Torvald Klaveneess

FINANCIAL STATEMENTS

KLAVENESS SHIP HOLDING CONSOLIDATED

30.06.2014

KEY FIGURES

USD '000	SEMI ANNUAL 1H-2014 unaudited	SEMI ANNUAL 1H-2013 unaudited	FULL YEAR 2013 audited
Key financials			
Gross operating revenues	64 026	46 083	107 090
EBITDA	28 864	27 009	63 652
Profit/(loss) after tax (incl. minority interests)	6 564	18 796	30 583
Profit/(loss) after tax (excl. minority interests)	5 914	16 443	26 811
Total assets	620 525	477 691	574 073
Equity ratio [2)]	45 %	51 %	49%
NIBD/EBITDA [1) 2)]	4.1	2.0	2.6
Cash and bank deposits	67 775	86 580	99 612

Klaveness Ship Holding AS ("KSH") was established 31 May 2005 and is fully owned by Rederiaksjeselskapet Torvald Klaveness. Klaveness Ship Holding AS is located in Oslo, Norway, and is the holding company of the ship owning activities in Torvald Klaveness. The consolidated financial statements of KSH as of 30.06.2014 comprises of KSH and its subsidiaries.

HIGHLIGHTS IN THE FIRST HALF OF 2014

Three container vessels were delivered from the yard, increasing the container fleet from five to eight vessels. Three specialised cabu vessels were ordered from a yard in China and further, subsidiaries of KSH exercised options for two Kamsarmax dry bulk vessels and resold two vessels, leaving the KSH group with a net order of two Kamsarmax vessels. The LR-tanker MV Baru, that was part of the cabu fleet of vessels, was scrapped in March.

In March, KSH issued a new unsecured bond of NOK 400 million and repurchased NOK 100 million in the existing bond.

The specialized vessels continued to deliver stable earnings despite a weak dry bulk market in the first half of 2014, and the container vessels were kept employed on time charters to major liner operators.

The KSH group of companies experienced one major incident in the first half of 2014. MV Banak had an oil leak into a cargo hold and the vessel was off-hire for approximately three weeks.

Cabu Chartering AS, a company indirectly owned by Rederiaksjeselskapet Torvald Klaveness accepted a fine from the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) in May 2014, linked to commission payments to a broker during the period from July 2003 to March 2004. Cabu Chartering AS is not a subsidiary of Klaveness Ship Holding AS, and the fine will as such be payable by a company outside the bond issuer structure. In addition, Torvald Klaveness reached a global settlement with Alba (Aluminium Bahrain) where both parties waived their financial claims towards each other. In parallel, the parties re-established their business relations by entering into a new long-term freight contract.

NEWBUILDING PROGRAM

A subsidiary of KSH has three 80,500 DWT cabu carriers under construction at Zhejiang Ouhua Shipbuilding Co. Ltd. in China with delivery in 2016 and 2017. The vessels are intended to be part of the cabu fleet of vessels.

The Kamsarmax newbuilding program consists of eight 82,000 DWT vessels, whereof subsidiaries of KSH own two of the vessels, one with delivery in 2015 and one with delivery in 2016. The other six vessels have been sold to external companies.

[1)] Adjusted EBITDA for vessels delivered or sold in the period.

[2)] The equity ratio was impacted by drawdown on loans related to delivery of three container vessels and the issuance of bonds in the first half of 2014. The development in NIBD/EBITDA is mainly due to the impact from the scrapping of Baru (exclusion from historical cash flow), costs related to delivery of the container vessels and somewhat lower container earnings. In addition, part of the excess liquidity has been temporarily invested in investment grade bond funds which do not count as cash and cash equivalents in the calculation.

All container newbuildings are now delivered, increasing the fleet to eight vessels in total.

GENERAL INFORMATION

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles (NGAAP).

PROFIT AND LOSS STATEMENT PER 30.06.2014

Operating revenues for the first half of 2014 were USD 64.0 million (1H-2013: USD 46.1 million) and operating costs amounted to USD 28.8 million (1H-2013: USD 17.9 million). EBITDA was USD 28.9 million (1H-2013: USD 27.0 million) and net financial items were negative by USD 6.7 million (1H-2013: USD -2.6 million). Net profit after tax was USD 6.6 million (1H-2013: USD 18.8 million), whereof USD 0.7 million (1H-2013: 2.4 million) was minority interests related to external investors in some of the cabu and container companies.

The result was positively impacted by a reversal of impairments on the container vessels of USD 1.5 million (1H-2013: USD 7.5 million) and a sale of newbuilding contracts of USD 3.4 million. The scrapping of MV Baru had limited impact on the result as the charterer paid a compensation for the remaining period of the charter, booked as operating revenues.

The results were negatively impacted by positioning costs and up-storing of new vessels, in addition to low rates in the currently weak container market.

The financial costs have increased due to the increase in interesting bearing debt, both related to delivery of newbuildings and the issuance of bond loans. The interest rate exposure has been partly mitigated through fixed interest rate swaps and the USD/NOK exposure related to the bonds has been partly fixed.

BALANCE SHEET PER 30.06.2014

Total assets increased by USD 46.5 million in the first half of 2014 from USD 574.1 million to USD 620.5 million. Fixed assets rose by USD 67.6 million mainly as a result of the delivery of three container newbuildings in the first quarter and payment of yard instalments on vessels under construction. Cash and bank deposits were USD 67.8 million by the end of June 2014, down from USD 99.6 million at year end 2013. The cash flow from operating activities was USD 23.1 million in the first half of 2014, while cash flow from investing activities was negative by USD 96.0 million. The latter consists mainly of investments in newbuildings and delivery of vessels and in addition USD 15 million was invested temporarily in bond funds. The cash flow from financing activities was USD 41.0 million and consists of drawdown on mortgage loans in connection with the delivery of vessels, issuance of bonds and a reduction of a revolving credit facility in addition to amortization of mortgage debt.

Total equity increased by USD 2.7 million in the first half of 2014. The book equity ratio was by the end of June 45%, down from 49% at year-end 2013.

Interest-bearing debt rose by USD 44.8 million during the first half of 2014 and amounted to USD 326.5 million at the end of June 2014.

BUSINESS SEGMENTS

By the end of June 2014 the fleet consisted of six cabu vessels, five selfunloaders and eight container vessels. In addition, Klaveness Ship Holding on a consolidated basis had two Kamsarmax and three cabu vessels under construction.

Cabu: The cabu earnings remained stable despite a weak dry bulk market. Torvald Klaveness reached a global settlement with Alba (Aluminium Bahrain) where both parties waived their financial claims towards each other. At the same time, Cabu Chartering AS, the pool company, and Alba entered into a new, large and long-term freight contract for alumina from Australia to Bahrain. The agreement is a multi-year contract and is entered into at market terms.

Selfunloader: The selfunloader earnings were influenced by bad weather conditions in the beginning of the year but rates improved in the second quarter and earnings are in line with the 2013 earnings. The earnings were negatively impacted by MV Baldock that ballasted to a scheduled drydocking.

Container: The container earnings were negatively impacted by weak freight rates but all eight vessels have been employed on short-term time charters throughout the period. The new vessels have achieved rates reflecting their premium fuel efficiency.

MAIN RISKS

The KSH group of companies is exposed to market risk, and the underlying markets can be very volatile. As a mitigating factor the group has a fleet of specialized vessels operating in markets that have historically provided more stable earnings.

The KSH group has entered into fixed interest rate agreements for a portion of the debt. The exposure to the currency market is limited as mainly all income and costs are USD denominated and a large part of the currency exposure related to the bond issues has been fixed.

Operational risks are 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.

KSH has on a consolidated basis five vessels under construction at two yards in China and is therefore exposed to the risk of delay or failure of the yards to complete the vessels. Dedicated personnel will be on site supervising the building process when it starts and tier one Chinese banks have provided refund guarantees.

A newbuilding program increases the financial and liquidity risk in the building period. Klaveness has not yet secured financing for the current newbuilding program as there is ample time until delivery and sufficient capacity in the KSH group to finance the pre-delivery instalments.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 January to 30 June 2014 have been prepared in accordance with the Norwegian Accounting Act and NGAAP 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 interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the consolidated financial statements of the company, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Vækerø, 28 August 2014

Lasse Kristoffersen	Rebekka Glasser Herlofsen
Chairman	General Manager
Morten Skedsmo	Jan Klingsholm
Board member	Board member

KLAVENESS SHIP HOLDING CONSOLIDATED

PROFIT AND LOSS

USD '000	Notes	Unaudited 30.06.2014	Unaudited 30.06.2013
Operating revenues and expenses			
Gross revenues from operation of vessels	NOTE 2	60 645	46 083
Gain on sale of fixed assets	NOTE 2	3 381	-
Operation of vessels and voyage related expenses		(28 797)	(17 854)
Operating income from vessels		**35 229**	**28 230**
Ordinary depreciation vessels	NOTE 4	(17 109)	(13 132)
Impairment/reversal of impairment on vessels and newbuildings	NOTE 4, 5	1 538	7 500
Loss on vessel	NOTE 2	(3 076)	-
Tonnage tax		(127)	-
Other administration expenses		(3 161)	(1 221)
Total operating expenses		**(21 935)**	**(6 854)**
Operating profit/loss (-)		**13 294**	**21 376**
Financial income and expenses			
Interest income		65	51
Interest expenses		(6 354)	(1 832)
Interest expenses to group companies		-	(43)
Other financial expenses		(754)	(260)
Net currency gain / loss (-)		364	(497)
Net financial items		**(6 679)**	**(2 580)**
Profit / loss (-) before taxes		**6 615**	**18 796**
Taxes	NOTE 12	(50)	-
Profit / loss (-) for the year		**6 564**	**18 796**
Minority interests of profit / loss (-) for the year		650	2 352
Majority interests of profit / loss (-) for the year		**5 914**	**16 443**

KLAVENESS SHIP HOLDING CONSOLIDATED

CONSOLIDATED BALANCE SHEET

USD '000	Notes	Unaudited 30.06.2014	31.12.2013
ASSETS			
Fixed Assets			
Intangible fixed assets			
Deferred tax asset	NOTE 12	229	294
Total intangible fixed assets		**229**	**294**
Tangible fixed assets			
Vessels	NOTE 4	489 827	423 593
Newbuilding contracts, vessels	NOTE 5	27 517	28 355
Total tangible fixed assets		**517 344**	**451 949**
Long term receivables			
Other long-term receivables		**4 688**	**2 400**
Total fixed assets		**522 261**	**454 642**
Current Assets			
Lubricant oil on board vessels		1 597	1 745
Total inventories		**1 597**	**1 745**
Receivables			
Accounts receivable		477	24
Receivables from group companies		5 578	10 113
Prepaid expenses		2 075	1 126
Other short term receivables		5 753	6 810
Short term bond	NOTE 6	15 009	-
Total receivables		**28 892**	**18 073**
Cash and bank deposits	NOTE 6	**67 775**	**99 612**
Total current assets		**98 264**	**119 430**
Total assets		**620 525**	**574 073**

KLAVENESS SHIP HOLDING CONSOLIDATED

CONSOLIDATED BALANCE SHEET

USD '000	Notes	Unaudited 30.06.2014	31.12.2013
EQUITY AND LIABILITY			
Equity			
Paid in capital			
Share capital	NOTE 7	1 817	1 817
Share premium	NOTE 7	15 314	15 314
Other paid in capital	NOTE 7	5 585	5 585
Total paid in capital		**22 716**	**22 717**
Retained earnings			
Other equity	NOTE 7	237 060	235 343
Total retained earnings		**237 060**	**235 343**
Total equity before minority interests		**259 776**	**258 060**
Minority interests	NOTE 7	21 988	21 009
Total equity including minority interests		**281 763**	**279 069**
Liabilities			
Other long-term liabilities			
Debt to financial institutions	NOTE 8	193 246	186 863
Long term bond	NOTE 9, 10	100 221	51 444
Total other long term liabilities		**293 467**	**238 308**
Current liabilities			
Interest bearing debt	NOTE 8	33 003	43 361
Accounts payable		1 294	1 654
Debt to group companies		1 537	4 368
Tax payable	NOTE 12	483	516
Tonnage tax payable	NOTE 12	324	198
Other current liabilities		8 654	6 600
Total current liabilities		**45 294**	**56 697**
Total liabilities		**338 761**	**295 004**
Total equity and liability		**620 525**	**574 073**

KLAVENESS SHIP HOLDING CONSOLIDATED

CONSOLIDATED CASH FLOW STATEMENT

USD '000	Unaudited 30.06.2014	31.12.2013
Ordinary result before tax	6 615	31 054
Ordinary depreciation	17 109	29 698
Write-downs / (reversal of write-downs)	(1 538)	(3 840)
Loss / (gain) on sale of fixed assets	(304)	-
Tax paid for the period	-	(178)
Change in non-current assets	(2 288)	-
Change in current assets	4 338	18 769
Change in current liabilities	(1 095)	(9 293)
Change in other accrual items	273	401
Net cash from operating activities (1)	**23 109**	**66 611**
Acquisition of tangible assets	(3 412)	(34 500)
Sale of tangible assets	4 920	-
Sale of newbuilding contracts	3 766	-
Instalments and cost on newbuilding contracts	(86 258)	(143 984)
Sale of subsidiaries	-	651
Investment in short term bond	(15 000)	-
Net cash from investing activities (2)	**(95 984)**	**(177 833)**
Increase in mortgage debt	51 500	131 513
Long term bond loan	67 328	52 250
Buyback bond loan	(17 417)	-
Capitalized fees	(1 320)	(2 373)
Repayment of debt to financial institutions	(42 263)	(27 963)
Repayment of other short term debt	(13 783)	-
Capital increase	-	15 000
Capital injection from minority interests	-	12 500
Dividends to minority interests	(3 006)	(9 522)
Net cash from financing activities (3)	**41 039**	**171 405**
Net decrease (-) /increase (1+2+3)	**(31 837)**	**60 183**
Cash and cash equivalents at beginning of period	99 612	39 429
Cash and cash equivalents at end of period	67 775	99 612
Net decrease (-)/increase in cash	**(31 837)**	**60 183**

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

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

BASIS OF CONSOLIDATION

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

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

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

BUSINESS COMBINATIONS AND GOODWILL

The Group accounts for the acquisition of subsidiaries using the purchase method. Under the purchase method of accounting the cost of the business combination is allocated to the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill arising from the acquisition of subsidiaries is classified as an intangible asset. Goodwill arising from the acquisition of an interest in an associated company is included under the investment in associated companies.

For business combinations that occur in stages by successive share purchases, the fair value of the acquired entity's assets and liabilities, including goodwill, are measured on the date that control is obtained. If the value of previously held shares has increased at the control date, the increase constitutes an added value or goodwill that is booked directly in equity. If the value of previously held shares has decreased, this is accounted for as impairment. Only the majority's share of goodwill is recognised in the financial statements.
Common control transactions with the ultimate parent company, Rederiaksjeselskapet Torvald Klaveness, for the purpose of internal restructuring, is accounted for using the pooling of interest method.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

CLASSIFICATION OF ASSETS AND LIABILITIES

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

VALUATION OF ASSETS AND LIABILITIES

Property, plant & equipment

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

Tangible assets with a limited useful life are depreciated according to a depreciation schedule based on best estimates of expected useful life and taking into account each asset's wear, tear and age. The useful life of a vessel is normally set to 20 or 25 years. Tangible assets are written down when the carrying value of the asset exceeds the recoverable amount. The recoverable amount is defined as the higher of net sales value and value in use. The value in use is determined by reference to the discounted future net cash flows expected to be generated by the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels at which there are separately identifiable cash inflows. Each vessel/newbuilding contract is considered as one identifiable cash flow, except for cabu vessels, which combined are considered as one cash generating unit. The write down is reversed if the conditions leading to impairment no longer exist.

Vessels under construction are capitalized in line with payments to the yard. In addition to contractual payments, inspection costs and other expenses during the construction period are capitalized as vessels under construction. Interest on external financing of the contract is capitalized as part of the cost of the newbuilding.

Current assets

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

Loans

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

PERIODIC MAINTENANCE

Periodic maintenance and docking of vessels are recorded in the balance sheet and expensed across the period until the nect periodic maintenance and/or docking, typically every thiertieth month. Upon acquisition of a vessel, a proportion of the acquisition cost is separated from the vessel's cost price, recognized in the balance sheet, and subsequently expensed as periodic maintenance/docking. Actual expenses for ongoing maintenance are charged as to operating expenses as the maintenance takes place. Depreciation of docking is included in ordinary depreciation; docking is classified along with the vessel in question in the balance sheet. Specific details appear in the notes to the accounts. Refer to notes for the vessels.

ESTIMATES AND ASSUMPTIONS

Preparation of financial statements according to generally accepted accounting principles requires management to use estimates and assumptions that affect the profit and loss account and the valuation of assets and liabilities, and requires disclosure of information about liabilities that, as of the balance sheet date, are not yet certain. Actual figures will generally differ from such estimates. Conditional losses which are likely to occur and which are quantifiable are expensed on a current basis.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

Management uses estimates and assumptions in connection with the determination of fair market value for the purpose of assessing added values as well as impairment of assets. Each vessel is evaluated seperately, except from the cabu carriers, which the Group has defined as one cash generating unit.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

REVENUE RECOGNITION

The group's revenues are largely generated through investments in dry-bulk cargo ships and container vessels and companies that own such vessels. The group directly owns five self-unloaders, which are included in a spot co-sailing pool managed by CSL International Ltd. (CSL). In addition, the group directly owns six cabu (caustic bulk) vessels that is part of a co-sailing pool managed by a company in the Torvald Klaveness Group, in which the vessels operate largely under long-term contracts. The group also owns directly 8 container vessels employed on short term TC contracts.

Profit from the co-sailing pool is allocated to each ship participating in the pool, calculated based on allocation keys (Pool Earning Points, PEP) 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. A voyage is defined as begun after the previous voyage has completed unloading.

Gains and/or losses that arise from the sale of fixed assets are presented as operating revenues or operating expenses.

FINANCIAL INVESTMENTS

Subsidiaries are consolidated in the Group accounts on a 100 percent basis. Joint ventures are accounted for in the Group using the proportionate consolidation method. Associated companies are accounted for in the Group using the equity method. Other long-term investments are stated according to the cost method. Short-term investments are valued at the lower of cost or fair market value.

INVESTMENTS IN SHARES, EQUITY FUNDS, BONDS, CERTIFICATES, AND OTHER FINANCIAL INSTRUMENTS

Financial current assets that are included in a held-for-sale portfolio and that feature adequate ownership spread and liquidity (such as shares, bonds, and certificates that are listed on a stock exchange or other regulated marketplace), are recorded at their market value. Short-term liquid investments, defined as cash equivalents, are financial instruments that can readily be converted into cash and that have a maturity of less than 3 months. Other financial current assets are assessed individually and recorded at the lower of acquisition cost or fair market value.

Long-term financial investments are recorded at historical cost, but are written down to fair market value upon identification of impairment that is not expected to be temporary. The write-down is reversed to the extent that it is no longer justified.

Repayments of paid-in capital and distribution of retained earnings that are attributable to periods prior to the period of the company's ownership are recorded as a reduction in the acquisition cost of the investment.

Upon the sale of shares, the cost price is assigned according to the FIFO (first in- first out) principle.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

DERIVATIVE INSTRUMENTS
The Group uses interest rate swaps to manage financial risks (hedging). The purpose of the derivatives determines which accounting principle is applied.

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

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

TAX
Operating profits related to shipping activities accepted within the Norwegian tonnage tax system are subject to tax exemption. Income tax is paid on net financial income. In addition the Group pays tonnage tax based on net tonnage of vessels. This tax is classified as a vessel operating expense in the profit and loss account.

FOREIGN CURRENCY
The currency used in the financial statements in USD which is the same currency as the group's functional currency.

Transactions in currencies other than the currency used in the financial statements are translated into the currency used in the financial statements using the exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are translated into the currency used in the financial statements using the exchange rate in effect on the balance sheet date. Exchange differences arising from translations into the currency used in the financial statements are recorded in the income statement. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated into the currency used in the financial statements using the historical exchange rate. Non-monetary assets and liabilities recognised at fair value are translated using the exchange rate on the date of the determination of the fair value. Assets and liabilities hedged with currency forward contracts are valued at the contract strike currency rate.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 1
ACCOUNTING PRINCIPLES

RECEIVABLES
Receivables are recorded at their nominal value, less expected losses. Provisions for losses are made following an assessment of each receivable.

Provisions for losses on receivables more than 180 days past due are recorded at 50 percent of their nominal value. The 50 percent rate has been arrived at based on experience. Further, provisions are recorded for major unpaid receivables (defined as receivables in excess of USD 100,000) based on individual assessments.

INVENTORY
Inventory of purchased goods are valued at cost in accordance with the standard cost method. Cost is determined on a first-in, first-out basis (FIFO). Impairment losses are recognized if the net realisable value is lower than the cost price.

From 2013, lubricant oil on board vessels is included in the balance sheet as inventory.

INSURANCE CLAIMS
Deductibles associated with damages are expensed at the time the insurance company becomes liable as to the loss.

RELATED PARTIES
Transactions with related parties are conducted at arm’s length on market terms.

Interest on long-term loans and debt among companies in the Torvald Klaveness Group, is calculated at arm’s length. A floating interest rate is used as a basis (for example, 3-month NIBOR/LIBOR or 6-month NIBOR/LIBOR). Among companies wholly owned by Rederiaksjeselskapet Torvald Klaveness or other companies that comprise wholly owned companies in the Torvald Klaveness Group, a margin is added to the floating interest rate, depending on the purpose of the loan. The margin is typically set at the Torvald Klaveness Group’s funding cost. For loans to companies that are not wholly owned but included in the Torvald Klaveness Group, an evaluation of risk is made (based on external funding costs where available), and the rate is thereafter adjusted based on this evaluation.

CASH FLOW STATEMENT
The cash flow statement is prepared and presented according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short-term liquid investments, mainly bonds and equity funds.

EVENTS AFTER THE BALANCE SHEET DATE
Assets and liabilities that are recorded in the balance sheet may be based on assumptions and uncertainties. Events that occur after the balance sheet date and that result in new information that leads to a reassessment of an item of asset or liability, are accounted for accordingly. Examples of such events after the close of the balance sheet date are legal decisions, payments and settlements received from customers that had been outstanding, final determination of bonuses or other performance-dependent remuneration. Material events after the balance sheet date are presented in a separate note to the financial statement.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 2

OPERATING REVENUES

USD '000	30.06.2014	30.06.2013
Selfunloaders	23 218	17 077
Cabu carriers	26 457	28 371
Container vessels	10 971	559
Other operating revenue	0	76
Total operating revenues	**60 645**	**46 083**

GAIN/LOSS ON SALE OF FIXED ASSETS

USD '000	30.06.2014	30.06.2013
Sale of newbuilding contracts: Bulk vessels	3 381	-
Scrap of Baru vessel	(3 076)	-
Net gain/loss on sale of fixed assets	**304**	**-**

The Group has, during the first half year of 2014 novated two contracts in the newbuilding program to two single-purpose companies owned by a Greek shipping company. The net gain on this transaction was USD 3.4 million.

In March 2014 the Cabu vessel Baru was scrapped which resulted in a loss of USD 3.1 million.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 3
LIST OF SUBSIDIARIES
The following companies are included in Klaveness Ship Holding AS - Consolidated Financial Statements:

Parent Company	Subsidiaries/ affiliated companies	Date of acquisition	Location	Direct/ indirect ownership
Klaveness Ship Holding AS				
	T Klaveness Shipping AS	**18.03.2013**	**Oslo**	**100,00 %**
	Banasol Inc*	01.01.2012	Oslo	50,00 %
	Banastar Inc.*	04.08.1999	Oslo	50,00 %
	Cabu Bangor Inc. *	01.01.2002	Oslo	100,00 %
	Cabu V Investment Inc.*	29.10.2004	Oslo	95,00 %
	Cabu VI Investment Inc.*	30.11.2004	Oslo	81,00 %
	Klaveness Selfunloaders AS	**01.01.2005**	**Oslo**	**100,00 %**
	Klaveness Cement Logistics AB	**22.12.2005**	**Stockholm**	**100,00 %**
	Klaveness Container Holding AS	**02.07.2013**	**Oslo**	**87,00 %**
	Klaveness Container AS**	02.07.2013	Oslo	87,00 %
	Klaveness Bulk Holding AS	**12.09.2013**	**Oslo**	**100,00 %**
	Klaveness Bulk AS***	12.09.2013	Oslo	100,00 %

** Indirect ownership through T Klaveness Shipping AS.*
*** Indirect ownership through Klaveness Container Holding AS*
**** Indirect ownership through Klaveness Bulk Holding AS*

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 4
VESSELS

USD '000	Selfunloaders	Cabu carriers	Container	Total vessels
2013				
Cost January 1, 2013 - vessels	122 454	236 089	-	358 543
Cost January 1, 2013 - docking	7 171	7 796	-	14 967
Additions	114 825	3 669	158 896	277 390
Disposals	-	(2 967)	-	287 253
Cost December 31, 2013 - vessels	**237 279**	**236 242**	**158 896**	**630 417**
Cost December 31, 2013 - docking	**9 171**	**8 345**	**2 327**	**19 843**
Accumulated depreciation	(61 312)	(113 446)	(2 132)	(176 891)
Accumulated impairment	(3 660)	(13 578)	(32 266)	(49 503)
Net book value December 31, 2013 - vessels	175 621	113 058	124 533	413 213
Net book value December 31, 2013 - docking	3 857	4 504	2 020	10 381
Net book value December 31, 2013 - total	**179 479**	**117 562**	**126 553**	**423 593**
Depreciation for the year, 2013 - vessels	(8 207)	(13 159)	(2 031)	(23 397)
Depreciation for the year, 2013 - docking	(2 849)	(3 145)	(307)	(6 301)
Impairment for the year, 2013	(3 660)	-	-	(3 660)
2014				
Cost January 1, 2014 - vessels	235 279	236 242	158 896	630 417
Cost January 1, 2014 - docking	9 171	8 345	2 327	19 843
Additions	2 724	152	90 937	93 813
Disposals	(3 442)	(7 996)	-	(11 438)
Cost June 30, 2014 - vessels	**235 780**	**228 210**	**247 195**	**711 185**
Cost June 30, 2014 - docking	**11 395**	**8 496**	**4 893**	**24 784**
Accumulated depreciation	(64 997)	(119 990)	(6 461)	(191 449)
Accumulated impairment	(3 660)	(13 578)	(34 126)	(51 363)
Net book value June 30, 2014 - vessels	170 535	100 086	207 522	478 143
Net book value June 30, 2014 - docking	4 541	3 055	4 088	11 684
Net book value June 30, 2014 - total	**175 076**	**103 141**	**211 610**	**489 827**
Depreciation for the year, 2014 - vessels	(5 003)	(4 943)	(3 452)	(13 399)
Depreciation for the year, 2014 - docking	(1 540)	(1 600)	(570)	(3 710)
Impairment for the year, 2014	-	-	1 538	1 538
Average useful life	20	20	25	
Average remaining useful life	13	9	22	
Depreciation schedule (straight-line / declining balance)	Straight-line	Straight-line	Straight-line	

Selfunloaders include MV Barkald, MV Balder, MV Baldock, MV Balto and MV Balchen.
Cabu Carriers include MV Banasol, MV Baniyas, MV Banastar, MV Cabu Bangor, MV Bantry, and MV Bakkedal.
Container vessels include MV Amundsen, MV Barry, MV Balao, MV Ballenita, MV Balsa, MV Baleares, MV Bardu and MV Banak.
In March 2014 one vessel (the LR tanker MT Baru) was scrapped which resulted in a loss of MUSD 3.1 million (note 2).

In principle, the vessels are depreciated over a period of 20 -25 years, (or their remaining expected period of operating life) to scrap value.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 4
VESSELS (CONTINUED)

The Group's insurance arrangements are organised through external insurance companies. The financial impact of a total loss of a vessel will not be material for the Group.

In Q1 2014 the Group took delivery of the last two of in total three identical container vessels (Baleares class) that was part of the newbuilding contract with Yangzijiang. The two last vessels included a discount in contractprice. As these three vessels (MV Baleaeres, MV Bardu and MV Banak) were negotiated based on the same contract and are identical container vessels the Group has considered the vessels as one contract and cost price has been reallocated accordingly for each vessel with no effect on total vessel values, depreciation and impairment.
As broker values for the vessels are higher than booked value, previous impairment on Baleares of USD 3.4 million has been reversed.

Impairment evaluations are made quarterly for vessels and newbuildings. An impairment need is identified when the book value of an asset exceeds recoverable amount of the asset, which is defined as the higher of net sales revenue and net value in use. The Group uses net present value calculations of future cash flows for estimating the value in use of the vessel. Each vessel including docking is evaluated separately, except for the cabu carriers, which are evaluated together as one cash-generating unit. Impairment of USD 0.3 million and USD 0.7 million are recognized for Amundsen and Barry and an impairment of USD 0.9 million for Balsa.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 5
NEWBUILDING CONTRACTS
The group took delivery of three container newbuildings during the first quarter of 2014.

In the first quarter of 2014 the Group entered into a contract with Zhejiang OuHua Shipbuilding Co. Ltd in China for construction of three combination carriers to be delivered in 2016/2017. This puts the total number of orders for combination carriers at Zhejiang OuHua Shipbuilding Co. Ltd. to three vessels and all will be part of the Cabu fleet.

The Group has also sold one of the Kamsarmax newbuilding contracts with delivery in 2015 to a single purpose company, please refer to revenue note 2. The Group has, through one of its subsidiaries T Klaveness Shipping AS, further decleared one option for the construction of one 82,000 dwt Kamsarmax vessel at Jiangsu Yangzijiang Shipbuilding Co. Ltd. in China for delivery in 2016, thereby maintaining a total program of two vessels.

2013

USD '000 Hull number	Vessel type	Date of contract	Expected delivery	Contract obligation	Instalments as of 31.12.2013
YZJ2007-820	Container	10.04.2013*	Q1 2014	32 500	2 355
YZJ2007-817	Container	25.06.2013	Q1 2014	25 000	5 000
YZJ2007-819	Container	25.06.2013	Q1 2014	25 000	5 000
YZJ2013-1116	Kamsarmax	01.09.2013	Q4 2015	26 700	2 670
YZJ2013-1117	Kamsarmax	01.09.2013	Q4 2015	26 700	2 670
Total newbuliding contracts				**135 900**	**17 695**

* Original date of contract: December 23rd, 2010. The contracts were swapped with the yard on April 10, 2013 for a corresponding contract with earlier delivery.

Book value newbuilding contracts	YZJ2007-820	YZJ2007-817	YZJ2007-819	YZJ2013-1116	YZJ2013-1117	31.12.2013
Paid instalments	12 200	5 000	5 000	2 670	2 670	27 540
Accrued cost newbuildings	2 490	855	869	-	-	4 214
Write down newbuildings	(10 898)	-	-	-	-	(10 898)
Reversal write down	7 500	-	-	-	-	7 500
Book value 31.12.2013	**11 292**	**5 855**	**5 869**	**2 670**	**2 670**	**28 356**

2014

USD '000 Hull number	Vessel type	Date of contract	Expected delivery	Contract obligation	Instalments as 30.06.2014
YZJ2013-1117	Kamsarmax	01.09.2013	Q4 2015	26 700	2 670
YZJ2013-1154	Kamsarmax	01.04.2014	Q4 2016	27 700	2 770
OH-NB-160 / 677	Cabu	24.11.2013	Q3 2016	36 055	7 211
OH-NB-161 / 678	Cabu	24.11.2013	Q4 2016	36 055	7 211
OH-NB-159 / 676	Cabu	31.03.2014	Q1 2017	35 200	7 040
Total newbuliding contracts				**161 710**	**26 902**

Book value newbuilding contracts	YZJ2013-1117	YZJ2013-1154	OH-NB-160/677	OH-NB-161/678	OH-NB-159/676	30.06.2014
Paid instalments	2 670	2 770	7 211	7 211	7 040	26 902
Accrued cost newbuildings	300	3	112	100	100	615
Write down newbuildings	-	-	-	-	-	-
Reversal write down	-	-	-	-	-	-
Book value 30.06.2014	**2 970**	**2 773**	**7 323**	**7 311**	**7 140**	**27 517**

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 6

CASH AND BANK DEPOSITS

USD '000	30.06.2014	31.12.2013
Bank deposits in NOK	346	104
Bank deposits in USD	67 000	99 007
Bank deposits in SEK	112	115
Cash	318	386
Total cash and bank deposits	**67 775**	**99 612**

Per 30.06.2014, USD 110 of the bank deposits is restricted.

SHORT TERM BOND

USD '000	30.06.2014	31.12.2013
Bluebay investment fund	15 009	-
Total short term bond	**15 009**	**-**

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 7
EQUITY

USD '000	Share capital	Share premium	Other paid in capital	Other equity	Total equity excluding minority	Minority interests	Total equity including minority
Equity at January 1, 2013	**1 654**	**477**	**5 585**	**206 678**	**214 395**	**14 438**	**228 833**
Adjustment equity				1 759	1 759		1 759
Profit for the year				26 811	26 811	3 772	30 583
Payment to minority interests					-	(9 522)	(9 522)
Capital increase from majority interests	163	14 837			15 000		15 000
Capital increase from minority interests					-	12 500	12 500
Other changes				95	95	(180)	(85)
Equity at December 31, 2013	**1 817**	**15 314**	**5 585**	**235 248**	**258 060**	**21 009**	**279 069**
Equity at January 1, 2014	**1 817**	**15 314**	**5 585**	**235 343**	**258 060**	**21 009**	**279 069**
Profit for the year				5 914	5 914	650	6 564
Payment to minority interests					-	(3 006)	(3 006)
Change in minority interest				(3 335)	(3 335)	3 335	(0)
Other changes				(863)	(863)		(863)
Equity at June 30, 2014	**1 817**	**15 314**	**5 585**	**237 060**	**259 776**	**21 988**	**281 763**

There are a total of 1 000 shares of NOK 1 200 in the company.

The ownership is as follows:	Shares
Rederiaksjeselskapet Torvald Klaveness	1 000
Total shares	**1 000**

The group is a sub-group of Rederiaksjeselskapet Torvald Klaveness, and is included in the total consolidated accounts. The consolidated annual accounts of Rederiaksjeselskapet Torvald Klaveness can be found at www.klaveness.com

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 8
DEBT TO FINANCIAL INSTITUTIONS

USD '000	30.06.2014	31.12.2013
Repayment schedule		
Falling due within one year	**33 003**	**29 578**
Falling due between one and five years	**194 848**	**189 235**
Falling due after five years	**-**	**-**
Debt to financial institutions	**227 851**	**218 813**
Reclassified as short term liabilities	**(33 003)**	**(29 578)**
Long term debt to financial institutions	**194 848**	**189 235**
Capitalized fees - portion of long term debt	**(1 602)**	**(2 372)**
Total debt to financial institutions	**193 246**	**186 863**

The mortgage debt denominated in USD is partly financing of vessels. The interest on the mortgage debt is floating with a margin.

Capitalized financial expenses consist of up-front fee, committment fee and legal fees with regards to the refinancing of existing debt. The fees are capitalized and depreciated over the tenor of the loan.

All mortgage loans are secured by a mortage over one or several vessels, shares in subsidiaries and assignment of insurances and earnings and a pledge of earnings accounts. The loan agreements have covenants related to liquidity, equity, NIBD/EBITDA and market values of vessels. As per June 30, 2014, the Group with all its subsidiaries are in compliance with the covenants of all loan agreements.

As per June 30, 2014, the RCF facility was unutilized. The facility is secured with 1st priority mortgages over MV Barkald, MV Balder and MV Baniyas, and 2nd priority over MV Baldock.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 9
LONG-TERM BOND

Bond loan	NOK	30.06.2014	31.12.2013
KSH01	300 000	52 250	52 250
Buy back KSH01	100 000	(17 417)	-
KSH02 fixed	300 000	50 500	-
KSH02 unfixed	100 000	16 828	-
Exchange rate adjustment	-	(4 223)	(2 920)
Capitalized expenses	(4 706)	(1 436)	(806)
Debt as of close of period	**795 294**	**96 502**	**48 524**
Effect of hedge agreement	-	3 718	2 920
Debt as of close of period including hedge	**795 294**	**100 220**	**51 444**

In May 2013 Klaveness Ship Holding AS issued a bond of NOK 300 million. The bond has a bullet structure and matures in May 2018. The company also entered into a cross currency interest rate swap to hedge both the interest rate and the USDNOK exposure. The bond is listed on Nordic ABM and the ISIN is NO0010675986.

Klaveness Ship Holding AS has in March 2014 issued a new unsecured bond issue of NOK 400 million, with a borrowing limit of NOK 600 million. The maturity date is in March 2020, and the bond has a coupon of NIBOR + 4.25 %. In connection with the new bond placement, KSH repurchased bonds in KSH01 for a total nominal value of NOK 100 million at a price of 103.35. KSH has entered into a cross-currency interest rate swap to hedge both the currency and interest rate risk related to 75 % of the bond amount.

NOTE 10
HEDGING

Klaveness Ship Holding uses financial instruments to hedge against certain financial risks. In 2014, interest rate swaps have been used to hedge against interest rate fluctuations. And a cross currency interest rate swap was entered into hedge interest rate and currency fluctuations on the existing bond loan

Cash flow hedges are recorded in the profit and loss account in the same period as the cash flow from the associated asset or physical contract. Fair value hedges are reflected in the book value of the underlying asset, and gains or losses in the fair value of the value hedging instrument are recognised immediately in the profit and loss account.

			30.06.2014		31.12.2013	
Hedging object	Hedging instrument	Hedge included in P&L line	P&L effect	Market value	P&L effect	Market value
Cash flow hedges:						
Interest mortgage loans	Interest rate swaps	Interest income/expenses	(150)	(24)	(29)	-
Interest bond loan	Cross currency interest rate swap	Interest income/expenses	(50)	(2 376)	41 639	(237)
Value hedges:						
Bond loan	Cross currency interest rate swap	Net currency gain/loss	(3 718)	(3 208)	(2 920)	99 968
SUM hedging			**(3 918)**	**(5 608)**	**38 690**	**99 731**

Duration:
Interest rate swaps on mortgage loans have a duration until 2018 when the underlying loans expire. The swaps hedge an increasing portion of interest rates on loans financing the container fleet as the container loans are being partly repaid over the period until expiry while the interest rate swaps have bullet structures. The cross currency interest rate swap is a full hedge on both exchange rate and interest rate for the duration of the two bond loans, which matures in May 2018 and March 2020.

NOTE 11
SUBSEQUENT EVENTS

No new material information regarding the Group's situation as at 30.06.2014 or later development has come out at the date of approval.

NOTES TO THE CONSOLIDATED ACCOUNTS (UNAUDITED)

NOTE 12
TAXES

Tax expense for 2014 has been estimated based on effective tax rate as of 31.12.2013. Effective tax rate has been set to 1,5 %.

Change in deferred tax and tax payable in the balance sheet from 2013 to 2014 is due to change in exchange rates. Tonnage tax as of June 30, 2014 is estimated based on a calculation of net tonnage and tonnage tax per ton. Tonnage tax and tax payable as of December 31, 2013 has not yet been paid.