Torvald Klaveness

IMPROVING THE NATURE OF SHIPPING

Annual Report 2019

Key figures

Equity ratio	Cash and cash equivalents	Vessels under management
47%	90	73

USD million	2019	2018	2017
Profit and loss			
Gross operating revenues [1]	285	317	327
EBITDA	1	37	28
Profit/(loss) after tax (excl. minority interests)	(32)	4	(6)
Profit/(loss) after tax (incl. minority interests)	(31)	6	(6)
Balance sheet			
Total assets	680	590	561
Total equity (incl. minority interests)	323	318	260
Total equity (excl. minority interests)	222	250	238
Interest-bearing debt	260	171	178
Cash and cash equivalents	90	124	107
Cash flow from investing activities			
Investments in vessels and newbuilding contracts	172	29	43
Equity ratios			
Equity ratios (excl. minority interests)	33%	42%	42%
Equity ratios (incl. minority interests)	47%	54%	46%
Employees			
Number of employees onshore [2]	161	168	157
Vesssels [3]			
Pool vessels	24	29	35
Klaveness Chartering - chartered vessels	29	67	96
Combination carriers	12	9	9
Container vessels	8	8	8
Vessels under construction	5	6	3

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

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

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

Letter from the CEO

Ready for action

With 2019 we ended a decade of change and development in Klaveness. The company and our surroundings look quite different today than back in 2009. Back then the main theme was what the consequences of the financial crisis would be. Today, there is still significant uncertainty with trade war, slower economic growth and not least in the rapid spread of the COVID-19 virus in the early part of 2020. But the main themes that will dominate the next decade is likely to be decarbonization and digitization. Klaveness has had these as the cornerstones of our strategy over the last five years and I believe we are well position to capitalize on both.

Our combination carriers, owned and operated through Klaveness Combination Carriers ASA (KCC), represent the most carbon effective deep-sea transportation system in the world with 40% lower emissions than a standard vessel. The vessels are attractive for both our customers, for the society in general and investors and that was why we were able to successfully list the company on the Oslo Stock Exchange in 2019. With the listing we raised additional equity, allowing the company to increase its new building program of CLEANBU vessels. By the end of 2019, KCC had a fleet of nine CABU vessels and three CLEANBU vessels trading. In addition, the company had five CLEANBU vessels on order for delivery in 2020 and 2021. The CABU vessels continued to deliver critical logistics solutions for the aluminum industry and the CLEANBU vessels proved their potential in the Clean Petroleum products and dry bulk trade. With increasing attention to low carbon shipping, we believe the next decade will be the decade of the combination carriers.

Five years ago, Klaveness initiated our dedicated effort to use data and digital technology to renew the way we serve our customers, to improve the way we make decisions and to increase efficiency and quality of our own processes. Klaveness Digital has been established to develop and deliver digital customer solutions. Their flagship product, CargoValue, is a cloud-based solution that industrial customers can use to better manage their seagoing logistics and through that their inventory management. 2019 was in many ways the break-through year for CargoValue where a range of large, industrial companies started to use the solution in their business. By the end of the year the solution had reached a milestone of 1 MUSD in Annual Recurring Revenue (ARR) and we were in dialogue with more than 300 customers on their potential use of the solution. If we continue to deliver on our development plans, CargoValue and Klaveness Digital will become a significant part of Klaveness' business through the next decade.
2019 also had its challenges and our Dry Bulk business faced a tough year. Partly due to extremely volatile markets, but mostly due to our own ability to master them. As a consequence, we decided to focus our efforts and close down the activity in the Supramax segment.

Unfortunately, with the consequence that we had to see some good and close colleagues leave the company. Going forward the Dry Bulk business will focus on growing and developing in the Panamax segment and we are optimistic that we will be able to develop a profitable business providing valuable service to our customer.

Lasse Kristoffersen, CEO

Klaveness also owns and operates a fleet of eight container vessels in the feeder segment. 2019 saw a sideways development in rates compared to previous year and due to the majority of the fleet were due for dry docking we were not able to close the year in with a positive result.

In 2019, our employees went back to school. The entire organization spent significant time and efforts in upgrading their competence and capabilities in data and analytics. We believe this is key to succeed and look forward to harvesting from this investment in the years to come.

The start of 2020 and the new decade has proven challenging in the world, but we believe that we are well positioned and ready to take action on the opportunities decarbonization and digitization represent.

Board of Directors' report 2019

Highlights

Safety is priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2019.

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:

- Klaveness Combination Carriers ASA (KCC) continued to expand its business in 2019. The company was listed on Oslo Axess in May 2019, it took delivery of three next generation combination carriers, the CLEANBUs, and declared additional two CLEANBU newbuild options. Klaveness is today the largest shareholder of KCC holding 53.8% of the shares.

- Klaveness continued to invest in digital initiatives in 2019 and Klaveness Digital experienced strong customer growth for the CargoValue product during the year. CargoValue is a logistics platform for industrial companies sourcing and shipping raw materials. The platform allows teams to efficiently plan and manage their shipping schedule and inventory in one unified solution in real-time.

- Within the dry bulk segment, Klaveness has had a particular stronghold in Panamax, Kamsarmax and Post-Panamax and there are significant synergies with the rest of the Group in this segment. In order to grow and develop this business further, Klaveness decided in 2019 to scale down its activity in the Supramax segment. Early 2020, Klaveness entered into a strategic partnership with Marubeni, establishing the joint company Maruklav Inc as the manager for the Baumarine pool.

Health, safety and environment

The fleet experienced no major, seven medium and 37 minor injuries in 2019. Injuries that require repatriation of crew members but with no long-term disability 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. Klaveness is monitoring the development of the COVID-19 virus outbreak and is continuously assessing current and potential impact on employees, crew and operations. Initial mitigating actions have been implemented and further mitigating actions will be evaluated going forward. In 2019, there were 14 vetting inspections of the CABU and CLEANBU combination carriers. Average number of observations per inspection for the Ship Inspection Report Programme (SIRE) vettings in 2019 were 5.50 up from an average of 3.16 in 2018. The fleet under technical management by Klaveness Ship Management AS went through 41 Port State Controls in 2019, with one detention. The detention related to a cargo heater explosion on board a CABU vessel. No crew or shore personnel were injured, and precautionary measures have been implemented to avoid similar situations in the future. 23 of the inspections were completed without any deficiencies and the average number of deficiencies per inspection for 2019 was 1.56, up from 1.19 in 2018. Observations per inspection/vetting are up compared to 2018 mainly due delivery of three newbuilds were it is common to see increased number of observations in the phase-in period.

The situation in the Persian Gulf/Gulf of Oman has in periods during 2019 been tense, however, the threat for merchant vessels is considered moderate by Den Norske Krigsforsikring for Skib (DNK). In Eastern Mediterranean there is still a risk of running into migrants but there were no such incidents in the Klaveness fleet in 2019. In both of these areas, spoofing of GPS/communications systems is an increasing problem. When trading in these areas, Klaveness has instructed the fleet to take precautions as per recommendations from flag state. There has not been reported any approaches or boarding attempts in the Indian Ocean in 2019. The latest update from DNK shows that they expect the risk to decrease further due to the monsoon season and the current political situation in Somalia.

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 International Safety Management Code (ISM-code) and MARPOL convention. Furthermore, the effective dry-wet combination trading pattern for the combination carriers with limited number of ballast days substantially reduces the environmental footprint of these vessels compared to standard dry bulk and tanker vessels in the same trading pattern, giving up to 40% reduction in CO2 emissions for the same transport work. All CLEANBU vessels complies 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% compared to Tier II requirements. All vessels were in compliance with the sulphur cap regulation implemented by the International Maritime Organization (IMO) 1 January 2020 by using compliant Low Sulphur Fuel Oil.

The combination carrier business, KCC, has in 2019 finalized the revised environmental policy and set ambitious targets for both short-term and long-term initiatives to substantially exceed the 2030 and 2050 emission targets set by the IMO for the shipping industry. In its environmental strategy, KCC aims to reach a carbon neutral operation within 2030 and a zero-emission operation within 2050. Sustainability is an integrated part of KCC's business and reporting and KCC commits to full transparency on its environmental performance and intends to obtain a third-party verification of its environmental KPIs on an annual basis.

Business areas

Klaveness Combination Carriers

Following the consolidation of the combination carrier activities in Klaveness Combination Carriers ASA in 2018, the company was listed on Oslo Axess in May 2019. Torvald Klaveness is the controlling owner with a shareholding of 53.8%. In relation to the listing, KCC raised USD 38.8 million in equity and declared additional two CLEANBU newbuild options with estimated delivery in first quarter 2021. KCC took delivery of three CLEANBU vessels in 2019 and by year-end 2019, the fleet consisted of nine CABU vessels and three CLEANBU vessels on water and five CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China. The remaining CLEANBU newbuilds are estimated to be delivered in Q2 2020 (1), Q3 2020 (1), Q4 2020 (1) and Q1 2021 (2). The KCC group holds in addition five 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, iron ore and coal. While caustic soda shipments were mainly based on contracts of affreightment, dry cargoes were partly spot and partly contract shipments. The % of days in main combination trades decreased somewhat in 2019 compared to 2018 and ended at 74%, mainly due to lower caustic soda volumes on the back of a force majeure situation under one of the contract of affreightments and some postponed volumes under another contract. The caustic soda volumes increased in the second half of the year and time charter earnings for the CABU vessels were satisfactory in total for the year. Un-schedule off-hire was stable compared to 2018 at 2 days in average per vessel. The vessels MV Banastar and MV Barcarena were dry-docked during 2019.

The three first CLEANBU vessels were delivered in January, July and September 2019. The vessels were introduced in caustic soda and clean petroleum product trades prior to starting combination trading. When trading as combination carriers the vessels demonstrated their earnings potential. However, 2019 was negatively impacted by the phase-in of the vessels with one-off start-up costs, somewhat higher operating expenses, and non-optimal trading as standard tanker vessels in shorter periods. The commercial platform for the vessels is expanding and the vessels have so far transported six different wet cargoes for six different customers, visiting 20 terminals.

Klaveness Digital
Klaveness Digital is a technology company and had per year-end 2019 25 employees in Oslo, Singapore and Manila responsible for a portfolio of software products, value-added services and a big data platform for storing and processing of commercial and operational data.

Klaveness Digital's flagship product CargoValue is a logistics platform for industrial companies sourcing and shipping raw materials. The platform allows teams to efficiently plan and manage their shipping schedule and inventory in one unified solution in real-time. During 2019, Klaveness Digital experienced strong customer growth for the CargoValue offering in the metal and mining, aluminium, agricultural and energy industries. To support growth and increased demand for the CargoValue solution, Klaveness Digital expanded the development and customer success teams significantly in 2019.

In 2019, Klaveness Digital launched a dedicated supplier module in CargoValue, allowing suppliers to take customer centricity to the next level when handling seaborne freight through increased transparency and information sharing. The new supplier module has been well received in the market, and in October 2019, Klaveness Digital announced BHP as a strategic customer with a joint ambition to improve the way the industry collaborates and shares scheduling and vessel information. The concept will enable BHP and its partners to access the same shipping information in real-time and customers on the platform can see how changes in the schedules impact inventories and production.

The partnership with Maersk Tankers Digital continued successfully in 2019 and has been renewed for 2020. The ambition of the partnership is to bring digital solutions to the market faster and at a lower cost for both parties.

Klaveness Dry Bulk
Torvald Klaveness is an operator and pool manager in the dry bulk industry. Klaveness has had a particular stronghold in the Panamax, Kamsarmax and Post-Panamax segments and there are significant synergies with the rest of the Group in this activity. 2019 was a challenging year for the Dry Bulk Segment. The chartering and trading business had a major negative impact on the result for the year. To be better positioned going forward, Klaveness decided in 2019 to scale down its activity in the Supramax segment. It remains clear that the strategy and target for Klaveness Dry Bulk is to become the Leading Digital Operator with focus on improving decision making, problem solving and most importantly opportunity creation through data and analytics.

Early 2020, Klaveness entered into a strategic JV with Marubeni to run joint management of the Baumarine pool, a venture that includes the participation of 10 or more Marubeni owned vessels. Overall target is through scale to improve earnings for all owners in the pool through a cost-efficient structure. In March 2020, Clipper Bulk and Klaveness agreed to transfer the trademark, governance and key people of the Bulkhandling Handymax pool from Klaveness to Clipper Bulk. Klaveness will after the transfer solely focus on the Panamax, Kamsarmax and Post-Panamax segments.

In addition to being an operator and pool manager, Klaveness Dry Bulk has a goal to become a market manager through a range of services including TC-in partnerships, portfolio management, bunkers and research services.

Klaveness Container
Through 2019, 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 throughout the year. The average charter rates in the feeder sector remained flat for the first three quarters of the year and rose by 10% during the fourth quarter. The six modern "Eco-Flex" vessels of 2,536 TEU continued to obtain fuel efficiency premiums. Five of the company's eight vessels went through planned dry dockings and special surveys in 2019. Idle days increased in 2019 compared to 2018, mainly related to finding new employment after the dockings.

Organisation
Klaveness had a total of 150 employees located in Oslo, Singapore, Dubai and Manila at year-end 2019. All employees were employed in regional Klaveness offices. In Oslo, close to 25% were female, while at the offices in Asia approximately 56% were female. In 2019, one of eight managers in Klaveness were female. Absence due to sick leave was satisfactory, averaging 1.08% in 2019. Working conditions for employees are good.

773 seafarers are employed through manning offices in The Philippines (76%), Romania (19%) and South Africa (5%). The retention rate for 2019 was stable at 98%, 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 2019.

Financial results

Financial results

Gross revenues from operation of vessels ended at USD 284.6 million (2018: USD 317.5 million), while net revenue from operation of vessels ended at USD 94.3 million (2018: USD 89.7 million). Revenues were negatively impacted by off-hire related to seven periodic dry-dockings, increased number of idle days for the container vessels, somewhat lower caustic soda volumes for the CABU vessels and phase-in of the CLEANBU vessels.

EBITDA ended at USD 1.0 million (2018: USD 36.7 million) and the Group had a Loss before tax (EBT) of USD 30.7 million (2018: profit of USD 10.1 million). Operating and administrative expenses increased by USD 18.9 million compared to 2018, mainly due to the delivery of three vessels during 2019, while ordinary depreciation decreased by USD 2.5 million as an effect of extended life of the CABU vessels, partly offset by delivery of three CLEANBU vessels. The result was affected by a net loss from physical and financial freight agreements of USD 11.1 million related to the dry bulk activities (2018: profit of USD 10.2 million). The net result from financial items was in total negative by USD 11.9 million (2018: negative USD 9.2 million).

Financial position

At year-end 2019, consolidated equity including minority interests was USD 323.0 million (2018: USD 317.7 million), corresponding to a book equity ratio of 47% (2018: 54%). Book equity excluding minority interests was USD 222.2 million (2018: USD 250.3 million). Interest-bearing debt increased from USD 171.4 million at year-end 2018 to USD 259.8 million at year-end 2019. Cash and bank deposits were USD 90.0 million at year-end 2019 and in addition Klaveness had available revolving credit and overdraft facilities of USD 73.8 million. The changes in the balance sheet and the equity ratio were mainly a result of delivery of three vessels including draw down on mortgage debt, the KCC equity issue and negative EBT in 2019.

Cash flow

During 2019, Klaveness had a cash flow from operating activities of USD 14.0 million (2018: USD 0.8 million). This is significantly higher than the operating profit before depreciation and impairment (EBITDA) mainly due to decreased accounts receivable (USD 5.4 million) and decreased prepaid expenses (USD 7.2 million). The changes in current assets mainly relates to lower activity in Klaveness Chartering AS

The net cash flow from investing activities was negative by USD 171.6 million (2018: negative USD 30.3 million), mainly consisting of USD 170.2 million in payments for vessels under construction and scheduled docking of vessels.

The cash flow from financing activities was positive by USD 123.8 million (2018: positive USD 46.5 million) whereof the main items were capital injections from minority interest of USD 38.8 million and proceeds from mortgage debt of USD 103.0 million.

Financing and going concern

Klaveness had no mortgage debt or bond debt falling due in 2019, while several 364-days overdraft facilities were renewed in 2019. Bank financing for the three CLEANBU newbuilds with delivery in 2020 was secured in March 2019 and discussions with respect to financing of the two remaining newbuilds with delivery in 2021 have been initiated and indicative terms received are in line with existing bank debt. No debt facilities fall due in 2020, except for the 364-days overdraft facilities which are extended once a year. Two of the overdraft facilities that fall due in 2020 have been refinanced in first quarter 2020, while a third facility matures at the end of 2020.

KCC issued a new unsecured bond of NOK 500 million (KCC04) in February 2020. Margin is down from NIBOR + 5.25% in the existing KCC03 bond to NIBOR + 4.75%. Simultaneously, NOK 138 million of the KCC03 bond was repurchased and the remaining NOK 162 million will be repaid at the latest on the final maturity date in May 2021.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of Torvald Klaveness at year-end 2019 to be solid and the liquidity to be satisfactory. Klaveness' current cash flow, existing and committed debt, bank financing for the two last newbuilds with delivery in 2021 which is under negotiation and liquidity position are considered sufficient to cover all approved investments.

Klaveness is closely following the development related to the COVID-19 outbreak and takes precautionary measures, preserves cash and assesses all potential risks. As of the date of this report, the direct effects for Klaveness' business are limited. However, indirect consequences may occur as a result of lower activity in shipping markets going forward. The COVID-19 outbreak has resulted in significant macroeconomic uncertainty. The duration and scale remain uncertain, but could have material impact on Klaveness' earnings and cash flow. However, it is not possible to quantify such effects for the time being.

The markets

Dry bulk

Dry bulk freight rates were very volatile in 2019 but ended on average largely unchanged from 2018. According to the Baltic exchange, Capesize freight rates averaged 17,836 USD/day during 2019 (+1,406 USD/day year on year) while Panamax and Supramax freight rates averaged 12,429 USD/day (-579 USD/day) and 9,884 USD/day (-1,558) respectively. According to Clarksons the value of a second-hand dry bulk vessel decreased with 6% year-on-year, while the newbuild prices decreased 2%.

Global dry bulk demand growth slowed from +2.6% in 2018 to +1.1% in 2019.

The nominal growth in the dry bulk fleet increased from 2.1% in 2018 to 3.0% in 2019. However, effective fleet growth was lower at 1.9% as about 1.1% of the fleet was occupied with scrubber installations.

Product tanker

The product tanker market saw a steady increase in rates throughout 2019. The LR1 1-year time charter rate ended the year at around 19,000 USD/day, coming from levels around 13,000 USD/day over the previous two years. The LR2 tankers saw the same development, with an even stronger push in fourth quarter, mainly driven by the strong development in the dirty tanker sector due to the COSCO sanctions situation in October and on the back of a fundamental more positive undertone in the market with a reduced orderbook and capacity reduction from scrubber installations.

In terms of traded clean petroleum product (CPP) volumes, Australia has stabilized in terms of growth in the years after the refinery closures and looks to have around 2% year-on-year import growth and importing around 26Mmts CPP, distributed between diesel, jet fuel and gasoline. The Persian Gulf region was competitive over 2019, creating interesting trades from this region into markets such as East Coast South America and Australia. In addition, Chinese CPP export quotas increased, being very interesting for the CLEANBU vessels as China is importing 50% of the worlds dry bulk commodities.

Container

Rates in the feeder containership sector remained flat for most of 2019, with a slight firming towards the end of the year. Weak economic growth and continued trade tensions between China and the US put a lid on transported volumes, resulting in a global demand growth of only 1.7% year-on-year. In comparison, the containership fleet capacity grew by about 3.7%, driven largely by continued deliveries of very large vessels. The share of the total container fleet being idle rose through the year, from about 2.5% to 5.9%. About two thirds of the idle vessels at the end of the year were removed from trading for scrubber installations. At year-end 2019, the short period time charter rates for a standard 2,500 TEU containership stood at about 10,150 USD/day.

The second-hand containership market moderated in terms of number of ships sold. Mainly larger vessels changed hands. There was a wealth of feeder tonnage for sale, but little buying interest. Prices strengthened in the Panamax segment and for larger sizes, but generally weakened for feeders. Ordering of newbuilds slowed and the tonnage on order equals around 10% of the existing fleet, the lowest ratio on record, and skewed towards large tonnage.

Risk and risk management

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

Market risk

Market risks in the shipping markets relate primarily to changes in freight rates, fuel prices, vessel values and counterparty credit risk. These risks are monitored and managed according to procedures and mandates decided by the Board 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 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 2020. Interest rate exposure is hedged through derivatives and open exposure is limited.

There were no major unforeseen events of a financial nature during 2019. The liquidity risk of the Group is considered acceptable. Equity financing is in place for all KCC newbuilds on order and bank financing has been secured for the three newbuilds with delivery in 2020. Discussions with banks for financing of the two newbuilds for delivery in 2021 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.

The number of cyber-attacks is increasing, and such attacks might disrupt Klaveness' business operations. To mitigate the threat, employees are trained to increase awareness.

Klaveness Digital manages data for multiple customers through the CargoValue application and the K-Platform. The operational risk 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 2019, the Group, through KCC, had five newbuilds on order and has taken delivery of three sister vessels from the same yard. 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.

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

Klaveness Research expects global industrial production to turn from contraction to modest expansion during 2020. However, there are several risk factors which will impact the trajectory of global industrial production. How long will the adverse effects from the corona virus prevail? How will the US-Sino trade war evolve? To what degree will China stimulate their economy? These factors are some of the known unknowns which will impact shipping demand in 2020.

2020 has started on a weak note in terms of dry bulk freight rates as COVID-19 has accelerated the seasonal decline in demand which coincides with seasonal high fleet growth. The negative impact from the COVID-19 situation has started to unwind in Korea and China but activity in China is still some 20-25% lower than at the same time last year. Chinese industrial production is likely to continue to recover in second quarter, which will have a positive impact on raw material demand. However, the demand for raw materials outside China is likely to decrease due to the escalating COVID-19 situation in the rest of the world. Hence, the outlook for dry bulk freight rates in second quarter is highly uncertain. Looking beyond second quarter and assuming the spread of the virus is getting under control there are several drivers which can propel dry bulk freight rates higher. On the demand side, long-haul iron ore volumes from Brazil is expected to increase with about 10% year-on-year as Vale's export volumes recover from the dam disaster in 2019. Coal demand is expected to increase marginally as high demand in the Pacific more than offsets lower Atlantic demand. Grain volumes are expected to increase marginally year-on-year in a scenario without large increases in Chinese purchases of US agricultural products. However, if the Chinese come near in fulfilling the trade agreement regarding their agriculture purchases from the US, it is likely that grain volumes will increase substantially. Klaveness Research expects the growth rates in the Minor bulk trades to correlate with the growth rates in industrial production and expects an effective fleet growth of about 1% in 2020, down from 2.8% in 2019 as the optimal sailing speed of the fleet is lowered on the back of higher bunker prices.

Net fleet growth in container is expected to reach 3-4% in 2020, but scrubber installations are estimated to remove about 2% of the available fleet over the year, leaving only a minor increase in the available fleet. Further speed reductions in the sector are also expected to continue providing support. Global container demand was expected to increase 2-3% at the start of the year, meaning that the outlook for the container market appeared sustainable. As a result of the virus outbreak and the deepening effect on economic growth, container demand growth estimates have so far been reduced to about 1%, with a widening set of outcomes. At the time of writing, Chinese exports are again gaining traction with port calls coming back to 2019-level and brisk fixing activity, but it is too early to assess the impact from the disruption of supply chains and the reduced consumer activity.

The product tanker market outlooks are fundamentally positive, despite coming down from the strong levels experienced during fourth quarter 2019. Entering 2020, expectations were around 5% demand increase and moderate 2% capacity growth. These expectations are not yet corrected for the COVID-19 outbreak. Crude volumes and refinery runs are down and delays are experienced related to ship repairs, scrubber installations and newbuilding deliveries. The last weeks dramatic crude and CPP price crash due to the failed OPEC+ agreements and strong contango curve for petroleum cargoes, has created a large arbitrage for floating storage and a push in all tanker rates. VLCCs are experiencing an explosive development, coming from 20,000 USD/day levels in the beginning of March to reaching 250,000 USD/day mid-March. LR1 and LR2 are experiencing cascading effects, coming from mid-teens to 35,000 USD/day and 50,000 USD/day respectively. The forward freight curves for TC5 in second half of 2020 are not pricing in any continued TCE push.

The parent company

The result for the parent company, Rederiaksjeselskapet Torvald Klaveness, was a loss after tax of USD 10.3 million for 2019 (2018: profit USD 6.6 million). The loss for the parent company is proposed transferred to other equity.

Oslo, 18 March, 2020

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

Rederiaksjeselskapet Torvald Klaveness – Consolidated Group

Consolidated income statement

For the year ended 31 December (USD '000)	Notes	2019	2018
Gross revenues from operation of vessels	8	284 551	317 486
Voyage related expenses and distribution of pool result	9	(190 245)	(227 784)
Net revenue from operation of vessels		94 306	89 702
Net income/(loss) from physical and financial freight agreements	6	(11 094)	10 182
Other operating revenue		1 172	726
Total operating revenues		**84 384**	**100 610**
Operation of vessels	9	(46 253)	(30 691)
Salaries and social expenses	7, 10	(22 679)	(22 122)
Other operating and administrative expenses	11	(14 403)	(11 098)
Operating expenses		**(83 336)**	**(63 911)**
Operating profit/(loss) before depreciation and impairment		**1 048**	**36 699**
Ordinary depreciation fixed assets	14	(19 824)	(22 367)
Impairment/reversal of impairment fixed assets	14, 15	-	5 000
Depreciation and impairment of fixed assets		**(19 824)**	**(17 367)**
Operating profit/(loss)		**(18 776)**	**19 332**
Income/(loss) from associated companies	16	344	327
Net interest income/(expenses)	12	(11 093)	(8 935)
Other financial income/(loss)	13	(1 496)	(1 090)
Net currency gain/(loss)		356	488
Financial income and expenses		**(11 890)**	**(9 209)**
Profit/(loss) before taxes		**(30 666)**	**10 123**
Taxes	33	(521)	(4 119)
Profit/(loss) for the year		**(31 187)**	**6 004**
Attributable to:			
Majority interest		(31 930)	3 502
Minority interest		743	2 502
Profit/(loss) for the year		**(31 187)**	**6 004**

Consolidated balance sheet

As at 31 December (USD '000)	Notes	2019	2018
Assets			
Fixed assets			
Deferred tax asset	33	6 578	7 100
Other intangible assets	14	1 976	1 178
Total intangible fixed assets		**8 555**	**8 278**
Vessels	14	427 842	279 971
Newbuilding contracts	15	62 106	59 731
Other assets	14	4 873	3 800
Total tangible fixed assets		**494 821**	**343 501**
Investments in associated companies	16	55	54
Other long-term receivables		229	217
Total financial fixed assets		**283**	**271**
Total fixed assets		**503 658**	**352 051**
Current assets			
Bunkers on board vessels	17	21 464	34 006
Accounts receivable	18	28 385	33 843
Prepaid expenses	19	13 398	20 567
Other short-term receivables	20	22 099	26 226
Derivatives	21	1 205	-
Cash and bank deposits	22	89 988	123 800
Total current assets		**176 539**	**238 443**
Total assets		**680 198**	**590 494**

Consolidated balance sheet

As at 31 December (USD '000)	Notes	2019	2018
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		165 022	193 097
Total equity before minority interests	5	**222 228**	**250 303**
Minority interests		100 750	67 373
Total equity including minority interests	5	**322 978**	**317 676**
Long-term liabilities			
Pension liabilities	7	643	599
Total provisions		**643**	**599**
Mortgage debt	23	196 378	113 258
Long-term bond loan	24	34 023	34 217
Other long-term interest-bearing liabilities	25	10 021	9 745
Total long-term interest-bearing liabilities		**240 422**	**157 220**
Total long-term liabilities		**241 065**	**157 819**
Current liabilities			
Accounts payable	26	23 479	21 853
Accrued expenses	27	16 635	16 656
Taxes payable	33	303	590
Provision dividends	5	222	600
Short-term interest-bearing debt	28	19 381	14 225
Derivatives	21	18 372	16 927
Other short-term liabilities	29	37 764	44 146
Total current liabilities		**116 156**	**114 997**
Total liabilities		**357 221**	**272 817**
Total equity and liabilities		**680 198**	**590 494**

Oslo, 18 March, 2020

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)	2019	2018
Cash flow from operating activities		
Net profit / loss (-) before tax	(30 666)	10 123
Taxes paid	(589)	(212)
Depreciation, impairment and reversal of impairment	19 824	17 367
Loss / gain (-) from associated companies	(344)	(327)
Unrealized loss / gain (-) on financial instruments	(264)	1 876
Unrealized loss / gain (-) on bond loan	1 063	(1 885)
Amortization of upfront fees bank and bond loans	571	529
Other non-cash items	1 445	(303)
Decrease / increase(+) provision for loss	4 154	(6 817)
Decrease / increase (-) in prepayment to clearing of derivatives	2 666	(11 124)
Decrease / increase (-) in current assets	24 811	4 073
Increase / decrease (-) in current liabilities	(8 706)	(12 729)
Change in pension liabilities	44	179
Net cash flow from operating activities (1)	**14 009**	**750**
Investments in vessels and newbuilding contracts	(158 285)	(22 079)
Docking and other investments in vessels	(11 936)	(6 471)
Investments in other assets	(1 350)	(1 653)
Decrease / increase (-) in other long-term receivables	(11)	(78)
Net cash flow from investing activities (2)	**(171 583)**	**(30 281)**
Cash flow from financing activities		
Proceeds from mortgage debt	103 000	15 000
Installment repayments	(13 923)	(19 755)
Premium payment financial instruments	-	(340)
Transaction costs on issuance of loans	(1 596)	-
Transactions costs capital injections in subsidiaries	(1 010)	(581)
Capital injection from minority interest	38 820	53 334
Purchase of minority shares	-	(623)
Dividend to minority interests	(1 490)	(495)
Currency effects	(39)	-
Net cash flow from financing activities (3)	**123 762**	**46 540**
Net increase / decrease (-) in cash (1+2+3)	**(33 812)**	**17 008**
Cash and cash equivalents at January 1	123 800	106 793
Cash and cash equivalents at December 31	89 988	123 800
Net increase / decrease (-) in cash	**(33 812)**	**17 008**
Specification of cash and cash equivalents:		
Cash and bank deposits	89 988	123 800
Cash and cash equivalents at December 31	**89 988**	**123 800**

Notes

01 Accounting principles

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

Basis of consolidation

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

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

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

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

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 and CLEANBU 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 8.8025 in 2019 (2018: 8.1351). At year-end 2019, an exchange rate of 8.8176 (2018: 8.6911) 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. 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.

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, 2019	Ownership interest per 31 Dec, 2018
Klaveness Asia Pte Ltd. (Singapore)	100 %	100 %
Antarctica Shipping Pte Ltd. (Singapore) [5]	0 %	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 [3]	96,5 %	94,7 %
Klaveness Combination Carrier AS [4]	53,8 %	63,3 %
KCC KBA AS [4]	53,8 %	63,3 %
KCC Chartering AS [4]	53,8 %	63,3 %
KCC Shipowning AS [4]	53,8 %	63,3 %
Cargo Intelligence AS	91,5 %	91,5 %
Banasol, Inc. (Monrovia, Liberia) [2]	0 %	100 %
Cabu Bangor, Inc. (Monrovia, Liberia) [2]	0 %	100 %
Banastar, Inc. (Monrovia, Liberia) [2]	0 %	100 %
Cabu V Investment Inc. (Monrovia, Liberia) [2]	0 %	100 %
Cabu VI Investment Inc. (Monrovia, Liberia) [2]	0 %	100 %
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) [1]	0 %	50 %
Klaveness Finans AS	100 %	100 %
Klaveness Digital AS	91,5 %	91,5 %
Klaveness AS	100 %	100 %
Klaveness Brasil Representacao de Servicos Maritimos LTDA (Rio de Janeiro, Brazil)	100 %	100 %

1) *Guniomar (Conakry, Guinea) was liquidated in January 2019.*

2) *In November and December 2018, all the vessels previously owned by the single purpose entities were sold to KCC Shipowning AS. The reorganisation has no effect on Group level.*

3) *Increased ownership in 2019*

4) *Subsidiaries of Klaveness Combination Carriers ASA. Klaveness Combination Carriers ASA (KCC) was listed on Oslo Axess in May 2019.*

5) *Antarctica Shipping Pte Ltd was liquidated in July 2019.*

02 Subsidiaries, joint ventures and associated companies

Joint Ventures:

Company name	Ownership interest per 31 Dec, 2019	Ownership interest per 31 Dec, 2018
Barklav (Hong Kong) Ltd.	50 %	50 %
Maruklav Management Inc [1]	50 %	0 %

Associated companies:

Company name	Ownership interest per 31 Dec, 2019	Ownership interest per 31 Dec, 2018
Klaveness Maritime Agency Inc.	24,96 %	24,96 %

1) *Klaveness AS has established a joint venture with Marubeni. The company was established in December 2019, but the capital was paid-in in January 2020.*

03 Major and subsequent events

2020: Subsequent events

Newbuildings

Estimated delivery of the 4th CLEANBU vessel, MV Baleen, is moved from February 2020 to May 2020.

Financing

On 30 January, Klaveness Combination Carriers ASA completed the placement of a new senior unsecured bond issue of NOK 500 million with maturity date 11 February 2025. The bond carries a coupon of 3 months NIBOR + 475 bps p.a. with quarterly interest payments. In connection with the placement of the new bond issue, KCC repurchased NOK 138 million of the KCC03 bonds.

COVID-19

Klaveness is closely following the development related to the COVID-19 outbreak and takes precautionary measures, preserves cash and assesses all potential risks. As of the date of this report, the direct effects for Klaveness' business are limited. However, indirect consequences may occur as a result of lower activity in shipping markets going forward. The COVID-19 outbreak has resulted in significant macroeconomic uncertainty. The duration and scale remain uncertain, but could have material impact on Klaveness' earnings and cash flow. However, it is not possible to quantify such effects for the time being.

2019: Major events

Listing

Klaveness Combination Carriers ASA had a successful placement of NOK 350 million on May 15th 2019 and was listed at Oslo Axess (Stock exchange) on 22 May 2019. Klaveness ownership share decreased from 63.3 % to 53.8 %.

Newbuildings

During 2019, three newbuilding CLEANBU vessels were delivered from yard Jiangsu New Yangzi Shipbuilding. MV Baru was delivered in January, MV Barracuda was delivered in May and MV Barramundi was delivered in September.

Provision

A provision for restructuring is booked in Klaveness AS. In addition there is booked a provision in AS Klaveness Chartering. The provisions are booked due to exiting the Supramax business and the implied restructuring from this. The provisions amounts to USD 4.5 millions.

Vessels

Useful life for the combination carrier vessels is reassessed on a yearly basis. One of the main caustic soda COAs 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. January 2019. The updated estimate is also supported by the vessels current condition and industry practice for tanker and dry 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 in 2018 to 325 usd/mt in 2019. 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. For all the vessels delivered in 2019 the value in use is 25 years.

2018: Major events

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 were reversed.

Capital increase

Klaveness Combination Carriers ASA (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.

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.

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, combination carriers 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 2019, the Group had three newbuidlings to be delivered in 2020 and two newbuildings expected to be delivered in 2021. 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 offset 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 2019, the Group had a currency forward portfolio of NOK 187 million and AUD 0.6 million. The currency forward contracts were entered into based on board mandates. NOK 143 million and AUD 0.6 million of the contracts mature in 2020 and the remaining NOK 44 million mature in 2021. The transactions had a minor result effect in 2019, 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 84 million
Financial liquid assets nominated in other currencies:	USD 6 million
Interest-bearing debt in USD:	USD 214 million
Interest-bearing debt in other currencies:	USD 10 million
Bond loan (denominated in NOK):	USD 34 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 KCC Shipowning AS and Klaveness Ship Holding AS to reduce the exposure. At year-end 2019, approximately 45 % of the floating interest bearing debt was fixed through interest rate swap agreements. In addition, the Group holds a portfolio of interest rate options to hedge against interest rate fluctuations.

The total mark-to-market value of interest rate swaps and cross-currency interest rate swaps was per December 31, 2019 negative by USD 18.9 million, whereof a large part of the negative mark-to-market effect was due to USD/NOK effects. The effect in the profit and loss statement for 2019 is negative of USD 1.9 million, reflecting a negative development in the mark-to-market value through the year.

Liquidity risk

The Group's cash position is impacted by amongst others market and credit risk. Torvald Klaveness holds its excess liquidity reserves mainly in bank deposits, time deposits and from time to time in liquid money market funds. 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. Deposits are executed with banks with public rating of A or higher. Torvald Klaveness has a diversified external funding base consisting of Nordic banks, bond financing and access to capital markets for the listed company Klaveness Combination Carriers ASA. Bank loans have been secured for the three newbuildings on order with delivery in 2020 and bank financing for the two newbuildings with delivery in 2021 is under negotiation.

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 2018	**8 154**	**49 052**	**180 760**	**237 966**	**22 217**	**260 185**
Profit for the year			3 502	3 502	2 502	6 004
Dividends			(600)	(600)	(495)	(1 095)
Share purchase from minority interests			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**
Profit for the year			(31 930)	(31 930)	743	(31 187)
Dividends to minority interest			-	-	(1 712)	(1 712)
Capital contributions from minority interests			-	-	38 607	38 607
Reallocation from minority interests			4 261	4 261	(4 261)	-
Other changes			(406)	(406)	-	(406)
Equity 31 December 2019	**8 154**	**49 052**	**165 022**	**222 228**	**100 750**	**322 978**

Shareholders	Ownership	Shares
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 has previously been present in both the Panamax and Supramax segments, in addition, to the financial markets. However, the Company has seen weak results far below expectations in 2019 and actions has been take to rectify this. The trend over the recent periods has been improving in both the Panamax and Financial Trading segments, but for the Supramax segment the results have continued to be negative. It was therefore decided in Q4 2019 to prioritize the Panamax and Financial Trading segments going forward and do less business in the Supramax segment.

The portfolio of contracts is managed through defined mandates and risk measures and is therefore treated as a portfolio for accounting purposes. As a consequence of the accounting principles followed, a negative future portfolio value requires a provision, whereas a positive future portfolio value will only be recognized in the accounts in future years, as it is realized. As it has been decided to prioritize the Panamax and Financial Trading segments going forward and do less business in the Supramax segments, the mandates has also also been adjusted to reflect this.

AS Klaveness Chartering's portfolio of physical and financial freight agreements falls due in the period 2020-2025. The expected credit loss corresponding to these contracts was USD 0.4 million at year-end 2019 (2018: USD 0.5 million). The net portfolio value adjusted for statistically estimated losses was positive with USD 3.8 million at year end 2019.

The mark-to-market value of the portfolio of contracts related to the Panamax and Financial Trading segments per end of December 2019 and forward was, assuming no credit risk, USD 4.2 million (2018: USD 0.0 million). This is based on a valuation of each separate contract's cash flow relative to the forward market in the relevant contract period, which is aggregated and discounted using the USD swap interest curve. The net mark-to-market value of the portfolio, after deducting the statistically estimated counterparty losses, was positive by USD 3.8 million (2018: negative by USD -0.5 million).

The mark-to-market value of the portfolio of contracts not related to the Panamax and Financial Trading segments and not under the current mandate were per end of December 2019 negative by USD 2.7 million. As a consequence of the changes in focus areas and current mandates, a provision of USD 2.7 million has been made per 31 December 2019 to reflect the negative value of the contracts not under the current mandate.

(USD '000) Result from physical and financial freight agreements	2019	2018
Result from physical and financial freight agreements	(11 094)	10 182
Net result from physical and financial freight agreements	**(11 094)**	**10 182**

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. AS Klaveness Chartering has 10 ship-years of time charter-in contracts with maturity below 1 year, and 3 ship-years of time charter-in contracts with maturity between 1 and 3.5 years. The average daily lease rate was USD 10,930 in 2019. In addition there were 4.3 ship years with index based lease rate.

The initial margin equals the guarantee obligation AS Klaveness Chartering has to the clearing houses for the trade of cleared Forward Freight Agreements (FFA's). The deposits vary daily according to the forward market. SEB is the company's Clearing Agent and has provided a USD 5 million facility for clearing purposes (initial and variation margins). The initial margin equals the guarantee obligation the Company has to the clearing houses for freight and oil derivatives. Per year-end 2019, the company has drawn USD 0.7 million on the facility as deposit for initial margins, while the variation margin, which is collateral transferred between the parties due to market variations, were USD 1.0 million. The initial margins are not recognized in the balance sheet.

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 99 858. 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, 2019 the defined pension plan included 87 (83) 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. The estimated pension liability is USD 0.6 million.

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 0.3 milllion as per December 31, 2019. However, the probability that this contract ever will be executed is considered low, as the actual person is currently at the age of 47.

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 (USD '000)	2019	2018
Pools:		
Panamax	73 042	109 784
Handymax	47 255	63 573
Total	**120 297**	**173 357**
Own vessels:		
Combination carriers	137 217	115 146
Container vessels	27 036	28 983
Total	**164 253**	**144 129**
Total gross revenue from vessels:	**284 551**	**317 486**

09 Voyage related expenses and operation of vessels

(USD '000)	2019	2018
Pools:		
Panamax	(72 849)	(104 064)
Handymax	(47 340)	(63 573)
Total expenses pools	**(120 189)**	**(167 637)**
Own vessels:		
Combination carriers	(96 431)	(76 568)
Container vessels	(19 879)	(14 267)
Bulk vessels	-	(4)
Total expenses own vessels	**(116 309)**	**(90 838)**
Total voyage related expenses and operation of vessels	**(236 498)**	**(258 475)**
Voyage related expenses (including distribution of pool result)	(190 245)	(227 784)
Operation of vessels	(46 253)	(30 691)
Total voyage related expenses and operation of vessels	**(236 498)**	**(258 475)**

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 owned by Klaveness Combination Carriers ASA. 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	2019	2018
Wages	(18 337)	(17 560)
Benefits and insurance	(876)	(1 163)
Employer's social security contributions	(1 467)	(1 534)
Net pension cost	(1 228)	(1 045)
Welfare expenses	(771)	(821)
Total salaries and social expenses	**(22 679)**	**(22 122)**
Average number of man-years (on-shore Oslo)	85	76
Average number of man-years (on-shore abroad)	76	92

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	2019	2018
Remuneration to the Board of Directors	(259)	(268)
Remuneration to the Chief Executive Officer [1)]	(612)	(540)

1) *incl. salaries and pension cost*

In 2019, Trond Harald Klaveness received a compensation of USD 73 thousand for his work as senior advisor, in addition to the remuneration of USD 89 thousand for carrying the position as Chairman of the Board. The employment of the Chairman of the Board has no time limit.

11 Other operating and administrative expenses

(USD '000)	2019	2018
Administrative expenses	(9 217)	(8 396)
Outsourcing, consultancy and legal fees	(3 112)	(1 609)
Audit fee [1]	(407)	(248)
Other services from auditor [1]	(156)	(271)
Other operating expenses	(1 511)	(574)
Total other operating expenses	**(14 403)**	**(11 098)**

1) *Excluding VAT*

12 Interest income and expenses

(USD '000)	2019	2018
Interest income	2 613	1 764
Mortgage interest expenses [1]	(13 135)	(10 171)
Other interest income/(expenses)	(571)	(529)
Net interest income/(expenses)	**(11 093)**	**(8 935)**

1) *Including effect of interest rate hedging*

13 Other financial income and loss

(USD '000)	2019	2018
Realised gain/(loss) financial instruments	(717)	216
Unrealised gain/(loss) financial instruments	264	(1 876)
Other financial expenses	(1 044)	570
Net other financial income/(loss)	**(1 496)**	**(1 090)**

14 Tangible fixed assets and intangible assets

2019 (USD '000)	Combination Carriers	Container Vessels	Other assets	Total fixed assets
Cost 1 January 2019 - vessels/other assets	311 478	270 699	19 412	601 589
Cost 1 January 2019 - docking	15 272	11 084	-	26 356
Delivery of newbuildings/adjustment of aquisition value	155 847	-	-	155 847
Additions	6 010	5 853	136	11 999
Disposals	-	-	-	-
Cost 31 December 2019 - vessels/other assets	467 325	270 699	19 548	757 572
Cost 31 December 2019 - docking	21 282	16 937	-	38 219
Accumulated depreciation 31 December 2019	(173 896)	(50 827)	(13 915)	(238 637)
Accumulated impairment 31 December 2019	-	(121 830)	(761)	(122 591)
Net book value 31 December 2019 - vessels/other assets	302 554	107 613	4 873	414 040
Net book value 31 December 2019 - docking	11 244	6 431	-	17 675
Net book value 31 December 2019 - total	**313 798**	**114 045**	**4 873**	**432 715**
Depreciation for the year, 2019 - vessels/other assets	(10 927)	(3 520)	(277)	(14 725)
Depreciation for the year, 2019 - docking	(3 143)	(1 486)	-	(4 630)
Total depreciation 2019	**(14 071)**	**(5 007)**	**(277)**	**(19 354)**
Impairment/impairment reversal for the year, 2019	-	**-**		**-**
Number of vessels by the end of 2019	12	8	-	20
Average useful life	25	25	-	25
Average remaining useful life	16	17	-	16,5

2018 (USD '000)	Combination Carriers	Container Vessels	Other assets	Total fixed assets
Cost 1 January 2018 - vessels/other assets	310 233	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

14 Tangible fixed assets and intangible 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 25 years.

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

Additions
Docking - During 2019 seven vessels have been in scope for docking
Combination carriers: MV Banastar and MV Barcarena
Container vessel: MV Baro, MV Barry, MV Banak, MV Baleares and MV Bardu

Disposals
No disposals of vessels in 2019.

Impairment assessment
The Group has evaluated whether there are any indicators of impairment present for the group's vessels.

In container, there are uncertainties in the global economy and the upcoming regulations for the industry (IMO 2020) creates mixed expectations around future freight rates. Impairment tests have hence been performed at year-end 2019. Recoverable amount was based on the highest of estimated value in use and fair value less cost of sale. Fair value less cost of sale was based on average broker values. Broker values have recovered since year end 2018, and long-term TC freight rates from brokers used as input to the cash flow projections have increased from last year's predictions. Consequently, the impairment test shows a headroom from value in use to the carrying amount. Calculated value in use is above book value and/or within range of max and min broker value for all eight vessels. The company made no impairments or reversals for the vessels as the spread between book values and minimum brokers' values is acceptable.

For the combination carrier vessels no impairment testing triggering event identifed.

The below summarizes the total impairment cost/reversal:

Impairment loss (-)/ reversal	2019	2018
Impairment (-)/reversal of impairment of vessels	-	5 000
Impairment other assets	-	-
Total impairment loss (-) / reversal	**-**	**5 000**

Intangible assets relates to Cargo Intelligence AS

(USD '000)	Intangible assets at 31.12.2019	Intangible assets at 31.12.2018
Acquistition cost as of 1 January	1 305	-
Accumulated deprectation as of 1 January	(127)	-
Book value as of 1 January	**1 178**	**-**
Assets from demerger	0	17
Additions	1 269	1 288
Amortisation/depreciation for the year	(470)	(127)
Book value as of 31 December	**1 976**	**1 178**
Accumulated aquisition cost as of December 31	2 574	1 305
Accumulated amortisation/depreciation as of December 31	(597)	(127)
Depreciation plan	Straight line	Straight line
Economic life	3 years	3 years

15 Newbuilding contracts

The Group has five combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in the period 2020-2021. The contracts include options for further five vessels. Three vessels were delivered 2019.

Bank loans have been secured for the first three newbuildings with delivery in 2020, and indicative terms have been recieved for bank debt related to the two newbuildings with delivery in 2021.

Investments in newbuildings 2019	Combination Carriers	Total
Cost 1.1	59 731	59 731
Borrowing cost	1 302	1 302
Yard installments paid	148 170	148 170
Other capitalized cost	8 750	8 750
Delivery of newbuildings	(155 847)	(155 847)
Net carrying amount at 31 December	**62 106**	**62 106**

Investments in newbuildings 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**

16 Associated companies and join ventures

Associated companies (USD '000) Company	Acquisition	Ownership (direct + indirect)	Acquisition cost	Share of result 2019	Book value per 31 Dec 2019	Share of result 2018	Book value per 31 Dec 2018
Klaveness Maritime Agency Inc.	2011	24,96 %	25	15	55	25	54
Total associated companies			**25**	**15**	**55**	**25**	**54**

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 2019, Torvald Klaveness' share of loss from Barklav was USD 0.2 million and the share of equity is USD 0.6 million.

17 Bunkers on board vessels

(USD '000)	2019	2018
Bunkers	20 169	32 788
Spareparts	46	0
Luboil	1 249	1 218
Bunkers on board vessels	**21 464**	**34 006**

18 Accounts receivable

(USD '000)	2019	2018
Accounts receivable from charterers	36 088	39 857
Accounts receivable from owners	3 273	4 596
Other accounts receivable	328	418
Provision for unsettled income	(1 526)	(1 734)
Provision loss on accounts receivable [1)]	(9 777)	(9 294)
Accounts receivable	**28 385**	**33 843**

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)	2019	2018
Prepaid mark-to-market margin	4 445	7 594
Prepaid time charter hire	6 325	10 567
Other prepaid expenses	2 628	2 406
Prepaid expenses	**13 398**	**20 567**

Prepaid amount to cover the variation margin for FFAs and fuel swaps has increased during 2019 due to changes in market assumptions and portfolio value at year end.

20 Other short-term receivables

(USD '000)	2019	2020
Accrued voyage income	12 389	17 103
Accrued interest income	14	16
Claims (insurance and other)	469	647
Other short-term receivables	9 226	8 460
Other short-term receivables	**22 099**	**26 226**

21 Financial instruments

(USD '000)	2019 Cost	2019 Market Value	2018 Cost	2018 Market Value
Cross currency interest rate swap agreements	-	(16 547)	-	(16 477)
Interest swap agreements	-	(2 376)	-	(567)
Total derivatives (non-hedging)	**-**	**(18 923)**	**-**	**(17 044)**

Financial instruments for non-hedging purposes
As per December 31, 2019 the group had six interest rate swap agreements and three interest rate options for non-hedging purposes and four interest rate agreements for hedging purposes. (2018: six interest rate swap agreements and two interest rate options for non-hedging purposes and four interest rate agreement for hedging purposes). Interest rate swaps are valued at the lower of historical cost or fair market value. The total mark-to-market value of these interest rate swaps per 31 December 2019 was negative by USD 2.4 million (2018: negative by USD 0.6 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)	2019	2018
Bank deposits in USD	83 098	115 193
Bank deposits in NOK	3 731	5 268
Bank deposits in other currencies	2 097	1 767
Withholding tax accounts, restricted	645	670
Other restricted accounts	2	531
Cash	415	371
Total cash and bank deposits	**89 988**	**123 800**
Hereof cash and bank deposits related to subsidiaries with ownership interest less than 90 %	57 089	88 263

The Group has USD 63.7 million available for drawing on a revolving credit and overdraft facilities per year-end 2019.

23 Mortgage debt

(USD '000)	2019	2018
Mortgages, USD denominated	215 018	126 363
Capitalized loan fees	(1 274)	(905)
First year installments and loans falling due within one year	(17 367)	(12 200)
Total long-term mortgage debt	**196 378**	**113 258**
Hereof mortgage debt related to subsidiaries with ownership interest 90 % or less	169 304	107 846
Repayment schedule:		
Falling due within one year	17 367	12 200
Falling due between one and three years	66 050	27 446
Falling due after three years	132 024	73 612
Total mortgage debt	**215 441**	**113 258**
Book value of vessels with mortgage debt	**427 842**	**281 149**

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 2.30 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 the three newbuildings with 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 among other things limit or prohibit the ability for some of the entities in the Group to engage in change of controls, change of business and so forth 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, 2019 including waivers for some of the companies: Covenants related to minimum number of vessels sailing in the two dry bulk pools, Baumarine AS and Bulkhandling Handymax AS, has been waived until maturity of the facilities in April 2020, as these limits were reached in 2019. The facilities were scaled down in the waiver period to reflect reduced need for working capital financing. AS Klaveness Chartering has a minimum equity covenant. In expectations of this being breached, the company in 2019 asked for a waiver. The facility amount was reduced in the waiver period. This facility has been renewed for additional one year in first quarter 2020 including some structural changes and a reduced equity covenant. Overdraft on the facilities are 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.

The bond loan changed debtor from Klaveness Shipholding AS til Klaveness Combination Carriers ASA in January 2019 and changed ticker to KCC03.

The bond loan was transferred from Nordic ABM to Oslo Børs in 2019 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, 2019.

24 Long-term bond loan

Bond loan	Face value NOK'000	Date of maturity	Carrying amount 2019	(USD'000) 2018
KCC03 (KSH03)				
Original loan amount	300 000	May 27, 2021	35 273	35 273
Exchange rate adjustment			(1 063)	(755)
Capitalized expenses			(187)	(301)
Total KCC03 (KSH03)	**300 000**		**34 023**	**34 217**
Bond loan as of 31 December	**300 000**		**34 023**	**34 217**

25 Other long-term interest-bearing liabilities

(USD '000)	2019	2018
Long-term debt to related parties (note 32)	9 999	9 717
Other long-term interest-bearing liabilities	22	28
Total other interest-bearing long-term liabilities	**10 021**	**9 745**

26 Accounts payable

(USD '000)	2019	2018
Accounts payable to charterers	2 338	2 439
Accounts payable to owners	2 512	1 426
Accounts payable to brokers	1 093	2 862
Accounts payable to bunkers suppliers	13 929	10 839
Other accounts payable	3 606	4 287
Accounts payable	**23 479**	**21 853**

27 Accrued expenses

(USD '000)	2019	2018
Accrued interest expenses	1 602	999
Accrued voyage expenses	15 033	15 657
Accrued expenses	**16 635**	**16 656**

28 Short-term interest-bearing debt

(USD '000)	2019	2018
First year installments of long-term debt (note 23)	17 367	12 200
Short-term debt related parties	2 015	2 025
Total short-term interest-bearing debt	**19 381**	**14 225**

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

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

29 Other short-term liabilities

(USD '000)	2019	2018
Received mark-to-market margin on cleared FFAs	-	483
Unearned income	15 602	16 804
Public duties payable	-	390
Payables related to wages and crewing	1 854	1 510
Provisions for losses	4 538	383
Pool-hire payable	6 207	6 825
Other short-term liabilities	9 563	17 751
Other short-term liabilities	**37 764**	**44 146**

30 Hedging

Torvald Klaveness uses financial instruments to hedge against certain financial risks. In 2019, 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.

			2019		2018	
Hedging object	Hedging instrument	Hedge included in P&L line	P&L effect	Market value	P&L effect	Market value
Cash flow hedges:						
Pool income	Forward freight agreements	Gross revenues from operation of vessels	1 321	1 154	149	33
Interest mortgage loans	Interest rate swaps	Interest income/expenses	-	-	-	-
Bunkers cost	Fuel swaps	Operation of vessels and voyage related expenses	(311)	-	1 717	(918)
Crew costs	Foreign exchange currency contracts	Crewing related expenses	-	-	-	-
Salaries in NOK	Foreign exchange currency contracts	Salary related expenses	(582)	(582)	(75)	(489)
SUM hedging			**428**	**573**	**1 791**	**(1 375)**

31 Guarantee liabilities and collateral

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

In favour of external parties:

Guarantee to	Guarantee description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for the revolving credit facility partly financing the eight vessels in Klaveness Container AS.	Drawn amount USD 23 million, max limit 105 million incl interest, expenses and exposures under derivatives
Gearbulk Pool Ltd	SEB place a guarantee for Gearbulk Pool Ltd for any claim arising under the performance of a specific contract of afreighment	USD 1.03 million
Jiangsu New Yangzi Shipbuilding Co. Ltd	Klaveness Combination Carriers ASA 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 2015-1228/1229 and 1247.	USD 9.3 million per newbuilding + 5 % interest p.a.

In favour of related parties:

Guarantee to	Amount
Brigantina AS	NOK 29 million
THK Holding AS	NOK 21 million
THK Partner AS	NOK 19 million
MMK Holding AS	NOK 16 million
JWI Holding AS	NOK 16 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.

32 Related parties

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) Company	Interest Rate	2019 Interest	2019 Liabilities	2018 Interest	2018 Liabilities
Trond Harald Klaveness	"skjermingsrenten"	16	1 505	13	2 001
Morten Mathias Klaveness	"skjermingsrenten"	2	208	2	10
Jan Wilhelm Klaveness	"skjermingsrenten"	3	302	2	14
Total		**21**	**2 015**	**17**	**2 025**

33 Taxes

(USD '000) Income taxes in the income statement consist of:	2019	2018
Income taxes payable	-	-
Change in deferred tax asset	(521)	(4 119)
Tax adjustments previous years/other corrections	-	-
Total tax (expense) / income	**(521)**	**(4 119)**

Temporary differences - ordinary taxation:	2019 Position	2019 Tax effect	2018 Position	2018 Tax effect
Temporary differences on fixed assets	(1 179)	(259)	(4 425)	(974)
Temporary differences on current assets	24 249	5 335	18 352	4 037
Tax losses carried forward	115 856	25 488	92 258	20 297
Net temporary differences	**138 926**	**30 564**	**106 185**	**23 361**
Deferred tax asset (-) not recognised in balance sheet		(23 986)		(16 261)
Deferred tax asset in balance sheet 22 %		**6 578**		**7 100**
Deferred tax liability in the balance sheet 22 %		**-**		**-**

Deferred tax asset is recognised to the extent that temporary differences are expected to be reversed in the foreseeable future. Tax assets from companies under the tonnage tax regime are not recognised in the balance sheet, as these cannot be utilised through group contributions, and future utilisation has not been justified. The deferred tax asset has been further impaired by USD 0.5 million in 2019, based on an evaluation of the probability of future use of the tax position at group level.

Tax payable:	2019 Income	2019 Tax effect	2018 Income	2018 Tax effect
Profit / (loss) before taxes	(30 666)	(6 747)	10 123	2 328
Permanent differences	(2 077)	(457)	(7 929)	(1 824)
Change in temporary differences	9 143	2 012	(7 529)	(1 732)
Change in tax losses carried forward	23 598	5 191	5 336	1 227
Taxable income / tax payable		**0**		**0**
Tax payable - foreign subsidiaries		78		466
Tonnage tax (included in operation profit)		225		123
Total tax payable in the balance sheet		**303**		**590**

Rederiaksjeselskapet Torvald Klaveness – Parent company

Income statement- parent company

(USD '000)	Notes	2019	2018
Operating expenses	Note 2	(3 418)	(3 268)
Total operating expenses		(3 418)	(3 268)
Operating profit/(loss)		**(3 418)**	**(3 268)**
Financial income and expenses			
Income from subsidiaries	Note 4	14 291	9 317
Gain/(loss) from sale of subsidiaries	Note 4	0	11
Impairment subsidiaries / reversal	Note 4	(21 025)	0
Net interest income/(expenses), group companies		(300)	(736)
Net other financial income/(expenses)		67	54
Net currency gain/(loss)		80	1 182
Net financial income/(expenses)		**(6 887)**	**9 829**
Profit/(loss) before taxes		**(10 305)**	**6 560**
Taxes	Note 10	0	0
Profit/(loss) for the year		**(10 305)**	**6 560**

Balance sheet - parent company

(USD '000)	Notes	2019	2018
Assets			
Financial fixed assets			
Investments in subsidiaries	Note 4	53 509	67 467
Loans to group companies	Note 8	4 164	0
Total fixed assets		**57 674**	**67 467**
Current assets			
Receivables, Group companies	Note 5	2 792	5 997
Bank deposits	Note 6	329	105
Total current assets		**3 121**	**6 102**
Total assets		**60 794**	**73 569**
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		32 113	42 417
Total equity	Note 7	**51 121**	**61 425**
Liabilities			
Long-term liabilities			
Loan, group companies	Note 8	6 563	8 531
Total long-term liabilities		**6 563**	**8 531**
Current liabilities			
Short-term liabilities, group/related companies	Note 9	3 101	3 000
Dividend	Note 7	0	600
Debt to related parties		9	12
Total current liabilities		**3 110**	**3 612**
Total liabilities		**9 673**	**12 143**
Total equity and liabilities		**60 794**	**73 569**

Rederiaksjeselskapet Torvald Klaveness

Oslo, 18 March, 2020

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)	2019	2018
Profit/(loss) before taxes	(10 305)	6 560
Income from subsidiaries	(14 291)	(9 317)
Share of profit from subsidiaries	0	(11)
Change in current assets	3 206	56
Change in current liabilities	(502)	165
Effect from change in exchange rate	(80)	(1 182)
Net cash from operating activities (1)	**(21 972)**	**(3 729)**
Income from subsidiaries	11 500	3 320
Change in investment in subsidiaries	13 958	1 500
Sale of subsidiaries	0	31
Net cash from investing activities (2)	**25 458**	**4 851**
Increase in long term liabilities to group companies	10 018	3 685
Decrease in long term liabilities to group companies	(11 986)	(23 742)
Loans to Group companies	(4 164)	0
Received Group contribution	2 871	18 989
Net cash from financing activities (3)	**(3 262)**	**(1 068)**
Net increase/decrease (-) in cash (1+2+3)	**224**	**53**
Cash at January 1	105	51
Cash at December 31	329	105
Net increase/decrease (-) in cash	**224**	**53**

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)	2019	2018
Remuneration to the Board of Directors	(259)	(268)
Audit fee	(53)	(54)
Other expenses	(3 106)	(2 947)
Total operating expenses	**(3 418)**	**(3 268)**

There are no employees in Rederiaksjeselskapet Torvald Klaveness. The Chief Executive Officer (Mr. Lasse Kristoffersen) was per December 31, 2019 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:	2019	2018
Auditing ex. VAT, statutory	(53)	(54)
Tax and other services ex. VAT	(4)	(9)
Total remuneration to the auditor	**(57)**	**(63)**

04 Investments in subsidiaries

(USD '000) Subsidiaries (acquisition year)	Share Capital	Group contr. & dividends in 2019	BV changes in 2019	Book value 2019	Book value 2018
AS Klaveness Chartering, Oslo (1967)	NOK 507		(7 682)	16 051	23 734
Klaveness Ship Holding AS (2005)	NOK 12 000	10 000		15 935	15 935
Klaveness Finans AS, Oslo (2008)	NOK 383	2 791	(6 275)	9 024	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
Klaveness Digital AS (2017)	NOK 100			6 571	6 571
Klaveness Asia Pte. Ltd., Singapore (2006)	USD 7 000	1 500		500	500
Total investments in subsidiaries		**14 291**	**(13 958)**	**53 509**	**67 467**

05 Receivables, group companies

(USD '000)	2019	2018
Klaveness Digital AS	1	0
Klaveness Finans AS - Group contribution	2 791	5 997
Total receivables, group companies	**2 792**	**5 997**

06 Bank deposits

(USD '000)	2019	2018
Bank deposits	329	105
Total bank deposits	**329**	**105**

07 Equity

(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**

(USD '000) 2019	Share Capital	Other paid-in capital	Other equity	Total equity
Equity at 1 January 2019	**8 153**	**10 855**	**42 417**	**61 425**
Profit/(loss) for the year			(10 305)	(10 305)
Dividends			0	0
Equity at 31 December 2019	**8 153**	**10 855**	**32 113**	**51 121**

For information regarding ownership, refer to group notes.

08 Loan, group companies

(USD '000)	2019	2018
Loan from Klaveness Finans AS	6 563	8 531
Total loans, group companies	**6 563**	**8 531**

Terms for repayment have not been negotiated.

(USD '000)	2019	2018
Loan to Klaveness Digital AS	4 164	0
Total receivables, group companies	**4 164**	**0**

09 Short-term liabilities, group/related companies

(USD '000)	2019	2018
Klaveness AS	3 101	3 000
Total short-term liabilities, group/related companies	**3 101**	**3 000**

10 Taxes

(USD '000) Income taxes consist of:	2019	2018
Change in deferred tax / deferred tax asset	0	0
Total tax expense / (income)	**0**	**0**

Taxable income:	2019	2018
Profit/(loss) before tax	(10 305)	6 560
Permanent differences	6 618	(7 262)
Change in temporary differences	(189)	0
Group contribution with tax effect	2 965	1 579
Limitation of interest rate deduction	0	0
Tax loss carried forward / (Use of tax loss carried forward)	949	(1 525)
Taxable income	**0**	**0**

Reconciliation of the effective tax rate:	2019	2018
Profit/(loss) before tax	(10 305)	6 560
Expected income tax (22 %)	(492)	1 509
Tax effect of group contribution from subsidiary included as income	(652)	(1 379)
Tax effect of dividend from subsidiary included as income	333	(766)
Tax effect of group contribution	652	363
Exchange rate differences	0	475
Tax effect of limitation of interest rate deduction	0	149
Write down of deferred tax	159	(351)
Total tax expenses / (income)	**0**	**0**

Deferred tax / Deferred tax asset:	2019	2018
Tax loss carried forward (tax effect)	(6 266)	6 146
Other temporary differences	42	0
Limitation of interest rate deduction	(1 114)	988
Deferred tax asset not recognised in balance sheet	7 339	(7 134)
Net recognised deferred tax / (deferred tax asset)	0	0
Change deferred tax / deferred tax asset	**0**	**0**

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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 2019, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019 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 Chief Executive Officer (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 on the other information obtained prior to the date of the auditor's report, 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.

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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 skepticism 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, 18 March 2020
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The auditor's report is signed electronically

Asbjørn Rødal
State Authorized Public Accountant (Norway)