

FINANCIAL STATEMENTS
KLAVENESS SHIP HOLDING CONSOLIDATED

Annual report 2017



KLAVENESS SHIP HOLDING AS CONSOLIDATED

Board of Directors' report 2017

Klaveness Ship Holding AS ("KSH"/the Company) 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 shipowning activities in Rederiaksjeselskapet Torvald Klaveness. The consolidated financial statement of the Company as at year end 31 December 2017 comprises the Company and its subsidiaries.

2017 HIGHLIGHTS

Health, safety and environment are priority number one in Klaveness and to the Board's satisfaction there were no major incidents in 2017.

Both the dry bulk market and the container market strengthened during 2017 while the tanker market continued to be weak. Earnings for the combination carriers weakened in 2017, mainly due to a weaker tanker market and lower transported caustic volumes. Results were nevertheless satisfactory. Container vessel earnings improved during 2017. The number of idle days for the Klaveness container vessels dropped significantly compared to 2016 and the vessels still achieved rates above the general market due to the vessels' fuel efficiency.

The Group achieved an EBITDA of USD 26.7 million from continuing operations in 2017 (2016: USD 20.4 million) and a loss before tax (EBT) of USD 3.5 million (2016: loss of USD 76.0 million). 2016 was impacted by impairments. Cash flow from operations for 2017 was USD 26.1 million (2016: USD 25.0 million). Due to a strong cash position Klaveness repaid debt in late 2016 and in the beginning of 2017, thereby taking down interest costs in 2017. Mark-to-market development on financial instruments impacted the financial result positively. The balance sheet remains solid with a book equity including non-controlling interest of USD 213.2 million at year-end corresponding to an equity ratio of 53 per cent. High solidity and good liquidity was maintained in 2017. The selfunloader and bulk segment is presented as discontinued operations with effect on comparative figures in the consolidated income statement.

Klaveness took delivery of one combination carrier in 2017, whereof EGD Shipholding AS owns 50 per cent. The newbuilding program now consists of three combination carriers with expected delivery in 2018 and 2019. The fleet at year end 2017 consists of 8 container feeder vessels and 9 combination carriers on the water in addition to the newbuildings.

NET RESULT AND FINANCIAL POSITION CONSOLIDATED ACCOUNTS

For the full year 2017 total gross operating revenue from continuing operations was USD 69.1 million (2016: USD 60.1 million) and total operating costs amounted to USD 42.5 million (2016: USD 39.7 million). EBITDA was USD 26.7 million for 2017, better than EBITDA of USD 20.4 million for 2016 due to stronger markets.

Loss before tax from continuing operations was negative USD 3.5 million in 2017 (2016: negative USD 76.0 million with impairments of USD 60.1 million). Net result from financial items was negative by USD 8.3 million in 2017, reduced from negative USD 16.2 million due to lower debt after refinancing in late 2016 and positive mark-to-market effects of USD 3.7 million from financial instruments in 2017.

Net profit after tax from continuing operations ended negative by USD 7.9 million for 2017. For 2016 the loss was negative USD 74.7 million. USD 0.3 million of the negative result (2016: negative USD 8.8 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 negative USD 0.1 million for 2017, down from profit of USD 24.9 million in 2016 due to recognized gain sale of vessels of USD 26.3 million.

Total assets decreased by USD 31.3 million in 2017 from USD 433.0 million at year end 2016 to USD 401.7 million. Main impacts come from repayment and refinancing of debt partly offset by capital increase from non-controlling interest and drawdown on debt upon delivery of Ballard.

At year-end 2017, the consolidated equity including minority interests was USD 213.2 million (2016: USD 220.0 million), corresponding to a book equity ratio of 53 per cent (2016: 51 per cent). Book equity excluding minority interests was USD 191.1 million. Cash and bank deposits were USD 55.6 million. During 2017, the Group had a positive cash flow from operating activities of USD 26.1 million (2016: USD 25.0 million). Net cash flow from investments amounts to negative USD 43.6 million (2016: USD 124.1 million), consisting of USD 40.2 in payments for vessels under construction and USD 3.4 million in docking costs. The cash flow from financing activities was negative USD 29.6 million (2016: negative USD 128.1 million) and are mainly net outflows of USD 21.4 million from new debt related to Ballard and refinancing of Bantry, repayment on the RCF and repayment of the KSH01 bond loan in addition to paid group contribution of USD 3.9 million.

Total equity decreased by USD 6.8 million in 2017 due to total comprehensive loss of USD 8.0 million, payments to non-controlling interests of USD 1.4 million, group contribution/dividend of in total USD 3.9 million and capital increase in non-controlling interests of USD 6.5 million.

The accounts are reported under the assumption of a going concern and the Board considers the financial position of Klaveness Ship Holding including subsidiaries at year-end to be solid. 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 AS.

NET RESULT AND FINANCIAL POSITION STATUTORY ACCOUNTS

Operating result of the standalone financial statements of the parent company Klaveness Ship Holding AS consists of administrative expenses of USD 0.3 million (USD 0.2 million). The financial result in 2017 consists mainly of impairment of shares in subsidiaries of USD 4.6 million (USD 92.3 million), interest expenses on bond loans of USD 3.9 million (USD 5.8 million) and positive effects of USD 3.1 million related to unrealized results of financial instruments (negative USD 3.6 million). The net result from financial items was in total negative by USD 3.5 million in 2017 (negative USD 101.1 million).

Net loss for the year is negative USD 7.8 million (2016: USD 100.9 million), including tax expense of USD 4.0 million due to impairment of deferred tax asset. Klaveness Ship Holding AS statutory balance sheet has decreased by USD 45.6 million from 2016 to 2017, mainly due to repayment of bond loan (USD 21.3 million), repayment of debt to related parties (USD 10.2 million), impairment of subsidiaries (USD 4.6 million), net decreased loans to related parties (USD 4.9 million) and payments of group contribution (USD 4.0 million).

Bond debt has decreased from NOK 484 million (USD 55.4 million) at year end 2016 to NOK 300 million (USD 36.0 million) at year end 2017.

Net operating cash flow from the parent company was positive USD 2.8 million in 2017 (2016: USD 2.3 million). Net cash flow from investing activities was zero in 2017 (2016: USD 99.1 million, due to capital changes in subsidiaries). Net cash flow from financing activities amounted to negative USD 34.7 million (2016: negative USD 77.7 million) and consists of repayment of bond loan, group contribution/dividend and interest paid.

THE MARKETS

Dry bulk freight rates continued to improve through 2017 after bottoming out in first quarter of 2016. According to the Baltic exchange Capesize freight rates averaged 15,291 USD/day during 2017 (+7,920 USD/day year-on-year) while Panamax and Supramax freight rates averaged 9,831 USD/day (+4,213 USD/day) and 9,185 USD/day (+3,172 USD/day) respectively. According to Clarksons second-hand vessel values increased 34 per cent year on year, while the newbuilding prices had a more modest recovery of 8 per cent.

The CABU vessels are exposed to the clean product tanker market as the main competition on caustic soda COAs and spot cargoes come from standard MR-tankers. In addition, one of the main caustic soda COAs is index linked. The product tanker market was overall weaker in 2017 compared to 2016, especially for the larger product tankers as an effect of the increase in supply of the LR2 fleet. During 2017, the LR2 segment saw a capacity increase by 10 per cent, while the MR and LR1 fleets grew at only half that pace. The result was a gradually decreasing market during 2016, and a relatively flat and weak product tanker market through 2017. Average one year TC rates for these three segments was around 13,000 USD/d for 2017.

The containership sector saw more positive market conditions in 2017, with charter rates recording further gains towards year end. At the end 2017, the short period rate for a standard 2,500 TEU containership stood at \$8,750/day, up 60 per cent compared to the end-2016 level. Growth in container trade is expected to exceed 5 per cent in the full year 2017, the fastest pace of growth in three years. Meanwhile the containership fleet capacity grew by about 4 per cent, driven largely by continued deliveries of very large boxships. With improved demand, the fleet of idle container vessels came down from 7 per cent a year ago to only 2 per cent at year end 2017. The second-hand containership market was very active in 2017, with increasing prices in most sectors and a record 375 vessels sold, equivalent to 5 per cent of the total fleet. German owners continue to dominate the selling side, with Norwegian, Chinese and Greek investors most active on the buying side.

Following strong price increases in 2016 oil prices tumbled during the first half of 2017. After Ice Brent Crude oil bottomed out at 45 USD/barrel in mid-June 2017, the oil price rallied ending at just below 67 USD/barrel at year-end, a 17 per cent price increase compared to the 2016 closing price. Bunker fuel prices largely followed crude oil prices, and bunkers with delivery in Singapore ended the year at 332 USD/mt, up from 160 USD/mt in the previous year.

BUSINESS SEGMENTS

By the end of 2017 the fleet consisted of nine combination carriers and eight container vessels. In addition, the Group has three 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 nine cabu vessels after taking delivery of one cabu newbuilding from Zhejiang OuHua Shipbuilding Co. Ltd. in May 2017.

External investors hold a 50 per cent share of ownership in four vessels, 19 per cent in one vessel and 5 per cent in another vessel.

The result weakened in 2017 compared to the last years mainly because of a continued fall in the tanker market and lower transported caustic volumes under some of the contracts of affreightment (COAs). A strengthening of the dry bulk market and higher bunker prices during the year had a positive effect on the pool results in 2017. 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 2017 for about 47 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 53 per cent of the available vessel days in 2017. The vessels MV Bakkedal and MV Bangor were dry-docked during 2017.

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 contract portfolio for shipment of caustic soda and dry bulk commodities expanded during 2017.

Container: During 2017, Klaveness owned and operated a fleet of eight geared container vessels in the feeder segment (1,700 TEU - 3,100 TEU). All vessels were employed on short term time charter contracts to liner companies through the year. The six modern "Eco-Flex" vessels of 2,536 TEU continued to obtain fuel efficiency premiums. With improved market conditions, the average charter rates rose by about 30 per cent during 2017 and the amount of days without employment came down from 244 in 2016 to 30 in 2017, with no idle days after the first quarter. The operating expenses were reduced by 5 per cent, while at the same time maintaining operational quality which continued to meet agreed KPIs.

MAIN RISKS

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

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

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 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 Group has entered into interest rate swaps converting floating interest payments to fixed rate and the bond issued in NOK is 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 works 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 through strong operational performance and continuous development of rendered services.

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.

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

At the end of 2017, the Group had three newbuildings on order. Klaveness has dedicated on-site personnel who supervise the building processes. There is performance risk associated with the new buildings. A tier one Chinese bank provides refund guarantees and the yard itself is considered to be financially strong.

There were no major unforeseen events of a financial nature during 2017. The liquidity risk of the Group 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 Group's commitments.

ENVIRONMENT

Some of the vessels that are owned by the Group and its subsidiaries, participate in a shipping pool for operation and chartering. The pool is taking technical and operational precautions to protect the environment as embodied in ISM and MARPOL. The pool is further seeking to reduce the strain on the environment through efficiency of voyage execution and by reducing ballast voyages.

There are no employees in the Group, hence no actions were planned or implemented to promote equality or prevent discrimination. The board consists of two men and one woman.

The consolidated and parent accounts are prepared under the assumption of going concern. Nothing has occurred after the balance date, which may significantly influence the result or the balance sheet. The Board of Directors finds that the accounts represent a true and fair view of the company's equity and debt, financial position and result.

The Board of Directors in Klaveness Ship Holding AS

Oslo, 31 December 2017

Oslo, 21 March 2018

Lasse Kristoffersen
Chairman of the Board

Bent Martini
Board Member

Liv Hege Dyrnes
Board Member

Morten Skedsmo
Managing Director

Klaveness Ship Holding AS

Consolidated Income Statement

Year ended 31 December

USD '000	Note	2017	2016
Continuing operations			
Operating revenue, vessels	Note 2	69 127	60 146
Total operating revenue		69 127	60 146
Operating expenses, vessels	Note 2, 3	(39 289)	(35 616)
Group administrative services	Note 3	(2 778)	(3 668)
Tonnage tax	Note 6	(177)	(138)
Other operating and administrative expenses	Note 4	(228)	(290)
EBITDA		26 655	20 434
Ordinary depreciation	Note 7	(21 881)	(20 178)
Impairment loss (-) / reversal	Note 7	-	(60 050)
EBIT		4 774	(59 794)
Finance income	Note 5	4 308	980
Finance costs	Note 5	(12 618)	(17 147)
Profit before tax from continuing operations		(3 535)	(75 961)
Income tax expenses	Note 6	(4 393)	1 213
Profit after tax from continuing operations		(7 928)	(74 748)
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations		(120)	24 852
Profit for the year		(8 049)	(49 896)
Attributable to:			
Equity holders of the parent company		(7 704)	(41 112)
Non-controlling interests		(344)	(8 783)
Total		(8 049)	(49 896)

Klaveness Ship Holding AS

Consolidated Statement of Other Comprehensive Income

USD '000	Note	2017	2016
Net profit/ (loss)		(8 049)	(49 896)
<i>Other comprehensive income to be reclassified to profit or loss</i>			
Net movement fair value on interest rate swaps	Note 13	-	8
Net movement fair value on cross-currency interest rate swap	Note 13	-	3 827
Reclassification to profit and loss	Note 13	-	1 412
Income tax effect	Note 6	-	(1 320)
Net other comprehensive income to be reclassified to profit or loss		-	3 926
<i>Other comprehensive income not to be reclassified to profit or loss</i>			
Net other comprehensive income not to be reclassified to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		-	3 926
Total comprehensive income/(loss) for the period, net of tax		(8 049)	(45 969)
Attributable to:			
Equity holders of the parent company		(7 704)	(37 186)
Non-controlling interests		(344)	(8 783)
Total		(8 049)	(45 969)

Klaveness Ship Holding AS

Consolidated Statement of Financial Position

As at 31 December

USD '000	Note	2017	2016
ASSETS			
Non-current assets			
Deferred tax asset	Note 6	3 182	7 510
Vessels	Note 7	290 874	274 954
Newbuilding contracts	Note 8	37 751	31 995
Financial assets	Note 11	957	1 052
Total non-current assets		332 764	315 510
Current assets			
Inventories		1 215	1 473
Accounts receivable		186	462
Receivables from related parties	Note 9	7 559	6 814
Prepaid expenses		1 356	1 750
Other short-term receivables	Note 9	2 990	4 007
Cash and cash equivalents	Note 10	55 648	102 981
Total current assets		68 954	117 488
TOTAL ASSETS		401 718	432 999

Klaveness Ship Holding AS

Consolidated Statement of Financial Position

As at 31 December

USD '000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Share capital	Note 18	1 817	1 817
Share premium		6 939	6 939
Other reserves		35	35
Retained earnings		182 281	193 863
Equity attributable to equity holders of the parent		191 073	202 654
Non-controlling interests		22 086	17 344
Total equity		213 159	219 998
Non-current liabilities			
Mortgage debt	Note 14	109 105	109 758
Bond loans	Note 15	35 973	34 141
Financial liabilities	Note 11	16 404	20 217
Deferred tax	Note 6	59	-
Total non-current liabilities		161 541	164 116
Current liabilities			
Short-term debt	Note 14 15	20 549	41 100
Accounts payable		864	874
Current debt to related parties		894	1 577
Tax payable	Note 6	6	-
Tonnage tax payable	Note 6	177	139
Other current liabilities	Note 17	4 529	5 196
Total current liabilities		27 018	48 886
TOTAL EQUITY AND LIABILITIES		401 718	432 999

Oslo, 31 December 2017

Oslo, 21 March 2018

Lasse Kristoffersen
Chairman of the Board

Bent Martini
Board member

Liv Hege Dyrnes
Board member

Morten Skedsmo
Managing Director

Klaveness Ship Holding AS

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent						Non-	Total equity
	Share capital	Share premium	Other paid in capital	Hedging reserve	Retained earnings	Total	controlling interests	
Equity at 1 January 2016	1 817	16 861	5 585	(3 891)	239 976	260 347	19 491	279 838
Profit (loss) for the year					(41 112)	(41 112)	(8 783)	(49 896)
Other comprehensive income for the year				3 926		3 926		3 926
Total comprehensive income for the year				3 926	(41 112)	(37 186)	(8 783)	(45 969)
Payments to non-controlling interests							(4 849)	(4 849)
Group contribution		(9 922)	(5 585)			(15 507)		(15 507)
Capital contributions from non-controlling interests						-	11 485	11 485
Dividend payment					(5 000)	(5 000)		(5 000)
Equity at 31 December 2016	1 817	6 939	-	35	193 864	202 653	17 344	219 998
Profit (loss) for the year					(7 704)	(7 704)	(344)	(8 049)
Other comprehensive income for the year				-		-		-
Total comprehensive income for the year				-	(7 704)	(7 704)	(344)	(8 049)
Payments to non-controlling interests							(1 414)	(1 414)
Group contribution					(3 878)	(3 878)	-	(3 878)
Capital contributions from non-controlling interests						-	6 500	6 500
Equity at 31 December 2017	1 817	6 939	-	35	182 281	191 070	22 086	213 159

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	2017	2016
Profit before tax from continuing operations		(3 535)	(75 961)
Profit before tax from discontinuing operations		(120)	24 854
Tonnage tax expensed		186	151
Net gain/loss fixed assets		68	(26 313)
Ordinary depreciation	Note 7	21 881	20 573
Impairment loss/ reversal	Note 7, 8	-	61 201
Amortization of upfront fees bank loans		571	1 421
Financial derivatives unrealised loss/gain		(3 718)	2 855
Refinancing cost		-	1 618
Reversal provision		-	(500)
Gain/loss on foreign exchange		1 649	31
Interest income	Note 5	(591)	(948)
Interest expenses	Note 5	9 420	11 501
Taxes paid for the period		(139)	(1 459)
Change in receivables		548	8 618
Change in current liabilities		(1 360)	(3 477)
Change in other working capital		653	(75)
Interest received		591	948
A: Net cash flow from operating activities		26 102	25 038
Acquisition of tangible assets	Note 7	(3 371)	(2 637)
Installments and cost on newbuilding contracts	Note 8	(40 188)	(84 239)
Payment received disposal vessels/newbuildings		-	211 021
B: Net cash flow from investing activities		(43 558)	124 145
Proceeds from mortgage debt		36 890	94 323
Proceeds from bond loan		-	35 273
Transaction costs on issuance of loans		(372)	(1 542)
Repayment of mortgage debt		(36 783)	(169 735)
Repayment of bond loan		(21 099)	(48 299)
Terminated financial instruments		-	(12 708)
Interest paid		(9 420)	(11 501)
Cash proceeds from issuing of shares non-controlling interests		6 500	11 485
Group contribution/dividend		(3 878)	(20 507)
Dividends to non-controlling interests		(1 414)	(4 849)
C: Net cash flow from financing activities		(29 576)	(128 062)
Net change in liquidity in the period (A + B + C)		(47 032)	21 121
Net foreign exchange difference		(301)	(587)
		(47 333)	20 534
Cash and cash equivalents at beginning of period		102 981	82 447
Cash and cash equivalents at end of period	Note 10	55 648	102 981
Net change in cash and cash equivalents in the period		(47 333)	20 534
Undrawn facilities*	Note 14	155 894	175 900

* 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, 0283 Oslo. The parent company's consolidated accounts for the fiscal year 2017 include the parent company and its subsidiaries (referred to collectively as the Group) and associated companies.

The ultimate parent of the company is Rederiaksjeselskapet Torvald Klaveness. The consolidated financial statements for the ultimate parent is available at www.klaveness.com.

The consolidated financial statements for Klaveness Ship Holding AS for the fiscal year 2017 are approved in the board meeting on 21 March 2018.

The Group activities are described in note 2.

BASIS OF PREPARATION

The consolidated financial statements of the Group and the financial statements for the parent company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

The consolidated financial statements are based on historical cost, except for derivative financial instruments which are measured at fair value.

FOREIGN CURRENCY TRANSACTIONS

The presentation currency for the Group is US Dollar (USD). The Group companies, including the parent company, have USD as their functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of

each entity are measured using that functional currency.

Transactions in foreign currencies are recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the functional currency rate prevailing at the balance sheet date. Exchange differences arising from translations into functional currency are recorded in the income statement.

Non-monetary assets and liabilities measured at historical cost in foreign currency are translated into the functional currency using the historical exchange rate. Non-monetary assets and liabilities recognized at fair value are translated using the exchange rate on the date of the determination of the fair value.

Income and expenses in NOK are converted at the rate of exchange on the transaction date. The average exchange rate was USD/NOK 8.2734 in 2017 (2016: 8.4044). At year-end 2017 an exchange rate of USD/NOK 8.2411 (2016: 8.6456) was used for the valuation of balance sheet items.

CONSOLIDATION POLICIES

Subsidiaries

The Group's consolidated financial statements comprise Klaveness Ship Holding AS (KSH) and companies in which KSH has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50 % of the shares in the company or through agreements are capable of exercising control over the company. Non-controlling interests are included in the Group's equity.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and consolidation is continued until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same accounting period as the parent company,

using consistent accounting principles for similar transactions and events under otherwise similar circumstances.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Gains or losses on disposals of shares in subsidiaries to non-controlling interests are also recorded in equity.

If the Group loses control of a subsidiary during the reporting period, the assets and liabilities of the former subsidiary is derecognized from the consolidated accounts and recognized as an investment at fair value in accordance with relevant IFRSs. The carrying amounts of any non-controlling interests are also derecognized. Gains or losses associated with the loss of control is recognized in profit and loss.

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 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 fair value less cost to sell and value in use. Average broker values are used to estimate fair value less cost to sell. If carrying value exceeds the estimated recoverable amount, impairment is recognized. Impairments are reversed in a later period if recoverable amount exceeds carrying amount.

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. The assessment also includes possible group contribution from related companies within the ultimate group; Rederiaksjeselskapet Torvald Klaveness. If the Group has loss carried forward in any subsidiaries, these deferred tax assets are recognized only if there are convincing evidence that adequate taxable profit will be available in the future against which losses can be utilized. See note 6 for further information.

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 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 Veronica Co Ltd. The Group owns 50 % of Baffin Shipping AS and 50 % of Ballard Shipping AS. The remaining shares are owned by EGD Shipholding AS. The entities own one vessel each; MV Banasol, MV Banastar, MV Baffin and MV Ballard (to be delivered in 2017) respectively. 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 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, assets and liabilities are 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 Group 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.

OPERATING EXPENSES

Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lubricant oils and management fees. When vessels are on hire, the majority of vessel operating expenses are reimbursed from the charterer. When the vessel is off hire, vessel operating expenses are mainly for owners account.

INCOME TAX

All the companies within the Group, with the exception of Klaveness Ship Holding AS (parent company), Klaveness Cement Logistics AB (KCL AB) and Klaveness Bulk AS (KBA), are organized in compliance with the Norwegian tonnage tax regime ("NTT"). KSH and KCL AB are subject to ordinary taxation. Company tax in Norway is 24 % (23 % from 2018). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction. 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.

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 24 %. 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 23 % (24 %) 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 is only calculated for assets and liabilities for which future realization will lead to tax payable.

Deferred tax liabilities/deferred tax assets within the same tax system that can be offset 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. If the recoverable amount is lower than the book value, an impairment charge is recorded. Impairment losses are recognized in the profit and loss statement. An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. For further information regarding impairment considerations, refer to critical accounting estimates and judgments.

LEASING

The Group differentiates between financial leasing and operational leasing based on an evaluation of the lease contract at the time of inception. A lease contract is classified as a financial lease when the terms of the lease transfer substantially all risk and rewards of ownership to the lessee. All other leases are classified as operational leases. When a lease contract is classified as a financial lease where the Group is the lessee, the rights and obligations relating to the leasing contracts are recognized in the balance sheet as assets and liabilities. The interest element in the lease payment is included in the interest costs and the capital amount of the lease payment is recorded as repayment of debt. The lease liability is the remaining part of net present value of future payments. For operational leases, the rental amount is recorded as an ordinary operating cost.

The Group has leasing agreements as lessor related to the container vessels which all are

classified as operational leases. Lease payments received are recognized in profit or loss on a straight-line basis over the term of the lease, typically 3-12 months.

FAIR VALUE MEASUREMENT

Derivatives, are measured at fair value. The fair value of financial instruments traded in active markets is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. The fair value of financial instruments not traded in active markets is determined using appropriate evaluation techniques.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets and liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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. 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 receivables 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 interest 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 15 and 16.

INVENTORIES

Inventories consist mainly of lubricant oil and are recognized at cost in accordance with the first in – first out method (FIFO). Inventories are valued at the lower of cost and net realizable value. Impairment losses are recognized if the net realizable value is lower than the cost price.

CASH AND CASH EQUIVALENTS

Cash includes cash in hand, bank deposits and other highly liquid investments with original maturities of three months or less.

EQUITY

Transaction costs related to an equity transaction are recognized directly in equity, net of tax.

DIVIDENDS

Dividend payments are recognized as a liability in the Group's financial statements from the date when the dividend is approved by the general meeting.

PROVISIONS

A provision is recognized when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount. Provisions usually relate to legal claims.

Provisions for loss-making contracts are recognized when the Group's estimated revenues from a contract are lower than unavoidable costs which were incurred to

meet the obligations pursuant to the contract (ref description of onerous contracts in section "Significant estimates and assumptions").

RELATED PARTIES

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. Related parties transactions are recorded to estimated fair value. Transactions with related parties are disclosed in note 21.

EVENTS AFTER BALANCE SHEET DATE

New information on the Group's financial position at the balance sheet date is taken into account in the annual financial statements. Subsequent events that do not affect the Group's position at the balance sheet date, but which will affect the Group's position in the future, are disclosed if significant.

CLASSIFICATION OF ITEMS IN THE BALANCE SHEET

Current assets and short-term liabilities include items due less than one year from the balance sheet date, as well as items due more than one year from the balance sheet date, that are related to the operating cycle.

Liabilities with maturity less than one year from the balance sheet date are classified as current. All other debt is classified as long-term debt. The first year's repayment of long-term debt is classified as current.

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 2017. IASB has issued the following standards/amendments to the following standards that are not yet effective which may have an impact on 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. The Group expects that the adoption of IFRS 15 may result in a change in the method of recognizing revenue from voyage charters, whereby the method of determining proportional performance will change from discharge-to-discharge to load-to-discharge in Cabu Chartering AS (affiliated company). However, accounting principle for the allocated pool income in the Group will not change as this is considered as revenue from time charters accounted for as operating leases under IAS 17.

IFRS 16 does not change substantially how a lessor accounts for lease. The main difference mainly relates to the accounts of the lessee. Given today's business, the new standard are not expected to have a material impact on the Group.

NOTE 1 ACCOUNTING POLICIES | CONSOLIDATED KLAVENESS SHIP HOLDING AS

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

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 nine Cabu vessels which participate in a pool operated by Cabu Chartering AS (affiliated company). The Group has 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).

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 January- 31 December 2017

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	46 235	22 880	13	69 127
Total operating revenue	46 235	22 880	13	69 127
Operating expenses, vessels	(21 199)	(18 077)	(13)	(39 289)
Ordinary depreciation	(16 867)	(5 014)	-	(21 881)
Tonnage tax	(104)	(73)	-	(177)
Other operating and adm expenses	(1 334)	(1 327)	(347)	(3 007)
Total operating expenses	(39 504)	(24 491)	(360)	(64 354)
Operating profit/EBIT	6 731	(1 611)	(347)	4 774

Statement of Financial Position by segments at 31 December 2017

(USD '000)	Combination carriers	Container vessels	Other*/ admin	Total consolidated
ASSETS				
Vessels	179 785	111 089	-	290 874
Newbuilding contracts	37 751	-	-	37 751
Financial assets	912	44	-	957
Other non-current assets	-	-	3 182	3 182
Total non-current assets	218 449	111 133	3 182	332 764
Cash	50 977	3 085	1 587	55 648
Current assets	10 122	3 179	5	13 306
Total current assets	61 099	6 264	1 592	68 954
TOTAL ASSETS	279 547	117 396	4 774	401 718
EQUITY AND LIABILITIES				
Total equity	158 938	100 642	(46 422)	213 159
Interest bearing debt	94 765	14 340	-	109 105
Bond loans	-	-	35 973	35 973
Financial liabilities	1 509	-	14 895	16 404
Deferred tax	59	-	-	59
Total non-current liabilities	96 333	14 340	50 869	161 541
Short-term interest bearing debt	20 549	-	-	20 549
Other current liabilities	3 728	2 415	328	6 471
Total current liabilities	24 276	2 415	328	27 018
TOTAL EQUITY AND LIABILITIES	279 547	117 396	4 774	401 718
* Includes assets and liabilities related to assets held for sale/discontinued operations.				
Capital expenditure Vessels	(3 371)	-	-	(3 371)
Capital expenditure newbuildings	(40 188)	-	-	(40 188)
Cash from operation	20 228	3 402	(347)	23 283

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 January- 31 December 2016

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	41 026	19 120	-	60 146
Total operating revenue	41 026	19 120	-	60 146
Operating expenses, vessels	(17 136)	(18 980)	500	(35 616)
Ordinary depreciation	(12 812)	(7 366)	-	(20 178)
Net impairment	-	(60 050)	-	(60 050)
Tonnage tax	(68)	(70)	-	(138)
Other operating and adm expenses	(1 368)	(2 318)	(271)	(3 957)
Total operating expenses	(31 385)	(88 784)	229	(119 939)
Operating profit/EBIT	9 641	(69 664)	229	(59 794)

Statement of Financial Position by segments at 31 December 2016

(USD '000)	Combination carriers	Container vessels	Other*/ admin	Total consolidated
ASSETS				
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
Total non-current assets	191 898	116 102	7 510	315 510
Cash	64 908	2 865	35 208	102 982
Current assets	9 723	4 451	333	14 507
Total current assets	74 631	7 316	35 541	117 488
TOTAL ASSETS	266 529	123 418	43 051	432 999
EQUITY AND LIABILITIES				
Total equity	160 484	91 383	(31 869)	219 998
Interest bearing debt	80 574	29 184	-	109 758
Bond loans	-	-	34 141	34 141
Financial liabilities	2 117	60	18 039	20 217
Total non-current liabilities	82 691	29 245	52 180	164 116
Short-term interest bearing debt	19 818	-	21 283	41 100
Other current liabilities	3 536	2 791	1 458	7 785
Total current liabilities	23 354	2 791	22 741	48 886
TOTAL EQUITY AND LIABILITIES	266 529	123 418	43 051	432 999

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

Capital expenditure vessels	(2 597)	(40)	-	(2 637)
Capital expenditure newbuildings	(64 844)	-	-	(64 844)
Cash from operation	19 856	(2 288)	229	17 797

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 - Operating expenses

USD '000	2017	2016
Technical expenses	12 810	11 361
Crew costs	17 009	15 377
Insurance	2 963	2 893
Crewing agency fee to Klaveness Ship Management AS (note 20)	1 190	1 275
Ship management fee to Klaveness Ship Management AS (note 20)	3 247	2 843
IT fee to Klaveness Ship Management AS (note 20)	152	143
Commission fee	775	5
Other operating expenses	1 143	1 717
Total operating expenses	39 289	35 616

Costs related to technical management, maintenance and crewing services are recognised as operating expenses. Technical expenses are costs related to spare parts, consumables, cargo handling, power supply, navigation and communication. Crew costs include sea personnel expenses such as wages, social costs, travel expenses and training.

USD '000	2017	2016
Commercial management fee to Klaveness AS (note 20)	2 304	3 171
Accounting fee and other administrative fees to Klaveness AS (note 20)	474	496
Group administrative services	2 778	3 668

Note 4 - Other operating and administrative expenses

The Group has no employees and has thus no wage expenses or pension liabilities. Services including management, technical, commercial and crewing are acquired from other companies within Rederiaksjeselskapet Torvald Klaveness (RASTK), see note 20. The managing director and members of the Board of Directors are employees of other companies within RASTK. No special remuneration has been paid to the various members of the Board of Directors, as such positions of office are a part of their regular employment.

Remuneration to the auditor

USD'000	2017	2016
Statutory audit	109	118
Other assurance services	25	94
Tax advisory fee	-	-

Auditor's fees are stated excluding VAT.

Note 5 - Finance income and finance costs

USD'000	2017	2016
Other interest income	591	948
Fair value changes interest rate swaps (note 15)	3 718	-
Gain / (loss) on foreign exchange	-	31
Total finance income	4 308	980

USD'000	2017	2016
Interest paid to related parties	-	-
Interest expenses mortgage debt	6 110	5 370
Interest expenses bond loan	3 882	5 779
Fair value changes interest rate swaps (note 15)	-	2 855
Other financial expenses	977	3 144
Gain / (loss) on foreign exchange	1 649	-
Total finance costs	12 618	17 147

Interest expenses of USD 0.9 million is capitalized as borrowing costs on newbuildings in 2017 (2016: USD 1.3 million). Refer to note 14 and note 15 for further disclosures of the Group's debt.

Note 6- Taxes

Tonnage tax

Companies subject to tonnage tax regimes are exempt from ordinary tax on their shipping income. All the Norwegian shipowning companies within the Group are subject to tonnage taxation. The subsidiary Klaveness Bulk AS exited tonnage taxation in 2016 after the sale of its qualifying asset. The companies within the tonnage tax system 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 Norwegian tonnage tax regime, however only a portion of the interest cost and net currency expenses are deductible.

Ordinary taxation

The ordinary rate of corporation tax in Norway is 24 % for 2017 (2016: 25 %). 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 are 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

USD '000	2017	2016
Income taxes for the year		
Income taxes payable	6	-
Change in deferred tax	(328)	(1 285)
Write-down of deferred tax	4 715	74
Tax adjustments previous years	-	(2)
Total tax expense / income (-) reported in the income statement	4 393	(1 213)
Tax on net (gain)/loss on revaluation of cash flow hedges	-	1 320
Deferred tax charged to OCI	-	1 320

USD '000	2017		2016	
Tax payable	Income	Tax effect	Income	Tax effect
Profit / loss (-) before taxes, incl OCI	(3 656)	(877)	(45 873)	(11 468)
Income from shipping activity, tonnage tax system	(4 654)	(1 117)	32 001	8 000
Change in temporary differences	2 251	540	(27 124)	(6 781)
Permanent differences	4 029	967	18 039	4 510
Change in tax losses carried forward	5 630	1 351	11 818	2 955
Exchange rate differences	(3 576)	(858)	11 137	2 784
Tax payable in the balance sheet	25	6	-	-
Effective tax rate		0 %		0 %
Tonnage tax (included in operating profit)		177		138
Total tax payable in the balance sheet		183		138

USD '000	Temporary difference	2017 Tax effect	Temporary difference	2016 Tax effect
Temporary differences - ordinary taxation				
Unrealised gain/loss CCIRS				
Temporary differences	(15 930)	(3 664)	(18 181)	(4 364)
Tax losses carried forward	(26 458)	(6 085)	(20 828)	(4 999)
Deferred tax asset not recognised in the balance sheet	28 552	6 567	7 718	1 852
Net temporary differences - deferred tax liability/asset (-) *	(13 836)	(3 182)	(31 291)	(7 510)
Deferred tax liability	258	59	-	-

* At year-end the Company has chosen not to record a deferred tax asset of USD 6.6 million (2016: USD 1.9 million), of which USD 2.1 million relates to companies subject to tonnage taxation. Temporary differences relates to financial losses carried forward, in which possibility to net against future gain is uncertain. At year-end 2017 the Company has recorded a deferred tax asset of USD 3.2 million (2016: USD 7.5 million). The recognised tax asset is expected to be utilised in the future upon taxable profit in other group companies within Klaveness. The valuation is based on the present value of future estimated utilisation of the tax position.

Note 7 - Vessels

2017

Vessels	Combination		Total vessels*
	carriers	Container	
Cost price 1.1	288 498	254 319	542 817
Delivery of newbuildings	34 431	-	34 431
Additions (mainly upgrading and docking of vessels)	3 371	-	3 371
Disposals	(3 114)	-	(3 114)
Costprice 31.12	323 185	254 319	577 504
Acc. Depreciation 1.1	129 647	26 529	156 176
Depreciation for the year	16 868	5 014	21 881
Reclass/disposal	(3 114)	-	(3 114)
Acc. depreciation losses 31.12	143 400	31 543	174 943
Acc. impairment losses 1.1	-	111 688	111 688
Impairment for the year	-	-	-
Acc. impairment losses 31.12	-	111 688	111 688
Carrying amounts 31.12.2017	179 785	111 089	290 874
No. of vessels	9	8	
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

*) carrying value of vessels includes dry-docking

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)
Costprice 31.12	288 498	254 319	542 817
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)
Acc. depreciation 31.12	129 647	26 529	156 175
Acc. impairment losses 1.1	-	51 637	51 637
Impairment for the year	-	60 050	60 050
Acc. impairment losses 31.12	-	111 688	111 688
Carrying amounts 31.12.2016	158 851	116 102	274 954
No. of vessels	8	8	
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	

*) carrying value of vessels includes dry-docking

Note 7 - Vessels (cont.)

Pledged vessels

All owned vessels are pledged to secure the various loan facilities (refer to note 14 for further information).

Additions

The third combination carrier, MV Ballard, was delivered in May 2017 from Zhejiang Ouhua Shipbuilding in China. In connection with delivery, the Group withheld USD 4 million from the delivery installment for MV Ballard (not included in vessel value), whereof USD 0.8 million has been paid during the second half of 2017. The yard is obliged to complete pending items related to MV Ballard and the two sister vessels MV Balboa and MV Baffin. The withheld amount falls due for payment to the yard (partly or wholly) when the pending items for each vessel have been completed. If the pending items are not completed, the Group will retain the remaining withheld amount. The withheld amount will be recognised as debt to yard when the Group has a legal obligation to pay the yard. The pending items are not critical for the daily operations of the vessels, but will be rectified by the Group if the yard has not completed the work within the agreed period.

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 2017 (2016: 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 three different scenarios. 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. The container market has strengthened during 2017, hence no impairment need has been identified for the container vessels at year end 2017, however no basis for any reversal of prior years impairment. At year end 2016, all eight container vessels were impaired to recoverable amount, which resulted in recognised impairments of in total USD 60.1 million in 2016.

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 taking into account the value of specialized cabu features. No

The below summarizes the total impairment cost/reversal:

Impairment loss (-)/ reversal	2017	2016
Impairment of vessels	-	(60 050)
Total impairment loss (-) / reversal	-	(60 050)

Note 8 - Newbuildings

The Group took delivery of the third and last combination carrier newbuilding from Zeijiang OuHua Shipbuilding Co. Ltd in China 10 May 2017.

The Group has three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with expected delivery in 2018 and early 2019. The contract includes options for further vessels. The commitments related to newbuildings are presented in note 12.

2017

Investments in newbuildings	Combination carriers	Total
Cost 1.1	31 995	31 995
Borrowing cost	1 254	1 254
Yard installments paid	37 281	37 281
Other capitalized cost	1 653	1 653
Delivery of newbuildings	(34 431)	(34 431)
Net carrying amount at 31.12.2017	37 751	37 751

2016

Investments in newbuildings	Dry bulk investment	Combination carriers	Total
Cost 1.1	558	45 328	45 886
Borrowing cost	171	1 245	1 415
Yard installments paid	19 079	59 266	78 345
Other capitalized cost	145	4 333	4 478
Reallocation of supervision fee	194	-	194
Delivery of newbuildings	(28 141)	(78 177)	(106 318)
Impairment reclassified to vessels	7 994	-	7 994
Net carrying amount at 31.12.2016	-	31 995	31 995

Note 9 - Receivables

USD'000		
Receivables from related parties	2017	2016
Klaveness Ship Management AS	98	82
Cabu Chartering AS	7 461	6 456
Baumarine AS	-	275
Receivables from related parties	7 559	6 814

USD'000		
Other short-term receivables	2017	2016
Accrued income	162	-
Accrued interest income	-	30
Claims	-	1 890
Other short-term receivables	2 828	2 088
Other short-term receivables	2 990	4 007

Note 10 - Cash and cash equivalents

The Group has bank deposits in the following currencies:

USD'000	2017	2016
Bank deposits, NOK	855	23 487
Bank deposits, USD	54 365	79 084
Bank deposits, SEK (restricted)	87	78
Cash	340	332
Total cash and cash equivalents	55 648	102 981

The equivalent of USD 0.1 million is restricted per year end (2016: USD 0.4 million).

Note 11 - 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.

The Group holds IRSs that qualify for hedge accounting which reduce interest risk for loans financing the vessels. These instruments have a duration until 2018 and 2022 and are recognised at fair value with changes through other comprehensive income (OCI). Fair value of interest rate swaps which qualify for hedge accounting is USD 0.1 million (assets) and USD 0.2 million (liability) as per 31 December 2017 (2016: USD35k (liability)).

The Group has entered into further interest rate swaps which are recognised at fair value of USD 0.8 million (assets) and 1.3 million (liability) as of year end 2017 (2016: USD 1.1 million (asset); USD 2.1 million (liability)). The interest rate swap agreements have a duration until 2018 and 2023.

The cross currency interest rate swap (CCIRS) agreements reduce currency and interest rate risk for the bond loan, however the instruments do not qualify for hedge accounting. The CCIRSs are recognised at fair value with changes through profit and loss. Book value of these are negative by USD 14.9 million as of 31 December 2017 (2016: negative USD 18.0 million)

Non-current financial assets at 31 December

	2017	2016
<i>Financial instruments at fair value through OCI</i>		
Interest rate swaps	131	-
<i>Financial instruments at fair value through P&L</i>		
Interest rate swaps	825	1 052
Financial assets	957	1 052

Non-current financial liabilities at 31 December

	2017	2016
<i>Financial instruments at fair value through OCI</i>		
Cross currency interest rate swap	-	-
Interest rate swaps	167	35
<i>Financial instruments at fair value through P&L</i>		
Cross currency interest rate swap	14 895	18 039
Interest rate swaps	1 342	2 142
Financial liabilities	16 404	20 217

Note 12 - 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 2017 was 53 % (2016: 51 %) and liquidity incl. available capacity on RCF USD 118.5 million. The Group's covenants are described in note 14.

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 14), bond loans listed at Nordic ABM (note 15), 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. 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. 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 12 - 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 2017, 33 % (2016: 11 %) of the floating interest loans are hedged (excluding bond loan). Included swaps booked as speculative instruments the ratio is 77% per year end 2017. 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 2017. The Group evaluates on an ongoing basis the need to further hedge interest rate exposure.

31/12/2017

USD'000 Loan facilities	Outstanding notional amounts of the swap	Swapped portion of credit facilities	Maturity	Fixed interest
Container RCF (SEB)	15 000	100 %	June 2018	1,41 %
Baffin/Ballard (Nordea/Danske Bank)	28 500	55 %	March 2022	1,98-2,47%
Outstanding notional amounts	43 500			

31/12/2016

USD'000 Loan facilities	Outstanding notional amounts of the swap	Swapped portion of credit facilities	Maturity	Fixed interest
Container RCF (SEB)	15 000	50 %	June 2018	1,41 %
Outstanding notional amounts	15 000			

As of 31 December 2017, fair value of the interest rate swaps (IRS) which qualify for hedge accounting was negative by USD 35k, unchanged from last year. Changes in the fair values of the IRS are recognized as other comprehensive income (OCI). Hedge accounting for the Group's cross currency interest rate swap (CCIRS) ended in 2016.

Below table sets out the split of other comprehensive income for the years ended 31 December 2017 and 2016, respectively:

Other comprehensive income / (loss) for the period, net of tax	2017	2016
Net movement fair value on interest rate swaps	-	8
Net movement fair value on CCIRS	-	3 827
Reclassification to profit and loss	-	(1 776)
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)
Other comprehensive income / (loss) for the period, net of tax	-	3 926

Note 12 - Financial Risk Management (cont.)

The table below shows estimated changes in profit before tax for the Group from changes in interest rates in 2017 and 2016, with all other variables held constant. The changes are estimated based on given capital structure as of year end and only included swaps booked as hedges.

USD '000	Change in interest rate	2017	2016
USD LIBOR	+1,00%	299	508
	0,50 %	149	254
	- 0,50%	(149)	(254)
	- 1,00%	(299)	(508)
NIBOR	+1,50%	-	-
	+ 0,75%	-	-
	- 0,75%	-	-
	- 1,50%	-	-

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. 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 2017 amounts USD 61 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 2017

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 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)*	26 150	29 008	95 984	-	151 142
Bond loan (incl interests)	2 278	4 508	37 530	-	44 316
Accounts payable	864	-	-	-	864
Current debt to related parties	894	-	-	-	894
	30 186	33 516	133 513	-	197 216

* The Banasol and Banastar facility (USD 11.0 million) fall due in 2018.

Commitments newbuildings

The commitments related to newbuildings are set out below. Three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China are scheduled for delivery in end 2018 and early 2019.

Remaining installments at 31 December 2017	2018	2019	Total
Combination carriers	77 570	33 740	111 310
Total commitments newbuildings	77 570	33 740	111 310

Note 13 - Fair value measurement

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial assets included in the financial statements.

USD'000	Carrying amount		Fair value	
	2017	2016	2017	2016
Loans and receivables at amortised cost				
Accounts receivable	186	462	186	462
Receivables from related parties	7 559	6 814	7 559	6 814
Total loans and receivables	7 745	7 276	7 745	7 276
Cash and cash equivalents*	55 648	102 981	55 648	102 981
Total	63 393	110 257	63 393	110 257
Total current	63 393	110 257	63 393	110 257
Total non-current	-	-	-	-

* including restricted cash (note 10)

USD'000	Carrying amount		Fair value	
	2017	2016	2017	2016
Financial liabilities at fair value through OCI				
Derivates in effective cash flow hedges	167	35	167	35
Financial liabilities at fair value through P&L				
Other derivatives	16 237	20 181	16 237	20 181
Total financial liabilities at fair value	16 404	20 217	16 404	20 217
Other financial liabilities at amortised cost				
Accounts payable	864	874	864	874
Other financial liabilities	894	1 577	894	1 577
Interest bearing debt	129 653	129 576	130 892	131 992
Bond loan	35 973	55 423	38 132	56 621
Liabilities directly associated with assets held for sale	-	-	-	-
Total financial liabilities at amortised cost	167 384	187 450	170 781	191 063
Total	183 789	207 666	187 186	211 280
Total current	22 306	43 551	22 306	43 551
Total non-current	161 482	164 116	164 879	167 729

Note 13 - Fair value measurement (cont.)

The fair value of the financial assets and liabilities is recognised as the value at which they could be exchanged in a transaction between willing parties other than in a forced or liquidation transactions. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Cash and restricted cash, trade receivables, trade payables and other current liabilities are recognized at their carrying amounts largely due to the short term maturities of these instruments.
- Fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Since the bond are listed on Nordic ABM (KSH03 PRO), fair value of the bond is disclosed based on traded information. Fair value of KSH03 is based on latest transaction; the call price 28 August 2017.
- Fair value of derivatives are based on mark to market reports recieved from banks.

Fair value hierarchy

The Group uses financial hierarchy under IFRS 13 for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the Group's assets and liabilities at 31 December 2017:

31/12/2017

Assets	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value through profit or loss</i>				
Interest rate swaps		825		825
<i>Financial assets at fair value through OCI</i>				
Interest rate swaps		131		131
Liabilities	Level 1	Level 2	Level 3	Total
<i>Financial liabilities at fair value through profit or loss</i>				
Interest rate swaps		16 237		16 237
<i>Financial liabilities not measured at fair value, but for which fair value is disclosed</i>				
Bond	38 132			38 132
Mortgage debt			130 892	130 892
<i>Derivatives used for hedging</i>				
Derivates in effective cash flow hedges		167		167

The table below presents fair value measurements to the Group's assets and liabilities at 31 December 2016:

31/12/2016

Assets	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value through profit or loss</i>				
Interest rate swaps		1052		1052
Liabilities	Level 1	Level 2	Level 3	Total
<i>Financial liabilities at fair value through profit or loss</i>				
Interest rate swaps		20 181		20 181
<i>Financial liabilities not measured at fair value, but for which fair value is disclosed</i>				
Bond	56 621			56 621
Mortgage debt			131 992	131 992
<i>Derivatives used for hedging</i>				
Derivates in effective cash flow hedges		35		35

The fair value of financial instruments traded in an active market is based on quoted market prices at the balance sheet date and are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over -the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instruments are included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. During the reporting periods of 2017 and 2016, there were no transfers between any of the levels. Refer to Note 11 and 12 for the disclosures of non-current and current portion of the liabilities measured at fair value.

Note 14 - 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 2017 and 2016, respectively. All debt except for the bond loans (NOK) are denominated in USD, ref note 15 for further information on bond loans.

As of 31 December 2017, the Group had a total of USD 165.6 million in interest bearing debt (incl capitalized fees) of which USD 145.1 million was classified as non-current debt and USD 20.5 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.

Mortgage debt related to Bantry facility was refinanced in March 2017. The new loan facility has a tenor of 5 years and is guaranteed by T Klaveness Shipping AS.

Loan facilities related to financing of Banasol and Banastar falls due in April 2018, hence the facilities are classified as current debt as per 31 December 2017. The Group is considering to refinance the loans.

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.

Mortgage debt	Description	Maturity	Carrying amount	Fair value
RCF container	SEB/DNB/Danske Bank	February 2021	15 000	15 000
T. Klaveness Shipping AS	Nordea/Danske Bank	March 2022	33 842	33 842
Banasol	SEB	April 2018	5 500	5 500
Banastar	SEB	April 2018	5 500	5 500
Bantry	Danske Bank	March 2017	8 640	8 640
Bakkedal	Nordea	Sept 2021	10 208	10 208
Baffin/Ballard	Nordea/Danske Bank	March 2022	52 201	52 201
Capitalized transaction costs			(1 238)	-
Mortgage debt 31 December 2017			129 653	130 892

2017 - Interest bearing debt	Non-current	Current	Total
Mortgage debt	110 343	20 549	130 892
Transaction costs mortgage debt	(1 238)	-	(1 238)
Bond loan	36 403	-	36 403
Transaction costs bond loan	(430)	-	(430)
Total interest bearing debt	145 078	20 549	165 627

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)
Total interest bearing debt	143 899	41 100	184 999

Note 14 - Interest bearing debt and financial instruments (cont.)

The Group has undrawn committed bank facilities available at year end 2017.

USD mill	Credit	Drown up	Available
RCF Container, USD 90 million	78	15	63
T Klaveness Shipping AS, USD 93 mill*	93	-	93
Total	171	15	156

* Committed to newbuildings. Available on delivery of vessel.

Covenants

The credit facilities impose restrictions which may limit or prohibit 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 the 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 has covenants related to 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-defaults exists. The Group is in compliance for all of its covenants at 31 December 2017.

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 in single purpose entities (Baffin, Ballard, Bantry and Bakkedal).

Book value of collateral, mortgaged	2017	2016
Vessels*	290 874	274 954
Total book value of collateral, mortgaged	290 874	274 954

Note 15 - Bond loans

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

The new bond issue replaced the bond issues KSH02 and KSH01 which was repaid in December 2016 and January 2017 respectively. The bond loan (KSH03) is listed on Nordic ABM and has a bullet structure with no repayment until maturity in 2021. The bond loan is subject to an interest rate of 3M NIBOR plus a margin of 5.25.

Covenants are described in note 14.

Bond loan	Face value NOK'000	Year of maturity	Carrying amount (USD'000)	
			2017	2016
KSH03				
Original loan amount	300 000	27.05.2021	35 273	35 273
Exchange rate adjustment			1 130	(573)
Capitalized expenses			(430)	(559)
Total KSH03	300 000		35 973	34 141
KSH01				
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)	(1 875)
Exchange rate adjustment			(11 859)	(11 676)
Repayment (Jan 2017)	(184 000)		(21 099)	
Capitalized expenses			-	-
Total KSH01	-		-	21 282
KSH02				
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)	(20 263)
Repayment (Dec 2016)	(390 000)		(45 710)	(45 710)
Capitalized expenses			-	-
Total KSH02	-		-	-
Debt as of reporting period	300 000		35 973	55 423

Note 16 - Commitments and guarantees

Capital commitments

The Group has capital commitments relating to borrowings and newbuildings. For information of maturity profile for mortgage debt and bond loan, see note 14 and 15. Commitments related to newbuildings are presented in note 12. Available facilities is presented in note 14.

Guarantees

Below is a list of guarantees given at 31 December 2017.

Guarantee to	Description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for RCF in Klaveness Container AS, related to the eight container vessels.	Drawn amount USD 15 million, max limit 105 million incl interest, expenses and exposures under derivatives
Jiangsu New Yangzi Shipbuilding Co. Ltd	On behalf of T Klaveness Shipping AS, 3rd and 4th Installments, shipbuilding contract YZJ2015-1222, YZJ2015-1223 and YZJ2015-1224.	USD 29.0 mill + 5 % interest
Danske Bank	T. Klaveness Shipping AS guarantees for a loan facility in Cabu V Investment Inc related to the vessel MV Bantry.	USD 11.4 mill + interest
Danske Bank/ Nordea Bank Norge	T. Klaveness Shipping AS guarantees for a Senior Secured Term loan Facility Agreement in Baffin Shipping AS and Ballard Shipping AS related to MV Baffin and MV Ballard.	Max USD 34 mill. 50% of outstanding amount at any time + interest, expenses and exposure under derivatives

Note 17 - Other liabilities

Other current liabilities	2017	2016
Accrued expenses	2 104	1 836
Crew accrued wages	1 076	997
Accrued interest	964	983
Other short term liabilities	385	1 380
Total other current liabilities	4 529	5 196

Note 18 - Share capital, shareholders, dividends and reserves

	Shares	Notional	Share capital (NOK)
31.12.2017	1 000	12 000	NOK 12 million

All shares are issued and fully paid.

All shares are owned by Rederiaksjeselskapet Torvald Klaveness.

A group contribution of USD 4.0 million was paid to Klaveness Finans AS in 2017. Klaveness Ship Holding AS will provide USD 9.5 million in net group contribution to Klaveness Finans AS (whereof USD 4.0 is receivable with tax effect) (not recognised as liability and receivable as of 31 December 2017 as not yet approved by the general meeting).

Note 19 - List of subsidiaries

Klaveness Ship Holding AS comprises several subsidiaries. Presented below is a list of all subsidiaries. Unless otherwise stated, the companies are located in Oslo, Norway.

Company name	Ownership interest per 31 Dec 2017	Ownership interest per 31 Dec 2016
T Klaveness Shipping AS	100 %	100 %
Klaveness Cement Logistics AB (Sweden)	100 %	100 %
Klaveness Container AS	82,70 %	82,70 %
Klaveness Bulk AS	100 %	100 %
Banasol Inc (Liberia)	50 %	50 %
Cabu Bangor Inc. (Liberia)	100 %	100 %
Banastar Inc. (Liberia)	50 %	50 %
Cabu V Investment Inc. (Liberia)	95 %	95 %
Cabu VI Investment Inc. (Liberia)	81 %	81 %
Baffin Shipping AS	50 %	50 %
Ballard Shipping AS	50 %	50 %

The Group has a 50 % share in Banasol Inc, Banastar Inc, Baffin Shipping AS and Ballard Shipping AS, however the Group has power to direct the relevant activities based on contractual agreements for the main activities; chartering activity and ship-owning activity.

Note 20 - 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. The group has no employees.

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 AS performs supervision and project management services.

USD'000				
Supplier	Type of agreement	2017	2016	
Klaveness AS (affiliated company)	Business administration fee	(474)	(496)	
Klaveness AS (affiliated company)	Commercial management fee	(2 304)	(3 171)	
Klaveness Ship Management AS (affiliated company)	IT fee	(152)	(151)	
Klaveness Ship Management AS (affiliated company)	Ship Mangement fee	(4 437)	(4 568)	
Klaveness AS (affiliated company)	Supervision/project management	(2 213)	(2 302)	

Note 21 - 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 2017.

Note 22 - Events after the balance sheet date

There are no other events after the balance sheet date that have material effect on the financial statement as of 31 December 2017.

Klaveness Ship Holding AS

Income Statement

Year ended 31 December

USD '000	Note	2017	2016
Total operating revenue		-	-
Management fee	Note 2, 13	(278)	(199)
Other administrative services	Note 2	(48)	(49)
Total operating expenses		(326)	(248)
Operating profit		(326)	(248)
Finance income	Note 3	7 494	3 257
Finance costs	Note 3	(10 994)	(104 324)
Profit/ (loss) before tax		(3 826)	(101 315)
Income tax expenses	Note 4	(3 953)	420
Profit/ (loss) after tax		(7 778)	(100 895)

Klaveness Ship Holding AS
Statement of Other Comprehensive Income

USD '000	Note	2017	2016
Profit of the year		(7 778)	(100 895)
<i>Other comprehensive income to be reclassified to profit or loss</i>			
Net movement fair value on cross-currency interest rate swaps	Note 9	-	3 827
Reclassification to profit and loss of cash flow hedges		-	1 355
Income tax effect	Note 4	-	(1 366)
Net other comprehensive income to be reclassified to profit or loss		-	3 816
<i>Other comprehensive income not to be reclassified to profit or loss</i>			
Net other comprehensive income not to be reclassified to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		-	3 816
Total comprehensive income/(loss) for the period, net of tax		(7 778)	(97 079)

Klaveness Ship Holding AS
Statement of Financial Position

As at 31 December

USD '000	Note	2017	2016
ASSETS			
Non current assets			
Deferred tax asset	Note 4	3 182	7 135
Investments in subsidiaries	Note 5	197 006	223 463
Loan to related parties	Note 6	-	74 381
Total non current assets		200 188	304 979
Current assets			
Loan to related parties	Note 6	90 867	-
Receivables from related parties	Note 6	369	176
Other short-term receivables		6	11
Cash and cash equivalents	Note 7	607	32 430
Total current assets		91 850	32 617
TOTAL ASSETS		292 038	337 596

Klaveness Ship Holding AS
Statement of Financial Position

As at 31 December

USD '000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Share capital	Note 8	1 817	1 817
Share premium		7 068	7 068
Other reserves		346 177	346 177
Retained earnings		(127 965)	(116 233)
Total equity		227 096	238 829
Non-current liabilities			
Bond loans	Note 15 Group, Note 10, 11	35 973	34 141
Financial liabilities	Note 9, 11	14 895	18 039
Debt to related parties	Note 6	-	24 000
Total non-current liabilities		50 869	76 180
Current liabilities			
Short-term bond loan	Note 15 Group	-	21 283
Loan from related parties	Note 6	13 788	-
Current debt to related parties	Note 6	29	24
Tax payable	Note 4	-	-
Other current liabilities		256	1 282
Total current liabilities		14 073	22 589
TOTAL EQUITY AND LIABILITIES		292 038	337 596

Oslo, 31 December 2017

Oslo, 21 March 2018

Lasse Kristoffersen
Chairman of the Board

Bent Martini
Board member

Liv Hege Dyrnes
Board member

Morten Skedsmo
Managing Director

Klaveness Ship Holding AS
Statement of Changes in Equity

USD'000	Share capital	Share premium	Other paid in capital	Hedging reserves	Other reserves	Retained earnings	Total equity
Equity at 1 January 2016	1 817	16 862	5 585	(3 817)	346 177	(10 338)	356 287
Profit (loss) for the year						(100 895)	(100 895)
Other comprehensive income for the year				3 816			3 816
Total comprehensive income for the year				3 816		(100 895)	(97 079)
Group contribution		(9 794)	(5 585)				(15 379)
Dividend payment						(5 000)	(5 000)
							-
Equity at 31 December 2016	1 817	7 068	-	-	346 177	(116 233)	238 829
Profit (loss) for the year						(7 778)	(7 778)
Other comprehensive income for the year				-			-
Total comprehensive income for the year				-		(7 778)	(7 778)
Group contribution						(3 954)	(3 954)
Equity at 31 December 2017	1 817	7 068	-	-	346 177	(127 965)	227 096

Other reserves

The revaluation reserves are used to record shares in T Klaveness Shipping AS which was paid as contribution in kind measured at fair value.

Klaveness Ship Holding AS

Statement of Cash Flows

USD '000	Note	2017	2016
Profit before tax		(3 826)	(101 315)
Amortization of upfront fees and bank loans		129	1 027
Gain/loss on foreign exchange		1 613	(1 036)
Unrealised result financial instruments		(3 143)	3 550
Refinancing costs		-	1 443
Interest income	Note 3	(4 219)	(2 221)
Interest expenses	Note 3	4 575	5 779
Impairment shares in subsidiaries	Note 5	4 645	92 275
Tax paid for the period		-	-
Change in receivables		(188)	792
Change in current liabilities		(1 021)	774
Change in other working capital		(12)	399
Interest received	Note 3	4 219	861
A: Net cash flow from operating activities		2 772	2 327
Capital decrease in subsidiaries		-	131 636
Capital increase in subsidiaries		-	(32 497)
B: Net cash flow from investment activities		-	99 139
Proceeds from bond loans	Note 15 Group	-	35 273
Repayment of bond loan	Note 15 Group	(21 283)	(48 299)
Terminated financial instruments		-	(12 708)
Transaction costs on issuance of bond loans	Note 15 Group	-	(559)
Interest paid	Note 3	(4 575)	(5 779)
Loan to related parties		(4 887)	(25 100)
Payments of group contribution/dividends		(3 954)	(20 503)
C: Net cash flow from financing activities		(34 699)	(77 674)
Net change in liquidity in the period (A + B + C)		(31 927)	23 791
Net foreign exchange difference		104	221
Net change in liquidity in the period		(31 823)	24 013
Cash and cash equivalents at beginning of period		32 430	8 417
Cash and cash equivalents at close of period	Note 7	607	32 430
Net change in cash and cash equivalents in the period		(31 823)	24 013

BASIS OF PREPARATION

The financial statements of Klaveness Ship Holding AS (referred to as the Company/the parent company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Accounting principles for the consolidated statement of Klaveness Ship Holding AS also apply to the parent company – see accounting policies presented as part of the consolidated Group accounts.

The main activity of the company is to be a holding company of shipowning subsidiaries.

DIVIDEND INCOME/GROUP CONTRIBUTION

Dividend income is recognized when the right to receive payment is established, which is when the dividend is approved by the general meeting of the subsidiary.

DIVIDEND DISTRIBUTION/GROUP CONTRIBUTION

Dividend distribution to the company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders.

SHARES IN SUBSIDIARIES

Shares in subsidiaries in the parent accounts are recorded at acquired cost. These investments are reviewed for impairment when there are indicators that carrying amount may not be recoverable.

CONTRIBUTION IN KIND

When shares are transferred as contribution in kind the capital increase is measured at fair value. Fair value is estimated based on the fair value of underlying assets and liabilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Shares in subsidiaries and intercompany receivables are subject to impairment testing at the end of each reporting period. Valuation is subject to assessment of the recoverability in the underlying investment or receivable. Management's assessment can affect the level of impairment loss, or reversal of such, that is recognized in profit or loss.

Note 2 - Operating expenses

The Company has no employees and has thus no wage expenses or pension liabilities. Management services are acquired from other companies within the Group of Rederiaksjeselskapet Torvald Klaveness (RASTK), see note 13. The managing director and members of the Board of Directors are employees of other companies within RASTK. The cost of management is included in the management fee. No special remuneration has been paid to the members of the Board of Directors, because such positions are part of their regular employment.

USD '000	2017	2016
Accounting fee and other administrative fees related company (note 13)	278	199
Management fee	278	199

USD '000	2017	2016
Statutory audit	23	39
Other assurance services from auditor	18	6
Other administrative costs	7	4
Other administrative services	48	49

Auditor's fees are stated excluding VAT.

Note 3 - Finance income and finance costs

USD'000	2017	2016
Interest received from related parties	4 199	1 473
Other interest income	20	255
Guarantee fee from related parties	132	493
Unrealised results financial instruments	3 143	-
Gain on foreign exchange	-	1 036
Total finance income	7 494	3 257

USD'000	2017	2016
Interest paid to related parties	822	93
Interest expenses bond loan	3 882	5 779
Impairment shares in subsidiaries (note 5)	4 645	92 275
Unrealised results financial instruments	-	3 550
Loss on foreign exchange	1 613	-
Other financial expenses	31	2 627
Total finance costs	10 994	104 324

Refer to note 15 in the Group accounts for further disclosures of the company's bond debt.

Note 4 - Taxes

Income tax for the year	2017	2016
Income taxes payable	-	-
Change in deferred tax	(3 953)	(420)
Total tax expense/(income) reported in the income statement	(3 953)	(420)

Net (gain)/loss on revaluation of cash flow hedges	-	1 366
Deferred tax charged to OCI	-	1 366

Calculation of tax payable	2017	2016
Profit/ (loss) before tax, incl OCI	(3 826)	(96 133)
Permanent differences	(2 086)	41 288
Change in temporary differences	1 204	(14 356)
Change in tax losses carried forward	2 656	11 763
Currency effects	2 052	57 438
Tax basis before group contribution	(0)	(0)
Income taxes payable	-	-

Reconciliation of actual tax expense against expected tax cost in accordance with the ordinary Norwegian income tax rate of 24 % (25 %)	2017	2016
Profit/(loss) before tax, incl OCI	(3 826)	(96 133)
Estimated tax at 24% (25%) statutory rate	(918)	(24 033)
24 % (25 %) tax on permanent differences	(501)	10 322
Exchange rate differences	1 143	14 360
Change in tax rate from 25 % to 24 %	312	297
Impairment of deferred tax asset	(3 989)	-
Income tax expenses	(3 953)	946
*Profit and loss effect	(3 953)	(420)
*OCI effect	-	1 366
Effective tax rate	103,3 %	-1,0 %

Temporary differences - ordinary taxation	Temporary difference	2017 Tax effect	Temporary difference	2016 Tax effect
Gains and losses account	(226)	(52)	(269)	(65)
Currency gain/loss not realised	-	-	1 985	476
Unrealised gain/loss interest rate swaps	296	68	294	71
Unrealised gain/loss CCIRS (hedge)	-	-	-	-
Unrealised gain/loss CCIRS	(14 895)	(3 426)	(18 039)	(4 329)
Loss carried forward	(16 357)	(3 762)	(13 701)	(3 288)
Deferred tax asset not recognised in balance sheet	17 345	3 989	-	-
Deferred tax liability/ asset (-) recognised in balance sheet*	(13 836)	(3 182)	(29 730)	(7 135)

*Recognised deferred tax asset is expected to be utilized against group contribution from related companies within the ultimate group; Rederiaksjeselskapet Torvald Klavness.

Note 5 - Investments in subsidiaries

	Business office, country	Voting share/ ownership	Book value 31/12/2017	Book value 31/12/2016
T Klaveness Shipping AS*	Oslo, Norway	100 %	186 751	197 621
Klaveness Cement Logistics AB	Stockholm, Sweden	100 %	345	356
Klaveness Container AS	Oslo, Norway	82,7 %	9 414	14 049
Klaveness Bulk AS	Oslo, Norway	100 %	496	11 437
Investments in subsidiaries			197 006	223 464

* Shares in T Klaveness Shipping AS were paid as contribution in kind at fair value with effect as of 01.01.2013 (see note 1).

Investments in subsidiaries are recorded at cost. Impairments have been recognised for the shares in Klaveness Container AS (USD 4.6 million) and Klaveness Cement Logistics AB (USD 11k) as estimated fair value of equity is lower than book value of the shares. Impairments are a result of weak markets in container which resulted in negative results for 2017. Change in book value for the investment in shares in T Klaveness Shipping AS and Klaveness Bulk AS is due to received group contribution of respectively USD 10.9 million each company.

Note 6 - Intragroup balances

At the end of the year, the Company had the following intragroup balances with related parties:

USD'000	Relationship	2017	2016
Klaveness Container AS	Subsidiary	90 867	74 381
Loan to related parties		90 867	74 381

Loan to Klaveness Container AS has a maximum limit of USD 95 million and falls due in November 2018. Interests are calculated based on 3M LIBOR + margin and are to be paid at maturity.

USD'000	Relationship	2017	2016
Klaveness Container AS	Subsidiary	369	176
Receivables from related parties		369	176

USD'000	Relationship	2017	2016
T Klaveness Shipping AS	Related company	29	-
Klaveness AS	Related company	-	24
Current debt to related parties		29	24

USD'000	Relationship	2017	2016
T Klaveness Shipping AS	Subsidiary	13 784	15 000
Klaveness Bulk AS	Subsidiary	4	9 000
Loan from related parties		13 788	24 000

Loan from T Klaveness Shipping AS fall due in November 2018. Interests are calculated based on 3M LIBOR + margin and are to be paid at maturity. The loan from T Klaveness Shipping AS has a maximum limit of USD 30 million.

Note 7 - Cash and cash equivalents

The company has bank deposits in the following currencies:

USD'000	2017	2016
Bank deposits, NOK	603	23 416
Bank deposits, USD	4	9 014
Total cash and cash equivalents	607	32 430

The company has no restricted bank deposits.

Note 8 - Share capital, shareholders, dividends and reserves

	Shares	Notional	Share capital (NOK)
31.12.2017	1 000	12 000	NOK 12 million

All shares are issued and fully paid.

All shares are owned by Rederiaksjeselskapet Torvald Klaveness.

No dividend has been paid or proposed for 2017. Group contribution of USD 4.0 million was paid to Klaveness Finans AS in 2017. Klaveness Ship Holding AS will provide USD 4.0 million in group contribution without tax effect to Klaveness Finans AS (not recognised as liability as of 31 December 2017 as not yet approved by the general meeting in 2018).

Note 9 Financial liabilities

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

The cross currency interest rate swap (CCIRS) agreements reduce currency and interest rate risk for the bond loan, however the instruments do not qualify for hedge accounting. The CCIRSs are recognised at fair value with changes through profit and loss. Book value of these are negative by USD 14.9 million as of 31 December

Financial liabilities at 31 December	2017	2016
<i>Financial instruments at fair value through OCI</i>		
Cross currency interest rate swap	-	-
<i>Financial instruments at fair value through P&L</i>		
Cross currency interest rate swap	14 895	18 039
Financial liabilities	14 895	18 039

For further information on interest rate swaps and cross-currency interest rate swaps see note 10.

Note 10 - Financial risk management

Capital management

Capital management of the Company is overseen on Group level, see note 12 in the consolidated accounts of Klaveness Ship Holding AS. The Company is in compliance with all covenants as of 31 December 2017 - see note 14 in the consolidated accounts of Klaveness Ship Holding AS.

Operational risk

The company's activity is to be a holding company of subsidiaries and its main risk is related to the financial situation of the subsidiary companies. If the subsidiary experiences losses over time, the investment may be impaired. Impairment evaluations are carried out at each closing date. As the ultimate holding company of all shipowning companies, the company is also subject to development costs related to research and development within the Torvald Klaveness Group.

Foreign currency risk and interest rate risk

As of 31 December 2017, fair value of cross currency interest rate swap (CCIRS) is negative by USD 14.9 million (2016: negative by USD 18.0 million) (note 9). The company no longer has any cross currency interest rate swap agreements that qualify for hedge accounting.

The Company's functional currency is US Dollar (USD). The company has some costs incurred in other currencies (mainly NOK). 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.

The table below shows estimated changes in profit before tax for the company from reasonable possible changes in interest rates in 2017 and 2016, with all other variables held constant. The changes are estimated based on given capital structure as of year end.

USD '000	Change in interest rate - unsecured bond loan	2017	2016
NIBOR	+1,0%	-	-
	+0,5%	-	-
	- 0,5%	-	-
	- 1,0%	-	-

USD '000	Change in interest rate - loan to related parties	2017	2016
LIBOR	+1,00%	138	240
	+0,5%	69	120
	- 0,5%	(69)	(120)
	- 1,00%	(138)	(240)

Counterparty/credit risk

Counterparty risk is related to intercompany balances and risk related to guarantees provided to banks on behalf of loan facilities in subsidiaries (Klaveness Container AS, see note 12). There is a risk that subsidiaries do not generate cash flow to be able to meet financial obligations when they fall due. Loan facilities in which guarantee has been provided fall due in 2021. Liquidity buffers in the benefactors are expected to be sufficiently large to cater for such events.

The company is exposed to credit risk through its deposits. Deposits are currently made with financial institutions that have A/AA rating.

Liquidity risk

Liquidity risk is the risk that the company may not be able to meet its obligations when they fall due. 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 are considered sufficient for all needs in the foreseeable future. The Company's bond loans are subject to financial and non-financial covenant clauses given on Group level (Consolidated Klaveness Ship Holding AS, see Group note 14 regarding information about covenants). The bond loan (KSH03) fall due in 2021. Due to the financial situation, debt maturity profile and liquidity reserve in the Group at year-end, liquidity risk is considered to be low. The Group as such furthermore benefits from being well diversified on funding sources.

Maturity profile to financial liabilities at 31 Dec 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bond loan	3 555	6 150	37 529	-	47 235
Loan to related parties	13 788	-	-	-	13 788
Other current liabilities	285	-	-	-	285
	17 628	6 150	37 529	-	61 307

Note 11 - Fair value measurement (cont.)

Fair value hierarchy

The company uses hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques. Below table presents fair value measurements to the company's assets and liabilities at 31 December. The company had no assets measured at fair value at year end.

31/12/2017

Liabilities	Level 1	Level 2	Level 3	Total
<i>Financial liabilities not measured at fair value, but for which fair value is disclosed</i>				
Bond	38 132			38 132
Derivatives		14 895		14 895

31/12/2016

Liabilities	Level 1	Level 2	Level 3	Total
<i>Financial liabilities not measured at fair value, but for which fair value is disclosed</i>				
Bond	56 621			56 621
Derivatives		18 039		

The fair value of financial instruments traded in active market is based on quoted market prices at the balance sheet date and are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over -the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instruments are included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Note 12 - Commitments and guarantees

Capital commitments

The company has capital commitments related to borrowings. For information of maturity profile for bond loans, see note 10.

Guarantees

Below is a list of guarantees provided by the company at 31 December 2017.

Guarantee to	Description	Amount
SEB/DNB/Danske Bank	Klaveness Ship Holding AS guarantees for RCF in Klaveness Container AS, related to the eight container vessels.	Drawn amount USD 15 million, max limit 105 million incl interest, expenses and exposures under derivatives
Jiangsu New Yangzi Shipbuilding Co. Ltd	On behalf of T Klaveness Shipping AS, 3rd and 4th Installments, shipbuilding contracts YZJ2015-1222/1223/1224.	USD 29.0 mill + 5 % interest

Note 13 - Transactions with related parties

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

The company 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. Loan to related parties - see note 6.

Klaveness AS delivers services to the company performed by corporate functions like management, legal, accounting & controlling, tax and treasury and risk management department.

Supplier	Type of agreement	2017	2016
Klaveness AS	Business administration fee	278	199

Note 14 - Events after the balance sheet date

There are no events after the balance sheet date that have material effect on the financial statement as of 31 December 2017.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 January to 31 December 2017 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 board of director's 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 2018.

Vækerø, 21 March 2018

Lasse Kristoffersen

Chairman of the Board

Liv Hege Dyrnes

Board member

Morten Skedsmo

Managing Director

Bent Martini

Board member

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Klaveness Ship Holding AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klaveness Ship Holding AS, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2017, the statements of other comprehensive income, income statement, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and Managing Director (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Oslo, 21 March 2018
ERNST & YOUNG AS

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