkers suppliers	10 839	10 166
Other accounts payable	4 287	3 115
Accounts payable	**21 853**	**19 596**

27 Accrued expenses

(USD '000)	2018	2017
Accrued interest expenses	999	992
Accrued voyage expenses	15 657	26 545
Accrued expenses	**16 656**	**27 538**

28 Short-term interest-bearing debt

(USD '000)	2018	2017
First year installments of long-term debt (note 23)	12 200	20 549
Short-term debt related parties	2 025	2 656
Total short-term interest-bearing debt	**14 225**	**23 204**

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 Accrued expenses

(USD '000)	2018	2017
Received mark-to-market margin on cleared FFAs	483	4 013
Unearned income	16 804	16 292
Public duties payable	390	-
Payables related to wages and crewing	1 510	1 585
Provisions for losses [1)]	383	7 200
Pool-hire payable	6 825	6 639
Other short-term liabilities	17 751	22 238
Other short-term liabilities	**44 146**	**57 967**

1) *Pe December 31, 2018 USD 0.4 million related to physical and financial freight agreements remains. See also* *note 6* *related to freight agreements.*

30 Hedging

Torvald Klaveness uses financial instruments to hedge against certain financial risks. In 2018, 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.

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.

			2018		2017	
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	149	33	(1 571)	3
Interest mortgage loans	Interest rate swaps	Interest income/expenses	-	-	74	(36)
Bunkers cost	Fuel swaps	Operation of vessels and voyage related expenses	1 717	(918)	588	770
Crew costs	Foreign exchange currency contracts	Crewing related expenses	-	-	(18)	-
Salaries in NOK	Foreign exchange currency contracts	Salary related expenses	(75)	(489)	(22)	48
SUM hedging			**1 791**	**(1 375)**	**(948)**	**785**

31 Guarantee liabilities and collateral

In favour of external parties:

Guarantee to	Guarantee description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for the revolving credit facility partly financing the eight vessels in Klaveness Container AS.	Drawn amount USD 18 million, max limit 105 million incl interest, expenses and exposures under derivatives
SEB	Guarantee for any claim arising under the performance of a specific contract of afreighment.	USD 0.9 million
Jiangsu New Yangzi Shipbuilding Co. Ltd	Klaveness Combination Carriers AS guarantees on behalf of KCC Shipowning AS (part of the KCC Group) to the yard for the 3rd and 4th installments for the shipbuilding contracts YZJ 2015-1226, YZJ2015-1227 and YZJ 2015-1228.	USD 9.3 million per newbuilding + 5 % interest p.a.

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'		2018		2017	
Company	Interest Rate	Interest	Liabilities	Interest	Liabilities
Brigantina AS	NIBOR 6m + margin	112	2 818	111	2 859
THK Holding AS	NIBOR 6m + margin	84	2 047	84	2 111
THK Partner AS	NIBOR 6m + margin	74	1 826	74	1 851
MMK Holding AS	NIBOR 6m + margin	63	1 519	62	1 564
JWI Holding AS	NIBOR 6m + margin	62	1 507	62	1 552
Total		**395**	**9 717**	**394**	**9 937**

THK Holding AS, THK Partner AS, MMK Holding AS and JWI Holding AS together own 99,3% 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'		2018		2017	
Company	Interest Rate	Interest	Liabilities	Interest	Liabilities
Trond Harald Klaveness	"skjermingsrenten"	13	2 001	11	2 117
Morten Mathias Klaveness	"skjermingsrenten"	2	10	1	219
Jan Wilhelm Klaveness	"skjermingsrenten"	2	14	2	320
Total		**17**	**2 025**	**14**	**2 656**

33 Taxes

(USD '000)	2018	2017
Income taxes payable	-	(218)
Change in deferred tax asset	(4 119)	(3 822)
Tax adjustments previous years/other corrections	-	(28)
Total tax (expense) / income	**(4 119)**	**(4 067)**

	2018		2017	
Temporary differences - ordinary taxation:	**Position**	**Tax effect**	**Position**	**Tax effect**
Temporary differences on fixed assets	-4 425	-974	3 818	878
Temporary differences on current assets	18 352	4 037	17 637	4 057
Tax losses carried forward	92 258	20 297	86 922	19 992
Net temporary differences	**106 185**	**23 361**	**108 378**	**24 927**
Deferred tax asset (-) not recognised in balance sheet		(16 261)		13 709
Deferred tax asset in balance sheet 22 % (23% in 2017)		**7 100**		**11 278**
Deferred tax liability in the balance sheet 22 % (23 % in 2017)		**-**		**(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. Two of the Group companies are 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 1.7 million in 2018, based on an evaluation of the probability of future use of the tax position at group level.

	2018		2017	
Tax payable:	**Income**	**Tax effect**	**Income**	**Tax effect**
Profit / (loss) before taxes	10 123	2 328	(2 072)	(518)
Permanent differences	(7 929)	(1 824)	(5 155)	(1 289)
Change in temporary differences	(7 529)	(1 732)	(4 358)	(1 090)
Change in tax losses carried forward	5 336	1 227	11 609	2 902
Taxable income / tax payable		**0**		**6**
Tax payable - foreign subsidiaries		466		212
Tonnage tax (included in operation profit)		123		177
Total tax payable in the balance sheet		**589**		**395**

INCOME STATEMENT- PARENT COMPANY

USD '000	Notes	2018	2017
Operating expenses	Note 2	(3 268)	(3 045)
Operating profit/(loss)		**(3 268)**	**(3 045)**
Financial income and expenses			
Income from subsidiaries	Note 4	9 317	17 807
Gain/(loss) from sale of subsidiaries	Note 4	11	0
Net interest income/(expenses), group companies		(736)	(1 211)
Net other financial income/(expenses)		54	54
Net currency gain/(loss)		1 182	162
Net financial income/(expenses)		**9 829**	**16 812**
Profit/(loss) before taxes		**6 560**	**13 768**
Taxes	Note 10	0	0
Profit/(loss) for the year		**6 560**	**13 768**

BALANCE SHEET - PARENT COMPANY

USD '000	Notes	2018	2017
ASSETS			
Financial fixed assets			
Investments in subsidiaries	Note 4	67 467	68 987
Total fixed assets		**67 467**	**68 987**
Current assets			
Receivables, Group companies	Note 5	5 997	17 860
Other accounts receivables		0	3
Bank deposits	Note 6	105	51
Total current assets		**6 102**	**17 914**
Total assets		**73 569**	**86 900**
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		42 417	36 457
Total equity	Note 7	**61 425**	**55 465**
LIABILITIES			
Long-term liabilities			
Loan, group companies	Note 8	8 531	28 588
Total long-term liabilities		**8 531**	**28 588**
Current liabilities			
Short-term liabilities, group/related companies	Note 9	3 000	2 800
Dividend	Note 7	600	0
Debt to related parties		12	34
Other short-term liabilities		0	13
Total current liabilities		**3 612**	**2 847**
Total liabilities		**12 143**	**31 435**
Total equity and liabilities		**73 569**	**86 900**

Rederiaksjeselskapet Torvald Klaveness

Oslo, 20 March, 2019

Trond Harald Klaveness
Chairman

Christian Andersen
Board member

Jan Tellef Thorleifsson
Board member

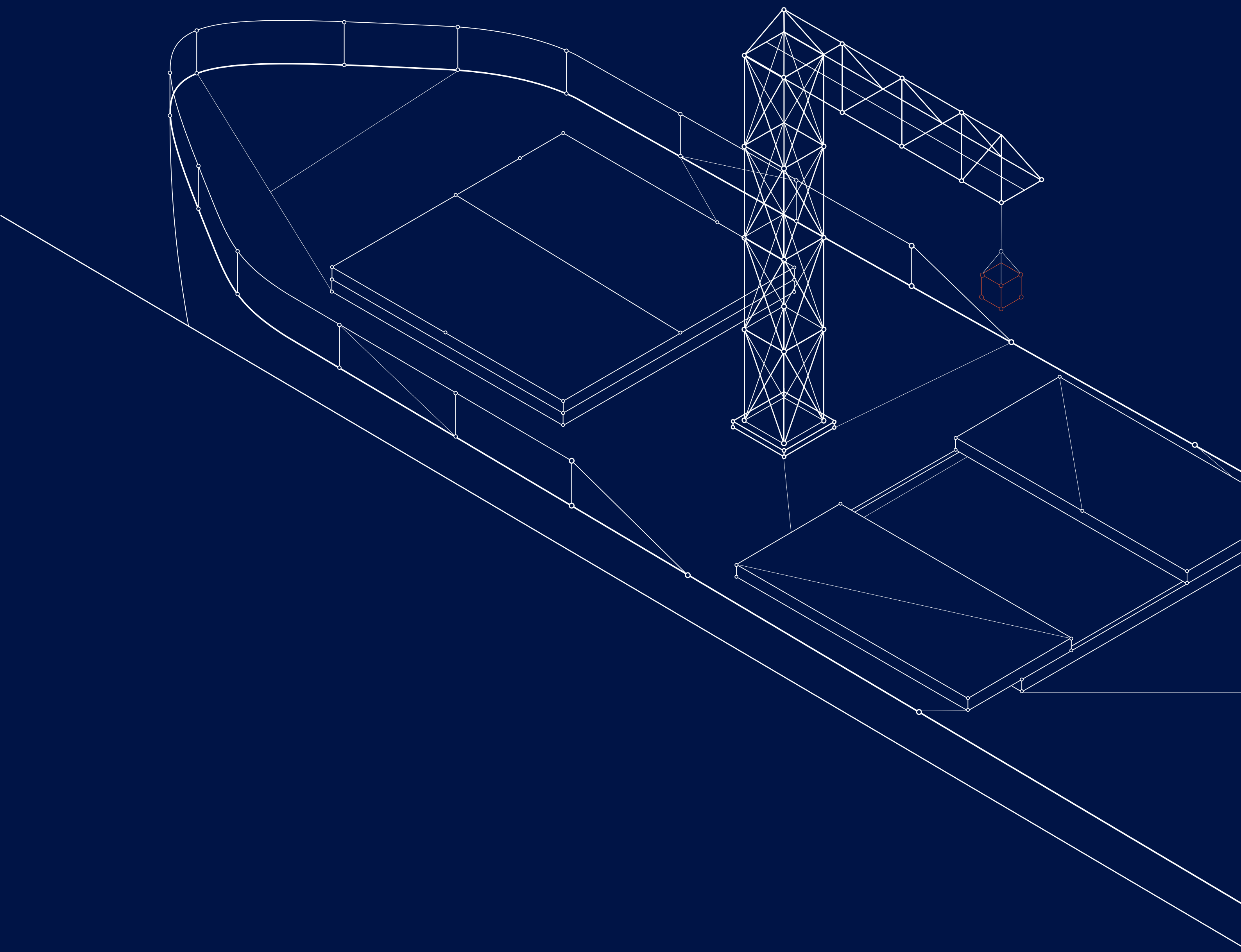
Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

CASH FLOW STATEMENT – PARENT COMPANY

For the year ended 31 December (USD '000)	2018	2017
Profit/(loss) before taxes	6 560	13 768
Income from subsidiaries	(9 317)	(17 807)
Share of profit from subsidiaries	(11)	0
Change in current assets	56	(52)
Change in current liabilities	165	(199)
Effect from change in exchange rate	(1 182)	(162)
Net cash from operating activities (1)	**(3 729)**	**(4 453)**
Income from subsidiaries	3 320	0
Change in investment in subsidiaries	1 500	(2 185)
Sale of subsidiaries	31	0
Net cash from investing activities (2)	**4 851**	**(2 185)**
Increase in long term liabilities to group companies	3 685	6 625
Decrease in long term liabilities to group companies	(23 742)	(6 865)
Received Group contribution	18 989	6 865
Net cash from financing activities (3)	**(1 068)**	**6 625**
Net increase/decrease (-) in cash (1+2+3)	**53**	**(14)**
Cash at January 1	51	65
Cash at December 31	105	51
Net increase/decrease (-) in cash	**53**	**(14)**

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)	2018	2017
Remuneration to the Board of Directors	(268)	(255)
Audit fee	(54)	(48)
Other expenses	(2 947)	(2 742)
Total operating expenses	**(3 268)**	**(3 045)**

There are no employees in Rederiaksjeselskapet Torvald Klaveness. The Chief Executive Officer (Mr. Lasse Kristoffersen) was per December 31, 2018 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:	2018	2017
Auditing ex. VAT, statutory	(54)	(60)
Tax and other services ex. VAT	(9)	(4)
Total remuneration to the auditor	**(63)**	**(65)**

04 Investments in subsidiaries

(USD '000) Subsidiaries (acquisition year)	Share Capital	Group contr. & dividends in 2018	BV changes in 2018	Book value 2018	Book value 2017
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	5 997		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			5 397	5 397
KCC Chartering AS (2002)	NOK 940	11	(20)	0	20
Klaveness Digital AS (2017)	NOK 100			6 571	6 571
Klaveness Asia Pte. Ltd., Singapore (2006)	USD 7 000	3 320	(1 500)	500	2 000
Total investments in subsidiaries		**9 328**	**(1 520)**	**67 467**	**68 987**

05 Receivables, group companies

(USD '000)	2018	2017
Klaveness Finans AS	0	53
Klaveness Finans AS - Group contribution	5 997	17 807
Total receivables, group companies	**5 997**	**17 860**

06 Bank deposits

(USD '000)	2018	2017
Bank deposits	105	51
Total bank deposits	**105**	**51**

07 Equity

(USD '000) 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**

(USD '000) 2018	Share Capital	Other paid-in capital	Other equity	Total equity
Equity at 1 January 2018	**8 153**	**10 855**	**36 457**	**55 465**
Profit/(loss) for the year			6 560	6 560
Dividends			(600)	(600)
Equity at 31 December 2018	**8 153**	**10 855**	**42 417**	**61 425**

For information regarding ownership, refer to group notes.

08 Loan, group companies

(USD '000)	2018	2017
Loan from Klaveness Finans AS	8 531	28 588
Total receivables, group companies	**8 531**	**28 588**

Terms for repayment have not been negotiated.

09 Short-term liabilities, group/related companies

(USD '000)	2018	2017
Klaveness AS	3 000	2 800
Total short-term liabilities, group/related companies	**3 000**	**2 800**

10 Taxes

(USD '000) Income taxes consist of:	2018	2017
Change in deferred tax / deferred tax asset	0	0
Total tax expense / (income)	**0**	**0**

Taxable income:	2018	2017
Profit/(loss) before tax	6 560	13 768
Permanent differences	(7 262)	(15 659)
Group contribution with tax effect	1 579	0
Limitation of interest rate deduction	0	1 185
Tax loss carried forward / (Use of tax loss carried forward)	(1 525)	706
Taxable income	**0**	**0**

Reconciliation of the effective tax rate:	2018	2017
Profit/(loss) before tax	6 560	13 768
Expected income tax (23 %)	1 509	3 304
Tax effect of group contribution from subsidiary included as income	(1 379)	(4 274)
Tax effect of dividend from subsidiary included as income	(766)	0
Tax effect of group contribution	363	0
Exchange rate differences	475	179
Tax effect of limitation of interest rate deduction	149	284
Write down of deferred tax	(351)	506
Total tax expenses / (income)	**0**	**0**

Deferred tax / Deferred tax asset:	2018	2017
Tax loss carried forward (tax effect)	6 146	6 776
Limitation of interest rate deduction	988	1 089
Deferred tax asset not recognised in balance sheet	(7 134)	(7 865)
Net recognised deferred tax / (deferred tax asset)	0	0
Change deferred tax / deferred tax asset	**0**	**0**

Building a better working world

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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 sheets as at 31 December 2018 the income statement, statement of comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the 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 2018 and their financial performance and cash flows 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 Managing Director (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of 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, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

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

Oslo, 20 March 2019
ERNST & YOUNG AS

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

01APR19 v.12