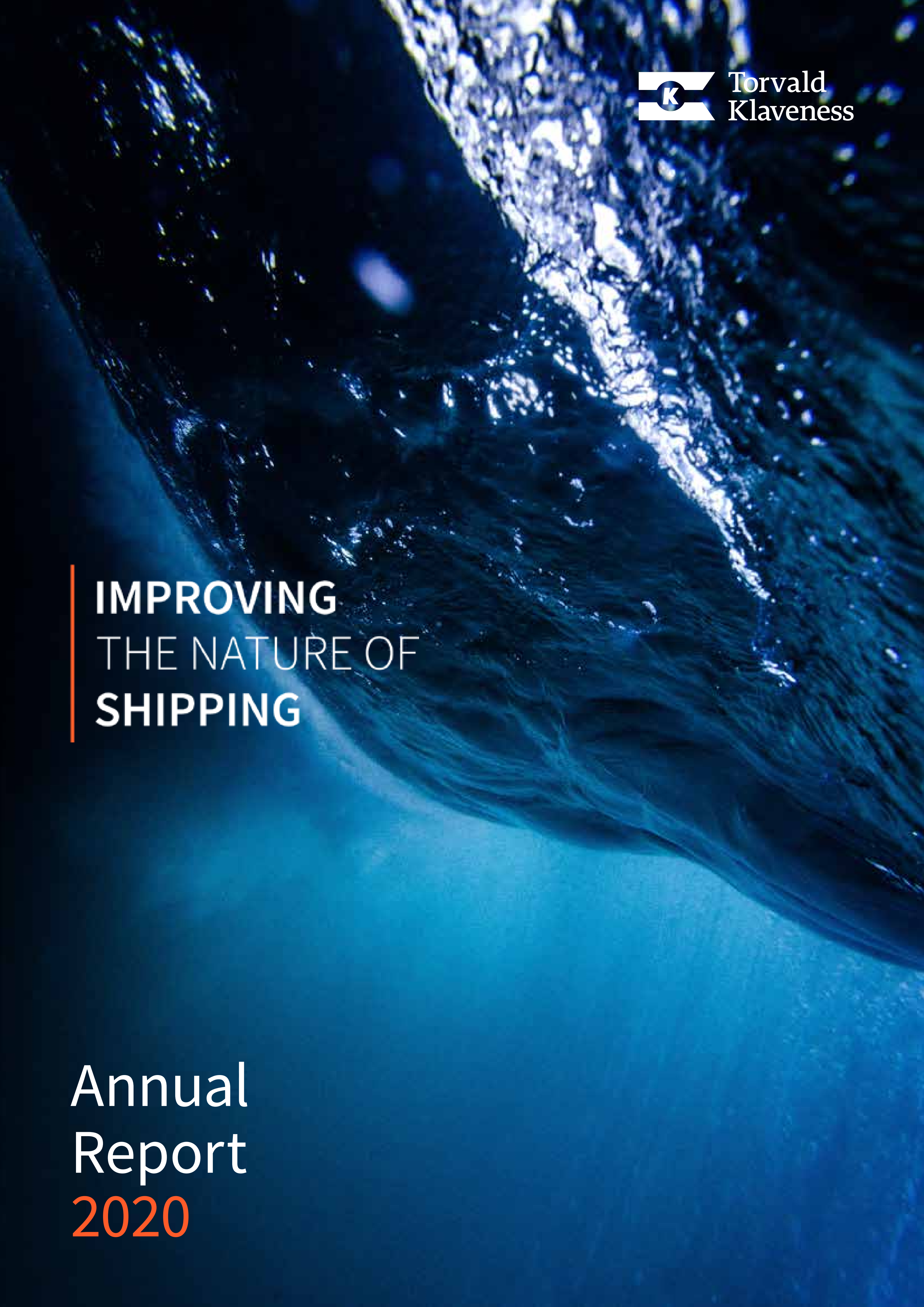

Torvald Klaveness

IMPROVING
THE NATURE OF
SHIPPING

Annual Report 2020

Key figures

Equity ratio	Cash and cash equivalents	Vessels under management
43%	99	87

USD million	2020	2019	2018
Profit and loss			
Gross operating revenues [1]	309	285	317
EBITDA	45	1	37
Profit/(loss) after tax (excl. minority interests)	(6)	(32)	4
Profit/(loss) after tax (incl. minority interests)	-	(31)	6
Balance sheet			
Total assets	753	680	590
Total equity (incl. minority interests)	322	323	318
Total equity (excl. minority interests)	217	222	250
Interest-bearing debt	367	260	171
Cash and cash equivalents	99	90	124
Cash flow from investing activities			
Investments in vessels and newbuilding contracts	95	172	29
Equity ratios			
Equity ratio (excl. minority interests)	29%	33%	42%
Equity ratio (incl. minority interests)	43%	47%	54%
Employees			
Number of employees onshore [2]	168	161	168
Vessels [3]			
Pool vessels	30	24	29
Klaveness Chartering - chartered vessels	35	29	67
Combination carriers	14	12	9
Container vessels	8	8	8
Vessels under construction	3	5	6

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

Rising to the occasion

It is incredible to see how little we know about what's next. Little did we know one year ago that 2020 was the year when we learned about social distancing, how to work in home office and how a virus can make us worry about the health of our loved ones. As a company, we have been able to maneuver safely through the pandemic, but that has come at a large price to some of our colleagues. In particular, our seafarers have had a very challenging and uncertain year, with involuntary extension of contracts and very challenging processes to get both onboard and back home. I would like to use this opportunity to extend a heartfelt thank you to our crew for carrying the heaviest burden for Klaveness in 2020.

Nevertheless, we are entering 2021 with moderate optimism. Vaccination has started, access to crew changes has somewhat improved and the industrial production in the world seems to be fueling on all cylinders. The most telling story to that, is the container market. Klaveness owns a fleet of eight feeder container vessels. Following the global lock down in March/April, the volumes dropped by some 20%, close to 15% of the world fleet went idle, and charter rates plummeted. As consumer spending moved from leisure and services to consumer goods, the demand for container freight increased sharply during the fall and the year ended on rates not seen in a decade. And to our benefit, this seems to extend into 2021 as well.

Our fleet in Klaveness Combination Carriers (KCC) also experienced a very volatile market in 2020. The oil price war took tanker rates to record highs in April, and KCC were able to secure very healthy charters. However, as Covid-19 significantly reduced the demand for oil and oil products, the market collapsed during May and have since been at historical lows. But the business of KCC proved its resilience and the company continued to deliver strong results. The growing attention to low carbon shipping has increased the demand for our vessels, and we look forward to serving our customer with the full fleet of 17 vessels during the course of 2021.

2020 was also a very exciting year for our Dry Bulk business. We found a new home for our Bulkhandling pool with Clipper and made a Joint Venture with Marubeni and doubled the volume in our Baumarine pool. In addition, our operator business of Panamax, Kamsarmax and Post-Panamax vessels developed very positively after some challenging years and is set for a very promising future.

Klaveness Digital, and its flagship product CargoValue, has received a lot of attention in 2020. The product is a cloud-based logistics management system for seaborne supply chains and solves pain points like planning, scheduling, inventory management and demurrage for industrial companies and power plants. We are in dialogue with close to 1000 companies and in 2020 we saw several of these moving over to becoming paying users and customers. We expect 2021 to be a very active year and have strong hopes that the customer growth will continue at a high pace during the year.

Lasse Kristoffersen, CEO

Safety is our priority number one, and we are very happy to see that we are now in the longest period for years without serious safety accidents our vessels. Klaveness Ship Management has worked systematically on strengthening our safety culture and this has also resulted in very good feedback on our vessels when inspected by customers and other stakeholders. Despite the very challenging conditions during a pandemic, the crew of our vessels and their good colleagues ashore have been able to take significant and impressive steps forward.

We closed 2020 by concluding an updated strategy towards 2025. Our industry, and the industries we are part of, will go through major transformations on digitalization and decarbonization in the next decade. Klaveness will take a leading role in these transformations and has set as an overall ambition to make seaborne supply chains resilient, decarbonized, and cost-effective. Scaling our digital platform CargoValue, leveraging our market management capabilities as an operator, growing the cost-effective decarbonization offered by our combination carriers, and developing new business models for decarbonization through the our new unit ZeroLab, will enable Klaveness to make significant impact towards our vision of "Improving the nature of shipping".

Klaveness always rises to the occasion. Be it pandemics, climate change or new technology. You will hear more from us.

Board of Directors' report 2020

Highlights

Safety is priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2020.

Klaveness' vision is to improve the nature of shipping and the strategy focuses on three core areas; build a global combination carrier service by expanding the current 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 2020 with two additional CLEANBU vessels delivered to the fleet. KCC delivered a very solid result in 2020 due to good commercial and operational performance and a strong market in Q2. Klaveness is today the majority shareholder of KCC holding 53.8% of the shares.

Klaveness Digital experienced strong customer growth for the CargoValue product in 2020. The number of companies that entered into commercial dialogues with CargoValue more than tripled enabling CargoValue to significantly grow the Annual Recurring Revenue (ARR) base. 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.

Following the strategic move to focus only on the Panamax to Post-Panamax sector Klaveness Dry Bulk developed very positively in 2020. The revenues from the Chartering and Trading activities grew significantly and all trading strategies delivered positive returns. Early in 2020, Klaveness entered into a strategic partnership with Marubeni by establishing the joint company Maruklav Inc which acts as managers for the Baumarine pool. Consequently, the pool more than doubled the number of vessels participating.

In 2020, Klaveness Ship Management continuously improved performance, most notably in the areas of safety and vetting. However, and certainly unexpectedly, the main focus of the year was to manage through the complications brought on by the Covid-19 pandemic. Preventing infection cases on the vessels and managing crew changes, in an environment where very few countries and only to a limited extent allowed such changes to take place, required significant planning, flexibility and attention.

Klaveness Container experienced a roller coaster year with all-time low utilization and market rates in the second quarter and full utilization of the fleet and a significant improvement in rates through Q4.

Health and Safety

The fleet experienced no major, three medium and 40 minor injuries in 2020. Injuries that require repatriation of crew members 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.

The Covid-19 pandemic substantially impacted Klaveness operations in 2020. Vessels are particularly vulnerable to infection cases onboard. Due to extensive measures taken, only one isolated case was experienced onboard the vessels. The main challenge was the very limited possibilities for crew changes. For periods, crew changes were close to impossible, causing period extensions for the crew already onboard. Through the year the administration worked extensively with developing safe corridors for crew changes and managed to reduce the extended contracts to a manageable level. However, it is still very challenging to exchange crews and this is expected to continue throughout the pandemic.

In 2020, there were 24 vetting inspections of the CABU and CLEANBU combination carriers. The average number of observations per inspection for the Ship Inspection Report Programme (SIRE) vettings in 2020 were 4.6, a reduction from an average of 5.50 in 2019. The fleet under technical management by Klaveness Ship Management AS went through 41 Port State Controls in 2020, with one detention. The detention was related to an accident onboard a CABU vessel, where a crew member fell during the washing of a cargo hold. The accident was investigated, and preventive actions were implemented across the fleet. 26 of the inspections were completed without deficiencies and the average number of deficiencies per inspection for 2020 was 1.66, an increase from 1.56 in 2019.

The situation in the Persian Gulf/Gulf of Oman remained tense in 2020, however, the threat for merchant vessels is considered moderate by Den Norske Krigsforsikring for Skib (DNK). In the Eastern Mediterranean there is still a risk of running into migrants but there were no such incidents in the Klaveness fleet in 2020. In both 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. No approaches or boarding attempts were reported in the Indian Ocean in 2020. The latest update from DNK forecasts the risk to remain low due to the monsoon season and the current political situation in Somalia.

Environment

The operation of vessels has an impact on the environment. Klaveness 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, they deliver 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.

In 2020, KSM established a Project and Business Transformation team in order to, amongst other tasks, evaluate various energy saving technologies and energy optimization processes to achieve this short-term goal, and several technologies have already been rolled out on selected vessels for pilot testing.

KCC published a revised environmental policy and strategy in January 2020 and has 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. KCC aims to reach a carbon neutral operation within 2030 and a zero-emission operation within 2050, while one of the short-term goals is to reduce absolute CO_2 emissions per vessel by a minimum of 15% within 2022 compared to 2018.

Furthermore, the performance of all vessels is being monitored closely to reveal symptoms of hull fouling, and more frequent cleaning of hull and propellers has been implemented to keep the performance of the vessels at an optimal level. Sustainability is an integrated part of KCC's business and reporting, and KCC commits to full transparency on its environmental performance and has obtained third-party verification of its environmental KPIs on an annual basis.

Business areas

Klaveness Combination Carriers

Klaveness Combination Carriers ASA is listed on Euronext Growth (Oslo Axess) and is owned 53.8% by Klaveness. KCC took delivery of two CLEANBU vessels in August and October 2020, respectively, and by year-end 2020 the fleet consisted of nine CABU vessels and five CLEANBU vessels on water with three additional CLEANBU vessels under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd. in China. The remaining CLEANBU newbuilds are estimated to be delivered in 1H 2021.

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

Take-over of the CLEANBU vessels as well as operation of both the CLEANBU and the CABU vessels were impacted by the Covid-19 pandemic in 2020. Specific Covid-19 related effects have been discussed in the Health and Safety section of this report. The health and safety of our crew is priority number one in this situation.

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 increased somewhat in 2020 compared to 2019 and ended at 87% (2019: 74%), mainly due to higher caustic soda volumes. Earnings for the CABU vessels were strong in 2020 driven by high levels of efficient combination trading combined with a strong tanker market for the first half of 2020. The vessels MV Bantry, MV Bangor and MV Banasol were dry-docked during 2020.

Three vessels were employed on tanker time charters for periods between three and nine months due to the exceptionally strong product tanker market peaking in the second quarter. The main focus for 2020 for the remaining ship-years was to expand the commercial platform and employ the vessels in efficient combination trades. The number of trades, terminals, cargoes, and customers have increased steadily through the year. Earnings for the CLEANBU vessels were, as for the CABU vessels, strong in 2020 as a result of the improved combination trading and the tanker contracts secured in a then very strong market.

Klaveness Digital

Klaveness Digital is a technology business that had 40 employees at year-end of 2020 in Oslo, Singapore, Brazil, and Manila. The employees are responsible for a portfolio of software products, value-added services, and a big data platform for the 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 by sea. CargoValue is a "Software as a Service" (SaaS) solution that improves efficiency across teams by increasing transparency and allowing collaboration between stakeholders involved in the planning, scheduling, and production processes.

During 2020, Klaveness Digital experienced continued customer growth and market interest for the CargoValue offering in the metal and mining, aluminium, agricultural and energy industries. The accelerated interest in digitalization tools capable of facilitating collaboration amidst the era of distributed workforces was one of the catalysts for this.

To complement increased interest from existing customers to solve their unique "pain points" throughout their supply chains, a dedicated Supply Chain Analytics (SCA) division was established over the summer. The SCA team is primarily responsible for working with the data and analytics derived from supply chains of customers and to identify areas of improvements and cost saving opportunities.

To support the growth and the increased demand for the CargoValue solution, Klaveness Digital completed a rebranding initiative and embarked upon an extensive recruitment campaign to strengthen its product development and commercial teams.

Klaveness Dry Bulk

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. After a challenging year in 2019, Klaveness decided in Q4 2019 to strengthen the business activity within the Panamax segment and reduce the activity in the Supramax segment. Throughout 2020, Klaveness Dry Bulk have seen positive effects from this strategic change and delivered positive results for 2020.

In January 2020, Klaveness entered a strategic JV with Marubeni to jointly manage the Baumarine pool, a venture that included the participation of 11 Marubeni owned vessels in the pool. The overall target is to improve earnings for all owners in the pool through scale and cost-efficient structures.

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. After this transfer, Klaveness is solely focused 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

Klaveness Container (KCA) owns and operates a fleet of eight geared container vessels in the feeder segment between 1,700 TEU and 3,100 TEU. All vessels were employed on short term time charter contracts to liner companies throughout the year.

The container market became heavily impacted by the Covid-induced lockdowns in the first half of 2020 and the year ended with a loss for the company. The global fleet utilization fell to all-time-low levels in the second quarter, and charter rates barely covered operating expenses. However, in the second half of 2020, demand rebounded strongly, resulting in an uninterrupted bull market driving charter rates back to the highest levels since 2008.

The low rates seen in the first half of the year, combined with significant idle time (2020:162 days, 2019:93 days) and Covid-related increases in operating expenses, led to a loss for KCA in 2020.

The strategy for the container investments has been to optimize values through active management, until a higher value can be achieved through selling than holding. Given the extraordinary strengthening of the market at the end of 2020, the administration is evaluating possibilities to start reducing the exposure.

Organisation

Klaveness had a total of 173 employees located in Oslo, Singapore, Dubai, and Manila at year-end 2020. All employees were employed in regional Klaveness offices. Females represented around ⅓ and ½ of the workforce in the Oslo and Asia offices, respectively. In 2020, one of four managers in Klaveness were female on a global basis.

Absence due to sick leave was satisfactory, averaging 0,64 % in 2020. Working conditions for employees are good. Covid-19 and consequent measures have put additional pressure on all employees in 2020 and on-shore personnel in all our offices have worked from home office substantial parts of the year. All employees have received necessary equipment to work from home, and the organization has successfully implemented new ways of interacting digitally. Klaveness has emphasized active, present leadership in this period to identify and address any detrimental effects on mental health due to extensive remote work.

900 seafarers are employed through manning offices in The Philippines (77%), Romania (19%) and South Africa (4%). The retention rate for 2020 was stable at 96%, indicating that Klaveness is successfully able to attract and retain qualified seafarers. Klaveness endeavors 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 2020. Specifically, the Board of Directors want to thank all the employees for the extraordinary efforts and sacrifices made due to the Covid-19 pandemic, especially the crews that were subject to long contract extensions.

Financial results

Gross revenues from operation of vessels were USD 308.9 million (2019: USD 284.6 million), while net revenue from operation of vessels amounted to USD 114.7 million (2019: USD 94.3 million). Revenues were positively impacted by the increase in the number of trading CLEANBU vessels, combined with an increased share of combination trades and three strong tanker time charter contracts. Further, the number of vessels in the Baumarine pool doubled YoY following the establishment of the joint venture with Marubeni. The weak container markets following the onset of Covid-19 and the reduction in Supramax activities impacted revenues negatively.

Net revenues from the Dry Bulk portfolio of physical and financial freight agreements ended at USD 8.0 million compared with a loss of USD 11.1 million in 2019.

Revenues from Klaveness Digital amounted to USD 1.3 million, compared to USD 0.5 million in 2019.

For Klaveness in total, 2020 resulted in total operating revenues of USD 128.4 million (2019: 84.4 million), representing more than 50% growth.

EBITDA ended at USD 44.8 million (2019: USD 1.0 million). Vessel operating expenses increased by USD 5.9 million compared to 2019, mainly due to the increased number of both owned and pool vessels, as well as some additional costs related to the Covid-19 pandemic.

2020 EBIT amounted to USD 16.9 million compared to a loss of 18.8 million in 2019. Ordinary depreciation increased by USD 7.1 million mainly due to the CLEANBU fleet growth, in addition to an adjustment of scrap values in the container fleet and increased depreciation of CargoValue development costs. An impairment charge of USD 1 million for one of the container ships was also incurred during the year.

The net result from financial items was in total negative by USD 16.8 million (2019: negative USD 11.9 million) mainly driven by an increase in debt and unrealized loss on financial instruments.

The Group earned a profit before tax (EBT) of USD 0.1 million (2019: loss of USD 30.7 million) while net income after taxes was 0.0 MUSD (2019: loss of 31.2 MUSD).

Financial position
At year-end 2020, consolidated equity including minority interests was USD 321.6 million (2019: USD 322.0 million), corresponding to a book equity ratio of 43 % (2019: 47 %). Book equity excluding minority interests was USD 216.6 million (2019: USD 221.7 million). Interest bearing debt increased from USD 259.8 million at year-end 2019 to USD 367.1 million at year-end 2020 following delivery of new vessels. Cash and bank deposits were USD 98.7 million at year-end 2020 (2019: USD 90 million) and in addition Klaveness had available revolving credit and overdraft facilities of USD 25.7 million (2019: USD 63.7 million). The changes in the balance sheet and the equity ratio were mainly a result of delivery of two vessels including draw down on mortgage debt.

Cash flow
During 2020, Klaveness had a cash flow from operating activities of USD 4.1 million (2019: USD 14.0 million). The operating cash flow was positively impacted by the increased operating profit before depreciation and impairment (EBITDA) (USD 44.8 million) and partly offset by net financial costs of USD 16.8 million, negative cash flows of USD 4 million related to changes in current assets and liabilities, decreased provision for losses of USD 4 million and a change in the book value of derivatives (USD 18.4 million) without P&L-effect.
The net cash flow from investing activities was negative by USD 95.4 million (2019: negative USD 171.6 million), mainly consisting of USD 93.7 million in payments for vessels under construction and costs associated with the scheduled docking of vessels.

The cash flow from financing activities was positive by USD 100.1 million (2019: positive USD 123.8 million) whereof the main items were a net increase of bond loans of USD 42.3 million and a net increase of mortgage debt of USD 65.1 million.

Financing and going concern
Klaveness had no mortgage debt or bond debt that fell due in 2020. Several 364-days overdraft facilities were renewed in 2020. Bank financing for the two remaining Klaveness Combination Carrier newbuilds with delivery in 2021 was secured. The revolving credit facility for Klaveness Container which was drawn by USD 50 million at year-end 2020 expires in November 2021. Dialogues with banks about a potential renewal were initiated, with banks responding positively to such renewal. However, due to the likely sale of container vessels during 2021, the size of such possible renewal of the facility may be reduced.

KCC issued an unsecured bond of NOK 500 million (KCC04) in February 2020. The margin was reduced from NIBOR + 5.25% in the existing KCC03 bond to NIBOR + 4.75% for KCC 04. In September 2020, KCC completed a "tap issue" of NOK 200 million under the same bond (KCC04), hence total outstanding debt on KCC04 was NOK 700 million at year end 2020. A portion of the proceeds from KCC 04 were used to repurchase and retire the NOK 300 million KCC03 bond in 2020.

No other debt facilities fall due in 2021, except for the 364-days overdraft facilities which are extended once a year.

The accounts are reported under the assumption of a going concern. The Board of Directors considers the financial position of Klaveness at year-end 2020 to be solid and the liquidity to be satisfactory. Klaveness' current cash flow, existing and committed debt, bank financing for the three last newbuilds with delivery in 2021 and liquidity position are considered sufficient to cover all approved investments.

Klaveness continues to closely follow the development related to the Covid-19 outbreak. As of the date of this report, the direct effects for Klaveness' businesses are limited.

The markets
Dry bulk
Dry bulk freight rates were negatively affected by Covid-19 in 2020. Capesize freight rates averaged 12,829 USD/day during 2020 (-5,007 USD/day year on year ("YoY"), Panamax freight rates averaged 9,923 USD/day (-2,506 USD/day) and Supramax freight rates averaged 8,165 USD/day (-1,720). According to Clarksons, the value of a second-hand dry bulk vessel decreased by 10% YoY, while the newbuild prices decreased by 3.7% YoY.
Global dry bulk demand growth slowed from +2.8% in 2019 to +1.0% in 2020 (source Klaveness Research).

The nominal growth in the dry bulk fleet decreased from 4.0% in 2019 to 3.7% in 2020.

Product tanker
The product tanker market started the year on a strong note with LR1 TC5 time charter equivalent (TCE) earnings at around USD 18,500/day. During the first half of 2020, oil prices (and product prices) plummeted on a combination of a negative energy demand shock driven by the Covid-19 lockdowns around the world and the Saudi-Russian oil price war. The oil market imbalances lead to a substantial increase in tanker rates towards the end of the first quarter due to the demand for floating storage, port congestions and volatility driven arbitrage oil trading.

After the spike in rates during the first half of 2020, the tanker market quickly fell back as the oil market surplus was followed by a series of production cuts throughout the year. Production cuts coupled with inventory overhang, low oil prices, oil price backwardation and still muted oil demand resulted in weak demand for tanker tonnage. The TC5 TCE recorded a high of USD 110,000/day for the year, while the average for the year ended at around USD 19,400/day. Product tanker demand decreased by 10% from 2019 to 2020.

Container
Rates in the feeder containership sector took a large, Covid-induced hit in the first half of 2020. Activity was at its lowest in May 2020, when about 13% of the global container fleet was without employment, even lower than the levels seen in the aftermath of the global financial crisis in 2009. Charter rates bottomed out before the summer of 2020 at levels near operating expenses, with owners having to give away significant optionality to keep vessels employed. Fortunes were reversed through the second half of the year, when

unlocked "pent-up" demand, inventory re-stocking, shifts in consumer activity towards goods, and PPE volumes led to a faster than anticipated return in container cargo volumes accompanied by sharp increases in rates. In total, the 2020 volume ended up only 1% behind the year before.

The second-hand containership market saw a flurry of activity towards the end of 2020. In the fourth quarter alone, 125 deals were recorded, the highest activity in 12 years. Asset prices across started to rise from the low point reached in the middle of the year.

The containership fleet grew by 2.9% in capacity terms across 2020. By year end, firm orders of 120 vessels were announced (75% of those in Q4 alone), bringing the orderbook-to-fleet ratio to just under 11%, up from 8% at the end of Q3.

Risk and risk management

Klaveness' businesses are exposed to risks in many areas. Risk assessment, monitoring and implementation of mitigating actions are a part of both daily activities and quarterly reviews in each business area. It is important to the Board of Directors that the right risk/reward assessments are made, the overall risk undertaken is within acceptable ranges 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. 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. Most of the fuel price risk is hedged through bunker adjustment factor clauses (BAFs) and fuel derivatives. The dry bulk market exposure is managed by combining COAs with TC-in contracts and freight forward agreements (FFA), maintaining the total financial exposure within the approved risk limits.

Commercial risk

Klaveness is exposed to commercial risks, particularly on customer acceptance of the fleet of combination carriers. Klaveness makes extensive efforts to secure vetting and TMSA acceptance of existing vessels and works closely with customers to document that new vessel concepts meet all customer requirements including requirements of the ports and terminals where the vessels are trading.

Moreover, there are risks associated with increased competition. These risks are reduced through strong operational performance with high attention to safety and continuous development of rendered services.

Financial risks

Klaveness has administrative costs in NOK, SGD an PHP, part of the crew costs in EUR and port costs in several other currencies, while principally all income is USD-denominated. To reduce currency risk, Klaveness has sold USD currency forward with maturity in 2021 and 2022. Interest rate exposure is hedged through derivatives and open exposures are limited.

There were no major unforeseen events of financial nature during 2020, except for the USD to NOK exchange rate reaching a new historic high in March 2020 which has a positive impact for Klaveness as income is mainly in USD. The liquidity risk of the Klaveness is considered acceptable. Equity and bank funding have been secured for the three remaining newbuilds. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover Klaveness' commitments.

Operational risks

Operational risks in the shipping and trading activities are managed through formal and certified safety and quality management, control processes as well as 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 organization is continuously working to learn from incidents and accidents through a formalized improvement reporting system and develop procedures and training accordingly.

In 2020, the Covid-19 pandemic imposed a whole new set of operational risks on Klaveness. The vessels are highly vulnerable and substantial measures on testing, quarantine and vessel access has been implemented. The pandemic also poses risk to crew changes and has severely impacted the ability to timely exchange crew on vessels. In addition, the office work force has for a large part of the year worked from home offices and practiced social distancing, minimized travel and taken other relevant measures.

The vessels sail in waters exposed to piracy. All vessels sailing through exposed areas take precautionary steps to mitigate the threat of such attacks based on advice and intelligence from Den Norske Krigsforsikring for Skib.

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 and we continuously work to assess our security and ensure that we are compliant with IMO Maritime Security Regulations. Furthermore, technical upgrades have been made in 2020 to protect the IT infrastructure both in the offices and onboard the vessels.

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 risk control measures. 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 2020, the Group, through KCC, had three newbuilds on order and had taken delivery of two sister vessels from the same yard. Dedicated on-site personnel supervise the building processes. There are performance risks associated with the newbuilds. Tier one Chinese banks provide refund guarantees and the yard itself is financially strong.

Environmental risks

Environmental laws and regulations 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 and risk management 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 other regulatory framework governing the activities of the Group may have material impact on its business. To limit this exposure, procedures have been implemented and are continuously updated to comply with all applicable legislation, and all counterparties go through due diligence assessments.

Outlook

Klaveness Research expects dry bulk freight rates to increase in 2021 as fleet growth moderates and demand recovers from the pandemic. A key factor will be the vaccine effectiveness in protecting against mutations of the SARS-CoV-2 virus.

2021 has started on a very strong note in terms of dry bulk freight rates. The main drivers are increasing industrial production, a cold spell in the Far East and very strong grain demand. Industrial production is recovering as the adverse effects of the pandemic becomes less pronounced. This increases the demand for all dry bulk commodities except for grains. However, grain demand is where we see the strongest growth with Chinese demand increasing rapidly as the pig herd recovers from the African Swine flu. A cold spell in the Far East has increased residential heating demand which has led to surging demand for coal. Domestic coal prices in China are at all time high levels which drives the need for coal imports. The Chinese deficit of coal is likely to remain in the coming months before it starts to moderate. Imports in the rest of the world is likely to post solid YoY growth as the year progresses due to recovering energy demand post Covid-19.
Klaveness Research expects the supply growth in 2021 to be at historically low levels, with expectations of 1.6% in 2021. In the absence of new black swan events of a similar magnitude as the Brumadinho disaster and the Covid-19 pandemic there are reasons to believe that 2021 will deliver demand growth that exceeds the fleet growth. This should increase freight rates.

The container market has had a very strong start to 2021, with box rates, charter rates and vessel values all seeing strong increases. Demand conditions may gradually "normalize" through 2021, with vaccines supporting a return towards more normal economic activity and a gradual shift back toward normal spending on leisure and other services. With the disruption potentially easing, some negative pressure on rates from the current spectacular highs appears probable.

The latest IMF report expects government supports and vaccines to help lift economic activity throughout 2021, with world GDP in 2021 and 2022 expected to grow by 5.5% and 4.2%, respectively, following an estimated global GDP contraction of -3.5% in 2020. For the full year 2021, global seaborne box trade is projected to expand by 5.7% (an improvement from -1.1% in 2020).

Fleet growth still appears manageable in 2021. The underlying capacity growth slowed to 2.9% in 2020 and is expected to reach 3.8% in 2021 (2022:1.5%). The order book is limited at 11% of the fleet, though newbuild interest is now increasing.

The product tanker market faces headwinds going into 2021, as oil demand is around 6% lower than pre-COVID levels. Continued oil production curtailment, low refinery runs and inventory destocking on oil price backwardation will likely continue to impact the tanker market negatively until a meaningful improvement in the COVID situation. Clarksons expects product tanker demand to grow 6.5% in 2021, which still leaves the demand 5 million dwt below 2019 demand levels. On a positive note the product tanker order is limited with book-to-fleet ratio at around 7%. However, on a positive note, refinery closures in Australia in combination with refinery openings in the Middle East is a potential positive driver for ton-mile demand.

The market for digital supply chain management solutions is expected to grow significantly in the years to come. In 2021, industrial companies moving bulk cargoes at sea will likely continue to move their supply chain management onto digital platforms and use these to find new and better ways to reduce the cost and improve the nature of their supply chains. There will also be an increased need among industrial companies for new solutions and services for managing supply chains, to ensure that they are predictable, transparent, dynamic and can withstand external disruptions. This digital representation of inventory and freight will not only lay the foundation for more resilient and responsive supply chains but also open opportunities for measuring, tracking and benchmarking scope-3 emissions.

Decarbonization is about to hit the shipping industry with full force. New regulations are introduced both on a global level by IMO, regional level by e.g. EU and on national level by e.g. China and the USA. Further, voluntary schemes for decarbonization are introduced by banks (Poseidon Principles) and Charterers (Sea Cargo Charter). Hence, the demand for monitoring, reporting and not least reduction of carbon emissions from seaborne supply chains is expected to increase and sharply in the 2021 and beyond.

The parent company

Rederiaksjeselskapet Torvald Klaveness' registered business address is Drammensveien 260, 0283 Oslo, Norway. The result for the parent company was a profit after tax of USD 4.3 million for 2020 (2019: loss of USD 10.3 million). The profit for the parent company is proposed transferred to other equity.

Oslo, 26 March, 2021

Trond Harald Klaveness
Chairman

Henning Eskild Jensen
Board member

Jan Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

Rederiaksjeselskapet Torvald Klaveness – Consolidated Group

Consolidated income statement

For the year ended 31 December (USD '000)	Notes	2020	2019
Gross revenues from operation of vessels	8	308 922	284 551
Voyage related expenses and distribution of pool result	9	(194 269)	(190 245)
Net revenue from operation of vessels		114 653	94 306
Net income/(loss) from physical and financial freight agreements	6	8 006	(11 094)
Other operating revenue		5 722	1 172
Total operating revenues		**128 380**	**84 384**
Operation of vessels	9	(52 181)	(46 253)
Salaries and social expenses	7, 10	(21 326)	(22 679)
Other operating and administrative expenses	11	(10 037)	(14 403)
Operating expenses		**(83 544)**	**(83 336)**
Operating profit/(loss) before depreciation and impairment		**44 836**	**1 048**
Ordinary depreciation fixed assets	14	(26 940)	(19 824)
Impairment/reversal of impairment fixed assets	14, 15	(975)	-
Depreciation and impairment of fixed assets		**(27 914)**	**(19 824)**
Operating profit/(loss)		**16 921**	**(18 776)**
Income/(loss) from associated companies	16	(7)	344
Net interest income/(expenses)	12	(14 556)	(11 093)
Other financial income/(loss)	13	(3 665)	(1 496)
Net currency gain/(loss)		1 401	356
Financial income and expenses		**(16 827)**	**(11 890)**
Profit/(loss) before taxes		**94**	**(30 666)**
Taxes	33	(65)	(521)
Profit/(loss) for the year		**29**	**(31 187)**
Attributable to:			
Majority interest		(6 078)	(31 930)
Minority interest		6 107	743
Profit/(loss) for the year		**29**	**(31 187)**

Consolidated balance sheet

As at 31 December (USD '000)	Notes	2020	2019
Assets			
Fixed assets			
Deferred tax asset	33	6 578	6 578
Other intangible assets	14	3 308	1 976
Total intangible fixed assets		**9 886**	**8 555**
Vessels	14	512 084	427 842
Newbuilding contracts	15	48 091	62 106
Other tangible assets	14	4 234	4 873
Total tangible fixed assets		**564 409**	**494 821**
Investments in associated companies	16	65	55
Other long-term receivables		440	229
Total financial fixed assets		**505**	**283**
Total fixed assets		**574 799**	**503 658**
Current assets			
Bunkers on board vessels	17	20 331	21 464
Accounts receivable	18	21 124	28 385
Prepaid expenses	19	15 140	13 398
Other short-term receivables	20	21 687	22 099
Derivatives		1 024	1 205
Cash and bank deposits	22	98 696	89 988
Total current assets		**178 002**	**176 539**
Total assets		**752 802**	**680 198**

Consolidated balance sheet

As at 31 December (USD '000)	Notes	2020	2019
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		159 405	165 022
Total equity before minority interests	5	**216 611**	**222 228**
Minority interests		105 022	100 750
Total equity including minority interests	5	**321 633**	**322 978**
Long-term liabilities			
Pension liabilities	7	739	643
Total provisions		**739**	**643**
Mortgage debt	23	206 813	196 378
Long-term bond loan	24	75 179	34 023
Other long-term interest-bearing liabilities	25	11 322	10 021
Total long-term interest-bearing liabilities		**293 314**	**240 422**
		-	
Total long-term liabilities		**294 053**	**241 065**
Current liabilities			
Accounts payable	26	13 260	23 479
Accrued expenses	27	15 195	16 635
Taxes payable	33	310	303
Provision dividends	5	-	222
Short-term interest-bearing debt	28	73 739	19 381
Derivatives	21	-	18 372
Other short-term liabilities	29	34 612	37 764
Total current liabilities		**137 117**	**116 156**
Total liabilities		**431 169**	**357 221**
Total equity and liabilities		**752 802**	**680 198**

Oslo, 26 March, 2021

Trond Harald Klaveness
Chairman

Henning Eskild Jensen
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)	2020	2019
Cash flow from operating activities		
Net profit / loss (-) before tax	94	(30 666)
Taxes paid	(303)	(589)
Depreciation, impairment and reversal of impairment	27 914	19 824
Loss / gain (-) from associated companies	7	(344)
Unrealized loss / gain (-) on financial instruments	2 144	(264)
Unrealized loss / gain (-) on bond loan	-	1 063
Amortization of upfront fees bank and bond loans	878	571
Other non-cash items	(18 372)	1 445
Decrease / increase(+) provision for loss	(4 293)	4 154
Decrease / increase (-) in prepayment to clearing of derivatives	534	2 666
Decrease / increase (-) in current assets	6 812	24 811
Increase / decrease (-) in current liabilities	(11 444)	(8 706)
Change in pension liabilities	96	44
Net cash flow from operating activities (1)	**4 067**	**14 009**
Cash flow from investing activities		
Investments in vessels and newbuilding contracts	(89 443)	(158 285)
Docking and other investments in vessels	(4 293)	(11 936)
Investments in other assets	(1 473)	(1 350)
Decrease / increase (-) in other long-term receivables	(211)	(11)
Net cash flow from investing activities (2)	**(95 420)**	**(171 583)**
Cash flow from financing activities		
Proceeds from mortgage debt	82 450	103 000
Installment repayments	(17 367)	(13 923)
Proceeds from bond loan (KCC04)	76 390	-
Repayment of bond loan	(34 100)	-
Premium payment financial instruments	(3 101)	-
Transaction costs on issuance of loans	(1 914)	(1 596)
Transactions costs capital injections in subsidiaries	-	(1 010)
Capital injection from minority interest	-	38 820
Dividend to minority interests	(2 218)	(1 490)
Currency effects	(78)	(39)
Net cash flow from financing activities (3)	**100 062**	**123 762**
Net increase / decrease (-) in cash (1+2+3)	**8 708**	**(33 812)**
Cash and cash equivalents at January 1	89 988	123 800
Cash and cash equivalents at December 31	98 696	89 988
Net increase / decrease (-) in cash	**8 708**	**(33 812)**
Cash and cash equivalents at December 31	**98 696**	**89 988**

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 unrealized gains on transactions between Group companies are eliminated. Unrealized 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 recognized in the financial statements.

Classification of assets and liabilities

Current assets and short-term liabilities include items due less than one year from the balance sheet date, as well as items due more than one year from the balance sheet date, that are related to the operating cycle. Assets intended for permanent ownership or use and receivables with maturities exceeding one year from the balance sheet date are presented as fixed assets. Liabilities with maturity less than one year from the balance sheet date are classified as current. All other debt is classified as long-term debt. The first year's repayment of long-term debt is classified as current liabilities in the balance sheet.

Valuation of tangible assets and liabilities

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

Tangible assets with a limited useful life are depreciated according to a depreciation schedule based on best estimates of expected useful life and taking into account each asset's wear, tear and age. The useful life of a vessel is normally set to 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 capitalized.

Current assets are valued at the lower of cost and net realizable 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 recognizes 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 recognized 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 recognized 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 recognized 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 recognized 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 capitalized 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 capitalized 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 maximize 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 recognized 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 recognized. Fuel swaps in the trading portfolio are recognized 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 recognized 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 recognized 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 recognized directly in equity. On disposal of foreign operations, the accumulated exchange gain/loss recognized in equity relating to that particular foreign operation is recognized 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 9.4264 in 2020 (2019: 8.8025). At year-end 2020, an exchange rate of 8.5375 (2019: 8.8176) 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 recognized 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 recognized 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 recognized 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 recognized 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.

wIndividual 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, 2020	Ownership interest per 31 Dec, 2019
Klaveness Asia Pte Ltd. (Singapore)	100 %	100 %
Baumarine AS	100 %	100 %
Bulkhandling Handymax AS	100 %	100 %
Klaveness Ship Holding AS	100 %	100 %
Klaveness Cement Logistics AB (Sverige)	100 %	100 %
Klaveness Container AS	96,5 %	96,5 %
Klaveness Combination Carrier AS	53,8 %	53,8 %
KCC KBA AS	53,8 %	53,8 %
KCC Chartering AS	53,8 %	53,8 %
KCC Shipowning AS	53,8 %	53,8 %
Cargo Intelligence AS	91,5 %	91,5 %
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) 1)	0 %	100 %
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 %

Joint Ventures:

Company name	Ownership interest per 31 Dec, 2020	Ownership interest per 31 Dec, 2019
Barklav (Hong Kong) Ltd.	50 %	50 %
Maruklav Management Inc	50 %	50 %

Associated companies:

Company name	Ownership interest per 31 Dec, 2020	Ownership interest per 31 Dec, 2019
Klaveness Maritime Agency Inc.	24,96 %	24,96 %

1) *The company was liquidated in 2020.*

03 Major and subsequent events

2021: Subsequent events

Newbuildings

The sixth CLEANBU vessel, MV Baiacu, was delivered from Jiangsu New Yangzi Shipyard in China at 11 January 2021.

Sale of two container vessels

The container charter market has continued to significantly improve in Q1 and new fixtures are above 2020 levels. In January Klaveness Container AS has agreed to sell two of its vessels to external parties with delivery in the first quarter of 2021. The sales prices were above book value per 31 December 2020.

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2020.

Norsk Krigsskadeerstatning

The Group expects to recieve a reimbursement of previous insurance premiums of USD 1.7 million from "Norsk Krigsskadeerstatning". This will be recognized as income in 2021 if and when the agreement is certified by "Finanstilsynet".

2020: Major events

Newbuildings

In 2020, two newbuilt CLEANBU vessels were delivered from yard Jiangsu New Yangzi Shipbuilding. MV Baleen was delivered in August and MV Bangus was delivered in October.

The COVID-19 situation has made delivery of newbuilds in China more challenging and costly. It has not been possible to get crew into China during most of 2020, hence Chinese crew have been employed to sail the two delivered newbuilds to South Korea for crew change. The time from delivery until start of trading has hence increased by an average of 38 days compared to the vessels delivered in 2019. The result was increased costs and fewer on-hire days. Other costs have increased as well as a result of COVID-19.

Financing

During 2020 the Group has repaid the KCC03 bond loan in full and issued a senior unsecured bond loan (KCC04) of NOK 700 million (NOK 500 million in February 2020 and NOK 200 million in September 2020) which is listed on Oslo Stock Exchange . KCC04 has a bullet structure with full repayment at maturity in February 2025 and the bond loan carries a coupon of 3 months NIBOR plus a margin of 4.75 % p.a with quarterly interest payments. The bond loan is swapped to fixed USD rate and fixed interest rate (cross currency interest rate swaps/CCIRS).

Impairment Container vessel

The container market weakened in the first half of 2020 resulting in an impairment of USD 2.5 million for MV Barry in Q2. However the market improved in Q4, resulting in a reversal of previous impairments of USD 1.5 million. Total impairment for the year was USD 1.0 million.

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

Provisions for restructuring were booked in Klaveness AS and AS Klaveness Chartering to cover costs of restructuring following the exit from the Supramax segment. The provisions amount to USD 4.5 millions.

Vessels

Useful life for the combination carrier vessels is reassessed annually. 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 also accepted (some formally and others informally) age up to 25 years. Useful life is increased from 20 to 25 years as from 1 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 annual depreciation for the CABU vessels by approximately USD 6.4 million in 2019 compared to 2018. For all the vessels delivered in 2019 the value in use is 25 years.

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 a spot pool. 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 the 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 activities are 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

hipping 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 part of the vessel capacity for the nearest 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 effectuate payments efficiently in the markets that 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

nvestments 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 2020, the Group had two newbuildings expected to be delivered in 2021. Yard delivery risk for the vessels is reduced through refund guarantees from tier-one Chinese banks. In addition, post-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 2020, the Group had a currency forward portfolio of NOK 135.5 million. The currency forward contracts were entered into based on board mandates. NOK 105.5 million of the contracts mature in 2021 and the remaining NOK 30 million mature in 2022. The transactions had a minor result effect in 2020, 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 93 million
Financial liquid assets nominated in other currencies:	USD 6 million
Interest-bearing debt in USD:	USD 279 million
Interest-bearing debt in other currencies:	USD 11 million
Bond loan (denominated in NOK):	USD 75 million

Interest rate risk

Interest rate 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 Combination Carriers ASA to reduce the exposure. To mitigate interest rate exposure, the Group has interest rate swaps (IRS) to hedge the risk of variability of changes in cash flows of the interest bearing bank debt as a result of changes in floating interest rates. As from 1 January 2020, the Group changed its treatment of its IRS instruments, which are now defined as a portfolio aiming to hedge the underlying portfolio of interest-bearing debt in line with the Group's finance policy. At year-end 2020, approximately 51 % of the floating interest bearing debt was fixed through interest rate swap agreements.

The total mark-to-market value of interest rate swaps and cross-currency interest rate swaps was negative by USD 18.9 million per 31 December 2020, largely due to USD/NOK effects. The effect in the profit and loss statement for 2020 is negative by USD 2.0 million, reflecting a negative development in the mark-to-market value through the year.

Liquidity risk

The Group's cash position is impacted by 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 two newbuildings on order with delivery in 2021.

05 Equity

(USD '000)	Share Capital	Other paid-in capital	Other equity	Total equity excluding minority	Minority interests	Total equity including minority
Equity 31 December 2019	**8 154**	**49 052**	**193 097**	**250 303**	**67 373**	**317 676**
Profit for the year			(31 930)	(31 930)	743	(31 187)
Dividends			-	-	(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**
Profit for the year			(6 078)	(6 078)	6 107	29
Dividends to minority interest			-	-	(2 218)	(2 218)
Effects of changing IRS to portfolio view*			982	982	843	1 825
Other changes			(522)	(522)	(459)	(981)
Equity 31 December 2020	**8 154**	**49 052**	**159 405**	**216 611**	**105 022**	**321 633**

** Note 4*

Shareholders	Ownership	Shares
THK Partner AS	25,3 %	2 530
MMK Holding AS	22,0 %	2 200
MMK Newco AS	15.0 %	1 500
JWI Holding AS	22,0 %	2 200
JWI Newco AS	15.0 %	1 500
B7 Invest AS	0,7 %	70
Total	**100 %**	**10 000**

06 Physical and financial freight agreements

The Group through its subsidiary AS Klaveness Chartering takes positions in 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, due to weak results from the Supramax segment it was decided in Q4 2019 to prioritize the Panamax and Financial Trading segments going forward and to reduce activities 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.

The mark-to-market value of the portfolio of contracts related to the Panamax and Financial Trading segments per end of December 2020 and forward was, assuming no credit risk, USD 2.7 million (2019: USD 4.2 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 statistically estimated counterparty losses, was positive by USD 2.1 million (2019: negative by USD 3.8 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 2020 negative by USD 0.4 million. As a consequence of the changes in focus areas and current mandates, a provision of USD 0.4 million has been made per 31 December 2020 to reflect the negative value of the contracts not under the current mandate.

(USD '000) Result from physical and financial freight agreements	2020	2019
Result from physical and financial freight agreements	8 006	-11 094
Net result from physical and financial freight agreements	**8 006**	**-11 094**

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 13 ship-years of time charter-in contracts with maturity below one year, and two ship-years of time charter-in contracts with maturity between one and three years. The average daily lease rate was USD 12 100. In addition, the company has 1.5 ship years with index based lease rate.

The initial margin equals the guarantee obligation that 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 1.5 million facility for clearing purposes (initial and variation margins). The initial margin equals the guarantee obligation to the clearing houses for freight and oil derivatives. Per year-end 2020, the Group has drawn USD 0.1 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 1.7 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 salaries between 0 and 12G plus 15% of salaries between 7.1G and 12G. 1G is currently defined to NOK 101.351. The annual pension 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 out over 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, 2020 the defined pension plan included 97 (2019: 87) employees. All payments to the defined contribution plan are expensed as they are paid-in.

In addition to the defined contribution plan, the Group also has two defined benefit plans. These plans relate to two employees who have these plans in addition to the defined contribution plan. The estimated pension liability is USD 0.7 million.

The estimated pension liabilities is exclusive of one unsecured contract. This contract gives the holder the option to leave the Group at the age of 64; and the Group the option to give the holder a leave at the age of 62. The estimated liability given retirement at the age of 62 was USD 0.3 milllion as per December 31, 2020. However, the probability that this contract will be executed is considered low; hence the liability has not been recognized.

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)	2020	2019
Pools:		
Panamax	112 193	73 042
Supramax	11 728	47 255
Total	**123 921**	**120 297**
Own vessels:		
Combination carriers	161 846	137 217
Container vessels	23 155	27 036
Total	**185 001**	**164 253**
Total gross revenue from vessels:	**308 922**	**284 551**

09 Voyage related expenses and operation of vessels

Voyage related expenses and operation of vessels ('000)	2020	2019
Pools:		
Panamax	(112 032)	(72 849)
Supramax	(11 707)	(47 340)
Total expenses pools	**(123 739)**	**(120 189)**
Own vessels:		
Combination carriers	(105 208)	(96 431)
Container vessels	(17 503)	(19 879)
Total expenses own vessels	**(122 711)**	**(116 309)**
Total voyage related expenses and operation of vessels	**(246 450)**	**(236 498)**
Voyage related expenses (including distribution of pool result)	(194 269)	(190 245)
Operation of vessels	(52 181)	(46 253)
Total voyage related expenses and operation of vessels	**(246 450)**	**(236 498)**

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	2020	2019
Wages	(17 533)	(18 337)
Benefits and insurance	(564)	(876)
Employer's social security contributions	(1 375)	(1 467)
Net pension cost	(1 197)	(1 228)
Welfare expenses	(657)	(771)
Total salaries and social expenses	**(21 326)**	**(22 679)**
Average number of man-years (on-shore Oslo)	92	85
Average number of man-years (on-shore abroad)	76	76

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	2020	2019
Remuneration to the Board of Directors	(245)	(259)
Remuneration to the Chief Executive Officer [1)]	(532)	(612)

1) *incl. salaries and pension cost*

In 2020, Trond Harald Klaveness received a compensation of USD 81 thousand for his work as senior advisor, in addition to the remuneration of USD 94 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)	2020	2019
Administrative expenses	(6 933)	(9 217)
Outsourcing, consultancy and legal fees	(3 364)	(3 112)
Audit fee [1)]	(353)	(407)
Other services from auditor [1)]	(71)	(156)
Other operating expenses	683	(1 511)
Total other operating expenses	**(10 037)**	**(14 403)**

1) *Excluding VAT*

12 Interest income and expenses

(USD '000)	2020	2019
Interest income	403	2 613
Mortgage interest expenses	(10 147)	(11 011)
Interest expenses bond loan	(4 062)	(2 124)
Other interest income/(expenses)	(750)	(571)
Net interest income/(expenses)	**(14 556)**	**(11 093)**

13 Other financial income and loss

(USD '000)	2020	2019
Realized gain/(loss) financial instruments	(336)	(717)
Unrealized gain/(loss) financial instruments	(2 144)	264
Other financial expenses	(1 185)	(1 044)
Net other financial income/(loss)	**(3 665)**	**(1 496)**

14 Tangible fixed assets and intangible assets

2020 (USD '000)	Combination Carriers	Container Vessels	Other assets	Total fixed assets
Cost 1 January 2020 - vessels/other assets	467 325	270 699	19 412	601 589
Cost 1 January 2020 - docking	21 282	16 937	-	26 356
Delivery of newbuildings/adjustment of aquisition value	103 708	-	-	103,708
Additions	4 043	72	397	4 512
Disposals	-	-	-	-
Cost 31 December 2020 - vessels/other assets	571 033	270 699	19 809	861 541
Cost 31 December 2020 - docking	25 325	17 009	-	42 334
Accumulated depreciation 31 December 2020	(192 598)	(58 823)	(14 814)	(266 235)
Accumulated impairment 31 December 2020	-	(122 805)	(761)	(123 566)
Net book value 31 December 2020 - vessels/other assets	391 848	104 086	4 234	500 168
Net book value 31 December 2020 - docking	11 349	4 801	-	16 150
Net book value 31 December 2020 - total	**403 197**	**108 887**	**4 234**	**516 318**
Depreciation for the year, 2020 - vessels/other assets	(14 764)	(4 423)	(1 192)	(20 379)
Depreciation for the year, 2020 - docking	(3 938)	(1 702)	-	(5 640)
Total depreciation 2020	**(18 702)**	**(6 125)**	**(1 192)**	**(26 019)**
Impairment/impairment reversal for the year, 2020	-	**(975)**	-	**(975)**
Number of vessels by the end of 2020	14	8	-	22
Average useful life	25	25	-	25
Average remaining useful life	15	16	-	15,5

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
Adjustment of capitalised cost				
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	415 040
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

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
The CLEANBU vessels MV Baleen and MV Bangus were delivered from Jiangsu New Yangzi Shipbuilding Co. Ltd. on 4 August 2020 and 13 October 2020 respectively. The CABU vessels MV Bantry, MV Bangor and MV Banasol have performed scheduled dry-docking in 2020 of in total USD 4.8 million. Dry-docking of MV Banasol was completed early January 2021 and related additions in late 2020 of USD 1.7 million are presented as prepaid expense.

Disposals
No disposals of vessels in 2020.

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

Covid-19 had a negative impact on seaborne container rates, however towards the end of 2020 rates have improved significantly. Market rates in December were higher that what has been observed over the past 10 years. Impairment tests have been performed at year-end 2020. 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 2019, 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 showed that calculated value-in-use and broker values are above book for all eight vessels at year-end. The Group incured an impairment of MV Barry in Q2 of USD 2.5 million of which USD 1.5 million were reversed at year-end.

For the combination carrier vessels no impairment-triggering events were identifed.

The below summarizes the total impairment cost/reversal:

Impairment loss (-)/ reversal	2020	2019
Impairment (-)/reversal of impairment of vessels	(975)	-
Total impairment (-) / reversal of impairment	**(975)**	**-**

Intangible assets relates to CargoValue:

(USD '000)	Intangible assets at 31.12.2020	Intangible assets at 31.12.2019
Acquistition cost as of 1 January	2 573	1 305
Accumulated deprectation as of 1 January	(597)	(127)
Book value as of 1 January	**1 976**	**1 178**
Additions	2 252	1 269
Amortisation/depreciation for the year	(920)	(470)
Book value as of 31 December	**3 308**	**1 976**
Accumulated aquisition cost as of December 31	4 825	2 574
Accumulated amortisation/depreciation as of December 31	(1 518)	(597)
Depreciation plan	Straight line	Straight line
Economic life	3 years	3 years

15 Newbuilding contracts

The Group has per 31 December 2020 three CLEANBU combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China, whereof MV Baiacu was delivered 11 January 2021, and the last two newbuildings will be delivered first half 2021. The Group took delivery of the fourth and fifth CLEANBU vessels, MV Baleen and MV Bangus, in August and October 2020 respectively.

The fleet of newbuildings is fully financed.

Investments in newbuildings 2020	Combination Carriers	Total
Cost 1.1	62 106	62 106
Borrowing cost	1 023	1 023
Yard installments paid	80 851	80 851
Other capitalized cost	7 819	7 819
Delivery of newbuildings	(103 708)	(103 708)
Net carrying amount at 31 December	**48 091**	**48 091**

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**

16 Associated companies and join ventures

Associated companies (USD '000) Company	Acquisition	Ownership (direct + indirect)	Acquisition cost	Share of result 2020	Book value per 31 Dec 2020	Share of result 2019	Book value per 31 Dec 2019
Klaveness Maritime Agency Inc.	2011	24,96 %	25	16	65	25	55
Total associated companies			**25**	**16**	**65**	**25**	**55**

Associated companies

nvestments in associated companies are recognized 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

oint 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. In 2020, Torvald Klaveness' share of profit from Barklav was USD 0.2 million and the share of equity is USD 0.7 million. Torvald Klaveness also includes the joint venture Maruklav Management Inc. which is owned 50 %. The joint venture was established in 2019. In 2020, Torvald Klaveness' share of profit from Maruklav was USD 0.7 million and the share of equity is USD 0.7 million.

17 Bunkers on board vessels

(USD '000)	2020	2019
Bunkers	18 726	20 169
Spareparts	212	46
Luboil	1 393	1 249
Bunkers on board vessels	**20 331**	**21 464**

18 Accounts receivable

(USD '000)	2020	2019
Accounts receivable from charterers	21 989	36 088
Accounts receivable from owners	2 087	3 273
Other accounts receivable	342	328
Provision for unsettled income	(2 459)	(1 526)
Provision loss on accounts receivable	(836)	(9 777)
Accounts receivable	**21 124**	**28 385**

19 Prepaid expenses

(USD '000)	2020	2019
Prepaid mark-to-market margin	3 880	4 445
Prepaid time charter hire	4 266	6 325
Other prepaid expenses	6 995	2 628
Prepaid expenses	**15 140**	**13 398**

20 Other short-term receivables

(USD '000)	2020	2019
Accrued voyage income	14 465	12 389
Accrued interest income	6	14
Claims (insurance and other)	511	469
Other short-term receivables	6 705	9 226
Other short-term receivables	**21 687**	**22 099**

21 Financial instruments

(USD '000)	2020 Cost	2020 Market Value	2019 Cost	2019 Market Value
Cross currency interest rate swap agreements	-	-	-	(16 547)
Interest swap agreements	-	-	-	(2 376)
Total derivatives (non-hedging)	**-**	**-**	**-**	**(18 923)**

Financial instruments for non-hedging purposes
As per 31 December 2020 the Group held interest rate options for non-hedging purposes and various interest rate derivative instruments for hedging purposes. (2019: the Group held interest rate swap agreement and interest rate options for non-hedging purposes and interest rate agreements for hedging purposes.) Interest rate options are valued at the lower of historical cost or fair market value. Total loss for these interest rate options per 31 December 2020 was USD 0.3 million. (2019: total loss USD 2.4 milllion). 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 recognized as financial income.

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

22 Cash and bank deposits

(USD '000)	2020	2019
Bank deposits in USD	92 139	83 098
Bank deposits in NOK	3 341	3 731
Bank deposits in other currencies	2 047	2 097
Withholding tax accounts, restricted	734	645
Other restricted accounts	2	2
Cash	433	415
Total cash and bank deposits	**98 696**	**89 988**
Hereof cash and bank deposits related to subsidiaries with ownership interest less than 90 %	65 685	57 089

The Group has USD 25.7 million available for drawing on a revolving credit and overdraft facilities per year-end 2020.

23 Mortgage debt

(USD '000)	2020	2019
Mortgages, USD denominated	280 381	215 018
Capitalized loan fees	(1 239)	(1 274)
First year installments and loans falling due within one year	(72 329)	(17 367)
Total long-term mortgage debt	**206 813**	**196 378**
Hereof mortgage debt related to subsidiaries with ownership interest 90 % or less	184 340	169 304
Repayment schedule:		
Falling due within one year	72 329	17 367
Falling due between one and three years	134 589	66 050
Falling due after three years	73 463	132 024
Total mortgage debt	**280 381**	**215 441**
Book value of vessels with mortgage debt	**512 084**	**427 842**

23 Mortgage debt

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 two newbuildings with delivery in 2021. The owner of the vessels, KCC Shipowning AS, is the borrower (Klaveness Combination Carriers ASA is guarantor) and the USD 60 million term loan has a tenor of five years from drawdown.

Covenants

he credit facilities impose restrictions which may limit or prohibit change of control, change of business and so forth without the consent of the lenders (non-financial covenants). The lenders may accelerate the maturity of the indebtedness under financing agreements and foreclose upon the collateral securing the indebtedness upon the occurrence 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 31 December 2020. Some covenants waivers put in place for Baumarine AS , Bulkhandling Handymax AS and AS Klaveness Chartering in 2019, which lasted until 1H2020, were repaired when the credit facilties were renewed in 2020. The credit facility for Bulkhandling Handymax AS matured and settled when this company discontinued operations in 2020, without incurring any Event of Default.

24 Long-term bond loan

In 2020 the Group issued a senior unsecured bond loan (KCC04) of NOK 700 million (NOK 500 million in February 2020 and NOK 200 million in September 2020) which is listed on Oslo Stock Exchange. KCC04 has a bullet structure with full repayment at maturity in February 2025 and the bond loan carries a coupon of 3 months NIBOR plus a margin of 4.75 % p.a with quarterly interest payments. The bond loan is swapped to fixed rate USD and fixed interest rate (cross-currency interest rate swaps (CCIRS)). During 2020 the Group also repaid the KCC03 bond loan in full.

The Group is in compliance with all covenants related to bond loan per 31 December 2020.

Bond loan	Face value NOK'000	Date of maturity	Carrying amount 2020	(USD'000) 2019
KCC03 (KSH03)				
Original loan amount	300 000	May 27, 2021	35 273	35 273
Buyback KCC03 (Q1 2020)	(158 000)		(18 628)	-
Buyback KCC03 (Q4 2020)	(142 000)		(16 051)	-
Exchange rate adjustment			(594)	(1 063)
Capitalized expenses			-	(187)
Total KCC03 (KSH03)			**-**	**34 023**
KCC04				
Original loan amount	700 000	Feb 11, 2025	76 390	
Exchange rate adjustment			5 602	
Capitalized expenses			(1 032)	
Bond discount			(310)	
Currency adjustment NGAAP hedge			(5 470)	
Total KCC04			**75 180**	
Bond loan as of 31 December			**75 180**	**34 023**

25 Other long-term interest-bearing liabilities

(USD '000)	2020	2019
Long-term debt to related parties (note 32)	10 763	9 999
Other long-term interest-bearing liabilities	79	22
Deferred income	480	-
Total other interest-bearing long-term liabilities	**11 322**	**10 021**

26 Accounts payable

(USD '000)	2020	2019
Accounts payable to charterers	9 088	2 338
Accounts payable to owners	1 991	2 512
Accounts payable to brokers	1 411	1 093
Accounts payable to bunkers suppliers	766	13 929
Other accounts payable	4	3 606
Accounts payable	**13 260**	**23 479**

27 Accrued expenses

(USD '000)	2020	2019
Accrued interest expenses	2 095	1 602
Accrued voyage expenses	13 100	15 033
Accrued expenses	**15 195**	**16 635**

28 Short-term interest-bearing debt

(USD '000)	2020	2019
First year installments of long-term debt (note 23)	22 473	17 367
Debt due in November 2021 (note 23)	49 856	-
Short-term debt related parties	1 410	2 015
Total short-term interest-bearing debt	**73 739**	**19 381**

First-year installments of long-term debt have 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)	2020	2019
Unearned income	15 949	15 602
Payables related to wages and crewing	3 114	1 854
Provisions for losses	244	4 538
Pool-hire payable	3 061	6 207
Other short-term liabilities	12 243	9 563
Other short-term liabilities	**34 612**	**37 764**

30 Hedging

Torvald Klaveness uses financial instruments to hedge against certain financial risks. In 2020, 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 recognized immediately in the profit and loss account.

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

Hedging object	Hedging instrument	Hedge included in P&L line	2020 P&L effect	2020 Market value	2019 P&L effect	2019 Market value
Cash flow hedges:						
Pool income	Forward freight agreements	Gross revenues from operation of vessels	1 009	(608)	1 321	1 154
Interest mortgage loans	Interest rate swaps	Interest income/expenses	154	154	1 693	1 693
Bunkers cost	Fuel swaps	Operation of vessels and voyage related expenses	(1 275)	44	(311)	-
Salaries in NOK	Foreign exchange currency contracts	Salary related expenses	(1 167)	(1 167)	(582)	(582)
SUM hedging			**(1 279)**	**(1 577)**	**2 121**	**2 266**

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 50 million, max limit USD 56.65 million incl. interest, expenses and exposures under derivatives
Gearbulk Pool Ltd	SEB placse a guarantee for Gearbulk Pool Ltd. for any claim arising under the performance of a specific contract of affreightment. The claim is expected to be solved within first half of 2021.	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 2015-1229 and YZJ 2015-1247.	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
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 the Group.

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

Long-term liabilities

(USD '000) Company	Interest Rate	2020 Interest	2020 Liabilities	2019 Interest	2019 Liabilities
Brigantina AS	NIBOR 6m + margin	117	3 128	128	2 905
THK Holding AS	NIBOR 6m + margin	79	2 257	91	2 097
THK Partner AS	NIBOR 6m + margin	71	2 024	81	1 880
MMK Holding AS	NIBOR 6m + margin	**59**	**1 684**	**68**	**1 565**
JWI Holding AS	NIBOR 6m + margin	**58**	**1 671**	**67**	**1 552**
Total		**384**	**10 763**	**435**	**9 999**

32 Related parties

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, and holds controlling shares in MMK Holding AS and JWI Holding AS.

Short-term liabilities

(USD '000)		2020		2019	
Company	Interest Rate	Interest	Liabilities	Interest	Liabilities
Trond Harald Klaveness	"skjermingsrenten"	10	1 307	16	1 505
Morten Mathias Klaveness	"skjermingsrenten"	1	3	2	208
Jan Wilhelm Klaveness	"skjermingsrenten"	2	101	3	302
Total		**13**	**1 410**	**21**	**2 015**

33 Taxes

(USD '000) Income taxes in the income statement consist of:	2020	2019
Income taxes payable	(65)	-
Change in deferred tax asset	-	(521)
Tax adjustments previous years/other corrections	-	-
Total tax (expense) / income	**(65)**	**(521)**

	2020		2019	
Temporary differences - ordinary taxation:	Position	Tax effect	Position	Tax effect
Temporary differences on fixed assets	7 262	1 598	(1 179)	(259)
Temporary differences on current assets	5 322	1 171	24 249	5 335
Tax losses carried forward	152 947	33 648	115 856	25 488
Net temporary differences	**165 531**	**36 417**	**138 926**	**30 564**
Deferred tax asset (-) not recognised in balance sheet		(29 839)		(23 986)
Deferred tax asset in balance sheet 22 %		**6 578**		**6 578**
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 is at the same level as in 2019, based on an evaluation of the probability of future use of the tax position at group level.

	2020		2019	
Tax payable:	Income	Tax effect	Income	Tax effect
Profit / (loss) before taxes	94	21	(30 666)	(6 747)
Permanent differences	(26 701)	(5 874)	(2 077)	(457)
Change in temporary differences	(10 408)	(2 290)	9 143	2 012
Change in tax losses carried forward	37 013	8 143	23 598	5 191
Taxable income / tax payable		**-**		**-**
Tax payable - foreign subsidiaries		65		78
Tonnage tax (included in operation profit)		245		225
Total tax payable in the balance sheet		**310**		**303**

Rederiaksjeselskapet Torvald Klaveness – Parent company

Income statement- parent company

(USD '000)	Notes	2020	2019
Operating expenses	Note 2	(2 459)	(3 418)
Total operating expenses		(2 459)	(3 418)
Operating profit/(loss)		**(2 459)**	**(3 418)**
Financial income and expenses			
Income from subsidiaries	Note 4	6 576	14 291
Gain/(loss) from sale of subsidiaries	Note 4	(15)	-
Impairment subsidiaries / reversal	Note 4	-	(21 025)
Net interest income/(expenses), group companies		252	(300)
Net other financial income/(expenses)		62	67
Net currency gain/(loss)		(100)	80
Net financial income/(expenses)		**6 775**	**(6 887)**
Profit/(loss) before taxes		**4 316**	**(10 305)**
Taxes	Note 10	-	-
Profit/(loss) for the year		**4 316**	**(10 305)**

Balance sheet - parent company

(USD '000)	Notes	2020	2019
Assets			
Financial fixed assets			
Investments in subsidiaries	Note 4	52 698	53 509
Loans to group companies	Note 8	-	4 164
Total fixed assets		**52 699**	**57 674**
Current assets			
Receivables, Group companies	Note 5	17 764	2 792
Other accounts receivables		3	-
Bank deposits	Note 6	113	329
Total current assets		**17 880**	**3 121**
Total assets		**70 579**	**60 794**
Equity and liabilities			
Equity			
Paid-in-capital			
Share capital (100 shares of NOK 509 982)		8 153	8 153
Other paid in equity		10 855	10 855
Retained earnings			
Other equity		36 427	32 113
Total equity	Note 7	**55 435**	**51 121**
Liabilities			
Long-term liabilities			
Loan, group companies	Note 8	12 983	6 563
Total long-term liabilities		**12 983**	**6 563**
Current liabilities			
Short-term liabilities, group/related companies	Note 9	2 152	3 101
Debt to related parties		7	9
Total current liabilities		**2 160**	**3 110**
Total liabilities		**15 142**	**9 673**
Total equity and liabilities		**70 579**	**60 794**

Rederiaksjeselskapet Torvald Klaveness

Oslo, 26 March, 2021

Trond Harald Klaveness
Chairman

Henning Eskild Jensen
Board member

Jan Tellef Thorleifsson
Board member

Christian Rynning-Tønnesen
Board member

Lasse Kristoffersen
Chief Executive Officer

Cash flow statement – parent company

(USD '000)	2020	2019
Profit/(loss) before taxes	4 316	(10 305)
Income from subsidiaries	(6 576)	(14 291)
Share of profit from subsidiaries	15	-
Change in current assets	(14 975)	3 206
Change in current liabilities	(951)	(502)
Effect from change in exchange rate	-	(80)
Net cash from operating activities (1)	**(18 170)**	**(21 972)**
Income from subsidiaries	6 200	11 500
Change in investment in subsidiaries	-	13 958
Net cash from investing activities (2)	**6 200**	**25 458**
Increase in long term liabilities to group companies	10 348	10 018
Decrease in long term liabilities to group companies	(2 757)	(11 986)
Loans to Group companies	4 164	(4 164)
Received Group contribution	-	2 871
Net cash from financing activities (3)	**11 755**	**(3 262)**
Net increase/decrease (-) in cash (1+2+3)	**(216)**	**224**
Cash at January 1	329	105
Cash at December 31	113	329
Net increase/decrease (-) in cash	**(216)**	**224**

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)	2020	2019
Remuneration to the Board of Directors	(245)	(259)
Audit fee	(57)	(53)
Other expenses	(2 157)	(3 106)
Total operating expenses	**(2 459)**	**(3 418)**

There are no employees in Rederiaksjeselskapet Torvald Klaveness. The Chief Executive Officer (Mr. Lasse Kristoffersen) was per December 31, 2020 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:	2020	2019
Auditing ex. VAT, statutory	(57)	(53)
Tax and other services ex. VAT	(5)	(4)
Total remuneration to the auditor	**(61)**	**(57)**

04 Investments in subsidiaries

(USD '000) Subsidiaries (acquisition year)	Share Capital	Group contr. & dividends in 2020	BV changes in 2020	Book value 2020	Book value 2019
AS Klaveness Chartering, Oslo (1967)	NOK 507			16 051	16 051
Klaveness Ship Holding AS (2005)	NOK 12 000	6 200		15 935	15 935
Klaveness Finans AS, Oslo (2008)**	NOK 383	1 171	(795)	8 229	9 024
Bulkhandling Handymax AS*, Oslo (2005)	NOK 100			-	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			500	500
Total investments in subsidiaries		**7 371**	**(795)**	**52 698**	**53 509**

*Bulkhandling Handymax AS was sold to AS Klaveness Chartering in December 2020.
**USD 0.8 million recieved group contribution has been booked as reduction in carrying value.

05 Receivables, group companies

(USD '000)	2020	2019
Klaveness Digital AS	11 564	1
Klaveness Finans AS - Group contribution	-	2 791
Klaveness Ship Holding AS - Group contribution	6 200	-
Total receivables, group companies	**17 764**	**2 792**

06 Bank deposits

(USD '000)	2020	2019
Bank deposits	113	329
Total bank deposits	**113**	**329**

07 Equity

(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			-	-
Equity at 31 December 2019	**8 153**	**10 855**	**32 112**	**51 121**

(USD '000) 2020	Share Capital	Other paid-in capital	Other equity	Total equity
Equity at 1 January 2020	**8 153**	**10 855**	**32 112**	**51 121**
Profit/(loss) for the year			4 316	4 316
Dividends			-	-
Equity at 31 December 2020	**8 153**	**10 855**	**36 427**	**55 435**

For information regarding ownership, refer to group notes.

08 Loan, group companies

(USD '000)	2020	2019
Loan from Klaveness Finans AS	12 983	6 563
Total loans, group companies	**12 983**	**6 563**
Interest rate is LIBOR 3m+ margin		

09 Short-term liabilities, group/related companies

(USD '000)	2020	2019
Klaveness AS	2 152	3 101
Total short-term liabilities, group/related companies	**2 152**	**3 101**

10 Taxes

(USD '000) Income taxes consist of:	2020	2019
Change in deferred tax / deferred tax asset	-	-
Total tax expense / (income)	**-**	**-**

Taxable income:	2020	2019
Profit/(loss) before tax	4 316	(10 305)
Permanent differences	(6 662)	6 618
Change in temporary differences	(23)	(189)
Group contribution with tax effect	-	2 965
Limitation of interest rate deduction	-	-
Tax loss carried forward / (Use of tax loss carried forward)	2 369	911
Taxable income	**-**	**-**

Reconciliation of the effective tax rate:	2020	2019
Profit/(loss) before tax	4 316	(10 305)
Expected income tax (22 %)	863	(492)
Tax effect of group contribution from subsidiary included as income	(1 622)	(652)
Tax effect of dividend from subsidiary included as income	243	333
Tax effect of group contribution	-	652
Exchange rate differences	-	-
Tax effect of limitation of interest rate deduction	-	-
Write down of deferred tax	516	159
Total tax expenses / (income)	**-**	**-**

Deferred tax / Deferred tax asset:	2020	2019
Tax loss carried forward (tax effect)	(6 727)	(6 266)
Other temporary differences	48	42
Limitation of interest rate deduction	(1 151)	(1 114)
Deferred tax asset not recognised in balance sheet	7 830	7 339
Change deferred tax / deferred tax asset	**-**	**-**

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Rederiaksjeselskapet Torvald Klaveness

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Rederiaksjeselskapet Torvald Klaveness, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2020, 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 2020 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Oslo, 26 March 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Asbjørn Rødal
State Authorised Public Accountant

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Asbjørn Rødal
Statsautorisert revisor
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