

2H & PRELIMINARY ANNUAL RESULTS 2017
KLAVENESS SHIP HOLDING CONSOLIDATED

09.02.2018



Torvald
Klaveness

KEY FIGURES

USD '000	2017 unaudited	2H-2017 unaudited	2016
Key financials (continued operations)			
Gross operating revenues	69 127	41 081	60 146
EBITDA	26 665	19 590	20 434
Profit/(loss) for the year before tax (incl. non-controlling interests)	(3 526)	4 743	(75 961)
Profit/(loss) for the year before tax (excl. non-controlling interests)	(3 200)	3 511	(67 178)
Total assets	401 618	401 618	432 999
Equity (incl. non-controlling interests)	212 949	212 949	219 997
Equity ratio	53%	53%	51%
Cash and bank deposits ¹	55 648	55 648	102 981

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 2017 comprises of KSH and its subsidiaries.

¹ Available undrawn credit facility of USD 63 million per year-end.

2017 HIGHLIGHTS

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

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

The Group achieved an EBITDA of USD 26.7 million in 2017 (2016: USD 20.4 million) and a loss before tax (EBT) of USD 3.5 million (2016: loss of USD 76.0 million). 2016 was impacted by impairments. Cash flow from operations for 2017 was USD 26.1 million (2016: USD 25.0 million). Due to a strong cash position Klaveness repaid debt in late 2016 and in the beginning of 2017, thereby taking down interest costs in 2017. Mark-to-market development on financial instruments impacted the financial result positively. The balance sheet remains solid with a book equity including non-controlling interest of USD 212.9 million at year-end corresponding to an equity ratio of 53 per cent. High solidity and good liquidity was maintained in 2017. The selfunloader and bulk segment is presented as discontinued operations with effect on comparative figures in the consolidated income statement.

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

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 2017 (unaudited)

The Group reported total operating revenue from continuing operations of USD 41.1 million in the second half of 2017 compared with USD 31.5 million in the second half of 2016, due to higher revenue from both the combination carrier and the container vessels. EBITDA ended at USD 19.6 million compared with USD 10.3 million in 2H 2016. The Group achieved a profit before tax (EBT) from continuing operations of USD 4.7 million for 2H 2017 (2H 2016: loss before tax USD 30.0 million).

CONSOLIDATED INCOME STATEMENT FULL YEAR 2017 (unaudited)

The Group reported total operating revenue from continuing operations of USD 69.1 million in 2017, compared to USD 60.1 million in 2016. Earnings from the combination carriers weakened, mainly due to a weak tanker market and lower number of transported caustic cargoes, while more vessels contributed to higher revenues. Earnings from the container segment increased due to less idle days and higher TC rates. Due to delivery of new combinations carriers in 2016 and 2017, operating costs amounted to USD 39.3 million, up from USD 35.6 million in 2016.

EBITDA from continuing operations was USD 26.7 million in 2017 (2016: USD 20.4 million). Net result from financial items was in total negative by USD 8.3 million in 2017, reduced from negative USD 16.2 in 2016 due to lower debt after refinancing in late 2016 and positive mark-to-market effects from financial instruments in 2017.

The Group had a loss before tax (EBT) of USD 3.5 million (2016: loss USD 76.0 million). Tax expense of USD 4.6 million is due to reduction in recognized deferred tax asset in the balance sheet. Net profit after tax including discontinued operations was negative by USD 8.3 million in 2017 (2016: negative USD 49.9 million), whereof negative USD 0.3 million (2016: negative 8.8 million) was non-controlling interests related to external investors in some of the combination and container companies.

CONSOLIDATED BALANCE SHEET STATEMENT PER 31.12.2017 (unaudited)

Total assets decreased by USD 31.4 million in 2017 from USD 433.0 million to USD 401.6 million. Main impacts come from repayment and refinancing of debt partly offset by capital increase from non-controlling interests and drawdown on debt upon delivery of Ballard. At year-end 2017, the consolidated equity including non-controlling interests was USD 212.9 million (2016: USD 220.0 million), corresponding to a book equity ratio of 53 per cent. Book equity excluding non-controlling interests was USD 190.8 million. Mainly due to repayment of bond loan, repayment of container RCF and debt installments, interest-bearing debt has been reduced from USD 185.0 at year end 2016 to USD 165.6 million at year-end 2017.

Cash and bank deposits were USD 55.6 million at year-end 2017. In addition, available undrawn capacity on a revolving credit facility amounts to USD 62.9 million. Cash flow from operating activities was in 2017 USD 26.1 million (2016: USD 25.0 million). Net cash flow from investments amounted to negative USD 43.6 million (2016: USD 124.1 million), consisting of USD 40.2 million in payments for vessels under construction and USD 3.4 million in dry dock payments. Net cash flow from financing activities of negative USD 29.6 million (2016: negative USD 128.1 million) is mainly net outflows of USD 21.4 million from new debt related to Ballard and refinancing of Bantry, repayment on the RCF and repayment of the KSH01 bond loan.

The accounts are reported under the assumption of a going concern. The Board considers the financial position of the Group at year-end 2017 to be solid and the liquidity to be good. Bank financing is secured for all vessels, including the three newbuildings. The Group's current cash flow, existing and committed debt and liquidity position is considered sufficient to cover all commitments and approved investments. There have been no major transactions or events subsequent to the closing date that would have a material impact on the evaluation of the financial position of Klaveness Ship Holding AS.

BUSINESS AREAS

Combination carriers: The CABU vessels are combination carriers transporting both dry cargo and caustic soda in the Far East, the Middle East, Australia, Brazil and North America. At year-end 2017, the CABU pool consisted of nine CABU vessels after taking delivery of the third and last CABU newbuilding from Zhejiang OuHua Shipbuilding Co. Ltd. in May 2017.

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

The result weakened in 2017 compared to the last years mainly because of a continued fall in the tanker market and lower transported caustic volumes under some of the contracts of affreightment (COAs). A strengthening of the dry bulk market and higher bunker prices during the year had a positive effect on the pool results in 2017. The vessels were largely employed on long and medium term contracts of affreightment for transportation of caustic soda with customers in the Australian and Brazilian alumina industry. Total caustic soda shipments accounted in 2017 for about 47 per cent of the available vessel days, while dry bulk cargoes, which are mainly north-bound from Australia to the Far East or Middle East and from Brazil to the US Gulf accounted for about 53 per cent of the available vessel days in 2017. The vessels MV Bakkedal and MV Bangor were dry-docked during 2017.

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

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

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

MAIN RISKS

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

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

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

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

Operational risks are mainly related to the operation of vessels. The Group's vessels are on technical management to Klaveness Ship Management AS (affiliated company) which ensures compliance with IMO, flag and port state

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

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

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

There were no major unforeseen events of a financial nature during 2017. The liquidity risk of the Group is considered to be acceptable. Financing is in place for all newbuildings. Current cash, available undrawn credit and projected operating cash flow are considered sufficient to cover the Group's commitments.

Klaveness Ship Holding AS

Consolidated Income Statement

Year ended 31 December

USD '000	Note	Unaudited 2H 2017	Unaudited 2H 2016	Unaudited 2017	Audited 2016
Continuing operations					
Operating revenue, vessels	Note 2	41 081	31 464	69 127	60 146
Total operating revenue		41 081	31 464	69 127	60 146
Operating expenses, vessels	Note 2	(19 821)	(19 175)	(39 289)	(35 616)
Group administrative services		(1 448)	(1 638)	(2 778)	(3 668)
Tonnage tax		(95)	(75)	(175)	(138)
Other operating and administrative expenses		(127)	(258)	(221)	(290)
EBITDA		19 590	10 318	26 665	20 434
Ordinary depreciation	Note 4	(11 310)	(9 939)	(21 881)	(20 178)
Impairment loss (-) / reversal	Note 4	-	(23 457)	-	(60 050)
EBIT		8 280	(23 077)	4 784	(59 794)
Finance income	Note 3	2 892	763	4 308	980
Finance costs	Note 3	(6 429)	(7 689)	(12 618)	(17 147)
Profit before tax from continuing operations		4 743	(30 004)	(3 526)	(75 961)
Income tax expenses	Note 10	(4 610)	429	(4 610)	1 213
Profit after tax from continuing operations		133	(29 575)	(8 136)	(74 748)
Discontinued operations					
Profit/(loss) after tax for the year from discontinued operations		-	663	(120)	24 852
Profit for the year		133	(28 912)	(8 256)	(49 896)
Attributable to:					
Equity holders of the parent company		(1 099)	(23 244)	(7 930)	(41 112)
Non-controlling interests		1 232	(5 668)	(325)	(8 783)
Total		133	(28 912)	(8 256)	(49 896)

Klaveness Ship Holding AS

Consolidated Statement of Other Comprehensive Income

USD '000	Note	Unaudited 2H 2017	Unaudited 2H 2016	Unaudited 2017	Audited 2016
Net profit/ (loss)		133	(28 912)	(8 256)	(49 896)
<i>Other comprehensive income to be reclassified to profit or loss</i>					
Net movement fair value on interest rate swaps	Note 9	298	334	-	8
Net movement fair value on cross-currency interest rate swap	Note 9	-	1 218	-	3 827
Reclassification to profit and loss	Note 9	-	3 621	-	1 412
Income tax effect		-	18	-	(1 320)
Net other comprehensive income to be reclassified to profit or loss		298	5 191	-	3 926
<i>Other comprehensive income not to be reclassified to profit or loss</i>					
Net other comprehensive income not to be reclassified to profit or loss		-	-	-	-
Other comprehensive income/(loss) for the period, net of tax		298	5 191	-	3 926
Total comprehensive income/(loss) for the period, net of tax		430	(23 721)	(8 256)	(45 969)
Attributable to:					
Equity holders of the parent company		(801)	(18 053)	(7 930)	(37 186)
Non-controlling interests		1 232	(5 668)	(325)	(8 783)
Total		430	(23 721)	(8 256)	(45 969)

Klaveness Ship Holding AS

Consolidated Balance Sheet Statement

		As at 31 December	
USD '000	Note	Unaudited 2017	Audited 2016
ASSETS			
Non-current assets			
Deferred tax asset	Note 10	3 181	7 510
Vessels	Note 4	290 874	274 954
Newbuilding contracts	Note 5	37 751	31 995
Financial assets	Note 6	957	1 052
Total non-current assets		332 762	315 510
Current assets			
Inventories		1 215	1 473
Accounts receivable		171	462
Receivables from related parties		7 562	6 814
Prepaid expenses		1 356	1 750
Other short-term receivables		2 905	4 007
Cash and cash equivalents		55 648	102 981
Total current assets		68 856	117 488
TOTAL ASSETS		401 618	432 999

Klaveness Ship Holding AS

Consolidated Balance Sheet Statement

		As at 31 December	
USD '000	Note	Unaudited 2017	Audited 2016
EQUITY AND LIABILITIES			
Equity			
Share capital		1 817	1 817
Share premium		6 939	6 939
Other reserves		35	35
Retained earnings		182 038	193 862
Equity attributable to equity holders of the parent		190 830	202 653
Non-controlling interests		22 119	17 344
Total equity		212 949	219 997
Non-current liabilities			
Mortgage debt	Note 7	109 105	109 758
Bond loans	Note 8	35 973	34 141
Financial liabilities	Note 6	16 404	20 217
Deferred tax	Note 10	274	-
Total non-current liabilities		161 756	164 116
Current liabilities			
Short-term mortgage debt	Note 7	20 549	41 100
Accounts payable		865	874
Current debt to related parties		879	1 577
Tax payable	Note 10	8	0
Tonnage tax payable		166	139
Other current liabilities		4 446	5 196
Total current liabilities		26 913	48 886
TOTAL EQUITY AND LIABILITIES		401 618	432 999

Klaveness Ship Holding AS

Consolidated Statement of Changes in Equity

Unaudited	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Other paid in capital	Hedging reserve	Retained earnings	Total			
Equity at 31 December 2015	1 817	16 861	5 585	(3 891)	239 976	260 348		19 491	279 839
Profit (loss) for the year					(41 112)	(41 112)		(8 783)	(49 896)
Other comprehensive income for the year				3 926		3 926			3 926
Total comprehensive income for the year				3 926	(41 112)	(37 186)		(8 783)	(45 969)
Payments to non-controlling interests						-		(4 849)	(4 849)
Group contribution		(9 922)	(5 585)			(15 507)		-	(15 507)
Capital increase in non-controlling interests						0		11 485	11 485
Dividend payment					(5 000)	(5 000)			(5 000)
Equity at 31 December 2016	1 817	6 939	-	35	193 862	202 653		17 344	219 998
Profit (loss) for the year					(7 930)	(7 930)		(325)	(8 256)
Other comprehensive income for the year				-		-			-
Total comprehensive income for the year				-	(7 930)	(7 930)		(325)	(8 256)
Payments to non-controlling interests						-		(1 400)	(1 400)
Group contribution					(3 893)	(3 893)		-	(3 893)
Capital increase in non-controlling interests								6 500	6 500
Equity at 31 December 2017	1 817	6 939	-	35	182 038	190 830		22 119	212 949

Klaveness Ship Holding AS

Consolidated Statement of Cash Flows

USD '000	Note	Unaudited 2H 2017	Unaudited 2H 2016	Unaudited 2017	Audited 2016
Profit before tax from continuing operations		4 743	(30 004)	(3 526)	(75 961)
Profit before tax from discontinuing operations		-	663	(120)	24 852
Tonnage tax expensed		95	88	175	151
Net gain/loss fixed assets		68	(16)	68	(26 313)
Ordinary depreciation	Note 4	11 310	9 939	21 881	20 573
Impairment loss/ reversal	Note 4, 5	-	23 857	-	61 201
Amortization of upfront fees bank loans		266	1 010	571	1 421
Financial derivatives unrealised loss/gain	Note 3	(2 582)	(542)	(3 718)	2 855
Refinancing cost		-	1 618	-	1 618
Reversal provision		-	(500)	-	(500)
Gain/loss on foreign exchange	Note 3	878	(248)	1 649	31
Interest income	Note 3	(312)	(452)	(591)	(948)
Interest expenses	Note 3	4 746	5 819	9 420	11 501
Taxes paid for the period		(139)	(1 050)	(139)	(1 459)
Change in receivables		(1 810)	3 432	646	8 618
Change in current liabilities		(2 372)	750	(1 457)	(3 477)
Change in other working capital		1 523	(355)	653	(75)
Interest received		312	452	591	948
A: Net cash flow from operating activities		16 726	14 460	26 103	25 036
Acquisition of tangible assets	Note 4	(2 022)	(1 058)	(3 371)	(2 637)
Installments and cost on newbuilding contracts	Note 5	(14 764)	(49 272)	(40 188)	(84 239)
Payment received disposal vessels/newbuildings		-	21 021	-	211 021
B: Net cash flow from investment activities		(16 786)	(29 309)	(43 559)	124 145
Proceeds from mortgage debt		-	81 485	36 890	94 323
Proceeds from bond loan		-	35 273	-	35 273
Transaction costs on issuance of loans		-	(1 542)	(372)	(1 542)
Repayment of mortgage debt		(5 707)	(116 228)	(36 783)	(169 735)
Repayment of bond loan		-	(48 299)	(21 099)	(48 299)
Terminated financial instruments		-	(12 709)	-	(12 708)
Interest paid		(4 746)	(5 819)	(9 420)	(11 501)
Cash proceeds from issuing of shares non-controlling interests		-	11 485	6 500	11 485
Group contribution/dividend		-	(4 630)	(3 893)	(20 507)
Dividends to non-controlling interests		(698)	(1 742)	(1 400)	(4 849)
C: Net cash flow from financing activities		(11 151)	(62 727)	(29 576)	(128 060)
Net change in liquidity in the period (A + B + C)		(11 210)	(77 576)	(47 031)	21 121
Net foreign exchange difference		(331)	(857)	(302)	(587)
		(11 541)	(78 433)	(47 333)	20 534
Cash and cash equivalents at beginning of period		67 189	181 414	102 981	82 447
Cash and cash equivalents at end of period		55 648	102 981	55 648	102 981
Net change in cash and cash equivalents in the period		(11 541)	(78 433)	(47 333)	20 534
Undrawn facilities*	Note 7	155 894	175 900	155 894	175 900

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

CORPORATE INFORMATION

Klaveness Ship Holding AS ("parent company"/KSH) is a private limited company domiciled and incorporated in Norway. The parent company has headquarter and is registered in Drammensveien 260, 0212 Oslo. Klaveness Ship Holding's consolidated interim financial statements for the second half of 2017 include the parent company and its subsidiaries (referred to collectively as the Group) and associated companies.

ACCOUNTING POLICIES

The interim condensed financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and are based on IAS 34 *Interim Financial Reporting*.

The interim condensed financial statements of the Group should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS, as adopted by the European Union.

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Klaveness Ship Holding's annual consolidated financial statements of for the year ended 31 December 2016.

Note 2 - Segment reporting

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

The financial reporting is divided into the following operating segments:

- Combination Carriers (Cabu)
- Container vessels
- Other/administration

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

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

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

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

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

Income statement by segments 1 July - 31 December 2017

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	28 583	12 485	13	41 081
Total operating revenue	28 583	12 485	13	41 081
Operating expenses, vessels	(10 753)	(9 059)	(9)	(19 821)
Ordinary depreciation	(8 799)	(2 511)	-	(11 310)
Tonnage tax	(55)	(40)	-	(95)
Other operating and adm expenses	(715)	(699)	(162)	(1 576)
Total operating expenses	(20 322)	(12 309)	(171)	(32 800)
Operating profit/EBIT	8 261	177	(158)	8 280

Income statement by segments 1 January- 31 December 2017

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	46 235	22 880	13	69 127
Total operating revenue	46 235	22 880	13	69 127
Operating expenses, vessels	(21 199)	(18 077)	(13)	(39 289)
Ordinary depreciation	(16 867)	(5 014)	-	(21 881)
Tonnage tax	(101)	(73)	-	(175)
Other operating and adm expenses	(1 307)	(1 345)	(347)	(2 999)
Total operating expenses	(39 474)	(24 509)	(359)	(64 343)
Operating profit/EBIT	6 760	(1 629)	(347)	4 784

Note 2 - Segment reporting (cont.)

Balance sheet by segments at 31 December 2017

(USD '000)	Combination carriers	Container vessels	Other*/ admin	Total consolidated
ASSETS				
Vessels	179 777	111 097	-	290 874
Newbuilding contracts	37 751	-	-	37 751
Financial assets	912	44	-	957
Other non-current assets	-	-	3 180	3 180
Total non-current assets	218 440	111 142	3 180	332 761
Cash	50 976	3 085	1 587	55 648
Current assets	10 603	2 605	-	13 208
Total current assets	61 579	5 690	1 587	68 856
TOTAL ASSETS	280 019	116 832	4 767	401 617
EQUITY AND LIABILITIES				
Total equity	159 104	100 285	(46 441)	212 948
Interest bearing debt	94 765	14 340	-	109 105
Bond loans	-	-	35 973	35 973
Financial liabilities	1 509	-	14 895	16 404
Deferred tax	274	-	-	274
Total non-current liabilities	96 548	14 340	50 869	161 756
Short-term interest bearing debt	20 549	-	-	20 549
Other current liabilities	3 818	2 207	339	6 364
Total current liabilities	24 367	2 207	339	26 913
TOTAL EQUITY AND LIABILITIES	280 019	116 832	4 767	401 617

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

Capital expenditure Vessels	(3 371)	-	-
Capital expenditure NB	(40 188)	-	-
Cash from operation	20 256	3 384	(347)

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 2016

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

Note 2 - Segment reporting (cont.)

Income statement by segments 1 January- 31 December 2016

(USD'000)	Combination carriers	Container vessels	Other/ admin	Total consolidated
Operating revenue, vessels	41 026	19 120	-	60 146
Total operating revenue	41 026	19 120	-	60 146
Operating expenses, vessels	(17 136)	(18 980)	500	(35 616)
Ordinary depreciation	(12 812)	(7 366)	-	(20 178)
Impairment	-	(60 050)	-	(60 050)
Tonnage tax	(68)	(70)	-	(138)
Other operating and adm expenses	(1 368)	(2 318)	(271)	(3 958)
Total operating expenses	(31 385)	(88 784)	229	(119 940)
Operating profit/EBIT	9 641	(69 664)	229	(59 794)

Balance sheet by segments at 31 December 2016

(USD '000)	Combination carriers	Container vessels	Other*/ admin	Total consolidated
ASSETS				
Vessels	158 852	116 102	-	274 954
Newbuilding contracts	31 995	-	-	31 995
Financial assets	1 052	-	-	1 052
Other non-current assets	-	-	7 510	7 510
Total non-current assets	191 898	116 102	7 510	315 510
Cash	64 908	2 865	35 208	102 982
Current assets	9 723	4 451	333	14 507
Total current assets	74 631	7 316	35 541	117 489
TOTAL ASSETS	266 529	123 418	43 051	432 999
EQUITY AND LIABILITIES				
Total equity	160 484	91 383	(31 869)	219 997
Interest bearing debt	80 574	29 184	-	109 758
Bond loans	-	-	34 141	34 141
Other non-current financial liabilities	2 117	60	18 039	20 217
Total non-current liabilities	82 691	29 245	52 180	164 116
Short-term interest bearing debt	19 818	-	21 283	41 100
Other current liabilities	3 536	2 791	1 458	7 785
Total current liabilities	23 354	2 791	22 741	48 886
TOTAL EQUITY AND LIABILITIES	266 529	123 418	43 051	432 999

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

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

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

Note 3 - Finance income and finance costs

USD'000	2017	2016
Other interest income	591	948
Fair value changes interest rate swaps (note 6)	3 718	-
Gain / (loss) on foreign exchange	-	31
Total finance income	4 308	980

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

Interest expenses of USD 0.9 million is capitalized as borrowing costs on newbuildings in 2017 (2016: USD 1.3 million) (see note 5). Refer to note 7 and note 8 for further disclosures of the Group's debt.

Note 4 - Vessels

2017

Vessels	Combination carriers	Container	Total vessels*
Cost price 1.1	288 498	254 319	542 817
Delivery of newbuildings	34 431	-	34 431
Additions (mainly upgrading and docking of vessels)	3 371	-	3 371
Costprice 31.12	326 300	254 319	580 619
Acc. Depreciation 1.1	129 647	26 529	156 176
Depreciation for the year	16 868	5 014	21 881
Acc. depreciation losses 31.12	146 515	31 543	178 057
Acc. impairment losses 1.1	-	111 688	111 688
Impairment for the year	-	-	-
Acc. impairment losses 31.12	-	111 688	111 688
Carrying amounts 31.12.2017	179 785	111 089	290 874
No. of vessels	9	8	
Useful life	20	25	
Depreciation schedule	Straight-line	Straight-line	
*) carrying value of vessels includes dry-docking			

2016

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

Pledged vessels

All owned vessels are pledged to secure the various loan facilities (refer to note 7 for further information).

Additions

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

Impairment assessment

The Group has performed an impairment test where the value in use is calculated using estimated cash flows. The container market has strengthened during 2017, hence no impairment need has been identified for the container vessels at year end, however no basis for any reversal of prior years impairment. For the combination carrier vessels calculated value in use still shows a headroom compared to book value of the fleet (one cash generating unit). No impairment need identified for the combination carriers.

The below summarizes the total impairment cost/reversal:

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

Note 5 - Newbuildings

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

The Group has three combination carrier newbuildings on order at Jiangsu New Yangzi Shipbuilding Co., Ltd in China with expected delivery in 2018 and early 2019. The contract includes options for further vessels. The commitments related to newbuildings are presented in note 9.

2017

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

2016

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

Note 6 - Financial assets and liabilities

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

The Group holds IRSs that qualify for hedge accounting which reduce interest risk for loans financing the vessels. These instruments have a duration until 2018 and 2022 and are recognised at fair value with changes through other comprehensive income (OCI). Fair value of interest rate swaps which qualify for hedge accounting is USD 0.1 million (assets) and USD 0.2 million (liability) as per 31 December 2017 (2016: USD 35k (liability)).

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

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

Non-current financial assets at 31 December

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

Non-current financial liabilities at 31 December

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

Note 7 - Interest bearing debt and financial instruments

The below table presents the Group's carrying amount of interest bearing debt by non-current and current portions for year ended 31 December 2017 and 2016, respectively. All debt except for the bond loans (NOK) are denominated in USD, ref note 8 for further information on bond loans.

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

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

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

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

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

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

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

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

Note 7 - Interest bearing debt and financial instruments (cont.)

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

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

* Committed to newbuildings. Available on delivery of vessel.

Covenants

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

The credit facilities also contain financial covenants. Klaveness Ship Holding AS on a consolidated basis has covenants related to equity of USD 125 million, minimum equity ratio of 30 % and minimum cash of USD 15 million. On other levels in the Group the covenants varies. In addition all secured loans contain minimum value clauses related to the value of the vessel compared to outstanding loan. Certain cross-default exists. The Group is in compliance with all of its covenants at 31 December 2017.

Securities

All the Group's vessels are mortgaged and in addition the banks have assignment in earnings and insurances of the vessel and pledge over earnings accounts. Some loans have pledge in shares in single purpose entities (Baffin, Ballard, Bantry and Bakkedal).

Book value of collateral, mortgaged and leased assets	2017	2016
Vessels	290 874	274 954
Total book value of collateral, mortgaged and leased assets	290 874	274 954

Note 8 - Bond loans

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

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

Covenants are described in note 7.

Bond loan	Face value NOK'000	Year of maturity	Carrying amount (USD'000)	
			2017	2016
KSH03				
Original loan amount	300 000	27.05.2021	35 273	35 273
Exchange rate adjustment			1 130	(573)
Capitalized expenses			(430)	(559)
Total KSH03	300 000		35 973	34 141
KSH01				
Original loan amount	300 000	08.05.2018	52 250	52 250
Buy back	(100 000)		(17 417)	(17 417)
Buy back (Dec 2016)	(16 000)		(1 875)	(1 875)
Exchange rate adjustment			(11 859)	(11 676)
Repayment (Jan 2017)			(21 099)	
Capitalized expenses			-	-
Total KSH01	184 000		-	21 282
KSH02				
Original loan amount, fixed	300 000	20.03.2020	50 500	50 500
Original loan amount, unfixed	100 000	20.03.2020	16 828	16 828
Buy back	(10 000)		(1 355)	(1 355)
Exchange rate adjustment			(20 263)	(20 263)
Repayment (Dec 2016)	(390 000)		(45 710)	(45 710)
Capitalized expenses			-	-
Total KSH02	-		-	-
Debt as of reporting period	484 000		35 973	55 423

Note 9 - Financial Risk Management

Capital management

The capital structure of the Group is intended to ensure financial stability for the purpose of reducing its cost of capital to reach its strategic goals. The target for the Group's capital structure states that cash should always be adequate to cover all current business, liquidity fluctuations due to market volatility and investments. Targets have been defined for equity ratio and minimum liquidity. The equity ratio as of 31 December 2017 was 53 % (2016: 51 %) and liquidity incl. available capacity on RCF USD 118.5 million. The Group's covenants are described in note 7.

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

The Group aims to spend free cash flows as follows:

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

The main priority of maintaining a strong financial position is to secure the ongoing business activity of the Group and the ability to do new business and to ensure access to funding at favourable terms. The Group's capital structure consists of mortgage debt (note 7), bond loans listed at Nordic ABM (note 8), cash and cash equivalents and equity attributable to the shareholders.

Financial risk

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

Operational risk

Operational risks are mainly related to the operation of vessels. The Group's vessels are on technical management to Klaveness Ship Management AS (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.

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

Market risk

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

Note 9 - Financial Risk Management (cont.)

Foreign currency risk and interest rate risk

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

The Group has long term interest bearing debt that is exposed to floating interest rate. In order to hedge the risk, the company has entered into interest rate swaps. At year end 2017, 33 % (2016: 11 %) of the floating interest loans are hedged (excluding bond loan). Included swaps booked as speculative instruments the ratio is 77 % per year end 2017. Long term mortgage debt bear interest at LIBOR plus a fixed margin. The following table sets out the outstanding swapped amounts as of 31 December 2017. The Group evaluates on an ongoing basis the need to further hedge interest rate exposure.

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

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

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

Other comprehensive income / (loss) for the period, net of tax	2017	2016
Net movement fair value on interest rate swaps	-	8
Net movement fair value on CCIRS	-	3 827
Reclassification to profit and loss	-	(1 776)
Reclassification to profit and loss (derecognition hedge accounting CCIRS)	-	3 131
Reclassification to profit and loss (derecognition hedge accounting IRS)	-	57
Income tax effect	-	(1 320)
Other comprehensive income / (loss) for the period, net of tax	-	3 926

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

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

Note 9 - Financial Risk Management (cont.)

Counterparty/credit risk

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

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

Total unrisks credit risk at year-end 2017 amounts USD 61 million (book value of receivables and bank deposits).

Liquidity risk

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

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

Maturity profile of financial liabilities at 31 December 2017

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

Maturity profile financial liabilities at 31 Dec 2017	< 1 year	1-3 years	3-5 years	> 5 years	Total
Mortgage debt (incl interests)*	26 150	29 008	95 984	-	151 142
Bond loan (incl interests)	2 278	4 508	37 530	-	44 316
Accounts payable	865	-	-	-	865
Current debt to related parties	879	-	-	-	879
	30 172	33 516	133 513	-	197 202

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

Commitments newbuildings

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

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

Note 10- 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, Klaveness Bulk AS and Klaveness Cement Logistics AB are subject to tonnage taxation. The subsidiary Klaveness Bulk AS exited tonnage taxation in 2016 due to sale of its qualifying asset. The companies within the tonnage tax system pay a tonnage fee based on the size of the vessels. The fee is recognized as an operating expense. Financial income is taxable according to the Norwegian tonnage tax regime, however it is only a portion of the interest cost and net currency expenses that gives the right to tax deductions.

Ordinary taxation

The ordinary rate of corporation tax in Norway is 24 % for 2017 (2016: 25 %). Subsidiaries outside of Norway are governed by the tax laws and tax rates in the local jurisdiction (Klaveness Cement Logistics AB subject to tax rate of 22 % in Sweden). Tax expenses outside Norway 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 within the tonnage tax regime.

USD '000	2017	2016
Income taxes for the year		
Income taxes payable	8	-
Change in deferred tax	(186)	(1 285)
Write-down of deferred tax asset	4 790	74
Tax adjustments previous years	-	(2)
Total tax expense / income (-) reported in the income statement	4 611	(1 213)
Tax on net (gain)/loss on revaluation of cash flow hedges	-	1 320
Deferred tax charged to OCI	-	1 320

USD '000	Temporary difference	2017 Tax effect	Temporary difference	2016 Tax effect
Temporary differences - ordinary taxation				
Temporary differences	(15 715)	(3 614)	(18 181)	(4 364)
Tax losses carried forward	(26 999)	(6 210)	(20 828)	(4 999)
Deferred tax asset not recognised in the balance sheet	28 877	6 642	7 718	1 852
Net temporary differences - deferred tax liability/asset (-) *	(13 836)	(3 181)	(31 292)	(7 511)
Deferred tax liability	1 191	274	-	-

*At year-end 2017 the company has chosen not to record deferred tax asset of USD 6.6 million (2016: 1.9 million) of which USD 2.2 million relates to companies subject to tonnage taxation. Temporary differences relates to financial losses carried forward in which possibility to net against future gain is uncertain. At year-end 2017 the Group has recorded a deferred tax asset of USD 3.2 million (2016: 7.5 million) and a deferred tax of USD 0.3 million. The recognised deferred tax asset is expected to be utilized in the future upon taxable profit in other Group companies with Rederiaksjeselskapet Torvald Klaveness. The probability of future taxable profits has been assessed, based on the present value of future estimated utilization of the tax position.

Note 11 - Transactions with related parties

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

The Group has undertaken several agreements and transactions with related parties in the RASTK Group. The level of fees are based on market terms and are in accordance with the arm's length principle. The Group has no employees.

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

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

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

Note 12 - Contingent liabilities

Regular claims are made against the Group as a result of its ordinary operations. Provisions are made in the financial statements whenever the probable outcome of these disputes are expected to be in disfavour of the Group. No new provisions are recognised in 2017.

Note 13 - Events after the balance sheet date

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

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the consolidated financial statements for the period 1 January to 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and give a true and fair view of the company's assets, liabilities, financial position and profit. We also confirm, to the best of our knowledge, that the 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 2018.

Vækerø, 09 February 2018

Lasse Kristoffersen
Chairman of the Board

Liv Hege Dyrnes
Board member

Morten Skedsmo
Managing Director

Bent Martini
Board member