Torvald Klaveness

2H & PRELIMINARY ANNUAL RESULTS 2015

KLAVENESS SHIP HOLDING CONSOLIDATED

18.02.2016

KEY FIGURES

USD '000	2015 unaudited	2H-2015 unaudited	2014 unaudited
Key financials (incl discontinued operations)			
Gross operating revenues	124 098	63 929	127 372
EBITDA	62 495	31 668	62 569
Profit/(loss) for the year before tax (incl. minority interests)	(3 633)	(9 400)	15 499
Profit/(loss) for the year before tax (excl. minority interests)	(4 353)	(8 744)	13 161
Total assets	600 265	600 265	621 020
Equity ratio	47 %	47 %	47 %
NIBD/EBITDA	3.8	3.8	3.9
Cash and bank deposits	82 447	82 447	81 690

Klaveness Ship Holding AS ("KSH") was established 31 May 2005 and is fully owned by Rederiaksjeselskapet Torvald Klaveness. Klaveness Ship Holding AS is located in Oslo, Norway, and is the holding company of the ship owning activities in Torvald Klaveness. The consolidated financial statements of KSH as of 31 Dec 2015 comprises of KSH and its subsidiaries.

2015 HIGHLIGHTS including discontinued operations

Net profit from operations was positive despite continued weak shipping markets, but due to impairment of vessel values Klaveness Ship Holding AS and subsidiaries (the Group) delivered a negative result. High solidity and good liquidity was maintained in 2015. A sale of the five selfunloader vessels was concluded in December 2015, and all vessels were delivered to their new owners in January 2016. Net proceeds of USD 144 million was realized after the sale. The selfunloader segment is presented as discontinued operations with effect on comparative figures in the consolidated income statement. Three combination carriers were ordered towards the end of the year, scheduled to be delivered in 2018 and 2019. A cancellation of the second of two kamsarmax vessels contracted at the same yard was also well concluded towards the end of the year. The newbuilding program now consists of six combination carriers, while one kamsarmax vessel will be delivered in February 2016.

The Group achieved an EBITDA of USD 62.5 million in 2015 (USD 62.6 million). The Group had a loss before tax (EBT) of USD 3.6 million (2014: profit of USD 17.3 million). Cash flow from operations was USD 65.4 million (USD 53.0 million). The balance sheet remains solid with a book equity including minority interest of USD 281.6 million at year-end corresponding to an equity ratio of 47 percent.

The company's specialized vessels continued to perform well in 2015, delivering revenues in line with previous years. The container market weakened again in 2015, but Klaveness' container vessels were employed throughout the year with few idle days and at rates above the general market due to their fuel efficiency.

Klaveness experienced a fatal incident involving crew on shore leave. While on their way back to the vessel, two officers were hit by a container truck on the pier. One person unfortunately passed away, while the other is still recovering in hospital. As a result of this incident Klaveness has re-emphasized the safety precautions for shore leave and has implemented and reinforced several precautionary measures.

There were a few operational issues and vessel incidents in 2015, the most severe being a damage to Balder when being passed by the hurricane Joaquin in Inagua, Bahamas.

NEWBUILDING PROGRAM

In December 2015 Klaveness ordered three combination carriers from Jiangsu New Yangzi Shipbuilding Co., Ltd in China, thereby increasing the number of combination carriers on order to six. The three new orders are estimated to be delivered in second half of 2018 and first quarter of 2019, while the three vessels already under construction at Zhejiang OuHua Shipbuilding will be delivered in second half of 2016 and the beginning of 2017.

A cancellation of the second of two 82,000 DWT kamsarmax vessels was agreed with Jiangsu New Yangzi Shipbuilding Co., Ltd. The first kamsarmax vessel will be delivered in February 2016.

GENERAL INFORMATION

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

The following sections focus on continuing operations.

CONSOLIDATED INCOME STATEMENT 2H 2015 (unaudited)

The Group reported total operating revenue from continuing operations of USD 40.2 million in the second half of 2015, compared with USD 39.0 million in the second half of 2014, due to a temporary increase in TC rates in the container segment. Operating expenses increased to USD 21.1 million for 2H 2015, up from USD 18.1 million in 2H 2014. Increase in operating costs is mainly caused by cancellation cost of the second kamsarmax newbuilding, recognized as operating cost in 2015. The result before tax was also negatively impacted by impairment of container vessels (USD 17.5 million) and kamsarmax newbuilding of USD 8.0 million in the second half of 2015. EBITDA ended at USD 16.7 million compared with USD 19.9 million in 2H 2014.

CONSOLIDATED INCOME STATEMENT FULL YEAR 2015 (unaudited)

For the full year 2015 total gross operating revenue from continuing operations was USD 76.6 million (2014: USD 79.9 million) and total operating costs (incl. impairment and depreciations) amounted to USD 89.9 million (2014: USD 63.8 million). The increase in total costs relates to impairment loss in 2015 related to the vessels of in total negative USD 25.5 (2014: positive: USD 1.5 million). EBITDA was USD 32.1 million for 2015, somewhat weaker than EBITDA of USD 35.1 million for 2014. Net financial items were negative by USD 12.0 million in 2015 (2014: negative USD 11.3 million). Net profit after tax from continuing operations ended negative USD 18.5 million for 2015, down from positive USD 2.9 million for 2014.

Profit from discontinued operations increased to USD 21.7 million for 2015, from USD 12.6 million in 2014. Profits from the selfunloader vessels were positively impacted by reversal of impairment (net effect USD 3 million in 2015) and a decrease in depreciation, opex and other operating and adm. expenses.

USD 0.7 million (2013: USD 2.3 million) of total profit after tax is attributable to non-controlling interests related to external investors in some of the Cabu and container companies.

CONSOLIDATED BALANCE SHEET STATEMENT PER 31.12.2015 (unaudited)

Total assets decreased by USD 20.8 million in 2015 from USD 621 million at year end 2014 to USD 600.3 million. Non-current assets decreased by USD 184.6 million mainly as a result of reclassification of selfunloader vessels as held for sale (USD 163.7 million), reclassification of receivable of USD 1.9 million as short term, depreciation (USD 19.9 million) and impairment (USD 25.5 million) of the vessels. Payments of in total USD 26.8 million have been transferred as yard instalments on vessels under construction and increase non-current assets. Cash and bank deposits were USD 82.4 million by the end of 2015, up from USD 81.7 million at year end 2014. The cash flow from operating activities was USD 65.4 million in 2015, while cash flow from investing activities was negative by USD 34.6 million. The latter consists mainly of investments in newbuildings and upgrading of existing vessels. The cash flow from financing activities was negative USD 29.4 million and comprises net of drawdown on new loan facilities in 2015, repayment of mortgage debt including interests and distributions to the shareholders. Interest-bearing debt decreased by approx. USD 10 million during 2015 and amounted to USD 306 million at year end 2015, including liabilities directly associated with the assets held for sale. Following the completion of the selfunloader sale in January 2016, the interest-bearing debt decreased by USD 46 million.

Total equity decreased by USD 5.4 million in 2015 due to total comprehensive income of USD 1.8 million, payments to non-controlling interests of USD 2.8 million and group contribution of USD 4.3 million. The book equity ratio by year end 2015 was 47 % in line with 2014 (47 %).

BUSINESS SEGMENTS

By the end of 2015 the fleet consisted of six combination carriers (Cabus), five selfunloaders and eight container vessels. In addition, the Group has one Kamsarmax and six combination carriers under construction.

Cabu: The cabu vessels are combination vessels that transport both dry cargo and caustic soda in the Far East, the Middle East, Australia, Brazil and North America. The Cabu pool consists of six cabu vessels. One external investor holds 50 percent in two vessels and 19 percent in one vessel. The pool result for 2015 remained stable at a satisfactory level. The vessels are largely employed on long and medium term contracts of affreightment with customers in the Australian and Brazilian alumina industry and this accounted in 2015 for about 47 percent 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 US Gulf accounted for about 53 percent of the available vessel days in 2015. Bakkedal, Banasol and Bantry dry-docked during 2015.

The three cabu vessels ordered at Zhejiang OuHua Shipbuilding Co. Ltd. estimated to be delivered in late 2016 and early 2017 will enter the Cabu pool when delivered from the shipyard. In addition, three new combination carriers were ordered from Jiangsu New Yangzi Shipbuilding Co., Ltd in China in 2015 with delivery scheduled in 2018 and early 2019.

Two contracts of affreightment for shipment of caustic soda were renewed in 2015, contributing positively to the Cabu fleet's performance going forward.

Selfunloader: In late 2015 Klaveness reached an agreement to sell its five selfunloading bulk carriers to affiliates of Algoma Central Corporation and The CSL Group Inc. The vessels were delivered to new owners in January 2016. The transaction valued the five vessels at USD 190 million in total. The vessels have all been employed in the CSL International Pool in 2015. The pool has a diversified contract portfolio and the vessels were mainly employed in North America and the Caribbean. Results weakened towards the end of the year, due to re-delivery of vessels into the pool, resulting in some over-capacity. One of the vessels, Balder, was dry-docked during the year.

Container: During 2015 the Group was operating a fleet of 8 geared container vessels in the feeder segment (1,700 TEU - 3,100 TEU) all through-out the year on shorter time charter contracts of 3-6 months to major Liner Operators. The 6 ECO-Flex vessels obtained good fuel efficiency premiums during the first half of 2015, but as the fuel price dropped significantly during the last 6 months of 2015 this premium was reduced, reflecting the lower savings for the charterers. Barry had approximately 38 days off-hire due to touching ground in Lagos late 2014.

Dry bulk investments: One of the kamsarmax vessels under construction was cancelled, while the other kamsarmax vessel will be delivered in late February 2016.

MAIN RISKS

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

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

Ownership of vessels involves risks related to vessel values, future vessel employment, revenues and costs. These risks are partly managed through time charter contracts and contracts of affreightment covering a large part of the vessel capacity.

The Group's revenue and costs are denominated primarily in US Dollar (USD) which is the functional currency of most entities in the Group. No direct currency hedge has been made towards the small portion of costs incurred in foreign currencies. Fluctuations in USD against NOK may affect the company's tax payable, which will be calculated and paid in NOK. This effect is considered to be limited. To reduce currency and interest rate risk, the company has entered into interest rate swaps converting floating interest payments to fixed rate and the bonds issued in NOK are partly hedged with a cross currency interest rate swap, reducing the currency and interest exposure. The mark-to-market of the currency and interest instruments was negative in 2015 due to a weakening NOK versus USD and a continued low LIBOR.

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.

Quarterly risk reviews ensure that risk-mitigating actions are executed and that new risks are identified, analyzed and managed. The organization is continuously working to learn from incidents and accidents by developing procedures and training accordingly.

At the end of 2015, the company had seven newbuildings on order. Risk of delays and failure of the yards to deliver exists. Klaveness has dedicated on-site personnel who supervise the building processes, and the orders are split between two yards. Tier one Chinese banks provide refund guarantees.

There were no major unforeseen events of a financial nature during 2015. However, continued low container and dry bulk markets resulted in vessel impairments. The liquidity risk of the company is good. Financing is in place for four out of seven newbuildings, there is a relatively stable cash flow from the cabu vessels and the sale of the selfunloader vessels contributed with approximately USD 144 million in cash. Current cash and projected operating cash flow are considered sufficient to cover the company's current liabilities.

Klaveness Ship Holding AS

Consolidated Income Statement

				Year ended 31 December	
USD '000	Note	Unaudited 2H 2015	Unaudited 2H 2014	Unaudited 2015	Audited 2014
Continuing operations					
Operating revenue, vessels	Note 2	40 209	39 038	76 607	76 482
Gain from sale of fixed assets		-	-	-	3 381
Other operating revenue		(1)	(2)	(9)	-
Total operating revenue		**40 208**	**39 036**	**76 598**	**79 863**
Operating expenses, vessels	Note 2	(21 115)	(18 102)	(38 825)	(37 832)
Loss from sale of assets		-	-	(186)	(3 076)
Group administrative services		(2 706)	(2 685)	(5 812)	(5 369)
Tonnage tax		(69)	(61)	(130)	(163)
Other operating and administrative expenses		419	1 680	421	1 669
EBITDA		**16 737**	**19 868**	**32 066**	**35 092**
Ordinary depreciation	Note 3	(9 896)	(10 073)	(19 850)	(20 598)
Impairment loss (-) / reversal	Note 3, 4	(25 505)	-	(25 505)	1 538
EBIT		**(18 665)**	**9 795**	**(13 289)**	**16 032**
Finance income		1 421	2 761	2 573	3 190
Finance costs		(7 423)	(7 986)	(14 566)	(14 497)
Profit before tax from continuing operations		**(24 667)**	4 570	**(25 283)**	**4 725**
Income tax expenses	Note 8	(248)	(1 056)	6 747	(1 843)
Profit after tax from continuing operations		**(24 915)**	**3 514**	**(18 536)**	**2 882**
Discontinued operations					
Profit/(loss) after tax for the year from discontinued operations		15 267	6 155	21 650	12 617
Profit for the year		**(9 647)**	**9 669**	**3 114**	**15 499**
Attributable to:					
Equity holders of the parent company		(8 992)	8 038	2 394	13 161
Non-controlling interests		(656)	1 631	720	2 338
Total		**(9 647)**	**9 669**	**3 114**	**15 499**
Earnings per share - basic and diluted (USD)		(8,99)	8,04	2,39	13,16

Klaveness Ship Holding AS

Consolidated Statement of Other Comprehensive Income

USD '000	Note	Unaudited 2H 2015	Unaudited 2H 2014	Unaudited 2015	Audited 2014
Net profit/ (loss)		**(9 647)**	**9 670**	**3 114**	**15 499**
Other comprehensive income to be reclassified to profit or loss					
Net movement fair value on interest rate swaps		60	38	(113)	(213)
Net movement fair value on cross-currency interest rate swap		(7 630)	(15 960)	(12 144)	(18 392)
Reclassification to profit and loss		6 625	12 657	10 468	15 118
Income tax effect		220	882	447	942
Net other comprehensive income to be reclassified to profit or loss		**(726)**	**(2 383)**	**(1 341)**	**(2 545)**
Other comprehensive income not to be reclassified to profit or loss		-	-	-	-
Net other comprehensive income not to be reclassified to profit or loss		-	-	-	-
Other comprehensive income/(loss) for the period, net of tax		**(726)**	**(2 383)**	**(1 341)**	**(2 545)**
Total comprehensive income/(loss) for the period, net of tax		**(10 374)**	**7 287**	**1 773**	**12 954**
Attributable to:					
Equity holders of the parent company		(9 718)	5 656	1 053	10 615
Non-controlling interests		(656)	1 631	720	2 338
Total		**(10 374)**	**7 287**	**1 773**	**12 953**

Klaveness Ship Holding AS

Consolidated Balance Sheet Statement

		As at 31 December	
USD '000	Note	Unaudited 2015	Audited 2014
ASSETS			
Non-current assets			
Deferred tax asset		8 214	6 308
Vessels	Note 4	274 748	477 515
Newbuilding contracts	Note 5	45 886	27 725
Financial assets		-	13
Other long-term receivables		-	1 920
Total non-current assets		**328 847**	**513 481**
Current assets			
Inventories		1 723	1 992
Accounts receivable		782	867
Receivables from related parties		5 938	7 327
Prepaid expenses		1 434	790
Other short-term receivables		15 365	14 873
Cash and cash equivalents		82 447	81 690
Total current assets		**107 688**	**107 539**
Assets held for sale	Note 3	163 730	-
TOTAL ASSETS		**600 265**	**621 020**

Klaveness Ship Holding AS

Consolidated Balance Sheet Statement

USD '000	Note	As at 31 December Unaudited 2015	 Audited 2014
EQUITY AND LIABILITIES			
Equity			
Share capital		1 817	1 817
Share premium		16 861	16 861
Other paid-in capital		5 585	5 585
Other reserves		(3 891)	(2 550)
Retained earnings		241 701	243 621
Equity attributable to equity holders of the parent		**262 073**	**265 334**
Non-controlling interests		19 560	21 592
Total equity		**281 632**	**286 926**
Non-current liabilities			
Mortgage debt	Note 6	132 524	195 988
Bond loans	Note 7	66 073	78 138
Financial liabilities		35 756	22 286
Total non-current liabilities		**234 353**	**296 412**
Current liabilities			
Short-term mortgage debt	Note 6	26 652	20 671
Accounts payable		1 810	1 245
Current debt to related parties		874	1 525
Tax payable	Note 8	55	6 977
Tonnage tax payable		181	213
Other current liabilities		8 436	7 051
Total current liabilities		38 008	37 682
Liabilities directely associated with the assets held for sale	Note 3	46 271	-
TOTAL EQUITY AND LIABILITIES		**600 265**	**621 020**

Klaveness Ship Holding AS

Consolidated Statement of Changes in Equity

Unaudited	Attributable to equity holders of the parent							
	Share capital	Share premium	Other paid in capital	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January 2014	**1 817**	**16 861**	**5 585**	**(4)**	**233 796**	**258 055**	**21 009**	**279 064**
Profit (loss) for the year					13 161	13 161	2 338	15 499
Other comprehensive income for the year				(2 546)		(2 546)		(2 546)
Total comprehensive income for the year				**(2 546)**	**13 161**	**10 615**	**2 338**	**12 953**
Payments to non-controlling interests							(5 090)	(5 090)
Other changes					(3 335)	(3 335)	3 335	-
Equity at 31 December 2014	**1 817**	**16 861**	**5 585**	**(2 550)**	**243 621**	**265 335**	**21 592**	**286 926**
Profit (loss) for the year					2 394	2 394	720	3 114
Other comprehensive income for the year				(1 341)		(1 341)		(1 341)
Total comprehensive income for the year				**(1 341)**	**2 394**	**1 053**	**720**	1 773
Payments to non-controlling interests						-	(2 752)	(2 752)
Group contribution with tax effect					(2 415)	(2 415)	-	(2 415)
Group contribution without tax effect					(1 739)	(1 739)	-	(1 739)
Currency effect group contribution					(160)	(160)		(160)
Equity at 31 December 2015	**1 817**	**16 861**	**5 585**	**(3 891)**	**241 701**	**262 074**	**19 560**	**281 633**

Hedging reserve

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

Klaveness Ship Holding AS

Consolidated Statement of Cash Flows

USD '000	Note	Unaudited 2H 2015	Unaudited 2H 2014	Unaudited 2015	Audited 2014
Profit before tax from continuing operations		(24 667)	4 570	(25 283)	4 725
Profit before tax from discontinuing operations		15 267	6 155	21 650	12 617
Net gain/loss fixed assets		-	-	186	(304)
Ordinary depreciation	Note 4	14 193	17 157	30 383	34 266
Impairment loss/ reversal	Note 4, 5	20 273	-	22 552	(1 538)
Interest income		(142)	(81)	(313)	(146)
Interest expenses		6 151	5 761	12 302	12 115
Taxes paid for the period		(715)	(714)	(1 190)	(714)
Change in receivables		1 751	6 518	2 902	(5 550)
Change in current liabilities		(901)	(1 664)	1 299	(2 801)
Change in other working capital		2 051	501	560	180
Interest received		142	81	313	146
A: Net cash flow from operating activities		**33 404**	**38 284**	**65 362**	**52 995**
Acquisition of tangible assets	Note 4	(1 475)	(4 376)	(5 670)	(7 788)
Installments and cost on newbuilding contracts	Note 5	(21 880)	(988)	(28 925)	(87 246)
Payment receieved disposal of vessels		-	-	-	4 920
Payment received sale of newbuilding contracts		-	-	-	3 766
B: Net cash flow from investment activities		**(23 355)**	**(5 364)**	**(34 595)**	**(86 349)**
Proceeds from mortgage debt		9 943	14 000	69 622	65 500
Proceeds from bond loan		-	-	-	67 161
Transaction costs on issuance of loans		(86)	-	(494)	(1 320)
Repayment of mortgage debt		(5 661)	(23 734)	(78 451)	(65 997)
Cash proceeds from buy back bond loans		-	(1 346)	-	(18 763)
Repayment of debt to the yard		-	-	-	(13 783)
Interest paid		(6 151)	(5 761)	(12 302)	(12 115)
Cash proceeds from issuing of shares		-	-	-	-
Cash proceeds from issuing of shares non-controlling interests			-	-	-
C: Net cash flow from financing activities		**(3 109)**	**(18 925)**	**(29 424)**	**15 593**
Net change in liquidity in the period (A + B + C)		6 940	13 995	1 343	(17 761)
Net foreign exchange difference		(524)	(80)	(586)	(161)
		6 416	**13 915**	**757**	**(17 922)**
Cash and cash equivalents at beginning of period		76 031	67 775	81 690	99 612
Cash and cash equivalents at end of period		82 447	81 690	82 447	81 690
Net change in cash and cash equivalents in the period		**6 416**	**13 915**	**757**	**(17 922)**
Undrawn facilities*		146 277	41 500	146 277	41 500

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

CORPORATE INFORMATION

Klaveness Ship Holding AS (”parent company”/KSH) is a private limited company domiciled and incorporated in Norway. The parent company has headquarter and is registered in Drammensveien 260, 0212 Oslo. Klaveness Ship Holding’s consolidated interim financial statements for the second half of 2015 include the parent company and its subsidiaries (referred to collectively as the Group) and associated companies.

BASIS OF PREPARATION

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

KEY ACCOUNTING PRINCIPLES

The accounting principles used to prepare these interim financial statements are consistent with those used to prepare the annual financial statements. Below is a comprehensive summary of the key accounting principles for the interim consolidated financial statements. Accounting principles for other areas does not significantly differ from previous accounting principles as disclosed in the annual financial statements as of 31 December 2014 (reported under Norwegian Generally Accepted Accounting Principles (NGAAP)).

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Significant estimates and assumptions

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

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

Carrying amount of vessels, residual value, depreciation and impairment

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

The residual value of the vessel is calculated as the light displacement of the vessel multiplied with the estimated steel prices minus the estimated cost in connection with the scrapping. Residual values are challenging to estimate given the long lives of the vessels, the uncertainty as to future economic conditions and the future price of steel, which is considered as the main determinant of the residual price. The Group currently estimates residual value annually based upon the average steel price for the last fifteen years.

When value in use calculations are performed, management estimates the expected future cash flows from the assets or cash-generating unit (defined in the section of "judgments") and determine a suitable discount rate in order to calculate the present value of those cash flows. This will be based on management's evaluations, including estimating future performance, revenue generating capacity, and assumptions of future market conditions and appropriate discount rates. Changes in circumstances and management's evaluation and assumptions may give rise to impairment losses. While management believes that the estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the evaluations.

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

Onerous contracts

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

The recognition of deferred tax assets

Deferred tax assets are only recognized if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

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. The Cabu vessels are sister vessels. For container vessels and selfunloader 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 and Banastar Inc

The Group owns 50 % of Banasol Inc and 50 % of Banastar Inc. The remaining shares are owned by one shareholder, Veronica Co Ltd. The entities own one vessel each; MV Banasol and MV Banastar. 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 and Banastar Inc 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 five reporting segments with similar characteristics i) Combination Carriers (Cabu) ii) Selfunloader vessels iii) Container vessels iv) Dry bulk investments (Kamsarmax) and v) Other/administration. The shipping market in general offers a global service covering major trade routes. All segments have worldwide activities. Due to this, financial position is not allocated to geographical segments.

REVENUE RECOGNITION

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

The Group's shipowning companies

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

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

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

INCOME TAX

All the companies within the Group, with the exception of Klaveness Ship Holding AS (parent company) and KCL AB, 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 27 % (2016: 25 %). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction.

The NTT entails no tax on operating profits or tax on dividends from companies within the scheme. Net financials, allowed for some special regulations, are taxed on an ongoing basis, currently at a rate of 27 %. 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 25 % (2014: 27 %) on the basis of temporary differences between tax and accounting values of assets and liabilities that exist at the balance sheet date. Deferred taxes are recognized using the liability method in accordance with IAS 12. Deferred tax assets are recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses carried forward to the extent it is probable that future taxable profits may be used against deductible temporary differences and unused tax losses carried forward.

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

VESSELS, NEWBUILDINGS AND DOCKING

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

Depreciation of vessels

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

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

The useful life and residual values are reviewed at each balance sheet date. Residual value is further described under "Significant estimates and assumptions".

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 directely attributable to the construction of vessels are added to the cost of the vessels, until such time as the vessels are ready for their intended use.

Impairment of vessels and newbuildings

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

FINANCIAL ASSETS

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

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

Loans and receivables

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

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

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

Hedge accounting – cash flow hedges

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

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

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

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

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

FINANCIAL LIABILITIES

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

This category generally applies to interest-bearing loans and borrowings. For more information refer note 15 and 16.

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 2015. IASB has issued the following standards/amendments to the following standards that are not yet effective which may have an impact of these financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2018)

- IFRS 15 Revenue from contract with customers (effective date 1 January 2017)

- 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 new standards are anticipated to not have material impact on the financial statements of the Group, beyond disclosures. Other issued standards and interpretations, that are not yet effective, are not applicable for the Group, and will not have an impact on the financial statements.

Note 2 - Segment reporting

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

The financial reporting is divided into the following four (2014: five) operating segments:
- Combination Carriers (Cabu)
- Container vessels
- Dry bulk investments
- Other/administration
- Selfunloader vessels (SUL) (discontinued operations in 2015)

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.

Cabus are spesialized vessels constructed to carry caustic soda and dry bulk. The Group owns six Cabu vessels which participate in a pool operated by Cabu Chartering AS (sister company). The Group has three Cabu newbuildings under construction scheduled for delivery in 2016 and 2017. In December 2015 the Group ordered three combination carriers from Jiangsu New Yangzi Shipbuilding Co., Ltd in China, thereby increasing the number of combination carriers on order to six.

The Container vessels are standard vessels which are operated on short term time-charter (TC) agreements.The Group owns eight container vessels.

The Group has invested in two 82,000 dwt standard dry bulk newbuilding contracts. The first vessel will be delivered from the yard in Feb 2016. The second newbuilding contract was cancelled in 2015.

SUL vessels are specialized bulk carriers equipped with a conveyor belt for discharging the cargo. The Group owns five SUL vessels which are part of a co-sailing pool managed by Canadian Steamship Lines Inc. (CSL). The Group has reached an agreement to sell its five selfunloader vessels with completion of the transaction in Q1 2016.

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

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

Income statement by segments 1 July - 31 December 2015

(USD'000)	Combination carriers	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
Operating revenue, vessels	26 849	13 360	-	-	40 209
Other operating revenue	-	(1)	-	-	(1)
Total operating revenue	**26 849**	**13 359**	**-**	**-**	**40 208**
Operating expenses, vessels	(7 545)	(10 564)	(3 006)	-	(21 115)
Loss from sale fixed assets	-	-	-	-	-
Ordinary depreciation	(5 272)	(4 624)	-	-	(9 896)
Impairment	-	(17 511)	(7 994)	-	(25 505)
Tonnage tax	(36)	(33)	-	-	(69)
Other operating and adm expenses	(1 310)	(1 204)	(114)	342	(2 287)
Total operating expenses	**(14 163)**	**(33 937)**	**(11 114)**	**342**	**(58 872)**
Operating profit/EBIT	**12 686**	**(20 578)**	**(11 114)**	**342**	**(18 665)**

Income statement by segments 1 January- 31 December 2015

(USD'000)	Combination carriers	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
Operating revenue, vessels	50 991	25 616	-	-	76 607
Other operating revenue	(2)	(7)	-	-	(9)
Total operating revenue	**50 989**	**25 609**	**-**	**-**	**76 598**
Operating expenses, vessels	(14 905)	(20 889)	(3 030)	-	(38 825)
Loss from sale fixed assets	-	-	(186)	-	(186)
Ordinary depreciation	(10 773)	(9 077)	-	-	(19 850)
Impairment	-	(17 511)	(7 994)	-	(25 505)
Tonnage tax	(65)	(65)	-	-	(130)
Other operating and adm expenses	(2 202)	(2 376)	(402)	(411)	(5 391)
Total operating expenses	**(27 945)**	**(49 918)**	**(11 612)**	**(411)**	**(89 887)**
Operating profit/EBIT	**23 044**	**(24 309)**	**(11 612)**	**(411)**	**(13 289)**

Income statement by segments 1 January - 30 June 2015

(USD'000)	Combination carriers	Selfunloader vessels	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
Operating revenue, vessels	24 142	23 791	12 256	0	0	60 189
Gain from sale fixed assets	0	0	0	0	0	0
Other operating revenue	(2)	(11)	(6)	0	0	(19)
Total operating revenue	24 140	23 780	12 250	0	0	60 170
Operating expenses, vessels	(7 360)	(7 890)	(10 325)	(24)	0	(25 600)
Loss from sale fixed assets	0	0	0	(186)	0	(186)
Group administrative services	(787)	(395)	(1 176)	(269)	(478)	(3 106)
Ordinary depreciation	(5 501)	(6 235)	(4 452)	0	0	(16 189)
Impairment	0	(2 280)	0	0	0	(2 280)
Tonnage tax	(29)	29	(32)	0	0	(32)
Other operating and adm expenses	(105)	(26)	4	(19)	(274)	(419)
Total operating expenses	(13 783)	(16 798)	(15 981)	(498)	(752)	(47 811)
Operating profit/EBIT	10 358	6 982	(3 731)	(498)	(752)	12 359

Balance sheet by segments 1 January - 30 December 2015

(USD '000)	Combination carriers	Container vessels	Dry bulk investments	Other*/ admin	Total consolidated
ASSETS					
Vessels	91 229	183 518	-		274 748
Newbuilding contracts	45 526	-	360	-	45 886
Other non-current assets		-		8 214	8 214
Total non-current assets	136 756	183 518	360	8 214	328 847
Cash	64 769	1 902	42	15 733	82 447
Current assets	2 856	6 102	2 307	13 975	25 239
Total current assets	67 625	8 004	2 349	29 708	107 686
Assets held for sale (note 3)	-	-	-	163 730	163 730
TOTAL ASSETS	**204 381**	**191 522**	**2 709**	**201 652**	**600 265**
EQUITY AND LIABILITIES					
Total equity	136 381	89 463	2 530	53 261	281 634
Interest bearing debt	44 599	87 978	-	-	132 577
Bond loans	-	-	-	66 073	66 073
Other non-current financial liabilities	1 968	-	-	33 788	35 756
Total non-current liabilities	46 567	87 978	-	99 861	234 406
Short-term interest bearing debt	17 148	9 504	-	-	26 652
Other current liabilities	4 284	4 578	179	2 260	11 302
Total current liabilities	21 432	14 082	179	2 260	37 953
Liabilities directly associated with assets held for sale	-	-	-	46 271	46 271
TOTAL EQUITY AND LIABILITIES	**204 381**	**191 522**	**2 709**	**201 652**	**600 265**

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

Capital expenditure Vessels	(3 601)	-	-	-	
Capital expenditure NB	(23 383)	-	(5 542)	-	
Cash from operation	30 216	2 279	(3 618)	(752)	

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.

Income statement by segments 1 July - 31 December 2014

(USD'000)	Combination carriers	Selfunloader vessels	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
Operating revenue, vessels	26 800	24 300	12 300	0	0	63 400
Gain from sale fixed assets	0	0	0	0	0	0
Other operating revenue	0	0	0	0	(2)	(2)
Total operating revenue	26 800	24 300	12 300	0	(2)	63 398
Operating expenses, vessels	(14 100)	(15 900)	(16 300)	(700)	149	(46 851)
Loss from sale fixed assets						0
Group administrative services						0
Ordinary depreciation						0
Impairment						0
Other operating and adm expenses						0
Total operating expenses	(14 100)	(15 900)	(16 300)	(700)	149	(46 850)
Operating profit/EBIT	12 700	8 400	(4 000)	(700)	147	16 548

Income statement by segments 1 January - 31 December 2014

(USD'000)	Combination carriers	Selfunloader vessels	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
Operating revenue, vessels	53 218	47 510	23 265	0	0	123 993
Gain from sale fixed assets	0	0	0	3 381	0	3 381
Total operating revenue	53 218	47 510	23 265	3 381	(2)	127 372
Total operating expenses	(32 577)	(32 091)	(31 427)	(1 006)	(431)	(97 530)
Operating profit/EBIT	20 641	15 420	(8 162)	2 375	(433)	29 842

Balance sheet by segments 1 January - 31 December 2014

(USD '000)	Combination carriers	Selfunloader vessels	Container vessels	Dry bulk investments	Other/ admin	Total consolidated
ASSETS						
Vessels	168 968	98 598	209 949	0	0	477 515
Newbuilding contracts	21 946	0	0	5 944	0	27 890
Other non-current assets	0	0	13	1 920	193	2 126
Total non-current assets	190 914	98 598	209 962	7 864	193	507 531
Cash	24 586	15 965	2 186	4 194	34 759	81 690
Current assets	8 874	8 807	5 043	2 663	495	25 881
Total current assets	33 460	24 772	7 229	6 856	35 254	107 572
TOTAL ASSETS	**224 374**	**123 370**	**217 191**	**14 720**	**35 447**	**615 103**
EQUITY AND LIABILITIES						
Total equity	163 817	67 002	106 229	14 720	(64 623)	287 145
Interest bearing debt	50 535	48 453	97 603	0	0	196 591
Bond loans	0	0	0	0	78 138	78 138
Other non-current financial liabilities	772	0	0	0	21 514	22 286
Total non-current liabilities	51 307	48 453	97 603	0	99 652	297 015
Short-term interest bearing debt	6 342	4 826	9 504	0	0	20 672
Other current liabilities	2 908	3 089	3 156	0	418	9 571
Total current liabilities	9 250	7 915	12 660	0	418	30 243
TOTAL EQUITY AND LIABILITIES	**224 374**	**123 370**	**217 191**	**14 720**	**35 447**	**615 103**
Capital expenditure Vessels	(1 419)	(3 109)	(3 260)	0	0	(7 788)
Capital expenditure NB	(21 462)	0	(61 150)	(2 770)	0	(85 382)
Cash from operation	31 586	25 978	(4 619)	2 375	(540)	54 780

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

Note 3 - Discontinued operations

On 10 November 2015, the Group announced that the Group has reached an agreement to sell its five selfunloader vessels. The vessels were delivered to their new owners in January 2016.

With selfunloader vessels classified as discontinued operations, the selfunloader segment is no longer presented in the segment note (note 2). Profit after tax from discontinued operation is presented separately in the consolidated income statement for 2015 and 2014. Booked value of the five selfunloader vessels and liability related to financing of the selfunloader vessels are presented on a seperate line in the financial position as of 31 December 2015. Outstanding amount (USD 46.2 mill) on the revolving credit facility (RCF) with DNB/SEB (USD 75 mill) was repaid in January 2016.

The results of selfunloader vessels for the year are presented below:

USD '000	2H 2015	2H2014	2015	2014
Operating revenue, vessels	23 722	24 310	47 512	47 510
Other operating revenue	(1)	-	(12)	-
Total operating revenue	23 721	24 310	47 500	47 510
Operating expenses, vessels	(8 306)	(8 199)	(16 195)	(17 266)
Ordinary depreciation	(4 297)	(7 084)	(10 533)	(13 668)
Impairment	5 232	-	2 953	-
Tonnage tax	(80)	(25)	(51)	(50)
Other operating and adm expenses	(403)	(2 251)	(825)	(2 716)
Operating profit/EBIT	**15 867**	**6 752**	**22 850**	**13 811**
Finance income	-	-	-	-
Finance costs	(600)	(596)	(1 200)	(1 193)
Profit/(loss) before tax	**15 267**	**6 155**	**21 650**	**12 618**
Income tax expenses	-	-	-	-
Profit/(loss) after tax from discontinued operations	**15 267**	**6 155**	**21 650**	**12 618**

Sales price of the five vessels (USD 190 million) are higher than booked value for all the five selfunloaders (USD 163.7 million). Impairment related to one of the vessels have been reversed in the P&L for 2015.

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

USD '000	2015	2014
Assets		
Assets held for sale	163 730	-
Liabilites		
Liabilities directly associated with assets held for sale	46 271	-

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

USD '000	2015	2014
Net cash flow from operating activities	25 589	10 341
Net cash flow from investment activities	(66 009)	(11 590)
Net cash flow from financing activities	46 067	-

Note 4 - Vessels

2015

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

*) carrying value of vessels includes dry-docking

2014

Vessels	Selfun-loaders	Combination carriers	Container	Total vessels*
Cost price 1.1	244 437	244 758	161 157	650 352
Delivery of newbuildings	-	-	88 269	88 269
Additions (mainly upgrading and docking of vessels)	3 109	1 419	5 230	9 758
Disposals	(4 798)	(39 511)	(377)	(44 686)
Costprice 31.12	**242 748**	**206 666**	**254 279**	**703 693**
Acc. Depreciation 1.1	61 298	113 618	2 338	177 254
Depreciation for the year	13 620	12 364	8 282	34 266
Reclass/disposal	(4 798)	(17 914)	(377)	(23 089)
Acc. depreciation 31.12	**70 120**	**108 068**	**10 243**	**188 431**
Acc. impairment losses 1.1	3 660	13 578	32 266	49 504
Impairment for the year	-	-	(1 538)	(1 538)
Impairment reclassed from newbuildings	-	-	3 398	3 398
Disposal	-	(13 578)	-	(13 578)
Acc. impairment losses 31.12	**3 660**	**-**	**34 126**	**37 786**
Carrying amounts 31.12.2014	**168 968**	**98 598**	**209 949**	**477 515**
No. of vessels	5	6	8	
Useful life	20	20	25	
Depreciation schedule	Straight-line	Straight-line	Straight-line	

*) carrying value of vessels includes dry-docking

Pledged vessels
All owned vessels vessls are pledged to secure the various loan facilities (refer to note 6 for further information).

Disposals of vessels
Selfunloader vessels are presented as discontinued operation - see note 3 for furter information.

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

The estimated cash flows are based on management's best estimate and reflect the Group's expectations of the market in the different segments. The net present value of future cash flows is based on a pre-tax weighted average cost of capital (WACC) of 8.5 % in 2015 (2014: 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. If vessels are planned for sale, estimated salesprice is based on average 10-years salesprice of identical vessel types of same age. From 2020 and onwards, the cash flows are based on a zero-growth scenario, however an escalating factor of an in average 2.6 % inflation rate has been included for all operating expenses for all years until scrapping/sale.

Container vessels
The Group has calculated value in use of each vessel by discounting expected future cash flows. Recoverable amount has been calculated by weighing different scenarios in line with the Groups business strategy. Dependent on how the market develops, the different scenarios include 1) ownership of the vessels over the remaining lifetime; 2) sale of vessels in five years; and 3) sale of the vessels in ten years. The management is of the opinion that this method will 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 as the highest of estimated value in use and broker values. Recoverable amount has been compared to booked values.

On a total basis calculated VIU for all eight vessels amounts USD 183.1 which is in liine with broker values of in total USD 182.8 million. Six out of eight container vessels have been impaired to broker values at year end 2015. Total impairment for the container vessels amount USD 17.5 million (2014: net reversal of USD 1.5 million due to reallocation of costprice). Booked value of container vessels at year end 2015 amounts USD 183.5 million.

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 so that specialized features of the cabu vessels are not taken into account. No impairment has been recognized for the cabu vessels at 31 December 2015 (2014: 0).

A negative shift in the estimated TC rate from 2016 and onwards of USD 1 000 per day, all other factors held constant would not result in any impairment loss. A negative shift in the estimated TC rate from 2016 and onwards of USD 2 000, all other factors held constant, would not result in any impairment loss. A 1.0 per cent point increase in the estimated cost of capital, from 8.5 % to 9.5 % would not result in any impairment loss.

The below summarizes the total impairment cost/reversal:

Impairment loss (-)/ reversal	**2015**	**2014**
Impairment of vessels	(17 511)	(1 860)
Impairment of newbuildings (note 5)	(7 994)	-
Reversal impairment newbuildings	-	3 398
Total impairment loss (-) / reversal	**(25 505)**	**1 538**

Note 5 - Newbuildings

In December 2015, the Group entered into a contract with Jiangsu New Yangzi Shipbuilding Co., Ltd in China for an order of three 83,500 DWT combination carriers. The vessels will be delivered during the second half of 2018. The contract includes options for further vessels.

The Group already has three 80,500 DWT combination carriers under construction at Zhejiang OuHua Shipbuilding Co. Ltd. in China which will be delivered late 2016 and early 2017.

The first Kamsarmax vessel will be delivered in February 2016. The second of the 82,000 DWT Kamsarmax vessels under construction was cancelled in 2015. Installments related to the cancelled kamsarmax have been expensed through P&L in 2015 (USD 2.8 million).

Declining dry bulk rates and value in use calculations for the kamsarmax newbuilding (delivery Feb 2016) indicates a need for impairment. At year end 2015, an impairment of USD 8 million is recognized in the financial statements.

2015

Investments in newbuildings	Combination carriers	Dry bulk investment	Total
Cost 1.1	21 946	5 779	27 725
Borrowing cost	600	106	706
Yard installments paid	21 462	5 340	26 802
Other capitalized cost	1 320	96	1 416
Impairment loss (-)/reversal	-	(7 994)	(7 994)
Cansellation of newbuilding contracts	-	(2 770)	(2 770)
Net carrying amount at 31.12.2015	**45 329**	**557**	**45 886**

2014

Investments in newbuildings	Container	Combination carriers	Dry bulk investment	Total
Cost 1.1	23 015	-	5 340	28 355
Borrowing cost	927	-	-	927
Yard installments paid	61 153	21 462	2 770	85 385
Other capitalized cost	876	484	339	1 699
Impairment loss (-)/reversal	3 398	-	-	3 398
Sale of newbuilding contracts	-	-	(2 670)	(2 670)
Transferred to vessels under operation	(89 369)	-	-	(89 369)
Net carrying amount at 31 December	**-**	**21 946**	**5 779**	**27 725**

Note 6 - 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 2015 and 2014, respectively. All debt except for the bond loans (NOK) are denominated in USD, ref note 7 for further information on bond loans.

As of 31 December 2015, the Group had a total of USD 305.8 million in interest bearing debt (incl capitalized fees, interest hedge and currency hedge and liabilities directely associated with assets held for sale) of which USD 232.9 million was classified as non-current debt and USD 72.9 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 3M LIBOR plus a margin of in range 2-3.25.

The Group has refinanced two loan facilities in the first quarter of 2015. One secured reducing revolving credit facility (RCF) of USD 75 million (note 3) and one term loan facility of USD 140 million.

The RCF has a tenor of 6 years and replaced the capacity of the existing RCF and the term loans for MV Balto, MV Balchen and MV Baldock. The new RCF is secured in all five selfunloader vessels. T Klaveness Shipping AS, Klaveness Selfunloaders AS and Klaveness Ship Holding AS are joint borrowers. The facility was repaid in January 2016, see note 3.

The new term loan facility has a tenor of 7 years and replaced the capacity of the term loan for MV Bangor, MV Barcarena`s share of the existing RCF and secured financing for the four out of in total seven newbuildings. T.Klaveness Shipping AS, Klaveness Bulk AS and Cabu Bangor Inc. are joint borrowers

Mortgage debt	Description	Maturity	Carrying amount	Fair value
Barry/Baro/Bardu/Banak	DnB/USD 54.6 mill	March 2019	45 567	49 654
Balao/Ballenita	SEB/USD 30.158 mill	June 2018	24 383	25 630
Balsa/Baleares	DnB/Danske Bank/USD 35 mill	Sept 2018	27 653	29 265
Term Loan Facility	Nordea/Danske Bank, USD 140 mill.	April 2022	22 431	24 641
Banasol	SEB, USD 12 mill.	April 2018	7 500	7 834
Banastar	SEB, USD 12 mill.	April 2018	7 500	7 834
Bantry	Danske Bank, USD 18.9 mill.	March 2017	12 206	12 514
Bakkedal	Nordea, USD 16 mill.	Sept 2021	12 542	13 734
Mortgage debt 31 December 2015			**159 782**	**171 105**

2015 - Interest bearing debt	Non-current	Current	Total
Mortgage debt	133 755	26 633	160 387
Transaction costs mortgage debt	(606)	-	(606)
Liabilities directely associated with the assets held for sale (note 3)	-	46 292	46 292
Bond loan	67 056	-	67 056
Transaction costs bond loan	(983)	-	(983)
Cross currency interest rate swap	33 688	-	33 688
Total interest bearing debt	**232 910**	**72 924**	**305 834**

2014 - Interest bearing debt	Non-current	Current	Total
Mortgage debt	196 592	20 671	217 263
Transaction costs mortgage debt	(604)	-	(604)
Bond loan	79 409	-	79 409
Transaction costs bond loan	(1 271)	-	(1 271)
Cross currency interest rate swap	21 544	-	21 544
Total interest bearing debt	**295 670**	**20 671**	**316 341**

The Group has undrawn committed bank facilities available at year end 2015, for which all conditions have been met and tap issues are possible under the bond agreements.

2015	Credit NOK mill	USD mill	Drawn up NOK mill	USD mill	Available NOK mill	USD mill
Term loan Facility*		122		22		99
Bond loan KSH01	500		300		300	
Buy back KSH01			(100)			
Bond loan KSH02	600		400		210	
Buy back KSH02			(10)			
Total	1 100	122	590	22	510	99

* Committed to newbuildings

2014	Credit NOK mill	USD mill	Drawn up NOK mill	USD mill	Available NOK mill	USD mill
Revolving credit facility		42		-		42
Bond loan KSH01	500		300		300	
Buy back KSH01			(100)			
Bond loan KSH02	600		400		210	
Buy back KSH02			(10)			
Total	1 100	42	590	-	510	42

Hedging

The Group has entered into interest rate swap agreements designated as cash flow hedges to partly hedge interest rate exposure related to the Group's long term mortgage debt. The purpose of these interest rate swaps is to limit the interest rate exposure related to the loans. When interest rate swaps qualify for hedge accounting, the fair value movement is recognised in other comprehensive income until realization of the hedged transaction. Fair value of interest rate swaps which qualify for hedge accounting is USD 100k (liability) as per 31.012.2015 (2014: USD 13k (asset)).

To hedge the Group's bond loans, the Group has entered into three cross currency interest rate swap agreements. The interest rate and currency swap agreements are designated as cash flow hedges and are effective hedging instruments. Changes in fair value are recognised in other comprehensive income.

Covenants

Existing credit facilities impose restrictions which may limit or prohibit the ability for some of the entities in the Group to incur additional indebtness, sell shares in subsidiaries, commit to new capital expenditure, pay dividends, engage in mergers and de-mergers or purchase and sell vessels without the consent of lenders (non-financial covenants). In addition, lenders may accelerate the maturity of the indebtness under financing agreements and foreclose upon the collateral securing the indebtness upon the occurence of certain events of defaults. Various debt agreements of the Group contain covenants which require the compliance of certain financial covenants. With regards to such covenants, the Group has to maintain a minimum market value of the vessels relative to outstanding loan amount, in the range 110-130 %, minimum equity on Group level of USD 125 mill, a minimum equity ratio of 30 %, maximum gearing ratio measured by net interest-bearing debt/EBITDA of 5.0 and a minimum free cash position of USD 10 mill. Certain cross-default exists.

The Group was not in compliance with loan to value covenant for mortgage debt related to the Bakkedal facility at year end 2015. Hence the mortgage debt of USD 12.5 million has been classified as current. Actions have been taken prior to the start of the grace period. For all other covenants, The Group was in compliance at 31 December 2015 and 31 December 2014.

Securities

As a security for the mortgage debt, the company has included a first priority security in all vessels ,and insurances in the vessels and assignment of the earnings of the vessels in favour of the debtors.

Book value of collateral, mortgaged and leased assets	2015	2014
Vessels*	438 478	477 515
Total book value of collateral, mortgaged and leased assets	438 478	477 515

*Includes vessels held for sale

Note 7 - Bond loans

The Group entered into two bond agreements in May 2013 (KSH01) and in March 2014 (KSH02).

The bond loans are listed on Nordic ABM and has a bullet structure with no repayment until maturity in respectively May 2018 and March 2020. Bond loans are subject to an interest rate of 3M NIBOR plus a margin of in range 4.25- 4.75. Both bond loans are issued by Klaveness Ship Holding AS.

As the Group's base currency is USD, cross currency interest rate swaps (CCIRS) from NOK to USD, and from floating to fixed interest rate of the range 6,01% - 6,37 %, has been entered into. The CCIRS covers 100 % of the oustanding NOK 200 mill in the KSH-01 bond and 75 % of the NOK 400 mill KSH-02 bond at 31 December 2015.

The bond entered into in May 2013 has a borrowing limit of NOK 500 million and bond entered into in March 2014 has a borrowing limit of NOK 600 million.

Covenants are described in note 6.

Bond loan	Face value NOK'000	Year of maturity	Carrying amount (USD'000) 2015	2014
KSH01				
Original loan amount	300 000	08.05.2018	52 250	52 250
Buy back	(100 000)		(17 417)	(17 417)
Exchange rate adjustment			(12 102)	(7 915)
Capitalized expenses			(333)	(423)
			22 398	26 495
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			(21 648)	(13 482)
Capitalized expenses			(650)	(848)
			43 675	51 643
Debt as of reporting period	**590 000**		**66 073**	**78 138**

Note 8 - Taxes

Tonnage tax

Companies subject to tonnage tax regimes are exempt from ordinary tax on their shipping income. All the Norwegian companies within the Group, with the exception of the parent company, are subject to tonnage taxation. The companies within this system have to pay a tonnage fee based on the size of the vessels. The fee is recognized as an operating expense. Financial income is taxed according to the ordinary Norwegian tonnage tax regime, and it is only a portion of the interest and currency expenses that gives the right to tax deductions.

Ordinary taxation

The ordinary rate of corporation tax in Norway is 27 % for 2015 (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 is not material.

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

USD '000 Income taxes for the year	2015	2014
Income taxes payable	55	6 977
Change in deferred tax	(2 401)	(4 219)
Tax adjustments previous years*	(5 343)	(851)
Adjustment correction of OCI included in tax expense prior years	1 008	-
Tax adjustments - others	(66)	(65)
Total tax expense / income (-) reported in the income statement	**(6 748)**	**1 843**
Net (gain)/loss on revaluation of cash flow hedges	(447)	(942)
Deferred tax charged to OCI	**(447)**	**(942)**

USD '000		2015		2014
Tax payable	Income	Tax effect	Income	Tax effect
Profit / loss (-) before taxes, incl OCI	(5 422)	(1 464)	17 342	4 682
Income from shipping activity, tonnage tax system	(7 511)	(2 028)	(14 811)	(3 999)
Change in temporary differences	6 757	1 824	13 410	3 621
Permanent differences	-	-	-	-
Change in tax losses carried forward	6 226	1 681	2 218	599
Exchange rate differences	153	41	7 408	2 074
Tax payable in the balance sheet	**203**	**55**	**25 567**	**6 977**
Effective tax rate		-1 %		40 %
Tonnage tax (included in operating profit)		181		213
Total tax payable in the balance sheet		**236**		**7 190**

USD '000	Temporary	2015	Temporary	2014
Temporary differences - ordinary taxation	difference	Tax effect	difference	Tax effect
Gains and losses accounts	(331)	(83)	(489)	(132)
Currency gain/loss not realised	3 243	811	5 938	1 603
Unrealised gain/loss IRS	(2 010)	(503)	(424)	(114)
Unrealised gain/loss CCIRS	(33 297)	(8 324)	(21 544)	(5 817)
Tax losses carried forward	(9 574)	(2 394)	(3 348)	(904)
Deferred tax asset not recognised in the balance sheet	9 119	2 280	-	-
**Net temporary differences - deferred tax liability/asset (-) ** **	**(32 850)**	**(8 214)**	**(19 867)**	**(5 365)**

*Adjustment correction of last year's tax expens (USD 5.3 million) relates to a deviation between tax payable in the financial statement in 2014 and tax payable according to the tax filing. Tax payable is offset by group contribution (Klaveness Finans AS). The reversal does not have any cash flow impact.

**At year-end 2015 the Group has recorded a deferred tax asset of USD 8.2 million. At year-end 2014 the company recorded a defered tax asset of USD 5.4 million. Recognised deferred tax asset is expected to be utilized in the future upon realisation of the financial asset/liability.

Note 9 - Transactions with related parties

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

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

Klaveness AS delivers services to the Group performed by corporate functions like management, legal, accounting & controlling, risk management and commercial management. In 2014 these services were performed by AS Klaveness Chartering (KC).

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

USD'000 Supplier	Type of agreement	2015	2014
Klaveness AS (sister company)	Business administration fee	(5 208)	(4 717)
Klaveness AS (sister company)	Commercial management fee	(604)	(652)
Klaveness AS (sister company)	IT fee	(532)	(562)
Klaveness Ship Management AS (sister company)	Ship Mangement fee	(5 845)	(5 727)

Note 10 - 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 provisions are recognized at year end 2015.

Note 11 - Events after the balance sheet date

There are no event s after the balance sheet date that have material effect on the financial statement as of 31 December 2015.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 January to 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and give a true and fair view of the company's assets, liabilities, financial position and profit. We also confirm, to the best of our knowledge, that the management report includes a fair review of important events that have occurred during the financial year and their impact on the consolidated financial statements of Klaveness Ship Holding AS, and a description of the principal risks and uncertainties for 2016.

Vækerø, 18 February 2016

Lasse Kristoffersen	Rebekka Glasser Herlofsen
Chairman of the Board	Board member
Morten Skedsmo	Bent Martini
Managing Director	Board member