Consolidated Income Statement

For the year ended 31 December	Notes	2012	2011
USD '000			
Gross revenues from operation of vessels	7	553 639	572 300
Voyage related expenses and distribution of pool result	9	-426 561	-438 882
Net revenue from operation of vessels		**127 078**	**133 418**
Net income/(loss) from physical and financial freight agreements	6	5 574	19 552
Other operating revenues	8	11 916	1 041
Total operating revenues		**144 567**	**154 011**
Operation of vessels	9	-28 432	-30 778
Salaries and social expenses	10, 33	-29 473	-24 874
Other operating and administrative expenses	11	-15 005	-21 214
Operating expenses		**-72 910**	**-76 866**
Operating profit/(loss) before depreciation and impairment		**71 657**	**77 145**
Ordinary depreciation fixed assets	14	-30 176	-28 947
Impairment/reversal of impairment fixed assets	14, 15	-45 916	-18 147
Depreciation and impairment of fixed assets		**-76 092**	**-47 093**
Operating profit/(loss)		**-4 435**	**30 052**
Income/(loss) from associated companies	16	722	1 913
Net interest income/(expenses)	12	-1 957	-3 101
Other financial income/(loss)	13	-4 572	-2 410
Net currency gain/(loss)		69	2 581
Financial income and expenses		**-5 738**	**-1 017**
Profit/(loss) before taxes		**-10 173**	**29 035**
Taxes	32	5 049	1 255
Profit/(loss) for the year from continuing operations		**-5 124**	**30 290**
Profit/(loss) for the year from discontinued operations	35	-1 613	78 887
Profit/(loss) for the year		**-6 736**	**109 177**
Attributable to			
Majority interest of continuing operations		-11 825	18 019
Minority interest of continuing operations		6 701	12 271
Profit/(loss) for the year from continuing operations		**-5 124**	**30 290**
Majority interst of discontinued operations		-1 613	78 796
Minority interest of discontinued operations			91
Profit/(loss) for the year from discontinued operations		**-1 613**	**78 887**

Consolidated Balance Sheet

As at 31 December	Notes	2012	2011
USD '000			
ASSETS			
Fixed assets			
Deferred tax asset	32	20 126	13 257
Goodwill		42	84
Total intangible fixed assets		**20 167**	**13 341**
Vessels	14	241 950	315 622
Newbuilding contracts	15	78 194	52 927
Other assets	14	6 586	5 013
Total tangible fixed assets		**326 729**	**373 562**
Investments in associated companies	16	9 744	9 263
Pension plan assets	33	2 030	5 048
Other long-term receivables		568	601
Total financial fixed assets		**12 341**	**14 912**
Total fixed assets		**359 237**	**401 814**
Current assets			
Bunkers on board vessels	17	68 740	31 071
Accounts receivable	18	32 185	77 197
Prepaid expenses	19	7 566	11 304
Other short-term receivables	20	20 444	22 193
Bonds and bond funds	21	8 483	8 167
Cash and bank deposits	22	120 628	101 106
Total current assets		**258 046**	**251 038**
Total assets		**617 283**	**652 852**

Consolidated Balance Sheet

As at 31 December	Notes	2012	2011
USD '000			
EQUITY AND LIABILITIES			
Equity			
Share capital (100 shares of NOK 509 982)		8 154	8 154
Other paid-in equity		49 052	49 052
Total paid-in capital		**57 206**	**57 206**
Other equity		238 472	251 478
Total retained earnings		**238 472**	**251 478**
Total equity before minority interests	**5**	**295 678**	**308 684**
Minority interests		14 574	16 791
Total equity including minority interests	**5**	**310 252**	**325 475**
Long-term liabilities			
Provisions	23	7 505	8 304
Tax liabilities - tonnage tax system	32	0	4 163
Pension liabilities	33	5 291	6 978
Total provisions		**12 796**	**19 445**
Mortgage debt	24	115 771	124 855
Other long-term interest-bearing liabilities	25, 34	16 359	14 067
Total long-term interest-bearing liabilities		**132 130**	**138 922**
Total long-term liabilities		**144 926**	**158 367**
Current liabilities			
Accounts payable	26	37 026	58 703
Accrued expenses		13 496	11 513
Taxes payable	32	5 383	4 237
Short-term interest-bearing debt	27, 34	19 891	25 048
Derivatives	21	6 114	2 060
Other short-term liabilities	28	80 194	67 448
Total current liabilities		**162 105**	**169 010**
Total liabilities		**307 031**	**327 377**
Total equity and liabilities		**617 283**	**652 852**

31 December 2012

Oslo, 15 March 2013

Trond Harald Klaveness
Chairman

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
Board member

Ola Haugen
Board member

Baard Haugen
Board member

Lasse Kristoffersen
Chief Executive Officer

Consolidated Cash Flow Statement

	Notes	2012	2011
USD '000			
Cash flow from operating activities			
Net profit / loss (-) before tax		-11 786	108 612
Taxes paid / repayment of taxes paid under previous shipping regime		-4 355	-3 252
Depreciation, impairment and reversal of impairment		76 092	47 995
Gain on sale of discontinued operations		1 613	-67 561
Loss / gain (-) from realisation of vessels		-8 707	0
Loss / gain (-) from associated companies & other investments		2 536	-13 476
Other non-cash items		249	2 129
Decrease / increase (-) in prepayment to clearing (FFA's) *		-382	-10 539
Decrease / increase (-) in current assets		11 855	-56 113
Increase / decrease (-) in current liabilities		-12 807	52 511
Increase / decrease (-) in provision for loss on contracts		-2 412	-696
Payments to pension plan		1 169	-4 152
Net cash flow from operating activities (1)		**53 064**	**55 459**
Cash flow from investing activities			
Investments in vessels and newbuilding contracts		-52 492	-31 068
Docking and other investments vessels		-7 850	-7 891
Investments in real estate and other assets		-3 464	-1 642
Realisation of vessels and newbuilding contracts **		50 051	0
Purchase of subsidiaries		0	-44 964
Sale/demerger of subsidiaries ***		0	-265 641
Cash from associated companies and other investments		597	18 787
Cash paid to associated companies and other investments		-226	-18 276
Decrease / increase (-) in other long-term receivables		34	70
Net cash flow from investing activities (2)		**-13 349**	**-350 624**
Cash flow from financing activities			
Increase in mortgage debt		41 100	88 000
Repayment of mortgage debt ****		-53 131	-93 114
Increase / decrease (-) in other long-term liabilities		-1 643	8 935
Payment of capitalised financing fees		-1 350	0
Dividend		0	-5 007
Dividend to minority interests		-8 854	-22 542
Currency effects		0	3 705
Net cash flow from financing activities (3)		**-23 878**	**-20 022**
Net increase / decrease (-) in cash (1+2+3)		**15 838**	**-315 187**
Cash and cash equivalents at January 1		112 289	427 476
Cash and cash equivalents at December 31		128 127	112 289
Net increase / decrease (-) in cash		**15 838**	**-315 187**
Specification of cash and cash equivalents			
Cash and bank deposits *	22	120 628	104 122
Bonds and other cash equivalents	21	7 499	8 167
Cash and cash equivalents at December 31		**128 127**	**112 289**

* *Initial margin was in 2012 removed from cash and cash equivalents (refer to note 1). The change is shown as a cash outflow of USD 3,016 thousand. Underlying change in prepayments to clearing is a cash inflow of USD 2,634 thousand.*

** *2012: Cash effect of Bareli insurance settlement.*

*** *2011:The cash flow consists of bank accounts in demerged entities (USD 56 million), market value of bonds in demerged entities (USD 176 million) and settlement of the demerger (USD 34 million).*

**** *2011: Includes USD 84 million debt transferred as part of the demerger.*

Note 1: 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.

Changes in accounting principles
First year installments of long-term debt to financial institutions have been reclassified to current liabilities. Comparative figures have been restated accordingly.

The initial margin refers to the guarantee obligation Torvald Klaveness has to clearing houses for the trade of Forward Freight Agreements (FFAs). This initial margin is financed through Letters of Credit. Per 31 December 2012 the initial margin has been netted towards the drawn amount of the Letter of Credit. Comparative figures have been restated accordingly.

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 % of the shares in the company and/or is capable of exercising actual control over the company. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

Business combinations and goodwill
Acquisition of subsidiaries is accounted for using the purchase method. Under the purchase method of accounting the cost of the business combination is allocated to the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.
Goodwill is initially measured at cost, being the excess of the consideration transferred over the net of identifiable assets acquired and liabilities assumed. Goodwill arising from the acquisition of subsidiaries is classified as an intangible asset. Goodwill arising from the acquisition of an interest in an associated company is included under the investment in associated companies. For valuation, refer to the principle concerning the valuation of intangible assets.

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

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

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

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

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

Newbuilding contracts are impaired when the carrying value exceeds the recoverable amount. For newbuilding contracts with delivery date more than one year after the balance sheet date, recoverable amount is defined as the higher of the net present value of estimated future cash flows, or a firm offer on the contract if such exists (with comparable delivery date). For newbuilding contracts with delivery date less than one year after the balance sheet date, recoverable value is defined as for existing vessels.

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

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

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

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

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

Goodwill is depreciated over 5 years, in accordance with Norwegian generally accepted accounting principles. Goodwill arising from acquisition of an interest in associated companies is included under the investment in associated companies and is tested for impairment as part of the carrying amount of the investment. Goodwill arising from acquisition of subsidiaries

Cont. note 1: Accounting principles

is tested annually for impairment and carried at cost less impairment and accumulated depreciation. Impairments on goodwill are not reversed. Gain or loss on the sale of a business includes the carried amount of goodwill related to the sold business.

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 guarantees for 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, as well as income from vessels owned by the group. Vessels owned by the group are either operated under time charter contracts or performing contracts of affreightment. The time charter contracts are both with third parties and with pools.

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

Pool income
The chartering 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, in addition to service revenues, is zero (with exception of net results from the group's vessels in the pools). The same revenue and expense recognition principles as stated above are applied in determining the pool net operating revenues. Total revenues, expenses, assets and liabilities of the pools operated by the group are included line by line in the consolidated financial statement.

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

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

Financial investments
Subsidiaries as defined above are consolidated in the group accounts on a 100 % 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 % and 50 %. 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 % of the voting rights in the entity. Investments in associated companies are recognised in the group accounts according to the equity method. Other long-term investments are stated according to the cost method. Short term investments are valued at the lower of cost or fair market value.

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

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

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

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

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

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

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

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

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

Physical and financial freight contracts
Physical and financial freight contracts entered into for the purpose of achieving gains through short-term fluctuations in market rates are man-

Cont. note 1: Accounting principles

aged and valued as a single portfolio. The portfolio is valued at the lower of acquisition cost and fair market value. Both physical and financial freight contracts are valued against the forward curves as of 31 December. The fair market value of these contracts also includes estimated future losses due to counterparty risk. Loss provisions are made to the extent that the fair market value of the portfolio is negative. Any positive value exceeding acquisition cost is not recognised.

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 28 % on the basis of existing temporary differences between accounting profit and taxable profit together with tax deductible deficits at year-end. Temporary differences, both positive and negative, are balanced out within the same period. Deferred tax assets are recognised in the balance sheet only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

Foreign currency

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

Transactions in currencies other than the functional currency are translated into functional currency using the exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are translated into functional currency using the exchange rate in effect on the balance sheet date. Exchange differences arising from translations into functional currency are recorded in the income statement. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated into the functional currency using the historical exchange rate. Non-monetary assets and liabilities recognised at fair value are translated using the exchange rate on the date of the determination of the fair value.

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

Income and expenses in NOK are converted at the rate of exchange on the transaction date. (The average exchange rate was 5.8191 in 2012 (2011: 5.6080)). At year-end 2011, an exchange rate of 5.5912 (2011: 6.0065) 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 180 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, are stated at cost. Cost is determined on a first-in, first-out (FIFO) basis. Bunkers is recognised in the balance sheet when the company has legal ownership of the stock. As a main rule, ownership remains with the vessel owner when vessels are hired in on time charter contracts. Instead of transferring ownership of the bunkers, the vessels are to be returned to the owner at the end of the contract period with the same amount of bunkers onboard.

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

Torvald Klaveness has legal ownership of the bunkers onboard vessels in the pools.

Related parties

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

Provisions for contingent liabilities

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

Pensions

Pension costs and pension liabilities are estimated on the basis of linear earnings. The calculation is based on assumptions regarding discount rate, future wage adjustments, pension benefits and other payments from the national pension plan, future returns on the pension assets and actuarial assumptions for deaths, voluntary resignation etc. Pension assets are valued at fair value. Changes in the pension liabilities due to changes in pension plans are recognised over the estimated average remaining service period. If the accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions exceed ten percent of the higher of pension obligations and pension plan assets, the excess amount is recognised over the estimated average remaining service period. 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.

Note 2: 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, 2012	Ownership interest per 31 Dec, 2011
Klaveness Asia Pte Ltd. (Singapore)	100 %	100 %
Amundsen Shipping Pte Ltd. (Singapore)	100 %	100 %
Adrien Shipping Pte Ltd. (Singapore)	100 %	100 %
Antarctica Shipping Pte Ltd. (Singapore)	100 %	100 %
Baumarine AS	100 %	100 %
Bulkhandling Handymax AS	100 %	100 %
T Klaveness Shipping AS	100 %	100 %
Banasol, Inc. (Monrovia, Liberia)	50 %	50 %
Cabu Bangor, Inc. (Monrovia, Liberia)	100 %	100 %
Banastar, Inc. (Monrovia, Liberia)	50 %	50 %
Cabu V Investment Inc. (Monrovia, Liberia)	95 %	95 %
Cabu VI Investment Inc. (Monrovia, Liberia)	81 %	81 %
Klaveness Cement Logistics AS	100 %	100 %
Klaveness Cement Logistics AB (Stockholm, Sweden)	100 %	100 %
KCL Shipholding AS	100 %	100 %
Baltrader Schiffahrtsgesellschaft GmbH & Co, KG (Germany)	60 %	60 %
Baltrader Shipping Company Ltd. (Cyprus)	60 %	60 %
AS Klaveness Chartering	100 %	100 %
Klaveness Shipping (Shanghai) Co. Ltd. (Shanghai)	100 %	100 %
Bulkhandling Cabu AS	100 %	100 %
Bulkhandling Beltunloader AS	100 %	100 %
Klaveness Ship Management AS	100 %	100 %
Bulktransfer, Inc. (Monrovia, Liberia)	100 %	100 %
AS Bulkhandling	100 %	100 %
Klaveness Re S.A. (Luxembourg)	100 %	100 %
Guinomar (Conakry, Guinea)	50 %	50 %
Baraka (Monrovia, Liberia)	0 %	50 %
Klaveness Finans AS	100 %	100 %
Klaveness AS	100 %	100 %

Cont. note 2: Subsidiaries, joint ventures and associated companies

Joint ventures

Company name	Ownership interest per 31 Dec, 2012	Ownership interest per 31 Dec, 2011
Barklav (Hong Kong) Ltd.	50 %	50 %

Associated companies

Company name	Ownership interest per 31 Dec, 2012	Ownership interest per 31 Dec, 2011
Baltrader companies	18.45%-50%	18.45%-50%

Torvald Klaveness (via AS Klaveness Chartering) has partial ownership in nine German KGs, that (through 100 % owned special purpose companies) own nine dry bulk vessels transporting cement. All vessels are managed by Baltrader Schiffahrtsgesellschaft GmbH & Co. KG (through a 100% owned subsidiary, Baltrader Shipping Company Ltd.), which also has ownership interests in the companies (0.26 %-0.52 %). Refer to note 16 for further details.

Note 3: Major and subsequent events

2013: Subsequent events

Delayed delivery of Balto

The expected delivery of the selfunloader newbuilding Balto has been delayed from December 2012 to March 2013.

2012: Major events

Grounding of MV Bareli

On the evening of 15 March 2012, MV Bareli, owned by Klaveness Asia's subsidiary Antarctica Shipping Pte. Ltd., went aground outside the port of Fuqing, South China. Torvald Klaveness declared a constructive total loss of the vessel towards the lead insurance Company. Klaveness Ship Management AS was Ship Manager for MV Bareli, and assisted the shipowner in the rescuing process, together with the Insurance company and the Chinese authorities. The vessel was fully insured and a net accounting gain of USD 8.7 million was recognised in 2012 due to the insurance settlement.

Possible irregularities in commission payments

In 2012, Klaveness made public that the company had notified Økokrim (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) regarding possible irregularities in commission payments to a broker in the Middle East. Refer to note 31 for further details.

2011: Major events

Demerger

In 2011, the owners of Torvald Klaveness decided to demerge the group. The official decision was made in the general meeting of Rederiaksjeselskapet Torvald Klaveness on 10 June 2011. The final registration in the Norwegian company register took place on 31 August 2011.

The group was demerged into two entities. Torvald Klaveness (with the parent company Rederiaksjeselskapet Torvald Klaveness) continues the ship owning, ship management, pool, and trading business under the ownership of Trond Harald Klaveness and his family. The demerged entity Klaveness Marine (parent company Klaveness Marine Holding AS) carries on the investments in stock portfolios, bonds, real estate and other shipping partnerships under the ownership of Tom Erik Klaveness, Kristine Klaveness and Karianne Klaveness.

The demerger was carried out as a tax free demerger, and the share capital of the parent company Rederiaksjeselskapet Torvald Klaveness was divided according to the shareholders' number of shares based on the fair value of the group as a whole. For more financial information on the demerger, refer to note 35.

Increased ownership Cabu investments

In 2011 Torvald Klaveness offered to purchase external investors' shares in the Cabu investments. Following the transactions, one remaining external investor holds 50 % in two vessels and 19 % in one vessel.

Note 4: Operational and financial risk

Torvald Klavaness operates globally and in a capital intensive, business cycle sensitive industry. The group is exposed to both operational and financial risks.

Operational risks
Operational risks are mainly related to the operation of vessels under the management of Klaveness Ship Management AS, to the execution of cargo contracts and time charter contracts in AS Klaveness Chartering, and to the management of spot pools. Vessel management is governed by quality procedures that reflect the requirements of IMO, flag states and port states. Quality and safety audits are performed at regular intervals and significant effort is put into the training of seafarers to comply with standards. The chartering and trading and pool management activity is governed by well defined and board approved mandates, management procedures and reporting requirements. Operational risks are also covered by insurance where appropriate, including insurance against property loss, revenue loss and liability risks.

Financial risks
Financial risks may be classified as market risks, credit or counterparty risks, interest rate related risks, currency related risks, and liquidity risk.

Market risk
Shipping market risks are generated by several different activities in Torvald Klaveness. Ownership of vessels involves risks related to vessel values, future vessel employment, revenues and costs. These risks are partly managed through long-term time charter contracts and contracts of affreightment covering a large part of the vessel capacity. The trading of physical and financial freight contracts conducted in AS Klaveness Chartering involves risks related to movements in the overall market price levels as well as to the correlation between sub-markets, in particular the spread between the Atlantic and Pacific basins. These risks are monitored on a daily basis and are governed within a Value at Risk and maximum positioning mandate.

Credit risk
Counterparty risk is generated by service deliveries to customers and by trading in physical and financial freight agreements, as well as by investments in vessels employed on bareboat charters or time charter contracts to other ship owners. Counterparty exposure limits are defined and monitored per counterparty and provisions against possible future losses are made to the extent that the risks in the portfolio can be quantified. Full provisions are made against counterparties that default on their payment obligations.

Further, Torvald Klaveness is mainly exposed to credit risk through its deposits and a covered bond fund. Deposits are made with financial institutions/banks that have A/AA rating while the bonds in the covered bond fund in average are AA rated.

Foreign exchange risk
Torvald Klaveness' functional currency is USD. Some of the cash, bank deposits, bonds and debt is nominated in NOK and some small positions in other currencies. Torvald Klaveness' income is mainly in USD , while some costs also are in NOK. There were no direct currency hedges of these costs in 2012. However, going into 2012 the company had currency futures for NOK 150 million with due dates throughout 2012. The transactions had a positive result of USD 0.9 million in 2012. The mandate given by the Board was at that time to purchase up to NOK 525 million/selling USD, while the mandate was later in 2012 changed to NOK 300 million. Going into 2013, the company had no currency futures. 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 104 million
Financial liquid assets nominated in other currencies:	USD 17 million
Interest-bearing debt in USD:	USD 141 million
Interest-bearing debt in other currencies:	USD 12 million

Interest rate risk
Interest risk is related to interest-bearing investments and borrowings. Torvald Klaveness manages these positions on a net basis. The Corporate Treasury Department may take market positions in the interest rate market within restricted mandates. As per December 31, 2012 a total of five interest rate swap agreements had been entered into in Klaveness Finans AS and AS Klaveness Chartering, totalling USD 110 million. The four swaps in Klaveness Finance AS were entered into in 2011 and are 5Y 2Y forward starting. The interest rate swap in AS Klaveness Chartering of USD 10 million was entered into in 2008 and has a total duration of 10 years. The total mark-to-market value of these contracts was per December 31, 2012 negative by approximately USD 6.1 million .

Liquidity risk
Torvald Klaveness keeps its liquidity reserves mainly in bank deposits, as time deposits and in money market funds with high liquidity. The time horizon of these deposits depends on the underlying forecasted need for liquidity in Torvald Klaveness. The liquidity risk is considered to be limited, as the portfolio is well diversified and in liquid assets such as on accounts and time deposits.

During 2012 the company secured financing for the four container newbuildings, increased the borrowing under a revolving credit facility, and refinanced two cabu vessels, thereby significantly improving liquidity and the company's financial capacity. Liquid reserves are considered to be adequate for all needs in the foreseeable future.

Note 5: Equity

USD '000	Share capital	Other paid-in capital	Other equity	Total equity excluding minority	Minority interests	Total equity including minority
Equity 1 January 2011	**16 787**	**100 994**	**579 771**	**697 552**	**51 116**	**748 668**
Profit for the year			96 815	96 815	12 362	109 177
Capital reduction demerger	-8 633	-51 942	-402 163	-462 738		-462 738
Reduction in minority interest due to demerger					-4 721	-4 721
Dividends to minority interest					-22 542	-22 542
Changes in minority interest			-25 774	-25 774	-19 789	-45 563
Correction previous years recognized directly in equity			3 154	3 154		3 154
Effect from currency translation			-573	-573		-573
Other changes			248	248	365	613
Equity 31 December 2011	**8 154**	**49 052**	**251 478**	**308 684**	**16 791**	**325 475**
Equity 1 January 2012	**8 154**	**49 052**	**251 478**	**308 684**	**16 791**	**325 475**
Profit for the year			-13 437	-13 437	6 701	-6 736
Dividends to minority interest					-8 854	-8 854
Effect from currency translation			154	154		154
Other changes			277	277	-63	213
Equity 31 December 2012	**8 154**	**49 052**	**238 472**	**295 678**	**14 574**	**310 252**

In the demerger of Torvald Klaveness in 2011 a capital reduction was carried out, equalling the capital increase of the demerged part of the group. The share capital and equity was divided according to the shareholders' number of shares in the parent company Rederiaksjeselskapet Torvald Klaveness prior to the demerger.

Shareholder	Ownership	Shares
THK Holding AS	30 %	30
THK Partner AS	26 %	26
MMK Holding AS	22 %	22
JWI Holding AS	22 %	22
TOTAL	**100 %**	**100**

Note 6: Physical and financial freight agreements

Torvald Klaveness takes positions through physical and financial freight contracts including time charter agreements, forward freight agreements, contracts of affreightment and options. The positions in physical and financial freight agreements are managed as one portfolio. The portfolio is managed and owned by the subsidiary AS Klaveness Chartering. The portfolio is managed within a given VaR mandate and maximum volume limits, and is supervised on a daily VaR basis, calculated at a 95 % confidence level. All contract counterparties are rated in-house and given a designated exposure limit. In both 2012 and 2011 the portfolio mainly consisted of cleared forward freight agreements, with only a limited number of over-the-counter forward freight agreements.

Torvald Klaveness' portfolio of physical and financial freight agreements falls due in the period 2013-2017. All the contracts have been evaluated with respect to counterparty risk. The statistically estimated loss corresponding to these contracts was USD 12.5 million at year-end 2012 (USD 5.7 million at year-end 2011). The net portfolio value adjusted for statistically estimated losses is positive, therefore no accounting provisions have been made.

The mark-to market value of the portfolio from 2013 and forward was, assuming no credit risk, a total positive value of USD 12.6 million (2011: USD 16.7 million). This is based on a valuation of each separate contract's cash flow relative to the forward market in the relevant contract periods, which is aggregated and discounted using the USD swap interest curve. Forward market prices per 31 December 2012 were used in this valuation. The net mark-to-market value of the trading portfolio, after deducting the statistically estimated counterparty losses, was thus positive by USD 0.1 million (2011: positive by USD 11.0 million).

Cont. note 6: Physical and financial freight agreements

Result from physical and financial freight agreements	2012	2011
USD '000		
Result from physical and financial freight agreements	5 574	19 552
Provisions for negative future portfolio value	0	0
Net result from physical and financial freight agreements	**5 574**	**19 552**

The physical contracts include time charter-in contracts, which effectively are operational vessel leases. However, the income on these non-balance sheet assets is 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 8 ship-years of time charter-in contracts with maturity below 1 year. AS Klaveness Chartering has 13 ship-years of time charter-in with maturity between 1 and 5 years at an average daily lease rate of USD 16 900 (70 % of ships) or 95 % of index rate (30 % of ships).

Note 7: Revenue from vessels

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

No additions nor disposals of subsidiaries or fixed assets have been carried out in 2012 related to the shipping activity. MV Bareli grounded in March 2012, se note 3 for further details.

Gross revenue from vessels	2012	2011
USD '000		
Pools		
Panamax	183 644	184 522
Handymax	212 997	218 701
Handysize	0	1 024
Total	**396 642**	**404 247**
Own vessels		
Combination carriers	112 345	122 462
Selfunloaders	36 054	30 873
Container vessels	7 898	13 920
Cement vessels	700	799
Total	**156 997**	**168 053**
Total gross revenue from vessels	**553 639**	**572 300**

Note 8: Other operating revenues

	2012	2011
USD '000		
Net gain from insurance settlement MV Bareli	8 707	0
Gain from realisation fixed assets	2 000	0
Income from operation of aeroplane	232	205
Other operating revenues	977	836
Total other operating revenues	**11 916**	**1 041**

Note 9: Voyage related expenses and operation of vessels

Voyage related expenses and operation of vessels	2012	2011
USD ‘000		
Pools		
Panamax	-176 614	-178 819
Handymax	-203 563	-210 116
Handysize	0	-1 353
Total expenses pools	**-380 177**	**-390 288**
Own vessels		
Combination carriers	-60 230	-61 949
Selfunloaders	-9 861	-11 547
Container vessels	-4 725	-5 877
Total expenses own vessels	**-74 816**	**-79 372**
Total voyage related expenses and operation of vessels	**-454 993**	**-469 660**
Voyage related expenses (including distribution of pool result)	-426 561	-438 882
Operation of vessels	-28 432	-30 778
Total voyage related expenses and operation of vessels	**-454 993**	**-469 660**

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

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

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

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

Note 10: Salaries, social expenses and remuneration

Salaries and social expenses	2012	2011
USD ‘000		
Salaries and social expenses	-21 918	-14 252
Employer’s social security contributions	-2 721	-3 297
Net pension cost (note 33)	-4 834	-7 326
Total salaries and social expenses	**-29 473**	**-24 874**
Average number of man-years (on-shore Oslo, continuing operations)	100	102
Average number of man-years (on-shore abroad)	30	46
Average number of man-years (on-shore Oslo, discontinued operations)	0	20

Crew for the Torvald Klaveness fleet is hired through manning offices in Manila, Constanta and Oslo. 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	2012	2011
USD ‘000		
Remuneration to the Board of Directors	-346	-278
Remuneration to the Chief Executive Officer *	-864	-1 005

** incl. salaries and pension cost*

Cont. note 10: Salaries, social expenses and remuneration

Lasse Kristoffersen was promoted to CEO with effect from 1 September 2011. Simultanously, the former CEO, Trond Harald Klaveness, took over the role as chairman of the board. Trond Harald Klaveness received a compensation of USD 282 thousand for his work as senior advisor, in addition to the remuneration of USD 120 thousand for carrying the position as Chairman of the Board. The employment of the chairmain of the board has no time limit.

In addition to the ordinary company pension plan, the Chairman of the board is entitled to early retirement from the age of 64. The pension at retirement equals 20 times the base amount of the Norwegian Insurance Scheme.

There are no post-employment benefit agreements.

Note 11: Other operating and administrative expenses

USD '000	2012	2011
Administrative expenses	-11 014	-10 135
Outsourcing, consultancy and legal fees	-4 325	-10 611
Audit fee *	-387	-381
Other services from auditor *	-89	-222
Other operating expenses	-1 602	-3 314
Provisions/reversals of provisions	2 412	3 449
Total other operating expenses	**-15 005**	**-21 214**

** Excluding VAT*

Note 12: Interest income and expenses

USD '000	2012	2011
Interest income	508	583
Net income/(loss) bonds *	-218	910
Mortgage interest expenses **	-2 249	-4 575
Other interest income/(expenses)	2	-18
Net interest income/(expenses)	**-1 957**	**-3 101**

** Net income/(loss) bonds includes unrealised change in fair value.*
*** Including effect of interest rate hedging.*

Note 13: Other financial income and loss

USD '000	2012	2011
Realised gain / (loss) financial instruments	851	660
Unrealised gain / (loss) financial instruments	-4 609	-1 813
Other financial income	42	340
Other financial expenses	-856	-1 597
Net other financial income/(loss)	**-4 572**	**-2 410**

Note 14: Tangible fixed assets

2011		Self-unloaders	Cabu Carriers	Container Vessels	Other assets	Total fixed assets
USD '000						
Cost 1 January - vessels/other assets		109 523	235 752	102 516	16 027	463 818
Cost 1 January - docking		2 489	4 492	1 465	0	8 446
Additions		2 962	4 929	0	1 642	9 533
Disposals		-508	-2 557	0	-1 158	-4 223
Currency translation		0	0	0	275	275
Cost 31 December - vessels/other assets		109 534	235 984	102 516	16 786	464 820
Cost 31 December - docking		4 933	6 631	1 465	0	13 029
Accumulated depreciation 31 December		-38 208	-83 452	-6 657	-11 689	-140 006
Accumulated impairment 31 December		0	-13 578	-3 547	0	-17 125
Net book value 31 December - vessels/other assets		73 722	141 019	92 832	5 097	312 670
Net book value 31 December - docking		2 536	4 566	946	0	8 048
Net book value 31 December - total		**76 259**	**145 585**	**93 778**	**5 097**	**320 719**
Depreciation for the year, - vessels/other assets	-5 633	-13 483	-4 885	-1 067	-25 068	
Depreciation for the year, - docking		-1 260	-2 220	-399	0	-3 879
Total depreciation vessels		**-6 893**	**-15 703**	**-5 284**	**-1 067**	**-28 946**
Impairment for the year		0	-2 600	-3 547		-6 147
Number of vessels by the end of 2011		3	7	3	0	13
Average useful life		20	22	25	0	22
Average remaining useful life		13	12	19	0	14

2012		Self-unloaders	Cabu Carriers	Container Vessels	Other assets	Total fixed assets
USD '000						
Cost 1 January - vessels/other assets		109 534	235 984	102 516	16 786	464 820
Cost 1 January - docking		4 933	6 631	1 465	0	13 029
Additions		5 380	2 469	0	3 464	11 314
Disposals		-2 074	-1 199	0	-99	-3 371
Loss of ship		0	0	-40 220	0	-40 220
Currency translation		0	0	0	-726	-726
Cost 31 December - vessels/other assets		110 601	236 092	71 905	19 425	438 023
Cost 31 December - docking		7 171	7 798	1 155	0	16 124
Accumulated depreciation 31 December		-43 972	-100 282	-7 741	-12 839	-164 835
Accumulated impairment 31 December		0	-13 578	-18 306	0	-31 884
Net book value 31 December - vessels/other assets		69 094	125 892	37 275	6 586	232 261
Net book value 31 December - docking		4 707	4 132	439	0	9 278
Net book value 31 December - total *		**73 801**	**130 024**	**37 714**	**6 586**	**248 125**
Depreciation for the year, - vessels/other assets	-5 696	-15 232	-2 791	-1 150	-24 869	
Depreciation for the year, - docking		-2 143	-2 798	-331	0	-5 271
Total depreciation vessels		**-7 839**	**-18 030**	**-3 122**	**-1 150**	**-30 140**
Impairment for the year		0	0	-14 760	0	-14 760
Number of vessels by the end of 2012		3	7	2	0	12
Average useful life		20	22	25	0	22
Average remaining useful life		12	11	18	0	13

** In addition to existing vessel values, total book value of vessels includes USD 410 thousand in prepaid equipment.*

In March 2012, MV Bareli went aground outside the port of Fuqing, South China. A constructive total loss of the vessels has been declared. Refer to note 3 for further information.

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

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

Note 15: Newbuilding contracts

In 2010, Torvald Klaveness entered into six newbuilding contracts, four container vessels and two selfunloaders, with expected delivery in 2013 and 2014. The four container vessels are ordered from Jiangsu Yangzijiang Shipbuilding Co., Ltd./Jiangsu New Yangzi Shipbuilding Co., Ltd. The two selfunloader vessels are ordered from China Shipbuilding Trading Co., Ltd./Chengxi Shipyard Co., Ltd. The expected delivery of the selfunloader newbuilding Balto has been delayed from December 2012 to March 2013.

Hull number	Vessel	Vessel type	Date of contract	Expected delivery	Contractual obligation	Installments as of Dec 31, 2012
USD '000						
YZJ2010-958	Balao	Container	August 23, 2010	Q2 2013	39 000	15 600
YZJ2010-959	Ballenita	Container	August 23, 2010	Q2 2013	39 000	11 700
YZJ2010-960	Balsa	Container	December 23, 2010	Q3 2013	39 380	11 814
YZJ2010-961	Baleares	Container	December 23, 2010	Q4 2014	39 380	11 814
CX9702	Balto	Selfunloader	November 10, 2010	Q1 2013	54 400	32 640
CX9704	Balchen	Selfunloader	November 26, 2010	Q2 2013	53 900	26 950
Total newbuilding contracts					**265 060**	**110 518**

Book value	Balao	Ballenita	Balsa	Baleares	Balto	Balchen	Total
USD '000							
Installments as of 31 December 2011	11 700	5 850	5 907	5 907	21 760	10 780	61 904
Capitalised expenses as of 31 December 2011	349	354	355	355	1 037	573	3 023
Impairment as of 31 December 2011	-3 000	-3 000	-3 000	-3 000	0	0	-12 000
Total book value 31 December 2011	**9 049**	**3 204**	**3 262**	**3 262**	**22 797**	**11 353**	**52 927**
Installments in 2012	3 900	5 850	5 907	5 907	10 880	16 170	48 614
Capitalised expenses in 2012	1 182	1 133	1 376	932	1 725	1 469	7 818
Impairment in 2012	-7 649	-7 714	-7 903	-7 898	0	0	-31 164
Total book value 31 December 2012	**6 481**	**2 474**	**2 642**	**2 203**	**35 403**	**28 992**	**78 194**

A bank loan of up to USD 75 million (subject to adjustments based on market values of vessels at delivery) has been entered into to part finance the two selfunloaders. Parts of the loan are to cover installments to the yard during the building period, while the remaining balance can be drawn at delivery of the vessels. As per December 31, 2012, USD 6.2 mill was drawn.

Bank loans financing the four container vessels under construction were signed in June and July 2012. Three vessels are to be delivered in 2013, and one in 2014. Up to USD 86 mill was secured to part finance the construction cost (subject to adjustments based on market values of vessels at delivery). The loans are available on delivery.

In May 2012 amendments to the shipbuilding contracts for two of the container vessels were signed, and part of the yard instalments will be postponed by one year after delivery of the vessels. Interest is paid on the postponed amounts. Per December 31, 2012 the postponed amount is classified as other long-term interest-bearing debt (refer to note 25).

Note 16: Associated companies and joint ventures

Associated companies	Acquisition	Ownership (direct + indirect)	Acquisition cost	Share of result 2012	Book value per 31 Dec 2012	Share of result 2011	Book value per 31 Dec 2011
USD '000							
Company							
MS Cemisle Schiffahrtsgesellschaft KG	2007	50,00 %	3 601	-491	700	-228	939
MS Cemvale Schiffahrtsgesellschaft KG	2006	49,79 %	885	195	1 966	371	1 744
MS Cemsol Schiffahrtsgesellschaft KG	2007	49,84 %	1 617	-40	1 985	233	2 045
MS Cemsea Schiffahrtsgesellschaft KG	2004	39,85 %	60	249	901	404	721
MS Cemsky Schiffahrtsgesellschaft KG	2004	39,79 %	57	259	1 160	271	1 020
Partenreederei MS Baltic Sun	2004	39,85 %	1 230	101	176	202	208
MS Cembay Schiffahrtsgesellschaft KG	2005	43,78 %	269	192	1 410	500	1 234
MS Cemluna Schiffahrtsgesellschaft KG	2005	43,53 %	250	192	1 043	172	977
MS Pacific Star Schiffahrtsgesellschaft KG	2005	18,45 %	326	59	373	-5	352
Klaveness Maritime Agency Inc.	2011	24,96 %	25	6	30	-7	23
Total associated companies			**8 321**	**722**	**9 744**	**1 913**	**9 263**

Cont. note 16: Associated companies and joint ventures

Associated companies

Investments in associated companies are recognised according to the equity method. Acquisition cost refers to the cost of the investment adjusted for accumulated payments to/from the company. Book value equals the group's share of book equity in the company, adjusted for added values or impairments of the investment. The group's share of results includes depreciations of added values and any changes in impairments.

Klaveness Maritime Agency Inc. is located in the Philippines. The other associated companies are located in Germany.

Joint ventures

Joint ventures are accounted for according to the proportional consolidation method. Torvald Klaveness includes the joint venture Barklav (Hong Kong) Limited which is owned 50 %. The joint venture was acquired in 2000 and is located in China. In 2012, Torvald Klaveness' share of net profit from Barklav was USD 108 thousand and the share of equity USD 143 thousand.

Note 17: Bunkers on board vessels

The downturn in the world economy has given rise to a trend in the shipping industry towards lower time charter rates and shorter time charter contracts. In addition, there has been an increase in bunker prices. One consequence of these developments is that the value of bunkers onboard a ship under time charter agreement may exceed the total time charter hire amount. Consequently, charterers to a lesser extent than before actually pay for the bunkers onboard a vessel at the time of delivery. Instead, the charterer redelivers the vessel with the same amount of bunkers onboard the vessel. As the charterers no longer pay for the bunkers, the legal ownership of the bunkers at the time of delivery to the charterer remains with the owner of the vessel.

To reflect this development in the balance sheet, all trade payables to owners related to purchase of bunkers onboard vessels hired in on time charter contracts have been reclassified as follows: For vessels that have been hired out on time charter contracts, the trade payables to owners have been recognised against trade receivables from charterers. In 2012, this amounts to USD 4.7 million. For vessels that are operated by Klaveness on contracts of affreightment, the trade payables to owners have been recognised against bunkers onboard vessels. In 2012, this amounts to USD 9.4 million. For vessels that are operated in the pools, bunkers onboard vessels that are on time charter contracts have been reclassified from receivables from charterers to bunkers onboard vessels. In 2012, this amounts to USD 34.0 million.

Although some of this bunkers may have been consumed as at 31 December 2012 we have, based on a cost-benefit assessment, presented this as bunkers onboard vessels instead of receivables from the charterer.

Note 18: Accounts receivable

	2012	2011
USD '000		
Accounts receivable from charterers	34 672	75 680
Accounts receivable from owners	7 765	3 424
Other accounts receivable	2 599	938
Provision loss on accounts receivable *	-12 852	-2 846
Accounts receivable	**32 185**	**77 197**

** Provision loss on accounts receivable has been reclassified from Other short term receivables in the 2011 figures.*

Note 19: Prepaid expenses

USD '000	2012	2011
Prepaid mark-to-market margin on cleared FFAs	0	975
Prepaid time charter hire	4 481	6 654
Other prepaid expenses	3 085	3 675
Prepaid expenses	**7 566**	**11 304**

Note 20: Other short-term receivables

USD '000	2012	2011
Accrued income	15 403	15 747
Accrued interest income	177	154
Claims (insurance and other)	762	4 170
Spare parts vessels	169	169
Other short-term receivables	3 933	1 952
Other short-term receivables	**20 444**	**22 193**

Note 21: Financial instruments

USD '000	2012 Cost	2012 Market value	2011 Cost	2011 Market value
NOK bonds and bond funds				
Danske Andelskasser	1 473	984	1 473	1 465
Arctic Covered *	6 937	7 499	6 937	6 702
Total bonds and bond funds	**8 410**	**8 483**	**8 410**	**8 167**

** Defined as cash equivalent for cash flow purposes*

	2012 Cost	2012 Market value	2011 Cost	2011 Market value
Interest swap agreements	0	-6 114	0	-1 691
Foreign currency contracts	0	0	0	-368
Total derivatives	**0**	**-6 114**	**0**	**-2 060**

Currency adjustments of non-USD bonds are included in the market value per 31 December. Currency gain/loss on bonds is included in net currency gain/loss in the income statement.

Financial instruments for non-hedging purposes
As per December 31, 2012 five interest swap agreements had been entered into for non-hedging purposes. Interest swaps are valued at the lower of historical cost or fair market value. The total mark-to-market value of these interest swaps per 31 December 2012 was negative by USD 6.1 million.

Foreign currency contracts entered into for non-hedging purposes are measured at fair market value. As per 31 December 2012 Torvald Klaveness did not have any foreign currency contracts.

Note 22: Cash and bank deposits

USD '000	2012	2011
Bank deposits in USD	103 978	78 644
Bank deposits in NOK	8 554	15 530
Bank deposits in other currencies	946	1 711
Withholding tax accounts, restricted	951	2 081
Other restricted accounts *	2 930	0
Cash	3 269	3 141
Total cash and bank deposits	**120 628**	**101 106**
Hereof cash and bank deposits related to subsidiaries with ownership interest less than 90 %	9 401	8 878

** Cash collateral due to breach of financial covenants in loan agreements*

Note 23: Provisions

USD '000	2012	2011
Provision loss on long-term contracts - Bulktransfer Inc.	3 188	5 600
Contingent liabilities related to demerger	4 316	2 704
Total provisions	**7 505**	**8 304**

In 2007 Bulktransfer Inc. sold the three transloader vessels operating in the Middle East. Two of the long-term contracts with customers were not novated to the buyer, and Bulktransfer Inc. has instead been holding them in trust of the buyer. In 2012 one of these contracts was terminated. Bulktransfer Inc. holds the remaining contract in trust of the buyer until a potential novation, termination or expiry, and the risk allocation has been adjusted to reflect the net present value of the remaining financial exposure. The remaining contract expires on 31 December 2014.

The demerger agreement includes a possible pro/contra settlement as per 31 December 2014, reflecting the final outcome of a set of pending issues. The net sales gain in 2011 included a provision of USD 2.7 million for a contingent liability related to this possible future settlement. In 2012, this provision has been increased by USD 1.6 million to reflect a positive deviation in the development in the pending issues.

Note 24: Mortage debt

USD '000	2012	2011
Mortgages, USD denominated	134 614	147 655
First year installments	-18 843	-22 800
Total mortgage debt	**115 771**	**124 855**
Hereof mortgage debt related to subsidiaries with ownership interest 90 % or more	113 714	30 700
Repayment schedule		
Falling due within one year	18 843	22 800
Falling due between one and three years	66 987	40 200
Falling due after three years	48 784	84 656
Total mortgage debt	**134 614**	**147 656**
Book value of vessels with mortgage debt	206 210	279 402

Cont. note 24: Mortage debt

Mortgage debt is related to vessel investments. The interest rate on the mortgage debt is linked to LIBOR plus a margin. The margins are subject to market terms and at year end the margins were in the range 0.475 % to 2.60 %.

Some interest rate derivative agreements have been entered into to reduce risk related to potential interest rate increases. Refer to note 3 on operational and financial risks and note 29 on hedging for details about interest rate risk reduction. There were no interest rate hedges at year-end 2012.

The loan agreements have various financial covenants. Some of the loans are in breach with market value covenants as per 31 December 2012. The breaches will be repaired through prepayments and by depositing extra collateral, either as cash or by mortgage over vessels.

The loan related to MV Bareli was repaid in 2012 as a consequense of the constructive total loss of the vessel.

Bank financing was secured for the four container newbuildings, two other loans were refinanced and the borrowing under a revolving credit facility was increased in 2012.

Note 25: Other long-term interest-bearing liabilities

	2012	2011
USD '000		
Seller credit from yard *	3 938	0
Long-term debt to related parties	12 421	14 064
Other long-term interest-bearing liabilities	0	3
Total other interest-bearing long-term liabilities	**16 359**	**14 067**

** Seller credit from yard is related to two of the container newbuildings, and matures one year after delivery of the vessels.*

Note 26: Accounts payable

	2012	2011
USD '000		
Accounts payable to charterers	2 652	21 748
Accounts payable to owners	9 577	25 212
Accounts payable to brokers	4 021	2 841
Accounts payable to bunkers suppliers	8 473	2 219
Other accounts payable	12 304	6 682
Accounts payable	**37 026**	**58 703**

Note 27: Short-term interest-bearing debt

USD '000	2012	2011
First year installments of long-term debt	18 843	22 800
Short-term debt to related parties	1 048	2 248
Total short-term debt	**19 891**	**25 048**

First-year installments of long-term debt has in 2012 been reclassified to short-term debt. Comparative figures have been restated accordingly. Refer to note 24 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 34 for information regarding related parties.

Note 28: Other short-term liabilities

USD '000	2012	2011
Received mark-to-market margin on cleared FFAs	1 659	0
Unearned income	19 341	21 202
Public duties payable	603	1 034
Payables related to wages and crewing	2 393	2 047
Provisions for losses	5 321	0
Pool-hire payable	35 674	23 951
Other short-term liabilities	15 202	19 213
Other short-term liabilities	**80 194**	**67 448**

Note 29: Hedging

Torvald Klaveness uses financial instruments to hedge against certain financial risks. In 2012, future freight agreements have been used to hedge against market fluctuations; fuel swaps have been used to hedge against fluctuations in the bunkers market; and interest rate swaps have been used to hedge against interest 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 hedging instrument are recognised immediately in the profit and loss account.

			2012		2011	
Hedging object	Hedging instrument	Hedge included in P&L line	P&L effect	Market value	P&L effect	Market value
USD '000						
Cash flow hedges						
Management fee	Forward freight agreements	Service revenues	0	0	450	0
Pool income	Forward freight agreements	Gross revenues from operation of vessels	697	-87	2 575	4 616
Interest costs	Interest rate swaps	Interest income/expenses	-24	0	-1 663	-228
Bunkers cost	Fuel swaps	Operation of vessels and voyage related expenses	271	-13	520	11
SUM hedging			**944**	**-100**	**1 882**	**4 398**

Duration

Future freight agreements and fuel swaps are generally entered into on a year-to-year basis. The market value per 31 December consists of contracts entered into for the following year. Remaining interest rate swaps to hedge interest costs matured in 2012, and no new hedges have been entered into in 2012.

Note 30: Guarantee liabilities and collateral

In favour of external parties

Guarantee to	Guarantee description	Amount
Aktieselskapet Dampskibsselskapet Svendborg and Dampskibsselskapet af 1912 (A.P. Møller)	The guarantee concerns an earlier charter agreement that expired in 2010. However, the guarantee still stands until the case regarding damage to MV Ocean Seraya in 2006 is closed, or the guarantors release the Company from commitment.	No limit
BHP Billington Marketing AG	Performance guarantee for Contract of Affreightment for the period 2010-2013.	No limit
China Shipbuilding Trading Company, Limited / Chengxi Shipyard Co., Ltd.	Performance guarantee for the obligations in the Shipbuild-ing Contract, dated Nov. 26 2010, for construction and sale of one Self Unloader Bulk Carrier, Hull no. CX9704.	Limited to the obligations under the shipbuilding contract
China Shipbuilding Trading Company, Limited / Chengxi Shipyard Co., Ltd.	Performance guarantee for the obligations in the Shipbuild-ing Contract, dated June 12 2010, for construction and sale of one Beltunloader Bulk Carrier, Hull no. CX9702.	Limited to the obligations under the shipbuilding contract
CSL International Inc.	Performance guarantee for the supervision of Beltunloader Bulk Carriers (hull no. CX9704 and CX9702).	Limited to the obligations under the supervision contract.
DNB NOR Bank ASA og ING Bank N.V.	Guarantee for a loan agreement of USD 75 million to finance the Beltunloader newbuildings	USD 90 million + interest and expenses.
Norwegian branch of Danske Bank A/S	On demand performance guarantee for the liabilities under two bank loan financing two vessels	Limited to the obligations under the loan agreements
Saudi Iron and Steel Company (Hadeed)	Performance Guarentee for contracts on behalf of Bulk-transfer Inc	USD 1.8 million per year of the con-tract. The contract expires in 2014
DNB Bank ASA, Singapore branch	On demand performance guarantee for the liabilities under a bank loan financing a vessels	Limited to the obligations under the loan agreement
Gard P& I Bermuda	Guarantee for non P&I liabilities guaranteed for by Gard P&I Bermuda on behalf of Antarctica Shipping Pte Ltd	Limited to USD 7.5 million

In favour of related parties

Guarantee to	Amount
Brigantina AS	NOK 22 million
THK Holding AS	NOK 17 million
THK Partner AS	NOK 20 million
MMK Holding AS	NOK 15 million
JWI Holding AS	NOK 15 million

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

Note 31: Contigent liabilities

During the normal course of its operations Torvald Klaveness is involved in various legal disputes. Torvald Klaveness has in its financial statements recorded provisions for probable liabilities related to litigations and claims based on the company's best judgement. The ultimate liability or asset in respect of such litigations and claims cannot be determined at the balance sheet date.

During 2010 Torvald Klaveness initiated an investigation into certain business transactions that were mainly conducted prior to 2005. The investigation showed possible irregularities related to commission payments to a broker in the Middle East, and in 2012 Torvald Klaveness made public that the company had notified Økokrim about this. Økokrim is now investigating the commission payments as possible corruption. Further, in January 2013 the customer involved in these business transactions filed a formal complaint with Oslo Conciliation Board, claiming damages in connection with the commission payments. A subsidiary of Torvald Klaveness has initiated arbitration in London and is claiming damages for non-performance of a contract with the same customer made in 2008. The outcome of the legal proceedings is uncertain, but Torvald Klaveness presently does not expect any material adverse effect from the combined case complex. No provision has been made in the financial statements per 31 December 2012.

The demerger agreement includes a possible pro/contra settlement reflecting the final outcome per 31 December 2014 of a set of pending issues. The net sales gain in 2011 included a provision of USD 2.7 million for a contingent liablity related to a possible future settlement. Per 31 December 2012 the provision is USD 4.3 million (refer to note 23).

Note 32: Taxes

Income taxes in the income statement consist of	2012	2011
USD ‘000		
Income taxes payable	-5 826	-4 175
Change in tax liabilities - tonnage tax system	4 472	4 163
Change in deferred tax liability/ deferred tax asset (-)	6 404	-2 360
Transferred deferred tax asset/ liability in demerger	0	2 253
Tax adjustments previous years/others	0	1 374
Total tax expense / income	**5 049**	**1 255**

Temporary differences – ordinary taxation		2012 Tax effect		2011 Tax effect
USD ‘000				
Pension premium fund	2 692	754	1 930	540
Fixed assets	-2 490	-697	10 299	2 884
Tax losses carried forward	69 332	19 413	38 675	10 829
Other temporary differences	2 343	656	-3 558	-996
Net temporary differences - deferred tax liability/ deferred tax asset (-)		**20 126**	**47 346**	**13 257**
Deferred tax liability/ deferred tax asset (-) in balance sheet		**20 126**		**13 257**

Deferred tax asset is recognised to the extent that temporary differences are expected to be reversed in the foreseeable future.

Tax computation	Income	2012 Tax effect	Income	2011 Tax effect
USD ‘000				
Profit / loss before taxes	-11 785	-3 300	29 035	8 130
Permanent differences	-12 586	-3 524	-17 233	-4 825
Income from shipping activity, tonnage tax system	-10 048	-2 813	-17 674	-4 949
Income due to repayment of tax liabilities, tonnage tax system	15 971	4 472	14 867	4 163
Income from foreign subsidiaries	6 232	1 745	3 413	956
Change in temporary differences	959	269	-907	-254
Use of tax losses from prior years, carried forward	27 227	7 624	3 412	955
Taxable income / tax effect	**15 970**	**4 472**	**14 912**	**4 175**
Taxable income - ordinary taxation - 28% tax	0	0	0	0
Taxable income - tonnage tax system - 28% tax	15 970	4 472	14 912	4 175
Tax payable - foreign subsidiaries		1 354		10
Total tax payable		**5 826**		**4 185**
Unpaid / prepaid (-) tax payable prior years		-617		-109
Tonnage tax (included in operating profit/loss)		174		161
Total tax payable in the balance sheet		**5 383**		**4 237**

In 2007 the Norwegian authorities decided to change the Norwegian tonnage taxation system. The new regime came into place on January 1, 2007. The previous tonnage tax system offered eligible companies a postponed taxation of profits derived from the operation of ships, until untaxed income was distributed to the shareholders, or the company exited the special tax regime. The new tax regime corresponds to the special tax regimes for shipping in other European countries, i.e. shipping income is tax exempt on a permanent basis. As an integral part of the amendments to the tonnage tax system, the deferred tax liability in the old system became taxable based on an income settlement calculated according to certain transitional provisions.

However, the Supreme Court’s ruling on February 12, 2010 concluded that the transitional rules decided on by the Norwegian national assembly in 2008 are in contravention of section 97 of the Norwegian Constitution. On March 26, 2010, the Norwegian Ministry of Finance proposed new rules for settlement of the untaxed profits. The alternative chosen by the group was that two-thirds of the original income settlement as per January 1, 2007 is taxable with a tax rate of 10 % over the period 2010-2012 (payable in 2011-2013). The new rules were approved by the government in 2010.

Note 33: Pension cost, pension plan assets and pension liabilities

Torvald Klaveness has a collective pension plan for its employees through Storebrand Livsforsikring.
The pension plan is based on the number of years served in the group and the salary level at the time of retirement.
As of December 31, 2012 the pension plan covers 108 (2011: 101) employees and 76 (2011: 67) retired employees.
The Norwegian pension plans satisfy the requirements of the Compulsory Service Pension Act.

Assumptions	2012	2011
Discount rate	4,2 %	4,6 %
Annual salary adjustment *	4,1 %	4,1 %
Pension adjustment and adjustment of pension plan base amount “G”	4,0 %	4,1 %
Expected annual return on the pension plan assets	4,5 %	6,0 %

** 4.1% is an assumed country average. Annual salary adjustment assumptions for Torvald Klaveness are based on the estimated average, using the demographics of the employees of Torvald Klaveness.*

The calculations are based on the dynamic mortality table GAP07, which is based on historic data from 1950-2004.

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

Pension costs	2012 Secured	2012 Unsecured	2012 Total	2011 Secured	2011 Unsecured	2011 Total
USD ‘000						
Interest expense on pension liabilities	-2 479	-204	-2 682	-2 142	-324	**-2 467**
Return on pension plan assets	2 038	0	2 038	2 183	0	**2 183**
Net return on pension plan assets	-441	-204	-644	41	-324	**-284**
Present value of the year’s pension benefits	-2 639	-255	-2 894	-2 025	-318	**-2 343**
Amortised change in estimates and plans	-914	31	-883	-5 129	870	**-4 259**
Social security tax on pension	-376	-36	-412	-350	-91	**-440**
Pension costs / income	**-4 370**	**-464**	**-4 834**	**-7 463**	**137**	**-7 326**

Pension plan assets/pension liabilities	2012 Secured	2012 Unsecured	2012 Total	2011 Secured	2011 Unsecured	2011 Total
USD ‘000						
Pension plan assets (at market value)	37 532	0	37 532	38 750	0	**38 750**
Estimated pension liabilities	-36 743	-2 680	-39 423	-49 599	-3 610	**-53 209**
Non-amortised change in estimates and plans	437	-1 424	-987	14 330	379	**14 708**
Social security tax on pension	-7	-378	-385	-1 670	-509	**-2 179**
Total pension plan assets / pension liabilities	**1 220**	**-4 482**	**-3 262**	**1 810**	**-3 740**	**-1 930**
Net unrecognised actuarial gains and losses outside corridor	-982	5 308	4 326	-9 198	474	**-8 724**
Total actuarial gains and losses	437	-1 424	-987	14 330	379	**14 708**
This year’s amortisation cost / income	-914	31	-883	-5 129	870	**-4 259**

Amounts shown in the balance sheet	2012 Secured	2012 Unsecured	2012 Total	2011 Secured	2011 Unsecured	2011 Total
USD ‘000						
Pension plan assets	2 030	0	2 030	5 048	0	**5 048**
Pension liabilities	-810	-4 482	-5 291	-3 237	-3 740	**-6 978**
Total pension plan assets / pension liabilities	**1 220**	**-4 482**	**-3 262**	**1 810**	**-3 740**	**-1 930**

Note 34: 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 the daily management of investments. In addition the affiliated persons and companies have extended loans to companies within Torvald Klaveness.

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

Long-term liabilities

Company	Interest rate	2012 Interest	2012 Liabilities per 31 Dec	2011 Interest	2011 Liabilities per 31 Dec
USD '000					
Cash flow hedges:					
Brigantina AS	NIBOR 6m + 100 bps	139	3 548	461	6 082
THK Holding AS	NIBOR 6m + 100 bps	90	2 662	181	7 981
THK Partner AS	NIBOR 6m + 100 bps	90	2 307	0	0
MMK Holding AS	NIBOR 6m + 100 bps	76	1 952	0	0
JWI Holding AS	NIBOR 6m + 100 bps	76	1 952	0	0
Total		**470**	**12 421**	**643**	**14 064**

THK Holding AS, THK Partner AS, MMK Holding AS and JWI Holding AS together own 100% of Rederiaksjeselskapet Torvald Klaveness. Trond Harald Klaveness is majority stock holder of both Brigantina AS, THK Holding AS and THK Partner AS.

Short-term liabilities

Company/Person	Interest rate	2012 Interest	2012 Liabilities per 31 Dec	2011 Interest	2011 Liabilities per 31 Dec
USD '000					
Trond Harald Klaveness	NIBOR 6m + 100 bps	44	1 048	59	2 248
Karianne Klaveness *		0	0	37	0
Kristine Klaveness *		0	0	9	0
Total		**44**	**1 048**	**105**	**2 248**

** Karianne Klaveness and Kristine Klaveness are no longer affiliated with Torvald Klaveness. They were however major stockholders in the parent company until the demerger of Rederiaksjeselskapet in 2011.*

Note 35: Demerger and discontinued operations

In 2011, the owners of Torvald Klaveness demerged the group. The official decision was made in the general meeting of Rederiaksjeselskapet Torvald Klaveness on 10 June 2011.

The group was demerged into two entities. Torvald Klaveness (with the parent company Rederiaksjeselskapet Torvald Klaveness) continues the ship owning, ship management, pool and trading business under the ownership of Trond Harald Klaveness and his two sons. The demerged entity Klaveness Marine (parent company Klaveness Marine Holding AS) carries on the investments in stock portfolios, bonds, real estate and other shipping partnerships under the ownership of Tom Erik Klaveness, Kristine Klaveness and Karianne Klaveness.

The demerger was carried out as a tax free demerger, and the share capital of the parent company Rederiaksjeselskapet Torvald Klaveness was divided according to the shareholders' number of shares based on the fair value of the group as a whole.

In 2012, a change in the provision for contingent liabilities related to the demerger has been recognised. The final settlement will take place in 2015, based on the outcomes of a defined set of items per 31 December 2014.

Profit & Loss Discontinued operations	2012	2011
USD '000		
Income from real estate		1 841
Other operating revenues		0
Other operating expenses		-3 262
Ordinary depreciation and impairment of other fixed assets		-902
Operating profit/(loss)		**-2 323**
Income/(loss) from associated companies		69
Income/(loss) from other investments		7 960
Net interest income/(expenses)		1 867
Other financial income/(loss)		4 290
Net currency gain/(loss)		153
Profit/(loss) before taxes		**12 016**
Taxes		-690
Profit/(loss) for the year		**11 326**
Net fair value of demerged subsidiaries		520 937
Net share of equity of demerged subsidiaries		-450 671
Provision contingent liabilities related to demerger	-1 613	-2 704
Total gain/(loss) on sale of discontinued operations	**-1 613**	**67 561**
Net result from discontinued operations	**-1 613**	**78 887**
Minority interests of profit/(loss) for the year	0	91
Profit/(loss) for the year (majority)	**-1 613**	**78 796**

Income Statement – Parent Company

	Notes	2012	2011
USD ‘000			
Operating expenses	3	-6 613	-8 346
Operating profit/(loss)		**-6 613**	**-8 346**
Financial income and expenses			
Income from subsidiaries		9 500	0
Gain/loss from sale of subsidiaries	2	-1 613	399 310
Net interest income/(expenses), group companies		-1 965	-2 429
Net other financial income/(expenses)		233	-20
Net currency gain/(loss)		2	-285
Net financial income/(expenses)		**6 157**	**396 576**
Profit/(loss) before taxes		**-456**	**388 231**
Taxes	10	2 084	1 319
Profit/(loss) for the year		**1 628**	**389 550**

Balance Sheet – Parent Company

	Notes	2012	2011
USD '000			
ASSETS			
Fixed assets			
Deferred tax asset	10	5 306	3 223
Financial fixed assets			
Investments in subsidiaries	5	87 777	100 877
Total fixed assets		**93 083**	**104 099**
Current assets			
Other accounts receivables		12	4
Bank deposits	6	263	1 121
Total current assets		**274**	**1 125**
TOTAL ASSETS		**93 358**	**105 224**
EQUITY AND LIABILITIES			
Equity			
Paid-in-capital			
Share capital (100 shares of NOK 509 982))		8 153	8 153
Other paid in equity		18 727	18 727
Retained earnings			
Other equity		1 628	0
Total equity	**7**	**28 508**	**26 880**
LIABILITIES			
Provisions			
Provision contingent liabilities		4 317	2 704
Total provisions		**4 317**	**2 704**
Long-term liabilities			
Loan, group companies	8	58 341	72 395
Total long-term liabilities		**62 658**	**75 099**
Current liabilities			
Short-term liabilities,group/related companies	9	2 146	3 179
Dividend		0	0
Other stort-term liabilities		46	66
Total current liabilities		**2 192**	**3 245**
Total liabilities		**64 850**	**78 344**
TOTAL EQUITY AND LIABILITIES		**93 358**	**105 224**

Rederiaksjeselskapet Torvald Klaveness

31 December 2012

Oslo, 15 March 2013

Trond Harald Klaveness
Chairman

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
Board member

Ola Haugen
Board member

Baard Haugen
Board member

Lasse Kristoffersen
Chief Executive Officer

Cash Flow Statement – Parent Company

USD '000	2012	2011
Profit/(loss) before taxes	-456	388 231
Income from subsidiaries	0	-399 310
Change in current assets	-8	1 656
Change in current liabilities	-1 052	-2 164
Other non-cash items	1 613	2 704
Effect from change in exchange rate	0	564
Net cash from operating activities (1)	**97**	**-8 319**
Change in investment in subsidiaries	13 100	4 058
Net cash from investments activities (2)	**13 100**	**4 058**
Increase in long term liabilities to group companies	8 771	36 618
Decrease in long term liabilities to group companies	-22 825	0
Payment related to demerger	0	-34 012
Net cash from financing activities (3)	**-14 055**	**2 606**
Net increase/decrease in cash (1+2+3)	**-858**	**-1 656**
Cash at January 1	1 121	2 776
Cash at December 31	263	1 121
Net increase/decrease in cash	**-858**	**-1 656**

Note 1: 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.

Note 2: Gain/loss from sale of subsidiaries

The gain from sale of subsidiaries is related to the demerger of the group in 2011.

	2012	2011
USD '000		
Net fair value of demerged subsidiaries	0	520 937
Book value (cost price) of demerged subsidiaries	0	-118 923
Provision contingent liabilities related to demerger	-1 613	-2 704
Total gain/loss from sale of subsidiaries	**-1 613**	**399 310**

Note 3: Operating expenses

	2012	2011
USD '000		
Remuneration to the Board of Directors	-346	-303
Audit fee	-43	-75
Other expenses	-6 224	-7 968
Total operating expenses	**-6 613**	**-8 346**

There are no employees in Rederiaksjeselskapet Torvald Klaveness. The Chief Executive Officer (Mr. Lasse Kristoffersen) was per December 31, 2012 employed in AS Klaveness Chartering. Remuneration costs are specified in the group notes.

Rederiaksjeselskapet Torvald Klaveness is charged with owners costs from AS Klaveness Chartering. This includes both services provided from AS Klaveness Chartering 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.

Note 4: Remuneration

Remuneration to the auditor	2012	2011
USD '000		
Auditing ex. VAT, statutory	-43	-75
Tax and other services ex. VAT	-4	-3
Total remuneration to the auditor	**-47**	**-77**

Note 5: Investments in subsidiaries

Subsidiaries	Acquisition	Ownership	Share capital	Book value 2012	Book value 2011
USD '000					
AS Klaveness Chartering, Oslo	1967	100 %	NOK 507	36 463	8 720
Klaveness Maritime Logistics AS, Oslo	2003	100 %	NOK 10 000	0	17 035
T. Klaveness Shipping AS, Oslo	1992	100 %	NOK 239	399	399
Klaveness Corporate Services AS, Oslo	1992	100 %	NOK 362	0	10 708
Klaveness Cement Logistics AS, Oslo	2005	100 %	NOK 10 000	535	535
Klaveness Finans AS, Oslo	2008	100 %	NOK 383	13 571	13 571
Bulkhandling Handymax AS, Oslo	2005	100 %	NOK 100	15	15
Baumarine AS, Oslo	2005	100 %	NOK 100	15	15
Klaveness AS, Oslo	2011	100 %	NOK 100	18	18
Klaveness Asia Pte. Ltd., Singapore	2006	100 %	USD 11 300	36 760	49 860
Total investments in subsidiaries				**87 777**	**100 877**

Klaveness Maritime Logistics AS and Klaveness Corporate Services AS were merged with AS Klaveness Chartering on January 25, 2012. The merger was carried out with continuity with regards to tax and accounting.

Note 6: Bank deposits

	2012	2011
USD '000		
Bank deposits	263	1 121
Total bank deposits	**263**	**1 121**

Note 7: Equity

2011	Share capital	Other paid-in capital	Other equity	Total equity
USD '000				
Equity at 1 January 2011	16 786	78 624	4 657	100 068
Reduction of capital, demerger	-8 633	-40 436	-413 668	-462 738
Profit/(loss) for the year			389 550	389 550
Registered capital reduction				0
Transfer of uncovered loss		-19 461	19 461	0
Dividends				0
Equity at 31 December 2011	**8 153**	**18 727**	**0**	**26 880**

2012	Share capital	Other paid-in capital	Other equity	Total equity
USD '000				
Equity at 1 January 2012	8 153	18 727	0	26 880
Profit/(loss) for the year			1 628	1 628
Equity at 31 December 2012	**8 153**	**18 727**	**1 628**	**28 508**

For information regarding ownership, refer to group notes.

Note 8: Loan, group companies

	2012	2011
USD '000		
Loan from Klaveness Finans AS	58 341	72 395
Total receivables, group companies	**58 341**	**72 395**

Terms for repayment have not been negotiated.

Note 9: Short-term liabilities, group companies

	2012	2011
USD '000		
Klaveness Corporate Services AS	0	3 179
AS Klaveness Chartering	2 146	0
Total short-term liabilities, group/related companies	**2 146**	**3 179**

Note 10: Taxes

Income taxes consists of	2012	2011
USD '000		
Tax payable	0	0
Change in deferred tax / deferred tax asset	2 084	2 257
Tax adjustment demerger	0	-938
Total tax income / (expense)	**2 084**	**1 319**

Taxable income	2012	2011
USD '000		
Profit/(loss) before tax	-456	388 231
Permanent differences	-6 987	-402 658
Change in temporary differences	-2 627	6 402
Tax loss carried forward / (Use of tax loss carried forward)	10 069	8 026
Taxable income	**0**	**0**

Reconciliation of the effective tax rate	2012	2011
USD '000		
Profit/(loss) before tax	-456	388 231
Expected income tax (28 %)	-128	108 705
Tax effect of sale of subsidiaries	452	-111 807
Tax effect of tax free dividend	-2 660	0
Exchange rate differences	252	1 783
Total tax expenses / (income)	**-2 084**	**-1 319**

Deferred tax / Deferred tax asset:	2012	2011
USD '000		
Temporary difference on long-term debt (tax effect)	735	0
Tax loss carried forward (tax effect)	-6 042	-3 223
Net recognised deferred tax / (deferred tax asset)	-5 306	-3 223
Corrections previous years	0	0
Change deferred tax / deferred tax asset	**2 084**	**2 257**

ERNST & YOUNG

State Authorised Public Accountants
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Member of the Norwegian Institute of Public Accountants

To the Annual Shareholders' Meeting of
Rederiaksjeselskapet Torvald Klaveness

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Rederiaksjeselskapet Torvald Klaveness, comprising the financial statements for the Parent Company and the Group. The financial statements for the Parent Company and the Group comprise the balance sheet as at 31 December 2012, the statements of income and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Ernst & Young

Opinion

In our opinion, the financial statements of Rederiaksjeselskapet Torvald Klaveness have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2012 and their financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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 Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 15 March 2013
Ernst & Young AS

Kristin Hagland
State Authorised Public Accountant

Vessels: Specialised dry bulk vessels

Vessels as per 31.12.2012	Built	DWT	Klaveness share	Flag
BELTUNLOADERS				
MV Barkald	2002	49 463	100 %	Marshall Islands
MV Balder	2002	48 184	100 %	Marshall Islands
MV Baldock	1981	75 569	100 %	Marshall Islands
MV Balto	2013	71 900	100 %	
MV Balchen	2013	71 900	100 %	
CABU CARRIERS				
MV Banasol	2001	72 562	50 %	Marshall Islands
MV Baniyas	2001	72 562	100 %	Marshall Islands
MV Banastar	2001	72 562	50 %	Marshall Islands
MV Bangor	2002	72 562	100 %	Marshall Islands
MV Bantry	2005	72 456	95 %	Marshall Islands
MV Bakkedal	2007	72 456	81 %	Marshall Islands
MT Baru (LR Tanker)	1986	83 970	100 %	Marshall Islands

Vessels: Container vessels

Vessels as per 31.12.2012	Buildt	TEU	Klaveness share	Flag
CONTAINER VESSELS				
MV Amundsen	2004	1 740	100 %	Singapore
MV Barry	2004	3 091	100 %	Singapore
MV Balao	2013	2 546	100 %	
MV Ballenita	2013	2 546	100 %	
MV Balsa	2013	2 546	100 %	
MV Baleares	2014	2 546	100 %	

Pool vessels: Baumarine AS

By year end the Pools and Chartering & Trading managed 101 vessels.

Per 31.12.2012

Contract	Vessel	Built	DWT	Owner
PANAMAX				
Pool	ATHINA	2007	76 635	Chronos
Pool	BAROCK	2007	82 688	Kambara Kisen
Pool	BEST TRADER	1990	68 831	Ocean Faith
Pool	BEST UNITY	1997	69 034	Ocean Faith
Pool	CONTI JADE	2012	92 778	Conti
Pool	DARYA KIRTHI	2012	80 502	Chellaram
Pool	DARYA MOTI	2010	80 502	Chellaram
Pool	EARNEST SKY	2012	95 735	Mitsubishi
Pool	GUO TOU 301	2012	93 758	SDIC
Pool	GUO TOU 302	2012	93 755	SDIC
Pool	GUO TOU 303	2012	93 696	SDIC
Pool	HARM	2011	93 183	Ritscher
Pool	IRINI	1988	69 734	A/S Klaveness Chartering
Pool	IRON MAN	1997	72 861	Bergshav
Pool	JIA DA.	2009	75 431	HTM
Pool	JIA FOISON	2010	75 434	HTM
Pool	JO JIN MARU	2012	98 697	Kambara Kisen
Pool	KANISHKA	2005	76 286	Asian Shipmanagement
Pool	KING HADLEY	2011	79 642	König & Cie
Pool	KING HAKAN	2011	79 642	König & Cie
Pool	KING HAROLD	2011	79 642	König & Cie
Pool	KROUSSON	2011	81 350	Efshipping
Pool	LINDA LEAH	1997	73 317	Bergshav
Pool	MICHELE DAMATO	2005	76 440	D'Amato
Pool	MOSEL	2001	75 323	Reederi Nord
Pool	NAVIOS AVIOR	2011	81 600	A/S Klaveness Chartering
Pool	NORD FORTUNE	2008	76 596	Daiichi
Pool	NORD PHOENIX	2007	82 471	Daiichi
Pool	PIET	2011	93 183	Ritscher
Pool	PRIME DAISY	2012	81 585	Active
Pool	PRIME ROSE	2012	81 585	Active
Pool	PRIMROSE	2001	74 710	Gorgonia Di Navigazione
Pool	Q KEEN	2012	81 586	A/S Klaveness Chartering
Pool	SANMAR PARAGON	1996	73 080	Sanmar
Pool	SHAO SHAN 5	2012	75 700	Hunan Ocean
Pool	SHI DAI 2	2007	76 510	Shanghai Time
Pool	SHI DAI 6	1994	69 180	Shanghai Time
Pool	TALIA	2011	92 997	Marwave
Pool	TIARE	2009	83 688	Marwave
Pool	TRAVE	2001	75 323	Reederei Nord

Pool vessels: Bulkhandling Handymax AS

Per 31.12.2012

Contract	Vessel	Built	DWT	Owner
Pool	AS VALENTIA	2009	56 823	Ahrenkiel
Pool	AS VICTORIA	2009	57 081	Ahrenkiel
Pool	AS VINCENTIA	2010	56 708	Ahrenkiel
Pool	AS VIRGINIA	2009	56 800	Ahrenkiel
Pool	AVENTICUM	2010	58 087	A/S Klaveness Chartering
Pool	BEIJING VENTURE	2010	53 411	Wah Kwong
Pool	BRIGHT MOON	2007	56 071	Tata NYK
Pool	E.R. BASEL	2010	55 783	E.R. Schiffahrt
Pool	E.R. BERN	2011	55 783	E.R. Schiffahrt
Pool	E.R. BILBAO	2010	55 585	E.R. Schiffahrt
Pool	E.R. BOLOGNA	2009	55 561	E.R. Schiffahrt
Pool	E.R. BORNHOLM	2011	55 648	E.R. Schiffahrt
Pool	E.R. BREST	2010	56 003	E.R. Schiffahrt
Pool	EAGLE STRAIT	2010	56 883	Carsten Rehder
Pool	FREDERIKE SELMER	2009	56 847	Oskar Wehr
Pool	GRAND PIONEER	2011	56 651	A/S Klaveness Chartering
Pool	GUO YU 51	2011	56 705	Yangzhou Guoyu
Pool	INGWAR SELMER	2011	55 733	Oskar Wehr
Pool	KING FELIPE	2011	56 557	König & Cie
Pool	KING FRASER	2011	56 644	König & Cie
Pool	MAPLE OPAL	2010	56 705	A/S Klaveness Chartering
Pool	ORIENTAL TRADER	2012	56 495	Yangzhou Guoyu
Pool	SABRINA VENTURE	2010	53 456	Wah Kwong
Pool	SANMAR PHOENIX	2009	54 747	Sanmar Shipping Co.
Pool	SINAR KUTAI	2011	57 334	Samudera
Pool	SLETTNES	2010	58 018	Scantank
Pool	SVENNER	2010	58 018	Scantank
Pool	SVINOY	2010	58 018	Scantank
Pool	TAMAR	2010	56 664	Daiichi
Pool	U NOBLE	2011	57 081	Sky Rainbow
Pool	UNIVERSAL BALTIMORE	2011	56 791	Universal Marine
Pool	UNIVERSAL BREMEN	2010	56 702	Universal Marine
Pool	WIDAR	2011	56 858	Daiichi
Pool	YIN SHUN	2009	53 496	Shanghai Time
Pool	YUTAI BREEZE	2010	55 088	Taiship

Klaveness Chartering & Trading vessels: AS Klaveness Chartering

Per 31.12.2012

Contract	Vessel	Built	DWT	Owner
SUPRAMAX				
TC/Pool	AVENTICUM	2010	58 087	Bulk Shipping (Switzerland) AG
TC	BALTIC PANTHER	2009	53 350	Baltic Panther Ltd Marshall Island
TC	CS SONOMA	2010	56 697	Sonoma Shipping Company Ltd
TC	GENCO CARRIER	1997	47 180	Genco Ship Management LLC
TC	GRAND BREAKER	2011	56 651	Bergen Yangzhou Supramax Carriers A
TC/Pool	GRAND PIONEER	2011	56 651	Bergen Yangzhou Supramax Carriers A
TC/Pool	MAPLE OPAL	2010	56 705	Maple Opal Maritime Limited
TC	NEO	2011	58 110	
TC	OCEAN PRELATE	2002	52 433	Lomar Charters 2 Ltd
TC	TRITON LARK	2005	56 025	Triton Navigation BV
TC	WHITE HAWK	2012	61 500	Triton Navigation BV

Contract	Vessel	Built	DWT	Owner
PANAMAX				
TC	ATALANTA	2010	82 329	Neda Maritime Agency Co. Ltd.
TC	BANDERS	2004	73 700	Zenith Star Maritime SA
TC	FORTUNE RAINBOW	2008	82 372	White Hyacinth Shipping SA
TC	IRINI	1988	69 734	Diana Trading Ltd Marshall Island
TC	GIUSEPPE RIZZO	2004	77 684	Kuang Ming (Liberia) Corp
TC	KM SYDNEY	2010	80 638	Kuang Ming Shipping Corp.
TC	KM YOKOHAMA	2011	83 000	Kuang Ming (Liberia) Corp
TC/Pool	NAVIOS AVIOR	2011	81 600	Solange Shipping Ltd
TC	NAVIOS STAR	2002	76 662	Star Maritime Enterprise Corp.
TC	PANTAZIS L	2003	76 629	Pansip Ltd
TC	PAUL OLDENDORFF	2001	74 247	Oldendorff Carriers GmbH
TC/Pool	Q KEEN	2012	81 586	Q Keen Shipping Ltd.
TC	ROSCO PLUM	2004	76 801	Plum Shipping Co. Ltd.
TC	TETIEN TRADER	2001	73 910	Julia Venture Maritime Ltd
TC	TRITON HAWK	2010	78 883	Triton Navigation BV

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