

**2H & PRELIMINARY ANNUAL RESULTS 2016**  
**KLAVENESS SHIP HOLDING CONSOLIDATED**

14.02.2017



**Torvald**  
**Klaveness**

## KEY FIGURES

| USD '000  | 2016<br>unaudited | 2H-2016<br>unaudited | 2015    |
|---|-------------------|----------------------|---------|
| <b>Key financials</b> (incl discontinued operations)      |                   |                      |         |
| Gross operating revenues                                  | 89 570            | 33 091               | 124 098 |
| EBITDA  | 47 116            | 11 538               | 62 667  |
| Profit/(loss) for the year before tax<br>(incl. minority) | (51 119)          | (29 341)             | (3 433) |
| Profit/(loss) for the year before tax<br>(excl. minority) | (42 621)          | (23 673)             | (4 084) |
| Total assets  | 432 999           | 432 999              | 599 879 |
| Equity (incl. minority)                                   | 219 988           | 219 988              | 279 838 |
| Equity ratio  | 51 %              | 51 %                 | 47 %    |
| Cash and bank deposits                                    | 102 981           | 102 981              | 82 447  |

*Klaveness Ship Holding AS ("KSH") was established 31 May 2005 and is fully owned by Rederiaksjeselskapet Torvald Klaveness. Klaveness Ship Holding AS is located in Oslo, Norway, and is the holding company of the ship owning activities in Torvald Klaveness. The consolidated financial statements of KSH as of 31 Dec 2016 comprises of KSH and its subsidiaries.*

### 2016 HIGHLIGHTS including discontinued operations

Health, safety and environment are priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2016.

The markets where Klaveness Ship Holding AS and subsidiaries (the Group) operates continued to be challenging in 2016. Results for the combination carriers weakened compared to 2015, but were still satisfactory. The container segment was impacted by lower rates and impairments.

The Group achieved an EBITDA of USD 47.1 million in 2016 (2015: USD 62.7 million). Mainly due to impairment of container vessel values, the company made a loss before tax (EBT) of USD 51.1 million (2015: loss of USD 3.4 million). The sale of five selfunloader vessels contributed with a profit of USD 26.3 million. Cash flow from operations was USD 25.0 million (USD 67.5 million). The balance sheet remains solid with a book equity including minority interest of USD 220.0 million at year-end corresponding to an equity ratio of 51 per cent. High solidity and good liquidity was maintained in 2016. The selfunloader and bulk segment is presented as discontinued operations with effect on comparative figures in the consolidated income statement.

Klaveness took delivery of two combination carriers and one kamsarmax in 2016. EGD Shipholding AS joined as 50 per cent partner in two combination carriers, one delivered in 2016 and one with delivery in 2017. The kamsarmax was sold later in 2016. The newbuilding program now consists of four combination carriers.

Earnings for the combination carriers weakened in 2016, mainly due to a weaker tanker market, higher spot exposure and lower transported caustic volumes. Results were nevertheless satisfactory and Klaveness was able to expand its fleet by establishing new trades. The container market weakened further in 2016 resulting in an increase in idle days for the Klaveness container vessels, however rates above the general market were still achieved due to the vessels' fuel efficiency.

### GENERAL INFORMATION

The consolidated financial statements for Klaveness Ship Holding AS are prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The following sections focus on continuing operations.

## CONSOLIDATED INCOME STATEMENT 2H 2016 (unaudited)

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The Group reported total operating revenue from continuing operations of USD 31.5 million in the second half of 2016, compared with USD 40.2 million in the second half of 2015, due to lower revenue from both the combination vessels and the container vessels in 2016. The result before tax was also negatively impacted by impairment of container vessels of USD 23.5 million (USD 17.5 million) in the second half of 2016. EBITDA ended at USD 10.3 million compared with USD 19.7 million in 2H 2015.

## CONSOLIDATED INCOME STATEMENT FULL YEAR 2016 (unaudited)

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For the full year 2016 total gross operating revenue from continuing operations was USD 60.1 million (2015: USD 76.6 million) and total operating costs amounted to USD 39.7 million (2015: USD 40.9 million). EBITDA was USD 20.4 million for 2016, weaker than EBITDA of USD 35.7 million for 2015 due to challenging markets.

Loss before tax was negative USD 76.0 million and includes impairment of vessels of USD 60.1 million in 2016 (2015: USD -17.5 million). Negative effects of USD 5.2 million from refinancing the bond loans and de-recognition of hedge accounting hits the finance costs in 2016. The net result from financial items was in total negative by USD 16.2 million in 2016 (2015: USD -12.1 million).

Net profit after tax from continuing operations ended negative USD 74.8 million for 2016. For 2015 the loss was negative USD 9.6 million. USD 8.5 million of the negative result (2015: USD 0.7 million) is attributable to non-controlling interests related to external investors in some of the combination carrier and container companies.

Profit from discontinued operations was USD 24.9 million for 2016, up from USD 10.4 million in 2015 due to recognized gain sale of vessels of USD 26.3 million in 2016.

## CONSOLIDATED BALANCE SHEET STATEMENT PER 31.12.2016 (unaudited)

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Total assets decreased by USD 166.9 million in 2016 from USD 599.9 million at year end 2015 to USD 433.0 million. Main impacts come from sale of vessels and delivery of newbuildings, depreciation and impairments, and refinancing bond loan and container debt.

At year-end 2016, the consolidated equity including minority interests was USD 220.0 million (USD 279.8 million), corresponding to a book equity ratio of 51 per cent. Book equity excluding minority interests was USD 202.4 million. Due to net sale of vessels and refinancing of container loans into a revolving credit facility in 2016, interest-bearing debt has been reduced from USD 305.2 at year end 2015 to USD 185.0 million at year end 2016. Cash and bank deposits were USD 103.0 million. During 2016, Klaveness had a positive cash flow from operating activities of USD 25.0 million (USD 67.5 million). Net cash flow from investments amounts to USD 124.1 million, consisting of USD 211.0 million from sale of assets and USD 86.9 in payments for vessels under construction.

The three existing bank loans for the eight container vessels were refinanced into a USD 84.9 million revolving credit facility in the fourth quarter of 2016, whereof USD 30 million was drawn at year-end 2016. The existing bond issues KSH02 and KSH01 were repaid in December 2016 and January 2017 respectively. A new bond, KSH03, of NOK 300 million was issued in December 2016. The bond matures in May 2021. Total bond debt was reduced by NOK 290 million, final maturity was extended, and financial covenants aligned with covenants in relevant bank facilities. A bank loan to finance the three newbuildings with delivery in 2018/2019 was entered into in July 2016.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of the Group at year-end to be solid and the liquidity to be good. Bank financing is secured for all vessels, including the four newbuildings, and the net proceeds of USD 144 million from the sale of the selfunloader vessels was received in January 2016. The Group's current cash flow, existing and committed debt and liquidity position is considered sufficient to cover all approved investments.

There have been no major transactions or events subsequent to the closing date that would have a negative impact on the evaluation of the financial position of Klaveness Ship Holding.

## BUSINESS AREAS

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By the end of 2016 the fleet consisted of eight combination carriers and eight container vessels. In addition, the Group has four combination carriers under construction.

**Combination carriers:** The cabu vessels are combination carriers transporting both dry cargo and caustic soda in the Far East, the Middle East, Australia, Brazil and North America. At the end of the year the cabu pool consisted of eight cabu vessels after taking delivery of two cabu newbuildings from Zhejiang OuHua Shipbuilding Co. Ltd. during the last four months of 2016. The third and last cabu vessel ordered at Zhejiang OuHua Shipbuilding Co. Ltd. is expected to be delivered in the second quarter of 2017 and will enter the cabu pool when delivered from the shipyard.

External investors hold 50 per cent share of ownership in three vessels, 19 per cent in one vessel and further 50 per cent in the remaining cabu newbuilding with delivery in 2017.

The pool result weakened in 2016 compared to the last years mainly as a result of the sharp fall in the tanker market, higher spot exposure and lower transported caustic volumes. The vessels were largely employed on long and medium term contracts of affreightment for transportation of caustic soda with customers in the Australian and Brazilian alumina industry. Total caustic soda shipments accounted in 2016 for about 49 per cent of the available vessel days, while dry bulk cargoes, which are mainly north-bound from Australia to the Far East or Middle East and from Brazil to the US Gulf accounted for about 51 per cent of the available vessel days in 2016. The vessels Banastar and Barcarena were dry-docked during 2016.

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

The cabu pool has during 2016 succeeded to expand its contract portfolio for shipment of both caustic soda and dry bulk commodities. Three new contracts of affreightment for shipment of caustic soda were entered into and one caustic soda contract was renewed in 2016.

**Container:** During 2016 Klaveness owned and operated a fleet of eight geared container vessels in the feeder segment (1,700 TEU - 3,100 TEU). All vessels were chartered out to liner operators on shorter time charter contracts of up to one year. The six modern "Eco-Flex" vessels of 2,536 TEU continued to obtain fuel efficiency premiums, despite the lower fuel prices, but the general over-supply of tonnage led to an increase in the number of idle days between charter engagements. The weak container market further resulted in an impairment of USD 58.5 million to bring book values in line with estimated recoverable amounts.

**Drybulk Investments:** The kamsarmax vessel MV Bavang was delivered from the yard in February 2016. It was one out of an eight order deal made in 2013/2014, whereof six have been sold with a profit and one was cancelled in 2015. In line with Klaveness' strategy to focus on building a global combination carrier business, and charter in rather than own standard dry bulk vessels, Klaveness sold the vessel in December. Klaveness no longer owns any standard dry bulk vessels.

## MAIN RISKS

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

Market risks in the shipping markets relate primarily to changes in the freight rates, fuel prices, vessel values and counterparty credit risk. These risks are monitored and managed.

The Group's revenue and costs are denominated primarily in US Dollar (USD) which is the functional currency of most entities in the Group. No direct currency hedge has been made towards the small portion of costs incurred in foreign currencies. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. To reduce currency and interest rate risk, the company has entered into interest rate swaps converting floating interest payments to fixed rate and the bonds issued in NOK are partly secured with cross currency interest rate swaps, reducing the currency and interest exposure.

Klaveness is exposed to commercial risks, particularly on customer acceptance of the combination carriers. Klaveness has made extensive efforts to secure vetting acceptance of existing vessels and work closely with customers to document that new vessel concepts meet all their requirements. There is risk associated with increased competition and dependence on a limited number of key customers, which is mitigated with strong operational performance and continuous development of rendered services.

Operational risks in the shipping activities are managed through quality assurance and control processes and training of seafarers. Quarterly risk reviews ensure that risks are identified, analysed and managed, and that risk-mitigating actions are executed. The organisation is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

Changes in the political, legislative, fiscal and/or regulatory framework governing the activities of the company could have material impact on the business. Procedures to comply with all applicable environmental regulation, sanctions legislation and perform due diligence checks of counterparties are carried out to lower this exposure.

Operational risks are mainly related to the operation of vessels. The Group's vessels are on technical management to Klaveness Ship Management AS (affiliated company) which ensures compliance with IMO, flag and port state regulations. Quality and safety audits are performed regularly and the crew and officers onboard are trained to ensure that regulatory requirements are met. The vessels sail in waters exposed to piracy. All vessels sailing through exposed areas take precautionary steps to mitigate the threat of such attacks. Operational risks are also covered by insurance where relevant to cover loss of assets, revenues and contract commitments. The vessels are insured for loss of hire, protection and indemnity (P&I) and complete loss (hull and machinery). The latter is aligned with vessel values and loan agreement covenants. The financial impact of a total loss of a vessel will not be material for the Group.

At the end of 2016, the company had four newbuildings on order. Klaveness has dedicated on-site personnel who supervise the building processes, and the orders are split between two yards. There is performance risk associated with the newbuildings. Tier one Chinese banks provide refund guarantees.

There were no major unforeseen events of a financial nature during 2016. However, continued low container and dry bulk markets resulted in vessel impairments. The liquidity risk of the company is considered to be acceptable. Financing is in place for all newbuildings. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the company's commitments.

# Klaveness Ship Holding AS

## Consolidated Income Statement

Year ended 31 December

| USD '000  | Note    | Unaudited<br>2H 2016 | Unaudited<br>2H 2015 | Unaudited<br>2016 | Audited<br>2015 |
|---|---------|----------------------|----------------------|-------------------|-----------------|
| <b>Continuing operations</b>                                      |         |                      |                      |                   |                 |
| Operating revenue, vessels  | Note 2  | 31 464               | 40 208               | 60 146            | 76 598          |
| <b>Total operating revenue</b>                                    |         | <b>31 464</b>        | <b>40 208</b>        | <b>60 146</b>     | <b>76 598</b>   |
| Operating expenses, vessels                                       | Note 2  | (19 175)             | (18 274)             | (35 616)          | (35 796)        |
| Group administrative services                                     |         | (1 638)              | (2 592)              | (3 668)           | (4 636)         |
| Tonnage tax   |         | (75)                 | (69)                 | (148)             | (123)           |
| Other operating and administrative expenses                       |         | (258)                | 419                  | (290)             | (353)           |
| <b>EBITDA</b>   |         | <b>10 318</b>        | <b>19 693</b>        | <b>20 424</b>     | <b>35 691</b>   |
| Ordinary depreciation   | Note 5  | (9 939)              | (9 896)              | (20 178)          | (19 850)        |
| Impairment loss (-) / reversal                                    | Note 5  | (23 457)             | (17 511)             | (60 050)          | (17 511)        |
| <b>EBIT</b>   |         | <b>(23 077)</b>      | <b>(7 715)</b>       | <b>(59 805)</b>   | <b>(1 670)</b>  |
| Finance income  | Note 4  | 763                  | 1 421                | 980               | 2 573           |
| Finance costs   | Note 4  | (7 689)              | (7 762)              | (17 147)          | (14 687)        |
| <b>Profit before tax from continuing operations</b>               |         | <b>(30 004)</b>      | <b>(14 056)</b>      | <b>(75 971)</b>   | <b>(13 785)</b> |
| Income tax expenses   | Note 11 | 429                  | (233)                | 1 213             | 4 183           |
| <b>Profit after tax from continuing operations</b>                |         | <b>(29 575)</b>      | <b>(14 288)</b>      | <b>(74 758)</b>   | <b>(9 602)</b>  |
| <b>Discontinued operations</b>                                    |         |                      |                      |                   |                 |
| Profit/(loss) after tax for the year from discontinued operations | Note 3  | 663                  | 4 641                | 24 852            | 10 352          |
| <b>Profit for the year</b>  |         | <b>(28 912)</b>      | <b>(9 647)</b>       | <b>(49 906)</b>   | <b>751</b>      |
| Attributable to:  |         |                      |                      |                   |                 |
| Equity holders of the parent company                              |         | (23 244)             | (8 992)              | (41 408)          | 99              |
| Non-controlling interests   |         | (5 668)              | (656)                | (8 498)           | 651             |
| <b>Total</b>  |         | <b>(28 912)</b>      | <b>(9 647)</b>       | <b>(49 906)</b>   | <b>751</b>      |

## Klaveness Ship Holding AS

### Consolidated Statement of Other Comprehensive Income

| USD '000   | Note    | Unaudited<br>2H 2016 | Unaudited<br>2H 2015 | Unaudited<br>2016 | Audited<br>2015 |
|--|---------|----------------------|----------------------|-------------------|-----------------|
| <b>Net profit/ (loss)</b>  |         | <b>(28 912)</b>      | <b>(9 647)</b>       | <b>(49 906)</b>   | <b>751</b>      |
| <i>Other comprehensive income to be reclassified to profit or loss</i>         |         |                      |                      |                   |                 |
| Net movement fair value on interest rate swaps                                 | Note 10 | 334                  | 60                   | 8                 | (113)           |
| Net movement fair value on cross-currency interest rate swap                   | Note 10 | 1 218                | (7 630)              | 3 827             | (12 144)        |
| Reclassification to profit and loss  | Note 10 | 3 621                | 6 625                | 1 412             | 10 468          |
| Income tax effect  |         | 18                   | 220                  | (1 320)           | 447             |
| <b>Net other comprehensive income to be reclassified to profit or loss</b>     |         | <b>5 191</b>         | <b>(726)</b>         | <b>3 926</b>      | <b>(1 341)</b>  |
| <i>Other comprehensive income not to be reclassified to profit or loss</i>     |         |                      |                      |                   |                 |
| <b>Net other comprehensive income not to be reclassified to profit or loss</b> |         | <b>-</b>             | <b>-</b>             | <b>-</b>          | <b>-</b>        |
| <b>Other comprehensive income/(loss) for the period, net of tax</b>            |         | <b>5 191</b>         | <b>(726)</b>         | <b>3 926</b>      | <b>(1 341)</b>  |
| <b>Total comprehensive income/(loss) for the period, net of tax</b>            |         | <b>(23 721)</b>      | <b>(10 373)</b>      | <b>(45 979)</b>   | <b>(591)</b>    |
| Attributable to:   |         |                      |                      |                   |                 |
| Equity holders of the parent company   |         | (18 053)             | (9 718)              | (37 482)          | (1 242)         |
| Non-controlling interests  |         | (5 668)              | (656)                | (8 498)           | 651             |
| <b>Total</b>   |         | <b>(23 721)</b>      | <b>(10 373)</b>      | <b>(45 979)</b>   | <b>(591)</b>    |

# Klaveness Ship Holding AS

## Consolidated Balance Sheet Statement

|                                  |         | As at 31 December |                 |
|----------------------------------|---------|-------------------|-----------------|
| USD '000                         | Note    | Unaudited<br>2016 | Audited<br>2015 |
| <b>ASSETS</b>                    |         |                   |                 |
| <b>Non-current assets</b>        |         |                   |                 |
| Deferred tax asset               | Note 11 | 7 510             | 7 620           |
| Vessels                          | Note 5  | 274 954           | 274 748         |
| Newbuilding contracts            | Note 6  | 31 995            | 45 886          |
| Financial assets                 | Note 7  | 1 052             | -               |
| <b>Total non-current assets</b>  |         | <b>315 510</b>    | <b>328 253</b>  |
| <b>Current assets</b>            |         |                   |                 |
| Inventories                      |         | 1 473             | 1 887           |
| Accounts receivable              |         | 462               | 782             |
| Receivables from related parties |         | 6 814             | 5 938           |
| Prepaid expenses                 |         | 1 750             | 1 478           |
| Other short-term receivables     |         | 4 007             | 15 365          |
| Cash and cash equivalents        |         | 102 981           | 82 447          |
| <b>Total current assets</b>      |         | <b>117 488</b>    | <b>107 896</b>  |
| Assets held for sale             | Note 3  | -                 | 163 730         |
| <b>TOTAL ASSETS</b>              |         | <b>432 999</b>    | <b>599 879</b>  |



# Klaveness Ship Holding AS

## Consolidated Balance Sheet Statement

As at 31 December

| USD '000  | Note      | Unaudited<br>2016 | Audited<br>2015 |
|---|-----------|-------------------|-----------------|
| <b>EQUITY AND LIABILITIES</b>                                 |           |                   |                 |
| <b>Equity</b>   |           |                   |                 |
| Share capital   |           | 1 817             | 1 817           |
| Share premium   |           | 6 939             | 16 862          |
| Other paid-in capital   |           | -                 | 5 585           |
| Other reserves  |           | 35                | (3 891)         |
| Retained earnings   |           | 193 568           | 239 975         |
| <b>Equity attributable to equity holders of the parent</b>    |           | <b>202 359</b>    | <b>260 347</b>  |
| Non-controlling interests                                     |           | 17 629            | 19 491          |
| <b>Total equity</b>   |           | <b>219 988</b>    | <b>279 838</b>  |
| <b>Non-current liabilities</b>                                |           |                   |                 |
| Mortgage debt   | Note 8    | 109 758           | 132 524         |
| Bond loans  | Note 9    | 34 141            | 66 073          |
| Financial liabilities   | Note 7    | 20 217            | 35 756          |
| <b>Total non-current liabilities</b>                          |           | <b>164 116</b>    | <b>234 353</b>  |
| <b>Current liabilities</b>                                    |           |                   |                 |
| Short-term mortgage debt                                      | Note 8, 9 | 41 100            | 26 652          |
| Accounts payable  |           | 874               | 1 810           |
| Current debt to related parties                               |           | 1 577             | 874             |
| Tax payable   | Note 11   | -                 | 1 459           |
| Tonnage tax payable   |           | 149               | 181             |
| Other current liabilities                                     |           | 5 196             | 8 440           |
| <b>Total current liabilities</b>                              |           | <b>48 896</b>     | <b>39 416</b>   |
| Liabilities directly associated with the assets held for sale | Note 3    | -                 | 46 271          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                           |           | <b>432 999</b>    | <b>599 879</b>  |

## Klaveness Ship Holding AS

### Consolidated Statement of Changes in Equity

| Unaudited                                      | Attributable to equity holders of the parent |               |                       |                 |                   |                 |                           |                 |
|--|--|---------------|-----------------------|-----------------|-------------------|-----------------|---------------------------|-----------------|
|  | Share capital                                | Share premium | Other paid in capital | Hedging reserve | Retained earnings | Total           | Non-controlling interests | Total equity    |
| <b>Equity at 31 December 2014</b>              | <b>1 817</b>                                 | <b>16 861</b> | <b>5 585</b>          | <b>(2 550)</b>  | <b>243 621</b>    | <b>265 334</b>  | <b>21 592</b>             | <b>286 926</b>  |
| Profit (loss) for the year                     |  |               |                       |                 | 99                | 99              | 651                       | 751             |
| Other comprehensive income for the year        |  |               |                       | (1 341)         |                   | (1 341)         |                           | (1 341)         |
| <b>Total comprehensive income for the year</b> |  |               |                       | <b>(1 341)</b>  | <b>99</b>         | <b>(1 242)</b>  | <b>651</b>                | <b>(591)</b>    |
| Payments to non-controlling interests          |  |               |                       |                 |                   | -               | (2 752)                   | (2 752)         |
| Group contribution with tax effect             |  |               |                       |                 | (2 173)           | (2 173)         | -                         | (2 173)         |
| Group contribution without tax effect          |  |               |                       |                 | (1 572)           | (1 572)         | -                         | (1 572)         |
| <b>Equity at 31 December 2015</b>              | <b>1 817</b>                                 | <b>16 861</b> | <b>5 585</b>          | <b>(3 891)</b>  | <b>239 976</b>    | <b>260 347</b>  | <b>19 491</b>             | <b>279 838</b>  |
| Profit (loss) for the year                     |  |               |                       |                 | (41 408)          | (41 408)        | (8 498)                   | (49 906)        |
| Other comprehensive income for the year        |  |               |                       | 3 926           |                   | 3 926           |                           | 3 926           |
| <b>Total comprehensive income for the year</b> |  |               |                       | <b>3 926</b>    | <b>(41 408)</b>   | <b>(37 482)</b> | <b>(8 498)</b>            | <b>(45 979)</b> |
| Payments to non-controlling interests          |  |               |                       |                 |                   | -               | (4 849)                   | (4 849)         |
| Group contribution                             |  | (9 922)       | (5 585)               |                 |                   | (15 507)        | -                         | (15 507)        |
| Capital increase in non-controlling interests  |  |               |                       |                 |                   |                 | 11 485                    | 11 485          |
| Dividend payment                               |  |               |                       |                 | (5 000)           | (5 000)         |                           | (5 000)         |
| <b>Equity at 31 December 2016</b>              | <b>1 817</b>                                 | <b>6 939</b>  | <b>-</b>              | <b>35</b>       | <b>193 568</b>    | <b>202 357</b>  | <b>17 629</b>             | <b>219 988</b>  |

#### Hedging reserve

The reserve contains total net changes in the fair value of financial instruments recognized to fair value with changes through OCI.

# Klaveness Ship Holding AS

## Consolidated Statement of Cash Flows

| USD '000   | Note      | Unaudited<br>2H 2016 | Unaudited<br>2H 2015 | Unaudited<br>2016 | Audited<br>2015 |
|--|-----------|----------------------|----------------------|-------------------|-----------------|
| Profit before tax from continuing operations                 |           | (30 004)             | (14 056)             | (75 971)          | (13 785)        |
| Profit before tax from discontinuing operations              |           | 663                  | 4 641                | 24 852            | 10 352          |
| Tonnage tax expensed   |           | 88                   | -                    | 161               | 173             |
| Net gain/loss fixed assets                                   | Note 3    | (16)                 | -                    | (26 313)          | 2 956           |
| Ordinary depreciation  | Note 5    | 9 939                | 14 193               | 20 573            | 30 382          |
| Impairment loss/ reversal                                    | Note 5, 6 | 23 857               | 20 273               | 61 201            | 22 553          |
| Amortization of upfront fees bank loans                      |           | 1 010                | -                    | 1 421             | 877             |
| Financial derivatives unrealised loss/gain                   |           | (542)                | -                    | 2 855             | 1 226           |
| Refinancing cost   |           | 1 618                | -                    | 1 618             | -               |
| Reversal provision   |           | (500)                | -                    | (500)             | -               |
| Gain/loss on foreign exchange                                |           | (248)                | -                    | 31                | (1 884)         |
| Interest income  | Note 4    | (452)                | (142)                | (948)             | (313)           |
| Interest expenses  | Note 4    | 5 819                | 6 151                | 11 501            | 12 302          |
| Taxes paid for the period                                    |           | (1 050)              | (715)                | (1 459)           | (1 295)         |
| Change in receivables  |           | 3 432                | 1 751                | 8 618             | 2 902           |
| Change in current liabilities                                |           | 750                  | (901)                | (3 477)           | 1 303           |
| Change in other working capital                              |           | (356)                | 2 051                | (73)              | (598)           |
| Interest received  |           | 452                  | 142                  | 948               | 313             |
| <b>A: Net cash flow from operating activities</b>            |           | <b>14 460</b>        | <b>33 389</b>        | <b>25 038</b>     | <b>67 464</b>   |
| Acquisition of tangible assets                               | Note 5    | (1 058)              | (1 475)              | (2 637)           | (5 972)         |
| Installments and cost on newbuilding contracts               | Note 6    | (49 272)             | (21 880)             | (84 239)          | (28 197)        |
| Payment received disposal vessels/newbuildings               |           | 21 021               | -                    | 211 021           | -               |
| <b>B: Net cash flow from investment activities</b>           |           | <b>(29 309)</b>      | <b>(23 355)</b>      | <b>124 145</b>    | <b>(34 169)</b> |
| Proceeds from mortgage debt                                  |           | 81 485               | 9 943                | 94 323            | 69 622          |
| Proceeds from bond loan                                      |           | 35 273               | -                    | 35 273            | -               |
| Transaction costs on issuance of loans                       |           | (1 542)              | (86)                 | (1 542)           | (1 380)         |
| Repayment of mortgage debt                                   |           | (116 228)            | (5 661)              | (169 735)         | (80 346)        |
| Repayment of bond loan                                       |           | (48 299)             | -                    | (48 299)          | -               |
| Terminated financial instruments                             |           | (12 708)             | -                    | (12 708)          | -               |
| Interest paid  |           | (5 819)              | (6 151)              | (11 501)          | (12 302)        |
| Cash proceeds from issuing shares non-controlling interests  |           | 11 485               | -                    | 11 485            | -               |
| Group contribution/dividend                                  |           | (4 630)              | -                    | (20 508)          | (4 794)         |
| Dividends to non-controlling interests                       |           | (1 742)              | (1 154)              | (4 849)           | (2 752)         |
| <b>C: Net cash flow from financing activities</b>            |           | <b>(62 727)</b>      | <b>(3 109)</b>       | <b>(128 063)</b>  | <b>(31 952)</b> |
| <b>Net change in liquidity in the period (A + B + C)</b>     |           | <b>(77 575)</b>      | <b>6 925</b>         | <b>21 120</b>     | <b>1 343</b>    |
| Net foreign exchange difference                              |           | (857)                | (508)                | (586)             | (586)           |
|  |           | <b>(78 433)</b>      | <b>6 416</b>         | <b>20 534</b>     | <b>757</b>      |
| Cash and cash equivalents at beginning of period             |           | 181 414              | 76 031               | 82 447            | 81 690          |
| Cash and cash equivalents at end of period                   |           | 102 981              | 82 447               | 102 981           | 82 447          |
| <b>Net change in cash and cash equivalents in the period</b> |           | <b>(78 433)</b>      | <b>6 416</b>         | <b>20 534</b>     | <b>757</b>      |
| Undrawn facilities*  | Note 8    | 175 900              | 146 277              | 175 900           | 146 277         |

\* Includes undrawn part of a Revolving credit facility and committed but undrawn part of loans for the vessels under construction.

## CORPORATE INFORMATION

Klaveness Ship Holding AS ("parent company"/KSH) is a private limited company domiciled and incorporated in Norway. The parent company has headquarter and is registered in Drammensveien 260, 0212 Oslo. Klaveness Ship Holding's consolidated interim financial statements for the second half of 2016 include the parent company and its subsidiaries (referred to collectively as the Group) and associated companies.

## BASIS OF PREPARATION

The interim consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB) and adopted by the European Union. All numbers in the interim financial statements and accompanying notes are unaudited.

## KEY ACCOUNTING PRINCIPLES

The accounting principles used to prepare these interim financial statements are consistent with those used to prepare the annual financial statements. Below is a comprehensive summary of the key accounting principles for the interim consolidated financial statements. Accounting principles for other areas does not significantly differ from previous accounting principles as disclosed in the annual financial statements as of 31 December 2015.

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparing financial statements in conformity with IFRS requires the management to make judgments, use of estimates and assumptions which affect the application of the accounting policies and the reported amounts of assets and liabilities, revenues and expenses.

The estimates are based on the actual underlying business, its present and forecast profitability over time, and expectations about external factors such as freight rates, interest rates, foreign exchange rates, oil prices and more which are outside the Group's and parent company's control. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. Changes in accounting estimates are recognized in the period the changes occur. When changes to estimates also affect future periods the effect is distributed between of the current and future periods.

### Significant estimates and assumptions

Management has made estimates and assumptions which have significant effect on the amounts recognized in the financial statements. In general, accounting estimates are considered significant if:

- the estimates require assumptions about matters that are highly uncertain at the time the estimates are made
- different estimates could have been used
- changes in the estimates have a material impact on Klaveness Ship Holding's financial position

### *Carrying amount of vessels, depreciation and impairment*

In addition to the purchase price, the carrying amount of vessels is based on management's assumptions of useful life. Useful life may change due to change in technological developments, competition, environmental and legal requirements, freight rates and steel prices.

When value in use calculations are performed, management estimates the expected future cash flows from the assets or cash-generating unit (defined in the section of "judgments") and determine a suitable discount rate in

order to calculate the present value of those cash flows. This will be based on management's evaluations, including estimating future performance, revenue generating capacity, and assumptions of future market conditions and appropriate discount rates. Changes in circumstances and management's evaluation and assumptions may give rise to impairment losses. While management believes that the estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the evaluations.

On a quarterly basis, management assesses indicators of impairment for non-financial assets and whether the assumptions in the value in use calculations are reasonable. Recoverable amount is set as the highest of broker values and value in use. If carrying value exceeds the estimated recoverable amount, impairment is recognized. Impairments are reversed in a later period if recoverable amount exceeds carrying amount.

#### *Onerous contracts*

At each reporting date, management assesses if there are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. A provision is recorded by estimating the present obligation under the contract.

#### *The recognition of deferred tax assets*

Deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. If the Group has loss carried forward in any subsidiaries, these deferred tax assets is not recognized if it's not possible to predict with reasonable certainty whether adequate taxable profit will be available in the future against which losses can be utilized.

#### **Judgments**

In the process of applying Klaveness Ship Holding's accounting policies, management

has made the following judgments which have significant effect on the amounts recognized in the financial statements.

#### *Impairment*

The Group has defined the fleet of combination carriers (Cabu) as one cash generating unit ("CGU"), due to the Group's operational strategy to manage the fleet as a portfolio and thereby optimizing the portfolios' cash flow and the earnings for the entire Group. For container vessels and selfloader vessels the Group has defined that each vessel is a separate CGU as the cash flows from these vessels can be separated on an individual level.

#### *Consolidation of Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS*

The Group owns 50 % of Banasol Inc and 50 % of Banastar Inc. The remaining shares are owned by one shareholder, Veronica Co Ltd. The Group owns 50 % of Baffin Shipping AS and 50 % of Ballard Shipping AS. The remaining shares are owned by one shareholder, EGD Shipholding AS. The entities own one vessel each; MV Banasol, MV Banastar, MV Baffin and MV Ballard (to be delivered in 2017). Management has assessed the investments against control criterias in IFRS 10 whether the Group has rights to direct the relevant activities. The management is of the opinion that power is embedded in one or more contractual arrangements for the main activities; chartering activity and ship-owning activity. The assessment shows that all elements of control are present. The Group is considered to control the entities Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS which have been consolidated as subsidiaries into the Group's financial statements.

#### **SEGMENT REPORTING**

The operating segments are reported in a manner consistent with the internal financial reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group executive management who makes the strategic decisions.

The vessels are structured into segments based on type of freight the vessels transport. The internal financial reports are structured into four reporting segments with similar characteristics i) Combination Carriers (Cabu) ii) Container vessels iii) Dry bulk investments (Kamsarmax) and iv) Other/administration. The shipping market in general offers a global service covering major trade routes. All segments have worldwide activities. Due to this, financial position is not allocated to geographical segments.

## REVENUE RECOGNITION

Revenue is recognized when it is probable that transactions will generate future economic benefits that will flow to the company and the amount can be reliably estimated, regardless of when payment is being made. Revenues are recognized at fair value and presented net of value added tax and discounts.

### *The Group's shipowning companies*

The Group's revenue in ship owning companies derives from chartering (hiring) out its vessels to operating companies. Vessels owned by the Group are either operated under time charter contracts or participate in a pool.

Revenues from time charters (TC) are accounted for as operating leases under IAS 17. The Group owns eight container vessels. The charter agreements are on time charter basis, implying chartering a complete vessel including crew. Revenues from predetermined time charters are recognized on a straight-line basis over the duration of the period of each charter and adjusted for off-hire days, as the service is performed.

Net-revenues from the pool participation are recognized in accordance with revenue recognition in the co-sailing pool (charterer). Profit from the co-sailing pool is allocated to each vessel participating in the pool, based on allocation keys (vessel earning points) stipulated in pool participation agreements. Revenues and costs associated with the vessels' voyages are accrued according to the share of voyage days that occur before closing (percentage of completion method). Voyage accounting consists of actual figures for completed voyages and estimates for voyages in progress. Voyages are normally discharge-to-discharge. Except for any period a vessel is declared off-hire due to technical or other owner's matters, a ship is always allocated to a voyage.

## INCOME TAX

All the companies within the Group, with the exception of Klaveness Ship Holding AS (parent company), Klaveness Cement Logistics AB (KCL) and Klaveness Bulk AS (KBA), are organized in compliance with the Norwegian tonnage tax regime ("NTT"). KSH, KCL and KBA are subject to ordinary taxation. Company tax in Norway is 25 % (2017: 24 %). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction.

The NTT entails no tax on operating profits or tax on dividends from companies within the scheme. Net financials, allowed for some special regulations, are taxed on an ongoing basis, currently at a rate of 25 %. A tonnage fee is charged per vessel depending on the size of the vessel owned or leased by companies taxed under the NTT. This tonnage tax is classified as an operating cost.

Tax expenses in the profit and loss account comprise both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated at 24 % (2015: 25 %) on the basis of temporary differences between tax and accounting values of assets and liabilities that exist at the balance sheet date. Deferred taxes are recognized using the liability method in accordance with IAS 12. Deferred tax assets

are recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses carried forward to the extent it is probable that future taxable profits may be used against deductible temporary differences and unused tax losses carried forward.

Temporary differences, both positive and negative, are balanced out within the same period. Deferred tax liabilities/deferred tax assets within the same tax system are recorded on a net basis. Income tax relating to items recognized directly in equity is included directly in equity and not in the statement of income.

### VESSELS, NEWBUILDINGS AND DOCKING

Non-current assets such as vessels, the cost of dry-docking and newbuildings are carried at cost less accumulated depreciation and impairment charges. Cost is defined as directly attributable cost plus borrowing cost during the construction period.

#### *Depreciation of vessels*

Depreciation is calculated on a straight-line basis over the estimated useful life of a vessel taking its residual value into consideration. Useful life is estimated to be 20-25 years for the Group's fleet. Certain capitalized elements like costs related to periodic maintenance/dry-docking have shorter estimated useful lives and are depreciated until the next planned dry-docking, typically over a three to five years period. When newbuildings are delivered a portion of the cost is classified as dry docking.

Costs of day-to-day servicing, maintenance and repairs are expensed.

The useful life and residual values are reviewed at each balance sheet date.

#### *Newbuildings*

Vessels under construction are classified as non-current assets and recognized at the cost

incurred in relation to the non-current asset when paid. Newbuildings are not depreciated until delivery. Borrowing costs directly attributable to the construction of vessels are added to the cost of the vessels, until such time as the vessels are ready for their intended use.

#### *Impairment of vessels and newbuildings*

On a quarterly basis the balances are assessed whether there is an indication that vessels and newbuilding contracts may be impaired. For further information regarding impairment considerations, refer to critical accounting estimates and judgments.

### FINANCIAL ASSETS

The Group and the parent company classify financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge. The classification depends on the purpose of the asset. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The subsequent measurement of financial assets depends on their classification as described below:

#### *Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after balance sheet date. These are classified as non current assets. Loans and receivable are classified as other current assets or other non current assets in the balance sheet.

Loans and receivables are recognized initially at their fair value plus transaction costs and subsequently measured at amortised cost. The interest element is disregarded if it is insignificant, which is normally the situation for the Group. Should there be objective evidence of a decline in value, the difference between the carrying amount and the estimated recoverable amount is recognized as a loss in the period they arise.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or are transferred, and the group has transferred by and large all risk and return from the financial asset.

#### *Hedge accounting – cash flow hedges*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks that are within the scope of IAS 39.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when fair value is positive and as financial liabilities when the fair value is negative.

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit and loss.

Amounts recognized as other comprehensive income are transferred to profit and loss when the hedged transaction affects profit and loss, such as when the hedged financial income or expense is recognized or when a forecast transaction occurs.

Derivative financial instruments that are designated as, and are effective hedging instruments are separated into a current and non-current portion consistent with the classification of the underlying item.

## **FINANCIAL LIABILITIES**

Interest bearing debt and bond loans are recognized at fair value when the proceeds are received, net of transaction costs. In subsequent periods, loans are stated at amortized cost using the effective rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement as finance costs over the term of the loan. Loans are classified as current liabilities unless the group or the parent company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

This category generally applies to interest-bearing loans and borrowings. For more information refer note 8 and 9.

## **CASH FLOW STATEMENTS**

The cash flow statements are based on the indirect method.

## **STANDARDS, AMENDMENTS AND INTERPRETATIONS**

The financial statements have been prepared based on standards, amendments and interpretations effective for the year ending 31 December 2016. IASB has issued the following standards/amendments to the following standards that are not yet effective which may have an impact of these financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from contract with customers (effective date 1 January 2018)
- IFRS 16 Leases (effective date 1 January 2019)

The Group has evaluated if IFRS 9 Financial instruments, IFRS 15 Revenue from contracts with customers and/or IFRS 16 Leases will have significant impact on the financial statements. The evaluation of anticipated



effects of the new standards concludes on no material impact on the financial statements of the Group, beyond disclosures. Other issued standards and interpretations, that are not yet effective, are not applicable for the Group, and will not have an impact on the financial statements.

## Note 2 - Segment reporting

The operating segments are reported in a manner consistent with the internal financial reporting provided to the executive management (chief operating decision-maker).

The financial reporting is divided into the following operating segments:

- Combination Carriers (Cabu)
- Container vessels
- Other/administration
- Dry bulk investments (discontinued operations in 2016, see note 3)
- Selfloader vessels (SUL) (discontinued operations in 2015, see note 3)

All segments have worldwide activities. The Group operates in an open international market where the various geographical areas are connected. The fleet has the flexibility to operate in all markets and are employed in a comprehensive pattern inside and between the regions in order to optimize income. Consequently, the Group's operating shipping activities are not attributed to specific geographical markets.

Combination Carriers are specialized vessels. Cabus are constructed to carry caustic soda and dry bulk. The Group owns eight Cabu vessels which participate in a pool operated by Cabu Chartering AS (sister company). The Group has one Cabu newbuilding under construction scheduled for delivery in 2017, and three other combination carriers under construction at Jiangsu New Yangzi Shipbuilding Co., Ltd in China, scheduled for delivery in 2018/2019.

The Container vessels are standard vessels which are operated on short term time-charter (TC) agreements. The Group owns eight container vessels (1,700-3,100 TEU).

In the end of the year, the Group sold the only owned dry bulk vessel, MV Bavang (see note 3). The vessel was delivered from the yard in February 2016.

The Group's five selfloader vessels were delivered to their new owners in January 2016 (see note 3).

The remaining of the Group's activities, eliminations and intra group transactions are shown in the "other/administration" column. The Group's administration costs and other shared costs have been allocated to segments. Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

Information regarding the Group's reportable segments is presented below. Interest income and interest expense have not been allocated to segments, as the financing is managed on a group basis.

### Income statement by segments 1 July - 31 December 2016

| (USD'000)                        | Combination carriers | Container vessels | Other/admin | Total consolidated |
|----------------------------------|----------------------|-------------------|-------------|--------------------|
| Operating revenue, vessels       | 21 279               | 10 185            | -           | 31 464             |
| <b>Total operating revenue</b>   | <b>21 279</b>        | <b>10 185</b>     | <b>-</b>    | <b>31 464</b>      |
| Operating expenses, vessels      | (9 256)              | (10 113)          | 194         | (19 175)           |
| Ordinary depreciation            | (6 743)              | (3 196)           | -           | (9 939)            |
| Impairment                       | -                    | (23 457)          | -           | (23 457)           |
| Tonnage tax                      | (47)                 | (29)              | -           | (75)               |
| Other operating and adm expenses | (446)                | (1 174)           | (276)       | (1 896)            |
| <b>Total operating expenses</b>  | <b>(16 492)</b>      | <b>(37 968)</b>   | <b>(82)</b> | <b>(54 542)</b>    |
| <b>Operating profit/EBIT</b>     | <b>4 787</b>         | <b>(27 783)</b>   | <b>(82)</b> | <b>(23 077)</b>    |

**Note 2 - Segment reporting (cont.)**

**Income statement by segments 1 January- 31 December 2016**

| (USD'000)                        | Combination carriers | Container vessels | Other/ admin | Total consolidated |
|----------------------------------|----------------------|-------------------|--------------|--------------------|
| Operating revenue, vessels       | 41 026               | 19 120            | -            | 60 146             |
| <b>Total operating revenue</b>   | <b>41 026</b>        | <b>19 120</b>     | <b>-</b>     | <b>60 146</b>      |
| Operating expenses, vessels      | (17 136)             | (18 980)          | 500          | (35 616)           |
| Ordinary depreciation            | (12 812)             | (7 366)           | -            | (20 178)           |
| Impairment                       | -                    | (60 050)          | -            | (60 050)           |
| Tonnage tax                      | (78)                 | (70)              | -            | (148)              |
| Other operating and adm expenses | (1 368)              | (2 318)           | (271)        | (3 958)            |
| <b>Total operating expenses</b>  | <b>(31 395)</b>      | <b>(88 784)</b>   | <b>229</b>   | <b>(119 950)</b>   |
| <b>Operating profit/EBIT</b>     | <b>9 631</b>         | <b>(69 664)</b>   | <b>229</b>   | <b>(59 805)</b>    |

**Balance sheet by segments at 31 December 2016**

| (USD '000)                           | Combination carriers | Container vessels | Other*/ admin | Total consolidated |
|--------------------------------------|----------------------|-------------------|---------------|--------------------|
| <b>ASSETS</b>                        |                      |                   |               |                    |
| Vessels                              | 158 852              | 116 102           | -             | 274 954            |
| Newbuilding contracts                | 31 995               | -                 | -             | 31 995             |
| Financial assets                     | 1 052                | -                 | -             | 1 052              |
| Other non-current assets             | -                    | -                 | 7 510         | 7 510              |
| <b>Total non-current assets</b>      | <b>191 898</b>       | <b>116 102</b>    | <b>7 510</b>  | <b>315 510</b>     |
| Cash                                 | 64 908               | 2 865             | 35 208        | 102 981            |
| Current assets                       | 9 723                | 4 451             | 333           | 14 507             |
| <b>Total current assets</b>          | <b>74 631</b>        | <b>7 316</b>      | <b>35 541</b> | <b>117 488</b>     |
| <b>TOTAL ASSETS</b>                  | <b>266 529</b>       | <b>123 418</b>    | <b>43 051</b> | <b>432 999</b>     |
| <b>EQUITY AND LIABILITIES</b>        |                      |                   |               |                    |
| Total equity                         | 160 484              | 91 383            | (31 878)      | 219 988            |
| Interest bearing debt                | 80 574               | 29 184            | -             | 109 758            |
| Bond loans                           | -                    | -                 | 34 141        | 34 141             |
| Financial liabilities                | 2 117                | 60                | 18 039        | 20 217             |
| <b>Total non-current liabilities</b> | <b>82 691</b>        | <b>29 245</b>     | <b>52 180</b> | <b>164 116</b>     |
| Short-term interest bearing debt     | 19 818               | -                 | 21 283        | 41 100             |
| Other current liabilities            | 3 536                | 2 791             | 1 467         | 7 794              |
| <b>Total current liabilities</b>     | <b>23 354</b>        | <b>2 791</b>      | <b>22 750</b> | <b>48 894</b>      |
| <b>TOTAL EQUITY AND LIABILITIES</b>  | <b>266 529</b>       | <b>123 418</b>    | <b>43 051</b> | <b>432 999</b>     |

\* Includes assets and liabilities related to assets held for sale/discontinued operations.

|                             |          |         |     |
|-----------------------------|----------|---------|-----|
| Capital expenditure Vessels | (2 597)  | (40)    | -   |
| Capital expenditure NB      | (64 844) | -       | -   |
| Cash from operation         | 19 846   | (2 288) | 229 |

Cash from operation is reported excluding capital expenditures on newbuildings and acquisition of second hand vessels, as this is considered not part of normal operation, and including minority interests.

**Note 2 - Segment reporting (cont.)**

**Income statement by segments 1 July - 31 December 2015**

| (USD'000)                        | Combination<br>carriers | Container<br>vessels | Other/<br>admin | Total<br>consolidated |
|----------------------------------|-------------------------|----------------------|-----------------|-----------------------|
| Operating revenue, vessels       | 26 855                  | 13 353               | -               | 40 208                |
| <b>Total operating revenue</b>   | <b>26 855</b>           | <b>13 353</b>        | <b>-</b>        | <b>40 208</b>         |
| Operating expenses, vessels      | (7 545)                 | (10 564)             | -               | (18 109)              |
| Ordinary depreciation            | (5 272)                 | (4 624)              | -               | (9 896)               |
| Impairment                       | -                       | (17 511)             | -               | (17 511)              |
| Tonnage tax                      | (36)                    | (33)                 | -               | (69)                  |
| Other operating and adm expenses | (1 310)                 | (1 204)              | 342             | (2 172)               |
| <b>Total operating expenses</b>  | <b>(14 163)</b>         | <b>(33 937)</b>      | <b>342</b>      | <b>(47 758)</b>       |
| <b>Operating profit/EBIT</b>     | <b>12 692</b>           | <b>(20 584)</b>      | <b>342</b>      | <b>(7 551)</b>        |

**Income statement by segments 1 January- 31 December 2015**

| (USD'000)                        | Combination<br>carriers | Container<br>vessels | Other/<br>admin | Total<br>consolidated |
|----------------------------------|-------------------------|----------------------|-----------------|-----------------------|
| Operating revenue, vessels       | 50 989                  | 25 609               | -               | 76 598                |
| <b>Total operating revenue</b>   | <b>50 989</b>           | <b>25 609</b>        | <b>-</b>        | <b>76 598</b>         |
| Operating expenses, vessels      | (14 905)                | (20 889)             | -               | (35 796)              |
| Ordinary depreciation            | (10 773)                | (9 077)              | -               | (19 850)              |
| Impairment                       | -                       | (17 511)             | -               | (17 511)              |
| Tonnage tax                      | (62)                    | (62)                 | -               | (123)                 |
| Other operating and adm expenses | (2 202)                 | (2 376)              | (411)           | (4 989)               |
| <b>Total operating expenses</b>  | <b>(27 942)</b>         | <b>(49 915)</b>      | <b>(411)</b>    | <b>(78 269)</b>       |
| <b>Operating profit/EBIT</b>     | <b>23 047</b>           | <b>(24 306)</b>      | <b>(411)</b>    | <b>(1 670)</b>        |

**Note 2 - Segment reporting (cont.)**

**Balance sheet by segments at 31 December 2015**

| (USD '000)   | Combination<br>carriers | Container<br>vessels | Dry bulk<br>Investment | Other*/<br>admin | Total<br>consolidated |
|--|-------------------------|----------------------|------------------------|------------------|-----------------------|
| <b>ASSETS</b>  |                         |                      |                        |                  |                       |
| Vessels  | 91 229                  | 183 518              | -                      | -                | 274 748               |
| Newbuilding contracts  | 45 328                  | -                    | 558                    | -                | 45 886                |
| Other non-current assets                                     | -                       | -                    | -                      | 7 620            | 7 620                 |
| <b>Total non-current assets</b>                              | <b>136 558</b>          | <b>183 518</b>       | <b>558</b>             | <b>7 620</b>     | <b>328 253</b>        |
| Cash   | 64 769                  | 1 902                | 42                     | 15 733           | 82 447                |
| Current assets   | 11 748                  | 6 202                | 2 307                  | 5 192            | 25 448                |
| <b>Total current assets</b>                                  | <b>76 517</b>           | <b>8 104</b>         | <b>2 349</b>           | <b>20 925</b>    | <b>107 896</b>        |
| Assets held for sale (note 3)                                | -                       | -                    | -                      | 163 730          | 163 730               |
| <b>TOTAL ASSETS</b>  | <b>213 075</b>          | <b>191 622</b>       | <b>2 907</b>           | <b>192 275</b>   | <b>599 878</b>        |
| <b>EQUITY AND LIABILITIES</b>                                |                         |                      |                        |                  |                       |
| Total equity   | 143 669                 | 89 559               | 2 728                  | 43 884           | 279 839               |
| Interest bearing debt  | 44 546                  | 87 978               | -                      | -                | 132 524               |
| Bond loans   | -                       | -                    | -                      | 66 073           | 66 073                |
| Other non-current financial liabilities                      | 1 968                   | -                    | -                      | 33 788           | 35 756                |
| <b>Total non-current liabilities</b>                         | <b>46 514</b>           | <b>87 978</b>        | <b>-</b>               | <b>99 861</b>    | <b>234 353</b>        |
| Short-term interest bearing debt                             | 17 148                  | 9 504                | -                      | -                | 26 652                |
| Other current liabilities                                    | 5 743                   | 4 582                | 179                    | 2 260            | 12 765                |
| <b>Total current liabilities</b>                             | <b>22 891</b>           | <b>14 086</b>        | <b>179</b>             | <b>2 260</b>     | <b>39 416</b>         |
| Liabilities directly associated with<br>assets held for sale | -                       | -                    | -                      | 46 271           | 46 271                |
| <b>TOTAL EQUITY AND LIABILITIES</b>                          | <b>213 075</b>          | <b>191 622</b>       | <b>2 907</b>           | <b>192 275</b>   | <b>599 878</b>        |

\* Includes assets and liabilities related to assets held for sale/discontinued operations.

|                             |          |       |   |       |
|-----------------------------|----------|-------|---|-------|
| Capital expenditure Vessels | (3 601)  | -     | - | -     |
| Capital expenditure NB      | (23 383) | -     | - | -     |
| Cash from operation         | 30 219   | 2 282 | - | (411) |

Cash from operation is reported excluding capital expenditures on newbuildings and acquisition of second hand vessels, as this is considered not part of normal operation, and including minority interests.

### Note 3 - Discontinued operations

The five selfunloader vessels were sold in November 2015 and delivered to their new owners in January 2016. A gain of USD 26.2 million was recognized in 2016.

The Kamsarmax vessel Bavang was sold in October 2016 and delivered to the new owner in December 2016. A loss of USD 0.1 million was recognized in 2016. After the sale, the Group no longer owns any standard dry bulk vessels.

With selfunloader vessels and the kamsarmax vessel classified as discontinued operations, the selfunloader segment and Dry bulk investments segment are no longer presented in the segment note (note 2). Profit after tax from discontinued operation is presented separately in the consolidated income statement for 2016 and 2015. Booked value of the five selfunloader vessels and liability related to financing of the selfunloader vessels are presented on a separate line in the financial position as of 31 December 2015. Outstanding amount (USD 46.2 mill) on the revolving credit facility (RCF) with DNB/SEB (USD 75 mill) was repaid in January 2016. Debt related to financing of Bavang (USD 12.4 million) was repaid in December 2016. The total result of discontinued operation for the year are presented below:

| USD '000   | 2H 2016      | 2H 2015       | 2016          | 2015          |
|--|--------------|---------------|---------------|---------------|
| Operating revenue, vessels                           | 1 424        | 23 722        | 2 982         | 47 512        |
| Gain from sale of vessels                            | 203          | (1)           | 26 443        | (12)          |
| <b>Total operating revenue</b>                       | <b>1 627</b> | <b>23 721</b> | <b>29 424</b> | <b>47 500</b> |
| Operating expenses, vessels                          | (201)        | (11 147)      | (2 069)       | (19 061)      |
| Loss from sale fixed assets                          | (130)        | -             | (130)         | (186)         |
| Ordinary depreciation                                | -            | (4 297)       | (394)         | (10 533)      |
| Impairment   | (400)        | (2 762)       | (1 151)       | (5 041)       |
| Tonnage tax  | -            | (80)          | -             | (51)          |
| Other operating and adm expenses                     | (76)         | (518)         | (533)         | (1 227)       |
| <b>Operating profit/EBIT</b>                         | <b>820</b>   | <b>4 917</b>  | <b>25 147</b> | <b>11 402</b> |
| Finance income                                       | -            | -             | -             | -             |
| Finance costs  | (156)        | (261)         | (292)         | (1 035)       |
| <b>Profit/(loss) before tax</b>                      | <b>665</b>   | <b>4 656</b>  | <b>24 854</b> | <b>10 367</b> |
| Income tax expenses                                  | (2)          | (15)          | (2)           | (15)          |
| <b>Profit/(loss) after tax from disc. operations</b> | <b>663</b>   | <b>4 641</b>  | <b>24 852</b> | <b>10 352</b> |

Prior to the sale of MV Bavang, the vessel was impaired to fair value less cost to sale. An impairment of USD 1.2 millions was recognized in 2016.

For the selfunloader vessels, sales price of the five vessels (USD 190 million) was higher than booked value (USD 163.7 million). Impairment related to one of the vessels was reversed in the P&L for 2015.

The major classes of assets and liabilities of assets held for sale as at 31 December are, as follows:

| USD '000  | 2016 | 2015    |
|---|------|---------|
| <b>Assets</b>   |      |         |
| Assets held for sale                                      | -    | 163 730 |
| <b>Liabilities</b>  |      |         |
| Liabilities directly associated with assets held for sale | -    | 46 271  |

Cash flows from discontinued operations are included in cash flows from continuing operations. Cash flows from discontinued operations are as follows:

| USD '000                                 | 2016     | 2015   |
|--|----------|--------|
| Net cash flow from operating activities  | 79       | 25 589 |
| Net cash flow from investment activities | 191 428  | (718)  |
| Net cash flow from financing activities  | (45 471) | 46 067 |

**Note 4 - Finance income and finance costs**

| <b>USD'000</b>                         | <b>2016</b> | <b>2015</b>  |
|--|-------------|--------------|
| Interest received from related parties | 1           | 1            |
| Other interest income                  | 947         | 312          |
| Other financial income                 | -           | 181          |
| Gain / (loss) on foreign exchange      | 31          | 2 079        |
| <b>Total finance income</b>            | <b>980</b>  | <b>2 573</b> |

| <b>USD'000</b>                                   | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|
| Interest paid to related parties                 | -             | -             |
| Interest expenses mortgage debt                  | 5 370         | 5 271         |
| Interest expenses bond loan                      | 5 779         | 5 996         |
| Fair value changes interest rate swaps (note 15) | 2 855         | 1 226         |
| Other financial expenses                         | 3 144         | 2 194         |
| <b>Total finance costs</b>                       | <b>17 147</b> | <b>14 687</b> |

Interest expenses of USD 1.3 million is capitalized as borrowing costs on newbuildings in 2016 (2015: USD 0.6 million) (see note 6). Refer to note 8 and note 9 for further disclosures of the Group's debt.

**Note 5 - Vessels**

**2016**

| Vessels   | Combination    |                | Total vessels* |
|---|----------------|----------------|----------------|
|   | carriers       | Container      |                |
| Cost price 1.1                                      | 210 267        | 254 279        | 464 546        |
| Delivery of newbuildings                            | 77 798         | -              | 77 798         |
| Additions (mainly upgrading and docking of vessels) | 2 597          | 40             | 2 637          |
| Disposals   | (2 164)        | -              | (2 164)        |
| <b>Costprice 31.12</b>                              | <b>288 498</b> | <b>254 319</b> | <b>542 817</b> |
| Acc. Depreciation 1.1                               | 118 999        | 19 161         | 138 161        |
| Depreciation for the year                           | 12 812         | 7 368          | 20 178         |
| Reclass/disposal                                    | (2 164)        | -              | (2 164)        |
| <b>Acc. depreciation losses 31.12</b>               | <b>129 647</b> | <b>26 529</b>  | <b>156 175</b> |
| Acc. impairment losses 1.1                          | -              | 51 637         | 51 637         |
| Impairment for the year                             | -              | 60 050         | 60 050         |
| <b>Acc. impairment losses 31.12</b>                 | <b>-</b>       | <b>111 688</b> | <b>111 688</b> |
| <b>Carrying amounts 31.12.2016</b>                  | <b>158 851</b> | <b>116 102</b> | <b>274 954</b> |
| No. of vessels                                      | 8              | 8              |                |
| Useful life   | 20             | 25             |                |
| Depreciation schedule                               | Straight-line  | Straight-line  |                |

\*) carrying value of vessels includes dry-docking

**2015**

| Vessels   | Combination    |                | Total vessels* |
|---|----------------|----------------|----------------|
|   | carriers       | Container      |                |
| Cost price 1.1                                      | 206 666        | 254 279        | 460 945        |
| Delivery of newbuildings                            | -              | -              | -              |
| Additions (mainly upgrading and docking of vessels) | 3 601          | -              | 3 601          |
| <b>Costprice 31.12</b>                              | <b>210 267</b> | <b>254 279</b> | <b>464 546</b> |
| Acc. Depreciation 1.1                               | 108 068        | 10 243         | 118 311        |
| Depreciation for the year                           | 10 931         | 8 918          | 19 850         |
| Reclass/disposal                                    | -              | -              | -              |
| <b>Acc. depreciation 31.12</b>                      | <b>118 999</b> | <b>19 161</b>  | <b>138 161</b> |
| Acc. impairment losses 1.1                          | -              | 34 126         | 34 126         |
| Impairment for the year                             | -              | 17 511         | 17 511         |
| <b>Acc. impairment losses 31.12</b>                 | <b>-</b>       | <b>51 637</b>  | <b>51 637</b>  |
| <b>Carrying amounts 31.12.2015</b>                  | <b>91 268</b>  | <b>183 480</b> | <b>274 748</b> |
| No. of vessels                                      | 6              | 8              |                |
| Useful life   | 20             | 25             |                |
| Depreciation schedule                               | Straight-line  | Straight-line  |                |

\*) carrying value of vessels includes dry-docking



## Note 5 - Vessels (cont.)

### Pledged vessels

All owned vessels are pledged to secure the various loan facilities (refer to note 8 for further information).

### Disposals of vessels

Selfunloader vessels and the kamsarmax vessel are presented as discontinued operation - see note 3 for further information.

### Impairment assessment

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

The estimated cash flows are based on management's best estimate and reflect the Group's expectations of the market in the different segments. The net present value of future cash flows is based on a pre-tax weighted average cost of capital (WACC) of 8.5 % in 2016 (2015: 8.5 %). Cash flows are estimated over the remaining life of the vessel, with an estimated residual value at the end of the economic life. From 2021 and onwards, the cash flows are based on a zero-growth scenario, however an escalating factor of an average 1.0 % inflation rate has been included for all operating expenses for all years until scrapping.

### Container vessels

The company has calculated value in use of each vessel by discounting expected future cash flows. Value in use has been calculated by weighing different scenarios in line with the business strategy. Dependent on how the market develops, the different scenarios include 1) high case 2) base case 3) low case. TC rates differentiates in the three different scenarios. The management is of the opinion that weighting of three different scenarios take into account uncertainties in the estimates used in the cash flow model and the fact that shipping is a cyclical industry.

Recoverable amount has been set based on the highest of estimated value in use and average broker values. Recoverable amount has been compared to book values. Calculated value in use for all eight vessels are in line with average broker values; no significant differences. During 2016 all eight container vessels are impaired to recoverable amount, which have resulted in recognised impairments of in total USD 60.1 million in 2016 (2015: USD 17.5 million), of this USD 23.5 million in 2H 2016. Book value of container vessels amounts USD 116.1 million at 31 December 2016.

The book values at year end are in line with both calculated VIU and average broker value for all of the eight vessels. A reduction in estimated TC rate from 2017 and onwards of USD 1 000 per day would result in further impairments of approx USD 1.8 million per vessel of the newest class (six out of in total eight vessels). An increase in WACC of 1 % results in an impairment of approx USD 500-800k per vessel of the newest class.

### Combination carriers

Cash flow projections for the cabu vessels over the remaining economic life of the vessels show a net present value which is higher than the booked value of the fleet (considered as one cash generating unit). Broker values are obtained, however the valuation is based on standard dry bulk vessels, not taken into account the value of specialized cabu features. No impairment has been recognized for the cabu vessels at 31 December 2016 (2015: 0).

A reduction in estimated TC rate from 2017 and onwards of USD 2 200 per day would result in value in use equal to booked values for the fleet of combination carriers. Value in use will be aligned with book value if WACC is set as 13.2%.

The below summarizes the total impairment cost/reversal:

| <b>Impairment loss (-)/ reversal</b>        | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|
| Impairment of vessels                       | (60 050)        | (17 511)        |
| Impairment of newbuildings (note 5)         | -               | (7 990)         |
| <b>Total impairment loss (-) / reversal</b> | <b>(60 050)</b> | <b>(17 511)</b> |

## Note 6 - Newbuildings

The Group took delivery of two cabu newbuildings from Zeijiang OuHua Shipbuilding Co. Ltd. during the last four months of 2016, the third and last cabu vessel is expected to be delivered in the second quarter of 2017.

The Group also has three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with delivery scheduled in 2018 and early 2019. The contract includes options for further vessels. The commitments related to newbuildings presented in note 10.

The Kamsarmax vessel MV Bavang was delivered in February 2016 (see note 3).

### 2016

| <b>Investments in newbuildings</b>       | <b>Combination carriers</b> | <b>Dry bulk investment</b> | <b>Total</b>  |
|--|-----------------------------|----------------------------|---------------|
| Cost 1.1                                 | 45 328                      | 558                        | 45 886        |
| Borrowing cost                           | 1 245                       | 171                        | 1 415         |
| Yard installments paid                   | 59 266                      | 19 079                     | 78 345        |
| Other capitalized cost                   | 4 333                       | 145                        | 4 478         |
| Impairment loss (-)/reversal             | -                           | 194                        | 194           |
| Delivery of newbuildings                 | (78 177)                    | (28 141)                   | (106 318)     |
| Impairment reclassified to vessels       | -                           | 7 994                      | 7 994         |
| <b>Net carrying amount at 31.12.2015</b> | <b>31 995</b>               | <b>-</b>                   | <b>31 995</b> |

### 2015

| <b>Investments in newbuildings</b>        | <b>Combination carriers</b> | <b>Dry bulk investment</b> | <b>Total</b>  |
|---|-----------------------------|----------------------------|---------------|
| Cost 1.1                                  | 21 946                      | 5 779                      | 27 725        |
| Borrowing cost                            | 618                         | 106                        | 724           |
| Yard installments paid                    | 21 462                      | 5 340                      | 26 802        |
| Other capitalized cost                    | 1 302                       | 93                         | 1 395         |
| Impairment loss (-)/reversal              | -                           | (7 990)                    | (7 990)       |
| Sale of newbuilding contracts             | -                           | (2 770)                    | (2 770)       |
| Transferred to vessels under operation    | -                           | -                          | -             |
| <b>Net carrying amount at 31 December</b> | <b>-</b>                    | <b>45 328</b>              | <b>45 886</b> |

## Note 7 - Financial assets and liabilities

To reduce currency and interest rate risk, the Group has entered into interest rate swap (IRS) and cross currency interest rate swap (CCIRS) agreements.

One of the Group's cross currency interest rate swap agreements was terminated in December 2016 related to the repayment of a bond loan. Book value at the termination date was USD 12.1 million. The remaining two CCIRS's, which mature in March 2020, are no longer designated as cash flow hedges. Derecognition of hedge accounting effects P&L with negative USD 3.1 million in 2016. From December 2016, the two remaining CCIRS's are recognised at fair value with changes through profit and loss. Book value of these are negative by USD 18.0 million as of 31 December 2016.

After refinancing the bank loans for the eight container vessels, only one out of previous three IRSs qualify for hedge accounting. The interest rate swap agreements in Klaveness Container AS have a duration until 2018. Fair value of interest rate swaps which qualify for hedge accounting is USD 35k (liability) as of year end 2016 (2015: USD 100k/liability). From December 2016, the other two interest swap agreements are recognised at fair value with changes through profit and loss. Book value of these are negative by USD 25k per year end. Derecognition of hedge accounting effects P&L with negative USD 0.1 million in 2016.

The Group has entered into further interest rate swaps which are recognised at fair value of USD 1.1 million (assets) and USD 2.2 million (liability) as of year end 2016 (2015: USD 1 968k/liability). The interest rate swap agreements have a duration until 2018 and 2023.

### Non-current financial assets at 31 December

|  | 2016         | 2015     |
|--|--------------|----------|
| <i>Financial instruments at fair value through P&amp;L</i> |              |          |
| Interest rate swaps  | 1 052        | -        |
| <b>Financial assets</b>                                    | <b>1 052</b> | <b>-</b> |

### Non-current financial liabilities at 31 December

|  | 2016          | 2015          |
|--|---------------|---------------|
| <i>Financial instruments at fair value through OCI</i>     |               |               |
| Cross currency interest rate swap                          | -             | 33 688        |
| Interest rate swaps  | 35            | 100           |
| <i>Financial instruments at fair value through P&amp;L</i> |               |               |
| Cross currency interest rate swap                          | 18 039        | -             |
| Interest rate swaps  | 2 142         | 1 968         |
| <b>Financial liabilities</b>                               | <b>20 217</b> | <b>35 756</b> |

## Note 8 - Interest bearing debt and financial instruments

The below table presents the Group's carrying amount of interest bearing debt by non-current and current portions for year ended 31 December 2016 and 2015, respectively. All debt except for the bond loans (NOK) are denominated in USD, ref note 9 for further information on bond loans.

As of 31 December 2016, the Group had a total of USD 185.0 million in interest bearing debt (incl capitalized fees) of which USD 143.9 million was classified as non-current debt and USD 41.1 million was classified as current debt. An overview of the loan facilities in the Group is presented below.

Mortgage debt are subject to an interest rate of LIBOR plus a margin of in range 2.00-3.10.

Loan facilities secured by the Group's eight container vessels with maturity in 2018 and 2019 were refinanced in December 2016. The new facility is a revolving credit facility secured by all eight vessels and a maximum limit of USD 84.9 million. The facility has a tenor of five years and is guaranteed by Klaveness Ship Holding AS.

50 per cent of the vessel Baffin and the newbuilding Ballard was in 2016 sold to an external company resulting in a carve-out from the USD 140 million term loan for the tranches related to the two vessels. The new USD 56 million term loan facility has a tenor of 4.25 years.

The bond loan were also refinanced in 2016 - see note 9.

Mortgage debt related to the Bantry facility falls due in March 2017, hence the facility is classified as current debt as per 31 December 2016. The loan is in the process of being refinanced in 2017.

The Group has secured financing for the three newbuildings with expected delivery in 2018/2019. The owner of the vessels, T. Klaveness Shipping AS, is the borrower and the USD 93 million post delivery term loan has a tenor of five years from drawdown. Bank debt has also been secured for the newbuilding with delivery in 2017.

| Mortgage debt                         | Description         | Maturity      | Carrying amount | Fair value     |
|---------------------------------------|---------------------|---------------|-----------------|----------------|
| RCF container                         | SEB/DNB/Danske Bank | February 2021 | 30 000          | 30 816         |
| T Klaveness Shipping AS               | Nordea/Danske Bank  | March 2022    | 37 481          | 37 625         |
| Banasol                               | SEB                 | April 2018    | 6 500           | 6 539          |
| Banastar                              | SEB                 | April 2018    | 6 500           | 6 538          |
| Bantry                                | Danske Bank         | March 2017    | 11 419          | 11 426         |
| Bakkedal                              | Nordea              | Sept 2021     | 11 375          | 11 478         |
| Baffin/Ballard                        | Nordea/Danske Bank  | March 2022    | 27 510          | 27 570         |
| <b>Mortgage debt 31 December 2016</b> |                     |               | <b>130 784</b>  | <b>131 992</b> |

| 2016 - Interest bearing debt       | Non-current    | Current       | Total          |
|------------------------------------|----------------|---------------|----------------|
| Mortgage debt                      | 110 966        | 19 818        | 130 784        |
| Transaction costs mortgage debt    | (1 208)        | -             | (1 208)        |
| Bond loan                          | 34 700         | 21 283        | 55 982         |
| Transaction costs bond loan        | (559)          | -             | (559)          |
| <b>Total interest bearing debt</b> | <b>143 899</b> | <b>41 100</b> | <b>184 999</b> |

| 2015 - Interest bearing debt   | Non-current    | Current       | Total          |
|--|----------------|---------------|----------------|
| Mortgage debt  | 133 130        | 26 652        | 159 782        |
| Transaction costs mortgage debt  | (606)          | -             | (606)          |
| Liabilities directly associated with the assets held for sale (note 3) | -              | 46 271        | 46 271         |
| Bond loan  | 67 056         | -             | 67 056         |
| Transaction costs bond loan  | (983)          | -             | (983)          |
| Cross currency interest rate swap                                      | 33 688         | -             | 33 688         |
| <b>Total interest bearing debt</b>                                     | <b>232 285</b> | <b>72 923</b> | <b>305 208</b> |

## Note 8 - Interest bearing debt and financial instruments (cont.)

The Group has undrawn committed bank facilities available at year end 2016.

| USD mill                              | Credit     | Drawn up  | Available  |
|---------------------------------------|------------|-----------|------------|
| RCF Container, USD 90 million         | 85         | 30        | 55         |
| Baffin/Ballard, USD 56 million*       | 56         | 28        | 28         |
| T Klaveness Shipping AS, USD 93 mill* | 93         | -         | 93         |
| <b>Total</b>                          | <b>234</b> | <b>58</b> | <b>176</b> |

\* Committed to newbuildings. Available on delivery of vessel.

### Hedging

After the refinancing of bond loans and container facilities in 2016, the Group has only one interest rate swap left that qualify for hedge accounting. The interest rate swap agreement is designated as cash flow hedge to partly hedge interest rate exposure related to parts of the Group's long term mortgage debt. When interest rate swaps qualify for hedge accounting, the fair value movement is recognised in other comprehensive income until realization of the hedged transaction. Fair value of interest rate swaps which qualify for hedge accounting is USD 35k (liability) as per 31.12.2016 (2015: USD 100 k (liability)).

The Group no longer has any cross currency interest rate swap agreements that qualify for hedge accounting. The interest rate and currency swap agreements that are not effective cash flow hedges, are recognised at fair value with changes through profit & loss (see note 7).

### Covenants

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

The credit facilities also contain financial covenants. For Klaveness Ship Holding AS on a consolidated basis the covenants are minimum equity of USD 125 million, minimum equity ratio of 30 % and minimum cash of USD 15 million. On other levels in the Group the covenants varies. In addition all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan. Certain cross-default exists. The Group is in compliance for all of its covenants at 31 December 2016.

### Securities

All the Group's vessels are mortgaged and in addition the banks have assignment in earnings and insurances of the vessel and pledge over earnings accounts. Some loans have pledge in shares.

| Book value of collateral, mortgaged and leased assets              | 2016           | 2015           |
|--|----------------|----------------|
| Vessels*   | 274 954        | 438 478        |
| <b>Total book value of collateral, mortgaged and leased assets</b> | <b>274 954</b> | <b>438 478</b> |

\*Includes vessels held for sale

## Note 9 - Bond loans

In December 2016, Klaveness Ship Holding AS (the Issuer) issued a new senior unsecured bond of NOK 300 million with maturity in May 2021 (KSH03). The bond loan has a borrowing limit of NOK 500 million, hence subsequent issues may take place over the tenor of the bond. Tap issues are conditional on the market price and on investor appetite on the date of the tap issue.

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

The bond loan (KSH03) is listed on Nordic ABM and has a bullet structure with no repayment until maturity in 2021. The bond loan is subject to an interest rate of 3M NIBOR plus a margin of 5.25.

Covenants are described in note 8.

| Bond loan                          | Face value<br>NOK'000 | Year of<br>maturity | Carrying amount (USD'000) |               |
|------------------------------------|-----------------------|---------------------|---------------------------|---------------|
|                                    |                       |                     | 2016                      | 2015          |
| <b>KSH03</b>                       |                       |                     |                           |               |
| Original loan amount               | 300 000               | 27.05.2021          | 35 273                    | -             |
| Exchange rate adjustment           |                       |                     | (573)                     | -             |
| Capitalized expenses               |                       |                     | (559)                     | -             |
| <b>Total KSH03</b>                 | <b>300 000</b>        |                     | <b>34 141</b>             | <b>-</b>      |
| <b>KSH01</b>                       |                       |                     |                           |               |
| Original loan amount               | 300 000               | 08.05.2018          | 52 250                    | 52 250        |
| Buy back                           | (100 000)             |                     | (17 417)                  | (17 417)      |
| Buy back (Dec 2016)                | (16 000)              |                     | (1 875)                   | -             |
| Exchange rate adjustment           |                       |                     | (11 676)                  | (12 102)      |
| Capitalized expenses               |                       |                     | -                         | (333)         |
| <b>Total KSH01</b>                 | <b>184 000</b>        |                     | <b>21 282</b>             | <b>22 398</b> |
| <b>KSH02</b>                       |                       |                     |                           |               |
| Original loan amount, fixed        | 300 000               | 20.03.2020          | 50 500                    | 50 500        |
| Original loan amount, unfixed      | 100 000               | 20.03.2020          | 16 828                    | 16 828        |
| Buy back                           | (10 000)              |                     | (1 355)                   | (1 355)       |
| Exchange rate adjustment           |                       |                     | (20 263)                  | (21 648)      |
| Repayment (Dec 2016)               | (390 000)             |                     | (45 710)                  | -             |
| Capitalized expenses               |                       |                     | -                         | (650)         |
| <b>Total KSH02</b>                 | <b>-</b>              |                     | <b>0</b>                  | <b>43 675</b> |
| <b>Debt as of reporting period</b> | <b>484 000</b>        |                     | <b>55 423</b>             | <b>66 073</b> |

## **Note 10 - Financial Risk Management**

### **Capital management**

The capital structure of the Group is intended to ensure financial stability for the purpose of reducing its cost of capital to reach its strategic goals. The target for the Group's capital structure states that cash should always be adequate to cover all current business, liquidity fluctuations due to market volatility and investment needs. Targets have been defined for equity ratio and minimum liquidity. The equity ratio as of 31 December 2016 was 51 % (2015: 47 %) and liquidity incl. available capacity on RCF USD 157.9 million. The Group's covenants are described in note 8.

The capital structure composition and dividend payments are considered in view of debt service ability, capital commitments and expectations of future cash flows. Available cash, loan covenants and the balance sheet composition is monitored to make sure that the company has the necessary financial strength to continue as a going concern.

The Group aims to spend free cash flows as follows:

- Investments in developing new and existing business.
- Repayment of net interest-bearing debt
- Distribution to the Group's shareholders by means of dividends.

The main priority of maintaining a strong financial position is to secure the ongoing business activity of the Group and the ability to do new business and to ensure access to funding at favourable terms. The Group's capital structure consists of mortgage debt (note 8), bond loans listed at Nordic ABM (note 9), cash and cash equivalents and equity attributable to the shareholders.

### **Financial risk**

The Group is exposed to operational risk, market risk including but not limited to freight rates and vessel values, currency (FX) and interest rate (IR) risks, credit/counterparty risk and liquidity risk. The Group's executive management oversees the management of these risks, and is supported by a risk management department and a treasury department that provide risk advisory and maintain an appropriate financial risk governance framework for the Group. The risk department provides assurance to the executive management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. Derivative activities (FX/IR) for financial risk management purposes (incl. hedging) are carried out by the treasury department that has the appropriate skills, experience and supervision. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

### **Operational risk**

Operational risks are mainly related to the operation of vessels under the management of Klaveness Ship Management AS (affiliated company). The Group's vessels are on technical management to Klaveness Ship Management AS which ensures compliance with IMO, flag and port state regulations. Quality and safety audits are performed regularly and the crew and officers onboard are trained to ensure that regulatory requirements are met.

Operational risk is managed through quality assurance procedures and systematic training of seafarers and land based employees. All vessels sailing through piracy exposed areas take necessary steps to mitigate the threat of such attacks. Operational risk is also covered by insurance where relevant to cover loss of assets, revenues and contract commitments. The vessels are insured for loss of hire, protection and indemnity (P&I) and complete loss (Hull and Machinery). The latter is aligned with vessel values and loan agreements. The financial impact of a total loss of a vessel will not be material for the Group.

### **Market risk**

Ownership of vessels involves risks related to vessel values, future vessel employment, freight rates and costs. These risks are managed through short-term/long-term time charter contracts and contracts of affreightment covering a large part of the Group's fleet capacity for nearby years.

## Note 10 - Financial Risk Management (cont.)

### Foreign currency risk and interest rate risk

The Group's revenue and costs are denominated primarily in US Dollar (USD) which is the functional currency of all significant entities in the Group. No direct currency hedge has been made towards the small portion of costs incurred in foreign currencies. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. Currency risk and interest rate risk exposure related to the bond issued in NOK is reduced by two cross currency interest rate swaps.

The Group has long term interest bearing debt that is exposed to floating interest rate. In order to hedge the risk, the company has entered into interest rate swaps. At year end 2016, 11 % (2015: 19 %) of the floating interest loans are hedged. Long term mortgage debt bear interest at LIBOR plus a fixed margin. The following table sets out the outstanding swapped amounts as of 31 December 2016. The Group evaluates on an ongoing basis the need to further hedge interest rate exposure.

### 31/12/2016

| USD'000<br>Loan facilities   | Outstanding notional<br>amounts of the swap | Swapped portion of<br>credit facilities | Maturity   | Fixed<br>interest |
|------------------------------|---|---|------------|-------------------|
| Container RCF (SEB)          | 15 000                                      | 50 %                                    | 27/06/2018 | 1,410 %           |
| Outstanding notional amounts | 15 000                                      |   |            |                   |

### 31/12/2015

| USD'000<br>Loan facilities       | Outstanding notional<br>amounts of the swap | Swapped portion of<br>credit facilities | Maturity   | Fixed<br>interest |
|----------------------------------|---|---|------------|-------------------|
| Balao/Ballenita (SEB)            | 15 000                                      | 62 %                                    | 27/06/2018 | 1,370 %           |
| Balsa/Baleares (DNB/Danske Bank) | 7 500                                       | 54 %                                    | 24/09/2018 | 1,505 %           |
| Balsa/Baleares (DNB/Danske Bank) | 7 500                                       | 54 %                                    | 24/09/2018 | 1,437 %           |
| Outstanding notional amounts     | 30 000                                      |   |            |                   |

As of 31 December 2016, fair value of the interest rate swaps (IRS) which qualify for hedge accounting was negative by USD 35k (2015: negative by USD 100k). The Group's cross currency interest rate swap (CCIRS) no longer qualify for hedge accounting. Changes in the fair values of the IRS are recognized as other comprehensive income (OCI). Changes in fair value of the Group's CCIRS's are transferred from OCI to P&L.

Below table sets out the split of other comprehensive income for the years ended 31 December 2016 and 2015,

| Other comprehensive income / (loss) for the period, net of tax             | 2016         | 2015           |
|--|--------------|----------------|
| Net movement fair value on interest rate swaps                             | 8            | (113)          |
| Net movement fair value on CCIRS   | 3 827        | (12 144)       |
| Reclassification to profit and loss  | (1 776)      | 10 468         |
| Reclassification to profit and loss (derecognition hedge accounting CCIRS) | 3 131        | -              |
| Reclassification to profit and loss (derecognition hedge accounting IRS)   | 57           | -              |
| Income tax effect  | (1 320)      | 447            |
| <b>Other comprehensive income / (loss) for the period, net of tax</b>      | <b>3 926</b> | <b>(1 341)</b> |



## Note 10 - Financial Risk Management (cont.)

The table below shows estimated changes in profit before tax for the Group from reasonable possible changes in interest rates in 2016 and 2015, with all other variables held constant. The changes are estimated based on given capital

| USD '000         | Change in interest rate | 2016  | 2015    |
|------------------|-------------------------|-------|---------|
| <b>USD LIBOR</b> | +1,00%                  | 508   | 1 761   |
|                  | 0,50 %                  | 254   | 880     |
|                  | - 0,50%                 | (254) | (880)   |
|                  | - 1,00%                 | (508) | (1 761) |
| <b>NIBOR</b>     | +1,50%                  | -     | 111     |
|                  | + 0,75%                 | -     | 55      |
|                  | - 0,75%                 | -     | (55)    |
|                  | - 1,50%                 | -     | (111)   |

### Counterparty/credit risk

Counterparty risk is mainly generated by contractual defaults by cargo customers (CoA's) and charterers of the vessels, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables). The permitted exposure for each contractual partner is defined through a rating process executed by the risk department. The Group recognizes claims to the extent the Group has legal right to insurance coverage or it is highly probable that the claim will result in cash inflows from the insurance company, a counterparty or a bankruptcy estate. Counterparty risk against insurance institutions exists. There is also counterparty risk associated with yards and vessel delivery and replacement costs thereof. Yard installments are secured with refund guarantees from top-tier Chinese banks.

Further, the Group is exposed to credit risk through its deposits. Deposits are currently made with investment grade financial institutions with A rating or higher from public rating agency.

Total unrisks credit risk at year-end 2016 amounts USD 107 million (book value of receivables and bank deposits).

### Liquidity risk

Liquidity risk is the risk that the Group may not be able to fulfill its liabilities when they fall due.

The Group has capital commitments relating to borrowings and newbuildings. Liquidity risk is managed by the Group's treasury department. The Group keeps its liquidity reserves mainly in cash and bank deposits. The liquidity risk is considered to be limited as the deposits, committed bank debt and estimated cash flow are considered sufficient for all needs in the foreseeable future. The Group's bank financing and bonds are subject to financial and non-financial covenant clauses. The table below illustrates the timing and magnitude of the Group's financial liabilities.

### Maturity profile of financial liabilities at 31 December 2016

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Interest bearing debt and bond loan includes interest payments.

| Maturity profile financial liabilities at 31 Dec 2016 | < 1 year      | 1-3 years     | 3-5 years     | > 5 years     | Total          |
|---|---------------|---------------|---------------|---------------|----------------|
| Mortgage debt (incl interests)                        | 24 080        | 31 012        | 53 695        | 38 098        | 146 886        |
| Bond loan (incl interests)                            | 23 704        | 4 561         | 38 436        | -             | 66 701         |
| Accounts payable                                      | 874           | -             | -             | -             | 874            |
| Current debt to related parties                       | 1 577         | -             | -             | -             | 1 577          |
|   | <b>50 235</b> | <b>35 573</b> | <b>92 131</b> | <b>38 098</b> | <b>216 037</b> |

| Maturity profile financial liabilities at 31 Dec 2015 | < 1 year      | 1-3 years     | 3-5 years     | > 5 years     | Total          |
|---|---------------|---------------|---------------|---------------|----------------|
| Mortgage debt (incl interests)*                       | 79 385        | 35 205        | 8 610         | 15 313        | 138 512        |
| Bond loan (incl interests)                            | 5 869         | 45 524        | 66 392        | -             | 117 785        |
| Accounts payable                                      | 1 810         | -             | -             | -             | 1 810          |
| Current debt to related parties                       | 874           | -             | -             | -             | 874            |
|   | <b>87 937</b> | <b>80 729</b> | <b>75 002</b> | <b>15 313</b> | <b>258 981</b> |

\* Includes liabilities directly associated with the assets held for sale (USD 46 million) repaid in 2016 (< 1 year). The Bakkedal facility (USD 12.5 million) was classified as short term as per year end 2015 (<1 year).

**Note 10 - Financial Risk Management (cont.)****Commitments newbuildings**

The commitments related to newbuildings are set out below. The third and last combination carrier ordered at Zhejiang OuHua Shipbuilding Co. Ltd. is expected to be delivered in the second quarter of 2017. Three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China are scheduled for delivery in 2018 and early 2019.

| <b>Remaining installments at 31 December 2016</b> | <b>2017</b>   | <b>2018</b>   | <b>2019</b>   | <b>Total</b>   |
|---|---------------|---------------|---------------|----------------|
| Combination carriers                              | 45 340        | 72 720        | 33 740        | 151 800        |
| <b>Total commitments newbuildings</b>             | <b>45 340</b> | <b>72 720</b> | <b>33 740</b> | <b>151 800</b> |

## Note 11- Taxes

### Tonnage tax

Companies subject to tonnage tax regimes are exempt from ordinary tax on their shipping income. All the Norwegian companies within the Group, with the exception of the parent company, are subject to tonnage taxation. The subsidiary Klaveness Bulk AS exited tonnage taxation in 2016 due to sale of its qualifying asset. The companies within the tonnage tax system have to pay a tonnage fee based on the size of the vessels. The fee is recognized as an operating expense. Financial income is taxed according to the ordinary Norwegian tonnage tax regime, however it is only a portion of the interest cost and net currency expenses that gives the right to tax deductions.

### Ordinary taxation

The ordinary rate of corporation tax in Norway is 25 % for 2016 (2017: 24 %). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction (Klaveness Cement Logistics AB subject to tax rate of 22 % in Sweden). Tax expenses outside Norway is not material.

Some companies in the Group are subject to taxation in Norway based on controlled foreign company (CFC) rules where tax is charged at the investor level. All of these companies are subject to the Norwegian tonnage tax regime and owned by a company subject for tonnage tax regime.

| USD '000   | 2016           | 2015           |
|--|----------------|----------------|
| <b>Income taxes for the year</b>                                       |                |                |
| Income taxes payable   | -              | 1 459          |
| Change in deferred tax   | (1 211)        | (1 808)        |
| Tax adjustments previous years   | (2)            | (4 766)        |
| Adjustment correction of OCI included in tax expense prior years       | -              | 947            |
| <b>Total tax expense / income (-) reported in the income statement</b> | <b>(1 213)</b> | <b>(4 168)</b> |
| Net (gain)/loss on revaluation of cash flow hedges                     | 1 320          | (447)          |
| <b>Deferred tax charged to OCI</b>                                     | <b>1 320</b>   | <b>(447)</b>   |

| USD '000  | 2016     |            | 2015         |              |
|---|----------|------------|--------------|--------------|
| Tax payable                                       | Income   | Tax effect | Income       | Tax effect   |
| Profit / loss (-) before taxes, incl OCI          | (45 873) | (11 468)   | (5 206)      | (1 406)      |
| Income from shipping activity, tonnage tax system | 32 001   | 8 000      | (3 873)      | (1 046)      |
| Change in temporary differences                   | (27 124) | (6 781)    | 12 060       | 3 256        |
| Permanent differences                             | 18 039   | 4 510      | -            | -            |
| Change in tax losses carried forward              | 11 818   | 2 955      | 5 662        | 1 529        |
| Exchange rate differences                         | 11 137   | 2 784      | (3 240)      | (875)        |
| <b>Tax payable in the balance sheet</b>           | <b>-</b> | <b>-</b>   | <b>5 403</b> | <b>1 459</b> |
| Effective tax rate                                |          | 0 %        |              | -28 %        |
| Tonnage tax (included in operating profit)        |          | 138        |              | 181          |
| <b>Total tax payable in the balance sheet</b>     |          | <b>138</b> |              | <b>1 640</b> |

| USD '000  | Temporary difference | 2016 Tax effect | Temporary difference | 2015 Tax effect |
|---|----------------------|-----------------|----------------------|-----------------|
| <b>Temporary differences - ordinary taxation</b>                      |                      |                 |                      |                 |
| Gains and losses accounts   | (1 433)              | (344)           | (331)                | (83)            |
| Currency gain/loss not realised                                       | 2 023                | 485             | 7 059                | 1 765           |
| Unrealised gain/loss IRS  | (18 737)             | (4 497)         | (2 010)              | (503)           |
| Unrealised gain/loss CCIRS  | (35)                 | (9)             | (33 297)             | (8 324)         |
| Tax losses carried forward  | (20 828)             | (4 999)         | (9 010)              | (2 253)         |
| Deferred tax asset not recognised in the balance sheet                | 7 718                | 1 852           | 7 114                | 1 778           |
| <b>Net temporary differences - deferred tax liability/asset (-) *</b> | <b>(31 292)</b>      | <b>(7 510)</b>  | <b>(30 476)</b>      | <b>(7 620)</b>  |

\*At year-end 2016 the company has chosen not to record deferred tax asset of USD 1.9 million which relates to companies subject for tonnage taxation. Temporary differences relates to financial losses carried forward in which possibility to net against future gain is uncertain. At year-end 2016 the Group has recorded a deferred tax asset of USD 7.4 million. At year-end 2015 the company recorded a deferred tax asset of USD 7.6 million. Recognised deferred tax asset is expected to be utilized in the future upon taxable profit in other Group companies with Rederiaksjeselskapet Torvald Klaveness. The probability of future taxable profits has been assessed.

**Note 12 - Transactions with related parties**

The ultimate owner of the Group is Rederiaksjeselskapet Torvald Klaveness (RASTK), which owns 100 % of the shares in Klaveness Ship Holding AS.

The Group has undertaken several agreements and transactions with related parties in the RASTK Group. The level of fees are based on market terms and are in accordance with the arm's length principle.

Klaveness AS delivers services to the Group performed by corporate functions like management, legal, accounting & controlling, risk management and commercial management.

Klaveness Ship Management AS delivers ship management services for all of the vessels in the Group. Ship Management fees cover services like technical management, crewing management, IT and energy management. For the newbuildings in the Group, Klaveness Ship Management performs supervision and project management services.

| USD'000   |                             |         |         |  |
|---|-----------------------------|---------|---------|--|
| Supplier  | Type of agreement           | 2016    | 2015    |  |
| Klaveness AS (affiliated company)                 | Business administration fee | (466)   | (529)   |  |
| Klaveness AS (affiliated company)                 | Commercial management fee   | (3 171) | (4 492) |  |
| Klaveness Ship Management AS (affiliated company) | IT fee                      | (151)   | (392)   |  |
| Klaveness Ship Management AS (affiliated company) | Ship Mangement fee          | (4 568) | (4 069) |  |

**Note 13 - Contingent liabilities**

Regular claims are made against the Group as a result of its ordinary operations. Provisions are made in the financial statements whenever the probable outcome of these disputes are expected to be in disfavour of the Group. No new provisions are recognised in the second half of 2016.

**Note 14 - Events after the balance sheet date**

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

There are no events after the balance sheet date that have material effect on the financial statement as of 31 December 2016.

## RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 July to 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and give a true and fair view of the company's assets, liabilities, financial position and profit. We also confirm, to the best of our knowledge, that the management report includes a fair review of important events that have occurred during the financial year and their impact on the consolidated financial statements of Klaveness Ship Holding AS, and a description of the principal risks and uncertainties for 2016.

Vækerø, 14 February 2017

Lasse Kristoffersen

Chairman of the Board

Rebekka Glasser Herlofsen

Board member

Morten Skedsmo

Managing Director

Bent Martini

Board member